Tesla Motors Australia, Pty. Ltd.
546 Gardeners Rd
Alexandria NSW 2015

Barry Sterland and Martin Stokie (Commissioners)
Productivity Commission
4 National Circuit
Barton ACT 2600

15 September 2025

Dear Commissioners,

RE: Tesla's Response to the Productivity Commission Pillar 5 Interim Report - Investing in cheaper cleaner energy and the net zero transformation.

Tesla Motors Australia, Pty Ltd (Tesla) welcomes the opportunity to provide feedback to the Productivity Commission's interim report on investing in cheaper, cleaner energy and the net zero transformation.

Tesla's mission is to accelerate the transition to sustainable energy. To accomplish its mission, Tesla designs, develops, manufactures, and sells high-performance fully electric vehicles and energy generation and storage systems.

Tesla supports the inquiry's overarching goal of identifying reforms to achieve Australia's net-zero transformation efficiently and cost-effectively. However, we write to express our strong support for the position of the Electric Vehicle Council (EVC), NALSPA, and AFIA that challenges the draft recommendation (1.3) to phase out the Fringe Benefits Tax (FBT) exemption for electric vehicles.

Our analysis, supported by the evidence provided in the above industry organisation's submissions, indicates that: (1) the FBT exemption is a highly effective, cost-efficient, and necessary policy; (2) It is complementary to the New Vehicle Efficiency Standard (NVES), not duplicative, and its premature removal would risk undermining Australia's transport decarbonisation goals; (3) Demand-side incentives like the FBT exemption provide the essential pull to overcome initial market barriers, primarily the higher upfront cost of EVs; and (4) International experience and best practice public policy consistently shows that no single policy lever is sufficient; successful markets have always deployed a combination of vehicle standards, consumer incentives, and infrastructure investment to build self-sustaining momentum – and Australia must set itself up for success given the scale of the challenge.

This principle of policy coherence is especially critical as the government considers the future of road-user charging for light vehicles. Any new charging regime must be carefully designed and timed to avoid creating a new disincentive that would counteract the progress driven by the NVES and FBT exemption, and contradict the government's wider priorities on decarbonisation, energy resilience, technology based value adding, easing cost of living pressures, and driving enhanced productivity.

Tesla looks forward to continued engagement with the Productivity Commission on this key topic.

Kind regards,

[redacted]

Thom Drew
Country Director, Australia & New Zealand

Draft recommendation 1.3: Introduce an emissions-reduction incentive for heavy vehicles and phase out policy overlaps for light vehicles.

Sub recommendation: Phase out EV-specific incentives (page 28)

The escalating trajectory of transport emissions presents a critical and time-sensitive challenge to Australia's net-zero ambitions. According to DCCEEW, the transport sector currently accounts for 22% of the nation's total emissions. This share is projected to grow, making transport the **single largest emitting sector by 2030** (27%), further increasing to 29% by 2040[1].

Historically, policy action in this sector has not matched the scale of the challenge. Australia was one of the last developed economies to adopt a vehicle efficiency standard, and its demand-side policies have been modest compared to international benchmarks. Accordingly, Australia remains a laggard in the global transition to electric vehicles, with EV adoption remaining far off the pace required to decarbonise the sector. Australia's EV share of new car sales, at 13% in 2024, is significantly behind global leaders such as Norway (91%), China (48%), the UK (28%) and the European Union (21%).[2]

This policy lag is compounded by the long asset life of the national vehicle fleet. With vehicles remaining on the road for up to two decades, each new internal combustion engine (ICE) vehicle sold today effectively locks in emissions until the 2040s. Even under AEMO's ambitious 'step-change' scenario – which projects EVs reaching 61% of new car sales by 2031[3] – Tesla's analysis shows this would translate to only 19% of the total passenger fleet being electric. In other words, after seven years of rapid, best-case-scenario adoption, four out of five cars on Australian roads would still be powered by internal combustion engines.

This slow rate of fleet turnover creates a critical but finite window to accelerate the transition to zero-emission vehicles (ZEVs) and align with Australia's 2050 net-zero target. **It is within this pressing context that Tesla does not share the Commission's recommendation to eliminate the exemption of EVs from FBT and to eliminate stamp duty and registration discounts for EV owners.** On the contrary, existing mechanisms must be strengthened and expanded.

Abatement costs should not be compared across sectors

A central justification in the Commission's interim report for phasing out light vehicle incentives is the assertion that the cost of abatement is too high compared to other industries. However, a simplistic, cross-sectoral cost comparison fails to recognise three fundamental realities:

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[1] Department of Climate Change, Energy, the Environment and Water. *Australia's emissions projections 2024.* November 2024, https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2024.pdf

[2] International Energy Agency. *Global EV Outlook 2025.* May 2025, https://www.iea.org/reports/global-ev-outlook-202

[3] AEMO. *Electric vehicle projections 2024.* February 2025, https://www.aemo.com.au/-/media/files/major-publications/isp/2025/stage-2/electric-vehicle-projections-2024.pdf

1. The cost of abatement in transport is necessarily higher today precisely because of a prolonged period of policy inaction. Unlike sectors that have benefited from years of decarbonisation policy, transport is starting from a significant deficit. To penalise the sector for this historical policy gap would be a strategic error.
2. Transport is not an isolated sector; it is a critical enabler of the entire economy, and its emissions are deeply embedded in the supply chains of all other industries. The sheer magnitude of these emissions cannot be realistically offset by cheaper abatement in other sectors.
3. The Commission's focus on the cost of the EV FBT exemption is a policy contradiction as it overlooks existing tax breaks that actively subsidise high-emission vehicles. Under current arrangements, favourable tax treatment for many light commercial vehicles (e.g. absence of a car limit for depreciation, opportunities to reduce/avoid FBT, and full GST claims on purchases) incentivises the purchase of some of the highest-polluting vehicles on the market. This represents a substantial 'cost of non-abatement' that runs directly counter to Australia's net zero objectives. A coherent policy framework cannot simultaneously subsidise pollution while questioning the cost-effectiveness of measures designed to reduce it.

The FBT exemption and NVES are complementary, not duplicative

The Commission's report frames the FBT exemption as a policy overlap with the NVES. Tesla contends that these policies serve distinct but mutually reinforcing functions:

- **NVES (Supply-Side Policy)**: The NVES incentivises manufacturers to increase the supply of low and zero-emission vehicles to the Australian market.
- **FBT Exemption (Demand-Side Policy):** The FBT exemption stimulates consumer and fleet demand for those vehicles by addressing the primary barrier to adoption: higher upfront cost.

A supply-side policy alone is insufficient because it does not automatically create a market for the vehicles it encourages. This is a reality the government's own NVES Impact Analysis acknowledged, citing ACCC findings that "purchase price and vehicle type have the strongest influence on purchasing decisions, and fuel efficiency is regarded as just a consideration." [4]

Without a strong demand-side incentive like the FBT exemption, a critical market failure is created. Manufacturers, compelled by the NVES to supply more EVs, would face a market where consumers are still deterred by the high upfront cost. This would force manufacturers into an untenable position: either pay NVES penalties or increase the prices of their popular ICE vehicles to offset the cost of unsold EVs. This would not only be a poor outcome for consumers but would also risk undermining public support for the NVES itself, with the government likely blamed for rising car prices.

[4] Department of Infrastructure, Transport, Regional Development, Communications and the Arts, Cleaner, Cheaper to Run Cars: The Australian New Vehicle Efficiency Standard Impact Analysis, March 2024, https://oia.pmc.gov.au/sites/default/files/posts/2024/03/Impact%20Analysis_0.pdf

The FBT exemption prevents this failure by ensuring the vehicles made available through the NVES are commercially attractive to a broader range of Australians, thereby accelerating uptake.

Ultimately, the government's own foundational analysis for the NVES concluded that both policy types are essential. The Impact Analysis stated unequivocally: “What is clear is that demand side and supply side measures need to work together to deliver a real reduction in fuel costs and car emissions, and to get the best technology for Australian consumers.”

Furthermore, the Commission's 2023 position against demand-side incentives stands in stark contrast to global evidence. To date, no international market has successfully accelerated EV adoption beyond 30% without them. Leading international bodies, including the International Energy Agency, consistently affirm their critical role. Even mature markets with over 50% EV adoption, such as Norway and China, continue to utilise demand-side policies to sustain momentum, making Australia's consideration of their removal a significant outlier. Indeed, New Zealand had been well on the path to achieving its own Clean Car Standard targets in 2023 as a global leader, with average emissions of newly registered vehicles falling below 100g/km. However, following repeal of its Clean Car Discount, New Zealand has reversed course and has seen a sharp rise in vehicle emissions and reliance on oil imports.

Accordingly, the FBT exemption and the NVES are not duplicative; they are two elements of a coherent strategy.

The FBT exemption is a proven and cost-effective policy

The assertion that the FBT exemption is not cost-effective overlooks its significant societal returns and proven success. Independent modelling Magenta Advisory and Pragmatic Policy Group commissioned by the EVC, NALSPA, and AFIA (submitted separately) demonstrates the policy's value:

- The policy contributed to an estimated **105,500 additional EV purchases** between 2022 and 2024.
- **For every $1 of public investment, the FBT exemption returns $2.25** in environmental, economic, and health benefits. This return is projected to rise to $3 as vehicle-to-grid capabilities are utilised.
- Continuing the discount is projected to result in **50% fewer carbon emissions** by 2035 compared to ending it in 2027.

These wider economic and environmental benefits are critical and must be included in any cost-effectiveness analysis.

A true assessment of the cost of the FBT must therefore also consider the significant co-benefits delivered beyond simple carbon abatement, including improved public health, greater energy independence, increased utilisation of electricity network infrastructure, and reduced national sovereignty risk from reliance on imported fossil fuels.

The policy is crucial for market development and equity

The FBT exemption plays a vital role in building a sustainable, mainstream EV market that benefits all Australians:

- **Accelerating the second-hand market:** The policy primarily benefits fleet and novated lease buyers, who typically turn over vehicles within 3-5 years. This rapidly creates a pipeline of affordable, second-hand EVs, making the technology accessible to a much wider demographic of Australian families and small businesses.
- **Targeting mainstream Australia:** EV adoption is most popular with working Australians on middle incomes ($90,000–$120,000) living in the outer suburbs of major cities. This is not a subsidy for the wealthy but a tool for mainstream EV adoption that alleviates cost-of-living pressures through reduced running costs of lifetime cost of ownership.

Tesla's recommendation

Tesla recommends that the Productivity Commission revises its Draft Recommendation 1.3. The FBT exemption for electric vehicles should be retained and extended beyond its current 2027 review period to provide the policy mechanisms required to build a self-sustaining low-emissions light vehicle market in Australia.

Sub recommendation: Introduce a new emissions-reduction policy for heavy vehicles (page 24)

Tesla strongly supports the Commission's focus on introducing new emissions-reduction incentives for heavy vehicles. As a sector that has barely begun to decarbonise, freight represents a critical and overdue area for policy action. The exploration of these options is a welcome and necessary step.

However, Tesla challenges the Commission's assessment that electric trucks are likely only suitable for "lighter loads over shorter distances". This view, while perhaps common a few years ago, no longer reflects the current state of technology. It overlooks the rapid advancements in heavy-duty electrification and the real-world capabilities of vehicles already in commercial operation. Emerging technologies like renewable diesel and hydrogen may have a role to play, yet they remain largely in their infancy and face significant efficiency and scaling challenges. In contrast, long-haul battery-electric freight is a proven reality.

The leading example is Tesla's Semi[5], a production electric truck already operating in commercial fleets in the US. Its capabilities highlight a strong use-case for electrified heavy freight:

- **Range and efficiency**: Up to 500 miles (approximately 800 km) on a single charge while consuming less than 2 kWh per mile (3.2 km), even when fully loaded. This firmly places it in the long-haul category with suitability for inter-city freight in Australia.
- **Hauling capacity**: A fully-loaded gross vehicle mass of 37,200 kg, firmly within the "heavy vehicle" category.
- **Charging speed**: Can regain up to 70% of its range in just 30 minutes using dedicated Megachargers.
- **Economic benefit**: Offers estimated fuel savings of up to $200,000 over three years compared to a diesel equivalent.

The barrier to deploying vehicles like the Tesla Semi in Australia is through a lack of supportive policy. To unlock these proven benefits, Australia requires a comprehensive suite of both supply and demand-side incentives for zero-emission freight. Therefore, Tesla recommends the Commission focus on measures that reduce high upfront vehicle costs and accelerate the rollout of charging infrastructure.

[5] https://www.tesla.com/semi