



AUSTRALASIAN RAILWAY ASSOCIATION INC
Association Number A03958 ABN 64 217 302 489

30 November 2007

Climate Change Group
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2601

Submission to the Climate Change Group on *Abatement incentives prior to the commencement of the Australian Emissions Trading Scheme*

I refer to the request for submissions to the Climate Change Group on *Abatement incentives prior to the commencement of the Australian Emissions Trading Scheme*. This submission is made by the Australasian Railway Association on behalf of its membership. The rail industry submits that the policy concepts and details of early abatement need to be carefully considered in order to achieve the best benefits for all Australians.

The rail industry accepts that it has a dual role to play in positively responding to climate change issues by improving its environmental performance and also by carrying a greater share of transport more environmentally efficiently. However, the rail industry submits that there are a range of general and specific issues which need to be addressed during the development of policy and legislation for energy and emissions.

At present there is insufficient information available about the energy and emission policy proposals and the transport systems to determine whether the desired objectives will be achieved. Depending on the energy regulation and emissions trading framework and details, the effects on land transport could either positively or negatively affect global environmental outcomes.

The rail industry looks forward to continuing to work co-operatively with the Australian Government on issues relevant to the rail industry. It would be greatly appreciated if in future you could liaise with the ARA's Manager Policy, Brett Hughes on (02) 6270 4508 or bhughes@ara.net.au and our other rail industry members throughout Australia.

Yours sincerely

Bryan Nye
Chief Executive Officer

Abatement incentives prior to the commencement of the Australian Emissions Trading Scheme

Australasian Railway Association Submission to the Climate Change Group

1. Introduction

Rail Industry Overview

Rail should be the preferred mode of transport for mass public transport and high volume, long distance freight. The ARA submits that greater use of both passenger and freight rail will benefit business, the environment and the Australian community in general. Increased rail transport in Australia can result in reduced environmental impacts, fewer deaths and injuries from crashes and health effects, cheaper transport and reduced negative community impacts.

Currently in Australia rail carries 183 billion tonne-km or 53% of the land freight task and 616 million public transport passengers per annum¹. Unfortunately despite the benefits of rail transport, its mode share for most tasks is not increasing and is decreasing in some critical areas such as east coast intermodal freight and grain transport.

2. Climate Change Legislation

Climate Change

Transport only represents 14% of Australia's emissions and rail represents only 2.7% of transport emissions. However transport emissions increased rapidly by nearly 30% from 1990 to 2005², the second highest increase of any sector. Therefore, the rail industry accepts the policy agenda to address climate change issues and the general parameters of the policies outlined by the Australian Governments various activities.

The rail industry accepts that it has a dual role to play in positively responding to climate change issues. Firstly, the rail industry accepts its responsibility to improve the environmental performance of its activities. Secondly the rail industry accepts that increased rail transport will positively improve environmental outcomes including reducing the pressure on climate change.

The rail industry does not argue that because it produces only a tiny proportion of transport emissions, which are themselves only a small proportion of Australia's emissions, that it should not be included in a future emissions trading scheme. The rail industry accepts that climate change will require many separate interventions jointly contributing to a total solution; there is no 'silver bullet'. The rail industry further accepts

¹ Australian Transport Statistics, BTRE, 2007

² National Greenhouse Gas Inventory (NGGI)

that climate change will not be improved by only addressing the large emitters, but also as many of the small emitters as possible.

Principles

The ARA proposes that the following principles should guide the development of emissions and energy legislation:

- there should be positive environmental outcomes at all levels (not just overall);
- consequences should be equitable and fairly distributed;
- the regulatory burden should be as low and possible;
- any perverse regulatory, market or environmental outcomes should be minimised; and
- compensatory mechanisms should be implemented where these principles are not achieved.

At present there is insufficient information available about the energy and emission policy proposals, the legislation and the transport systems to determine whether these principles will be achieved. The possibility that good economic regulatory principles could be applied in a way which result in negative environmental outcomes should be avoided.

3. Issues to be Addressed

With respect to early abatement arrangements, the rail industry believes that there are likely to be specific issues which need to be addressed to ensure the objectives of energy and environment policy are realised.

It is noted that despite transport being a significant producer of emissions and which are growing rapidly, the sector is almost entirely omitted in Australian Government policy development discussion (eg A National System for Streamlined Greenhouse and Energy Reporting by Business - Draft Regulatory Impact Statement and the Report of the Prime Minister's Task Group on Emissions Trading).

Relative Energy and Environmental Efficiency

Rail transport is safer, cleaner, cheaper and has lower impacts for long distance, high volume, homogenous, point to point land freight transport. The same is true for mass public transport where there is sufficient density of population and activity. Overall, rail transport is around four times as energy efficient as road transport for freight and twice as efficient as for moving people, but these efficiencies are much higher for tasks with higher demand. Therefore, transporting one unit of freight by rail instead of road has a disproportionately higher benefit. The energy and emissions legislation must favour rail transport or there will be negative environmental impacts.

Opportunities for Offsets

The energy and emissions policy and legislation must recognise and provide for rail transport's potential to offer offsets to other industries. For instance, one company may

pay another to transport their freight by rail, thereby reducing fuel use and emissions and allowing the first company to offset its emissions. However the rail transport operator must not be adversely penalised for the additional emission and energy used in carrying the additional freight.

Abatement

The rail industry accepts there are opportunities for it to improve its environmental performance by implementing new technology, improving operations or other activities. However it must be recognised that the rail freight industry operates under commercial ownership and in a commercial operating environment. Any increase in cost to rail freight operations will negatively impact on commercial viability and must be passed on to customers or they cannot be implemented. Therefore, transport of freight by rail will be threatened in some circumstances unless there are other compensating mechanisms or market effects. In such cases freight may be transferred from rail to road transport, resulting in higher environmental impacts, which is obviously undesirable and unacceptable. It is also important that the mechanism for measurement and verification of abatement be clarified and ensure that the environmental objectives are achieved.

The Business as Usual Scenario

A critical issue for resolution is the Business As Usual scenario setting the baseline for future arrangements which needs to be clearly and carefully defined. The two following examples illustrate this issue.

All current transport analysis forecasts a doubling of the freight task in the foreseeable future with no end in sight to further increases. The same is true for public transport where continuing population increases will result in increases in demand for access or movement. Increased demand results in increased transport, and hence increased energy use and increased emissions. While abatement measures can limit the increase, there is no possibility that current levels of emission can be maintained under such growth scenarios with the technology expected to be available during the same period. The simplest way for rail operators to limit emissions is to limit operations which would obviously be undesirable. Therefore, the business as usual situation must account for increases in demand.

The second situation occurs when a freight task is transferred from road to rail transport. The result is lower road transport energy use and higher rail transport energy use and an overall reduction in emissions. Unless the scheme accounts for this transport mode shift, the rail operator may not be in a position to accommodate the increased costs imposed by an emission trading scheme.

Investment Period

The rail industry operates under very large long investment periods for rolling stock and even longer periods for track infrastructure. Currently there are more than 1550 locomotives in Australia of which more than 50% are over 20 years old and 30% are

more than 30 years old³. The replacement value of this fleet is in excess of eight billion dollars. The energy and emissions policy and legislation must recognise the constraints that this large investment and its slow rate of change imposes. The rail industry does not have the flexibility to adapt quickly to change, but should not be penalised, and the long term environmental consequences should not be compromised as a result.

The proposed proposition “Only assets in existence as at 3 June 2007 would be eligible for consideration under the Government’s proposed compensation arrangements.” (Section 2.2) could disadvantage rail operator because of the lengthy process to secure capital funding and the long lead time for rolling stock procurement.

The concept “Greenhouse Friendly does not yet have protocols for most abatement activities that will be eligible to generate early action credit.” (Section 3.3.2) The useful life of rolling stock is typically 30 plus years. Given this long-term investment, rail operators would benefit from the development of streamlined protocols for energy efficiency projects with longer pay back periods.

Regulatory Efficiency and Equity

The costs of regulation must be considered during the development of the legislation. The Australian railway industry is hamstrung by inefficient regulation imposing costs which bear little relativity to the benefits which the regulation actually achieves. It is also important that the regulatory burden be fairly distributed. In particular, many small users should not accrue a benefit by not being regulated compared with large users who fall under regulation due to an arbitrary size threshold. This is particularly important where many small users can be a substantial part of the sector being regulated.

In addition, and consistent with COAG agreements, complementary legislation should be consolidated as far as possible to minimise redundant reporting and increase consistency to improve administrative efficiency both within government and in industries which are being regulated. At present there is Energy Efficiency Opportunities legislation, National Greenhouse and Energy Reporting legislation, the National Greenhouse Gas Initiative reporting, National Pollutant Inventory and other requirements which should be streamlined or consolidated as much as possible. In addition individual States may have separate reporting requirements which are either different or unnecessary given the Australian Government requirements.

In order to streamline the reporting requirements for these various programs and schemes as much as possible, the rail industry recommends that a single data source be used, such as the Greenhouse Challenge Plus and Energy Efficiency Opportunities, to verify emissions data prior to the introduction of NGERs. It is also important that the reporting arrangements do not allow the opportunity for emitters to artificially escape coverage, for instance by conveniently being arranged into smaller operational units below the threshold for coverage.

³ Australasian Railway Association data.

Optimising the Transport System

The energy and emissions policy and legislation must take account of all elements and all modes of the transport system. The environment will benefit if there is a greater use of rail. However, this will also result in greater emissions from rail operations and greater consumption of the rail infrastructure. The rail industry should not be penalised by the additional emissions and energy use which results in order to provide an overall environmental benefit.

The allocation of permits for Trade Exposed Energy Intensive Industry and disproportionate loss issues associated with the movement of products for international markets, together with the effects on domestic markets must be considered so that adverse effects do not occur for transport users.

Data and Information

There is a considerable scarcity of environmental and transport data for a wide range of issues including the value of greenhouse gases, costs of regulation, costs and benefits of mitigation, market elasticities, intermodal relativities and so on. In addition, there is considerable debate about the collection of data, the accuracy of data which is available and the analytical methodologies which are applied. It is essential that more data be collected and analysed to adequately inform policy and legislative development so that good decisions can be made. Unfortunately, the transport field in general does not have good expertise in this area and the rail industry is particularly lacking in capability and information due to the lack activity in this area over a long period of time.

Work currently being done by the CRC for Rail Innovation will help inform the industry and its dialogue with government. The rail industry looks forward to discussing this and other information as it becomes available while emissions trading policy is developed and legislation is drafted.

4. Continuing Development and Dialogue

The rail industry submits that all affected stakeholders need to work co-operatively together to achieve the intended outcomes. Experience suggests that government policy development in isolation from industry has a high likelihood of resulting in adverse outcomes which can take a long time to rectify. The rail industry strongly urges the Australian Government, its agencies and the Taskforce to engage in close dialogue with the rail industry during the development of the energy and emissions policy and legislation.