



Clean Energy Legislative Package 2011

Exposure Drafts

Submission

22 August 2011

Summary

Asciano is a large logistics company that provides road and rail transport across Australia and facilitates shipping through its port and stevedoring operations. As a large energy user, Asciano will be significantly affected by a price on carbon.

In July 2011 the Federal Government Department of Climate Change released its exposure draft for the Clean Energy Legislative Package. Asciano has three key concerns with the Government's Clean Energy Future package.

Firstly, it is inequitable that as a result of this legislation that road freight is given a competitive price advantage over rail freight. Not only does this distort competitive markets, it is perverse that the legislation seeking to drive low energy use behaviour penalises the lower energy use transport mode and actually causes an increase in greenhouse gas emissions. This outcome is a policy failure for transport given the primary aim of the Carbon Scheme is to reduce greenhouse gas emissions.

Secondly, the Clean Energy Legislative Package proposes that the payment for a carbon liability for liquid fuel users is via a reduction of fuel tax credits. While the proposed method in the Legislative Package has simplicity that will be attractive to smaller users of fuel, this is not the case for large fuel users who may want to have more control in managing their carbon costs at the lowest possible cost.

Companies that have a carbon liability for liquid fuels should have the option to choose to pay for this liability via the proposed periodic reduction in their fuel tax credits, or the option to acquit emissions permits for the same quantity of CO₂-e. Instead of being locked out of a carbon trading scheme, large fuel users should be given the opportunity to participate and have access to the market mechanisms available to other users to manage their carbon liability.

Thirdly, while rail is an energy efficient transport mode, for the best opportunity to be taken from using this mode to reduce transport emissions, structural assistance is required to assist investment decisions to upgrade or replace existing equipment. The transport sector and notably rail transport with its high capital cost equipment which has a long operational life, has been given no such assistance.

The Clean Technology Program must be extended to include not just manufacturers but the rail sector.

Asciano proposes the following recommendations to the Clean Energy Legislative Package.

Recommendations:

1. The Clean Energy Legislative Package is amended to exclude rail freight for Intermodal purposes, in having a carbon price deducted from the fuel tax credit until 1 July 2014.
2. The Clean Energy Legislative Package is amended to have the carbon price commence for heavy road vehicles on 1 July 2014.
3. That the Clean Energy Legislative Package be amended to allow companies to choose to pay for their liquid fuel carbon costs either through a reduction in their fuel tax credits based on mechanism proposed in the legislation, or by a company acquitting the number of permits equivalent to the CO₂-e produced by the fuel claimed for fuel tax credits.
4. That the Clean Technology Program be amended to include the rail transport sector.

Background

Asciano is a large logistics company that provides road and rail transport across Australia and facilitates shipping through its port and stevedoring operations. As a large energy user, Asciano will be significantly affected by a price on carbon.

In July 2011 the Federal Government Department of Climate Change released its exposure draft for the Clean Energy Legislative Package.

Transport in Australia is the third highest contributor to national greenhouse gases, with stationary energy (electricity) and agriculture holding first and second place respectively. If the electricity used in the provision for electric rail transport is taken into account, transport is the second highest cause of emissions.

Rail and sea transport are inherently much less carbon intensive forms of transport than other transport modes. The short and long term benefits of switching goods from road to rail and sea transport are immediate and significant.

The availability of options to increase rail productivity through investment in the rail network and improve the interactions between freight transport modes will also result in reduced transport emissions.

Transport Policy Failure

The Clean Energy Legislative Package proposes the imposition of a carbon price on rail at the commencement of the Carbon Scheme on 1 July 2012. Heavy road users will not incur a carbon cost and there is no provision in the legislation for this to commence as proposed on 1 July 2014.

It is inequitable that as a result of this legislation that road freight is given a competitive price advantage over rail freight. Not only does this distort competitive markets, it is perverse that the legislation seeking to drive low energy use behaviour penalises the lower energy use transport mode and actually causes an increase in greenhouse gas emissions.

It is recognised that not all rail freight is contestable with road due to the bulk nature of the commodity carried, such as coal and iron ore. The rail market for intermodal freight that directly competes with road must be given similar carbon relief to heavy road vehicles to prevent distortion in the freight transport market by influencing consumer choice as to the mode of transport they use to freight goods.

For example, the key north south rail corridor between Melbourne and Brisbane has minimal market share compared to road for the movement of goods. Given the price elasticity on this corridor, and the competitive pricing environment between road and rail, every \$1 price increase in the cost of a service for rail, results in a transfer of goods from rail to road transport.

A Carbon Scheme that protects road competition and does not set a firm date in the legislation for this protection to end, risks further erosion of rail's ability to compete with road. Any resulting transfer of goods from rail to road contributes to an increase in greenhouse gas emissions.

This outcome is a policy failure for transport given the primary aim of the Carbon Scheme is to reduce greenhouse gas emissions.

Asciano acknowledges the Australian Government's significant investment under the National Building Program and Building Australia Fund to improve and expand Australia's rail freight infrastructure. This investment, however, cannot be regarded as compensation for the rail industry for needing to pay an effective carbon price two years or more, before heavy vehicles.

It should be noted the Government's \$7.7 billion investment in rail infrastructure (2008-2009 to 2013-2014) is approximately 20 percent of the overall Nation Building budget of \$36.2 billion (2008-2009 to 2013-2014). This 20 percent share of the Government's infrastructure spend is against the backdrop of estimates from the Bureau of Infrastructure, Transport and Regional Economics that show that rail currently carries nearly half of the annual freight task, as seen in the table below:

Projected Freight Transport Task (billion tonne kilometres)

Year	Road	Rail	Sea	Air	Total
2010	193.8	240.1	132.4	0.3	566.6
2030	354.9	455.4	196.3	0.6	1007.2
2050	512.1	663.1	223.6	1.2	1399.2

(Source: Bureau of Infrastructure, Transport and Regional Economics. Note: a Billion Tonne Kilometres is a unit of measurement equal to the weight in tons of material transported, multiplied by the number of kilometres driven.)

Recommendations:

1. The Clean Energy Legislative Package is amended to exclude rail freight for Intermodal purposes, in having a carbon price deducted from the fuel tax credit until 1 July 2014.
2. The Clean Energy Legislative Package is amended to have the carbon price commence for heavy road vehicles on 1 July 2014.

Carbon Scheme Membership

The Clean Energy Legislative Package uses the Fuel Tax Credit system to identify liquid fuel users who will pay a carbon price on their liquid fuel use. While this is an effective and clear methodology for identifying parties who will incur a carbon cost liability, the payment for this liability should not be restricted to the Fuel Tax Credit system.

The purpose of permits in a Carbon Scheme is to transition to a flexible carbon price that gives parties access to a number of mechanisms to acquire permits at the lowest possible cost. This may be through the:

- timing of permits purchases;
- quantity of future and current vintage permits purchased at the Government auctions;
- purchase of permits traded through secondary domestic markets;
- purchase of international permits; and / or
- purchase of credits created in Australia through farming initiatives.

The Clean Energy Legislative Package proposes that the payment for a carbon liability for liquid fuel users is via a reduction of fuel tax credits. The carbon cost will be the quantity of fuel claimed multiplied by the emissions rate of the fuel and the carbon price. The carbon price is to be established from the six month average auction price for carbon permits.

This method restricts companies using the fuel tax credit payment method to only one of the many above mechanisms for paying their carbon liability. It locks companies out of the opportunity to manage their carbon liability at the lowest possible cost and may allow those industries that have access to the permit market for meeting their carbon liability to have lower carbon costs than those industries that use liquid fuels.

While the proposed method in the Legislative Package has simplicity that will be attractive to smaller users of fuel, this is not the case for large fuel users who may want to have more control in managing their carbon costs at the least possible cost. A number of companies such as those in the mining sector will need to acquire permits for their fugitive emissions and are therefore in a position to acquire additional permits for their fuel use.

Companies that have a carbon liability for liquid fuels should have the option to choose to pay for this liability via the proposed periodic reduction in their fuel tax credits, or the option to acquit emissions permits for the same quantity of CO₂-e.

Instead of being locked out of a carbon trading scheme, large fuel users should be given the opportunity to participate.

Recommendation:

3. That the Clean Energy Legislative Package be amended to allow companies to choose to pay for their liquid fuel carbon costs either through a reduction in their fuel tax credits based on mechanism proposed in the legislation, or by a company acquitting the number of permits equivalent to the CO₂-e produced by the fuel claimed for fuel tax credits.

Access to Structural Assistance

The Clean Energy Future Grants of \$1.2 billion proposed by the Government will be useful in assisting industries make the structural changes required toward a lower carbon pollution future. The Clean Technology Program element of this grants package, of \$800m over 7 years will assist those companies that have high capital equipment costs in investing in energy efficient capital equipment.

While many sectors of the economy will benefit from such structural assistance, the transport sector and notably rail transport with its high capital cost equipment which has a long operational life, has been given no such assistance.

The Clean Technology Program must be extended to include not just manufacturers but the rail sector. While rail is an energy efficient transport mode, for the best opportunity to be taken from using this mode to reduce transport emissions, structural assistance is required to assist investment decisions to upgrade or replace existing equipment.

Heavy road transport has received a holiday from paying a price for carbon while under the current legislation rail is set to pay its way for its carbon output. Rail is again being disadvantaged when compared to other industries that face similar issues of improving the energy efficiency of high capital cost equipment with long life spans. To achieve equity between industries, the Clean Technology Program must be extended to the rail sector.

Carbon payments made by rail, and perhaps notably for the number of years until this cost is incurred by road, should be available for access by the rail sector as part of the Clean Technology Program to assist the rail sector in its structural changes to a cleaner energy future.

Recommendation:

4. That the Clean Technology Program be amended to include the rail transport sector.

Conclusion

Asciano is committed to working with Government to getting the balance right between achieving positive environmental outcomes, and ensuring the future efficiency and viability of Australia's freight transport and logistics supply chain industry. Furthermore, it acknowledges industry has a significant role to play in transitioning Australia to a low carbon future and is prepared to make a positive contribution. However, industry efforts to tackle climate change should be accompanied by Government policies that ensure competitive neutrality across the transport modes

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