

AUSTRALIAN RAIL TRACK CORPORATION

The Garnaut Climate Change Review Response to the Emissions Trading Scheme Discussion Paper

Introduction

This paper is Australian Rail Track Corporation Ltd.'s response to the Garnaut Emissions Trading Scheme Discussion Paper released in March 2008. It makes comment on the proposed Emissions Trading Scheme, but also touches upon some of the policy matters in response to the Issues Paper – Forum 5, Transport, Planning and the Built Environment.

Background

The Australian Rail Track Corporation Ltd. (ARTC) is a company under the Corporations Act whose shares are owned by the Commonwealth and is overseen by the Minister for Infrastructure, Transport, Regional Development and Local Government, and Special Minister for State.

ARTC commenced operations on 1 July 1998, and currently has responsibility for the management of over 10,000 route kilometres of standard gauge track in South Australia, Victoria, Western Australia and New South Wales. ARTC has an agreement with WestNet Rail to provide a one-stop shop for interstate network access from Kalgoorlie to Perth, and is four years into a 60-year lease of the interstate and Hunter Valley rail networks in NSW.

ARTC's corporate strategy is to:

- ▶ Provide seamless and efficient access to users of the interstate rail network;
- ▶ Pursue a growth strategy for interstate rail through improved efficiency and competitiveness;
- ▶ Improve interstate rail infrastructure through better asset management and coordination of capital investment;
- ▶ Encourage uniformity in access, technical, operating and safe working procedures; and
- ▶ Operate the business on commercially sound principles.

At current access pricing levels, utilisation of the interstate rail network does not generate sufficient revenue to recover full economic cost of long term asset sustainability (measured on an optimised replacement basis commonly recognised under economic regulation models). This largely results from the bulk of ARTC's revenue on the interstate rail network being derived from the intermodal freight transport market, where rail competes with other transport modes, particularly road freight transport. Rail is generally a price-taker in these markets, and therefore access pricing must remain low to keep rail competitive. As such, any distortions in pricing of transport and infrastructure usage, impacts on rail and ARTC's profitability and sustainability.

ARTC aims to increase utilisation of its network by assisting to maintain and improve rail's competitive position in both national and regional logistics markets. Through

targeted investment, pricing, network management, and applying low-cost maintenance practices in order to improve rail's reliability, transit time and yield, ARTC has contributed to the increase in rail's share of the East-West intermodal land transport market to 80%. ARTC aims to maintain this position, and apply a similar strategy to obtain an improved rail transport outcome on the North-South (Melbourne-Sydney-Brisbane) interstate corridors. ARTC also has an investment strategy for the Hunter Valley region to provide capacity for coal haulage ahead of export demand.

Rail and Emissions Reduction

Transport is one of the fastest growing sources of emissions, mainly due to the growth in road transport. Rail is widely acknowledged as a low-carbon form of freight transport and it would seem logical that increasing the use of rail would be encouraged as part of a country's overall plan to reduce carbon emissions from the transport sector. A modal shift in both the freight and passenger markets from road to rail would have a positive environmental impact. If road and rail are able to compete efficiently and effectively, i.e. on the same basis and terms, this would enable the most effective use of transport modes to produce a more efficient transport outcome for the economy. Policy adjustments will be required to enable this.

Even with existing rail infrastructure and technologies, the opportunity exists for real emissions reduction from the transport sector. However, through investment in infrastructure, improved efficiencies from technological advancements, and the development of alternate fuels, rail can further and significantly reduce emissions sustainably in the long term.

Some examples are:

- ▶ Improving rail service quality, namely reliability and transit times, can assist in encouraging modal shift for freight movements on the North-South corridor;
- ▶ Infrastructure investment in areas such as increasing loop lengths, and enabling increased train heights, will provide the opportunity for more goods to be carried per train;
- ▶ Having below rail infrastructure compatible with the newest, most efficient locomotives and rolling stock;
- ▶ Employing the latest technology in locomotives and rolling stock to improve fuel efficiency, and keeping abreast of and employing, where possible, new, alternate low emission fuels (this will require further research and development);
- ▶ Improving train control and operations through digital management systems which will increase network capacity by allowing more trains to run on the tracks without compromising safety, and reduce fuel usage through trains not requiring to stop as frequently.

Improved efficiency of trucks may offer a short term reduction for emissions reduction by that mode. However ARTC sees increased modal shift as the more effective method to make significant emissions reductions in the transport sector. The optimal long term solution should encourage a greater shift of intermodal freight and some passenger from road to rail, and the setting of policy would need to be sympathetic to this cause.

Comments on Proposed Emissions Trading Scheme (ETS)

Overall, ARTC supports the proposed Australian ETS model. In particular, ARTC:

- ▶ Supports the introduction of an ETS in Australia, and that the proposed ETS should eventually integrate with a global ETS.
- ▶ Strongly supports transport being included as part of the overall Australian ETS. An effective emissions reduction strategy and trading scheme should include the transport sector, especially in areas of freight movement.
- ▶ Supports all emission sources in transport need to be included for a scheme to be effective.
- ▶ Agrees that, where practical, the point of obligation should be at the source of emissions, i.e. where they are being produced.
- ▶ ARTC supports the auctioning of permits as opposed to free allocation.
- ▶ Sees an upstream point of obligation to be the best way to cover a large number of similar emitters when it comes to fuel usage, as it would be too difficult to allocate permits to every small emitter. Such a point of obligation would be at the refinery or at the point of import. Fuel suppliers would purchase permits through the auctioning process and trade these permits in the ETS, passing the associated costs on to transport operators through fuel prices. This would result in emissions trading applying as widely as possible, i.e. where no one is excluded, which ARTC sees as important in order to result in equity, and effectiveness in terms of the policy outcomes.
- ▶ Sees the best way for compensating households for resultant impacts on disposable income as a result of fuel rises to be through the welfare and taxation system.
- ▶ Believes it is essential that trade-exposed emissions-intensive industries (TEEIs), who are unable to pass the costs of emissions through to customers, receive financial assistance for the period that major trading competitors do not have the same emissions trading price impacts.

Policy considerations

An outcome from an ETS will be higher fuel prices. Higher fuel prices alone will not reduce emissions from the transport sector unless supported by other policy initiatives which facilitate movement to more energy efficient outcomes. Support will be required through an integrated transport strategy, of which adjusted policy drivers will be a key element, to move to more efficient outcomes. In ARTC's view, such policies for consideration should include:

▶ Accelerated Depreciation

As mentioned earlier in this paper, efficiency gains in locomotives and rolling stock will be an important means of halting the growth in greenhouse emissions. Given that rail rolling stock has a significantly longer economic life than that of road vehicles, changes to 'greener' technology will take longer to realise in the rail sector. Currently, such assets are depreciated over a long estimated asset life, say 15 years, which does not provide any incentive for investment in new technologies. This issue could be managed, and investment in more efficient technologies could be encouraged, by allowing accelerated depreciation of rail locomotives and rolling stock, to say 5 years. Accelerated depreciation may also be applied to rail infrastructure investment.

▶ **Cost Structure Transparency (Road/Rail Pricing)**

Fuel prices currently do not adequately reflect externalities. This will change with the introduction of an ETS where all parties will pay a higher cost for fuel. In relation to this, ARTC believes that transparency is important in gaining an understanding of the true cost structures of the various transport modes. The more reflective fuel prices need to be included as part of the true costs, which ideally, will ensure that market outcomes are not distorted by erroneous or partial data. ARTC would advocate the use of mass-distance pricing for heavy vehicles so true modal cost comparisons can be made. Without true cost comparisons, an ETS may deliver distorted modal shift outcomes.

▶ **Land Availability for Intermodal Terminals**

Intermodal terminals are locations where freight is transferred from one transport mode to another, for example, between road and rail, and they contribute directly to a freight and logistics system which can meet business needs, and increase the competitiveness of export goods. There is a shortage of land availability for the construction of new terminals and for the expansion of existing ones. Making land available for this purpose is important for increasing efficiency and capacity of the transport network, and this will only be achieved through policy shift and increased cooperation and coordination between levels of government and where transport needs are better recognised in land use planning.

Research and Modelling

ARTC understands that there is still extensive economic modelling to be done on the impacts of climate change and the proposed ETS.

For the transport sector, there is still a number of uncertainties in moving forward, for which extensive research and/or modelling will be required. This includes:

- ▶ Determining fuel price levels for the various end user markets at which modal shift is likely to be evidenced;
- ▶ What, if any, incentives might be required to encourage modal shift;
- ▶ Given various scenarios of modal shift, determining the infrastructure and associated investment required to support this, and other impacts;
- ▶ Economic analysis of accelerated depreciation of rolling stock and infrastructure development;
- ▶ Research into new, more efficient technologies, both in terms of fuel usage and concentration of output emissions.

ARTC looks forward to being able to contribute to the progress of the Australian ETS, and provide comment and input to the process.

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