



SUBMISSION TO THE
DEPARTMENT OF CLIMATE CHANGE
IN RESPONSE TO THE
CARBON POLLUTION REDUCTION SCHEME GREEN PAPER

SEPTEMBER 2008

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1. FORWARD

Sir Nicholas Stern in his *Review on the Economics of Climate Change* provided the world with a comprehensive risk assessment of the costs of climate change as against the costs of acting on climate change, arguing that the benefits of action outweigh the costs.

Professor Ross Garnaut is currently undertaking a similar risk assessment in view of the particular circumstances facing Australia, arguing in his draft report that Australia faces heightened exposure to the costs of climate change compared to the rest of the world.

Notwithstanding, the costs of acting on climate change will be significant.

The *Report of the Task Group on Emissions Trading* offers the following evaluation on climate change mitigation in the Australian context:

To meet a 20 per cent reduction from 1990 levels by 2020 would require Australia to alter its trajectory from a projected 0.9 per cent per annum increase in the decade 2000 to 2010, to a reduction of 3.2 per cent per year over the period 2010 to 2020. To achieve such a target would require a 38 per cent reduction in emissions (equivalent to 264 million tonnes) from the levels currently projected to prevail in 2020.

To illustrate the magnitude involved, this is equivalent to, for example, replacing Australia's entire existing fossil fuel-fired electricity generation capacity with electricity from nuclear energy while at the same time removing all existing vehicles from our roads. In the absence of technological breakthroughs, such a reduction would impose a significant cost not only on industry but also on household consumption of energy and transport.

In acknowledging the high costs of acting on climate change and the demand this predicates for abatement to be achieved at least cost, the Australian Government, in concert with state and territory governments, has committed to developing a framework for implementing a set of coherent and streamlined climate change measures to secure abatement at the least cost to Australian industry and households.

2. INTRODUCTION

Establishment of an emissions trading scheme will be the core measure of Australia's climate change response.

The Minister for Climate Change and Water, Senator the Hon Penny Wong, publicly released the Australian Government's *Carbon Pollution Reduction Scheme Green Paper* in an address to the National Press Club on 16 July 2008.

The positions outlined in the green paper represent the Government's current thinking on design of the emissions trading scheme. Preferred positions or identified dispositions are not necessarily statements of final policy intent and stakeholder feedback has been invited on all aspects and issues identified in the green paper.

Final policy decisions are intended to be reflected in a *White Paper* and accompanying exposure draft legislation to be released in December 2008, including proposals for medium term targets and trajectory pathways.

Following feedback on the exposure draft, the Government intends to introduce enabling legislation into the Parliament in 2009, with the intention to achieve passage of the Bill by mid-year. An emissions trading regulator will be established under the Act and is proposed to be in operation by the end of 2009.

Consultation on regulations to support the Act will be undertaken during 2009 to allow for commencement of emissions trading from July 2010.

This submission details the views of the members of the Australian Trucking Association (ATA) and the wider trucking industry on elements of emissions trading design that are of material significance to the operations of trucking companies and the trucking industry as a whole.

3. THE AUSTRALIAN TRUCKING ASSOCIATION

The ATA was originally established in 1989 as the Road Transport Forum (RTF) and is the peak national body uniting and representing the interests of the Australian trucking industry.

Membership of the ATA's General Council comprises the peak state and sector based trucking associations, the Transport Workers' Union, some of the nation's largest transport enterprises and representatives of small fleet owners and owner drivers.

The ATA is an association member of the Australian Industry Greenhouse Network (AIGN) and contributes to the collaborative development of industry positions on climate change policy.

4. COVERAGE

The Government has announced that the introduction of an emissions trading scheme, covering 75 per cent of emissions from the outset of trading in July 2010, including all emissions from the transport sector, will be the centrepiece of Australia's response to climate change.

The Government's preferred positions on coverage mean that all emissions deriving from transport operations (including synthetic and waste emissions) will be subject to a carbon price, therefore ensuring the complete and equivalent imposition of Australia's climate change objectives on competing firms within the transport sector and across firms in covered sectors of the economy more generally.

Transport fuel combustion emissions will be covered from scheme commencement, with obligations for holding and acquitting permits applied to:

- Fuel excise and customs duty remitters for liquid fuels currently subject to excise and customs duty, including synthetic fuels, with thresholds to exclude smaller customs duty remitters to be determined.
- All producers, marketers, distributors and importers of liquefied petroleum gas supplied to energy users.
- Producers of liquefied natural gas and compressed natural gas, noting that limited distribution supply networks in Australia make it difficult to apply obligations further down the supply chain.
- Obligations under the scheme would not apply to emissions from the combustion of biofuels because these fuels would be granted a zero Scope 1 emissions rating.

The Government has committed to working with the fuel supply industry to assess options for large emitters to directly manage their fuel combustion emissions following the first year of operation of the scheme and has sought feedback on possible netting out arrangements.

During the transport industries roundtable meeting of 28 August 2008, the Department of Climate Change indicated this provision will not seek to apply mandatory obligations on large emitters but that it would be implemented to provide non-liable companies with an option to self-acquit.

The ATA supports this approach and cautions against moves that seek to impose a mandatory obligation on transport companies exceeding the 25 kt CO₂-e facility threshold.

The best way to ensure the benefits of downstream acquittal are optimised, subject to the administrative and compliance costs of netting out, is to require a three way agreement between the nominating user, the liable supplier and the regulator.

This tripartite form agreement need not eliminate the possibility of transport companies under the 25 kt CO₂-e facility threshold from nominating self-acquittal.

The ATA notes its position on point of liability for transport fuel combustion emissions is consistent with the general industry position advanced by AIGN.

5. CENT-FOR-CENT FUEL TAX OFFSET

In response to political pressures the Government proposes to cut fuel taxes on a cent-for-cent basis to offset the initial impact of the emissions trading scheme on fuel prices for motorists, the agriculture and fishing industries and heavy vehicle road users.

As the carbon price changes over the first three years of the emissions trading scheme fuel taxes for motorists will be periodically adjusted, with a review on the appropriateness of continuing adjustments to occur at the end of three years.

To ensure rural and regional areas are not disadvantaged, the Government proposes to provide an equivalent rebate to businesses in the agricultural and fishing industries for a period of three years.

For heavy vehicle road users, fuel taxes will be cut on a cent-for-cent basis to offset the initial impact of the emissions trading scheme, with a review on the appropriateness of continuing adjustments to occur at the end of one year.

During the transport industries roundtable meeting of 28 August 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government, the Hon Anthony Albanese MP, indicated that reductions made to fuel taxes for heavy vehicle road users during the period of adjustment will remain in place indefinitely.

This will ensure heavy vehicle road users are not subject to a double imposition of costs upon eventual removal of the adjustment mechanism.

The ATA supports the Government's approach to a measured transition.

Implementation of the cent-for-cent fuel tax offset faces significant administrative difficulties in fulfilling the Government's intention, including issues of transparency of the offset as it works through the fuel supply chain, but also including differentiated emission factors for petrol and diesel, exclusion of some alternative fuels and biofuels from the excise system, Scope 1 and Scope 3 emission factors as relating particularly to biofuels and also in consideration of the ability of fuel refiners/producers to pass on costs.

The ATA understands these issues are to be worked through in a separate consultation process coordinated by the Treasury.

As a preliminary issue to this consultation, the ATA believes it is appropriate that the cent-for-cent fuel tax offset be identified as clearly separable from the road user charge and thereby enabled through a separate legislative instrument to the road user charge.

6. COST AND COMPETITIVENESS

The Government's commitment to reduce Australia's greenhouse gas emissions by 60 per cent below 2000 levels by 2050 was established in the lead up to the 2007 election campaign. This commitment, as it stands, is not contingent upon the formation of international agreements imposing comparable constraints on other major developed and developing economies of the world.

Notwithstanding statements that the Government would undertake to protect the competitiveness of Australian industry and remove the possibility of carbon leakage, the assistance proposed is partial, both in terms of the traded industries who qualify for assistance and the proportional magnitude of assistance, and is further proposed to be reduced over time in line with reductions in the emissions trajectory pathway.

The ATA acknowledges the argument that assistance to emissions-intensive, trade-exposed industries is constrained by a trade-off the Government is willing to accept between fulfilling its commitments to protect Australia's competitiveness viz-a-viz imposing the significant burden of its pre-election commitment to a national emissions reduction target upon non-assisted industries, including the trucking industry.

Regardless of the fallout of negotiations concerning thresholds, proportional assistance and relative burdens, a commitment to strong action in the absence of international agreement will have serious implications for Australia's competitiveness and the future growth potential of the economy, including in those industries that receive assistance.

The ATA notes that this debate is significantly constrained by a lack of information on the Government's proposed approaches to targets and trajectories, particularly the extent to which these important decisions will focus on the likelihood and timing (or, in fact, the actual achievement) of international agreements in determining an appropriate time-path for a carbon price in the Australian market.

If the carbon price prevailing from implementation of an emissions trading scheme is sufficiently low as to have immaterial impact on cost structures in the economy, until such time as international negotiations can reasonably be expected to impose comparable carbon constraints on the major trading economies of the world (or until such time as this is actually achieved), the negative impact on Australian industry may be manageable and, importantly, the global environmental effectiveness of Australia's efforts will be assured.

The ATA advocates a soft start to the time-path for a carbon price in the Australian market with due consideration given to progress and outcomes of international climate change negotiations.

7. CONCLUSION

The ATA and its members appreciate the opportunity to make this submission and contribute to a collaborative effort in designing an emissions trading scheme.

The ATA looks forward to further discussions on the issues raised in this submission.