

**Submission to:** Department of the Environment

**Title:** Emissions Reduction Fund: The Safeguard Mechanism

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## 1. Australian Trucking Association

The ATA is the peak body that represents the trucking industry. Its members include state and sector-based trucking associations, some of the nation's largest transport companies, and businesses with leading expertise in truck technology.

## 2. Introduction

The safeguard mechanism proposed by the Department of the Environment is intended to ensure that emissions reductions funded by the Emissions Reduction Fund (ERF) are not offset by significant increases in emissions elsewhere in the economy.

The safeguard mechanism is intended to encourage businesses not to increase emissions above historical levels and is to be administered through the *National Greenhouse and Energy Reporting Act 2007*, as set out in the *Carbon Farming Initiative Amendment Act 2014*.

The mechanism is part of three elements of the ERF: crediting, purchasing and safeguarding emissions reductions. Implementation of the crediting and purchasing components is underway, with the first auction held on 15 April 2015. These rules will be finalised in late 2015 and the safeguard mechanism will commence on 1 July 2016.

The safeguard mechanism is intended to deliver an incentive that is sufficient to deter emissions increases beyond established baselines. But it must do so in a way that does not impose unnecessary costs on Australian businesses. The Government states that the safeguard mechanism is not like a carbon tax and will raise no revenue.

The Government recognises the need to maximise flexibility in safeguard design. The Emissions Reduction Fund legislation has established a high-level framework for businesses to manage their emissions consistent with this principle, including:

- a requirement that facility emissions remain below their baselines;
- a 'net emissions' approach, allowing businesses to voluntarily use carbon offsets to net off emissions, as is currently available under voluntary carbon neutral programmes;
- an exemption for facilities whose emissions are the result of exceptional circumstances, such as a natural disaster; and
- a range of discretionary, graduated enforcement options to deter non-compliance, including a final sanction in the form of a civil penalty.

Some trucking operators have direct emissions of more than 100,000 tonnes a year and will therefore be affected by the safeguard mechanism.

Section 3 of this submission draws on the NGER database to show that trucking business emissions do not change in the way anticipated by the proposed mechanism. Although there are exceptions, they tend to grow slowly as networks grow, rather than in the significant, stepwise expansions envisioned by the paper.

Section 4 warns of the need for an alternative approach that would reflect the specific characteristics of network businesses like road transport.

### 3. Emissions growth in the trucking industry

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007*, corporations that meet certain thresholds for greenhouse gas emissions, and energy production and consumption are required to report their emissions.

There are two thresholds that determine if a corporation has to report under the NGER Act:

- facility thresholds, and
- corporate group thresholds.

Both the facility and corporate group thresholds have three components:

1. a greenhouse gas emissions threshold
2. an energy production threshold, and
3. an energy consumption threshold.

Corporations must look at each threshold to determine their obligations under the NGER Act. In the case of the heavy vehicle industry a 'facility' is classified as an individual state or territory.

#### Facility thresholds

The facility thresholds are:

- 25 kilotonnes (kt) or more of greenhouse gases—carbon dioxide equivalence (CO<sub>2</sub>-e)
- production of 100 terajoules (TJ) or more of energy, or
- consumption of 100 TJ or more of energy.

#### Corporate group thresholds

In 2010–11 and onwards:

- 50 kt or more of greenhouse gases (CO<sub>2</sub>-e)
- production of 200 TJ or more of energy, or
- consumption of 200 TJ or more of energy.

The NGER publishes the result of reported greenhouse and energy information by year and in the case of the heavy vehicle industry Scope 1 emissions are the most relevant to examine.

Scope 1 emissions are the release of greenhouse gases into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute a facility. Examples are:

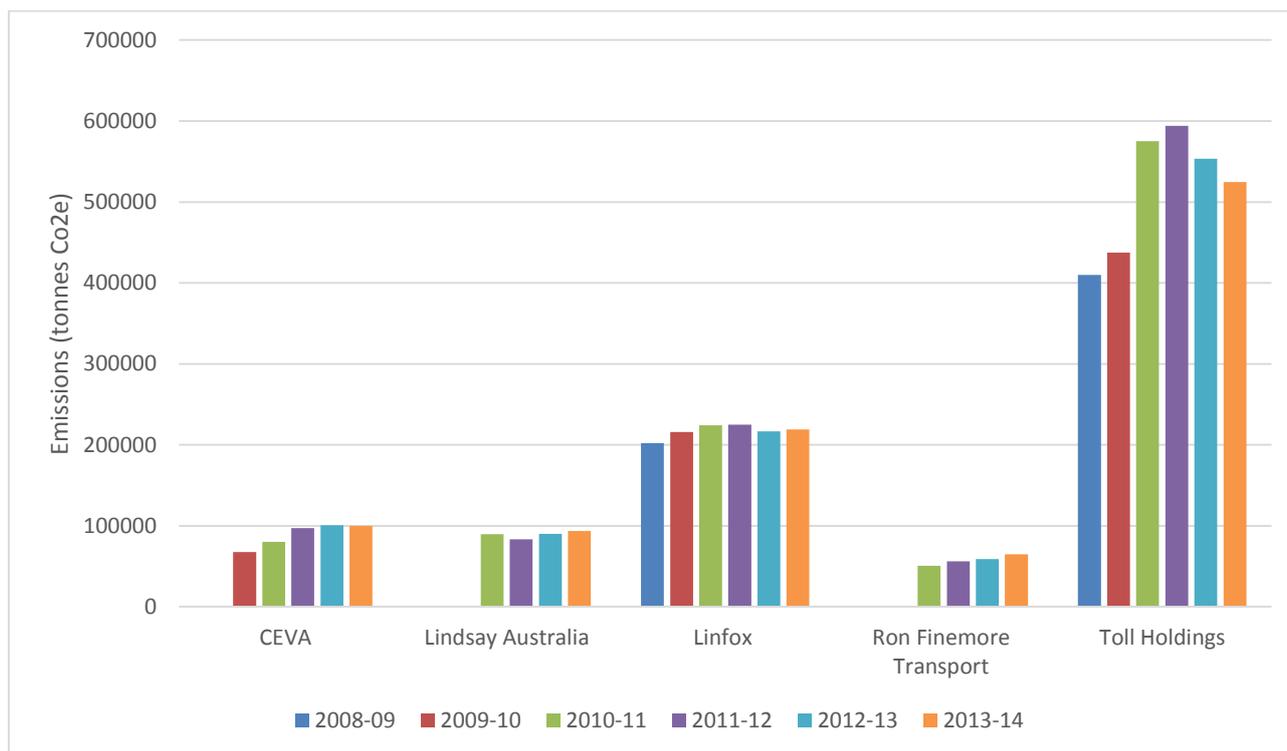
- manufacturing processes, such as gas emitted while making cement, or
- transportation of materials, products, waste and people, such as a transport company burning diesel fuel in its trucks, or
- fugitive emissions, such as methane emissions from coal mines.

Examining figures provided by trucking companies over the previous six years to the NGER, the results show that the majority of increases are incremental. This is to be expected, trucking business operate as networks and tend to grow slowly from one year to the next rather than in the significant expansion envisioned by the discussion paper.

Ceva experienced significant growth in 2010-11 and 2011-12 due to a blend of new business, organic growth and some offset due to better utilisation of the fleet occurring overall.

The increase in Toll's emissions in 2010-11 is largely due to the acquisitions of Mitchell and Concord Park businesses, and their associated emissions.

**Figure 1: Major truck company emissions 2008-09 to 2013-14**



Source: Clean Energy Regulator: National Greenhouse and Energy Reporting: Reported greenhouse and energy information by year. <http://www.cleanenergyregulator.gov.au/National-Greenhouse-and-Energy-Reporting/published-information/greenhouse-and-energy-information/Pages/default.aspx>

#### 4. The need for an alternative approach

The approach proposed in the discussion paper does not reflect the industry and the way many businesses in the trucking industry grow. The trucking industry is a network industry similar to many energy networks, however, the discussion paper assumes that industries increase ‘facility’ emissions in large chunks over a spread out period of time. It states that:

A clear definition of ‘significant expansion’ would ensure that baselines are only adjusted when there is a deliberate and sustained increase in business activity. The advantage of relying on a facility operator to show a significant expansion of production capacity is that it is tangible and durable, and is apparent in the installation of new plant or equipment.

There is a need to determine an appropriate expansion threshold. One suggestion is a threshold of 20 per cent. An application to have a baseline adjusted to accommodate a significant expansion would need to be supported by an audit report to provide assurance that the 20 per cent production capacity test has been met.<sup>1</sup>

The evidence provided through NGER reporting shows that companies in the road transport sector expand and contract emissions on an incremental yearly basis. Large stepwise change in emissions do occur but are not common.

<sup>1</sup> Department of the Environment, *Emissions Reduction Fund: Safeguard Mechanism*, March 2015, accessible at: <http://www.environment.gov.au/system/files/pages/dbabd13c-f8f1-49cd-ab40-621f056de35a/files/safeguard-mechanism-consultation-paper.pdf> page 15

In order to accommodate network industries in the safeguard mechanism, the Government should provide specific safeguard mechanisms that reflect network industry emissions outcomes, in order to not overburden or penalise network industries unduly. The baseline that is determined under the safeguard mechanism needs to consider other factors that contribute to a change in facility emissions such as economic conditions or acquisitions.

### **Recommendation**

The Government should develop an additional safeguard mechanism that reflects the emission patterns of network industries such as the trucking industry.

## 5. Data appendix: Major truck company emissions 2008-09 to 2013-14

Controlling Corporation	Emissions (tonnes Co2e)					
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>CEVA</b>		67,562	80,214	97,262	100,578	99,965
<b>% change</b>			18.7%	21.3%	3.4%	-0.6%
<b>RON FINEMORE TRANSPORT</b>			50,787	56,304	59,080	64,800
<b>% change</b>				10.9%	4.9%	9.7%
<b>LINDSAY AUSTRALIA</b>			89,726	83,327	89,896	93,611
<b>% change</b>				-7.1%	7.9%	4.1%
<b>LINFOX</b>	202,075	215,728	224,015	224,899	216,559	219,156
<b>% change</b>		6.8%	3.8%	0.4%	-3.7%	1.2%
<b>TOLL HOLDINGS</b>	409,822	437,525	575,214	594,015	553,461	524,759
<b>% change</b>		6.8%	31.5%	3.3%	-6.8%	-5.2%

Source: Clean Energy Regulator: National Greenhouse and Energy Reporting: Reported greenhouse and energy information by year. <http://www.cleanenergyregulator.gov.au/National-Greenhouse-and-Energy-Reporting/published-information/greenhouse-and-energy-information/Pages/default.aspx>