



SUBMISSION TO THE

NATIONAL TRANSPORT COMMISSION

ON THE PROPOSED DEVELOPMENT OF A

NATIONAL FREIGHT TRANSPORT CLIMATE CHANGE STRATEGY

SEPTEMBER 2008

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THIS SUBMISSION IS ENDORSED BY:



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 costs¹.

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 world².

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 transport³.

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, is 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, including all emissions generated in the transport sector, will be the core measure of Australia's climate change response.

Other measures to sit alongside an emissions trading scheme, including rationalisation of the current patchwork of climate change and energy policies, targeted technology policies which complement carbon pricing signals and responsible microeconomic reforms to deliver productivity, will assist to minimise the cost of achieving Australia's emission reduction targets.

The Council of Australian Governments (COAG) has undertaken commitments to ensure an effective national response to climate change and deliver least cost abatement by implementing a single national emissions trading scheme and developing a nationally coherent and streamlined set of climate change measures to complement emissions trading⁴.

The Complementary Measures Subgroup of the COAG Working Group on Climate Change and Water is responsible for developing the climate change framework, to be submitted to COAG for approval in October 2008.

¹ Stern Review, 2006, *Report of the Stern Review on the Economics of Climate Change*.

² Garnaut Climate Change Review, 2008, *Draft Report of the Garnaut Climate Change Review*.

³ Task Group on Emissions Trading (TGET), 2007, *Report of the Task Group on Emissions Trading*, pp. 34-5.

⁴ Council of Australian Governments (COAG), 2007, *Communique of the 20 December 2007 Meeting*, p. 7.

In recognising the overwhelming challenges faced by Australia's freight and passenger transport systems and the importance of the efficient operation of transport markets for continued growth and rising prosperity, the Australian Transport Council (ATC) is developing a framework for embarking upon national reforms to facilitate enhanced transport outcomes, including in relation to climate change, environment and energy.

The Australian Trucking Association (ATA) and its members have expressed in-principle support for the national transport policy framework, subject to continued discussion as further information on details of the framework becomes available.

In the context of this framework, the National Transport Commission (NTC) released a discussion paper, *Freight Transport in a Carbon Constrained Economy*, proposing the development of a national strategy to reduce greenhouse gas emissions generated in the freight transport sector, with a draft strategy envisaged for submission to ATC for approval in July 2009.

This submission details the preliminary views of the members of the Australian Trucking Association (ATA) and the wider trucking industry on a proposed national freight transport climate change strategy.

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. A NATIONAL STRATEGY FOR THE FREIGHT TRANSPORT SECTOR

In a September 2007 submission to the NTC on its strategic directions, the ATA cautioned the NTC that it should not, and cannot afford to, shoulder the burdens of attempting to take on broader roles, specifically as it relates to duplicating the work of other agencies and jurisdictions.

The ATA reiterates this advice in the context of climate change, in view of the significant work already being undertaken by the Australian Government and state and territory governments and upon consideration of inconsistencies and weaknesses in the discussion paper.

Given significant commitment of Australian Government resources to climate change policy and the robustness and comprehensiveness of the approach being applied, the ATA believes NTC resources could be better utilised to deliver productivity reforms which will be critical to reducing the emissions intensity of freight transport.

The ATA promotes responsible, coherent and streamlined policies for the freight transport sector that contribute to minimising the costs of achieving Australia's emission reduction targets. A coordinated response across all levels of government and across all ministry portfolios is fundamental to this objective.

While policy coordination is acknowledged in the discussion paper, and indeed used as the reasoned basis for development of a national strategy, the discussion and recommendations do

not parallel with work being undertaken by the Australian Government on the emissions trading scheme or by COAG on complementary measures.

Given highest level inter-jurisdictional commitment to a coherent and streamlined set of climate change measures, it is incumbent upon the NTC, on behalf of transport ministers, if it intends to piece together a national strategy for the freight transport sector, to clearly and strongly articulate the economic framework that is intended to bind climate change policy.

In doing this, the content presented in the discussion paper requires significant revision to deliver a disciplined basis for the development of a national strategy. As a first step, it would be useful to define an objective for the strategy of least cost abatement that parallels with the existing inter-jurisdictional process. Contrary to statements contained in the discussion paper, the fact that:

- the emissions trading scheme is unlikely to be effective on its own for reducing emissions in the transport sector⁵ is not a basis for additional sectoral intervention; and
- transport demand is relatively price inelastic is not a key challenge in applying an economic approach to reducing greenhouse gas emissions generated in the freight transport sector⁶.

In conjunction with price, elasticity represents (opportunity) costs in the context of the macro-economy – to which the emissions trading scheme is intended to apply.

A national strategy to coordinate measures must comprehensively and correctly argue the economic rationale for additional intervention in the presence of an emissions trading scheme. An argument for further intervention based on a summary of inconsequential microeconomic analysis on a general equilibrium proposition is incorrect and has serious negative implications for policy formulation.

As a starting point, the ATA recommends the NTC utilise, to the greatest extent possible, the strict economic framework advocated by Roger Wilkins, head of the Australian Government's Strategic Review of Climate Change Programs, in arguing the basis for complementary measures and by the Australian Government in designing the emissions trading scheme.

The work program of the Complementary Measures Subgroup includes developing an analytical framework for assessing policy complementarity to emissions trading, determining the level of government responsibility for administering measures deemed complementary and finalising the details of a plan of action to rationalise the uncoordinated patchwork of existing climate change and energy policies.

The outcomes of this process may provide useful input for a national strategy, particularly in relation to undertaking a thorough assessment of the economically destructive measures likely to be proposed during this consultation process, and may in fact provide an inter-governmental avenue through which a national strategy for freight transport can be rigorously developed.

5. TRANSPORT AND THE EMISSIONS TRADING SCHEME

The Australian Government has stated 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 change⁷.

⁵ National Transport Commission (NTC), 2008, *Freight Transport in a Carbon Constrained Economy*, p. 17.

⁶ Ibid, p. 18.

⁷ Australian Government, 2008, *Carbon Pollution Reduction Scheme Green Paper*.

The Government's preferred positions on coverage mean that all emissions deriving from freight transport operations 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.

The Australian Government's preferred positions on coverage of the freight transport sector

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 emission rating.

The Government has committed to working with the fuel supply industry to assess options for large emitters to opt-in to directly manage their fuel combustion emissions following the first year of operation of the scheme.

Synthetic gases will be covered from scheme commencement, with obligations for holding and acquitting permits applied to importers of refrigeration and air-conditioning equipment containing synthetic gases as well as domestic manufacturers of synthetic greenhouse gases (of which there are currently none).

Waste emissions will be covered from scheme commencement, with obligations for holding and acquitting permits applied to waste facilities and manufacturing facilities with on-site waste and waste-water treatment.

With an emissions trading scheme in place, suitably comprehensive in scope and design as to minimise distortions within the domestic economy and avoid carbon leakage abroad, the intention is that Australia's contribution to global greenhouse gas reductions will be achieved in a most efficient and least cost manner.

In a speech to the Australian Industry Group in Melbourne on 6 February 2008, the Minister for Climate Change and Water, Senator the Hon Penny Wong, articulated the well-principled view that emissions trading design and any measures introduced additional to emission trading must reduce greenhouse gas emissions at least cost. Further articulating that, if designed and implemented correctly, complementary measures must ultimately push down the costs of emissions reductions over time and across the economy.

In a speech delivered to the 4th Australian-New Zealand Climate Change and Business Conference on 20 August 2008, Roger Wilkins argued that, unless applied in a disciplined way, additional measures to emissions trading risk simply increasing the cost of emissions reductions.

If you mandate a cap for the economy then supplementary policies are in danger of simply increasing the cost of reduction. That's all they will do. You will still reach the cap. But you will increase the cost of reduction.

While there will be policies around the edges, mainly to do with technology, market failures and responsible microeconomic reform, including in transport markets, essentially the emissions trading scheme is going to do the job.

In developing a comprehensive and well argued rationale for additional sectorial intervention to support a national strategy, the ATA strongly recommends the NTC explicitly identifies and supports the proposition that the objective of least cost abatement rules out any additional measures that seek to further internalise Australia's climate change objectives, through either picking winners or introducing additional fiscal (dis)incentives.

If measures are introduced, as have been suggested by some in business and in the community, that seek to discriminatively impose the costs of climate change mitigation on freight transport, Australian households must be prepared to endure additional and unnecessarily inflated costs associated with achieving Australia's emission reduction targets.

6. ELEMENTS OF A NATIONAL STRATEGY FOR THE FREIGHT TRANSPORT SECTOR

A national strategy supported by a disciplined and rigorous framework could be useful in limiting the prospect of misguided enthusiasm and sectorial interests to unjustifiably inflate the costs of abatement. It may also prove useful in facilitating least cost emission reductions in the freight transport sector, particularly if successful in driving productivity reforms for the transport industries.

The discussion paper identifies a five-point climate change framework being implemented at the national level, a six-point action plan to underpin the national freight sector strategy, six 'market failures' preventing the development and commercialisation of low emissions technologies and a further sixteen specific actions.

Unfortunately, the discussion paper does not link these together in a way that promotes an internally consistent strategy let alone one that could be demonstrated to coordinate with the existing inter-jurisdictional process. While recognising this is only the beginnings of a process and notwithstanding the inherent limitations of the discussion paper as explained above, the discussion and recommendations do not provide a sensible framework to promote informed or considered responses.

The ATA further recommends the NTC undertake significant revision of the discussion paper to provide structured and reasoned connections between the existing inter-jurisdictional process, a national freight sector strategy, an action plan, supporting measures and identified market, regulatory and/or institutional failures.

The remaining sections of this submission detail the ATA's preliminary comments on elements of a national strategy for the freight transport sector, including in relation to: microeconomic reform; competing policy objectives and non-aligned regulations; technology and information; and business leadership.

7. MICROECONOMIC REFORM IN TRANSPORT

Many of the specific actions identified in the discussion paper – including those that relate to productivity, infrastructure, externalities and institutions – fall within a reasonable definition of what could be termed microeconomic reform.

As referred in the discussion paper, governments play a large role in transport markets.

For the trucking industry, this includes in the supply of road infrastructure, charging for road infrastructure use, determining access conditions, gazetting road networks and regulating and/or pricing for perceived externalities.

The ATA and its members have made and will make further substantial submissions to the NTC and others on the substantial issue of microeconomic reform in transport markets, in the context of the national transport policy framework, Infrastructure Australia, Australia's Future Tax System Review and progression of COAG's heavy vehicle reform agenda.

8. TECHNOLOGY AND INFORMATION

Beyond microeconomic reform in distorted and/or inappropriately regulated markets, the most significant market failures not addressed by introduction of an emissions trading scheme relate to research, development and demonstration of low emission technologies and the provision and dissemination of information.

The ATA and its members agree there is a role for governments to fund research, development and demonstration projects in relation to low emission technologies where the full commercial benefits of private investment are not able to be realised.

In the context of globalised production and by virtue of Australia being a relatively small economy, government funding for these projects is typically identified as best placed in areas that are of particular importance to the Australian economy and/or in areas in which Australia has considerable expertise.

For example, the Australian trucking industry is relatively unique from counterpart industries around the world in terms of vehicle combinations, the specification of road freight and the terrain and conditions in which the industry operates.

From this perspective there may be a role for government to partner with industry in undertaking and funding research to assess the relative performance benefits of vehicle technology options - including engines, driveline components, tyres and vehicle combinations – in order to assess optimal performance for different freight applications and operating conditions unique and typical to Australia.

The Australian economy is further characterised by emissions intensive electricity generation and manufacture and comprises significant agricultural and forest industries, thereby suggesting a role for government to partner with industry in undertaking and funding research, development and demonstration of second generation biofuels, including bio-sequestration.

The cement industry, in particular, in conjunction with the trucking industry, is eager to assess the performance and commercial value of bio-sequestration technology for use in growing algae to capture CO₂ from cement plant flue gas. The project aims to assess the commercial and technical viability of converting sunlight and CO₂ emissions into biofuels through the construction and operation of a bio-sequestration pilot plant.

The final end-product will be high-energy algae biomass able to be utilised directly by cement kilns as an alternative fuel or converted by existing downstream processes into biodiesel and ethanol for transport use.

9. COMPETING POLICY OBJECTIVES AND NON-ALIGNED REGULATIONS

In recent years, the objective of improving air quality in Australia's congested metropolitan areas has been at the forefront of environmental policy undertakings affecting the trucking industry.

During this time enormous advances have been made by the trucking industry through the uptake of new engine technology that complies with increasingly stringent air quality regulations, implemented through the Australian Design Rules (ADR) 80 series.

In the context of climate change policy and its associated demand for improved energy performance in business operations, improving air quality in Australia's congested metropolitan areas through universal application of the ADR 80/02 standard and the forthcoming ADR 80/03 standard is widely recognised as imposing an energy cost on the trucking industry.

In this respect, environmental policy faces a dilemma of competing policy objectives, including in relation to the universal application of current air pollution emission standards and the development of future standards.

Essentially, at current levels of engine technology, a constrained optimum has to be negotiated between the release of greenhouse gas emissions (largely CO₂) and the release of air pollution emissions (NO_x and particulates).

While the negative effects of air pollution emissions are localised (i.e. air pollution emissions are inconsequential in remote areas and of negative impact in congested metropolitan areas), the release of greenhouse gas emissions is argued to impose an equivalent cost on the environment regardless of the time or location of release.

At this critical time it is appropriate to ensure a clear delineation of green policy objectives associated with climate change and clean policy objectives associated with air pollution.

The universal application of air pollution emission standards may represent an area in which better alignment of air quality objectives with regulation could produce energy savings and benefits in terms climate change policy objectives.

In designing future heavy vehicle emission standards it would be further prudent to assess the potential energy costs of further tightening air pollution emission standards.

On the issue of future standards, the New South Wales Department of Environment and Climate Change notes that, by virtue of the law of diminishing marginal returns, the opportunity for significant air quality benefits by further tightening heavy vehicle emission standards appears to be marginal when technology costs are taken into consideration⁸, notwithstanding any potential energy cost imposition.

The ATA recommends the NTC further investigate the nexus between air quality and climate change policy objectives, noting that the significant input from engine manufacturers will be required.

10. BUSINESS LEADERSHIP

The national strategy is proposed in the discussion paper to be administered by ATC and its supporting bureaucratic structure.

The discussion paper identifies business leadership in moving to low carbon supply chains as an action area for a national strategy, underpinned by the statement that Australian business needs to show leadership in moving to lower carbon supply chains⁹.

This is not an 'action' and should be removed from the strategy.

⁸ Department of Environment and Climate Change (NSW), 2007, Draft NSW Cleaner Vehicles and Fuels Strategy

⁹ NTC, 2008, *Freight Transport in a Carbon Constrained Economy*, p. 30.

Furthermore, it is not within reasonable justification that governments and bureaucracies should view their influence as positively and/or significantly contributing to business leadership.

A national strategy, if developed, should focus on elements that are justifiably within the influence and responsibility of government.

11. CONCLUSION

The ATA and its members appreciate the opportunity to make this submission on the proposed development of a national climate change strategy for the freight transport sector.

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