



Australian Government

COVER SHEET FOR SUBMISSIONS

EMISSIONS REDUCTION FUND

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Please provide at least one contact address; a telephone number is optional. If you are making a submission for a group or organisation, please provide contact information for one member of your group or organisation.	
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HOW TO SUBMIT COMMENTS

Return BOTH the cover sheet and the comments sheet by email (preferred option) or post to the addresses below.

Email: emissions-reduction-submissions@environment.gov.au

Post: Emissions Reduction Fund Submissions
Department of the Environment
GPO Box 787
CANBERRA, ACT 2601

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SUBMISSION TEMPLATE

EMISSIONS REDUCTION FUND

Overview

This submission template should be used to provide comments on the design of the Emissions Reduction Fund.

Contact Details

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Date:	18 November 2013

Submission responses



1. Likely sources of abatement from the road freight transport sector

The Linfox example

The likely sources of low cost abatement in the road freight transport sector are illustrated by the measures that Linfox, an ATA member company, has implemented under its GreenFox program.

Linfox reduced its rate of greenhouse gas emissions (calculated on a Gj/1000km basis) by 37 per cent between 2006-07 and 2011-12 by:

- using carbon footprint software to optimise customers' supply chains
- adopting more aerodynamic vehicle designs
- reducing 'empty running' and seeking opportunities to backload trucks
- using tyre pressure monitoring
- providing ecodriving training to its drivers, with ongoing monitoring and recognition for high achievers
- implementing electricity savings in offices and ambient temperature warehouses.

Overall, Linfox found that its savings came from improved operator use of equipment and minimising energy use. Despite investing in the latest equipment, its savings from technological improvements were minimal.

Some trucking operators have achieved good results using biofuels blends or CNG/LNG. Others are trialling electric or hybrid trucks for local delivery work.

Regulatory and market barriers to achieving GHG abatement

The trucking industry is limited in its ability to reduce greenhouse gas emissions by a series of regulatory and market barriers. For example:

- fitting aerodynamic fairings to the rear of trailers could achieve a 6 to 9 per cent improvement in fuel consumption. These fairings cannot be used in Australia because of the rear overhang and overall length limits on trucks.
- replacing the double tyres used on trucks and trailers with single ultrawide tyres could deliver a 4 to 8 per cent improvement in fuel consumption. Under the national mass limits, however, vehicles with single ultrawide tyres cannot carry as much mass as vehicles with double tyres. As a result, they are not used.
- the best way trucking businesses can reduce their fuel consumption is to use high productivity vehicles like B-triples or super B-doubles on appropriate routes. By using B-triples instead of semitrailers, an operator could reduce its fuel consumption and greenhouse gas emissions by 31 per cent. But progress on allowing the industry to use these safe and efficient vehicles has been slow.
- the takeup of alternative fuels in the trucking industry has been very limited. The availability of gaseous fuel is constrained by the supply infrastructure. In addition, because it can



require larger fuel tanks, its rollout is constrained by truck mass and dimension limits.

- the use of biodiesel blends is constrained by availability, taxation and engine warranty issues. Biodiesel blends are not readily available in many areas. B20 (a standard blend containing 20 per cent biodiesel) can only be sold with a special approval under section 13 of the *Fuel Quality Standards Act*. For operators, using blends with more than 20 per cent biodiesel raises fuel tax issues.

Engine manufacturers are generally reluctant to approve the use of blends with biodiesel concentrations of more than 5-7 per cent. The use of blends with a concentration of biodiesel higher than this level is especially problematic for advanced engines that comply with the Euro 6 emission standard.

As a result, it seems likely that the widespread use of biofuels will be delayed until third generation fuels that are indistinguishable from diesel are available.

Given these barriers, the ATA recommends the Government should leverage its investment in abatement through the ERF by:

- convening a government-industry taskforce to review the vehicle standards and regulations that prevent the trucking industry from increasing its energy efficiency further.
- contributing an additional \$5 million per year for five years to support the further development of synthesising macro algae into synthetic crude oil. This synthetic crude can then be refined into diesel through the normal petrochemical refining process.

2. The details of the auction arrangements to deliver cost effective outcomes

Contracts should be awarded to the lowest compliant bids, regardless of industry sector or geographic location

The auction arrangements for the ERF should be structured to award abatement contracts to the businesses that put forward the lowest cost abatement initiatives that comply with the rules of the fund. The auction arrangements should not take into account their industry sector or geographic location within Australia.

There is always a temptation to split government funding up between industry sectors and geographic regions, on the grounds that every industry and region should have the opportunity to participate. It certainly increases the scope for issuing local media releases.

But the Government's policy objective is to achieve a 131 megatonne emissions reduction target at lowest cost. Reserving chunks of the fund for specific industries or regional projects that would not otherwise be funded would just increase the average cost of the abatement that is achieved.

Bidders should be able to form bidding alliances or partnerships

The auction arrangements should enable businesses to form bidding alliances or partnerships. 99 per cent of trucking businesses have fewer than ten trucks: these businesses would only be able to bid credibly for contracts in alliance with other firms and, very possibly, industry suppliers.



3. Monitoring, verification and compliance arrangements

Businesses should be required to demonstrate actual GHG emission reductions

The compliance arrangements for the ERF should require businesses to demonstrate actual GHG reductions before payments are made. The Government should not assume that even the most promising projects will deliver abatement: some projects fail, and energy efficiency projects can be subject to Jevons Paradox: they can result in increased energy consumption (and therefore GHG emissions), because the reduction in cost leads to an increase in demand.

Businesses should not be able to claim credit for GHG emission reductions by other businesses or across industry sectors except as part of an alliance bid. For example, a rail operator should not be able to claim credit for reducing car travel or 'taking trucks off the road.' These emission reduction estimates are invariably speculative and usually depend on the starting assumptions of the modeller. This hypothetical operator should, of course, be able to claim credit for the actual GHG abatement achieved in its business.

Non-compliance and make good arrangements

It could be expected that some businesses would not achieve their abatement obligations under their ERF contracts. A new technology might fail to meet expectations; an energy efficiency program might run into Jevons Paradox, as described above.

The success of the ERF would heavily depend on its rules for handling non-compliance. If they were too onerous, businesses would simply not bid for abatement contracts or would avoid submitting proposals involving new technologies or processes that might involve implementation risk.

The ATA recommends that businesses that fail to meet their ERF abatement obligations should be able to purchase Australian Carbon Credit Units (ACCUs) to make good the shortfall. They should not be paid under their contracts for those credits.

The ERF contracts should set formal non-compliance penalties for businesses that do not make good their obligations. Experience with the Alberta Specified Gas Emitters Regulation (SGER) and the NSW Greenhouse Gas Abatement Scheme (GGAS) suggests these penalties should only be moderately higher than the cost of making good. The penalties should be paid into a research and development fund along the lines of the Alberta Climate Change and Emissions Management Fund.

Businesses that achieve a higher level of abatement than required by their ERF contracts should be able to convert their additional abatement to ACCUs.

4. Emissions above business as usual baselines



The Government's Direct Action Plan proposes that businesses undertaking activities that led them to exceed their business as usual emission baselines would incur a financial penalty. The plan states that special provisions would be made to cover new entrants and business expansion at best practice.

The ATA recommends that the Government should not proceed further with this element of the plan, because:

- every business and facility has a slightly different structure. A reasonable baseline for one business could be unreasonable for another, even within the same industry.
- businesses would need to apply to have their baseline changed every time they contemplated expanding, won a contract that was more emissions intensive or simply looked like having a good year due to economic growth. Business executives would spend more time managing approvals and less time managing their business; public servants with limited information would effectively end up making business decisions.
- a business faced with the prospect of exceeding its business as usual baseline could well seek to reduce its GHG emissions rather than pay financial penalties. Depending on the industry, this abatement could be extremely expensive – at the middle or top of the abatement cost curve rather than the bottom.

Overall, the proposal would result in uncertainty, poor business decision-making and unnecessarily costly greenhouse gas abatement decisions.

If the Government does go ahead with this element of its plan, the ATA recommends that businesses that exceed their baselines should be able to make good by purchasing ACCUs. Financial penalties should only be moderately higher than the cost of making good and should be paid into a research and development fund as outlined in section 3 of this submission.