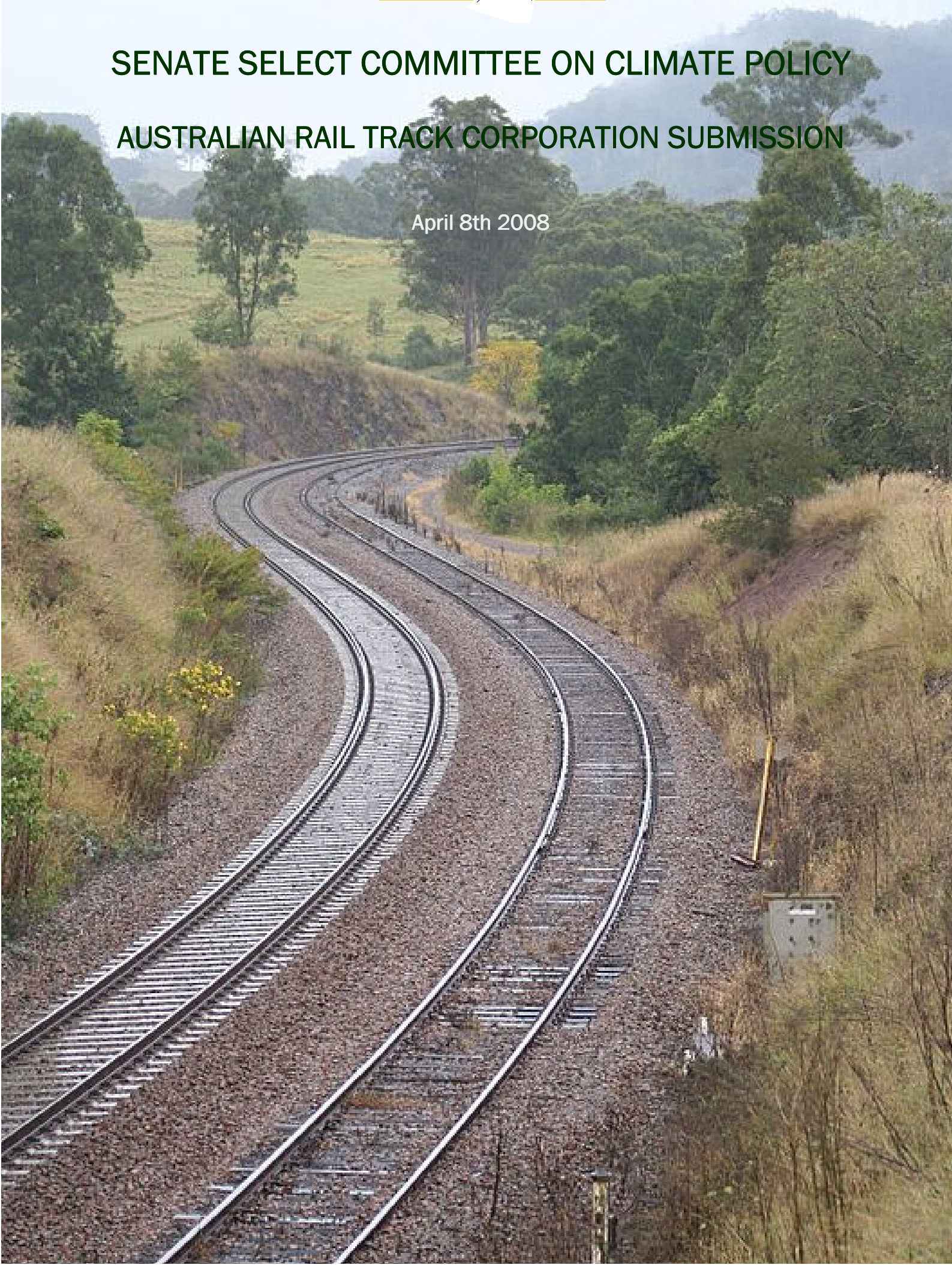




SENATE SELECT COMMITTEE ON CLIMATE POLICY
AUSTRALIAN RAIL TRACK CORPORATION SUBMISSION

April 8th 2008



SENATE SELECT COMMITTEE ON CLIMATE POLICY - ARTC SUBMISSION -

KEY POINTS:

- ▶ **Early action is required to reduce greenhouse gas emissions - the CPRS should commence in 2010 as proposed, without delays.**
- ▶ **An Australian Carbon Pollution Reduction Scheme is important in order to reduce greenhouse gas emissions.**
- ▶ **The CPRS will not be sufficient to meet the greenhouse gas targets and complementary policy/measures will be required to support modal shift from road to rail.**
- ▶ **The entire transport sector should be included from scheme commencement.**
- ▶ **If concessions are provided to heavy road transport, such transitional arrangements should be limited to 12 months.**

BACKGROUND

In March 2009 the Federal Government Department of Climate Change released the exposure draft for the Carbon Pollution Reduction Scheme (CPRS) legislation. The Australian Rail Track Corporation Ltd. (ARTC) has been actively participating in the climate change and CPRS debate through submissions to the Garnaut Climate Change Review, the CPRS Green Paper, the Government's White Paper, the National Transport Commission's review on Freight Transport in a Carbon Constrained Economy, and through attendance at industry consultation forums.

AUSTRALIAN RAIL TRACK CORPORATION

ARTC is a company under the Corporations Act whose shares are owned by the Commonwealth of Australia who is represented by the Minister for Infrastructure, Transport, Regional Development and Local Government, and the Minister for Finance and Deregulation.

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 a 60-year lease of the interstate and Hunter Valley rail networks in NSW, and the existing lease for the Victorian interstate network has recently been extended by an additional 45 years. ARTC also has an agreement with WestNet Rail to provide a one-stop shop for interstate network access from Kalgoorlie to Perth.

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. The ACCC acknowledges this:

"...broader freight services, such as road and sea, affect the rail industry in a number of ways, including potentially providing competitive pressure that affects the service standards and prices rail needs to offer its customers."¹

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.

CPRS AND TRANSPORT

ARTC is fully supportive of a CPRS and believes that the introduction of such a scheme should not be delayed. All attempts should be to commence the scheme in line with the original timeframe in 2010, as the sooner a CPRS is implemented, the sooner the long term advantages can be achieved. Ongoing debate about the relative merits of various scheme options, for example, a cap and trade scheme versus a carbon tax, or further debating design features of the proposed CPRS could lead to substantial delay in the commencement of any type of scheme. ARTC believes that the broad concept and design of the proposed CPRS is sound, and that parties have already had sufficient opportunity to put their views forward on a CPRS and its design.

ARTC also supports a CPRS that includes all forms of transport from scheme commencement. A broad based scheme promoting market responses will be most efficient as it will allow abatement to occur where and when it is most cost effective. The more sectors that participate in the CPRS, the lower the costs of abatement for those included sectors. Transport in Australia is the third highest contributor to

¹ ACCC - Final Decision, Australian Rail Track Corporation, Access Undertaking - Interstate Rail Network, July 2008:12.

national greenhouse gases after electricity and agriculture respectively, and BTRE data suggests that transport emissions alone will account for over 66% of the target for all Australian emissions in 2050². It is a logical conclusion therefore, that the transport sector be included in the CPRS.

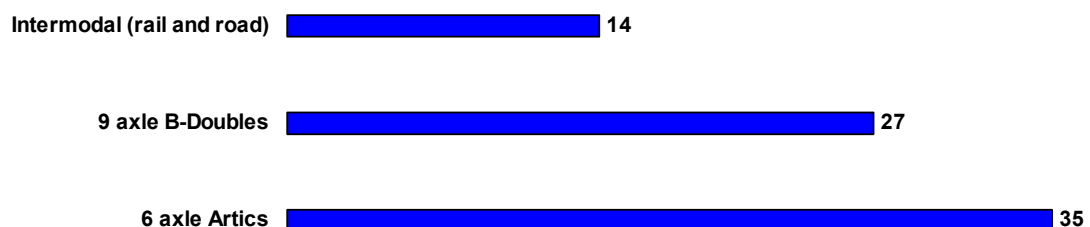
For a CPRS to be successful and truly efficient, outcomes should be essentially market driven, with intervention and compensation being minimal to enable this. If left to free market outcomes, a CPRS would have positive impacts for rail and for the environment, and free market outcomes should be the ultimate objective of scheme implementation.

Transport is one of the fastest growing sources of emissions, mainly due to the growth in road transport. When tackling emissions from the transport sector, it is important that the Government take a holistic view and look at encouraging the most carbon efficient transport modes, particularly when the Australian road freight task is forecast to more than double between 2000 and 2020.

Rail uses less fuel and produces fewer emissions than road so it makes sense for rail to be considered an important part of any solution to lower emissions from the transport sector, particularly in the case of long distance freight transport. A modal shift from road to lower emission forms of transport, i.e. rail and sea, is the most effective way to reduce emissions from the transport sector.

The following diagrams show rail provides a marked emissions reduction benefit for the same quantity of goods moved (note that these figures include additional emissions for rail with road pick up and delivery of goods at the origin and destination), and rail is considerably less energy intensive.

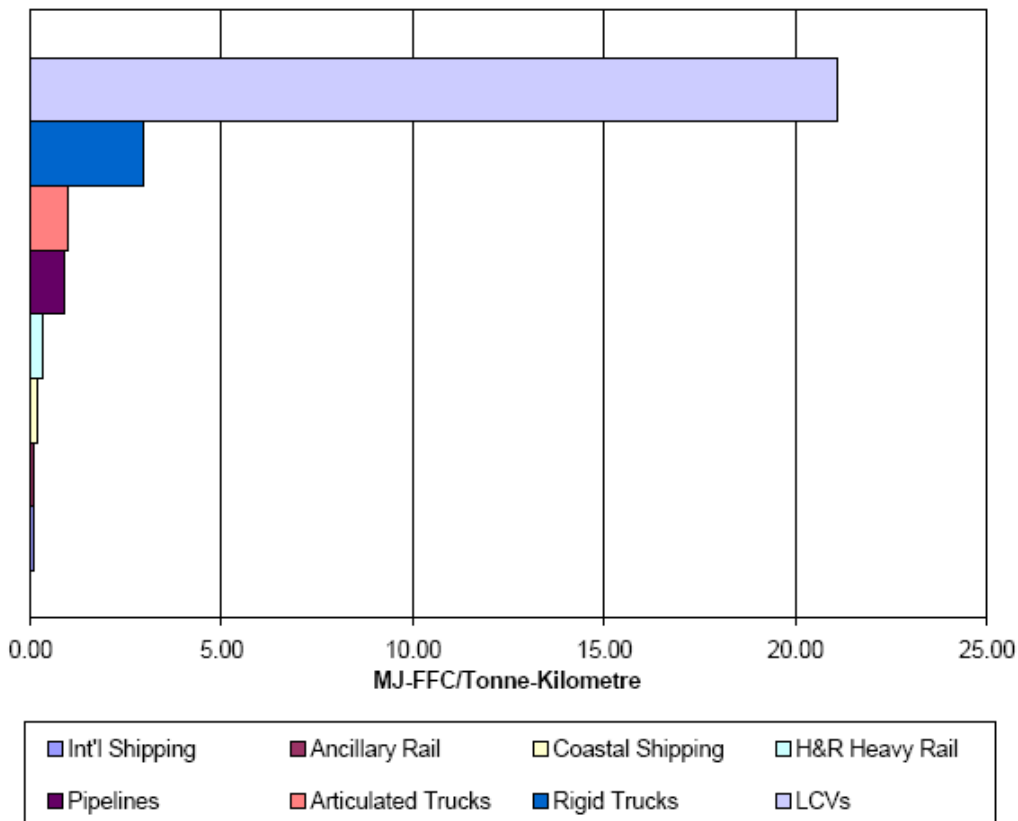
**Figure 2: Average Australian CO₂-e emissions Road and Intermodal Rail Freight
(grams per net tonne kilometre)**



Source: QRNA Oct 2002 Report – Comparison of Greenhouse Gas Emissions by Australian Intermodal Rail and Road Transport

² *Greenhouse Gas Emissions from Australian Transport: Base Case Projections to 2020*, Bureau of Transport and Regional Economics (BTRE), Report for the AGO, DEH, August 2005.

Figure 3: Energy Intensity in Undertaking the Freight Task 2004/05



Source: Australian Rail Transport Facts 2007, Apelbaum Consulting Group

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.

Professor Garnaut supports this modal shift from road to rail. His final report, states on page 524, for long distance freight transport:

“... the development of near zero-emissions trucks... may take longer than for local freight, due to the additional energy storage required for long distance travel... There are immediate and growing opportunities for mode shift, particularly from road to rail... In the longer term, the development of a more substantial rail freight network, along with intermodal terminals that allow the rapid transfer of goods between trucks and trains, could permit an even greater share of freight to be transferred from road to rail.”

Commencement of the CPRS should not be delayed. Carbon price signals need to start as soon as possible in order for the longer term price impacts to drive this modal shift that is necessary in the transport sector.

ROAD/RAIL PARITY

ARTC remains concerned about the proposed cent for cent fuel tax cut for fuel for heavy vehicle road users, as it seems incongruent with the objectives of a CPRS to be compensating a high emissions transport mode and putting more carbon friendly transport modes at a competitive disadvantage. However, ARTC appreciates that this is only a first step in the longer term picture and provided that the proposed arrangements are transitional only, once parity is restored, and when left to free market outcomes, a CPRS would have positive impacts for rail and for the environment. Having said this, ARTC would still strongly argue that there be no concessions provided to heavy road transport, and if provided, transitional arrangements should be limited to 12 months.

A key issue for ARTC is the imbalance between heavy road vehicle charges and rail pricing. This imbalance exists without a CPRS and will be exacerbated if transitional assistance is provided only to heavy vehicle road users on the introduction of a CPRS.

When road and rail are able to compete efficiently and effectively, on the same basis and terms, only then will this result in the most effective use of transport modes to produce a more efficient transport outcome for the economy. To this end, Mass-Distance-Location charging for heavy road vehicles should be introduced and in such a way that reflects the true road user costs.

Professor Garnaut recognises the need for closer links between pricing and the cost of infrastructure. In his final report, Section 19 on Network Infrastructure (pages 457-458) states:

“It is desirable to have closer links between pricing structures and the full cost of providing infrastructure and services. Then pricing structures would take account of such factors as distance travelled, mass of cargo (especially for trucks) and place of travel (especially to take account of congestion). This would enable users to maximise the efficiency of their travel and providers (road agencies and public transport service providers) to respond in areas and times of high demand. This would also enable people to respond to an emissions price more flexibly. There are moves in this direction, such as trials on mass–distance–location pricing for freight, new roads with private investment that have tolls, and point-to-point fares for some public transport systems. Reform in this area should be accelerated. The Productivity

Commission's recommendation that incremental pricing form a precursor to mass–distance–location pricing for freight is worth another look."

COMPLEMENTARY POLICY/MEASURES

While ARTC believes that the CPRS is an important mechanism for tackling climate change, a CPRS alone will not be sufficient to meet the greenhouse gas targets. Carbon price impacts will only have limited impact on a shift to the more low-emission transport modes, and in the short term, the carbon price will be too low to drive any required changes. Therefore, complementary policy support is required in order to see the modal shift needed from road to rail which to produce benefits not only in terms of reduced emissions, but reduced social costs including fatalities, accidents and congestion, of which road transport is the major contributor.

The Garnaut Review supports the need for complementary policy in order to support structural change in the transport sector and drive modal shift to lower emission transport modes. The Garnaut Final Report states (page 503):

"Governments have a major role to play in lowering the economic costs of adjustment to higher oil prices, an emissions price and population growth, through planning for more compact urban forms and rail and public transport. Mode shift may account for a quarter of emissions reductions in urban passenger transport, lowering the cost of transition and delivering multiple benefits to the community."

With the rapid projected growth of transport emissions, government policy will play an important role, for example:

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

Fuel prices currently do not adequately reflect externalities. This will change with the introduction of a CPRS 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, as occurs on rail, so true modal cost comparisons can be made. Without true cost comparisons, a CPRS may deliver distorted modal shift outcomes.

▶ **Encourage More Efficient Technologies - Asset Depreciation**

Efficiency gains in locomotives and rolling stock will be an important means of halting the growth in greenhouse gas emissions. This is just as important as gaining efficiencies in road vehicles if the lowest possible freight transport emissions outcome is the overall objective.

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.

▶ **Land Availability for Intermodal Terminals**

With regard to multi-modal freight movement in Australia's capital cities, intermodal terminals 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. Another potential role for government is to make land available for this purpose. This will increase efficiency and capacity of the transport network, and 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.

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