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AUSTRALASIAN RAILWAY ASSOCIATION

25 August 2011

Open letter to the Minister for Infrastructure and Transport: The carbon price package unfairly disadvantages rail, the emissions friendly mode

Dear Minister,

The Australasian Railway Association (ARA) wishes to highlight its concerns over the carbon price package and provide solutions for improving the effectiveness of the recently released *Securing a clean energy future: The Australian Government's climate* change plan ('the Plan').

The ARA, on behalf of the Australian rail industry, wishes to convey its disappointment at the Plan's application to the transport sector, including:

- The limited access for rail entities to the various clean energy and energy efficiency funds;
- the transitory exemption of heavy road vehicles from the carbon price mechanism without similar exemption for rail operators;
- The exemption of foreign shipping from the carbon price; and
- The exemption of petrol from a carbon price without similar exemptions for public transport.

The ARA seeks amendments to the Plan including greater access for the transport sector to clean energy and energy efficiency funds set up under the Plan, a two year exemption for rail freight operations that compete with heavy road freight vehicles; and the revision of the Plan to ensure that domestic freight carried on foreign ships is included in a carbon price mechanism.

The rail industry is disappointed at the application of the carbon price to the transport sector. The rail industry has supported action on climate change and is willing to bear the costs of a carbon price if it were fairly applied across the transport sector. To put the carbon price impost into context, increased electricity and diesel prices will cost the rail industry around $100 million annually.

The rail industry is concerned about the two year carbon price exemption granted to heavy road vehicles. It is counterintuitive carbon price policy to attach additional charges to the more emissions friendly mode of transport, especially when the modes compete in the same market. Intermodal rail freight creates around 3 times fewer emissions when compared to heavy vehicle road freight.

Our concern extends beyond the two year period of the heavy road vehicle exemption. We note that the exemption will be reviewed and possibly removed by 1 July 2014. The phasing out of the heavy vehicle exemption is by no means certain. We fear that the carbon price exemption for heavy vehicles will be extended indefinitely.

The imperative for the heavy vehicle exemption seems to stem from the need to provide truck operators with time to adjust to the carbon price mechanism and to minimise potential job losses. The rail industry faces similar, if not greater, adjustment costs. A carbon price will only have a marginal impact on what rail operators can do in terms of reducing emissions in the short-medium term and will adversely impact on rail's operational costs. Many small operators, such as SCT Logistics, El Zorro, South Short Haul Rail and Independent Rail Australia, will

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struggle to cope with this new tax, especially when combined with the exemptions granted to their road freight competitors. Our preliminary research suggests that intermodal and grain rail freight will shrink by 4% as a direct result of the carbon tax. Smaller operators will bear the brunt of this decrease. This policy setting will bring about job losses within the rail industry and increase the transport sector's energy and emissions intensity.

The perverse outcome of the current carbon policy will be that the populations of Western Australia and North Queensland will pay increased prices for their goods, including groceries and clothing, as a result of this policy. More than 80% of goods moved between the east coast and Western Australia go by rail. Without adequate time to adjust to the carbon price, operators will have to pass on increased costs to consumers. This will also adversely affect rail's share of this freight market, and subsequently increase the overall emissions for freight to and from Western Australia.

The ARA seeks similar transitory measures for the rail operators who compete with heavy road vehicle users. The proposed transitory exemption would mainly apply to intermodal and grain rail freight services. The cost of the proposed rail exemption over two years would not exceed $20 million. The equivalent exemption for heavy road vehicles does not discriminate between small and large operators, and will cost the Government in excess of $200 million in lost revenue. The fate of rail freight operators competing with road freight should be linked and treated equally under the carbon price mechanism.

Similarly, the exemption of foreign shipping from a carbon price mechanism is a concern to all domestic freight operators. Of particular concern is the effective carbon price exemption of domestic freight transported on foreign ships. This essentially places domestic freight operators, including domestic shippers, at a further price disadvantage and risks Australian jobs in the transport sector.

The ARA further seeks clarification as to the eligibility of the rail industry to the various proposed climate change funds. Upon our initial reading of the Plan, and based on the limited details available, the rail industry seems to be only afforded limited access to the billions of dollars in complimentary measures provided, with the $200 million Clean Technology Innovation Program being most applicable to rail. Rail is a capital intensive industry with extremely long asset lives. This acts as a barrier to the uptake of new technologies and processes that would lead to significant change in the emissions intensity of the rail industry. Greater access to funds that promote energy efficiency and technology innovation would help alleviate these barriers. Access to such funds would provide the greatest emissions savings in the rail industry.

The ARA is frustrated by the exemptions on petrol and the failure to grant exemptions to public transport. However, this matter is best dealt with between the federal and state governments.

While the rail industry acknowledges and welcomes the Government's increased spending on rail infrastructure, it should be noted that the spending has only increased rail's share of land transport infrastructure expenditure to around 18%, while road receives 82%. Furthermore, creating pricing disparities between road and rail, through unequal application of pricing and taxation mechanisms will negate

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the benefits of this increased rail infrastructure spend and jeopardise any potential return on capital for the Government.

The Australian rail industry urges the Minister and the Government to seriously consider the reasonable and rational amendments to the carbon price package outlined in this letter.

Yours sincerely,

Bryan Nye

Chief Executive Officer

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