

ERF Governance and Policy Team
Climate Change Division
Department of Environment and Energy
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Review of the *Carbon Credits (Carbon Farming Initiative – Land and Sea Transport) Methodology Determination 2015*

The Australasian Railway Association (ARA) thanks the Department of Environment and Energy for the opportunity to provide a submission on the review of the *Carbon Credits (Carbon Farming Initiative – Land and Sea Transport) Methodology Determination 2015*.

ARA is a not-for-profit member-based association that represents rail throughout Australia. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector.

ARA's observations on the Discussion Paper are made in the context of an increasing domestic freight and passenger task. The National Transport Commission estimates that the freight task increased 50% in the 10 years to 2016 and is forecast to grow another 26% by 2026¹. The domestic passenger task is also forecast to increase by 19% from 2014 to 2026².

To manage these challenges, ARA encourages governments of all levels to ensure rail plays a central role in the development of their transport infrastructure networks. Similarly, industry encourages the establishment of regulatory and policy frameworks that support the efficient movement of freight. A key element of this is ensuring freight markets operate as far as possible on an even footing with other modal choices by creating an environment where there is an equitable and comparable regulatory environment between competing modes of transport.

As a general principle, ARA also supports the provision of incentives to support the adoption of more productive, efficient and environmentally sound processes and procedures to meet freight needs where the market may not otherwise invest – a point that was highlighted in the Inquiry into National Freight and Supply Chains Priorities report.³

This Review provides an opportunity to test the Method against these high-level principles to assess the extent to which its design is meeting the Government's policy objectives.

Rail embraces environmental stewardship as an important part of its corporate commitment and makes significant investment every year in the pursuit of innovation and new technologies with the goal of reducing its environmental impact.

¹ <https://www.ntc.gov.au/current-projects/who-moves-what-where-project-work-complete/>

² https://ara.net.au/sites/default/files/u647/ARA-Deloitte_Value%20of%20Rail_summary.pdf

³ https://www.infrastructure.gov.au/transport/freight/freight-supply-chain-priorities/files/Inquiry_Report.pdf

Operators continue to improve fuel usage and energy efficiency to decrease operating costs and to improve environmental performance. The ERF scheme provides an opportunity to support the implementation of operators' efforts and is therefore strongly supported by ARA.

ARA notes a number of rail entities are participants in the Emissions Reduction Fund, which demonstrates their commitment to supporting the Government's efforts to achieving Australia's 2020 emissions reduction target of 5% below 2000 levels. ARA believes, however, targeted improvements to the Land and Sea Transport Method would result in this involvement generating greater benefits for both industry and Government.

The enormous potential of rail to support the Government's environmental policy objectives are borne out by the positive economic and social benefits of getting more freight on to rail, with research showing road freight produces 16 times as much carbon pollution as rail freight per tonne kilometre.

Rail is the best performing land transport mode for large volumes of freight and is more fuel efficient and produces less carbon than heavy vehicles. Road generated nine times as much CO2 equivalent emission as rail freight in 2014-15 (29.4 million tonnes of CO2 equivalent for road compared to 3.5 million tonnes for rail)⁴. The difference in the carbon emission intensity of road and rail freight is estimated to be 0.13 kilograms of CO2 equivalent per tonne kilometre travelled (see table below).

Carbon emissions of freight in 2014-15

	Total emissions (millions of CO2 equivalent)	Total distance travelled (billion tonne km)	Emissions/tonne km travelled (Kilograms of CO2 equivalent per tonne km)
<i>Road</i>			
Light Commercial Vehicles	10.3	4.9	2.97
Rigid Trucks	7.4	36.7	0.20
Articulate Trucks	11.7	169.5	0.07
Total Road	29.4	211.2	0.14
Rail (a)			
Total Rail	3.5	401.6	0.01
Difference			0.13

Notes: (a) Estimate includes emission from power generation for electric rail. (b) Sum of electric and non-electric. (c) Sum of passenger km for urban heavy, non-urban and urban light rail. Source: BITRE (2009a; 2016a) and Access Economics calculations.

ARA is supportive of the individual submissions rail entities have provided the Department of Environment and Energy as part of this process, and as such, this submission should be read in conjunction with those provided by operators in the rail sector.

⁴ https://ara.net.au/sites/default/files/u647/ARA-Deloitte_Value%20of%20Rail_full%20report.pdf

ARA acknowledges and agrees with the concerns expressed by rail entities in regards to the structure, operation and administration of the Land and Sea Transport Method. These challenges are limiting the rail sector's ability to effectively participate in the Emissions Reduction Fund.

Fundamentally, this review process should facilitate improvements to the Land and Sea Transport Method to make it easier and simpler for rail entities to participate in the scheme, and in turn, support rail's efforts to generate improved environmental outcomes which will positively contribute to achieving the Government's policy objectives. As outlined above, generating modal shift will bring significant positive environmental benefits which could be further realised from enhancements to the existing scheme. These are summarised below.

Decline Rate

ARA is of the view that the the Decline Rate is poorly structured and substantially reduces the industry's ability to generate Australian Carbon Credit Units (ACCU) against the Method. It is incongruous that coastal shipping has no decline rate (on account of the sector's relatively low turnover of fleet) but freight rail has a decline rate applied despite it also having a similarly low turnover. This requirement is further exacerbated by the fact that articulated trucks and buses have a higher turnover, however, no decline rate is applied. This anomaly should be addressed in this review process. Furthermore, ARA supports the Decline Rate being amended to have it based on the year in which the reporting period ends after the project start date, as opposed to the project declaration date.

Audit Costs

Members have reported to ARA that the costs associated with auditing potentially limits involvement in the scheme. The size of projects required to offset potential audit costs (both time and monetary) are high and act as a potential disincentive. It is conceivable that audit costs associated with projects (which are relatively large in size), when combined with necessary administrative costs, outweigh potential economic benefits that can accrue from involvement in the scheme.

Double Counting

Any abatement achieved under the ERF project are added to net emissions under safeguard double counting requirements, until ACCUs are surrendered, thereby effectively making the ERF less worthwhile. This is because abatement is added on to net emissions, and if this is above an operator's Safeguard baseline, they then have to use their abatement earned to offset our own net emissions increase.

Biofuels

The freight rail industry has a strong interest in a stable, reliable and cost-effective supply of diesel fuel to power approximately 2000 operational locomotives as Australian operators cannot draw upon alternative fuel supplies if there are major disruptions to domestic diesel supply. This includes locomotives servicing Australia's bulk freight mining sector (iron ore and coal) which represents around 98%, or 1.20 billion net tonnes, of Australia's total rail freight task⁵. Unlike heavy vehicles which can potentially utilise alternative fuel sources in the future (including biofuels) freight rail is, and will most likely remain, wholly reliant on diesel. While there may be appetite to switch from using regular diesel to biodiesel given the incentive to generate credits under the method, practical constraints limit this from occurring.

⁵ https://www.bitre.gov.au/publications/2017/files/train_005.pdf

ARA welcomes the opportunity to provide comment on the Discussion Paper and requests the ongoing involvement of rail operators in this process. More broadly in respect of this piece of work, ARA encourages alignment with the National Freight and Supply Chain Strategy to help support holistic policy making in regards to freight supply chains.

For further information regarding this submission, please contact Duncan Sheppard, General Manager, Freight and Industry Programs, via dsheppard@ara.net.au or 02 6270 4531.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D Broad', written in a cursive style.

Danny Broad
Chief Executive Officer
Australasian Railway Association