

**Speech for Michael Kilgariff**  
**NSW Transport Infrastructure Summit**  
**Thursday 8 August 2013**

***Investing in infrastructure to improve freight productivity and efficiency***

Ladies and gentlemen, it is a pleasure to be here today at the NSW Transport Infrastructure Summit.

When Barry O'Farrell became Premier in 2011, he said he wanted to make NSW 'number one' again.

With a third of Australia's population living in NSW, a GDP of \$400 billion and a strong mining and manufacturing base, the freight logistics industry would also like to see NSW regain its title as Australia's premier state.

My message to you today is that NSW not only needs to aspire to becoming the premier state again.

It also needs to become the ***premier state for freight***.

This is because when Sydney logistics doesn't work – Australia doesn't work.

With the next NSW election now less than two years away, Sydney's transport and infrastructure will continue to dominate the headlines.

No doubt this debate will focus on public transport and road congestion.

These are worthy and important issues, but freight and supply chain efficiency must be front and centre in this debate.

This includes a renewed focus on investment in freight logistics infrastructure to improve freight productivity and supply chain efficiency.

But why are these issues more or at least equally important as public transport?

All Australians – including families, businesses and employees of the freight logistics industry – have an interest in improving supply chain efficiency.

Not only is it good for our economy, it will also lead to cheaper goods and reduced congestion.

So ALC actively encourages government at all levels to ensure it gives appropriate consideration to the needs of freight in its investment and policy decisions in order to maximise its benefits to the national economy

ALC has a whole of supply chain focus with members spanning the road, rail, sea and air sectors.

We focus our advocacy on measures that will improve productivity, efficiency and safety in the industry and, through that, creating more efficient supply chains.

More efficient supply chains are a must when you consider the size of freight task, and the geographical realities Australia's freight logistics industry faces.

The national freight task has grown considerably since the 1970s.

More importantly from ALC's perspective, this trend is expected to continue at a growing rate over the next 40 years.

The national freight task is approximately 500 billion tonne kilometres today, and it is estimated to reach 1000 billion tonne kilometres by 2030 and 1400 billion tonne kilometres by 2050.

*(a Billion Tonne Kilometres is a unit of measurement equal to the weight in tons of material transported, multiplied by the number of kilometres driven.)*

Here in NSW, freight is big business.

NSW's freight task is predicted to double to 794 million tonnes by 2030

In 2011 freight and logistics contributed approximately \$58 billion of the NSW Gross State Product, which is nearly 14 percent.<sup>1</sup>

Nearly 130,000 people are directly employed in the freight industry in NSW. Tens of thousands more are indirectly employed.

In light of these figures, the big question confronting industry and government is how do we prepare for the enormous growth in the national freight task and continue to provide a secure employment base for these hundreds of thousands of people.

In ALC's view the response need to be multi-pronged, focussing on both regulatory and infrastructure measures to improve freight efficiency.

A logical starting point is putting in place a national transport system.

When I speak to international logistics professionals visiting or working in Australia, they are often amazed at how Australia is bedevilled by inconsistent laws across the country.

It reinforces their perception of Australia as a nation of eight separate countries.

But from our perspective, it's a recipe for inefficiency and one of the causes of poor productivity in the industry, not to mention poor safety outcomes.

We have made some significant headway on these issues in recent years, but there is still some way to go.

We now have national regulators for heavy vehicles, rail safety and maritime safety which will help reduce state based inconsistencies which add to compliance costs and act as a handbrake on efficiency.

We also have a national land freight strategy, and all state governments are preparing state based strategies so as to be eligible for funding under Nation Building 2.

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<sup>1</sup> <http://freightandportsstrategy.transport.nsw.gov.au/wp-content/uploads/2012/11/TfNSW%20Freights%20and%20Ports%20Strategy%20-%20web%20version%20-%20main%20doc.pdf>

This includes mapping key freight routes so governments are better informed when they are making future investment decisions.

States have also signed off on a national ports strategy.

In a practical sense, the ports strategy will help to ensure key freight routes to significant ports are better identified and protected.

As I said earlier, the O'Farrell Government has taken some important first steps to improve the efficiency of the freight network.

For example, for the past two year it has been developing a Port and Freight Strategy.

The development of the draft Strategy is an important step and has been welcomed by industry.

But the final strategy needs to be finalised and released as quickly as possible.

The draft strategy was released nearly nine months ago and industry is eagerly anticipating the release of the final strategy to provide greater certainty to industry.

In ALC's view, it is 'Time to Deliver' on this important piece of work to improve supply chain efficiency in NSW.

In particular, we look forward to the implementation of concrete measures that will improve network capacity, reliability and sustainability.

We also hope there are synergies with the National Land Freight Strategy released in May, the Queensland Freight Strategy released last month, and the Victorian Freight Strategy to be released in Melbourne next Tuesday.

South Australia, Tasmania, Western Australia and the Northern Territory are also developing freight strategies

The NSW Government has also announced some worthwhile initiatives such as the pinch point program and the bridges for the bush program that will enable the movement of bigger, heavier loads from point of production to our markets and major points.

Without doubt, however, the biggest impediment to improving the efficiency of our freight network is here in Sydney.

It goes without saying that if the freight doesn't move efficiently through our cities; national productivity suffers as a result.

As the State of the Cities Report released last month highlighted, Australia's major cities are home to three quarters of the population and generate around 80 per cent of the nation's wealth.

The ALC federal election priorities document, Time to Deliver, identifies a number of projects to improve freight efficiency, particularly here in Sydney.

Headlining the document is support for a second Sydney airport at Badgery's Creek.

Numerous studies have found significant growth in airfreight in the Sydney market in the coming years, heightening the need for action now to increase capacity.

A second airport is needed in Sydney to add price competition to the Sydney air freight market; to meet rising levels of demand and to address congestion issues around Kingsford Smith

This issue simply cannot stay in the too-hard basket and ALC is calling on whichever party wins the forthcoming federal election to progress this issue in Australia's national interest.

We also encourage the NSW Government to work with the Commonwealth to progress this issue in the interests of delivering much needed economic benefits to the people of western Sydney.

'Time to Deliver' also calls on government to progress the inland rail route.

An inland rail route linking Brisbane and Melbourne has long been talked about as a key piece of infrastructure Australia needs to meet our rising freight task on the north south corridor.

A study undertaken a few years ago found an inland rail line would in time be economically viable, and would help to free up capacity through Sydney which is often a freight bottleneck due to passenger services being granted priority.

ALC believes it is time to deliver on an inland rail route by commissioning a follow-up study now to further examine the inland rail freight line's feasibility.

We also want governments to preserve and protect the preferred alignment now so that the land will be available when the inland rail freight line is eventually built.

Time to Deliver is particularly focused on improving supply chain efficiency here in Sydney, and more broadly, across the NSW.

We encourage the ongoing development of the Moorebank Intermodal Terminal, which would like to see developed 'englobo' using a whole of precinct approach.

Running in tandem with Moorebank, we would like to see a greater focus by governments to invest in short haul rail between ports and intermodal terminals.

This would not only improve freight efficiency, but also enhance urban amenity by reducing road congestion and decreasing queuing times around ports.

ALC also encourages the NSW Government to support the use of High Productivity Vehicles, known as HPVs, including trials on the Hume Highway.

This was recognised as a 'practical first step' in the National Land Freight Strategy I mentioned earlier.

I note Duncan Gay announced last week that B Triples have been granted access to more parts of the network in western NSW, and ALC would like to see that extended to the Hume.

The NSW Government should announce the date the trial is to commence, and if there is to be further delay, why is it so.

HPVs allow more freight to be moved using fewer vehicles and despite some misconceptions, HPVs are safer, more reliable and cleaner than traditional heavy vehicles that have been used over the years

While I'm on the subject of road freight, it would be remiss of me not to mention the need to improve road freight movements to the Port of Botany.

Port Botany is Australia's second largest container port, handling about one-third of all containerised cargo shipped into and out of Australia.

At Port Botany's current growth rates, the current planning approval maximum throughput of 3.2 million twenty-foot containers is likely to be reached in three to four years.

Investment is needed in the road and rail links servicing Port Botany which highlights the importance of the West Connex project.

This 33-kilometre link between Sydney's west and the airport and Port Botany has the potential to improve freight efficiency in Sydney and ALC supports its development.

ALC is, of course, particularly interested in the final design and route of the road, including how the motorway will link up with the Port Botany precinct.

Increased traffic, both passenger and freight, in and around Port Botany is putting increasing strain on the existing network.

This growth underscores the need for West Connex, but is important to ensure the motorway actually improves freight efficiency into, and out of the port.

This is a once in a generation opportunity to prepare for future growth at Port Botany and I look forward to seeing designs for the project as they progress.

Putting aside to one moment the possible route of West Connex, I'd like to take a few minutes to talk about this project from a financing sense.

I was interested to hear Gary Weaven, Chair of Industry Funds Management, say recently that industry funds are keen to invest more in infrastructure.

However, he said governments need to use their regulatory powers and balance sheets to come to a more appropriately apportioned level of risk with the private sector.

Were governments to do that, super funds stand ready to invest tens of billions of dollars in infrastructure projects.

I understand the funding model for West Connex involves taking the debt and equity risk off the government balance sheet while using government funds to take the project to the stage where traffic is known and delivering revenue.

It's an encouraging sign, and will potentially serve as a template for future infrastructure deals around the country.

Getting the policy settings right on this issue is critical, particularly as the super industry has clearly signalled its preparedness to invest in appropriate infrastructure projects.

Encouraging greater private sector investment has been the focus of both the Commonwealth Government and Infrastructure Australia, and this must continue.

The Federal Government has done some good work to gain a better understanding of the causes of over-optimistic traffic forecasts for PPPs and toll roads.

It released a report last year outlining best practice principles on how overbidding for toll road concessions might be disincentivised for future toll road projects.

It's a positive step and we look forward to the federal government doing more in this area.

Infrastructure Australia has also been active in this space.

IA's Infrastructure Finance Working Group has released a report that recommends governments take a more flexible approach to the allocation of risk.

The Coalition has also announced it would establish a dedicated Funding and Finance Advisory Unit within Infrastructure Australia if it wins government.

This new division would evaluate finance options for nationally-significant infrastructure projects and investigate and report on funding models.

ALC welcomes the Coalition's commitment to strengthening IA and looks forward to a similar policy by the Labor Party in due course.

Expanding the role of IA is another ALC priority.

Infrastructure Australia should be the 'productivity commission' of infrastructure and should play a greater role in the identification and prioritisation of major infrastructure projects.

ALC strongly believes that all major projects should undergo rigorous cost benefit analysis before receiving public funding to test whether they are in Australia's long term economic interest.

Infrastructure funding decisions need to be based on supporting projects that achieve positive long-term economic returns, rather than projects that have political appeal but do not have a productivity or efficiency pay-off.

And importantly, Infrastructure Australia should have its role enhanced, including being provided greater capacity to facilitate enhanced private sector investment in freight logistics infrastructure.

In addition to streamlining the PPP process, ALC would also like to see greater focus by governments on tapping the deep capital pool managed by Australia's superannuation industry, which is estimated to be around \$1.6 trillion dollars.

The Industry Super Network estimates this pool will increase to around \$6 trillion in the next 15 years.

It is encouraging that the Industry Super Network estimates it stands to invest \$15 billion in infrastructure over the next five years.

But given the size of the super pool available, there is obviously the potential to invest much more if ground rules that can be established which make it attractive for the super funds to invest in new infrastructure projects.

These ground rules do not exist today.

ALC supports a call by the Industry Super Network for reforms to bid processes to encourage increased super fund participation in greenfields infrastructure investment.

The interest is obviously there – the challenge before government is to harness it.

ALC encourages governments of all levels to take up the recommendation of the Infrastructure Working Group to identify those assets which could be available for private sector investment to boost national productivity.

The Industry Super Network also points out that one option for governments with constrained balance sheets is to raise funds from the sale of existing or mature assets more suitable for private sector investment.

This so called ‘recycling’ of infrastructure assets is a necessary step to unlock greater levels of private sector investment in infrastructure.

There are many assets that could be transferred to the private sector.

The proceeds from these assets could fund substantial new logistics infrastructure which is critical to boosting national productivity.

This point was highlighted in a report last year by the Infrastructure Finance Working Group and released by Infrastructure Australia.

The involvement of industry super funds in the long term lease of Port Botany and Port Kembla – both recycled assets – was a very encouraging sign that industry super funds are prepared to invest in infrastructure when the right projects are offered up by government for investment.

The funds raised from the long term lease of the two ports has gone into the Restart NSW fund, which will be used to fund new infrastructure such as the West Connex Motorway, upgrades to the Pacific and Princes Highways and repairs to bridges in regional NSW.

On this note, ALC welcomes the NSW Government’s plans to offer a 99-year lease for the Port of Newcastle.

ALC encourages the NSW Government to place as much of the revenue from the lease of the Port of Newcastle as possible into the Restart NSW Fund to fund critical freight logistics infrastructure in the future.

Funds raised from the recycling of assets, such as Port of Newcastle, should also go towards protecting key freight corridors.

Many of Australia's major ports suffer from inappropriate urban development which results from a lack of foresight and a lack of corridor protection.

This was one of the issues discussed at an inquiry into road access pricing by the NSW Legislative Assembly's Standing Council Transport and Infrastructure Committee.

Infrastructure Australia told the committee that past errors in strategic planning, including selling of surface corridors, meant that more costly options have been required, such as tunnelling.

The NSW Government's Planning White paper says it is 'crucial' infrastructure corridors are protected.

The white paper also says specific action needs to be taken to ensure that the freight needs of the state and the nation can be protected.<sup>2</sup>

Fine words, but unfortunately the identification program is not referred to in the Planning White Paper or the Sydney Metro Strategy.

Funding mechanisms are required to ensure freight corridors are identified and preserved to meet NSW's predicted freight growth I referred to earlier.

ALC encourages the Standing Committee to acknowledge the economic importance of corridor protection in its upcoming reports and to also propose possible measures to ensure their preservation.

This should include recognition that special planning instruments need to be created to preserve the corridors identified by the work being undertaken under the National Land Freight Strategy.

As part of its inquiry into road access pricing, the Committee is also playing a leading role encouraging debate about how transport infrastructure is funded.

The committee is clearly aware that not all road taxes go on roads and transport.

In ALC's view, it is important that all funds raised from logistics infrastructure should go to logistics infrastructure.

This is one of the key issues being discussed in a potential national reform called the Heavy Vehicle Charging and Investment Reform, otherwise known as HVCI.

ALC is playing a major role on behalf of the logistics industry in the heavy vehicle charging investment reform (HVCI) through its involvement in a number of HVCI consultative bodies.

It demonstrates the lead role ALC is committed to play to advocate for policy measures that improve supply chain efficiency and productivity.

The HVCI reform aims to ensure the cost of heavy vehicle transport and road use is more accurately calculated.

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<sup>2</sup> See discussion in the *White Paper*: 158-9



The proceeds raised would then be returned to road owners who would need to provide roads that meet the 'performance standards' required by industry.

This is important for all logistics modes and participants.

ALC's current position is that ultimately any new mechanism is designed to ensure that the revenue raised from a new pricing system 'follows the freight'.

Secondly, any funds raised must be hypothecated to road development and not diverted into consolidated revenue.

It's a difficult reform, but one that we see merit in if provides a net increase in productivity, efficiency and safety.

ALC is particularly focussed on ensuring that the framework necessary to allow this form of funding to operate efficiently is developed.

This includes an economic regulator with the capacity to properly assess the infrastructure plans of road users as well as ensuring road owners meet promised 'performance standards.

## **Conclusion**

Ladies and gentlemen, there is a saying in our industry - freight doesn't vote.

In many respects freight often gets drowned out in the public discourse on transport, particularly here in Sydney.

People are generally more concerned with late running trains, overcrowded buses and being stuck in their car on the Harbour Bridge.

ALC is working with governments, industries and communities industries to turn around the false perception that freight doesn't matter.

Freight Does Matter to all Australians.

We do this by demonstrating the economic and social benefits of a more efficient supply chain.

Without an efficient and effective supply chain, all those things people take for granted every day will be less available, and when it is, it will be more costly.

Without proper planning and regulations, the amenity of our suburbs, particularly those around intermodal terminals and ports, will suffer.

And without a long term plan for Australia's freight future, we will miss an opportunity to build a stronger national economy.

An integral part of the solution is through investing in infrastructure to improve freight productivity efficiency, and safety.

It has been a pleasure to share with you my thoughts on this important issue today.

And if you wish to continue the conversation, I encourage you to attend the 2014 ALC Forum, which will be held at Royal Randwick Racecourse on the 19<sup>th</sup> and 20<sup>th</sup> of March.

Thank you.