

Speech by Michael Kilgariff

NSW Property Council Industrial Outlook Conference

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Good morning ladies and gentlemen, and thank you for the invitation to speak at the NSW Property Council's Industrial Outlook Conference.

It is a pleasure to be here to discuss some of the important issues affecting the freight logistics sector and how this may impact on the broader property sector.

Logistics and property are inexplicably linked across a range of areas, underscoring the importance of today's event today.

Slide 1

ALC is the peak body national body for the freight logistics industry.

Our members span the entire supply chain, incorporating, road, rail, sea, air, sea ports and intermodal ports.

Slide 2

ALC estimates the sector

- generates an estimated 14.5% of the national economy, which is now estimated at more than \$1.5 trillion
- Provides more than one million jobs.
- Supports an estimated 165,000 companies

These figures underscore ALC's advocacy for:

- more effective and efficient infrastructure spending that improves productivity, and;
- a national regulatory framework to support greater efficiency.

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.

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.

Slide 3

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

Can I say at the outset I welcome the Property Council's advocacy for more targeted investment in NSW infrastructure.

Like ALC, the Property Council recognises the need to ensure infrastructure investment decisions are based on achieving a positive economic return.

This principle underscores ALC's strong support for a strengthened and more strategically focussed Infrastructure Australia.

There has been much debate in the media whether the Government's proposed reforms to IA will achieve this aim.

I look forward to the reforms being put in place by the government leading to improved outcomes in the way projects are identified, prioritised and funded in Australia.

In that vein, I commend the Property Council for its report '*Investment in transport in NSW*' which provides a thorough assessment of priority infrastructure projects according to set economic criteria¹.

Your top ranking of 'Sydney port intermodal freight developments' particularly resonates with the freight logistics industry.

Port Botany currently moves around 2 million containers a year and this is forecast to increase to around 3 to 4 million containers annually in the next three to four years.

¹ <http://www.propertycouncil.com.au/pdf/NSW/CIInfrastructurePaper.pdf>

Given the \$5.2 billion paid for Port Botany and Kembla you can be sure NSW Ports will do everything they can to hit the estimated 7 million Container movements before 2030.

Given these growth rates, it is imperative that the port's landside freight logistics links are able to meet this this demand.

ALC is actively urging the federal government to focus on funding road and rail links feeding Port Botany as part of its next infrastructure investment program.

We are also keen to see major roads such as WestConnex and M5 East listed in the National Land Transport Network.

ALC would also like to see the Network incorporate roads accessing the port, the same way roads connecting Port of Brisbane are part of the National Network.

On the topic of Port Botany, the NSW Government is to be commended for addressing a number of pinch points around the Port.

We look forward to these and other projects improving freight efficiency to and from the port.

Another issue we have been keen to impress on the NSW Government is to ensure freight is central to planning decisions.

Slide 4

You would all be aware the NSW Government is seeking to overhaul the state's planning laws.

While some elements of the reforms have merit, ALC is concerned the needs of freight do not receive adequate attention.

Freight is often the 'poor cousin' when it comes to planning.

There are countless examples where inappropriate development has impeded the freight effort and we need to learn from these examples and embed freight considerations in all levels of planning.

This obviously isn't an issue confined to NSW – it affects all parts of the country.

In our view, the Planning Bill 2013 which was before the House last year did not adequately take into account the needs of freight.

It did not refer to the NSW Freight and Ports Strategy in the hierarchy of plans that need to be considered as part of planning decisions.

I believe this needs to change.

We hope freight will receive greater prominence when the NSW Government reconsiders the Bill later this year.

Fundamentally, we want to avoid cases where residential property is located next to a freight line, and vice versa.

Another issue of shared importance to both our sectors is how do we move more freight into off-peak periods to free up capacity on the network?

The NSW Government is looking to shift more freight movements to off-peak periods.

Currently, most road freight movements take place during daylight hours on weekdays.

There is a latent capacity in off-peak periods when there is less demand on the road network.

A more balanced approach would enable more deliveries to be able to be made out of hours or on weekends.

Not only would this improve productivity and efficiency, it would also improve safety, reduce congestion and emissions by removing heavy vehicles from the roads during peak daylight periods.

The NSW Freight and Port Strategy highlights the freight task in NSW is set to double over the next 20 years to nearly 800 million tonnes.²

Slide 5

While much of this will be driven by conventional deliveries to retail outlets like those I've just outlined, we will also continue to see growth in deliveries brought about by online purchasing.

² <http://freightandportsstrategy.transport.nsw.gov.au/wp-content/uploads/2012/11/TfNSW%20Freights%20and%20Ports%20Strategy%20-%20web%20version%20-%20main%20doc.pdf>

Many of us are increasingly turning to the internet to purchase goods online, rather than at traditional bricks and mortar stores.

Internet usage in Australia is among the highest in the world, with more than 80 percent of the population using the internet.³

Australia also ranks second in the world for smartphone penetration, with 37 percent of people owning one.⁴

Research also shows about a quarter of users purchase products via our mobile.

This has wide reaching implications for the supply chain in terms of the way products are transported, warehoused, and ultimately delivered to consumers.

A recent report by Jones Lang Le Salle highlighted some of the implications of this growth for all players in the supply chain⁵.

The paper highlighted:

³ http://en.wikipedia.org/wiki/List_of_countries_by_number_of_Internet_users

⁴ <http://www.afasterfuture.com/australia-2nd-globally-for-smartphone-usage-google.html>

⁵ http://www.jll.com/Research/eCommerce_boom_triggers_transformation_in_retail_logistics_whitepaper_Nov2013.pdf

- We will see the development of large e-fulfilment centres where merchandise is stocked and picked at item level
- Specialised parcel sortation centres will emerge, where parcels are sorted before being forwarded to local parcel delivery centres
- There will be growth of local parcel centres for last mile fulfilment, as well as local urban logistics depots for fast turn-around delivery.

Trips will be shorter, delivery vans smaller, and new technologies will underpin the transfer of information up and down the supply chain.

To survive and thrive in this online environment, well-developed logistics infrastructure facilities will be needed, underpinned by efficient online ordering systems.

As more people use the internet to buy goods online, pressure will inevitably mount on the federal government to change the online GST threshold, which currently sits at \$1000.

ALC has concerns with any lowering of the threshold.

Any lowering of the GST threshold for online purchases will inevitably have an impact on the efficiency of the supply chain.

If the freight logistics industry is required to play an enhanced role in this process, it cannot be expected to absorb all the extra costs associated with the reform.

Costs will need to be passed down the supply chain to consumers.

We will continue to make this point to the Government as it weighs up arguments from both sides in the debate.

Slide 6

NSW's freight growth rates I mentioned earlier are consistent with the national freight growth rates.

This expected freight growth is one of the drivers behind ALC's push to achieve a more sustainable approach to the funding of the nation's road network.

ALC would like to see a general charging regime put in place that leads to sustainable investment in road infrastructure that drives enhanced productivity and efficiency.

This policy position underpins our general support for a proposal for some form of mass distance location charging of heavy vehicles or MDL.

Our support is reliant on the reform being:

- transparent,
- it improves access for heavy vehicles, and
- the funds raised by heavy vehicle charges goes back into the network and not lost to consolidated revenue.

We also believe the debate around heavy vehicle charges needs to lead to a wider debate about how governments fund the nation's roads.

The basis of the proposed reforms to heavy vehicle charging and investment is to create a stronger, more transparent link between heavy vehicle road use and road expenditure.

But, as we know, it is generally light vehicle use that drives the construction of new roads.

Heavy vehicles generally determine pavement strength.

Our concern, therefore, is that that many road owners will be reluctant to invest in a road where there may be insufficient demand by heavy vehicles.

They may not want to run the risk that they will not be compensated for the cost of supplying the access and strength.

This reality underscores why ALC is encouraging the government to consider commencing the paradigm shift from the concept of road infrastructure being a public good funded by budgets and towards a concept where there is a direct charging of all uses.

This includes light vehicles.

Slide 7

Australia's growing freight task also underscores the growing need to ensure appropriate parcels which can serve as intermodal facilities in the future are identified and protected.

As Colliers highlighted in their 2010 white paper on intermodal terminals, capacity pressures of Australia's containerised freight distribution system are building.⁶

The paper found demand for intermodal terminal services is set to increase dramatically over the next 20 years.

Demand for large format warehouse floor-space within the key intermodal oriented regions along the eastern seaboard is particularly strong.

Colliers found that known tenant, design and construct requirements were in the order of 295,000 square metres in Sydney, 260,000 square metres in Melbourne and 150,000 square metres in Brisbane.

This rising demand for intermodal facilities, underpinned by efficient road, rail, and seaport infrastructure, highlights the importance of the Moorebank Intermodal Terminal here in Sydney.

⁶ <http://www.colliers.com.au/News/News-details.aspx?NewsId=%7BDFD45DDD-469A-4659-969C-05E11104D3A1%7D>

The challenge is to ensure this key 'inland port' is developed in such a way that maximises its potential and moves freight to and from Port Botany within the shortest timeframe.

The key to achieving this is developing the entire Moorebank site 'englobo' using a whole of precinct approach.

For some time there has been the potential of two separate intermodal facilities located on opposite sides of Moorebank Avenue, with MIC on one side at the SIMTA consortium on the other.

SIMTA, or the Sydney Intermodal Terminal Alliance, is comprised of logistics companies Qube and Aurizon, both ALC members.

It is looking less likely however that there will be separate and competing terminals.

Recent reports suggest the Government estimates the line capacity between Port Botany and Moorebank is 1.2 million TEU per year.

It would be difficult to sustain two competing intermodal terminals at Moorebank, based on expected demand and future rail capacity.

The Chair of the Moorebank Intermodal Company Kerry Schott, recently ruled out the prospect of two competing terminals at the site.

Expressions of Interest for the Moorebank Site are currently open and a decision on the way ahead is expected soon.

Slide 8

Another key piece of infrastructure ALC hopes for an imminent decision on is Badgery's Creek.

It is looking increasingly likely that the Federal Government will approve a second airport and that it will be Badgery's Creek.

It is long overdue and strongly backed by the freight logistics industry.

Given its location in Sydney's west, Badgery's Creek needs to be developed as an integrated multi-modal hub capable of facilitating efficient air cargo freight movements.

Passengers like to fly into Sydney with a view of the harbour, but it doesn't matter for freight.

Indeed, in many cases, it makes sense to commence and end freight journeys in western Sydney.

I'm a big believer in promoting the use of smaller airports as freight and regional flight hubs, like Avalon in Melbourne.

Badgery's could play a similar role, and over time, become an integral part of Sydney's freight logistics network.

Conclusion

Slide 9

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

ALC is working with governments, industries and communities 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 distribution centres, 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.

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

Slide 10

If you wish to continue the conversation, I invite you to attend our annual ALC Forum, which is being held at Royal Randwick on 19 / 20 March.