

**Speech for Michael Kilgariff, Managing Director, Australian Logistics Council
GS1 Supply Chain Week
17 September 2013**

“Facing the Productivity Challenge”

Ladies and gentlemen, Bonnie, thank you for the invitation to speak here today at GS1 Supply Chain Week.

GS1 is a valued ALC stakeholder and I'm pleased for the opportunity to discuss with you some critical issues facing the logistics sector.

Today I will discuss how the freight logistics industry can face the productivity challenge confronting our industry. In particular, I'll discuss:

- An overview of the Victorian Freight and Logistics Plan, including the ALC position on East West Link
- The Coalition Government's infrastructure policy
- ALC support for a strengthened Infrastructure Australia
- Unlocking greater infrastructure spending through recycling of infrastructure assets
- Inland rail
- The Heavy Vehicle National Law and
- Melbourne Airport

It's a long list, but it reflects the enormous amount of activity occurring in the freight logistics industry at the moment.

As Bonnie mentioned, ALC and GS1 Australia have joined forces to create a new high level industry working group to improve supply chain efficiency and product traceability.

The ALC Supply Chain Standards Working Group is made up of industry experts from across the supply chain including GS1 and ALC.

The group is looking at how we can better align the transport and logistics sector with Australian industry in the adoption of global standards for identification, information capture and sharing across supply chains.

Tim Kelsey from Aurizon is the chair of the Working Group, which is focusing on improving pallet labelling and achieving enhanced interoperability.

I won't steal any of Tim's thunder who will speak on these topics later this morning.

If any of you would like further information on the group, Tim, Bonnie or I would be happy to talk to you afterwards.

The working group is just one example of the work ALC does to improve supply chain efficiency.

For those of you unfamiliar with ALC, allow me to provide you a quick overview.

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

Many of you would be familiar with our member companies that you can see on the slide above

Importantly, ALC advocates for measures that will improve productivity, efficiency and safety in the industry and, through that, create more efficient supply chains.

Given Australia now has a new Coalition Government, with a stated focus on driving productivity, deregulation and efficiency, the need for ALC to be vocal and active in this space has taken on a new urgency.

We welcome the new Minister for Infrastructure, Warren Truss, and thank the previous Minister, Anthony Albanese, who did much to put logistics on the national reform agenda.

ALC also looks forward to working with Jamie Briggs, Assistant Minister for Infrastructure and Regional Development.

We also look forward to engaging with new Minister for Finance, Senator Mathias Cormann and new Assistant Treasurer, Senator Arthur Sinodinos who will play lead roles progressing the Coalition's agenda to boost productivity and slash red tape.

We congratulate the Coalition on its win and trust they will provide Australia with good government over its term.

Today I will focus on the steps that need to be taken to improve productivity in the freight logistics industry.

I'll focus on both the national level and the state level.

It should be of national concern that productivity growth in the transport sector has remained stagnant at 0% in the five years to December 2011¹.

Furthermore, a Reserve Bank report has found the rate of growth in the transport sector has declined by 2% over the past two decades².

The Australian freight task is immense and reflects our geographic reality.

The need to address poor productivity in our industry is made all the more urgent given our rising freight task.

Australia's freight task has been rising steadily, particularly since the mid 1970s as the table above demonstrates.

Our annual freight task is 500 billion tonne kilometres.

(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.)

So, more efficient supply chains are a must, especially as this freight task is expected to double to 1000 billion tonnes by 2030 and grow to 1400 billion tonne kilometres by 2050.

Victoria is a very important part of this task.

¹ "Where's the Productivity Problem?" IBIS World e-newsletter, August 2012

² Australia's Productivity Performance and Real Incomes
www.rba.gov.au/publications/bulletin/2012/jun/3.html

The State Government is determined to maintain Victoria's status as Australia's Freight and Logistics Capital.

There's no doubt that freight is big business here in Victoria.

According to the recently released Freight and Logistics Plan, the sector contributed between \$19 billion and \$23 billion to Victoria's Gross State Product in 2011.

This represents up to 8 percent of the Victorian economy.

If we take into account indirect and related activity in other sectors, freight and logistics is responsible for about 15 percent of the local economy.

The Victorian Government has taken some important steps to put the freight and logistics sector on a firmer footing to prepare the state for future freight growth.

The Freight and Logistics Plan is an important starting point and we welcome its publication.

ALC would like to see the Freight and Logistics Plan lead to action on a number of tasks which have been set down by the Commonwealth through the National Land Freight Strategy.

In practice, this means Victoria must now map the freight routes in the manner anticipated by the National Land Freight Strategy to advance the cause of corridor preservation.

Corridor preservation is a critical issue for the freight logistics industry.

As a nation we simply can't afford to see mistakes of the past repeated whereby key freight routes have been crowded out by urban development.

The Plan proposes a number of important infrastructure investments and trials including:

- The development of the Port of Hastings and
- Developing a business plan to permit the trial of High Productivity Vehicles on the Hume Freeway.

On the issue of Hastings, ALC recognises that it has some issues from a land-side logistics perspective, and we are concerned with some of the logistical challenges with it being some distance from the planned Western Intermodal Freight Terminal.

However, we're pleased the Government has spelt out how it intends to deal with some of these issues under the Plan.

As for the Hume Highway trial of HPVs, ALC would like to see it begin by 1 July next year.

Ideally, we want the trial to lead to the development of what is the 'economically efficient' price – that is the most efficient price that allows HPV access without wasting taxpayers (and operator) dollars.

The Freight and Logistics Plan also outlined the Government's commitment to:

- Working with industry and local councils to identify and prioritise 'first and last kilometre' routes for HPVs, and

- Develop the East West link

The East West Link is undoubtedly a hot issue here at the moment, with a range of competing views on whether it's needed, how much it will cost, and how it will impact on amenity.

It has the support of the Federal Coalition Government, which has committed \$1.5 billion to the project.

Let me say at the outset that ALC supports the project.

The cost of congestion to the Victorian economy is forecast to rise from \$3 billion to more than \$6 billion by 2020. The construction of the East-West Link will be critical to easing congestion.

Once complete, the East-West Link will improve travel times across northern and eastern Melbourne, remove cars and trucks from local streets and relieve pressure on the critical Monash Freeway - West Gate Freeway corridor.

ALC particularly looks forward to the ultimate completion of the western part of the Link to the Western Ring Rd, which is essential if the Port of Hastings is to be effectively connected with the landside logistics industry based to the West of Melbourne CBD.

We also believe, however, that the Victorian Government should release details of the cost benefit analysis.

We agree with Sir Rod Eddington, Chair of Infrastructure Australia, who says governments of all levels need to be more open and transparent in relation to major projects such as this.

Fundamental to this is releasing businesses cases for major projects so stakeholders fully understand the potential costs of major projects.

The need for transparency and rigour when it comes to assessing major infrastructure projects underscores the importance of an impartial and strengthened Infrastructure Australia.

Enhancing the role of Infrastructure Australia was one of the Australian Logistics Council's key priorities going into the federal election.

We believe IA should be the 'productivity commission' of infrastructure and should have its role enhanced to provide a greater level of objective analysis of major infrastructure projects.

I'm pleased the incoming Coalition Government recognises IA has an important role to play.

Tony Abbott has committed to regularly publishing cost-benefit analyses for all projects being considered for Commonwealth support or investment.

He has also promised that all Commonwealth infrastructure expenditure exceeding \$100 million will be subject to analysis by Infrastructure Australia to test cost-effectiveness and financial viability.

ALC will be monitoring both IA and the Government to see that these commitments are followed through.

Another element of the new Government's infrastructure policy that we welcome is its commitment to establish a Funding and Finance Advisory Unit within IA.

IA will also provide advice on efficient financing options for new projects. So it can look at both private, as well as public, financing options.

This is an important role, as it will help create the conditions to attract the capital necessary to build Australia's infrastructure.

Unlocking capital by 'recycling' infrastructure assets is one of the ways to pay for improved freight logistics infrastructure, such as the East West Link.

Gary Weaven, the Chair of Industry Funds Management, said recently that industry funds are keen to invest more in infrastructure.

It is fair to say however that supply is not keeping up with demand.

In Victoria, the Port of Melbourne could be sold or leased long-term to release funds for the landside logistics requirements generated by the new Port Hastings.

It is worth remembering that Port Botany's long term leased reaped more than \$5 billion for the state government, much of which will go back into infrastructure.

Port of Melbourne would be a potentially attractive asset to investors.

It is Australia's busiest container port and will continue to grow at a significant rate.

Throughput at Port of Melbourne in 2011-2012 totalled around 2.6 million containers, up nearly 8 percent on the previous year.³

This number is forecast to double over the next 10 to 12 years and containerised imports and exports from Victoria are set to almost quadruple over the coming decades.

ALC welcomes the Victorian Government's investments in the port to prepare for this future growth through its \$1.6 billion Port Capacity project.

ALC is also attracted to the idea of potentially offering to market Port of Hastings and Port of Melbourne as a job lot.

Incorporating a common user terminal at Lyndhurst would have obvious commercial benefits and be very attractive to investors.

That way the interaction between Port of Melbourne and Hastings could be managed over the longer term to ensure capacity remains at appropriate and sustainable levels.

That said, it is imperative that funds generated through sale or lease of infrastructure assets be used directly in the development of new infrastructure.

As I mentioned earlier, containerised imports and exports from Victoria are set to almost quadruple over the coming decades and the city needs the right road and rail infrastructure to meet this growing demand

³ <http://www.portofmelbourne.com/about-the-port/trade-and-statistics/trade-performance>

The incoming government has also committed \$300 million to begin the development of the Inland Rail from the Port of Brisbane to Melbourne through New South Wales.

ALC's Election Priorities Document [Time to Deliver](#) nominated an inland rail line as a key priority to help meet Australia's rising freight task along the north-south corridor.

The benefits of an inland rail line are enormous.

It would improve rail freight efficiency and reliability along the north south corridor.

It would free-up rail capacity in our major cities, particularly in Sydney which often becomes a bottleneck as passenger trains are given priority over freight.

Rail freight on the North–South corridor has declined in the past 35 years, from 35 per cent in 1972 to 12 per cent in 2007⁴. An inland rail freight line would help to reverse this trend.

It is therefore important that the Government begin the groundwork as soon as possible, including corridor preservation that I mentioned earlier.

Again, ALC will carefully monitor progress here.

Another matter ALC is continuing to hold governments to account on is the national transport laws.

Most of you would be aware that most states and territories have adopted what is called the Heavy Vehicle National Law.

The necessary law to enact the national scheme went through the Victorian parliament in May this year.

This reform is estimated to provide the Australian community with \$12bn in productivity savings, following the creation of a single national regulator (the Heavy Vehicle National Regulator) administering one rule book.

ALC is a strong supporter of the law, as it will eliminate many of the cross border inconsistencies that impact on supply chain efficiency and add to compliance costs.

The states and territories are currently passing the necessary legislation, with the national law expected to come into force on 1 October.

Before I conclude, I'd like to spend a few minutes discussing an often overlooking aspect of the freight debate, and that is air freight.

Australia's large and rising national freight task includes significant growth in the air freight sector.

According to the Asian White Paper, air freight volumes are expected to double by 2025

In 2008, Australia's international freight task included over \$100 billion worth of air freight, over 20 per cent of the total value of Australia's international cargo trade.⁴

Much of this is high value, time sensitive goods that need quick transportation around the country and across the world, particularly to customers in south east Asia.

⁴ *National Aviation Policy White Paper* p.154

Melbourne Airport is the leading Australian airport for airfreight exports, handling more than 40 percent of all airfreight leaving Australia.

Melbourne Airport's Draft Masterplan includes proposals for a number internal road upgrades which have the potential to improve freight efficiency and we welcome them.

In addition, construction will begin shortly on the extension of Airport Drive, which will create a new entrance to Melbourne Airport.

And work is underway on a new cargo estate which will add about 2,000 square meters of warehouse space.

Projects to improve freight efficiency at airports are good news for the freight industry.

But the fact remains that freight is often considered an after-thought on airports and efficiency suffers as a result.

To that end, ALC believes there is scope for an amendment to the Airports Act to require a master plan to expressly deal with how the freight volumes projected to be handled by major airports will be facilitated.

It's another example of where all parts of the supply chain, including road, rail, sea and air, need to be working at peak efficiency to meet our rising freight task.

Conclusion

Ladies and gentlemen, as I mentioned earlier, the freight logistics industry faces a productivity challenge.

It's not unique to our sector – many parts of our economy need to boost productivity to remain internationally competitive.

It is hoped the election of a new federal government, which has a strong infrastructure focus, will bring with it improved business and consumer confidence which is critical to our industry.

Boosting productivity in our industry will also be achieved through improved technologies, better information flow, greater collaboration and adopting best practice.

It will also be achieved through investing in infrastructure to improve freight productivity, efficiency and safety

That is what makes this week's gathering such an important one, and I once again thank GS1 for holding it.

Achieving success in our industry is all about having the right item, in the right quantity, at the right time, at the right place, for the right price, in the right condition, to the right customer.

There are a lot of elements in that equation, but that is what makes our industry such an exciting and challenging one.

As the CEO of the peak industry body representing your industry, it's a challenge I enjoy sharing with you.

Thank you for the opportunity 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 19th and 20th of March.
