



# AUSTRALIAN LOGISTICS COUNCIL

## Speech to the Victorian Transport Infrastructure Conference

### 'Improving Supply Chain Efficiency in Victoria'

**Tuesday 23 June 2015**

Good afternoon ladies and gentlemen.

I recently read a piece about what Melbourne will look like in 2050.

The city's population will have hit 6.4 million.

That's an additional 2.3 million people, in less than four decades.

The city will have overtaken Sydney as Australia's most populous city.

Our skyline will be radically different and densification around key transport nodes will have increased dramatically.

The ways we work, commute and interact with one another will have undergone enormous change through advances in technology.

Reading this, I was reminded of the quote by Charles Kettering, the great American inventor, engineer and businessman.

Kettering, who was the holder of 186 patents, said and I quote:

*"We should all be concerned about the future because we will have to spend the rest of our lives there."*

Let's put aside for one moment the fact that quite a few of us would have permanently cashed in our chips by 2050.

Kettering's observation underscores an important point we all need to focus on today – our transport and infrastructure decisions today will have far reaching effects for generations to come.

For example:

Where, when and how to build new road and rail infrastructure...

How to plan and deliver future public transport projects...

And most importantly from the perspective of the logistics industry, how to improve supply chain efficiency in Victoria.

Too often, freight is seen as an inhibitor, rather than a creator of wealth, prosperity and opportunity in Australia.

The fact is, the health of our cities and our lifestyles are inextricably linked with the nation's freight network.

Ours is an industry that is taken for granted, and in my humble opinion, under appreciated.

The truth is, the logistics industry is critical to the future health and wellbeing of this city.

It is equally important to ensure industry and government work together to maximise the efficiency of our supply chains, for the benefit of all Australians.

This is the key mission of the Logistics Council.

ALC is working on behalf of our industry, and the broader Australian community, to achieve this objective.

ALC is the key advocacy organisation on behalf of the Australian freight logistics sector.

You will be familiar with many of our member companies.

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

Our whole of supply chain approach is unique and sets us apart from many other transport bodies.

One of the greatest strengths of ALC is that all our members are committed to creating a more efficient supply chain.

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.

As you can see from this graph, 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.

In 2011–12 BITRE estimates that the domestic freight task totalled almost 600 billion tonne kilometres

That's equivalent to about 26,000 tonne kilometres of freight moved for every person in Australia.

Furthermore, Australia's freight task is projected to increase by 80 per cent between 2010 and 2030 with this rate of growth seeing freight triple by 2050.

To add a few more figures into the equation, Treasury modelling shows Australia's population will hit 35 million by 2050.

This increases the need for smooth and efficient supply chains that connect our sources of wealth with our domestic markets and international gateways.

Victoria needs efficient, safe and reliable supply chains to facilitate the smooth flow of goods from production to consumption to boost economic performance.

The State's freight strategy estimates the freight and logistics sector contributed between \$19 and \$23 billion, or about 8% of total economic activity to Victoria's economy in 2011.

Containerised imports and exports are expected to more than quadruple over the next 40 years.

These growth rates are consistent to those predicted for other parts of the country.

When one looks around the country, many of Australia's key freight systems are just not up to scratch due to neglect, regulatory overload and short-termism.

We run the risk of falling behind our international competitors.

Australia's freight sector members are part of the global supply chain business.

And as Lance Hockridge, CEO of Aurizon recently observed at a major infrastructure conference, many of our competitors are investing heavily in their logistics infrastructure.

We must do better in order to compete.

The pay-off is not just a more efficient logistics sector – it benefits all sectors of the economy.

A report by ACIL Allen and ALC found the Australian logistics industry adds \$131.6 billion a year or 8.6 per cent to GDP.

Importantly, a one per cent improvement in efficiency will yield a \$2 billion-a-year benefit.

It provides hard evidence that inefficiencies in the industry will cost Australia dearly unless all governments continue to focus on reform of regulation and infrastructure.

Investment in our port facilities is at the top of this list, and in this regards I'm pleased to be speaking after Nicky Easy who took us through Port of Melbourne's Port Capacity Project.

This is a major transformative project that will add significant extra capacity to the port.

While a second container terminal will be required in Melbourne some-time in the future, it is imperative that in the short term we maximise the efficiency of the current port.

Nick and his team are to be congratulated for their work to upgrade the port to prepare for future freight growth.

As discussed this morning, Port of Melbourne is Australia's busiest container port.

It is Australia's largest and most important maritime trade hub for container, automotive and general cargo.

The port handles around 37% of Australia's container trade, or around 2.5 million containers per year.

This is forecast to double over the next 10 to 12 years.

It is critical to coping with rising freight growth and a growing population in Melbourne's west.

As you're aware, the Victorian Government recently announced fees at the Port of Melbourne would remain at 2014-2015 levels or increase only by CPI.

This is welcome news and shows industry's concerns are being listened to.

However, the outstanding issue of proposed rents to be charged at the port still needs to be resolved.

Significant increases to port rents will push up the price for users of the port, costs will be passed on to consumers and make it harder for local manufacturers to compete.

In the interests of supply chain efficiency, we look forward to this issue being resolved sensibly.

I would like to make it clear that ALC supports the long term lease of the Port of Melbourne.

Asset recycling offers a capacity of governments with constrained balance sheets to unlock capital captured in mature assets.

Port of Melbourne is a good case in point.

Properly done, recycling of assets such as Port of Melbourne can realise desperately needed funds for new logistics infrastructure projects.

Let me spend a few moments defining what I mean by 'properly done'.

Governments proposing any form of lease or sale of an asset must firstly explain to the community the financial reason for the asset disposal and then clearly identify the public benefits that will accrue as a result the disposal.

To help build public confidence, this should be in the form of published business case or cost benefit analysis.

Any proposal to sell, or offer a long-term lease for any piece of infrastructure must possess a net positive benefit.

It is also important that funds raised as a result of the lease or sale of infrastructure is in turn invested in the productivity enhancing infrastructure.

ALC also believes that any asset that is sold must be sold for the right price and not at any price

Finally, ALC believes the sale or long-term lease of an asset should not be pursued to the detriment of competition and freight efficiency.

It follows that any analysis conducted to support either the sale or long-term lease of an infrastructure asset should consider:

- whether the proposed sale will promote competition and efficiency; and
- the need as to whether the subsequent operation of the asset should be the subject of economic regulation, so as to permit the efficient use of the asset to the benefit of the Australian community as a whole.

Of particular concern are:

- vertical integration - vertical integration will provide the any recycled monopoly asset or entity with the ability to leverage its power in monopoly markets into vertically related competitive markets, thus distorting efficient market outcomes; and
- monopoly pricing – any recycled monopoly asset or entity should have its pricing subject to government oversight, typically by the ACCC or state based economic regulators, as appropriate.

These two issues must be addressed in any asset recycling program

Another critical component to ensuring supply chain efficiency in Victoria is the best possible access to the Port of Melbourne.

ALC was disappointed that the Victorian Government decided to abandon the East West Link project, as we regard this project as a freight route of national significance.

Melbourne desperately needs a second river crossing and we were of the firm view the Western Link would have provided the logistics sector which much needed capacity and improved access to the Port of Melbourne.

Over-reliance on the Westgate Bridge is resulting in congestion and delays.

Melbourne's western suburbs are the heartland of the city's freight logistics industry, and needs an efficient route linking them to the port.

On this point, we're looking forward to further details of Melbourne's Western Distributor project.

This unsolicited bid by Transurban, which involves linking the West Gate Freeway with the Tullamarine Freeway, has the potential to reduce congestion on local roads, and cut travelling times from freight precincts to the Port of Melbourne.

We are concerned, however, that the freight logistics sector – a major contributor to the Victorian and national economy – will be asked to bear a disproportionate share of the tolling burden.

ALC has voiced its concerns to both Transurban and the Victorian Government, and we look forward to our arguments being taken into account as the government assesses the project application.

Improving access to the Port of Melbourne is, of course, not only about establishing road links.

Equally as important are efficient rail links.

ALC is strongly supportive of a funding commitment from the previous government to establish a Port Rail Shuttle service linking the Port of Melbourne to suburban rail hubs.

Moving more freight to rail, where it makes sense commercially, has the potential to improve urban amenity; reduce road congestion and decrease queuing times at ports.

Short haul rail is an area where NSW is making significant gains.

Earlier this month the Australian Rail Track Corporation announced it is seeking Expressions of Interest to deliver Stage 3 of the upgrade to the Port Botany rail line.

The \$75 million project will significantly improve reliability on the port line, and complements the pending construction of the Moorebank Intermodal Terminal in Sydney's west.

ALC encourages the Victorian Government to follow the lead of their northern neighbours and provide financial support to short haul rail here in Melbourne.

On this topic of intermodal terminals, ALC is encouraging the Victorian Government to provide planning and investment support for the Western Intermodal Freight Terminal, or WIFT.

Down the track, the WIFT will play an important role in allowing freight to move more efficiently from Melbourne's logistics heartland.

And, it will also play a role in reducing congestion around the Dynon precinct.

ALC is keen that the Government ensures that land is preserved and that the appropriate planning instruments have been amended to support the needs of the Terminal.

These two issues – planning for port shuttles and intermodal terminals – underscore the importance of long term freight planning.

ALC seeks long-term policy certainty in Victoria to support business confidence and to facilitate investment in logistics facilities and infrastructure.

Freight planning needs to be both long-term and strategic to provide industry with the surety it needs to make business decisions with confidence.

All too often we see new governments drastically alter, rework or in some cases rip-up perfectly good plans and strategies, which erodes business confidence and leads to delays in investment.

While we appreciate the new Government has its own policy agenda that it will seek to implement, by and large, the logistics industry is looking for the general continuation of the state's freight strategy.

The intent of the current Victorian freight and logistics strategy does not differ substantially from that which was developed under Tim Pallas and should continue to roll out.

An area where I would like to commend the Government is for its decision to establish Infrastructure Victoria.

I understand legislation to create the body will be introduced to state parliament today.

The introduction of Infrastructure Victoria to oversee a pipeline of infrastructure projects across electoral cycles represents an important step towards taking politics out of infrastructure planning and implementation.

We will be analyzing the legislation with a particular view to see whether it is a mandatory requirement for it to publish all cost benefit analyses conducted.

This level of transparency is important, as it gives business and the Victorian community confidence that the resources of the State are being put to the most productive purposes.

Another piece of work ALC is keen to see progressed is commonwealth's road reform agenda.

Broadly speaking, this work involves investigating alternative ways to fund logistics infrastructure into the future.

A number of eminent bodies have recently released reports supporting reforms to how roads are funded.

These include the Productivity Commission, the Harper Competition Review, and most recently, Infrastructure Australia in their National Infrastructure Audit.

They all effectively make the same argument.

The current way of funding our roads as a free public good is unsustainable, and needs comprehensive reform.

ALC has been an active participant in this debate, as we acknowledge the potential benefits that could flow from the way we price and invest in logistics infrastructure, particularly when the dollars follow the freight.

There is growing consensus that the current system of vehicle charging and investment needs to be put under the microscope.

One of the primary reasons why the current system is not working is that funds are 'smeared' over the network and are not being sufficiently returned to those key freight routes that carry high levels of traffic.

Growing pressure on state and federal budgets also necessitates serious consideration of where we go from here.

In short, it is becoming increasingly clear the current system will not support maximum efficiency and productivity in the long term.

ALC supports reform, but on the proviso that funds collected need to be invested in the infrastructure used by the vehicle (that is, the revenue 'follows the freight').

They cannot be diverted into consolidated revenue for use for other purposes, and that any payments made to a road owner in the form of a CSO payment are transparent.

ALC is committed to playing a lead role in this process on behalf of the logistics industry and will continue to advocate for policy measures that improve supply chain efficiency and productivity.

An area of particular focus for industry is to improve supply chain efficiency on the north south corridor along our eastern seaboard.

One of the projects that will help support this is inland rail.

Tomorrow night, in Parliament House Canberra, hundreds of MPs, Senators and industry stakeholders will gather to discuss this iconic freight project.

This rail freight link between Brisbane and Melbourne will be vital to improving supply chain

efficiency.

Of critical importance to the project will be the dedicated freight line to the Port of Brisbane, linking with the mines of South East Queensland, and ultimately Port of Melbourne.

Port to Port connectivity is an essential component of this project

When complete, inland rail will:

- Efficiently move freight on the north-south corridor by reducing train transit times and transport costs
- Provide a reliable rail transport alternative for agricultural and mining freight, improving the global competitiveness of our key exports
- Connect all of our major mainland cities with a world class rail network that will provide the backbone for moving goods across the country.

Inland rail will also create thousands of jobs during and after construction, many in rural and regional areas.

Building the inland rail is a huge opportunity for this country and we are encouraging the Federal Government to get on with the job.

Ladies and gentlemen, I began with a quote from Charles Kettering and I propose to finish with one.

Kettering also said:

"The world hates change, yet it is the only thing that has brought progress."

While it obviously takes some time to implement national reforms and new investment frameworks, the ends certainly justify the means.

These and other measures I've outlined today reflect industry's commitment to working with government to improve productivity, efficiency and safety across the entire supply chain.

We do this because freight efficiency matters for all Australians.

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.

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