Speech by Michael Kilgariff

ALC Managing Director

Victorian Transport Infrastructure Conference

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

For those of you unfamiliar with the Australian Logistics Council, ALC is the peak national body representing the major and national companies participating in the freight logistics industry.

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 400 billon 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 Victoria, the freight task is expected to double by 2035.

With these issues in mind, the theme of this conference is timely, and it certainly resonates with the freight logistics industry.

'Reclaiming Victoria as the state on the move' reflects an obvious desire by all stakeholders to harness the power of infrastructure to improve our quality of life and economic growth.

It's a sentiment shared by the freight logistics industry.

What happens in Melbourne from a freight logistics perspective has national ramifications.

It goes without saying the sector is a critical component of the broader national economy.

Our economic growth is intrinsically linked to the ability of our manufacturers to get their products to markets, efficiently, safely and securely.

As an island nation, located a long way from our international markets, the link between efficient supply chains and our international markets take on added importance.

It also requires a modern and efficient infrastructure that links centres of production with our key intermodal facilities and international gateways.

It is certainly a busy time for the freight logistics industry here in Victoria.

Throughput at Port of Melbourne in 2011-2012 totalled around 2.6 million containers, up nearly 8 percent on the previous year.[1]

The Government's $1.6 billion Port Capacity project will help to ensure Victoria has the port capacity required in the short term to meet anticipated demand.

ALC welcomes the Napthine Government's strong commitment to investing in Port of Melbourne.

The Victorian Government is also finalising its Freight and Logistics Plan, which I'll say more about shortly, as well as completing its Metropolitan Strategy.

In our submission on the strategy, ALC said it would like to see the plan combined with the Freight and Logistics Plan to ensure freight planning and urban planning are complementary and not at odds with one another.

It sounds like common sense, but all too often freight is the poor cousin in the planning process which impacts on the liveability of our cities and on our economic performance.

Plans are also progressing here in Victoria for a number of major pieces of infrastructure, including the East West Link, Port of Hastings and the Western Interstate Freight terminal.

The rising freight task both here in Victoria and nationally underscores the need for a renewed focus by governments to ensure the right transport infrastructure is in place, underpinned by appropriate regulatory settings.

I wish to emphasise at the outset, though, that this does not always mean the provision of new infrastructure.

The fiscal challenges being faced by all levels of government mean we need to focus on infrastructure that will deliver the greatest pay off in terms of productivity growth.

Often this means using what we have more wisely, and underpinned by more appropriate regulatory settings.

[1] http://www.portofmelbourne.com/about-the-port/trade-and-statistics/trade-performance

Much is made of the ‘infrastructure deficit’ which is often quoted within our industry and by commentators to estimate how much it would cost to plug the gap between what we’ve got, and what we supposedly need.

I won’t attempt to put a dollar figure on the deficit, suffice to say it is not an insignificant amount.

However, becoming overly fixated on a dollar figure has the potential to distract us from an equally important issue, and that is, how do we use our existing infrastructure more wisely?

As an industry and as a community we need to focus more on ensuring we are achieve maximum efficiencies by extracting greater value from the infrastructure we currently have.

The questions we must continue to ask, and answer, are:

Do we have the necessary technologies to support efficient supply chains?

Do our regulatory settings support growth, or stifle it?

And are there long term plans in place to identify where greater efficiencies can be gleaned from the existing network and where greater capital investment may be required?

On this point, and I mentioned earlier that the Victorian Government is currently finalising its Freight and Logistics Plan.

ALC looks forward to the plan outlining how the freight task will be planned and managed over the decades to come.

In particular, we look forward to it articulating how it will identify, fund, and preserve critical freight corridors necessary for the state’s future freight growth.

Ensuring freight corridors are identified and preserved to ensure the corn flakes get on the table and the plasma TV on the wall is of paramount importance to ALC.

The Plan should also reflect and build upon the National Land Freight Strategy which was released by the Federal Government last month.

The release of the National Strategy marks the culmination of more than two years’ work and ALC commends all governments on its finalisation.

However, while some in government may see this document as the end of the journey to improve freight efficiency, it is of course only the beginning.

At its core, the Strategy aims to improve freight efficiency and sustainability by establishing the concept of ‘places for freight’ and to ensure policies affecting land freight are aligned and coherent across all governments at all levels.

The strategy is a high level document which contains a set of 'strategic first steps' to be undertaken by governments over the coming years.

ALC would have like to have seen a greater commitment to action on a number of issues, particularly in relation to corridor preservation and infrastructure funding and financing, however, the Strategy is an important starting point.

The Victorian Strategy will need to be consistent with the National Land Freight Strategy and National Ports Strategy and include concrete measures to improve freight efficiency.

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

It will also need to drive a more coordinated approach to the planning and provision of freight logistics infrastructure across the state.

This includes the provision of port infrastructure which I would like to turn to now.

Much has been said about the best location for Melbourne's next container port, which the Napthine Government is committed to developing at Hastings.

For those of you unfamiliar with the debate, there are others who have expressed a desire to see the port located in the west of Port Philip Bay.

In my view, this level of debate is healthy, given the importance of this project to the state's economy for many decades to come.

ALC does not necessarily favour a bay west option over Port of Hastings.

We acknowledge however a range of views across industry regarding its location, including from those who note the significant growth of Melbourne's north-west from a logistics perspective.

In light of this, ALC would like to see a study involving industry that considers potential options for a second Victorian port.

Such a study should include issues such as port viability and the effect the port location may have on traffic flows, and road and rail congestion.

Again, ALC looks forward to the timely release of the Victorian Freight and Logistics Plan which will help us better understand the Government's long term freight vision, and how Port Hastings fits into that vision.

The fiscal challenges I mentioned earlier are, of course, not solely the domain of the federal government.

The economic and political reality we live in is that spending on social initiatives invariably outranks investment in necessary freight logistics infrastructure.

This underscores the importance of governments facilitating the uptake of more public private partnerships to fund essential freight logistics infrastructure.

I often hear that one of the major obstacles facing greater private sector investment in infrastructure is the way in which PPPs are structured.

Significant upfront costs coupled with a lack of certainty are some of the common concerns expressed by potential investors.

Overcoming this and other obstacles is a critical challenge for government.

The Federal Government recently announced projects on the Infrastructure Priority List that meet specific criteria and assessed by Infrastructure Australia as being 'ready to proceed' will be eligible to have the value of their up-front losses indexed to preserve their value over time.

Most importantly, any losses will be able to be carried over even if the ownership of the company changes.

It is a positive step forward and we hope future governments will continue these sorts of innovations.

The reform also highlights the critical role Infrastructure Australia plays rigorously analysing potential new projects to see if they stack up from cost benefit analysis perspective.

ALC is pleased that the Victorian Government has used a PPP arrangement to fund the East West Road link.

It is the first major Australian road PPP to come to the market since for a number of years and we hope the trend continues.

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. [2]

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

[2] http://www.industrysupernetwork.com/wp-content/uploads/2013/05/Building_Australia_Initiative_web.pdf

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.

This sentiment is echoed by Gary Weaven, chair of Industry Funds Management, who said last month in the Australian, and I quote:

> *There is no lack of support or interest of super funds in investing in infrastructure, but a lack of workable and accessible infrastructure investment deals*[3].

Super funds' appetite to invest in infrastructure is invariably being met offshore.

Indeed, I noted a comment recently by a senior executive from Industry Funds Management who said that ``wherever you go in the world in infrastructure you will hear Aussie accents''.

It really does highlight that there are not enough infrastructure opportunities in Australia to satisfy local superannuation investment demand.

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.

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[3] The Australian, 1 May 2013, http://www.theaustralian.com.au/business/wealth/how-government-can-enrol-funds-to-boost-infrastructure-projects/story-e6frgac6-1226343109879

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 announced yesterday 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.

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.

And were there to be a change of government in September as the polls currently suggest, we would encourage an incoming Coalition Government to include infrastructure funding and management as part of its committed review into COAG and tax arrangements.

On this issue of investing in projects that enhance productivity, I'd like to take a few moments to discuss an issue that sometimes gets overlooked in the infrastructure debate and that is in rail infrastructure investment.

The High Speed Rail report released by Minister Albanese a few months ago underlined the significant costs associated with the project, $114 billion in today's money.

He conceded the project would pose some significant technical, logistical and financial challenges, and would involve long construction times.

While the government's focus on moving people around the country more efficiently is welcome, this national debate on rail investment must also include the facts on the urgent need to improve the efficiency of Australia's freight task.

The high speed rail report acknowledges passenger numbers would depend on population rates, which are predicted to reach around 35 million people by the middle of the century, or around 50 per cent more than today's population of 23 million.

That sounds big, but contrast it with Australia's freight task, which I mentioned earlier is predicted to nearly triple by the year 2050.

That is why ALC believes there is merit in focussing on the potential productivity and economic benefits of an inland rail freight line between Brisbane and Melbourne.

Currently, the only route between Melbourne and Brisbane is through Sydney.

Notwithstanding significant investments into the Sydney network by the Australian Rail Track Corporation, passenger rail takes precedence in Sydney which has a significant impact on supply chain efficiency.

A report to government in 2010 on an inland rail freight line connecting Brisbane and Melbourne via Parkes pointed to the line's potential economic and social benefits.

It envisaged using existing track, upgraded where necessary and with a number of bypasses.

The cost benefit analysis found that the new freight line would divert freight from trucks and the rail mode share would rise from the around 30 per cent today to around 74 per cent.

The report estimates it would be feasible in around 20 years, or when total tonnage demand reaches 25 million tonnes per annum.

It would be feasible now if funded by coal exports, with the 20-year time frame assuming no coal exports.

An inland rail freight line would also come with a relatively modest price tag, with construction estimated to be around $5 billion, plus additional costs to ensure the line goes directly from Port of Brisbane to Port of Melbourne, which would be a must.

Compare this estimated $10 billion dollars to $114 billion for high speed rail.

I'll repeat that - $10 billion compared to around $114 billion.

In the fiscally challenged environment we operate in, it is a stark comparison that draws into question the economic viability of the very fast train.

The inland rail report recommended a re-examination of the viability of the project in 2015.

ALC hopes the next government commits to this analysis and looks at possible routes that reduce freight transit times, reduces congestion in metropolitan areas and enables larger freight volumes to by making longer and double stacked trains possible.

On this issue of moving greater payloads of freight more efficiency and safely around the country, I'd like to say a few things about the Government's approach to High Productivity Vehicles in Victoria.

The Government has announced some sensible reforms in recent months that will allow increased use of high productivity vehicles on the state's roads.

Mr Mulder flagged this initiative at the ALC Forum at the MCG earlier this year and we applaud him for this measure that will improve productivity, efficiency and safety on our roads.

This will assist in the efficient movement of road freight from regional Victorian to the world.

However, one thing that needs to happen sooner rather than later is a Hume Highway trial for high productivity vehicles.

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

It would significantly improve the movement of freight between Australia's two largest markets and frankly has been a long time coming.

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

A trial on the Hume Highway would also help inform another piece of work currently underway at the national level – 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.

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.

Ladies and gentlemen, whenever I travel to Melbourne I am often reminded by those in industry and government that Melbourne is the freight logistics capital of Australia.

It's hard to disagree – many of Australia's major freight logistics companies are based in the city, Port of Melbourne is our largest container port and the region has a strong manufacturing base.

But those of you who follow AFL, and I suspect that is everyone here today, would know that when you are at the head of the pack you provide the benchmark that everyone else aims to meet and exceed.

Being number one requires ongoing hard work, attention to detail and results.

A failure to do so will see you soon slip back to the pack, and overtaken by your more hungry opponents.

With a rising national freight task, straining infrastructure and a tight fiscal environment, the challenges are plain to see.

These challenges apply equally here in Victoria as they do across the country.

It reinforces why industry and government must continually focus on measures that improve productivity, efficiency and safety in the freight logistics industry.

This involves a renewed focus by governments to ensure the right transport infrastructure is in place, underpinned by appropriate regulatory settings.

And by doing so, we will surely achieve the objective of reclaiming Victoria as a state on the move.

Thank you.