

Speech by Michael Kilgariff

Building Competitiveness in our export and maritime industries Seminar

Friday 24 August 2012

“Improving Export Performance through Supply Chain Efficiency”

Good afternoon. It's a great pleasure to be here today to discuss improving export performance through supply chain efficiency.

I congratulate our hosts – The Export Council of Australia and Shipping Australia Limited – and thank them for bringing together key stakeholders to discuss building Australia's international competitiveness.

Ian Murray, who you know as the Export Council's CEO, is also the long-serving Deputy Chairman of the Australian Logistics Council.

Ian is a passionate advocate for more efficient supply chains to support Australia's exporters.

Today I will share with you some thoughts on what needs to be achieved domestically to increase supply chain efficiency, and boost national productivity.

I will discuss how infrastructure planning and investment is vital to improving export performance.

And I will argue the need for nationally consistent regulatory settings to support export growth.

Before I do, I'd like to paint for you a quick picture of ALC and more broadly, Australia's freight logistics industry.

The Australian Logistics Council is the peak national body representing the major and national companies participating in the Australian freight transport and logistics supply chain.

Our members span the entire supply chain, including infrastructure users and providers, and all support Australia's export effort through their involvement in international supply chains.

On the issue of international supply chains, the International Transport Forum (an OECD organisation) recently said the overall picture for global freight is one of stagnation with indications for near term decline in economic performance for the 27 EU countries¹.

More positive however was the outlook for Asia which showed strong growth in sea freight. The ITF also predicts however that exports by sea to Asia show signs of slowing down since the beginning of 2012.

On the domestic front, the national freight is large and growing.

- In 2010 it totalled approximately 500 billion tonne kilometres.
- In 2030 it is predicted to reach 1000 billion tonne kilometres.
- And by 2050 it will climb to around 1400 billion tonne kilometres.

¹ <http://www.internationaltransportforum.org/statistics/statbriefs.html>

The Bureau of Infrastructure, Transport and Regional Economics also estimates that cargo loaded at Australian ports has increased from half a billion tonnes at 2000 to nearly a 1 billion tonnes by 2010.²

These are big numbers and in many respects, mindboggling to comprehend.

But they help to demonstrate the enormous pressures which are being imposed on our freight supply chains.

However, unless there is a renewed focus by government on ensuring appropriate freight logistics infrastructure measures are in place, it will be extremely challenging for industry to meet this expected future demand in an efficient and timely manner.

If we don't have the right infrastructure in the right place at the right time, it will be difficult to turn around productivity levels in the industry which have increased by only 0.6 percent per annum in the five years to 2011.³

This issue of poor productivity is obviously not confined to the transport industry.

Manufacturers in the room would be aware this was a key point made in the Prime Minister's Manufacturing Taskforce Report handed down earlier this month.⁴

Taskforce Members correctly highlighted the intrinsic link between manufacturing productivity and transport infrastructure.

The report calls on government to encourage investment in the nation's transport infrastructure and to utilise the most appropriate ways of doing this, such as public private partnerships.

On this topic of productivity, you may also be aware that the McKinsey Global Institute released a report a fortnight ago which stated that national income could be \$90 billion higher if productivity is restored to long term averages.⁵

The McKinsey report also made the interesting observation that the introduction of new operating models within individual companies, such as automating supply chains, could also boost productivity.

A good example of a company attempting to do this is Asciano which plans to introduce automation at Port Botany.

Port Botany is forecast to reach 3.2 million TEUs, or twenty foot equivalent containers, by around 2017-2018.

In addition to the government lifting the cap at Port Botany, which ALC unequivocally supports, it is clear that industry must also identify and implement ways to increase productivity and improve throughput capacity.

² http://www.bitre.gov.au/publications/2012/stats_002.aspx

³ ABS 5204.25 7/9/11

⁴ Department on Industry, Innovation, Science, Research and Tertiary Education: Prime Minister's Manufacturing Taskforce Report on Non-Government Members (2012):65

⁵ http://www.mckinsey.com/insights/mgi/research/asia/australia_productivity_imperative

Asciano aims to achieve this by spending \$348 million to redevelop and expand its container terminal at Port Botany to transform the terminal into a world class and internationally competitive facility by 2014.

The project will increase capacity from 1.15 million to 1.6 million TEU per annum to meet current trade growth forecasts.

These redevelopment and expansion plans are welcome news to every Australian exporter that relies on improved port efficiency and productivity to keep their costs down.

The keys to unlocking greater productivity on our waterfront come in the form of capital investment and progressive labour reform.

It is unfortunate therefore that the Maritime Union of Australia is threatening Asciano with an international campaign to disrupt the company's Port Botany operations.

Asciano, like all Australian companies, must be allowed to manage its affairs in way that it deems appropriate to generate greater efficiencies and improved safety outcomes.

Actively encouraging Asciano's international customers to avoid its facilities is another example of a union trying to exert greater control over the way a business runs its operations.

It sends a very worrying message to any business trying to improve productivity and harms our international reputation as a place to do business.

None of this is in Asciano's, their employees or Australia's long term economic interests, and ALC looks forward to Asciano being able to roll out its redevelopment fully in due course.

Asciano's redevelopment plans for Port Botany is one of a number of positive developments in NSW at the moment.

Work is going ahead on dedicated freight lines to both the north and south of the city.

Both the northern and southern freight lines will add much needed capacity to the Sydney freight network.

The Port Botany Landside Improvement Strategy is also being implemented which aims to maximise the amount of trade passing through Port Botany by making the landside supply chain more efficient, transparent and consistent.

Also in NSW, the Newcastle Port Corporation is finalising its strategic development plan for the port to guide its development over the next 30 years.

And finally, there is movement on the Moorebank Intermodal Terminal, albeit in separate directions...

As you may be aware, both the federal government and a private consortium called SIMTA (consisting of Qube and QR National) want to establish intermodal terminals at the defence site at Moorebank in Sydney's west.

From ALC's perspective, we want to see Moorebank developed *en globo* as an intermodal supply chain hub using a whole of precinct approach that maximises the use of such a rare and valuable site.

ALC's position on Moorebank was one of 16 recommendations we made in our recent submission to the NSW Government on its Long Term Transport Masterplan which is due out shortly.

ALC's recommendations on road and rail, planning and pricing in NSW are all geared towards improving supply chain efficiency in the state.

For example, we said freight trains should have unfettered access to the Sydney network, including Port Botany.

We called on the government to reserve critical freight infrastructure and to reduce the number of shared rail paths.

And we indicated ALC would be prepared to support road pricing reform, but only on the basis that it delivers improved productivity, it is transparent and justified, and it does not distort the heavy vehicle industry.

Dedicated port and freight strategies will also flow from the NSW Masterplan.

The NSW Government advises that these strategies will be consistent with other national plans, including the COAG national urban policy and the national port and freight strategies.

It is not clear how consistent they will be with the 20 Year Infrastructure Masterplan being developed by Infrastructure NSW.

On top of these national plans and strategies is the Commonwealth's road pricing reform initiative, formerly known as the COAG Road Pricing Project (or CRRP), now known as Heavy Vehicle Charging Investment and Reform.

It is still unclear what the full scope of this reform is, but it is understood to involve examining the full package of charging, funding and investment reforms.

This may well extend beyond recovering just the marginal cost of maintaining roads caused by damage from heavy vehicles.

It's an evolving piece of work by the HVCI team and we await its progress with interest.

The revised National Freight Strategy, which is an important long term document designed to guide the sector's growth into the future, is also expected to be released shortly by Infrastructure Australia.

ALC believes the paper should be released to the community at the same time it is given to COAG.

This is so an informed debate on its contents can begin which will also assist COAG to take a considered decision on its contents.

Broadly, ALC welcomes this renewed focus by government on freight, but remains concerned there are many plans out there at the moment, but not a lot of action.

The critical test for governments of all levels will be translating this cavalcade of plans and strategies into solid and tangible nationally consistent outcomes to underpin improved supply chain efficiency.

Without genuine actions, rather than mere plans, there is nothing.

And, frankly, ALC wants to see action on this front sooner rather than later.

I'd like to take a few minutes to discuss the sort of practical outcomes ALC would like to see committed to in the final NSW Transport Masterplan.

The first of these is corridor preservation.

When it comes to the issue of corridor preservation, I'm reminded of the quote "Today's preparation determines tomorrow's achievement."

Unless we prepare today for the freight challenges of tomorrow, we simply will not be able to cope with our future freight challenges.

If we don't take a long term view of our future freight needs, the costs will be greater levels of congestion, poorer road safety outcomes and increased costs for businesses, including exporters, ultimately paid for by consumers.

And when I say long term, I refer to planning windows that take into account demand for the many decades to come, not just the next few years.

To that end, ALC supports recent calls for Infrastructure NSW to look beyond the next 20 years and to identify corridors that require preservation before it becomes too costly to do so.

This will help to ensure freight doesn't continue to be crowded out in our major cities, which is a poor outcome, from an economic, social and environmental perspective.

Productive cities are those which are well planned with world class transport infrastructure, particularly from source to port.

To increase productivity, freight needs to be at the heart of the planning process – not included as an afterthought.

The COAG Reform Council has been on the front foot on this issue lately, highlighting the need for state jurisdictions to identify and provide for infrastructure needs through corridor preservation.

From ALC's perspective, we believe this must go beyond corridor preservation to the provision of funds to ensure land is available to locate and buffer port and intermodal facilities.

In Western Australia, a tax is levied on the aggregated unimproved value of all land that is both liable for land tax and located within the boundaries of the metropolitan area.⁶

Tax collections are hypothecated to a trust fund for expenditure by the Planning Commission on such things as road reserves.

This is based on the concept of who benefits from the work also contributes to the cost of providing infrastructure, or a 'beneficiary pays' principle.

It's a concept that ALC strongly supports as a model for other jurisdictions around the country.

⁶ WA Government. *Overview of state taxes and royalties Western Australia 2011--12* (2011): 35

ALC will carefully review the final NSW Transport Masterplan, and in particular the port and freight strategies, to assess whether they include firm commitments to introduce the sorts of initiatives I have just outlined.

It is pleasing to note that many states are now developing freight and port strategies, both of which are obviously critical links in the supply chain for Australia's exporters.

Earlier this month COAG signed off on the National Ports Strategy.⁷

The Strategy is an important document that aims to ensure our ports are well positioned in the future to cater for future growth.

The strategy contains a number of worthwhile initiatives, including a greater focus on identifying key strategic freight routes around ports and designating them as national port freight corridors.

It also calls for jurisdictions to have a 'lead regulator' or 'coordinator general' to assist the planning approvals and environmental impact assessment processes for ports and freight corridors.

The National Ports Strategy also recommends prioritising freight on port corridors through access pricing reform.

ALC is concerned however that in the final document approved by COAG, the concept of opt-in has been introduced late in the day.

The report states, and I quote, "it is recommended the Council of Australian Governments Agree that participation in the National Ports strategy, **opting in**, demonstrates a commitment to the application of sound planning principles, ongoing corridor protection and continual improvement with regard to relevant best practice.

ALC is naturally concerned that some states and territories are not fully committed to continuing the reforms necessary to ensure export chain efficiency.

We all need to be clear to all governments that there can be no 'opting in' on reforms.

There must be a strong commitment to national reform.

Leadership is needed from governments, particularly at the Federal level, to maximise the economic benefits from major reforms.

For example, ALC would like to see the NSW Government adopt in its Long Term Master Plan the Port Strategy's recommendation to establish a coordinator general to take the lead on obtaining approvals and assessments for identified port routes contained in the plan.

If NSW and the other states decide not to "opt-in" on this recommendation, it gives adds weight to ALC's proposal for a dedicated body like "Freight Australia" to be established to provide the level of focus within government that freight deserves.

I'd like to focus on two specific areas where ALC would encourage a greater commitment to reform.

⁷ <http://www.coag.gov.au/node/445>

As I mentioned earlier, the National Ports Strategy proposes that freight should be prioritised on identified port corridors.

Some of these roads are local roads, meaning local councils are responsible for their maintenance and upgrade.

These local roads often represent the 'last mile' in freight logistics journeys to facilities such as ports and intermodal facilities.

But because of a variety of factors, access is often limited over the 'last mile' which reduces efficiency and hampers productivity.

To address this issue, ALC has proposed the concept of a national partnership between all levels of government – including federal, state, territory and local governments – to give freight the priority consideration it deserves.

In ALC's eyes, this national partnership would:

- acknowledge that land use decisions should prioritise the efficient operation of the ports and infrastructure identified as being nationally significant infrastructure; and
- create a fund for state and local governments which incur expense as a result of making land--use decisions that favour nationally significant infrastructure over other land uses

ALC believes the Australian Government should lead this initiative at the COAG level.

Another step ALC is encouraging the Commonwealth to take is to ensure the national transport regulators deliver on the economic benefits promised under this historic reform.

Many of you would have heard of the work underway to replace 23 regulators with three for heavy vehicles, rail safety and maritime safety.

The heavy vehicle initiative alone is estimated to be worth \$12.4 billion to the economy.

These gains will come from reducing red tape and reducing regulatory burdens on industry.

ALC is enthusiastic about the 'one stop shop' concept for heavy vehicles and looks forward to improved access arrangements, particularly in relation to last mile issues I spoke about earlier.

However, ALC is concerned the proposed National Heavy Vehicle Regulator will not have the resources to have the 'teeth' necessary to actually administer a national scheme.

We fear too much will be left to state and territory regulators providing services under what are called service level agreements.

Ultimately, the same people will be making the same decisions, with the national regulator merely a distant standard setter adding an unproductive layer of bureaucracy.

So that the \$12 billion of productivity improvements can be unlocked, ALC expects the Australian Government to ensure that the Regulator has sufficient technical staff with sufficient resources necessary to make timely decisions under the National Law from Day 1.

Otherwise, the initiative will simply not succeed and we may simply add another layer of bureaucracy and increase the 23 regulators to 24.

To conclude, I'd like to leave you today with a well-worn saying in our industry which is "freight doesn't vote".

It's an unfortunate reality that freight is often overlooked in today's political discourse.

But when you consider the industry generates around 14.5 per cent of GDP and employs more than 1 million people across 165,000 businesses, it is clear the transport and logistics industry needs to be front and centre of the economic debate.

ALC welcomes many of the steps which have been taken by government to improve supply chain efficiency.

But now is the time for action.

Now is the time to turn plans and rhetoric into tangible outcomes that improve efficiency, productivity and safety across the industry.

While freight may still not vote in many people's minds, I'm confident the collective voice of industry is being heard more loudly and clearly in the modern political debate.

And that extends to forums such as today, where it has been my pleasure to share with you how I believe we can improve export performance through supply chain efficiency.

Thank you.