

Speech by Michael Kilgariff Managing Director, Australian Logistics Council

Australian Airports Association National Convention

Improving Supply Chain Efficiency in the freight logistics supply chain

Tuesday 13 November 2012

Good morning ladies and gentlemen, it is a pleasure to be here today at the Australian Airports Association National Convention.

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By way of background, the Australian Logistics Council is the peak industry body for the major and national companies operating in the freight transport and logistics supply chain.

You would all be familiar with our members, particularly those in the air freight space.

They include Qantas Freight, Toll and TNT just to name a few.

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ALC concentrates its efforts on ensuring we have the right regulatory policy settings and infrastructure to meet the rising national freight task.

Achieving this requires the efficient operation of all modes of transport, including road, rail, sea and, of course, air.

Today I will focus on the issue of air freight, and the steps I believe need to be taken to improve supply chain efficiency in the air freight sector.

Like many of you here today, I spend a lot of time in airports, particularly in our major cities.

And like you, I appreciate efficiency, reliability and service when I'm at an airport.

But whether I'm at Perth, Adelaide, Tullamarine, Kingsford Smith or Brisbane, my focus isn't just on the movement of people, security measures or the slotting of domestic aircraft, important as they are.

It's on the other side of the tarmac and even offsite, where Australia's air freight operators are working around the clock to meet rising demand.

These air freight operators are responsible for transporting high value freight across Australia and time critical freight around the world.

A range of industry sectors, such as the mining and medical industries, rely heavily on air freight for urgent overnight deliveries.

Air freight operations at our airports are a perfect illustration of Australia's role in global supply chains, particularly throughout Asia.

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It's worth noting that the fundamental vision of the recently released Asian White Paper is for Australia to maximise the economic benefits for our nation by taking full advantage of our close proximity to Asia.

The White Paper also outlines five keys to success, which notably includes infrastructure and regulatory reform.

Making the most of our close proximity to Asia is a priority for Australia's freight logistics industry, both now and into the future.

There are enormous opportunities before the industry which Australian businesses are working hard to harness.

It is noteworthy also that airport infrastructure featured in the White Paper.

It indicated that transport infrastructure is showing signs of strain, with demand having a sizeable effect on airport operations from around 2015.

It also noted that air freight volumes are expected to double by 2025.¹

For that reason, appropriate infrastructure— including airports—is essential to enabling effective cross-border trade and travel.²

ALC could not agree more.

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Figures from the Bureau of Infrastructure, Transport and Regional Economics show international freight tonnage went from 700,000 tonnes in 2008/09 to more than 820,000 tonnes in 2010-11 – an increase of around 14%.³

More starkly, the Draft NSW Long Term Transport Master Plan found that today, more than 656,000 tonnes of cargo passes through Sydney Airport every year.

By 2035, the airport will be dealing more than 1.5 million tonnes of cargo each year.⁴

The current tonnage is carried mainly in the belly space of passenger aircraft but supplemented by around 3000 freighter aircraft movements per annum.⁵

One can only imagine how many more movements will be necessary as the tonnage to be carried increases over time.

This increase will come on the back of retail customers becoming more reliant on the internet and buying goods online.

In the commercial sector, it will come from the growing reality of 'just in time' supply of components.

¹ Australian Government *Australia in the Asian Century White Paper* (2012):142

² Australian Government (2012):195

³ http://www.bitre.gov.au/publications/ongoing/international_airline_activity-time_series.aspx

⁴ NSW Government *Draft Long Term Transport Master Plan* (2012):36

⁵ Department of Infrastructure and Transport *Joint Study on Aviation Capacity in the Sydney Region* (2012)

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These figures reinforce the need to ensure freight is regarded as core business at airports.

Freight is already considered core business for airlines, and so it should be for airports.

The efficient movement of passengers is obviously critical.

Equally important is the efficient movement of freight.

Airport managers should place a higher priority on freight at our nation's airports, over and above a range of non-aeronautical activities such as retail and brickworks, which in my view are not core business of airports.

In particular, ALC would like to see an appreciation of the importance of the air freight facilities and how they are in fact the lynchpin between passenger and freight aircraft and road efficiency.

The efficient and cost effective movement of freight between air, road and rail should be a critical consideration for all domestic airports.

If we get the air freight facility and its supporting infrastructure right then we will have an efficient interface and transfer between road, rail and air.

Nowhere is this more pressing than in Sydney, about which I'll say a bit more shortly.

I am pleased to say that there are a number of airports representatives here today who already recognise the importance of an efficient supply chain and the importance of freight to it.

However, all airports are critical links in the supply chain, and therefore all need to view the freight task in the same way that acknowledges air freight is an important part of the national economy.

Just earlier, I typed into Google the name of our major airports to see where freight got a mention.

Parking, hotels, duty free, train arrivals, accommodation and transfers all got a mention, but no word of freight.

I thought I would give it second chance, so I typed 'F' in to give it a bit of prompt.

To my despair, free wi-fi, flight radars, food and free parking all got a mention before freight.

Googling is a crude science, but it helps to highlight a point I often make about the freight industry, and that is, its voice sometimes gets forgotten.

A favourite saying of ALC is that "freight doesn't vote" and unfortunately it gets treated accordingly.

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Today I will attempt to balance this uneven ledger and talk about a few issues of interest to the freight logistics industry.

The first of these is transparency surrounding the imposition of fees and charges on freight operators at some airports.

To illustrate, an ALC member cites the example of the cost of leases increasing regardless of improvements to the standards of facilities or services provided by airport operators.

Airports attempt to justify these cost increases on the basis that increases are in line with the market, with rental costs in the CBD often cited.

In ALC's view, this is unreasonable.

ALC strongly believes that airport users which support the aeronautical functions on airports, such as cargo terminal operators, airlines, and ground handlers should be acknowledged and respected as the primary users of the facilities.

It is essential that regulators and airport managers alike realise that businesses provide aeronautical services that are vital for the community and necessary to ensure the profitability of airline operators.

In ALC's view, there is some doubt that the light handed approach is necessarily working well.

As the Productivity Commission noted in its report on the Economic Regulation of Airports, land transport and logistics firms have objected to the tough negotiation stands taken by some airports, where offers on a 'take it or leave it' basis are made.

ALC members report that the approach to commercial negotiations are not 'maturing' as quickly as some, particularly those in the government, would think.

The light handed regulatory approach may work effectively when there is public scrutiny surrounding particular issues, such as public car parking.

But as I mentioned earlier, freight does not have the same public oversight, and for this reason, the light handed regulatory approach has weaknesses.

ALC is disappointed the Government declined to accept the Productivity Commission's recommendations that the ACCC be able to ask airport operators to show cause where an airport has demonstrated a consistent pattern of excessive returns on investment.⁶

This mechanism would give industry additional confidence as it would act as a practical disincentive for airport operators to offer on a "take it or leave it basis" prices well beyond ordinary rates of return.

More generally, ALC notes the Productivity Commission has commenced its review of the National Access Regime for essential infrastructure.

⁶ See recommendations 9.1 – 9.4 contained in Productivity Commission Report 57 *Economic Regulation of Airport Services* (2011) and the government response http://www.infrastructure.gov.au/aviation/airport/airport_economic_regulation/response.aspx

We will be closely monitoring the progress of the inquiry to see if its findings apply in the aviation context.⁷

Ensuring air freight is adequately recognised in airports' master planning processes is another issue of concern for air freight operators.

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A number of ALC members have reported a 'disconnect' between airport planning and the needs of both domestic and international freight services.

In our submission to the Productivity Commission, ALC argued airports do not always necessarily understand freight operators' needs when it comes to infrastructure and planning,

Conversely, freight organisations do not always understand the intention of airports.

One area of particular concern relates to airports not always appreciating the number and frequency of vehicles needing to access airports to support the domestic freight effort.

There is also a lack of appreciation by some airports about the key differences between domestic and international air freight environments – essentially it is all about time and the daily timing pressures in a domestic air environment.

The nature of express freight movements means urgent consignments, such as pharmaceutical products, often arrive arriving and being lodged, only 30 or so minutes before a jet takes off.

Indeed, some ALC members report that airport authorities appear keen to 'shuffle' freight providers to extreme ends of the airports.

To illustrate the 'disconnect' that can sometimes occur it is useful to reflect on the development of the 2009 Master Plan for Sydney Airport.

During the development of the Plan, Sydney Airport consulted users about the prospect of moving freight operations to a precinct known as Northern Lands.

As the Master Plan acknowledges, the feedback on the proposal from industry was poor.

The proposed site, which is actually outside the boundaries of Sydney Airport, fails to take into account the needs of freight on a number of levels, including:

- The proximity of operations to their airport
- Limited storage and truck access
- Lack of space
- Poor access to the airport, known as the last mile.

These concerns are valid, because the nature of express freight movements dictates an environment where urgent consignments are arriving and being lodged 45 to 30 minutes prior to the departure of a passenger jet.

⁷ <http://www.pc.gov.au/projects/inquiry/access-regime>

Despite these concerns, the Master Plan indicated that the Northern Lands would be suitable for freight facilities in the longer term.

It remains unclear how the airport could demonstrate it had due regard for the issues and concerns raised by industry.

And the 'last mile' challenges facing the freight industry are not confined to roads accessing the airport itself.

The last mile challenges of tarmac vehicles crossing multiple aircraft bays, facilities or other traffic areas because freight facilities have been 'consigned' to the back blocks of airport facilities is becoming an increasing challenge and frustration to users.

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The path to achieving a more sensible outcome is through better long term planning.

ALC would like to see the *Airports Act 1996* amended so that airport operators provide specific details in their master plans setting out how it intends facilitating the movement of projected freight levels over the 20 year planning period.

Importantly, this needs to involve consultation with relevant logistics operators before the plan is made.

This will allow airport operators and service providers to think in a long term way when it comes to, for instance, lease negotiations so that contracts can be envisaged that allows both sides to recoup investment costs.

It will also mean the role of freight at gateways that are at the heart of Australia's logistics chain will get the consideration it deserves.⁸

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Another issue affecting all aviation stakeholders is congestion.

Alleviating bottlenecks around our airports is an issue that requires greater government focus.

I should add, however, that there has been some improvement.

For instance here in Melbourne, the Victorian Government is seeking Commonwealth funding to build the East West Link that will assist in the movement of freight as well as traffic from South Eastern Melbourne to Tullamarine.

And the NSW Transport Master Plan recognises Sydney Airport is a critical gateway to Sydney that must be kept open and flowing.⁹

⁸ The Airports Act currently only requires a master plan to assess 'the future needs of civil aviation users of the airport, and other users of the airport, for services and facilities relating to the airport' and 'intentions for land use and related development' generically, as well as requiring a plan for a ground transport system detailing the facilities of moving freight at the airport in relation to the first five years of the plan. However, there is no requirement for a master plan to consider how the movement of projected freight volumes were facilitated.

The NSW Government hopes to achieve this through improving 'pinch-points' around the Airport, whilst the proposed WestConnex project proposed by Infrastructure NSW will also assist in alleviating congestion.

That said, even more can be done to remove congestion.

For instance, in Sydney the State Government could consider buying back the airport rail link.

This would help to reduce the price of public transport and encourage the use of that asset and help reduce congestion.

However with all that said, there is a need to develop a second airport in Sydney.

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Sydney Airport will always be Australia's principal aviation hub and making the best use of space available at Kingsford Smith is essential.

It is timely however to start planning for a second airport in the Sydney basin to ensure that future aviation related growth opportunities can be realised.

The gist of the Joint Study on Aviation Capacity would be well known to this audience.

It found demand for freight services cannot be met at Sydney Airport if additional capacity cannot be added by 2035 – by that stage, it is anticipated there will be an unmet demand of over 9 million tonnes of air freight.

This is a concern echoed by Infrastructure NSW in its recently published State Infrastructure Strategy where it said that additional secondary capacity may be needed in Sydney from the late 2020s.¹⁰

ALC adds its voice to the myriad of reports on the table.

The second airport would do two things.

Firstly, it would reduce congestion at, and the corridors linking, Sydney Airport.

It would also add price competition into the Sydney Air Freight market.

This would advantage not only logistics operators but also ultimately the consumer as the cost of air freight reduces through the natural effects of competition.

Given the evidence to proceed is there, and the land is identified and reserved at Badgerys Creek, there really is no reason why the go ahead for the planning of a second Sydney Airport should not be given now.

This is particularly the case now the NSW Government has approved the Tralee residential development near Canberra.

⁹ NSW Government 2012: 82

¹⁰ Infrastructure NSW: *First Things First: The State Infrastructure Strategy 2012-2031* (2012):121

This new housing development close to the airport could significantly impact the capacity of Canberra Airport being used as a secondary airport to Kingsford Smith in the future.

I note Caroline Wilkie's comments in the Financial Review in relation to Tralee, who said the development will effectively shut down the future growth of airline services into Canberra, including its future freight plans.

Minister Albanese correctly points out Canberra Airport's curfew-free status provides opportunities to move into freight, particularly with fresh produce going to the Asian region.

I understand there are now questions surrounding the future of the airport's long term curfew-free status.

ALC firmly believes the decision to build at Tralee is a poor decision from a freight perspective and one which demands further consideration.

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Ladies and gentlemen, let me conclude by reiterating ALC's central policy position that improving productivity and efficiency must be at the heart of all decision making when it comes to freight.

This applies to decisions relating to road, rail and sea *and* air.

Freight must be considered core business for airports.

It needs to be front of mind in when it comes to government policy making.

And it has to be part of the long term planning of our cities, our transport links and our broader logistics infrastructure.

Success on these three fronts is critical to improving supply chain efficiency and meeting our rising freight task.

And it will pave the way for improving our Australia's productivity levels, and integrating Australia more fully in the Asian century.

Thank you and I'm happy to take any questions.