



AUSTRALIAN LOGISTICS COUNCIL

Transport NZ Summit and Expo

'The Road Towards a Seamless Economy'

Wednesday 1 June 2011

Michael Kilgariff
CEO

Slide 2

Good afternoon.

It is a pleasure to be at the Transport NZ Summit and Expo.

Today I will outline some of the significant reforms occurring in Australia's freight transport and logistics sector, and outline the role the Australian Logistics Council is playing to achieve positive outcomes for the industry.

By way of background, 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.

Slide 3

The mission of ALC is to influence Australian policy on transport and infrastructure to ensure Australia has safe, secure, efficient, sustainable and internationally competitive supply chains.

ALC is the only industry funded body focussed specifically on Australia's national freight supply chains.

Slide 4

Our objectives are to:

1. Be the nationally recognised voice of Australia's freight transport and logistics supply chain.
2. Be the leading advocate of appropriate national regulation and infrastructure to ensure Australia enjoys the full benefits of freight transport and logistics policy development and reform.

3. Promote and encourage greater recognition by Government and the community of the importance of the freight transport and logistics industry's contribution to Australia's economy.

Slide 5

Before I talk about the range of transport regulatory reforms underway in Australia, I will spend a moment highlighting some of the linkages between our two countries from an economic and transport perspective.

At the risk of being a bit controversial, I am one of those in Australia who regret that New Zealand did not continue their participation past the first [National Australasian Convention](#) meeting in [Sydney](#) in 1891.

However, there is no denying our close historical, cultural and economic links – suspended by mutual agreement during any Rugby test.

Australia and New Zealand enjoy strong trade relations, reinforced by the Closer Economic Relations agreement signed in 1983. Australia exports goods and services to New Zealand to the value of 11.1 billion dollars annually, while imports from New Zealand to the value of approximately 9.5 billion dollars.

New Zealand is one of the top ten foreign investors in Australia, while ranking third in terms of our Australian investments abroad.

At the last CER Ministerial Forum in June 2010, ministers from both sides of the Tasman expressed a commitment to take the economic relationship between our two countries to the next level, including deeper economic integration.

This includes continuing down the path towards a single economic market which would have significant benefits for both countries.

This goal will only be achieved through ongoing dialogue and a common approach to shared issues. This common approach underpins membership by the New Zealand Minister for Transport, Steven Joyce, of the Australian Transport Council. And Martin Matthews, Chief Executive of the Ministry of Transport, membership of our Standing Committee on Transport which involves all the senior national, state and territory transport bureaucrats.

And it underscores my appearance here today to speak about Australia's transport and logistics industry, and in so doing, continue to strengthen the links between our two countries on issues of shared importance, such as transport regulatory reform.

At the risk of you suspecting I'm about to claim another New Zealand success story as our own, an example of a Kiwi company doing well on Australian shores is the logistics provider Mainfreight which has a significant presence in Australia and Asia.

If I wanted to go down that path, we could discuss many other Australian success stories, all disputed by New Zealand, including Phar Lap, Split Enz, Russell Crowe and the humble Pavlova.

But back to transport - Mainfreight's investment in Australia began in 1989 by a desire, according to Mainfreight, to treat New Zealand and Australia as a single market. It's presence in Australia has grown steadily over the past 20 years, and it has grown to become a significant player in the Australian market, the same way Australian companies Toll and Linfox have done here.

The success of the two companies represents the opportunities that exist for transport and logistics providers to operate and invest on either side of the Tasman.

Slide 6

To set the scene for my remarks today I would like to outline some facts to reinforce the uniqueness of the Australian freight task.

{click to begin fact sequence}

Australia comprises a land area of almost 7.7 million square kilometres, measuring about 3,680 km by 4,000 km.

It is the lowest, flattest and, apart from Antarctica, the driest of the continents. Most of Australia's resource wealth is far from where the majority of Australia's population resides.

The land area of Australia is almost as great as that of the continental United States of America, about twice the size of the European Union, 28 times the size of New Zealand, and 32 times greater than that of the United Kingdom.

Despite the vast land mass, Australia's population is only around 22 million people. Australia's population density is about 2.8 people per square kilometre, and most of the population is concentrated in the south east of the country.

The value of Australian production, or gross domestic product, is a little over US\$1.2 trillion dollars. According to the International Monetary Fund this ranks Australia as the world's 13th largest economy.

From a Governance perspective, we have one national Government, 6 state governments, 2 territory governments, and over 500 local or shire governments.

The Australian, state and territory governments, as well as a delegate of Australian local government, all meet regularly under the banner of the Council of Australian Governments, also known as COAG.

The distances, the low population and governance structure of Australia all pose particular issues for the national productivity reform agenda.

Slide 7

Work undertaken by ALC on the contribution of freight logistics to the Australian economy suggests it generates 14.5% of Australia's GDP and provides more than 1 million jobs across 165,000 companies.

The role for ALC in advocating greater efficiencies in the T&L supply chain is critically imperative given recent estimates that Australia's population could increase to between 35 - 40 million by 2050.

To add to this, Australia's freight task has more than doubled over the last 20 years and is expected to almost double again by 2030 and triple by 2050.

In real terms, the national freight task in 2010 was 500 billion tonne freight kilometres. This is estimated to increase to 1000 billion tonne freight kilometres in 2030 and 1400 billion tonne freight kilometres in 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.)

Slide 8

This slide clearly shows the increase in the freight effort over the past 40 years.

- Road
- Rail
- Coastal shipping

Slide 9

As our Treasury Secretary Martin Parkinson said recently "globalisation is transforming the structure of the Australian economy."

The comments were echoed last week by the New Zealand Finance Minister Bill English who commented that "New Zealand is hooked to the China-Australia chain".

The re-emergence of China and the sustained growth of India have conferred on Australia a large boost to real wealth but also a set of structural adjustments that will challenge decision makers for decades.

For that reason, ALC members have long argued for a **seamless Australian economy** – where one set of laws regulates each mode, carrying the Australian freight effort under a single administrative body.

This should create an environment that will permit the efficient functioning of the Australian transport and logistics sector, which will in turn encourage private sector investment in transport infrastructure.

For this reason ALC has been a big supporter and advocate for what is known as the Council of Australian Government (or COAG) Seamless National Economy agenda, which is essentially a series of comprehensive microeconomic reforms to reduce costs to businesses and consumers and contribute to productivity growth and improved living standards.

One of these important reforms is the national transport regulatory reform agenda to establish a truly national transport system that will reduce transport costs and help lift national productivity without compromising safety.

As part of this, all Governments have agreed to establish national rail and marine safety regulators, as well as a national heavy vehicle regulator.

In addition to these initiatives, COAG is considering alternative modes of road pricing and funding, including specific consideration of mass-distance location pricing.

Another related initiative includes the report into Australia's Future Tax System, known as the Henry Review. Ken Henry, our former Treasury Secretary, recommended a range of measures relating to road pricing and congestion.

It all sounds logical and given the USA and Europe have already achieved significant reforms in this area, it should be simple. However, practice is always more difficult than principle.

But, there is a strong willingness on behalf of both government and industry to take these important national reforms forward, and I'm pleased to say ALC is at the forefront of progressing these important initiatives.

Today, I will deal with three areas that are relevant to the development of a seamless economy – Carbon Pricing, a National Heavy Vehicle Law and a National Land Freight Strategy.

Slide 10

Carbon Pricing

In Australia, the minority Labor Government is meeting its commitment to deal with the challenge of increased carbon emissions by developing a carbon price mechanism.

The Government is expected to announce details on the carbon price, including its starting price, in the near future.

Slide 11

Clearly, the imposition of a carbon price will have add-on costs all the way through Australia's supply chain – from consignor to the end Australian destination of the cargo.

ALC therefore believes if a carbon price mechanism is introduced in Australia, such pricing should be competitively neutral, ensuring all modes of transport are treated equally.

It is also important to create incentives to ensure the Government's emission targets are met. If there is a carbon pricing mechanism, a significant proportion of carbon pricing revenues must be invested in sustainable transport infrastructure and technologies so as to create industry incentive to reduce emissions.

Finally, as I touched on earlier, there are two other government reviews running parallel with the development of the carbon pricing mechanism that could influence the design of the taxation laws imposed on the Australian T&L sector.

The worst case scenario is that the cost of the same externality (in this case, carbon) could be priced into a number of different taxation mechanisms, giving rise to double taxation.

ALC firmly believes externalities flowing from the movement of freight should only be priced once. Otherwise all the efficiencies earned as a result of modernising the Australian T&L regulatory structure to meet the trading realities of the 21st century will be lost.

I'm looking forward to speaking to delegates this week to learn more about its implementation, and how it has been received by the community and by industry.

Slide 12

National Heavy Vehicle Law

The second development relates to a National Heavy Vehicle Law.

Draft legislation for a single National Heavy Vehicle Law to be administered by the National Heavy Vehicle Regulator has been circulated for comment so a national scheme regulating heavy vehicle standards and movements can commence on 1 January 2013.

Slide 13

ALC has a policy for a single set of laws to regulate heavy vehicles, rail safety and maritime transport throughout Australia and is generally satisfied with the contents of the National Heavy Vehicle Law.

ALC is particularly pleased the Law endorses the Chain of Responsibility concept, which is designed to drive greater accountability along the freight T&L supply chain by imposing duties on all elements of the T&L chain.

Further to my comments earlier, this is an area where greater consistency across the Tasman would benefit industry.

In effect, Chain of Responsibility means all parties in the supply chain – including consignors, packers, loaders, receivers, managers, and drivers and operators – are required to take positive steps to prevent breaches of such things as road transport mass, dimension and loading and driving hours laws.

Achieving a greater level of consistency between both jurisdictions would potentially improve safety, increase efficiency, and encourage greater investment.

Whether you are a consignor in Sydney or Wellington, or a packer in Melbourne or Auckland, a more consistent approach to the chain of responsibility would make it easier for companies to do business, no matter which side of the Tasman from which you are operating.

ALC also notes the National Law endorses the concept of the registration of industry safety codes of practice, which will allow T&L participants to use code adherence as evidence that the person took all reasonable steps to prevent any contravention.

Both these measures will ensure that supply chain participants develop a commitment towards safety up and down the supply chain.

ALC has the expectation the National Heavy Vehicle Regulator will be the regulator with the 'teeth' to ensure that the national law will operate in a uniform fashion.

However, the regulatory model agreed to by COAG back in 2009 made clear that while the National Heavy Vehicle Regulator will 'administer' the overall scheme, state based regulators would still have a role in delivering services through agreements in areas such as compliance and enforcement, pursuant to 'guidelines' published by the National Heavy Vehicle Regulator.

Guidelines will also be heavily used in deciding whether particular vehicles will be able to access some infrastructure.

Slide 14

ALC is concerned that notwithstanding the clearest of guidelines, individual government entities will:

- develop their own cultures;
- interpret the provisions of the national law in perhaps novel ways (and may perhaps develop internal guidelines that will effectively become the law as those guidelines are utilised in practice by junior officers) particularly as it relates to the interpretation of chain of responsibility issues; and
- develop their own enforcement priorities

The net effect would be that that the national law will not be enforced uniformly – the efficiency benefits of a single national law could be lost.

Slide 15

ALC hopes that a regulatory scheme that is national in effect as well as on paper will be in operation – and if it works, some of the aspects of the scheme including in particular chain of responsibility obligations as well as registered code of practice requirements could be adopted in New Zealand.

In effect, this would mean T&L participants operating in both countries would have the advantage of a seamless Trans – Tasman economy through being able to spread the cost of developing safety procedures across business units operating in both countries.

ALC is in the process of reviewing its current codes of practice so they can be registered when the national law commences.

Slide 16

National Land Freight Strategy

The final development of note is the development of a discussion paper for a National Land Freight Strategy by the Government.

The intention is to develop one national, integrated freight system for Australia.

Slide 17

Issues raised include the need for effective local planning and infrastructure funding and regulation.

It is important that planning issues are appropriately dealt with.

Land space must be preserved so as to allow suitable infrastructure to be identified and funded.

Governments have increasingly noted that the efficiency of Australian cities as economic systems is diminished by poor planning, coordination and/or implementation.

Slide 18

To illustrate, let me briefly share with you some of the challenges currently being faced by the Port of Fremantle in Western Australia.

Fremantle Port is Western Australia's only dedicated container port. Each year, it handles more than 25 million tonnes in trade worth approximately 25 billion dollars.

Despite its economic importance to the state, many of the strategic freight routes that service the port are under threat from urban encroachment.

With growing land development pressures, sensitive land users, mainly residential, are constantly seeking to locate closer and closer to strategic freight routes.

And once these developments are built, new residents lobby their local member to have heavy freight traffic restricted or prohibited.

In Australia we have a saying that 'freight doesn't vote'.

These following two slides illustrate some of the problems being experienced around Fremantle Port.

Slide 19

Picture 1 shows new residential apartment buildings located between 20 and 30 meters from the rail freight line to the Inner Harbour.

Slide 20

Picture 2 shows residential development only meters from a key freight route.

ALC is pleased that COAG now requires planning documents to provide for nationally significant economic infrastructure including transport corridors, international gateways, intermodal connections, major communications and utilities infrastructure and reservation of appropriate land to support future expansion.

Slide 21

However, dwelling investment in Australia was forecast to grow by 7.5% in 2010 – 11, with a significant pipeline of construction work to be completed. Strong population growth and low vacancy rates will support activity in the sector.

This will mean greater pressure on:

- transport infrastructure;
- greenfield sites that would permit the development of intermodal facilities located away from port facilities (a concept supported by ALC and by the National Ports Strategy) and
- increased risk of residential intrusion near, or too much congestion around, logistics infrastructure.

ALC has always been concerned there has been an emphasis on planning bodies to 'identify infill and redevelopment opportunities' and to ensure that 'outcomes for cities must improve sustainability and liveability', but not provide the same level of priority for transport infrastructure.

This led the Draft National Land Freight Strategy to describe freight as 'a 'poor cousin' in terms of planning which can lead to freight being locked-out in some locations.'

Slide 22

When dealing with the real issues relating to encroachment and the preservation of infrastructure corridors, the real 'last mile issues' and land-use mix choices faced by governments and communities need consideration **now**.

The Australian Government's recently published National Urban Strategy proposes to tie Commonwealth payments to the States in a manner that will encourage compliance with COAG planning requirements, including the identification of space for infrastructure corridors and for space to develop intermodal facilities.

ALC would nevertheless prefer a more formalised structure be put in place to:

- Firstly, ensure the position of freight is protected in the planning process; and
- Secondly, recognise the need that in some cases, funding is available to ensure community amenity is protected when a land use decision is made to ensure the Australian freight effort is advanced.

This is needed because most Australian ports are in or near the centre of Australian cities, and as we have seen on numerous occasions, the interests of ensuring the

efficient operation of Australian ports and the interests of residents do not always coincide.

It is possible that a similar approach could be adopted in New Zealand between its national government and relevant regional authorities.

Slide 23

Infrastructure funding

Another issue raised in the national land freight strategy discussion paper was infrastructure funding.

ALC believes all infrastructure projects must be assessed against a long term plan driven by volumes, to ensure an effective framework for decision making by financiers and private/public sector players.

In particular, ALC is of the view infrastructure decisions should be made in a way:

- that does not distort the mode by which consumers dispatch freight - that is, there is competitive neutrality between road and rail transport; and
- made only after the most rigorous cost benefit analysis.

This will necessarily mean that the full costs of externalities are factored into government road and rail investment decisions.

ALC believes that the role of Infrastructure Australia in assessing the viability of national infrastructure should continue in the short term.

As ALC has recently said - Infrastructure Australia must continue to be given appropriate resources to discharge any enhanced role in infrastructure assessment.

Properly funded, Infrastructure Australia could play the same role in infrastructure development as the Australian Productivity Commission in relation to advice on economic policy.

Poorly funded, it will only act as a roadblock to efficient decision making and States will put off their own expenditure in the hope of getting federal funds.

Demand driven investment mechanisms must be formulated to guide infrastructure development in any modern economy, rather than over-reliance on budget funding of infrastructure, with its tendency to be over-influenced by the contemporary political cycle rather than the objective needs of industry.

One final improvement would be for one regulator to administer all elements of the land freight strategy.

Slide 24

The development of Freight Australia

To that end, ALC has called for the establishment of a body called Freight Australia.

With the move towards a national rail safety regulator and a national heavy vehicle regulator gaining pace, as well as a recommendation from Ken Henry that a single agency be developed to be responsible for transport reforms, the establishment of a single agency to oversee the national land freight strategy and having responsibility for administering a coherent set of regulations would have clear and obvious benefits.

It would ensure there is rigorous analysis proposed for infrastructure investments – broadly, the current role played by Infrastructure Australia.

Freight Australia, which could be located within the National Transport Commission or Infrastructure Australia, would also be responsible for:

- commissioning and analysing data;
- identifying infrastructure of national significance;
- developing intermodal facilities;
- identifying blockages affecting the transport and logistics chain;
- encouraging the transfer of information across the T&L chain;
- acting as a ‘champion’ for the logistics industry within Government; and
- regulating the modes of land transport carrying freight to port.

This should provide the focus within government that the Australian freight effort deserves and is a model of public administration capable of adoption on both sides of the Tasman.

Conclusion

Slide 25

To conclude, I reiterate my key point that Australia is on its way to achieving a seamless national economy through:

- A trend toward national regulation.
- A recognition that the freight task does require a national approach to planning.

There’s still a way to go down the road ahead, and like all journeys there have been some unexpected road bumps and detours.

Despite this however, we have made good progress, and are starting to see on the horizon some real regulatory improvements emerge.

Once realised, these measures will encourage greater investment in Australian transport infrastructure, and enable Australia’s growing freight needs to be served.

From a New Zealand perspective, there are, and will continue to be opportunities for you to see how the Australian model evolves over time, thereby enabling you to potentially adopt the more successful elements for your economy.

I will watch with interest from across the ditch how this plays out over the years ahead.

Thank you.