



AUSTRALIAN LOGISTICS COUNCIL

Speech for Michael Kilgariff, ALC Managing Director

SA Major Projects Conference

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Check Against Delivery

I'll begin today by sharing with you a quote from one of America's foremost economic thinkers, Paul Krugman.

He said, "Productivity isn't everything, but in the long run, it's nearly everything".

Other than human capital, there is perhaps no greater enabler of productivity than infrastructure in a modern economy.

Infrastructure increases the overall productivity of an economy when it enables individuals, firms and industries to operate more efficiently.

According to Infrastructure Australia, infrastructure such as our roads, railways and ports will contribute \$377 billion to the economy by 2031, doubling the \$187 billion contribution in 2011.

And if our infrastructure is our nation's arteries linking us with one another and the rest of the world, then the logistics industry is surely our nation's lifeblood.

We keep things moving 24 hours a day 7 days a week, from places of production, along the supply chain and finally to consumption.

ALC is the peak industry body that represents those major and national companies who operate in the logistics supply chain.

ALC works to promote and encourage greater recognition by Government and the community of the importance of the freight logistics industry's contribution to Australia's economy.

We also advocate for infrastructure decisions that support improved supply chain efficiency.

Nowhere is this more important than in our major cities, which are home to three out of every four Australians.

In South Australia the figure is higher, where approximately 80% of the state's residents live in Greater Adelaide.¹

ALC estimates our industry represents 8.6% of GDP, adds more than \$130 billion to the Australian economy and employs 1.2 million Australians.

ALC also predicts that for every 1% increase in efficiency in the sector, GDP will be boosted by \$2 billion.

Today I will share with you my thoughts on some of the steps to achieve this 1% increase in efficiency in the sector.

Specifically, I will discuss:

- Providing appropriate national infrastructure to enhance economic growth.
- Recycling assets to unlock new funds for logistics infrastructure; and
- Reforming current road funding arrangements to support a more efficient and productive freight network.

I mentioned earlier the productivity imperative, and it is something that focuses the mind of many in the logistics industry.

Australia's Multi-Factor Productivity growth has slowed, and may now be in reverse.

According to the Productivity Commission, multifactor productivity for the transport, postal and warehousing sector declined 3.1% in 2013/2014.

Pursuing productivity growth is essential to maintaining growth in the Australian economy and average per capita incomes over coming decades.

The provision of appropriate national infrastructure is critical to reversing this trend.

As most of us are aware, South Australia's economic and population growth is forecast to be slower than for Australia as a whole.

The need for productivity-enhancing infrastructure investments is critical for the state.

IA's recent national audit confirms our performance on infrastructure needs greater attention by all levels of government, not just South Australia.

As you can see on this slide, Australia's international performance needs improvement.

According to the World Economic Forum, our overall ranking for transport infrastructure is 35 out of 144 countries.

On the quality of our roads we are ranked 43rd, 32nd for the quality of our rail road infrastructure and 38th for our port infrastructure.

¹ The SA Government's draft *Integrated Transport and Land Use Plan*

While we need to take into account factors such as our geographic size relative to our population, the figures confirm we are not world leading.

There is room for improvement.

These figures underscore the importance of ensuring scarce public funds are directed to the most worthy projects.

This reality highlights the importance of robust cost benefit analyses.

ALC believes all projects should undergo rigorous cost benefit analysis.

These details should be made publicly available when there are no market sensitivity issues that could restrict the disclosure.

Why are CBAs important?

The public release of CBAs gives industry and the community confidence that public funds are being spent wisely, are being spent on the right projects, and are targeted at developments that will maximise economic return.

The [Productivity Commission](#) takes this one step further.

It argues that rigorous analysis is particularly important for large infrastructure projects.

This is because the benefit-cost ratio is generally lower for large projects due to their large construction costs and rising utilisation rates over time.

Rigorous analysis of large projects is also important as there is likely to be a large number of small unfunded projects with high benefit to cost ratios that could be completed instead.

It's an important point worth emphasising.

While major projects are obviously critical to improving freight efficiency, the economic benefits of smaller projects enhancing the efficiency of our supply chains must also be recognised.

To illustrate, you will often hear our industry talking about the challenges associated with the first and last mile.

This last leg of the supply chain is often less efficient, particularly in congested urban areas.

First and last mile issues add to costs, add to congestion and undermine efforts to enhance productivity.

These are often smaller projects, but equally important to the industry as major roads and railways.

They enable high productivity vehicles to make it right to the farm gate or intermodal facility.

They reduce urban congestion as freight movements are often more direct.

And these projects have trickle down effects across the economy as other industries benefit from more efficient freight movements.

This is an area ALC hopes will get attention in IA's infrastructure plan.

Published cost benefit analyses also need to underpin any government proposal to buy or lease public assets, such as ports.

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

On this point, many of you would have seen a debate play out in the media in recent weeks regarding the proposed lease of the port of Melbourne.

Central to the debate has been the rents being asked of the tenant stevedores, as well as the length of the lease.

ALC supports the long term lease of mature infrastructure assets.

Selling or leasing public assets is an effective way to unlock funds in publicly held assets to invest in new logistics infrastructure.

As to the debate surrounding the Port of Melbourne, we support its lease.

ALC has also been calling for a committee inquiry to consider the economic regulation of the port, including whether the proposed legislation adequately protects port users against a private entity extracting monopoly rents from port users.

I am pleased to say that the Victorian Opposition has been successful in establishing a committee inquiry which will inquire into and report on the proposed lease of the Port of Melbourne.

ALC looks forward to providing the committee with our views on how we think the port's lease can support improved freight efficiency.

The issue of when and where a second container terminal may be built in Melbourne will fall to the newly established body Infrastructure Victoria.

This is appropriate, and will allow a considered analysis of all of the factors that contribute to an effective port.

These include channel depth, residential developments and perhaps most importantly, landside logistics links.

In the meantime, priority should be given to maximising the Port's efficient use, including the provision of appropriate road and rail infrastructure linking the port with key freight generating areas

Improved decision making is one way to achieve efficiency gains.

Another is by getting more freight on to rail.

With Australia's freight task growing considerably faster than population growth, there is a clear impetus for more freight to be moved on rail.

Rail is a mode of transport that can move large volumes of freight efficiently and is at its most competitive over distances in excess of 1,000 kilometres, using long trains, double stacked if possible.

According to the SA Government, interstate rail freight between SA and WA is forecast to double between 2013 and 2030.

The key driver of demand in this rail corridor is the rail market share for freight between Melbourne, Sydney, Adelaide and Perth, with Melbourne and Sydney volumes dominating.

The Tarcoola to Darwin rail line has strong market share for freight on the Adelaide to Darwin corridor, and supports the development of mines and other resource developments along the corridor².

ALC also strongly supports the development of the inland rail project to facilitate more rail going on the north south corridor between Melbourne and Brisbane.

I'd like to show a quick video that explains a bit more about this exciting nation building project.

Play video.

Infrastructure Australia has also called for greater utilisation of freight rail to move containerised and general freight over longer distances.

IA recently released its Infrastructure Audit which assesses the adequacy, capacity and future requirements of Australian infrastructure across four key markets: transport, energy, telecommunications and water.

The audit will inform the development of the 15 year Australian Infrastructure Plan.

The fundamental finding of the Audit was that major reforms are needed to improve the way we plan, finance, construct, maintain and operate infrastructure.

One of these is road reform.

^{2 2} The SA Government's draft *Integrated Transport and Land Use Plan*

IA found the current arrangements for the funding of land transport represent the most significant opportunity for public policy reform in Australia's infrastructure sectors.

It argues that Australian governments need to consider a broader system of transport pricing, particularly in the face of increasing budget pressures to fund welfare and health services.

You will be interested to learn that South Australia is set to be a central player in this reform.

The South Australian Government wants to work with the Commonwealth and industry to trial a new system that would more closely link road use and investment.

The South Australian Premier has offered to host trials on the South Australian road network to test how road reforms would possibly work.

Under a plan unveiled a few weeks ago by Premier Jay Weatherill, state-based registration and federal-based fuel-excise charges would be replaced by a more transparent pricing mechanism.

I believe his plan requires serious consideration by all levels of government.

Premier Weatherill's blueprint echoes similar calls for reform made in recent times by the Productivity Commission, the Harper Review and the National Commission of Audit.

These and other reports also flagged the concept of extending the heavy vehicle road reform, over time, to all vehicles, to send a more direct price signal and to help address congestion in our cities.

There is a growing consensus that the infrastructure funding system in Australia requires a major overhaul.

The key will be delivering reform that improves long term funding sustainability of key freight routes in a transparent and equitable manner.

Currently, funds raised through registration and fuel excise are smeared across the network, and not returned to the key freight routes carrying high levels of traffic.

A system where funds are arbitrarily applied across the system, with no real linkage to where the freight has come from, or is going to, is one requiring reform.

Nor is it a system that supports improved productivity levels in the industry.

Industry's support for this reform will hinge on the extent to which it supports supply chain efficiency and reliability.

It is critical, however, that funds collected are invested in the infrastructure used by the vehicle.

In other words, the revenue follows the freight, and not lost to consolidated revenue.

ALC has long argued that funds from heavy vehicles should be hypothecated for investment in productivity enhancing infrastructure.

For this initiative to succeed, Treasuries need to drive the process forward. Not only will it be quicker, it will be more effective if part of a broader set of reforms to change the infrastructure revenue stream.

And importantly, having Treasuries take carriage of this initiative will help to ensure a greater level of national coordination.

This is important, because in the long run, road reform needs to be national, it needs to be consistent and it needs to be coherent.

There is a perception that industry is opposed to road reform.

This is not the case – we recognise the need for a proper and open discussion about how we meet Australia's future infrastructure needs.

A similar debate is playing out here in Adelaide in regards to the Northern Connector project.

The Northern Connector is a proposed new freight rail line and multi-laned motorway, is a critical component of Adelaide's north–south corridor.

The project, which the Government [estimates](#) has a benefit cost ratio of 5.2, would reduce transport costs and link the port to employment hubs

This national freight rail line will link with the existing freight network and make a more efficient north–south link for Perth to Melbourne journeys.

Importantly, the Northern Connector would also remove freight trains from suburban lines and level crossings.

And with three lanes in each direction, the motorway will serve as a new national road link better connecting Adelaide with and the resource production regions of South Australia and the rest of Australia.

ALC would support tolling to support the development of major infrastructure projects, such as the Northern Connector, but only if it delivers an increase in efficiency and reliability of the delivery of freight.

I look forward to the state and commonwealth coming to an agreement that enables this important project to move forward.

Ladies and gentlemen, I began with a quote from Paul Krugman, and I'd like to finish with one.

To paraphrase him, he said that for most people, economic growth is a spectator sport.

Some might argue that the same principle applies to how Australians view the movement of freight.

And while we've got a saying in our industry that freight doesn't vote, in reality, it is critical to 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.

From a national perspective, an efficient and functioning logistics sector is fundamental to a strong and prosperous economy.

And the three issues that I've discussed today...

- Providing appropriate national infrastructure.
- Recycling assets to unlock new funds for logistics infrastructure; and
- Reforming road funding

...will support a more efficient freight future, for all Australians.

Thank you.