



AUSTRALIAN LOGISTICS COUNCIL

Speech for Michael Kilgariff

Industrial Estates and Business Parks

25 February 2016

Thank you for your invitation to speak at this year's Industrial Estates and Business Parks Conference.

Today I will focus on three areas.

- An overview of Melbourne's industrial estate market as it relates to the logistics industry.
- A discussion on some critical logistics issues currently at play in Melbourne.
- And finally, a summary of the Infrastructure Australia 15-year Plan released last week.

But first, a quick overview of ALC...

As the video said, ALC is the peak industry body for the Australian logistics industry.

This includes major Australian logistics customers, providers, infrastructure owners and suppliers.

We are the leader in the national debate on the steps needed to boost supply chain efficiency.

We are committed to improving the efficiency of our national supply chains.

With a freight task predicted to double by 2030 and almost triple by 2050, it is critical that our road, rail, port and intermodal facilities keep up with freight demand.

ALC has undertaken research into the economic benefits of improving the efficiency of our supply chains.

A report we produced with ACIL Allen found if we can squeeze just a 1% percent improvement in our supply chains, we could boost national GDP by \$2 billion.

Integral to efficient supply chains are the warehouses, distribution centres and logistics facilities which hold, sort or generate freight.

Many of these are being constructed by ALC members to meet Australia's growing freight task.

It goes without saying that this freight needs to be stored in modern, efficient and well located locations in and around our major cities.

These dedicated logistics facilities are one of the key drivers of extraordinary growth of the industry property market.

A recent report by Colliers¹ found the industrial market in Melbourne over the latter half of 2014 and early months of 2015 has been characterised by strong sales of retail industrial lots.

Demand by institutions for industrial investment opportunities remains very strong.

In 2014, a total of \$1.26 billion worth of industrial property in Victoria changed hands. This is above the previous annual record of \$1.1 billion recorded in 2007.

The largest sale was the k-Mart distribution centre in Truganina in December 2014.

Colliers also confirmed transport and logistics users continue to dominate demand in the Melbourne north market.

The proximity to Melbourne airport, as well as the Hume highway Melbourne-Sydney freight corridors and good transport links to the port of Melbourne makes the area particularly attractive.

This high level of demand underscores the need for proper long term planning to boost business confidence to grow, and invest in new facilities.

It must always be remembered that the transport and logistics industry is one of the most important drivers of the Victorian economy.

Victoria's manufacturing base needs an efficient logistics sector to receive materials and to send out finished product.

The Victorian Freight Strategy estimates the freight and logistics sector contributed between \$19 and \$23 billion, or about 8% of total economic activity to Victoria's economy in 2011.

With these figures in mind, ALC is focussed on working with the Victorian Government to ensure it has the appropriate planning mechanisms in place to enable our sector to expand into new growth areas.

This philosophy underpins our recent comments on the Government's review of Plan Melbourne.

The Victorian Government announced an update to Plan Melbourne in March 2015, known as the Plan Melbourne refresh.

On the one hand, it is disappointing we are seeing major planning documents such as this undergoing major transformation every few years.

For example, the former Liberal Government's freight strategy was very similar to the previous Labor Government's strategy, and yet it is being reviewed, by this Labor Government!

It undermines business confidence which in turn stymies investment.

That being said, ALC provided a number of recommendations to government for its consideration.

¹ [Building Scale – Investors expand collections](#), Colliers International, Research and Forecast Report, First Half 2015.

The Plan, which I regret to say fails to adequately acknowledge the role of freight, needs to emphasise the importance of preserving specific industrial lands and logistics precincts and corridors.

It needs to recognise that they are important elements in the continuing evolution of Melbourne.

And in the context of preserving these corridors and land, the Plan also needs to ensure there are measures in place to appropriately protect buffer zones.

This is critical, so any new development is not threatened by urban encroachment.

Nowhere is this more important than around the Port of Melbourne and any future port Melbourne will inevitably have.

As you are no doubt aware, the Labor Government has put on hold the previous Government's decision to locate a port at Hastings.

That being said, it is important to remember that the Port of Melbourne will be Victoria's premier port for years into the future.

The asset will need to be worked near to capacity so it may handle the projected freight traffic.

The Port of Melbourne predicts that by 2025, Victorian port international and mainland container volumes are projected to increase to 4.7 million TEU.

A TEU is a twenty foot equivalent container.

This is a 214% increase on the 2.2 million TEU of international and mainland containers which were handled by the Port of Melbourne in 2013-14².

Plan Melbourne must clearly and unambiguously set out the planning principles that will ensure the continued viability of the Port of Melbourne over its projected lifespan.

Infrastructure Victoria has also highlighted this point in its recently released report that sets objectives and identifies needs for Victoria's 30-year infrastructure strategy.

The report – *Laying the Foundations* – identifies the need to improve the efficiency of freight supply chains through infrastructure, particularly to the Port of Melbourne.

The report says, and I quote, *Opportunities to expand existing or establish new facilities are limited, so careful planning is needed with long lead times.*

*Constraining capacity at key gateways would have significant adverse impacts with both direct and indirect effects on the economy.*³

This observation must lead to concrete actions to enable the port to reach its full potential.

² http://www.parliament.vic.gov.au/file_uploads/Port_of_Melbourne_CorporationAnnual_Report_2013-2014_h66GswKm.pdf

http://www.infrastructurevictoria.com.au/sites/default/files/files/9600%20IV%20Laying%20the%20Foundations%20Discussion%20Paper_web_MEDIUM_ALT.pdf

³ <http://www.infrastructurevictoria.com.au/30-year-strategy>

This leads me to the issue of the Port of Melbourne's lease.

ALC supports the long term lease of the Port of Melbourne, with the proceeds going to productive logistics infrastructure projects.

When we appeared before the committee inquiry last year which was established to look into this issue, we supported the passage of the Bill but said we would like to see amendments made to the legislation in order to strengthen three key areas.

In particular, ALC sought amendments to the economic regulation proposed in the Bill, the operation of the Victorian Transport Fund, and comprehensive reviews to analyse Australia's future port needs.

The Victoria government has announced additional safeguards in the Port of Melbourne lease transaction documents.

This includes a periodical review by the Essential Services Commission on whether there has been misuse of any market power by the Port Leaseholder in the setting of rents at the Port.

It has also committed to the release of capacity levels and trigger points in relation to the Port Growth Regime after the lease transaction is completed.

It will also require the Port Leaseholder to offer a market standard rent review mechanism.

Dispute resolution would be undertaken by an independent property market expert to any new tenants or renewing tenants that wish to apply this mechanism.

While both sides have moved closer together on a number of key aspects, the issue of compensation remains the major sticking point.

ALC would like to see the Port of Melbourne long term lease resolved as a matter of urgency between the major political parties.

Currently, the Bill would see the Port of Melbourne leased for 50 years.

The current clauses in the bill means compensation for a future port lease holder would need to be paid should another container port be established.

This could potentially occur at either Hastings or what is commonly known as Bay West.

The Government is of the view that the clauses in the bill with regards to compensation are appropriate, whereas the Opposition argues they are an impediment to competition.

Treasurer Tim Pallas is firmly of the view that it cannot lease an asset without warranting its value, and failure to have compensation of some form would substantively devalue the asset for the state of Victoria

Opposition spokesman Michael O'Brien says he does not want the Government's decisions today to stop future governments in the next 50 years making decisions about a second port for Melbourne.

ALC is relatively agnostic on the issue of compensation.

What I would say is this.

Priority needs to be given to maximising the efficiency of the Port as it currently stands.

For example, we are keen to ensure that the Government clearly sets out what forms of planning mechanisms are in place to prevent residential encroachment around the port, which of course inhibits efficiency.

The Government also needs to put in place measures to enhance connectivity between the port and the rail heads and industrial lands near the city.

ALC does not want to see a second port built until it is needed.

But nor do we want it delayed when it is actually needed.

And, the compensation level can't be so high as to dissuade other state investments particularly given the planning failures that have been identified.

More broadly, on the point of a second port in Victoria, ALC would like to see this issue analysed by an expert body such as Infrastructure Australia or Infrastructure Victoria.

The matter is too important to be turned into a political football kicked across Port Phillip Bay between proponents for either Bay West or Hastings.

Such an analysis needs to be focussed on a range of matters, including its most appropriate location in terms of access to industry property which is an important consideration for people here today.

It also includes the port's connections to major transport linkages, not just road, but also long and short haul rail.

Broadening this issue of expert analysis a little further, I would like to say a few words about cost benefit analyses.

ALC strongly supports all projects undergoing rigorous cost benefit analyses to test whether they are in the public interest.

As we have seen here in Victoria with the East West Link project, unless there is strong public support for a major public project based on publicly available facts and figures, it runs the risk of being derailed by an angry electorate.

I note the Victorian Auditor General found the East West Link business case did not provide a sound basis for the government's decision to commit to the investment.

It underscores the need to ensure project proposals are rigorously thought through first and subjected to proper scrutiny through the Infrastructure Australia process, particularly when they are seeking federal funding.

Infrastructure Australia highlights this area of concern in its 15-year infrastructure plan, released just last week.

The Plan stresses the need for a rigorous evidence base to inform better infrastructure decision making.

It said, and I quote, *there have been several recent instances of governments announcing a project before detailed planning or economic analysis has been done.*⁴

It recommended that Governments should increase funding for the delivery of early project development work for infrastructure proposals or policy reforms to ensure that decisions are guided by a detailed and robust evidence base.

ALC agrees.

It also said the Australian Government should provide leadership by increasing the level of funding available to other jurisdictions for this type of work and that state and territory governments should also increase their spending on rigorous planning and project development.

Again, ALC would agree with this assessment.

Don't get me wrong.

ALC supports the need for a project like East West Link to improve the efficient movement of freight in Melbourne.

But we also acknowledge the need for a proper and robust evidence base to underpin the project's economic viability and support within the community.

I'd now like to spend a few minutes talking about the Infrastructure Plan and in particular, what it means for the logistics industry.

Infrastructure Australia's 15-year Infrastructure Plan sets out 78 recommendations for reform.

It also released a revised Infrastructure Priority List which identifies 93 projects and initiatives.

The Plan was developed following consultation on the Australian Infrastructure Audit report to which ALC provided a submission.

I'm pleased to say the Plan picked up on a number of recommendations ALC made in response to the Infrastructure Audit.

The most important recommendation is for Australia to have a National Freight and Supply Chain Strategy.

It is recommended that IA, in partnership with governments and the private sector should lead the development of the Strategy, which should:

⁴ <http://infrastructureaustralia.gov.au/>

- map nationally significant supply chains and their access to supporting infrastructure and gateways;
- evaluate the adequacy of the institutional framework supporting freight networks and;
- recommend reforms and investments that will move the efficient movement of freight.

In particular, the strategy should:

- facilitate the mapping of nationally significant supply chains and their connections across ports, airports, roads, rail and coastal shipping;
- identify the key bodies overseeing their efficient operation and;
- recommend a series of reforms and investments to enable the more efficient movement of freight.

This strategy is to build on work underway at state and federal levels as well as the previously released National Land Freight Strategy and National Ports Strategy.

ALC supports this recommendation.

It is sensible long-term thinking and we encourage both major parties to embrace it.

As part of this work, we would like to see Infrastructure Australia audit the existing National Freight and Port strategies to identify priority areas for action, such as the establishment of a national body to progress freight reforms.

The report also picks up on other ALC priorities, such as the protection of key freight corridors and road reform to drive better supply chain efficiency.

All too often, freight has been the ‘poor cousin’ when it comes to land development, and as such, key freight routes have been encroached upon or effectively built out.

IA’s recommendation that all levels of government establish effective corridor protection mechanisms to ensure the timely preservation of freight corridors and strategic sites for future infrastructure is fundamental to the efficient movement of freight.

We therefore encourage jurisdictions to consider ALC’s proposal for an intergovernmental agreement between all levels of government for the payment of incentives to fund corridors to progress this reform so as to set an agreed investment framework.

Aside from these two main recommendations, there were a further ten issues canvassed in the Plan that have long term implications for the logistics sector.

They were:

1. Linking infrastructure funding to States against delivery of reform outcomes;

2. Consolidating all Federal Funding pools into an integrated and transparent Infrastructure Fund;
3. Ensuring that state and territory governments ensure statutory planning instruments deliver high quality design, including in particular ensuring that metropolitan land use and transport planning processes are integrated;
4. Continuing the process to consolidate local governments so as to increase efficiency and service quality;
5. Continue to provide incentives for state and territory governments to recycle mature infrastructure assets;
6. State and territory governments should deliver and consistently update land use plans for all Australian cities;
7. All state and territory governments should deliver long term infrastructure plans;
8. Infrastructure service standards (both minimum and desired standards) should be used to guide future and project development;
9. The development of national governance principles in partnership with governments and the private sector to support better project decision making across the public infrastructure sector; and
10. Implementing a heavy vehicle road charging structure in the next five years, and extended to light vehicles within ten years.

This last issue has the most far reaching ramifications for the logistics industry.

ALC supports the need for heavy vehicle road reform to improve supply chain efficiency and welcome a wide ranging public debate on the issue.

As part of this commitment to reform, ALC has proposed an industry roundtable involving industry and government, including treasury officials, to progress the issue of heavy vehicle road reform.

It is becoming increasingly clear that our current system for funding roads is under growing pressure and that a new approach is required.

It is not just ALC and Infrastructure Australia saying this.

The need for road reform has been highlighted in recent times by:

- The Productivity Commission report on public infrastructure
- the Harper Review

- the National Commission of Audit.

We look forward to a proper debate with government to ensure road funding reform proposals improve supply chain efficiency against the backdrop of an increasing freight task.

Ladies and gentlemen, it has been a pleasure to share with you my thoughts on these issues which affect both the logistics and property sectors.

And if you wish to continue the conversation, I invite you to attend our annual forum which takes place next week in Sydney.

ALC Forum is the largest and most influential gathering of leaders and key policy makers in the Australian logistics industry.

It is renowned as being Australia's premier freight logistics event, with a reputation for high level industry driven discussions, combined with excellent networking opportunities.

At the 2016, Phil Davies, Infrastructure Australia's Chief Executive Officer, will set the scene and identify how the Infrastructure Plan will impact the logistics industry in the coming 15 years, and beyond.

It promises to be a fascinating discussion, and I hope to see some of you there.

Thank you.