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Inquiry Into National Freight and Supply Chain Priorities
Department of Infrastructure and Regional Development
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Supplementary Submission – Freight Priorities in Northern Australia

The Australian Logistics Council (**ALC**) is providing this supplementary submission to the *Inquiry Into National Freight and Supply Chain Priorities (the Inquiry)* to underscore particular issues germane to achieving greater supply chain efficiency and enhancing economic activity in Northern Australia.

This material should be considered as an addendum to ALC's two previous submissions to this process, *Charting the Course for a National Freight and Supply Chain Strategy*¹ and *Freight Doesn't Vote*.²

In particular, this submission considers the development of northern freight and supply chain frameworks, which align with recommendations made in 2015's *Our North, Our Future: White Paper on Developing Northern Australia*.³

It also considers the contribution that northern Australia as a whole can make to the nation's long term prosperity and growth. For example, greater freight connectivity between north and south helps reduce freight congestion costs and provides producers with new export routes.

Such projects – often cross-jurisdictional in nature – significantly enhance the national benefit. The most efficient freight outcomes demand that Australia operate as a single national economy – not a collection of individual jurisdictions.

Ensuring optimal supply chain connectivity in Northern Australia is not merely an economic question, but also a vital one of national security, given the presence of key defence facilities in the north.

The Government has already highlighted northern Australia as a region worthy of special consideration in both the 2015 White Paper and the earlier *Pivot North: Inquiry Into the Development of Northern Australia* by the Joint Select Committee on Northern Australia (2014).⁴

¹ <https://infrastructure.gov.au/transport/freight/frieght-supply-chain-submissions/02-Charting-the-Course-wp2.pdf>

² https://infrastructure.gov.au/transport/freight/frieght-supply-chain-submissions/Australian_Logistics_Council.pdf

³ <http://northernaustralia.gov.au/files/files/NAWP-FullReport.pdf>

⁴ <http://www.aph.gov.au/~media/02%20Parliamentary%20Business/24%20Committees/244%20Joint%20Committees/JSCNA/Final%20Report/Final.pdf?la=en>

These reports examine key aspects including infrastructure, trade and investment, water resources, land arrangements, tourism and labour force. Improved freight and supply chain efficiency in the north can help improve outcomes in each of these areas.

Assessing Northern Project Proposals

Northern Australia reflects a different economic paradigm from that in the south east. Generally, new northern infrastructure is “lumpy” and expensive.

Yet, it consistently delivers direct economies of scale, eg. higher utilisation and reduced unit costs for freight – in contrast to the constrained and encroached environment of our southern cities, where “positive” outcomes are often achieved through a “double-negative” (eg, additional infrastructure is funded to reduce growing logistical constraints).

Nonetheless, the benefits of new northern infrastructure can be harder to demonstrate via cost benefit analysis, because projects are often “greenfields” in nature, with no established statistical base to assess future economic returns. This often means new northern infrastructure is hard-won, and late to be implemented.

However, there are previous examples of northern infrastructure projects which have been supported on the basis of a strong business case that set out their potential to unlock economic gains.

For example, former Prime Minister John Howard’s decision to fund the Alice Springs-Darwin railway has helped lift the volume of exports through Darwin Port to be 13 times larger in just 10 years.⁵ Moreover, the owner of the railway, Genesee & Wyoming Australia, is running a thriving business – a positive indicator for further private investment in the north.

A strong, detailed business case that credibly demonstrates the potential economic benefits of infrastructure projects – including the involvement of willing private sector investors – should be a key factor that guides public investment decisions on the development of northern infrastructure.

Northern Rail and Port infrastructure – Top Priority for Freight Efficiency

ALC’s preliminary submission to the Inquiry noted that *“moving more freight to rail has the potential to significantly improve freight efficiency... while decreasing queuing times at ports”*.⁶

This is particularly true in Northern Australia, where long rail distances with relatively few stops can deliver impressive supply chain efficiencies. Thus, investment in port improvement and in much-needed rail infrastructure should be a top priority.

ALC supports the following priorities and approaches for Northern Australia:

⁵ Darwin Port Corporation, 2013-14 Annual Report (2014)

⁶ <https://infrastructure.gov.au/transport/freight/freight-supply-chain-submissions/02-Charting-the-Course-wp2.pdf>

1. Mount Isa to Tennant Creek Railway



The long-proposed railway from Mount Isa to Tennant Creek, which would connect Queensland with the Ghan rail line to Darwin, has the potential to deliver considerable economic benefits. The connection to the Port of Darwin would provide scope to increase freight volumes, particularly around mineral and agricultural exports to service the needs of growing Asian markets.

Often described as the “missing link” in northern Australia’s rail system, the Mount Isa to Tennant Creek rail would provide alternative export routes should Darwin, Townsville or Adelaide ports be temporarily unavailable due to natural disasters or security events.

The 2015 White Paper recommended that a cost benefit analysis of the railway project be carried out. ALC has previously recommended that this project “be developed with due regard to the *Infrastructure Australia Assessment Framework (2016)*”.⁷ This will require proponents to outline the economic opportunity which the proposed rail link will capture.

The case for proceeding with this railway would also be enhanced through the development of a strong business case that demonstrates clear interest in the project from private investors, working in partnership with government to deliver the rail link.

Recommendation 1:

In addition to preparing and making public a rigorous cost-benefit analysis for the Mount Isa to Tennant Creek Rail Link, the Government should also invite the submission of a “business case” from private consortia interested in delivering the project.

⁷ <http://www.austlogistics.com.au/wp-content/uploads/2016/11/ALC-Submission-Tennant-Creek-to-Mt-Isa-Railway.pdf>

2. Port of Darwin – expansion and capacity enhancements

The Port of Darwin is well-positioned to take advantage of export opportunities in the burgeoning Asian markets.

The Port already contributes significantly to economic growth and prosperity in northern Australia, providing essential infrastructure, land and shipping services to the resources, agriculture, tourism, seafood and defence industries.

It moves a significant amount of product including LNG, bulk break cargo, containers, vehicles, cattle and bulk minerals from northern Australia through Darwin’s East Arm Wharf daily.

With strong growth predicted over the longer term, there will be increased demand for shipping and logistical services to support trade that focuses on supply chains between Northern Australia and Asia.

The potential for the Port of Darwin to play a major role in boosting national freight efficiency is high due to:

- Darwin’s strategic proximity to Asia’s huge population centres, providing potential to develop a regional “hub and spoke” model like that in Singapore; and
- the potential to reduce shipping turnaround and transit times for goods in and out of Australia in an age of “just in time” logistics – and high speed connectivity to southern markets via rail.

Darwin’s advantage in shipping times between China and other Australian ports is clear:

Shanghai to Australian Ports (Speed 15 knots)

Darwin	Melbourne	Sydney	Brisbane
8.5 days	16.2 Days	14.5 days	13.2 days

It is also important to recognise that as the population of northern Australia grows, the Port of Darwin will play an important role in helping to meet growth in the domestic freight task.

The Port of Darwin has already demonstrated its capacity to handle high levels of cargo and bulk freight throughout Australia’s most recent minerals boom. It should be considered a lynchpin in efforts to boost Australia’s export trade, particularly with Asia.

To safely manage increased volumes of cargo, the Commonwealth Government should look to support expansion of the Port of Darwin by encouraging the early adoption of modern technologies that can improve efficiency and safety in the supply chain. This could include wireless mobility, automated machinery and the introduction of “intelligent vehicle” technology that can support larger cargo vessels.

The Port of Darwin port precinct presents a unique opportunity to run a pilot project to develop and test new technological investment in a location that has lower road traffic volumes and is not presently suffering some of the urban encroachment issues that affect southern port facilities.

Recommendation 2:

The Government recognises the Port of Darwin’s potential to drive export growth due to its geographic proximity to Asia, and works to support its expansion over time. This includes encouraging the uptake of technologies that can enhance safety and further boost productivity at the facility.

3. Existing priority projects with strong connectivity to key northern Australian infrastructure.

A number of major projects identified on Infrastructure Australia’s *Infrastructure Priority List* either support freight infrastructure integration with Northern Australia, or are cross-jurisdictional in nature.

Consistent with the content of our previous submissions to the Inquiry, ALC again endorses these projects, which include:

- Adelaide – Tarcoola Rail Upgrade Acceleration.** This project not only supports the Melbourne-Adelaide-Perth freight rail corridor, but is also important to delivering better outcomes on the Adelaide-Darwin freight rail corridor.
- Upgrade Tanami Road** - Upgrading this key freight route from Halls Creek in Western Australia through to Alice Springs is vitally important to driving further export growth and more efficient freight movement in Northern Australia.
- Mount Isa – Townsville rail corridor upgrade** - This project will deliver enhancements and new constructions for the existing rail route and is an important initiative for driving export growth. Should the Mt Isa to Tennant Creek rail project proceed, a subsequent priority must be the alteration of the Mount Isa – Townsville rail corridor to standard gauge, to maximise the national economic benefits of a Townsville-Darwin freight rail connection.

4. The Northern Australia Infrastructure Facility (NAIF)

In the 2015 Federal Budget, the Commonwealth Government announced the Northern Australia Infrastructure Facility (**NAIF**) – a \$5 billion concessional loan facility to encourage and complement private sector investment in infrastructure such as ports, roads, rail, pipelines, and electricity and water supply.

ALC believes that ensuring the efficiency of supply chains in northern Australia is a vital economic imperative, both to meet the needs of a growing population in the region and to drive export performance.

The NAIF must focus on highest priority projects that provide a rigorous, rational basis for enhancing prosperity and growth in Northern Australia. This includes the development of critical freight infrastructure, especially in relation to port capacity and freight rail.

Foreign investment will also play a critical role in the development of freight infrastructure in Northern Australia, as confirmed by significant investments such as that made by the Landbridge Group at the Port of Darwin.

It is essential that the NAIF selection process recognises this when making decisions about supporting particular projects. Investment decisions must be made on the basis of long-term economic need, not on the basis of short-term debates about appropriate foreign investment levels.

Although it is still comparatively early in the administration of the NAIF, ALC believes it is important to consider the following questions to ensure the NAIF is meeting its policy objectives:

- Are the scheme's guidelines and administration rigorous enough – and rigorously applied for practical outcomes? Are adjustments required to ensure it achieves its goals?
- Is the “application driven” nature of the NAIF selection process supporting effective projects (including for critical freight infrastructure)?
- Should Government earmark some of the concessional funds for nominated ‘flagship’ projects (especially projects identified as priority projects by Infrastructure Australia)?

Recommendation 3:

In order to ensure the NAIF is meeting its objectives, a review of its operation should be undertaken. In particular, this review should consider whether the “application driven” nature of the NAIF is leading to optimal public investment decisions.

Conclusion

This supplementary submission to the *Inquiry Into National Freight and Supply Chain Priorities* is intended to underscore the importance of improving supply chain efficiency in northern Australia, and to highlight initiatives that have the capacity to achieve that objective.

Improving supply chain connectivity and efficiency in northern Australia has implications for the nation's ongoing economic and national security priorities.

As such, the particular needs of this fast-developing region must form an important consideration in the development of an effective and comprehensive National Freight and Supply Chain Strategy.

Please contact me on 0418 627 995 or at Michael.kilgariff@austlogistics.com.au should you wish to discuss this submission further.

Yours sincerely



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