

Submission for freight and logistics inquiry

Introduction

Thank you for the opportunity to make an initial submission into the above inquiry.

This submission makes three points:

1. Government actions regarding freight and logistics need to focus on strategic locations.
2. Governments should look to major industrial centres outside capitals as such locations.
3. Commonwealth responsibilities in these matters are clearly defined but not exercised.

We would be happy to expand these points.

This inquiry

This inquiry arose out of a recommendation in Infrastructure Australia's 2015 Australian infrastructure plan. The source and reason for the recommendation remain unclear.

Previously Commonwealth and State Ministers agreed ports and freight 'strategies'. Apart from some minor bureaucratic activity, there is no evidence of progress. There is little reason for officials to raise these matters again. There is less reason for open ended government studies of logistics; a matter better studied by academics and best performed by private businesses.

The infrastructure plan failed to provide a rationale or scope of government activity in logistics.

Freight appears to be an afterthought in the infrastructure plan, as further evidenced by the plan failing to provide a cogent explanation of the importance or (relative) priority of transport matters. The plan's conflation of economic welfare with economic activity led to a bias towards road-building attempts to mitigate urban traffic congestion caused by cars.

The plan did not provide any framework to stop the decades long distraction of Commonwealth and State Governments to freight trivia instead of addressing fundamentals.

It failed to point out visible results of follies such as focus on 'the last mile' and endless searches for universal road 'pricing'. The results include interminable bureaucratic squabbles, anger in local communities, the creation of rent seeking lobbying and occasional corruption.

Equally it did not comment on invisible results, adversely affecting many communities and industries, such as sub-optimal decisions for ports, highways, railways and industrial centres. The fact of severe capacity constraints in some locations and chronic underutilisation of superb facilities in others was ignored.

Given this, a fundamental re-think and change of attitude is necessary if governments and the community are to take important freight matters seriously. Adding 'logistics' to the talkfest title doesn't help.

RO: The Commonwealth should take freight seriously. It should eschew its officials' current interest in ill-defined logistics and leave that matter to academics and businesses.

1. Locations

Transport is primarily concerned with places. Places determine transport tasks. Relative costs determine routes and vehicles used for people and goods to move between places.

While travel follows least generalised cost involving expected travel time, convenience and financial cost to travellers. Freight follows pathways of least financial cost to consignors. Freight flows are relatively easy to analyse and influence.

What matters most is the origins and / or destinations of massed freight. These locations are determined by many factors of which transport costs are a small part.

Because transport involves physical activities it generates externalities; costs and benefits not borne by participants in transport systems. The cost of transport comprises both internal and external costs both of which manifest in localities. That external costs are significant is demonstrated by opposition to transport and related activities in certain locations. The existence of such external factors is the public policy reason for governments to consider freight or related policies.

Hence reducing internal freight financial costs is an inappropriate aim for governments.

Government sponsored improvements to one area may be at a net economic cost after external factors are taken into account. An increase in one industry's or business' profitability might be at the expense of a higher cost to another location or the rest of the economy.

While governments can and do intervene to cut individual business costs in such ways, this should be seen for what it is; a response to rent seeking behaviour. It should not be excused let alone encouraged. Government is there to benefit society, not just businesses even freight ones.

Once government understands and sets a sound framework for freight, it should be up to the logistics industry alone to determine how this is used to minimise the internal costs of their clients.

The key to any framework is the location of industrial and transport activities. The most important transport locations are those which are difficult to move and on which several systems rely. Policy should establish a hierarchy with the strongest commitments to the top.

At the apex will be places of large scale interchange of people or goods between vehicles. These include seaports, CBD railway stations, urban rail terminals, and international airports. At the next level will be the intersection of routes between them, including sea lanes, rail lines and highways.

Unless these places are optimised, transport and storage systems will be inefficient irrespective of how internally productive or innovative private businesses are or how rigorous, data driven and apparently prescient public policies might be.

The highest priority for government is to provide assurance for these places and routes. That was the intention of Infrastructure Australia's port strategy and land freight strategy. The former has not been implemented and the latter was altered by bureaucracies to downplay locations.

In Australia governments have so far neglected to provide adequate assurance for key locations. There is continuing uninformed debate about the use of some of Australia's most important transport locations. Meanwhile governments impede the optimal development of critical sites.

R1: The Commonwealth should declare certain limited locations as places for international and interstate freight. The purpose of such declaration would be to signal to all, including industry and regulatory authorities, that freight is to be treated more sympathetically in these locations than elsewhere.

2. Established industrial locations

Australia is a geographically large country with a small population and industrial base. This has created an ongoing physical trade structure imbalance that generates locational challenges.

For example growth in metropolitan areas increases in demand for inbound full containers which are addressed, as elsewhere in the world, to relatively low value lands increasingly further away from the traditional port sites near city CBDs. As elsewhere in the world, the long trend is for such port functions to migrate towards the sea or industrial lands. Overseas, governments have undertaken facilitating or mitigating actions to deal with the conflict between port use and urban amenity.

Since the 1970s globalisation has disrupted Australia's intentions for industrial-settlement patterns, intentions pursued by various policy arms including skill development, scientific research, migration, government purchasing, defence, industry assistance, trade and protection and transport. Post federation aims of coherent policies that included dispersing heavy industry to secondary cities such as Geelong, Port Kembla, Gladstone, Whyalla, and Kwinana have been frustrated.

Each of these places includes designed, planned and community accepted locations for substantial volumes of externality causing production and freight. Most now have substantial well positioned spare land and skills for freight. This is not the case in metropolitan areas, Adelaide excepted.

Each of these places is a fulcrum of several current export supply chains, which in Australia generally relate to bulk commodities. Some questions have been raised about the long term future of some of these supply chains, for example coal. Governments should not consider this in the framework of commodity supply chains but on the consequences of such changes for locations and communities.

Australia's import and export physical supply chains deal with different commodity types and will remain discrete in terms of business specific assets eg. vehicle fleets, cranes, stacks. However, this is not the case for essential facilities such as standard gauge railways, port land and sea channels.

Nor is it the case for associated or embodied trade in services, access to which is seen as fundamental to 21st century national competitiveness in terms of technology and skills transfer.

In metropolitan areas there will be mounting pressures to convert at least some such essential facility assets, or associated access paths, to higher value uses such as housing, travel and recreation/conservation. This is already evident in Sydney, Melbourne and Brisbane. Those places have a domestic comparative advantage in skill competitiveness from travel; for example urban rail systems to agglomerations or technology clusters, international airport gateways. Conversion of old freight and industrial lands, near the CBDs of those cities, enhances Australia's interests.

This is unlikely to be the case in secondary cities. Those cities have a domestic comparative advantage in skills embodied in products ie. associated with freight. This can be seen by the world leading practices in port management in Gladstone, the Hunter Valley coal chain and the marine cluster at Kwinana/Henderson Western Australia.

Under or misuse of industrial lands in secondary cities will degrade Australia's capability. It is not a sustainable approach and will eventually be reversed at considerable economic and social cost.

R2: The Commonwealth should commence its declaration of places for international and interstate freight with locations in secondary cities such as Geelong, Newcastle, Gladstone and Kwinana. It should establish planning scenarios for these cities with a specific intention of facilitating international skill and technology linkages that build on international freight chains.

3. The Commonwealth

Commonwealth responsibilities arise from, and powers are limited by, the Constitution. Recent events -disqualification of people from sitting in the Parliament - demonstrate the importance of following the Constitution, unappealing, impractical or outdated though that may seem to some.

The Commonwealth is not permitted to spend public monies on matters other than these or implied by its unique position as a national government. There is one exception; payments to the States for purposes specified by Parliament.

Apart from this single exception, the Constitution defines the purposes of the Commonwealth.

Those purposes do not include freight, logistics, roads, cities or regional areas. Rather Commonwealth purposes relevant to transport are limited to interstate and international trade. Under certain conditions railways are included, the underlying aim of which is for interoperability across Australia. Its taxation powers cannot discriminate among Australian locations.

In comparison with this since the mid 1990s the Commonwealth Government has progressively moved into assorted extra-legal areas. While professing an interest in matters such as national economy etc. it has lost the thread of Constitutional intention and become embroiled in all manner of transport side-shows. The stupidity of mooted performance indicators for import logistics chains that end at retail stores confirms this absence of direction and sense.

Meanwhile its Constitutional related responsibilities such as a properly defined national network, rail interoperability, and removal of trade damaging State restrictions at ports have been ignored.

It is a concern that the Commonwealth bureaucracy is essaying a further expansion into the undefined logistics area, outside Commonwealth remit without any recognition of current failures.

The likely result of this freight exercise, as with others by the Commonwealth Government over the last 20 years, is an industry-inoffensive all-encompassing report with a long to-do list of activities impacting on – in some cases likely to be resisted by – local communities. All the while lacking any Constitutional basis, grounding in public policy or economic or social merit.

Whichever way freight transport issues are approached - from an economic, practical, community or legal stance – the same prescription arises. First: certainty of prime locations. Second: surety of routes between them. Third: bringing the various arms of Commonwealth policy to support appropriate use and development of those locations and routes. Each of these may involve conflict with ill-conceived and counter-productive State policies such as restrictions on ports.

It would be deeply unfortunate were the term 'logistics' to obscure this reality.

R3: The Commonwealth should refocus its transport activities to its Constitutional responsibilities for interstate and international trade and commerce and apply these powers in relevant locations. The Commonwealth should use its other powers, such as in skill development, regulation, defence and trade and international relations to buttress those localities and, in the case of secondary cities, enhance participation in international value chains.