

**SUBMISSION FROM THE NORTHERN TERRITORY GOVERNMENT
TO THE AUSTRALIAN GOVERNMENT'S INQUIRY INTO
NATIONAL FREIGHT AND SUPPLY CHAIN PRIORITIES
AUGUST 2017**

The Northern Territory Government welcomes the opportunity to provide a submission to the Australian Government's Inquiry into National Freight and Supply Chain Priorities.

Efficient transport and logistics networks are the life blood of the Northern Territory. They provide an essential link from and to the rest of Australia, and form the Nation's strategic supply chain to the rapidly expanding economies of Asia. Efficient logistics networks to the Northern Territory also support the strategically vital defence and border security activities based in the Northern Territory or staging through NT-based defence facilities.

If we are to maximise Australia's productivity and growth, it is critical that this Inquiry focusses on our regional and remote areas in addition to urban environments, and pays special attention to the importance North Australia will play in developing a more secure and prosperous Nation. Australia's regional and remote areas are major contributors to the Nation's economy, accounting for around 40 per cent of National economic output and employing around one third of Australia's workforce¹. The North accounts for 11.7 per cent of Australia's GDP and supports 5.9 per cent of Australia's jobs, with production per worker at a rate which is double the National average².

It has been estimated that Australia's Northern jurisdictions alone will account for over 40 per cent of the Australian economy by 2040, up from 35 per cent in 2011, and the North's gross regional product will increase by an average of three per cent every year from 2020³. Northern Australia accounts for a significant portion of Australia's exports by value, estimated to be in the order of 55 per cent of all exports in 2012-13⁴.

Efficient freight networks are a key enabler of economic development in the North. It underpins the Northern Territory's capacity to attract investment, build businesses, create jobs, increase productivity and stimulate growth. Infrastructure is vital to physically unlock the potential of Northern Australia and support the quality of the Northern Territory's social well-being, the future of our children, our cultural and lifestyle experiences, and the services we use every day. An appropriate level of regulation and integrated land and transport planning are also critical elements in creating an efficient logistics industry and competitive supply chains.

The Northern Territory welcomes the work the Commonwealth is undertaking through this Inquiry to address Australia's supply chain priorities. Concurrently, the Northern Territory is developing a Logistics Master Plan for the Northern Territory, which will outline Government's role within the sector and provide a framework for Government to partner with industry, to facilitate both public and private investments that improve freight outcomes.

This Inquiry reiterates the Commonwealth Government's commitment, as stated in *Our North, Our Future: White Paper on Developing Northern Australia*, to ensure Northern Australia has appropriate infrastructure. The white paper's statement that the Commonwealth Government will focus on funding high priority public infrastructure, while making it easier for the private sector to invest in the infrastructure, is welcomed by the Northern Territory.

The Northern Territory Context

The structure of the Northern Territory economy is markedly different to the National economy, reflecting the degree of maturity of the local economy relative to other parts of Australia, the sparse pattern of settlement, vast distances and the impact that major projects can have on small communities. In turn, the Northern Territory's transport infrastructure is considered to be at the development stage and any improvements need to be built from a low infrastructure base.

The distinctive structure of the economy is influenced by the Northern Territory's geographic remoteness and demographic characteristics. One per cent of Australia's population live in the Northern Territory, dispersed over 17.5 per cent of Australia's land mass.

Considerable distances separate our population centres from each other, and from the rest of Australia, creating a significant reliance on our supply chains and logistics industry. Private and publicly owned roads, ports, barge landings, airports, aerodromes, pipelines, railways and freight hubs support the viability and productivity of both, major industries (including the agribusiness, energy and minerals, tourism and defence sectors) and the small businesses that dominate sub-regional economies.

The Northern Territory, particularly Darwin, enjoys the advantage of being in close proximity to Asia compared to other Australian jurisdictions. There are 24 million people within five hours flying time south of the Northern Territory and 400 million people within five hours north. By 2030, the population to the north is expected to increase to approximately 485 million people and this region will include eight capital cities, 36 trading ports and 69 international airports, creating economic opportunities that need to be supported by infrastructure to realise their benefits.

Clearly, efficient logistics networks, including leading practice intermodal infrastructure and services, enabled by private sector investment and facilitated as necessary by government, are critical to meeting Australia's trade potential with Asia.

Key Industries

As the *Our North, Our Future: White Paper on Developing Northern Australia* highlights, the North has natural advantages in agriculture, mining, energy and tourism — all of which underpin our National income. Further, the North is a strategic location in Australia's defence and National security.

While major industry sectors are economic drivers, small and medium enterprises (SMEs) dominate employment and economic activity. As well, SMEs provide the bulk of the goods and services to major industries and to the population of the North. In the Northern Territory for example, SMEs make up 99.8 per cent of all businesses by number. Of this, small businesses (1 to 19 employees) make up 95.2 per cent of all businesses.

The agribusiness, fisheries and aquaculture sectors play a vital and growing role in the Northern Territory economy. The Northern Territory has an abundance of fertile land and water that provides opportunities for a range of primary industries and the establishment of new industry sectors. An improved and well maintained regional road network is critical to the global competitiveness and growth of these industries and to unlock opportunities that stimulate economic growth.

Livestock account for the most significant agricultural export with up to 500 000 head of cattle being transported over our beef roads each year. Growth in key Asian markets, supported by recent trade agreements, will likely increase demand for live cattle and meat exports, and increase pressure to upgrade our beef roads. Demand on the road network is only expected to increase following recent announcements from Hancock Pastoral that they are expecting to ship up to 300 000 head of cattle per year through northern ports.

The Northern Territory's aquaculture industry continues to expand with farmed barramundi set to double production over the next three years. The proposed \$2.1 billion Project Sea Dragon in the Northern Territory's west may develop into one of the world's largest prawn aquaculture farms. All of these investments use road infrastructure to move products and investment in infrastructure is essential to continue industry growth.

Broad scale agriculture crops, fruit, vegetables and other horticultural products exist in agricultural precincts throughout the Northern Territory. The majority of the produce is transported interstate with heavy reliance on road transport.

An example is the mango season where during its peak, up to 220 vehicles per week transport 4000 tonnes of mangos from the Darwin, Pine Creek and Katherine regions into southern markets and to consolidation points for export.

The Northern Territory is rich with minerals and resources, and has nine major mines in operation, and the feasibility of a further 30 mines currently being investigated. The development and expansion of the Northern Territory's highly prospective resource regions require improved rail, road, port and pipeline infrastructure, to improve efficiencies and develop a sector that contributes significantly to the Nation's income for the long term.

The Northern Territory and Northern Australia is at the frontline of Australia's National security, with the Northern Territory currently hosting approximately ten per cent of Australia's permanent Defence Force personnel.

Defence relies on aviation, marine and road infrastructure to conduct its duties, and operations including construction activities which are planned to be in the order of \$20 billion over the next 20 years.

Tourism in the Northern Territory is a driving force behind the Northern Territory's economy, contributing \$2.2 billion in Gross Value Added, and its success is linked to Commonwealth investment in transport and logistics infrastructure. A key enabler to growing visitor numbers to the Northern Territory is improved tourist access through investment in aviation and road transport connections.

The Northern Territory Government's key objectives for the Transport and Logistics sector are to:

- **Drive economic growth** by providing efficient freight networks which meet industry needs and support increased productivity and reduced costs.
- **Improve transport safety** by maintaining and upgrading existing infrastructure, and considering user and operator safety when developing new transport and logistics infrastructure.
- **Provide improved connectivity** to support equitable access for Northern Territorians in regional and remote areas, to enable social inclusion, regional economic development and service delivery.
- **Enhance asset management** by maintaining and rehabilitating infrastructure to improve network resilience and reduce whole of life costs.
- **Integrate land and transport planning** to protect corridors for the future and ensure planning provides for effective connection to transport hubs and major activity centres.

Opportunities

Darwin is Australia's closest connection to Australia's key trading markets in Asia and the Northern Territory has a strong comparative advantage in industries that produce products of high demand in Asia. There are promising opportunities to grow the tourism, mineral, gas, petroleum, fisheries and agricultural sectors, all of which are industries reliant on efficient logistics connections. Refinement of regulatory arrangements are necessary to enhance logistic efficiency for the export of goods.

The Northern Territory's key priority is to plan for future transport infrastructure needs while continuing to develop and manage the existing transport network to improve reliability, accessibility, productivity and safety. Currently, roads in key remote and regional areas are being progressively upgraded to improve access all year round.

The rail line from Adelaide to Darwin provides the only rail service for passengers and freight (retail, consumer and minerals) movement in the Northern Territory, providing a key supply chain link. The construction of this rail line has unlocked growth and has seen exports through the Port of Darwin grow thirteen times larger in ten years.

It has also stimulated a new tourism market for the Northern Territory, with over 30 000 passengers travelling on The Ghan in the 2016-17 financial year.

Opportunities exist for public and private sector investment to upgrade existing rail infrastructure and create new rail connections between interstate centres and the Northern Territory. The Northern Territory, Queensland and Australian Governments are undertaking studies to understand the business case requirements of any future development of a Tennant Creek to Mt Isa railway.

Our aviation infrastructure supports population and worker mobility, our growing tourism and business sectors, and our emerging role as an international aviation gateway for Northern Australia. The privately owned Darwin International Airport connects to a network of international, domestic and regional airports and remote aerodromes.

The Port of Darwin and the East Arm logistics precinct is the Northern Territory's major commercial marine and logistics hub, and is supported by several coastal ports and barge landings. There is capacity to service greater freight volumes with existing port infrastructure, while new and enhanced infrastructure will support increased shipping and logistical services across the Northern Territory. The Northern Territory Government has recently entered into a partnership with the Landbridge group to manage the Port of Darwin. Landbridge has committed to invest \$200 million over the next 25 years, with \$35 million of that to be spent before 2020.

Challenges

Government investment in infrastructure, supported by the right policy and regulatory settings, is critical to grow private sector investment, however the cost of maintaining the Northern Territory's current infrastructure and investing in new infrastructure is one of our biggest challenges.

Improving network resilience and developing infrastructure to meet growing demand is costly. A low infrastructure base, extreme climatic and geographic conditions, and poor economies of scale provide challenges which contribute to higher per capita labour, construction and maintenance costs.

The road and bridge network makes up the largest component of the Northern Territory Government's transport infrastructure assets. While the Northern Territory's National highway system is fully sealed, 75 per cent of the road network is unsealed and vulnerable to wet weather, which hinders industry investment, increases freight costs, and isolates communities and contributes to the Territory's serious road safety issues.

A 'one size fits all' approach to infrastructure assessment across Australia remains a challenge for the Northern Territory.

Traditional approaches to infrastructure assessment, prioritisation and investment, need to be reviewed to recognise the broader economic benefits of enabling and transformational infrastructure, necessary for economic diversification and consequent social development in remote and regional Australia.

Given our greater reliance on our logistics and supply chain networks, the Northern Territory must continue to have an efficient regulatory environment for our freight task transport. This includes ensuring that National reforms and regulations are appropriate for our remote and regional context and that the pricing and the level of regulatory burden are fit for purpose. Examples of reforms where the regional and remote context must be considered include: heavy vehicle regulation, road pricing market reform, maritime regulation and aviation security.

With 77 per cent of the Northern Territory's interstate and international visitors entering by air, the importance of aviation access to the tourism sector in the North cannot be overstated. Mandated National aviation regulatory requirements, namely fixed airport security and safety costs, coupled with per passenger fees like the Passenger Movement Charge (PMC) result in a disproportionately high cost burden on visitors through the Northern Territory's airports compared to other jurisdictions. Darwin and Alice Springs airports have the highest per passenger costs in the country. Additionally, the current Australian Government Regional Aviation Access Program has not delivered sufficient positive outcomes for the Northern Territory.

Adequately resourcing this program would stimulate the Northern aviation industry and therefore the tourism industry.

Investment Needs

The transport and logistics network requires extensive ongoing investment to:

- ensure infrastructure meets the needs of our developing industries' demand for a growing freight service;
- build and maintain a resilient transport network with minimal closures and restrictions;
- ensure assets are maintained to a good standard;
- improve overall supply chain efficiency to increase productivity and reduce freight costs;
- ensure transport networks provide equitable and safe access for all transport users in regional and remote areas; and
- enabling economic participation for Northern Territorians living in regional and remote areas.

Northern Territory Government Priority Projects

The Northern Territory Government is partnering with industry, business and the community to develop a comprehensive plan to grow and diversify the economy sustainably, and has recently released its Economic Development Framework, Infrastructure Strategy and 10 Year Infrastructure Plan.

Priority transport and logistics projects for the Northern Territory include:

- **Improving Beef Roads**, including the Buntine Highway, Tablelands Highway and Barkly Stock Route – progressively upgrading cattle roads to increase reliability and subsequently economic development and productivity for the pastoral industry.
- **Developing Katherine as a logistics and agribusiness hub** – Katherine is strategically positioned at the junction of National highways and the rail line, and is surrounded by productive pastoral and horticultural land.
- **Developing Tennant Creek as a mining and mining services centre** - Tennant Creek is strategically positioned to become an important services hub in support of the mining and pastoral industries.
- **Sealing Central Arnhem Road** - supporting regional growth, particularly in a number of large Aboriginal communities and the important regional Hub at Gove, through productivity improvements flowing from improved access.

- **Sealing Tanami Highway** – providing a nationally significant road connection from south-eastern Australia to the Western Australia Kimberly region (this project is a priority for Infrastructure Australia).
- **Improving other priority access roads** for the Northern Territory including:
 - Gunn Point Road and Bynoe Road, connecting to the Project Sea Dragon;
 - Port Keats Road;
 - Maryvale Road;
 - Roper Highway;
 - Nathan River Road; and
 - Port Roper Access Road.
- **Investigating Mt Isa to Tennant Creek Rail and other possible rail links** – undertaking feasibility studies to understand the requirements for any future development and de-risk the project for potential private sector investment.

Recommendations

The Northern Territory recommends that this Inquiry focus on all of Australia, including its regional and remote areas. Further, the Inquiry is urged to consider:

1. Extending the Northern Australia Roads and Beef Roads initiatives into a rolling program, with agreed priorities included in a 5 year Plan.
2. Supporting the upgrade and operation of airstrips and subsidisation of air services in remote Australia through a rolling funding program and possibly a National Partnership Agreement on Air Transport.
3. Investigating a program to support sea transport networks across Northern Australia.
4. Continuing to work with the Northern Territory and Queensland Governments, to investigate the feasibility of the Mt Isa to Tennant Creek rail line and other opportunities for expansion of the rail network
5. Establish a taskforce to explore potential key strategic projects including: a Kununurra to Katherine rail and gas pipeline corridor; and West Musgraves Ranges Minerals Province to Alice Springs – road, rail, gas and water corridor.
6. Ensuring that regulatory and pricing models are fit for purpose for Australia's regional and remote areas, including National reforms such as the heavy vehicle regulation, road pricing market reform, maritime regulation and aviation security.

7. Developing alternative project assessment methodologies that consider broader social benefits of investment in logistics infrastructure, and acknowledges the developing nature of infrastructure in the Northern Territory, and regional and remote areas of Northern Australia.
8. Amending the Northern Australia Investment Facility (NAIF) investment mandate to enable the NAIF to provide concessional loans for up to 50 per cent of the total project debt rather than only 50 per cent of eligible infrastructure debt.
9. Adjusting the Regional Aviation Access Programme and funding for aviation security and safety costs:
 - a. network pricing for airport security costs, which would see the cost shared equally per passenger across the country, similar to Air Services Australia's provision of air traffic control, and aviation fire and rescue services at major airports;
 - b. direct funding assistance from the Australian Government for airports in Northern Australia that have high security costs due to lower passenger throughput, including an extension to existing programs like the Remote Airstrip Upgrade Program;
 - c. investment from the Australian Government for the Category 5 Aerodrome Rescue and Fire Fighting (ARFF) services needed for international aircraft to nominate the RAAF Base Tindal as the destination alternate airport to Darwin; and
 - d. investigating new approaches to the over-collection of the Passenger Movement Charge, such as a phased reduction to return it to a genuine cost recovery levy or using part of the over collection to reduce airport security and safety costs in Northern Australia.

Conclusion

The Northern Territory looks forward to working with the Commonwealth on this important work, including incorporating features of the Northern Territory Logistics Master Plan. The Northern Territory would urge consideration of the issues and recommendations raised in this submission. In particular, the economic and strategic importance of Northern Australia, together with the entrenched economic and social disadvantage in many regional and remote communities, should drive a reassessment of the current approaches to infrastructure assessment, prioritisation and investment.

References

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