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Infrastructure Australia  
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Dear Mr Deegan

## Submission to the National Freight Network Plan

Please accept this letter as a submission from the Department of Innovation, Industry, Science and Research (DIISR) for consideration in the development of the National Freight Network Plan. The National Freight Network Plan represents a key opportunity to set a clear framework for an informed approach to sea freight transport supply chain systems and infrastructure that can support productivity growth and the global competitiveness of Australian businesses.

DIISR notes that it is vital that planned investment in physical infrastructure is partnered with innovation in 'soft' infrastructure systems that support the effective and efficient use of freight transport infrastructure. There is great potential for organisational and process innovation to increase the capacity and productivity of physical infrastructure assets for freight transport.

The freight transport supply chains from businesses to ports are particularly significant, as they link Australian businesses to global markets, with all the opportunities and productivity benefits that this brings. DIISR has welcomed engagement with Infrastructure Australia on development of the National Ports Strategy and strongly supports inclusion of a National Ports Strategy as an integral and crucial part of a National Freight Network Plan.

The following comments outline priority areas for consideration in development of the National Freight Network Plan and primarily address the issues of *scope of the network*, *operating and infrastructure standards* and *planning regimes*, which were highlighted in the call for public submissions.

### Soft infrastructure to encourage innovation

To ensure productivity gains are optimised, investment in physical infrastructure for freight transport must be partnered with innovation in 'soft' infrastructure systems that support the effective and efficient use of physical infrastructure. Soft infrastructure includes the regulatory, policy and market environments that create the operating framework for freight transport. The challenge is to get the framework right to encourage freight stakeholders to undertake organisational and process innovation that will result in a better outcome for the productivity of the freight transport supply chain as a whole. Soft infrastructure should be included in the scope of the National Freight Network, and be an integral part of planning regimes and the operating and infrastructure standards for freight infrastructure.

**Whole-of-supply chain perspective**

To ensure gains in productivity for transport translate to gains in productivity for the economy, it is crucial that the scope of the National Freight Network Plan takes a whole-of-supply-chain view that includes the businesses that rely on freight transport services. The scope of the National Freight Network Plan should include the entire transport chain from ports to businesses. Otherwise there is a greater risk of unintended consequences where changes to improve performance in one part of the transport chain are 'washed out' by inefficiencies further up the supply chain or result in suboptimal productivity for the transport supply chain as a whole. The National Ports Strategy needs to be seamlessly integrated into the National Freight Network Plan to avoid exacerbating or creating 'disconnects' that impede productivity. Planning regimes should take the same whole-of supply chain perspective. Design and review of operating and infrastructure standards should also consider the outcome for whole-of-supply chain productivity.

I have enclosed DIISR's submission to the National Ports Strategy which discusses these issues in more detail. I trust that this will be helpful in development of a National Freight Network Plan that will help to lift Australia's productivity.

DIISR is keen to ensure that its work is complementary and supportive of the National Ports Strategy and the National Freight Network Plan. DIISR would be supportive of measures that improve business competitiveness, innovation and economic outcomes, and would be happy to participate in whole-of-government processes for implementation decision-making and action, as appropriate.

I look forward to further engagement with you on these important infrastructure policy initiatives.

Yours sincerely



Sue Weston  
Deputy Secretary

2 March 2010

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**Submission to Infrastructure Australia for  
the National Ports Strategy**

Department of Innovation, Industry, Science and Research

February 2010

# 1 Executive Summary

Effective and efficient ports and related land-side transport supply chains are critical to the competitiveness of Australian businesses, which rely on them to deliver business inputs and to take exports to the global market. The Department of Innovation, Industry, Science and Research (DIISR) welcomes the development of a National Ports Strategy. It presents an opportunity for an informed approach to infrastructure investment, to promote innovation, address impediments to productivity and to support the global competitiveness of Australian businesses.

While well-functioning resource ports and associated transport supply chains are important, it is essential that the capacity of metropolitan container ports and land-side transport links and the impact that their performance can have on business competitiveness and Australia's productivity are also given priority. The efficiency and effectiveness of Australia's sea freight transport supply chain system is looming as a critical economic and business competitiveness issue, with freight levels forecast to double by 2025. As the freight task grows, so too will costs and potential savings through efficiency gains.

More robust, nationally coordinated decision-making on investment in ports and associated land-side transport infrastructure is needed. Investment in 'informed' sea freight supply chain infrastructure will help maximise benefits to the economy as a direct consequence of the investment.

While infrastructure planning and investment is critical, so too is finding innovative organisational and process solutions to the many disconnects in existing port and transport supply chain systems. Disconnects—such as a lack of information for planning operations and investments, or a lack of commercial relationships between stevedores and transport operators—lead to suboptimal systems that severely limit the capacity of metropolitan ports and the effectiveness and efficiency of infrastructure that connects them to business.

Disconnects lead to increased costs. It is not only the direct cost of disconnects that should be considered, but also the flow-on impacts that disconnects have on the competitiveness of business end-users. To address these disconnects it is critical to find innovative ways to make use of 'soft' infrastructure solutions, that is, solutions that optimise the systems that support the efficient use of physical infrastructure. This approach is proposed in the APEC Supply-Chain Connectivity Framework. Soft infrastructure solutions, such as establishing market drivers for efficiency gains or the use of compatible IT systems, can assist in minimising disconnects and creating more effective and efficient transport supply chains. The Truck Optimisation Plan (TOP) in Victoria is an example of an approach to resolving system disconnects, by engaging with all transport supply chain stakeholders to identify workable solutions.

DIISR is keen to ensure that its work on port-related business issues is complementary and supportive of the National Ports Strategy. DIISR would be supportive of measures that improve business competitiveness, innovation and economic outcomes, and would be happy to participate in whole-of-government processes for implementation decision-making and action, as appropriate.

## 2 Introduction

This submission is provided by the Department of Innovation, Industry, Science and Research (DIISR) to Infrastructure Australia for consideration in the development of the National Ports Strategy.

Ports and related land-side transport supply chains are critical to the competitiveness of Australian businesses, which rely on them to deliver business inputs and to take exports to the global market. Australia's metropolitan ports are particularly important, handling containerised imports and exports for many Australian businesses including those in manufacturing.

Through consultation with industry, DIISR found qualitative evidence of infrastructure gaps, bottlenecks and disconnects in the land-side transport supply chains for Australia's metropolitan container ports that result in costs to businesses. These problems limit the capacity of the metropolitan ports and the infrastructure that connects them to business. The future capacity of these ports and related transport infrastructure is looming as a critical business competitiveness issue, with freight levels forecast to double by 2024–25.<sup>1</sup>

DIISR welcomes the development of a National Ports Strategy. It presents an opportunity for an informed approach to infrastructure investment and promotion of innovation to help ensure the efficient and effective use of infrastructure assets and positive economic outcomes.

## 3 The need for a National Ports Strategy

For DIISR, the key port-related policy issue is the impact of sea freight transport supply chain performance on the competitiveness of the businesses that rely on these supply chains. Infrastructure gaps, bottlenecks and system disconnects affect timeliness and responsiveness and lead to increased costs for supply chain stakeholders and business end users. As the freight task increases and approaches the capacity of the system, this will become a critical issue for Australia's sea freight transport supply chain system.

Without further investment in soft and hard infrastructure, alignment of incentives and coordination, the timeliness and reliability of sea freight transport supply chains will likely fall and there may be a disproportionate increase in costs. Currently, there is limited coordination on a national approach to addressing problems in land-side transport supply chains<sup>2</sup>.

### 3.1 Investing in supply chain infrastructure

Investment in efficient, cost-effective supply chain infrastructure such as ports and road and rail facilities which service the ports is essential for the delivery of competitive products for export and domestic markets.

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<sup>1</sup> Bureau of Transport and Regional Economics, *Container and ship movements through Australian ports 2004–05 to 2024–25*, Working Paper 65, Canberra, 2006, p 81; Australian Competition and Consumer Commission, *Container stevedoring: monitoring report no. 11*, Canberra, 2009, p 5.

<sup>2</sup> National Transport Commission, *Supply chain pilots draft position paper*, Melbourne, 2009, p 39.

However, in the past, decisions taken on investments in infrastructure facilities that are integral to such supply chains have arguably not had the benefit of appropriate planning frameworks, with such decisions often having been taken in isolation from other supply chain inputs. At times, short term goals have influenced the nature of such decisions. This has been to the long term detriment of users of such facilities, including businesses (See Appendix A).

The Asia-Pacific Economic Cooperation (APEC) Committee on Trade and Investment proposed an 'informed' infrastructure approach to address the need for adequate transport infrastructure.<sup>3</sup> Informed infrastructure forms part of the APEC Supply-Chain Connectivity Framework that has been welcomed by APEC leaders.<sup>4</sup> Investment in informed sea freight supply chain infrastructure will help maximise the benefits to the economy as a direct consequence of the investment. Informed infrastructure is a term used to describe the concept of planned and coordinated development of facilities such as roads, railways, intermodal terminals and ports, and the systems that support their effective and efficient utilisation (hard and soft infrastructure). Informed infrastructure encapsulates:

- planning that is done in collaboration with the providers and users of such facilities;
- development that is coordinated, based on facts and which is cognisant of emerging trends;
- facilities that interlink with other facilities;
- systems that support the efficient operation and linkages of such facilities;
- ongoing communication between the various players to address system deficiencies, gaps and cost/quality competitiveness and disconnects as they emerge; and
- a commitment to think strategically, on a supply chain basis where the efficiency of interlinked facilities is paramount.

In the context of the National Ports Strategy, it is important that all governments focus on investing in informed infrastructure. Governments should strive to invest in the construction of infrastructure facilities that shows a positive return to the economy. Scarce government resources should not be allocated to infrastructure projects that do not demonstrate net economic benefits as investments of that nature divert resources from other uses and are a drain on the economy.

In relation to sea freight supply chains, it is important to have in place informed infrastructure practices so that infrastructure investments allow exporting and importing businesses to get their goods from the warehouse to the wharf and vice versa in the most efficient, timely and cost-effective manner. This will facilitate their business competitiveness and generate positive returns for the whole economy.

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<sup>3</sup> Asia-Pacific Economic Cooperation (APEC) Committee on Trade and Investment, *2009 Annual Report to Ministers*, Singapore, 2009, pp 12–13 and Appendix 8.

<sup>4</sup> 17th APEC Economic Leaders' Meeting, *Sustaining growth, connecting the region*, 2009 Leaders Declaration, 14–15 November 2009, viewed 22 January 2010, <<http://www.apec.org/apec/leaders/declarations/2009.html>>.

### **3.2 Sea freight transport supply chains and productivity**

Ports and land-side transport supply chains provide an integral link for businesses to trade, including exports. Increased openness to international trade can also contribute to increased productivity and economic growth by putting pressure on firms to be more innovative in the marketing of products and services, and in the way they organise their business. Inhibitors to openness can greatly limit productivity and economic growth, particularly given Australia's remoteness, both from the rest of the world and also between economic centres in Australia.

Slight variations in quality, quantity and price can have significant effects on the competitiveness of firms further down the supply chain and on long-term economic growth.<sup>5</sup> Thus, it is important that Australia's container ports and land-side supply chains operate optimally. Future prospects for these transport supply chains do not appear promising. For example, specific infrastructure bottlenecks are already at a high percentage of utilisation given their current modes of operation. The projected doubling of freight volumes by 2025 could be expected to place further strain on the system and progressively produce new bottlenecks, even as investments take place to address the current ones.

In many instances, the appropriateness<sup>6</sup> of a project, or a range of projects across a supply chain, cannot be assessed based on the information available, while some parties in the supply chain may not have incentives to invest. Similar difficulties arise when assessing the effectiveness<sup>7</sup> and efficiency<sup>8</sup> of an investment. When taking into account the whole supply chain, this would likely lead to poor investment decisions and allocation of resources for and around physical infrastructure assets (suboptimal 'hard' infrastructure) as discussed above, and also to suboptimal systems for supporting the effective and efficient use of that infrastructure (suboptimal 'soft' infrastructure). The outcome for Australia's ports and land-side transport supply chains has been poor productivity, poor returns of investment (particularly for Australian governments), increased business users costs and detrimental impacts on exports and on imports that form important business inputs.

### **3.3 Transport supply chain disconnects and their impact**

As discussed above, a lack of information or a lack of incentives are two problems affecting investment in hard and soft infrastructure for Australia's sea freight transport supply chain. These two problems represent 'disconnects' in the transport supply chain system, which result in decision-making and actions by supply chain stakeholders that are suboptimal for the productivity of the supply chain as a whole. Addressing disconnects in land-side transport supply chains is an important item for consideration when looking to improve Australia's economic growth and productivity performance.

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<sup>5</sup> C Jones, *Intermediate goods, weak links and superstars: a theory of economic development*, 2008, <<http://elsa.berkeley.edu/~chad/links200.pdf>>.

<sup>6</sup> The extent to which the investment is consistent with the whole supply chain and market analysis and whether there is a potential for enabling other investments, services or innovations.

<sup>7</sup> The extent to which the investment would achieve, or is likely to achieve, its desired impacts in the market.

<sup>8</sup> The extent to which inputs are minimised and outputs are maximised in achieving the investment.

To illustrate the impacts of disconnects, consider one of the consequences, congestion at the port gate for road vehicles waiting to pick up or deliver containers.<sup>9</sup> Two disconnects contribute to port gate congestion<sup>10</sup>:

- the lack of a pricing mechanism to spread demand and encourage off-peak use; and
- the lack of a commercial relationship between stevedores and transport operators that would provide a commercial incentive to improve efficiency.

Port gate congestion creates delays and can add to transport costs, which are borne by the transport supplier and can be passed on to the business end-user.<sup>11</sup> A major concern is how the impacts from port gate congestion will compound as the freight task increases and approaches the capacity of the systems in place.

The Christmas 2006 freight gridlock at the Port of Fremantle (Box 1) highlights the severity of the problem and provides a glimpse into the future for Australian ports if supply chain disconnects and their consequences are not addressed. Significant delays will occur more often and businesses will not be able to predict the transport times. In response, businesses may choose to store extra stock as a buffer in case of transport delays. Manufacturers and retailers will not be able to respond quickly to changes in customer demand, resulting in overstocks and having to sell at reduced prices, or running out of stock and losing customers.

This example illustrates how transport supply chain problems cost businesses much more than just the extra charges associated with the direct impacts, such as travel delays. Costs also arise from the flow-on impacts that a suboptimal transport supply chain has on business operations and reduced productivity across a range of sectors.<sup>12</sup>

#### ***Box 1 Fremantle Port in 2006***

During the Christmas period of 2006, freight volumes increased beyond expectations and problems emerged in the interface between container terminals and road transport operators, as well as between container parks and road transport operators. Insufficient freight moved in and out of the port. Many businesses were severely affected at a time of year they rely on for increased trade.

Measures have since been put in place to help mitigate against a recurrence of this gridlock situation. It provides a glimpse into the future for all ports if supply chain disconnects and their consequences are not addressed.<sup>13</sup>

Eliminating or reducing system disconnects has great potential to increase the effective and efficient use of Australia's port and land-side transport infrastructure,

<sup>9</sup> Independent Pricing and Regulatory Tribunal of New South Wales (IPART), *Reforming Port Botany's links with inland transport—Final Report*, Sydney, 2008; Department of Planning and Infrastructure, Government of Western Australia, *Council of Australian Governments Review of Western Australian Ports Final Report*, report prepared by The Allen Consulting Group, Perth, 2009.

<sup>10</sup> IPART, *Reforming Port Botany's links with inland transport—Final Report*, 2008.

<sup>11</sup> Victorian Freight and Logistics Council, *Truck Optimisation Plan: Port of Melbourne/Dynon precinct*, Melbourne, 2009.

<sup>12</sup> G Salk, Jr., 'The threat of global gridlock', *Harvard Business Review*, Jul–Aug 2009, p126–128.

<sup>13</sup> Fremantle Ports, *Annual Report 2007*, p 25; Department of Innovation, Industry, Science and Research, *Australia's metropolitan ports and future freight efficiency: A business competitiveness perspective*, unpublished discussion paper, 2008.

with benefits to business competitiveness and economic productivity. A 2006 case study of Melbourne land-side container transport considered another consequence of supply chain disconnects: restricted operating hours for parts of the transport supply chain. It was estimated that re-aligning operating hours for that transport supply chain alone would result in additional growth in Gross Domestic Product of around \$2 million per year.<sup>14</sup>

### **3.4 Addressing transport supply chain disconnects**

In order to improve the economic and business competitiveness outcomes from Australia's investment in sea freight transport infrastructure there is a need for:

- better national coordination of planning and investment for physical infrastructure<sup>15</sup>; and
- more effective and efficient use of infrastructure through removal of supply chain disconnects to create a more integrated transport supply chain.<sup>16</sup>

Removing supply chain disconnects has been identified as an important approach to addressing transport problems<sup>17</sup>, but has gained a less prominent profile in the national infrastructure agenda than the need for investment in physical assets. Here we provide some examples to illustrate how solutions to disconnects can be applied to improve the effectiveness and efficiency of infrastructure use.

Solutions to disconnects have been suggested and changes are being implemented for particular ports. As part of the Port Botany Landside Improvement Strategy, Sydney Ports is introducing<sup>18</sup>:

- peak period pricing to help drive 24/7 operations; and
- a performance management framework that will include agreement between stevedores and transport operators on service standards and penalties for failure to meet these standards.

These solutions represent a 'soft' infrastructure approach, that is, optimising the systems that support the efficient use of physical infrastructure, which is consistent with the APEC Supply-Chain Connectivity Framework.<sup>19</sup> Optimisation of these systems can involve:

- product, process and marketing innovation—improvement to the products, processes or marketing for services provided by operators in the supply chain (such as peak period pricing); and

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<sup>14</sup> Council of Australian Governments (COAG), *FreightSmart: review of urban congestion trends, impacts and solutions*, report prepared by IMIS, John G Edhouse & Associates, Paul Garth and Masson Wilson Twiney, Melbourne, 2006, p 19.

<sup>15</sup> National Transport Commission, *Supply chain pilots draft position paper*, Melbourne, 2009, p. 39.

<sup>16</sup> Australian Logistics Council, *The national strategy for the transport and logistics freight industry—Enhancing Australia's supply chains 2008–15*, 2008; pp 10–11; COAG, *FreightSmart*, 2006, pp 17–19.

<sup>17</sup> Australian Logistics Council, *The national strategy for the transport and logistics freight industry—Enhancing Australia's supply chains 2008–15*, 2008; pp 10–11; COAG, *FreightSmart*, 2006, pp 17–19.

<sup>18</sup> Sydney Ports, *Performance management framework and peak period pricing to commence within 6 months*, media release, Sydney, 3 June 2009.

<sup>19</sup> APEC Committee on Trade and Investment, *2009 Annual Report to Ministers*, Singapore, 2009, pp 12–13 and Appendix 8 p 100.

- organisational innovation—improvement to business practices and organisational processes (such as improved processes for performance monitoring and remedy, which would be incentivised by a contract specifying service standards and penalties).

The performance management framework at Port Botany will establish a commercial relationship between the stevedores and the road transport operators. This is not the only link in the chain where there is a misalignment of commercial and operational responsibilities. As identified in the Victorian Business Activity Harmonisation Study, '*Much of the bottlenecks that exist in the landside logistics tasks impact on and occur between businesses that have a direct operational relationship but no commercial relationship or responsibility*'.<sup>20</sup> When there is no commercial relationship between operators in the transport supply chain, an operator receives no direct reward for making the operational relationship more efficient, despite the costs the operator may incur. This creates a disconnect in the transport supply chain that affects the productivity of the chain as a whole. Establishing a commercial relationship is one way to provide the drivers for innovation in service delivery needed to improve productivity. The right regulatory framework is also important. For example, a reconsideration of limitations on higher productivity vehicles (HPVs) has been suggested in Victoria.<sup>21</sup> 'Smart' regulation reform can provide gains in innovation, business competitiveness and productivity.<sup>22</sup>

To address supply chain disconnects it is important to meaningfully engage with all supply chain stakeholders to understand their business needs and drivers, and identify workable solutions. The Victorian Truck Optimisation Plan (TOP: see Box 2) exemplifies this type of approach.<sup>23</sup> Each of the five metropolitan ports is dealing with a set of distinct challenges as each has a unique geographical and historical context. One of the strengths of the TOP approach is that it can identify workable solutions for specific issues, through stakeholder engagement to propose options for change and 'reality check' them with the stakeholders that would be impacted.

### ***Box 2 The Victorian Truck Optimisation Plan***

The Truck Optimisation Plan (TOP) was developed by the Victorian Freight and Logistics Council with funding from the Port of Melbourne Corporation. TOP aims to identify and capture any opportunities to reduce partially loaded and empty trucking movements in and around the Port of Melbourne precinct. TOP was conducted in two stages. Stage One was to record and document the reality of the complex logistics operations associated with the transport task in and around the precinct. In Stage Two, transport operators and the broader community of port users came together to identify realistic opportunities for improving truck utilisation.

<sup>20</sup> Victorian Freight and Logistics Council, *What is the mismatch challenge? Business Activity Harmonisation Study stage one report*, Melbourne, 2005, p 8.

<sup>21</sup> Victorian Freight and Logistics Council, *Truck Optimisation Plan: Port of Melbourne/Dynon precinct*, Melbourne, 2009.

<sup>22</sup> For example see: Queensland Treasury, *Smart Regulation Reform Agenda*, State of Queensland—Queensland Treasury, viewed 21 January 2010 <<http://www.treasury.qld.gov.au/office/services/regulatory-reform/smart-regulation-reform-agenda.shtml>>.

<sup>23</sup> Victorian Freight and Logistics Council, *Truck Optimisation Plan: Port of Melbourne/Dynon precinct*, Melbourne, 2009.

For example, there is no direct commercial relationship between empty container parks and the transport operators that pick up and deliver empty containers to the parks. To address a mismatch in operating hours between transport operators and empty container parks, TOP recommended a fee for service system for weekend or extended hours operations at container parks. TOP also recommended a booking system to enable transport operators to flag volumes, so container parks could match resources.

TOP is now in implementation phase.<sup>24</sup>

### **3.5 How a National Ports Strategy can help**

Identifying solutions is only part of the challenge. The solutions need to be implemented. This is challenging because implementation can require actions from a number of stakeholders in industry and government, each with their own business imperatives to meet and limitations on resources.

Returning to the example of disconnects at Port Botany and port gate congestion, there has reportedly been slow progress in getting agreement on the performance management framework. The Hon Paul McLeay MP, New South Wales Minister for Ports and Waterways, has stated that *'If we get voluntary agreement we are happy to follow that process but, if need be, I will regulate'*.<sup>25</sup>

It is appropriate for governments to consider their role in facilitating change. The TOP highlighted the need for a neutral facilitator to drive whole-of-supply-chain solutions. A National Ports Strategy is needed to provide a clear framework for co-ordinated national planning and investment in physical infrastructure and action on soft infrastructure solutions to ensure effective and efficient use of physical infrastructure assets. Once agreed by the Council of Australian Governments (COAG), the National Ports Strategy would formalise an all-of-government commitment to action, in order to gain the business competitiveness and economic benefits for Australia.

## **4 Important elements for the National Ports Strategy**

### **4.1 Removing system disconnects is a critical part of a three pronged strategy**

To address impediments to the productivity of metropolitan ports and associated transport supply chains DIISR suggests an interlinked three-pronged strategy which the National Ports Strategy could provide.<sup>26</sup>

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<sup>24</sup> Victorian Freight and Logistics Council, *Truck Optimisation Plan*; Victorian Freight and Logistics Council, viewed 11 January 2010 <[http://www.vflc.com.au/html/s02\\_article/article\\_view.asp?id=435&nav\\_cat\\_id=269&nav\\_top\\_id=107](http://www.vflc.com.au/html/s02_article/article_view.asp?id=435&nav_cat_id=269&nav_top_id=107)>.

<sup>25</sup> J Hutton, 'Decision needed on incentives at port', *Australian Financial Review*, 7 January 2010, p 6.

<sup>26</sup> Department of Innovation, Industry, Science and Research, *Australia's metropolitan ports and future freight efficiency: A business competitiveness perspective*, unpublished discussion paper, 2008.

1. The first element of the strategy involves removing the ‘disconnect’ in the system and fostering a business-to-port whole-of-supply chain focus. This should include input from all transport supply chain players including businesses that import and export products through metropolitan ports. It should help to create the right environment for innovation, such as creating incentives to change current practices.
2. The second element of the strategy is to improve both short and long term investment in road and rail linkages and intermodal terminals to address emerging long term needs.
3. The third element of the strategy is strategic, long term planning including the coordination and connectivity between existing ports, overflow ports and major infrastructure operators and users. The core issue is to ensure national transport supply chains operate as effectively and efficiently as possible to provide business competitiveness and economic outcomes.

These elements tie in closely to COAG’s national objective for future strategic planning of capital cities, agreed on 7 December 2009. The objective aims to ensure Australian cities are globally competitive, productive, sustainable, liveable and socially inclusive and are well placed to meet further challenges and growth. Criteria for capital city strategic planning systems under this objective include the provision of nationally-significant economic infrastructure such as transport corridors, international gateways and intermodal connections to address nationally-significant policy issues such as productivity and global competitiveness and the efficient development and use of existing and new infrastructure.

The COAG agreement on planning for capital cities confirms the national priority status of investment in infrastructure and long term planning (consistent with element 2 and 3 of the proposed strategy above), which should be part of a National Ports Strategy. The need to remove system disconnects should also be a priority element in the National Ports Strategy because it is critical to achieving effective and efficient use of new infrastructure and has great potential for increasing the capacity of existing infrastructure, as discussed above.

DIISR believes that the three-pronged strategy is important in realising the possible hundreds of million dollars in business savings and increasing the return on government investment in infrastructure, and should form part of the National Ports Strategy.

#### **4.2 Principles for decision-making**

In order to implement the National Ports Strategy in a way that will deliver positive outcomes for the competitiveness of Australian business end-users and the economy, guiding principles for decision-making are also important.

The National Ports Strategy should include the following principles for decision-making that ensure an informed infrastructure approach<sup>27</sup>:

- coordination—infrastructure planning and investment is coordinated and based on facts and knowledge of emerging trends;
- a business competitiveness perspective—decision-making considers the impacts on the business end-users of transport supply chains, including the direct costs of suboptimal transport supply chains and the flow-on impacts to business operations;
- a whole-of-supply-chain view—planning is done in collaboration with providers and users of infrastructure, and recognises the importance of each link in the chain and efficient connection between the links;
- 'soft' infrastructure—infrastructure planning and delivery seeks to optimise the systems that support the effective and efficient use of infrastructure, existing and new (e.g. pricing arrangements, common user ICT systems)

### **4.3 Commitment to action and intermediate goals**

To improve the success of implementation, it is important that the National Ports Strategy contains a commitment to action and it would be helpful to include some short to medium term goals to clarify direction and maintain momentum.

DIISR suggests that the National Ports Strategy include a commitment from COAG members to work cooperatively to facilitate the removal of disconnects in sea freight transport supply chains for Australia's metropolitan ports, in order to improve the effective and efficient use of infrastructure.

While ports and associated sea freight transport links are largely the domain of state and territory governments, the Australian Government could take a leadership role by:

- championing action at COAG meetings and in COAG agreements;
- modelling best practice in funding decisions; and
- considering incentives for action (and disincentives for inaction) when agreeing on the conditions associated with funding initiatives to state and territory governments (for physical infrastructure and supporting systems).

Suggested short-term goals are for state and territory governments to:

- (i) establish a process for identifying workable solutions to system disconnects, through engagement with all transport supply chain stakeholders including business end-users (the TOP approach can be used as a model);
- (ii) report (by 2011) on the actions that government will take to implement, or facilitate implementation of, these solutions and the implementation schedules; and
- (iii) report (by 2012) on initial progress in implementation of the solutions and any revisions to the action plan for implementation.

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<sup>27</sup> Department of Innovation, Industry, Science and Research, *Services sector: Overview of structural change—Industry Brief 2007–08*, Industry Policy and Economic Analysis Branch, DIISR, Canberra, 2009.

Depending on the outcomes of stakeholder consultation for the National Ports Strategy, specific solutions to transport supply chain disconnects may emerge as clear priorities for implementation, such as common user IT systems to improve information flows (as suggested in reports from the National Transport Commission and the Australian Logistics Council<sup>28</sup>). Such high priority solutions should also be included as short-term goals in the National Ports Strategy.

## 5 Sensitivities or areas of concern

DIISR's focus is on opportunities to reduce costs for business users, now and in the long term. With this in mind it is critical that the National Ports Strategy focuses on:

- metropolitan ports in addition to resource ports;
- the effectiveness and efficiency with which our major infrastructure assets are utilised and provide whole-of-supply chain and hard (physical) and soft (supporting systems) infrastructure solutions;
- transport supply chain connectivity issues associated with ports; and
- the impacts of decision-making on business competitiveness, including both the direct costs and the flow-on impacts for business operations.

While suboptimal land-side transport supply chains are a generic issue for all Australian ports, the details of the challenges and possible solutions will be different for each port. As such, the National Ports Strategy needs to set out a framework to address the issues for ports on an individual basis, because aggregate solutions can mask individual issues. A National Ports Strategy should not focus on a few large infrastructure projects alone, as these will not address issues for all ports. The business user perspective which DIISR proposes is an effective approach as it provides a holistic basis for addressing the performance of transport supply chain activities between the ports and businesses.

## 6 DIISR's contribution to the National Ports Strategy

DIISR can provide guidance from a business end-users' perspective on how disconnects impact on business competitiveness and the benefits that can be achieved from improving productivity. This information is relevant for the development of the National Ports Strategy and decision-making on its delivery.

DIISR's consultation with industry resulted in preparation of the ports discussion paper, "*Australia's Metropolitan Ports and Future Freight Efficiency: A Business Competitiveness Perspective*", which DIISR has provided to Infrastructure Australia. This discussion paper highlights the pressing need to address freight transport performance issues at the five metropolitan container ports in order to support the competitiveness of Australian businesses now and as trade volumes increase in the future.

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<sup>28</sup> National Transport Commission, *Supply chain pilots draft position paper*, Melbourne, 2009, p 40; Australian Logistics Council, *A smarter supply chain*, discussion paper by ICT Sub-Committee, ALC, 2010, p 15.

In addition, DIISR engaged consultants to undertake two pilot studies on the land-side transport supply chains for two of Australia's major container ports: Sydney and Melbourne. DIISR has previously provided the reports on these pilot studies to Infrastructure Australia. The purpose of the pilot projects was to develop a methodology for estimating the costs to business users due to transport supply chain performance impediments (bottlenecks, infrastructure gaps, system disconnects) that could be expanded to a larger study of all major ports. Now, with development of the National Ports Strategy underway, DIISR is keen to ensure that its work is complementary and supportive of the National Ports Strategy.

In terms of finalisation and delivery of the National Ports Strategy, DIISR would be supportive of measures that improve business competitiveness, innovation and economic outcomes, and would be happy to participate in whole-of-government processes for implementation decision-making and action, as appropriate.

## APPENDIX A

### Infrastructure Investment: Lessons from the Past

In the past, decisions taken on investments in infrastructure facilities that are integral to such supply chains have arguably not had the benefit of appropriate planning frameworks, with such decisions often having been taken in isolation from other supply chain inputs. At times, short term goals have influenced the nature of such decisions. This has been to the long term detriment of users of such facilities, including businesses.

A 2005 report on Australia's export infrastructure perhaps best sums up the nature of the problem.

“A consistent theme through the consultations and in submissions was the need for greater coordination between the three levels of government and the private sector to ensure the provision of appropriate infrastructure on a timely basis.

The Business Council of Australia noted that: Shortfalls in the capacity of Australia's infrastructure flow from the convoluted institutional arrangements and poor policy choices – not from the demands of higher economic growth or a scarcity of resources or funding.

The AusLink White Paper observes that: Australia cannot afford poor and uncoordinated infrastructure decisions that impose high costs on the community, the economy and the environment. The existing planning and decision making framework is short term, ad hoc and fragmented across transport modes and jurisdictional boundaries. The development and implementation of a national vision for critical land transport links is vital.

Lack of proper planning and timely investment in infrastructure can have a direct impact on Australian exporters.”<sup>29</sup>

These issues are mirrored in a 2009 National Transport Commission Report which identified the need for governments to strengthen national coordination of planning and investment across all transport modes in the sea freight transport supply chain.<sup>30</sup>

Current governments have an opportunity to learn from the past. The Australian Government is investing \$26.7 billion on road and rail infrastructure through the Nation Building Program over six years from 2008-09 to 2013-14. It is critical that the investment of such a large amount of money be in projects that represent good value for money, are strategic, well planned and which demonstrate high levels of national economic benefit.

Infrastructure investment should be undertaken with a view to ensuring that the facility offers the best value for money and a net economic benefit. The infrastructure facilities should be the best that can be established with available funding.

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<sup>29</sup> Exports and Infrastructure Taskforce, *Australia's export infrastructure*, Report to the Prime Minister, Canberra, May 2005.

<sup>30</sup> National Transport Commission, *Supply chain pilots draft position paper*, Melbourne, 2009, p 39.