



Breaking the bottleneck

Recent public attention has focused the spotlight firmly on the freight infrastructure problems currently facing Australia. Domini Stuart puts forward the question: can our infrastructure match our vision of continuing export growth?

“So we have this picture of an economy where more people are in work than ever before, the company profit share is as high as it has ever been, but we have disappointing export growth...partly because we have seen bottlenecks emerge particularly in some of the ports on the east coast of Australia.”

Less than three months after federal Treasurer Peter Costello voiced this concern, Prime Minister John Howard appointed a small taskforce with a brief to “identify any bottlenecks of a physical or regulatory kind in the operation of Australia’s infrastructure which may impede the full realisation of our export opportunities.”

Trevor Jorgensen, CEO of the Queensland Sea Freight Council, suggests they sit on a hill overlooking any capital city. “The chaos on the approach roads to the ports is there for anyone to see,” he says.

Knots in the supply chain

A report released by the Sea Freight Council of NSW Inc in January identifies four major bottlenecks in the sea freight supply chain – port terminal management, staging of containers, empty container management and hours of operation – along with a failure to view the chain holistically.

“The process definitely needs to be more efficient,” says Jorgensen, “but you’re talking about a political minefield. Take the mismatch of hours issue. Trucks should be loading and unloading 24 hours a day, but people in the new inner-city tower blocks aren’t going to be very happy if, suddenly, they’re roaring past all through the night. Every road goes through somebody’s electorate.”

Meanwhile, exporters are paying a high price for the delays. “25 per cent of every road transport operator’s costs can be attributed to congestion,” says Neil Chambers, Industry Services Director of the Victorian Transport Association. “If there’s no improvement, by 2015 that will have risen to 50 per cent. That’s a lot to pay to have your goods sitting in queues at ports and distribution centres.”

Chambers believes that everyone from exporters to stevedores and port owners need to work together for change. “We must start working smarter,” he says. “We have the technology for greater visibility and co-ordination between partners across the whole chain – we should be using it. And the government must work closely with the community, responding quickly to industry issues and encouraging innovation.”

The big picture

Stephen O’Donnell, CEO of Pacific National, believes that the single biggest government transport policy failing is the disconnect between pricing, investment and competition. “This is further aggravated by considering these issues in modal isolation,” he says. “For example, the National Transport Commission is responsible for setting the pricing framework for heavy vehicles – trucks. This is done in isolation of road investment, competition policy and takes no account of the potential impacts on rail or sea freight.

“Efficient rail is lower cost than road on every major corridor,” he continues. “Yet rail has only a 21 per cent share of the long-haul Melbourne to Brisbane corridor. Compare this with around 80 per cent of the share from East to West. With 80 per cent of freight travelling on heavily trafficked East Coast roads, there is a major looming infrastructure bottleneck that can be addressed by unlocking rail’s potential.”

Chair of the International Commission on Shipping, former federal Transport Minister Peter Morris, adds that any transport strategy which excludes our own interstate shipping services is irresponsible in terms of security, energy and the environment.

"We know that the most expensive way of moving containers from east to west in Australia is by road," he says. "Rail is cheaper, but sea transport is considerably cheaper than both and we know that, on a level playing field, Australian ships can be less costly than foreign ships."

Competitiveness compromised

As the push for export growth continues, Stephen O’Donnell points out that investment in infrastructure has declined from 7.2 per cent of GDP in the early 1980s to just 3.6% in 2003/2004. He also warns of trouble ahead if this is not addressed urgently. “We will definitely see in the transport sector major constraints placed on our ability to delivery freight services,” he says. “These constraints will impact on our competitiveness as an exporter, and we will certainly lose ground, as a nation, to our competitors.”

Trevor Jorgensen believes ground is already being lost. “I’ve known Singaporean importers who would like to buy from Australia but say it’s too expensive – yet they

can afford to buy from somewhere like South Africa or Chile. Freight costs out of Australia are relatively cheap, so it has to be the cost of getting goods to port that makes us less competitive.”

The biggest bottleneck in Australia

Coal is Australia’s largest export, earning over \$13 billion in 2004. Yet, at the time of writing, 50 ships were queuing outside Queensland’s Dalrymple Bay coal terminal with an anticipated wait of more than three weeks before loading.

According to federal Treasurer Peter Costello, this is the biggest bottleneck in Australia, costing our coalminers \$2.4 million a day in demurrage alone.

Once owned and operated by the Queensland Government, Dalrymple Bay was sold four years ago to Prime Infrastructure. At the time, Queensland Treasurer Terry Mackenroth said that one of the main benefits of the sale was that the Government would not have to finance future maintenance and expansion.

Since then, Prime has spent \$150 million on increasing capacity from 45 million tonnes to 60 million tonnes, and the company is ready to invest up to \$850 more on upgrading the entire terminal. The hold-up is the result of an impasse between Prime and the coal producers, who can’t agree how much they should pay per tonne for access to Dalrymple Bay in order to underwrite the capacity expansion.

As Dalrymple Bay is a regulated asset, the Queensland Competition Authority stepped in late last year with a draft determination on the access pricing. This was unacceptable to Prime, and also dismissed as unrealistic in 13 of the 15 public submissions. However, Prime Infrastructure Chief Executive Chris Chapman remains ‘quietly confident’ that the second draft, due at the end of April, will provide a sensible financial solution. Meanwhile, federal Treasurer Peter Costello is threatening to call on the ACCC to intervene.

While the political debate rages, it’s easy to overlook the fundamental cause of the problem. No-one anticipated the surge in demand for coal from developing countries like China and India.

“Just over a year ago, Rio, BHP – all the major coal producers – were at our quarterly capacity planning forum,” says Chapman. “Not one of them asked for increased capacity.”

Until the bottleneck issue is resolved, exporters should be careful what they wish for.