

Inquiry into Horizontal Fiscal Equalisation by the Productivity Commission

Submission by Peter Brohier,

Attachments numbered 1 to 19 are to be part of this submission.

HFE – first fix the national framework - consistent with the aim of federation

Issues of Horizontal Fiscal Equalisation ‘HFE’ should be dealt with after each state and territory has been equally linked, integrating them into a national economy by fairly facilitating the movement of people and freight across our nation.

Support for government services should then be apportioned as if an overlay over the then equalized economy of the states and territories.

Tasmania has not been linked to the national highway. All other states and territories have been. This omission adversely impacts on the movement of both people and freight unfairly limiting and skewing the Tasmanian economy.

In 1996, the Bass Strait Passenger Vehicle Equalisation Scheme ‘BSPVES’ and supporting undertakings were to properly link that state with a national transport connection where travelers were to be the principal and direct beneficiaries. The BSPVES was not to become a subsidy for Tasmania.

Tasmania can act to access people

Despite recent statements by the Federal Government, effectively removing the word ‘equalisation’ from an equalisation scheme, Tasmania continues to have every resource to link its state to the National Highway network.

It need not rely upon a greater allocation of GST than necessary to fund its services and can easily generate greater GST payments across its whole economy.

It has an immediate ability to raise revenue and reduce its own expenses for servicing its people over a substantially and rapidly increased population base.

It can without delay apply the uncapped, demand driven federal 'BSPVES' far more effectively in the interests of travelers, and consequently, its state.

This would allow both passengers and associated vehicles to travel across Bass Strait in both directions by ferry at the same price as travelling an equal distance on the rest of the National Highway.

It will enable fast substantial integration of the Tasmanian economy with that of the mainland at its doorstep. Its ability to efficiently introduce and or operate comparable government and other services over a much larger population base can be the result.

Meeting sea highway policies

A people's campaign, well supported by business, has given Tasmania an opportunity to be connected, which started in 1996 and continues to this day.

To achieve this outcome, sea highway transport policies, outlined by the Coalition in 1996, would need to replace current limited volume, value added tourist approaches initiated by Tasmania.

The original intent of the scheme and related undertakings will then need to be applied in full – see Tasmanian Package document 1966 attached.

Highway fares should be about a quarter of existing average fares.

Tasmania has recently gone some way to reduce total fares. This has increased revenue for their shipping line, but nowhere near consistent all - year low highway fares are offered.

Making better use of the BSPVES

This change can be made at little or no cost to taxpayers by making far better use of the BSPVES - also, by using ferries on unused day sailings throughout the year.

Highway equivalence can be achieved by increasing the passenger vehicle ratio through offering inclusive passenger and vehicle fares of about \$300, or set at 70cents a km and based on the efficiencies of road travel. Also, by offering a \$50 'bus equivalent' foot passenger fare as proposed by John Howard in 2001 – see attachment Bob Cheek's book. Revenue from its shipping operation can further increase, offsetting further the cost of the BSPVES to federal taxpayers.

This move would directly target a far broader tourism market, cover visiting friends and relatives travel and business travel normally using roads – See the Federal Government's response to the PC's report attached.

Stop quarantining the BSPVES unless delivery of equalisation

If travelers were shown to be the direct and main beneficiaries of the BSPVES, with a byproduct being benefits to the economy of Tasmania, it would also make better sense of the existing quarantining of Federal BSPVES payments from fiscal interstate distribution calculations .

The impact on state growth would be immediate. It would be as great as cutting a ribbon on a new highway between the largest population centre in Australia and a prime tourist and residential destination or extending the Hume to Hobart.

A study found that price and capacity are the major determinants of Crossing Bass Strait by sea.

In 1996, a people initiated and led campaign sought transport equality across Bass Strait.

The centerpiece of their success was the introduction of the Bass Strait Passenger Vehicle Equalisation Scheme – see the 1996 Tasmania Package and resolution of the Federal Conference of the Liberal Party, attached.

Stop destroying the BSPVES

Regrettably, processes involving Governments and the Productivity Commission, over the last 20 years, have now largely destroyed the original intent of the scheme. This is despite two successful campaigns attracting mandates and obtaining massive bipartisan federal funding for our cause.

The BSPVES now fails to govern the total price of travel for people and vehicles. It may arguably offer some value added travel but not low all year, highway travel costs. The BSPVES has no price control mechanism and has not encouraged sea based competition, as expected. Today it languishes largely in a policy vacuum. Total fares vary constantly and substantially.

The Coalition had said Bass Strait was to be part of the National Highway. Other Interstate inter-capital highways have never been destroyed so quickly without appropriate consideration.

Tasmania is entitled under federation to be linked to the mainland in a way that would integrate it into national economy, through the fair interstate movement of both people and freight.

The BSPVES, and policy initiatives associated with it, as outlined in the 1996 Tasmania Package, need urgent application and enhancement, especially in the absence of sea based competition.

The uncapped demand driven scheme must deliver an outcome that offers transport equity and economic growth to the people and the whole Tasmanian economy, not to mainly a small part of it. Tasmania is far from being exclusively a 'Holiday Isle'.

The scheme should be made to deliver sea based highway equalised travel costs consistent with the land based highways its joins.

A federal responsibility

This corridor is a federal responsibility but Tasmania alone could, using the flexible BSPVES, open its borders.

Unfortunately, Canberra's test to determine success of the BSPVES is inadequate and virtually meaningless. Its controls over uncapped equalisation funding are also poor. It offers no control over total access costs which vary significantly and daily and doesn't encourage efficient use of BSPVES funding.

A punt operator charging vastly different costs to cross could render the highways the punt connects virtually useless. The same is occurring with Bass Strait crossings, in this case on a multi - billion dollar inter-capital highway.

Stop denying equalisation

The Federal Minister for Transport has recently confirmed that the BSPVES equalisation scheme is not now to be about 'equalisation' of inbound and outbound travel.

The Minister seems to be following the PC's recommendation to turn equalisation into a subsidy - not Coalition policies targeting the traveler.

In 2001 when it was said that the Coalition was to be expanding the scheme, the BSPVES highway monitoring formula was removed and replaced by CPI, a funding mechanism.

Why subsidies are irresistible – but is the cost too high

It must be almost irresistible to some that a BSPVES, introduced for the people and fought for by the people, offering uncapped federal funding, and having a net present value in the billions, could be turned into subsidies for Tasmania. Even further, now consistent with a suggestion of the Productivity Commission.

Despite the 1996 Coalition promises and funding, and the recognized seriousness of the Bass Strait impediment to economic growth and travel, the only interstate inter-capital gap in the National Highway network has not yet been properly and finally closed.

Given the Minister's current stance, federal, formerly said to be 'highway' equalisation schemes, will not now close this gap as the sea highways had done in centuries past.

The vital movement of people between the nation's largest population corridor and the island state will continue to be substantially restricted.

The movement of travelers, residents, capital and labour is being curtailed as would any state or major region not serviced by an interstate highway.

This adversely impacts on the growth of population, investment and jobs across South Eastern Australia - particularly in Tasmania – see TT Line letter attached.

Big picture targeting is needed

The generators of about 70% of GDP - namely those activities needing people, including government services of all kinds, are being denied access to people and lack critical mass caused by an interstate link that doesn't function as a highway or bridge.

Instead, possibly a 7 to 10 % generator of GDP relating to core accommodation services in Tasmania seems somewhat well catered for - but few others – see Cheek's book attached.

This sector seems incapable of driving two whole broad based economies as would a sea highway connection.

Bass Strait needs to be governed by transport polices, not by one-way limited tourist policies. There is a world of difference.- see Austrade's submission to the PC's last TFES and BSPVES inquiry relating to the definition of tourism used in monitoring reports.

The gap, and Tasmania's current approach to do little to close it using a sea highway, is the major reason why the Tasmanian economy is dependent on a larger than necessary share of GST revenue from the other states. It also lessens GST revenues from Tasmania by restricting economic activity across Tasmania and beyond. Service provision over an unnecessary small population base creates inefficiencies.

Perhaps this leaves Tasmania open to say it's a special case and in need of special treatment.

Tasmania – not a special case

Tasmania is not a special case. It is surrounded by water. Other states and territories are surrounded by desert. Tasmania based on its geographical location, is not remote – it's just not properly connected by highway equivalence. All other states and territories are connected by highways.

The Productivity Commission has recommended the BSPVES be abolished, or alternatively, its funding be turned into subsidies.

Despite this, Canberra still funds the BSPVES and has done so for more than 20 years. Suggestions for revision, at some undetermined future time, 20 years after the BSPVES was introduced are unacceptable. The coverage of the scheme was wide enough 20 years ago and the issue with air settled. Why try to open it 20 years later? See the federal Government's response to the PC's inquiry.

Equity for the traveler

The BSPVES was the people's money.

The highest level of undertaking in a nation is that between the people and their government. Break this trust and you erode democracy.

There is no excuse for not delivering Coalition promises of transport equity as outlined in the Tasmania Package and attachments.

Findings of the Productivity Commission must be consistent with the delivery of the will of the people and not suggest turning equalisation schemes into subsidies. Governments should also not support this outcome, in lieu of their own sound policies.

The PC needs to take into account the context in which the BSPVES was introduced, Federal responsibilities and the important intended beneficiaries of the scheme. By doing so, they can help integrate Tasmania into the national economy - not support begging bowl politics in lieu of sound well supported national sea highway policies.

The significant dependency of Tasmania on subsidies or increased GST revenue from other states for infrastructure and service provision can be easily replaced by closing the Bass Strait gap. Either the Tasmanian Government or the Federal Government can do so in days.

Large capacity available - chartered ferries over summer

Either can make better use existing uncapped BSPVES funding, unused ferry capacity and chartered ferries over summer from the Northern Hemisphere.

Canberra is obliged to link all states equally, including the full east coast of Australia - not just aim at new fast trains and then ignore the Tasmanian connection. But, under the BSPVES, Tasmania can go a long way to remedy its own situation.

Discrimination based on the nature of the intervening terrain

The National Highway gap discriminates against Tasmania and Victoria based on the nature of the intervening terrain (water) rather than taking full advantage of both states geographical proximity to each other.

Melbourne to Hobart is the shortest interstate inter-capital route in the nation.

Existing highway equalisation schemes can be affordably targeted to comprehensively remove this gap, instead of the PC and others encouraging their erosion.

We call on the PC to stop reinventing the wheel, with suggestions of yet further subsidies, and instead encourage core equalisation promises to be put into effect on such a vital corridor.

The democratic process regarding this critical link is not functioning – see attachments that form part of this submission. Twice we have come to Canberra and twice the benefits of our efforts end up going to others.

Linking Tasmania will increase the effectiveness of existing and future state and federal investments of all kinds - also, those of the private sector in both Victoria and Tasmania.

Modeling is unnecessary – meet the promises

No economic modeling is needed. In the early stages, the BSPVES, then offering lower total fares, and as applied by two new ferries, was an outstanding success. It turned the Tasmanian economy around and was reported worldwide.

Why try to erode it? Why not increase its effectiveness? The scheme offers nowhere near the success it would if full equalisation were implemented.

A carrot and stick approach is needed to the BSPVES – not destruction of this scheme with just the offer of further carrots for other unspecified various purposes.

Tasmania must now strongly ask for restoration of this link, assist in its delivery and not leave it just up to people and business to continue to ask Canberra to close the gap.

Tasmania, and or Canberra, should not give in to those that want the massive uncapped, demand driven BSPVES funding to be spent in ways that will meet special interests.

Without the National Sea Highway arguments, supported across the nation, Tasmania would not have received the BSPVES funding in the first place.

A sea highway will serve the people and all sectors of the economy on both sides of Bass Strait equally. Half of the strait is in Victoria.

The economy can be positively changed overnight by moving from a limited tourism model to a highway based transport model.

Open borders work in Switzerland

If such a transport model is good for Switzerland, why not then for the 'Switzerland of the South'?

We say to Tasmania, Victoria, Canberra, and the PC - stop allowing or facilitating the BSPVES funding to be removed or used for other unknown, unsubstantiated, speculative or limited purposes.

You will be skewing access on a key national route without justification.

We are tired of asking Canberra for equalisation and obtaining funding that is subsequently redirected.

This should not occur in a working democracy with the level of public and business support we obtained.

Also, in the absence of equalisation schemes, how is the nation to be offered surface transport equality – are you now going to build a bridge?

We just asked for a ferry link that can drive two whole of state broad - based economies, not one focused mainly on one-way driving holiday travel with a Commonwealth funded car, leaving uncontrolled total fares set daily by one operator.

Victoria's role

Victoria asked for an Aus Link connection to Tasmania – to our knowledge Tasmania didn't. It should have. Not even its southbound consumables, including building materials, are covered by equalisation under the Tasmanian Freight Equalisation Scheme.

Victoria should stand up strongly now as it did in 1996 for its own citizens and economy, encouraging surface travel both ways to and from Tasmania and then linking its road and rail systems to the Tasmanian transport corridor. It can open up access to a full island chain at Victoria's doorstep and reduce complaints about growth in its population whilst continuing to service a growing Tasmania.

Victoria is entitled to a full third interstate, inter-capital transport corridor to Hobart – its geographical position justifies it. This will create huge opportunities for many worthwhile infrastructure links across Victoria, including ring road and rail connections around two cities by

Port Phillip Bay - linking to the Tasmanian transport corridor – see Tasmanian Times, Omega Transport Plan.

Infrastructure Australia – sea links can't be omitted

Infrastructure Australia should be in a position to incorporate Bass Strait ferry crossings in its assessments over this vital road and ferry link. How can proper assessments be made of Victoria's needs without taking into account the operation of the sea link to and from Tasmania. Bass Strait ferry transport must be recognized as 'infrastructure equivalence'.

Tasmania can't rely on air alone – what would happen if the road links to Canberra were cut

Air services should compete with inter-capital highway travel as they do across Australia. Unfair protection of air, by not introducing a sea highway connection, results in many light luggage travelers flying over Victoria or photographing merchandise, but not buying it, in both states.

All states should enjoy equal air and surface connections. Interstate inter- capital air services offer a level playing field between states - equivalent surface access still doesn't.

Second class citizens

Tasmanians, wherever they live, should not be treated as second class citizens.

They should not be required to beg Canberra for subsidies. What sort of subsidy do you propose giving Tasmanians and others living in other states to enable fair surface access to the state of their origin?

The sea highways of yesteryear connecting the colonies became redundant when subsidized rail and road links connected mainland states. Isn't it time to restore equity, after 20 years of being promised it?

Economically dry policies

The PC ought to support the effective linking of Tasmania based on economically dry policies, consistent with a national road system that connects other states over mountains, deserts and rivers. Ferries link other parts of the world.

We made the case for the effective linking of Tasmania and obtained, national support, uncapped federal funding for equalisation, large capacity ferries and sea highway policy.

Surely we need to have our needs met and not have the BSPVES directed to favor others.

Effective response to democracy

More importantly today, isn't it also now an even greater matter of effectively responding to democracy?

This issue is also about equity, significant and game changing economic growth and fair access to and from Tasmania for all.

If the BSPVES is applied to deliver equalisation, and not another subsidy, most sectors of the economy in Tasmania will improve overnight. GST from South Eastern Australia can then increase and be more fairly distributed between states.

The whole, broad-based economy of Tasmania will benefit.

Subsidies can't do the job

No other initiative for Tasmania can be anywhere near so comprehensive, so immediate and so certain of success – with little or no economic downside.

We say to Tasmania, the Commonwealth, the PC and others, stop the process of turning our well justified sea highway equalisation into subsidies and then putting them in jeopardy, so much so that the PC then recommends their removal.

Bass Strait is a national transport corridor of significance and must be addressed by all governments and by this inquiry so that HFE can be overlaid and then settled on a proper basis of interstate equality.

Both Tasmania and Canberra can fix Bass Strait overnight reducing the need for HFE allocations

If no one acts, erosion of the very foundation of democracy and the economy of Tasmania will continue while Western Australia and others pay.

If through HFE, Tasmania is funded as a basket case, and the PC suggests adding further subsidies, what incentive is there for Tasmania to strengthen its links with mainland Australia, and by doing so, the people related base of its economy?

The people of Australia will continue paying for a state that can possibly well stand on its own feet enjoying an already largely federally funded transport connection, the benefits of which are then capable of being directed to nearly everything, but transport.

Support across Australia for equalisation – not subsidies

The road system, regardless of the standard of road, offers access for all - equally.

Surely the movement of people is not to be largely ignored in a changing world of enterprise that critically needs access to people.

Support across Australia for an equalised National Sea Highway was substantial and the subject of a bidding war between Prime Minister's Keating and Howard.

Because of its impact on key marginal seats, it possibly gave John Howard government.

NOTE: Government response came too late for proper investigation

In the case of the recent Tasmanian Freight Equalisation Scheme 'TFES' and BSPVES Productivity Commission review, the Federal Government's response relating to the question raised by the PC as to the purpose of the BSPVES, came too late for it to be dealt with effectively by the PC, the ACCC or by the PC's respondents.

Regardless of this, the Productivity Commission should have an ongoing role in revisiting findings subsequently proven to be inappropriate, ineffective or inconsistent with sound democratic processes and proper fiscal redistribution.

Peter Brohier was chairman of the former Committee for Bass Strait Transport Equality and the former National Sea Highway Committee, the catalysts behind the introduction of the BSPVES.