

Consumers in Tasmania are not being offered a consumer framework that is fair and equitable.

All material is before you and the final report by the Productivity Commission regarding TFES, is now public.

The report concludes that there is a need to justify a fully equalised sea highway concept or an Auslink Bass Strait link on economic grounds and it would be too costly to implement full equalisation over Bass Strait. The view is given expressly, or by implication, that any such move could see a watering down of the TFES to pay for other equalisation benefits. No estimate of the cost of an increase in TFES to cover south-bound consumables or international exports was included. How is this then regarded as too costly? Under Auslink, billions are going into other interstate routes. No evidence of the potential positive impact on domestic or international business, investment and jobs appears in the Commission's report. How then can the Commission reasonably hold this view?

Under the TFES review terms of reference, the Productivity Commission had a chance to recommend the expansion of the TFES or an Auslink inter-capital city corridor to recommend an equal link to all other inter-capital highway links, on a price per kilometre basis. TFES would then apply to all goods crossing by sea. The Commission rejected this option. The then Prime Minister intervened in 2007 after the Commission's interim report, recommending that TFES be abolished, saying that TFES was an important element of programs "equalising cost disadvantage between states" and he would retain it. Still the Commission didn't take the opportunity to recommend comprehensive equalisation. Why? Did the Commission want to save the Commonwealth money rather than looking at what seems a very rational policy basis for the link and its economic potential?

In 1996 the people of Tasmania and the nation were promised an ongoing Tasmanian Sea Highway that was equitable and affordable and part of the National Highway. It was funded under the BSPVES with uncapped funding that could be used many ways. The concept has been continued by Rudd Labor to justify continuing and enhancing the BSPVES.

The Productivity Commission's TFES findings should now be reversed and schemes that deliver an effective sea highway or equalise "cost disadvantage between states" put in place. This "disadvantage" impacts both Victoria and Tasmania and the nation as a whole.

I call on this Commission to recommend the building and implementation, without delay, of a working framework offering "equalisation" upon which all people and all industries can equally benefit, including tourism, using existing uncapped resources under the BSPVES and TFES.

Three Prime Ministers have justified support for the route on equitable grounds, not on economic grounds, as suggested by the Productivity Commission. They then offered liberal funding and highway policies based on equal links aimed at highway or bitumen equivalence. Billions of federal dollars are going into other interstate inter-capital routes.

If the policy is clear and has been for over 10 years, why do federal officers seem to be allowing the BSPVES scheme to be just focused as though it were just a single industry assistance scheme, not based on equalisation?

Adequate uncapped funding and overall sea highway policies are in place but there still is no adequate departmental working framework for delivering equalisation. Why not? Equalisation formulas have been removed from ministerial directives. Why?

Why is Canberra's bureaucracy not facilitating equalisation policies whilst Prime Minister Rudd's and Howard have continued to advocate them?

Instead, one-sided tourism targeted policies based on subsidising the shell of cars and not the people inside, seems to be the focus and are facilitated by many federal monitoring reports to the minister, ignoring highway equalisation.

Annual BTRE reports to the relevant minister are not now focussing on highway equivalence, but mainly the benefits of holiday packages for Tasmania and aspects of one-state tourism.

Is the BSPVES just to deliver some tourism industry objectives? Surely tourism should be look at in the context of highway equivalence.

All other states develop tourist industries on national highway links or equalisation. What is different about Tasmania that it should not enjoy equalisation and why are the interests of Victoria being ignored?

Is the Minister being made aware of the difference between tourism targeting packages (the legitimate interests of an industry) and highway equivalence?

Is it Canberra's intention to just to support one industry on one side of Bass Strait with \$50 million a year uncapped BSPVES funding and ensure the impact of Tasmania's isolation continues to impact adversely on others?

Highway equivalence is about equal interstate links, air competing with air, and surface competing with surface, just like all other interstate highway links and inter-capital air services. Ferries would operate as though they were a bridge.

Under tourism targeting there can be a general indifference of how visitors arrive, by air or sea, as long as they stay for longer periods and usually spend, preferably within core facilities provided by the tourism industry. Indirect benefits would also possibly flow from tourism to some other industries.

Should an industry target 4 or 5 star clientele, it may seem better to some to have a few high spending visitors rather than volume travellers, it would try to introduce premium level access facilities, longer convenient overnight travel routes with cabin accommodation, travel experiences, fewer passengers per car if Canberra was paying for the car, two berth cabins, a better standard of sit-up accommodation, day sailings that allowed passengers to remain at their destination longer, choose to apply federal

taxpayer's funding to offer a free car, or reduced cost for the car, as an incentive to travel instead of applying virtually unconditional federal equalisation funding to either reduce the driver fare and adopt a strong focus on travel packages, including land based accommodation.

All this seems consistent with the current application of the BSPVES and comments by some about requiring those who can afford to come, rejection of a volume service and \$50 passenger fares and not targeting "those without funds" and the reported comments by a Tasmanian tourism minister relating to the targeting the type of people the "4 and 5 star hotels want" and ambitions to seek high yield travellers.

BSPVES funding, or any increase in funding, under the BSPVES also transfers the financial burden on travellers to the Commonwealth. If there is a focus on high yield travellers then they could be offered upgraded service levels, at additional cost to the traveller. They can end up spending the same total amount that they were prepared to pay before the increase in the BSPVES payment, but now with the additional BSPVES payment being made on top of that by Canberra.

Both air and sea packages costs can also rise for any reason. Under competition, sea packages, passenger or car-fares can then rise to meet increases in air packages.

Without controls over the use of the BSPVES, the Commonwealth's funding will, over time, just allow and even encourage an increase the total cost of crossing and reduce the availability of basic sea transport options for ordinary people.

Of what relevance then is highway equivalence to this approach?

Probably very little but it seems to provide the political justification for the BSPVES funding and may, on a superficial view, stop other regions from making similar assistance claims on Canberra.

Whilst not suggesting a bridge over Bass Strait, a Commonwealth funded bridge or physical highway would offer neutral travel between all people and industries on either side of Bass Strait and offer highway equivalence. The BSPVES needs to adopt the same un-skewed focus.

Offers by Rudd Labor to index the BSPVES funding using the consumer price index and, not by highway equivalence, will make the source of BSPVES funding inflation proof. The CPI seems an appropriate index for a subsidy, not equivalence. The original promise was to review the scheme annually to maintain equity based on the cost of road travel.

If controls were introduced by Canberra, through regulation imposing community service obligations in return for BSPVES funding, the total cost of crossing can easily be pegged to the cost of bitumen with optional add-ons, if necessary, allowing for tourism targeting, if necessary.

With substantial existing unused sea capacity at current fare levels, introduced by the existing operator who is owned by the Tasmanian Government, sea-based competition is now unlikely to put any downward pressure on sea passenger fares.

The Coalition in 1996 expected the introduction of the BSPVES to encourage sea based competition to lower passenger fares. It would seem now to be highly unlikely to arise.

An acceptance of the shipping company's inability to compete against discount air fares on price but willingness to offer "attractive offers that encourage people to travel with their car" would seem to eliminate direct sea fare- air fare competition. The availability of the lower cost or "free" car, without highway equivalence, destroys the parity between air and surface travel on all other inter-capital routes.

A reduction in total cost of crossing by sea has proven to very significantly increase travel numbers. When tried in winter, numbers travelling increased dramatically. We were told that after the trial the initiative was not so successful. That was probably perceived to be the case if total spending within tourism's core activity of the additional passengers was low.

Why didn't officers in Canberra react to this increase in numbers? The long-term consequences of a potential movement outward of demand curves of many industries, based on access to an equitable sea highway, were not given a chance.

Equalisation will deliver all travellers the option of crossing at the cost of bitumen. It fuels the whole economy directly, as does the Hume Highway and it encourages volume travel with the same efficient travel options as on a road including a "bus" equivalent. It is highly appropriate for any interstate inter-capital route. Without it there exists a barrier to entry and exit that encourages a lower population in Tasmania, a lower volume of people crossing and inability to spread overheads thereby keeping the cost of consumables high in Tasmania. Lack of southbound TFES directly adds to those costs for consumers.

The offers that my Committees got for equitable Bass Strait sea access were incredible.

- Uncapped federal funding could have delivered an equitable sea highway based on the cost of bitumen over 11 years ago.
- A cost to the Commonwealth of the BSPVES of \$22 million a year was expected 3 years after the BSPVES was introduced but \$15 million was used.
- All year, non - seasonal fare equity, based on the bitumen cost of highway travel for a single driver and car in a 4-berth cabin, were offered and were to be adjusted to maintain highway equity on an annual basis.
- \$50 sea passenger fares were also to be offered but rejected by some who wanted the BSPVES to be kept to vehicles.
- The Rundle subsidy of \$350,000 to achieve fares equivalent to the cost of bitumen over a few winter months resulted in a dramatic increase in numbers travelling, but this was not repeated.
- Numbers of sea-based visitors that Tasmania thought would take 5 years were reached in one year.
- Keating also offered substantially lower passenger and vehicle fares and offered my committee substantial influence over future Bass Strait fares.
- An estimate by officers of three governments was made in about 2000 and found that it would cost the Commonwealth about \$28 million a year to offer

full equalisation with two vessels, at two crossings a day, every day of the year to meet estimated demand. In 1996 the expected Commonwealth expenditure for the year 1999 was estimated to be \$22.5 million. This is \$6 million less than the estimated cost of full equalisation. Full highway equivalence appears possible within funding levels that were expected by the Commonwealth. It would have offered a more efficient use of BSPVES funding and equalisation.

We could not have provided Tasmania and the nation with any more to deliver the National Sea Highway.

Despite this comprehensive equalisation is still not being delivered.

Why doesn't the Commission follow the "cost disadvantage between states" argument to offer fairness and the Auslink equivalent asked for by Victoria and initially offered by the Coalition in 1996?

Billions of federal dollars are going into all other interstate transport links. Why should the link between Victoria and Tasmania be treated so differently? Why is the Commission treating it differently by not using its resources to develop the link? Is equity worthless and not to be applied for the only surface link between Victoria and Tasmania? Auslink may be just about "infrastructure" but its aim is about delivering integrated surface transport. Auslink equivalence is not in place across Bass Strait.

Should maintenance of the status quo be encouraged by the Commission? Is this nation to say one thing at election time and deliver another?

Higher carbon emissions, no foot passenger alternative, no incentives to fill cars with passengers, the unnecessary encouragement to take cars when a foot passenger incentive fare would do, non-implementation of a shorter route, a declining passenger-vehicle ratio from 3.3 in 1996 to 2.0 passengers in 2007 results in an inefficient use of federal BSPVES funding, under utilisation of existing capacity when a \$400,000 study found that price was a major determinant of travel and when each ferry can cross Bass Strait, return, every 24 hours and does so just for a small fraction of the year.

A federal scheme that encourages the maintenance of high access costs to and from Tasmania and is now delivering the lowest number of sea passengers since 2002. The funding or the BSPVES is soon to be increased to about \$50 million a year.

Any assurance, if obtained by the Federal Government, that passenger fares will not rise to sop up the Commonwealth increased contribution cannot easily apply to other components of air or sea packages. These can rise over time or increased fares based on any improvement of sea based services or accommodation to target premium travellers can occur. Any assurance is therefore likely to be ineffective.

Without intervention by Canberra, the BSPVES seems not to be able to deliver anything approaching bitumen equivalence, regardless of how much the Commonwealth increases its BSPVES contribution.

In about 2000- 2001 it was estimated that two ferries would be required, all year, to carry the expected demand at equivalence levels. Why shouldn't industry and the people enjoy the benefits of larger volumes of people crossing the Victorian Tasmanian border.

The TFES is a scheme that operates against fair trade. Fair trade is advocated strongly by Australia internationally, but it is not delivering it between two states. There is substantial surplus freight capacity in Bass Strait. On current freight volumes, with some allowance of additional overseas freight via Melbourne, the additional cost of full freight equalisation to the Commonwealth may be about \$120 million a year. This is quite affordable in the context of existing interstate Auslink funding. The figure may grow if passenger equalisation is introduced.

Will Commonwealth officials to continue to allow the BSPVES to take a non-highway approach when their political leaders are currently advocating the need for equivalence based on the cost of bitumen as on the National Highway.

The schemes, as applied by Canberra, are impacting adversely on liberty and causing financial loss to people and many businesses, other than Tasmanian tourism, across South Eastern Australia.

The names for the TFES, Auslink and the BSPVES can easily mislead the public because they do not offer equalisation for consumables under TFES, or any equalisation at all under the BSPVES, and under Auslink, do not offer a national integrated transport scheme. Despite assurances by the Commission that Auslink infrastructure joins Burnie to Hobart, the Bass Strait gap remains. Auslink is not then integrated or national.

Without equivalence, infrastructure losses for Victoria are running into billions. Industry is also loosing. Widespread investment, jobs and population follow highway connections.

The people of Tasmania are being left with largely undirected or partial equalisation schemes that do nothing to reduce the cost disadvantage for consumables between states, and that maintain the barriers to entry and exit by sea for people and have little capacity to equalise it to anywhere near the cost of bitumen.

I ask again that your final report recommends that the equalisation schemes deliver comprehensive equalisation and recommend that any minister be required to report to parliament if any scheme introduced by ministerial directive is being applied contrary to fair trade objectives or otherwise adversely impacts on liberty or consumer prices by not reducing sea passenger travel costs thereby keeping Tasmania's population low and limiting turnover of businesses within Tasmania.

Attending to these matters is likely to do more for Tasmanians than any other improvement recommended by this commission in their interim report on the consumer framework.