



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO TASMANIAN FREIGHT SUBSIDY ARRANGEMENTS

PUBLIC HEARING

MR M. WOODS, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON MONDAY, 25 SEPTEMBER AT 10.44 AM

PROF WOODS: Welcome to the Canberra public hearings for the Productivity Commission inquiry into the Tasmanian Freight Subsidy Arrangements. I'm Mike Woods. I'm the presiding commissioner for this inquiry. Specifically, the terms of reference direct the commission to examine the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme. The Bass Strait Passenger Vehicle Equalisation Scheme is outside of the current terms of reference.

As most of you would be aware, the commission released an issues paper in April this year setting out the terms of reference and a summary. A draft report was released on 8 September 2006. The commission has met with a wide cross-section of people and organisations in pursuing this issue. We talked to groups from a diversity of backgrounds, listening to their experiences. We have also received 60 submissions from interested parties to date. I would like to put on record our thanks, of myself and my staff, for the courtesy extended to us in our travels and deliberations so far and for the thoughtful contributions that so many have made already for the purpose of this inquiry.

These hearings represent the next stage of the inquiry with an opportunity to submit any final submissions by 27 October 2006. The final report is to be signed by 21 December 2000. I would like these hearings to be conducted in a reasonably informal manner and remind participants that a full transcript will be taken and made available to all interested parties.

I would like to welcome to the hearing Mr Peter Brohier. Could you please for the record state your name and any title or organisation that you might work for.

MR BROHIER: Thank you, Mr Commissioner. My name is Peter Neville Brohier. I reside in North Caulfield, Victoria. I represent no particular entity but I was chairman of a committee known as the National Sea Highway Committee, a committee that was substantially responsible as catalyst behind the Bass Strait scheme and also a Keating proposal for lowering access costs to Tasmania.

I'd like to say at the outset that I do see some synergy and some reference to the Bass Strait Vehicle Equalisation Scheme is important, although it's outside, perhaps, the strict terms of reference of this hearing. But I think its impact will directly relate to the volume of freight across Bass Strait and the proposition that I put regarding AusLink and the need for an AusLink link between Victoria and Tasmania. I note also that the Victorian government has recently suggested that an AusLink link between the two states should be appropriate, and as AusLink covers both the movement of people and freight in the same way as it does down the Hume corridor, I'd submit that both the Bass Strait Equalisation Scheme and TFES work in conjunction with each other, or ought to, to deliver a substantial outcome for Tasmania, and I think it's the commission's responsibility and I think the

commissioner has taken it on by many references to the Bass Strait Equalisation Scheme that it is a relevant matter before this hearing.

While commencing I want to acknowledge a few things, and one of those is the involvement of my committees and their supporters and people of Tasmania who voted for a national sea highway connection between the states of Victoria and Tasmania in 1996. I want to also recognise Paul Keating, who said, "No," to me twice and then offered \$40 million to achieve what was equivalent to a sea highway or what he thought to be equivalent to a sea highway. I also, in doing that, would like to acknowledge the role of Laurie Brereton and Senator Shane Murphy in that activity. But finally I want to acknowledge the role of the prime minister John Howard who has done everything possible, in my view, to equalise cost disadvantages by sea between Victoria and Tasmania, including \$40 million a year, Mr Commissioner, for people in vehicles plus the TFES amount. I also want to acknowledge the commitment of Liberal representatives from Tasmania, both past and present, for their role in introducing and maintaining support for the equalisation policy that continues to justify all three equalisation schemes.

I read with interest Mr Kelly's comment in yesterday's Canberra Times. Yes, Mr Kelly is right, Tasmania did change forever. But I suggest that the action or the author Mr Kelly consider carefully the role of the people I have acknowledged. He should also consult a very significant article in The Australian Financial Review in 1992. He may write his article in quite a different way. "Yes, it was a devil of a job for Tasmania, but \$40 million a year in federal funding for equalisation directed primarily at one industry may have just done it."

Mr Commissioner, I think you're like a baker or a grim reaper. You'll have the option. I think the ingredients, Mr Commissioner, are that the Prime Minister has given a strong Sea Highway Equalisation policy direction in uncapped funding. The Victorian government recently has given you the political support for an AusLink connection between Victoria and Tasmania. Paul Lennon has given you vast excess shipping capacity and public support for lower passenger fares. The people in industry of south-east Australia have given you the opportunity for the vision of a sea highway including exports, and excess freight capacity is already in existence on Bass Strait. The nation has endorsed the highway through a mandate in 1996. You have given the nation effective competition policy. The nation has an island. Attractive as it is, it's not a remote island state. It's nearest to the largest population corridor in this country - and it's probably about six and a half hours away by ferry.

Now, Mr Commissioner, you can combine the cake for the sound policy and bake it or you can throw the ingredients to the wind. Those are my thoughts.

The draft report of the Productivity Commission say the TFES is unjustified

and should be abolished. Next year this commission may come again to remove the Bass Strait Vehicle Equalisation Scheme. These schemes are uncapped substantial schemes costing federal taxpayers hundreds of millions of dollars. They're too valuable to remove. They are somewhat parallel schemes. If one is not justified the others will fall for similar reasons, or perhaps even better reasons.

Coxy reminds us to do the sums. This is the advertisement that appears in recent papers. It says \$340 for one person return to cross Bass Strait by sea, 535 by air. But on top of the \$340 to travel by sea is a \$300 Commonwealth subsidy by federal taxpayers for every car taken by sea. The conclusion is, Mr Commissioner, it's cheaper to fly. The figures get even worse when the cars fill with passengers; even worse when you sometimes need to wait weeks to travel on these prices. How can a \$40 million a year federal funded Bass Strait Equalisation Scheme ever have been justified under these circumstances? The Bass Strait scheme, according to the coalition, was introduced to achieve a Tasmanian sea highway, part of the national highway. I was the catalyst behind that scheme. The Tasmanian Freight Equalisation Scheme and the Bass Strait scheme were to equalise the cost of limited freight, but all people in vehicles crossing Bass Strait by sea - the implications for freight volumes were considerable if that scheme delivered comprehensive highway equivalence.

There are three types of cost disadvantages in Bass Strait. First of all there's international exports, international exports that go from, say, to the state of the art factories in Northern Tasmania, through Melbourne to overseas markets. They're south-bound consumables that need to be covered by equalisation, and there's people in vehicles that need to be fully equalised. Prime Minister Howard said a few weeks ago, talking about the Tasmanian Freight Equalisation Scheme, "The scheme remains an important element of the Australian Government's programs that equalise cost disadvantages between states and territories." The Bass Strait Equalisation Scheme is one of those programs; TFES is the other. AusLink is another. Well, take the cost of Melbourne to Albury by car, say about \$80 to 400 return. The cost of a car over Bass Strait about \$1000 on a special fare set up. The barrier is many more times the cost of road travel, even after the generous Bass Strait equalisation payment, twice the cost for every container not covered by TFES. The difference cannot be justified when \$120 million a year is spent to equalise cost disadvantages. These disadvantages can be removed very simply and ought to be.

Mr Commissioner, I'm here because your draft report has the capacity to destroy Tasmania as a state and jeopardise both the TFES and the Bass Strait Vehicle Equalisation Scheme. Without these schemes there would be no passenger ferries on Bass Strait. Population investment and jobs will soon disappear in Tasmania and the Victorian economy will be adversely affected as well. Your arguments in your draft report need to be defeated once and for all in public and then put to bed forever. I

am here because I'm not going to see the efforts of hundreds of supporters of the national sea highway go in vain, nor over 120 million in federal equalisation funding removed from Bass Strait. Three cost disadvantages need to be equalised using this money, and more if necessary. I'm not going to see the mandate of the people turned to naught; nor am I, Mr Commissioner, going to see coalition promises rejected and not fulfilled.

The Bass Strait scheme is a substantial scheme fought for by the people of Victoria and Tasmania, including major groups and industries from across south-eastern Australia. It is soundly based on equality and equal interstate linkages. These are very hard schemes to get into place and based on very sound policy. Those that apply them, however, may not fully appreciate their significance.

You dealt with equalisation issues by arguing TEFS didn't cover all goods crossing Bass Strait, and by saying comprehensive equalisation or an AusLink link was too expensive you've classified Tasmania as part of regional Australia. You indicated the Bass Strait scheme was unjustifiably adversely impacting on air. You can now imply that the Bass Strait Equalisation Scheme is not delivering equalisation either, or is unnecessary. I've heard your arguments before: Tasmania is just another part of Australia. I've heard a federal minister say, "What about Karumba? Why are those people not entitled to have a similar scheme?" I've heard more recently from Senator Heffernan in the AusLink inquiry, but he said he was only joking. But this argument recurs; it's not time for joking any more.

The Prime Minister's policy clearly is for equal cost links between states, presumably consistent with his 1996 policies and promises which are written in part of the evidence before this inquiry. Tasmania was the second state in Australia. There are a ribbon of national highways going through each mainland state. That ribbon should go and be connected to the national grid through Tasmania. Equal cost access between states should be the aim of the links between Victoria and Tasmania. Productivity doesn't just mean cutting costs, Mr Commissioner. It means something else. It means recommending expenditure sometimes, that binds this nation and builds this nation fairly and equitably. Tasmania is not a regional area. All other states are properly linked except for Victoria and Tasmania - across deserts, across mountains, say at \$5 million a kilometre for some of those roads - maybe even 10, in some respects, a kilometre, between every other capital city. AusLink is costing this nation \$11 billion.

These states were all well connected at the time of federation when the great sea lanes connected the capitals. They were all equally connected, Mr Commissioner. You connect mainland capitals with federally-funded bitumen now, but the bitumen equivalent component needs to be in place across Bass Strait; equal costs per kilometre regardless of terrain.

AusLink links the rest of the nation for freight, people, and vehicle; but the Bass Strait gap is still open. It's like leaving a hose to water a garden and not connecting it. We need to connect that hose and then the nation will be served by an integrated transport grid.

The two equalisation schemes are not delivering equal links to an AusLink inter-capital corridor. As on the Hume Highway, the Bass Strait Schemes need to be interlinked. Equalisation schemes based on the current implementation are really being allowed to be used as targeted assistance schemes. As implemented, they skew access, and put their very foundation of equal-cost access in jeopardy. Leave uncapped federal schemes alone, particularly the Bass Strait Scheme, with little policy around them, and this is a natural consequence.

TFES is unfair and has a limited application for a bygone era. Your report is right. It must be expanded, not contracted or thrown away. Equal treatment between states makes sense. Business certainty is needed for access, even to Tasmania. But what's gone wrong? How is skewing occurring?

Let's have a look, for example, at one of these schemes: the Bass Strait Passenger Vehicle Equalisation Scheme is there for delivering equal access equality for Tasmanians but somehow the word "tourism" has got into it. The word "tourism" in the Federal policy document may mean getting all people to come; to a tourist industry group, it may have quite a different meaning.

We say, "Studies are definitive of access to Tasmania." It's definitive for one industry. It means targeted tourism to many people. I quote from The Mercury:

Tourism Minister Ken Bacon yesterday rejected claims that Spirit III was overpriced. 'I don't think it is because we're targeting a niche market here,' Mr Bacon said. 'If you take the upmarket hotel-motel chains, that's the type of people they need to get into Tasmania.' Officers of - - -

and I'll leave the department blank,

- - -say, "The markets cannot be equated. Any shipping line which tried to run a volume service would lose money."

Another comment:

On the other hand, not everyone agrees. The answer lies in better promotion rather than cheap fares. Cheap fares attract people without funds, so what's needed is better promotion. Those who can afford to

travel will come to the state.

Too many people destroy the product in Tasmania, to some. "How would you win an award for Wineglass Bay if you had people crawling over it" was another comment.

This is possibly why the \$50 passenger fare offered by John Howard in 2001 was rejected by tourism. A consequence was that the highway equalisation formula offered by the Bass Strait Equalisation Scheme was changed in 2001, when the Prime Minister's \$50 offer for passenger fares was rejected. All-year equalisation formula was removed to fill ferries in winter at the recommendation of the bureaucracy. The coalition's 1996 offer to increase the Bass Strait Scheme in line with the cost of highway travel was therefore rejected.

It was reasonable for a tourism industry to ask, "What good is it for travellers to stay with friends and relatives instead of seven days two-by-two in motels? The latter provides the best return to industry. It's core tourism that should be preferred." Other industries are better catered for by more residents in Tasmania or volume traffic based on highway-equivalent connectivity with the mainland, but many don't see the difference, and they leave it up to what they think is the general meaning of tourism. They benefit indirectly but not directly.

What happens when the boom times subside? Why does the car go free instead of lower passenger fares or the same efficient options as on a highway? A low foot-passenger fare and a car fare including its occupants? Where is the cost-effective incentive to increase the passenger-vehicle ratio or the passenger-Bass Strait vehicle subsidy ratio? Instead, the Bass Strait Scheme is targeted at federal taxpayers' expense to provide an incentive to come - a sort of tourist carrot; a Commonwealth car. This increases the cost to federal taxpayers.

But why would an industry group care how the target group came as long as they came? A Commonwealth car free paid for by Commonwealth taxpayers; that's how tourists travel between hotels over the whole island. The Bass Strait Scheme didn't force the offer of a free car; it left a policy vacuum. That was not the original intent to the Bass Strait Equalisation Scheme. You can read it. Competition was expected to enter the market to bring passenger fares down. It didn't come. The only shipping operator covered the field with capacity. More than half of it is under-utilised.

The current plan seems to be: the ship leaves from a central location, Station Pier; first night is the holiday; take the longer route to offer sleeping accommodation. Acquire and run ferries designed to offer two-by-two. Talk about great sea journeys; and the total spend of each traveller when they come to Tasmania. The ads show the

type of person that's needed. Offer minimal facilities for sit-up passengers when most sleep two-by-two in cabins. Just load fares till you fill the capacity of the high-level accommodation in Tasmania. It's reasonable not to charge for the car when the Commonwealth can pay for it. The Bass Strait Equalisation Scheme without targeting encourages this outcome.

Set passenger fares to whatever the market will bear for the passengers up to the total cost of, say, 10 days on the island by air with airport costs, and Rent A Car added. There's the ad. The car offer is the added incentive to get the target market to travel by sea.

Canberra, in practical terms, said, "Do what you like. They take the car to get the Bass Strait Equalisation payment."

Now, Mr Commissioner, shippers and industry groups have no reason to be charitable; and even with what they originally said - and you've got before you a comment made by TT Line before the Bass Strait Scheme was even contemplated or was - when we were fighting for it. They fully understood what equalisation was about.

But I'm going to ask you, Mr Commissioner, why should shippers and industry groups have any reason to be charitable? They can't be expected to develop Canberra's policies. Canberra doesn't expect a shipping operator to do it, surely? Why should a shipping line depreciate its product to take advantage of your funding - or not take advantage of Commonwealth funding, or untargeted policies? I say to Canberra bureaucrats, "Don't expect public interest to equal cost outcomes according to the - in terms of the Prime Minister's wishes unless it's based on sound policy," and that's what this commission is all about. Without putting the work into targeting your equalisation schemes - if you're going to throw big money at Bass Strait, then target it. Operators and industry groups are entitled to apply federal policy to deliver outcomes favourable to their stakeholders or shareholders. National Highway outcomes? Don't expect it unless you direct it.

I support operators and industry groups right to manage their industry or its operation as it sees fit. But I'm going to say this, and I'm saying it very clearly and very importantly - not only to this commission but to those that may read this: there are consequences that threaten the very existence of these schemes if you go outside their aims. They need to take heed of the Productivity Commission's current views very carefully.

Tasmania and Victoria are not remote from each other. They're not properly connected despite generous equalisation funding.

But as a consequence of targeting, I believe there have been massive social and economic problems in Tasmania and a significant limiting of the Victorian economy regarding this targeted approach. Under the Prime Minister, equal cost of access is the focus. Air would compete with inter-state airlinks. Bass Strait surface links with inter-capital service highway links; Tasmania would compete against Victoria and every other state. This would offer the people in Tasmania a direct access to a sea highway, not just indirect access via targeted tourism; and I would suggest that the benefits to Tasmania would be enormous if connected to a national grid.

Bureaucrats and those creative marketing people advising the tourist industry and operators need to understand clearly that as the schemes are applied contrary to equalisation, the very policy foundation of the schemes are eroded and these very substantial federally-funded schemes are placed in jeopardy; in fact, they would be open to ridicule.

Why should air, Mr Commissioner, compete against targeted tourism? It should not. Your report questions the Bass Strait Scheme as unfairly impacting on air. Put a condition on the Bass Strait funding to get highway equivalence with extra services paid for as options, air will have nothing to complain about. Air has to compete against every inter-capital connection across this nation except for Victoria and Tasmania, which is yet to offer comprehensive highway equivalence. Apply a comprehensive TFES and air still has no reason to complain.

These schemes need to be brought back to deliver equalisation or the funding will be unjustifiable on any sound policy basis. The luxury of applying equalisation funding for targeted tourism has gone, Mr Commissioner, with this Productivity Commission's finding or interim finding - or will go under the Prime Minister's recent justification for continuing these equalisation schemes, especially with other remote areas asking for assistance on the same basis.

Being surrounded by water, or being a state surrounded by water, is not the basis upon which these Bass Strait equalisations are justified by the Prime Minister or anybody else. This is equal links, not because you're surrounded by water - regardless of the terrain. The only sustainable outcome for this commission is highway equivalence; comprehensive highway equivalence. Its cheap, effective and equal links are the basis of all tourism for all other states and the economies of all other states. Tasmania should be no different and Victoria should be no different.

The Bass Strait Monitoring Reports to federal ministers - and I regret this, but I have to say it - cover a one-sided industry approach for one state and not the other. They don't cover comprehensive equivalence as to whether these schemes or the Bass Strait Vehicle Equalisation Scheme is delivering comprehensive equivalence. These reports need to change; they are to important federal ministers. The reports do

not seem to show the difference between targeted tourism and tourism in general, or the movement of people; and this could be the reason why some politicians may not have acted. It's also the success of the Bass Strait Scheme that properly no politician or no bureaucrat would want to upset.

But can I say this to this commission, that the times are changing - the economic times are changing in Tasmania. Now, full equality was costed and could be delivered for 28 million in 2001. Now, for, let's say, of 40 million, which is the current Bass Strait Equalisation Scheme, for the same as the current cost of the scheme, what would this do to Tasmania? This would open the access to Tasmania, allowing people to go to a Tasmania that wasn't as remote. They would build population; they would build freight volumes. Freight volumes could increase dramatically.

The other partner in this whole project is Victoria, on the other side of Bass Strait. It needs the opposite to low-volume targeted Tasmanian tourism. It needs volume tourism through Victoria. Volume sales for Victorian industry is set up in Tasmania, and volume sales for Victorian industries in Victoria, and a growing population in Tasmania - and also in Victoria.

Price and capacity have been found to be the major determinants to crossing Bass Strait by sea. Equivalence will bring \$50 fares. Why shouldn't the Bass Strait Scheme encourage a volume service on the shortest practicable route. It's cheaper; it's a sea highway. It's up to the Federal Government to do its job and know what it's doing. The Prime Minister and Coalition representatives in Canberra are clearly doing theirs, and I think it's very, very clear from the Prime Minister's recent comments.

We're talking about an inter-capital link used for many purposes, not just tourism - not just one way. The two states have broad-based economies. They need equal linkages. This commission should recommend an AusLink-type linkage between these two states if AusLink doesn't fit, but I'd submit that it probably does.

This is about access between states - equal access, equal links. That's what the people mandated. This is what potential residents need in a growing economy: every-day, non-seasonal, easily-available access. The capacity is there. Freight volumes will increase substantially with the certainty of an equally-priced surface link: non-skewed, highway volume access through a major inter-capital corridor. Expenditure for a third AusLink link from Melbourne is entirely justified through the recently-announced Howard policy. It's just a reflection of the 1996 policy, in fact.

This will increase the amenity of living in Melbourne over Sydney - will provide the only surface access for a federal ring road. Funding that may cost billions of dollars,

but it's the most effective link through Melbourne to Tasmania. It will allow competition policy to apply to shippers to Tasmania and to the people of Tasmania because they'll enjoy southbound freight equalisation. How can they be denied federal competition policy?

Melbourne is far better placed than Sydney. Sydney is entitled to two inter-capital links - let's take Canberra out of this equation: one to Brisbane and one to Melbourne. Melbourne is geographically better located. It's got the advantage of having a link to Adelaide, a link to Sydney; but it ought to have a third link to Hobart. It's in a far better position.

How can surface access links within the mainland be justified without connecting this third link? There are no options for the Productivity Commission. It can't offer assistance schemes. It really shouldn't offer assistance schemes. It should offer a transport link that every other state enjoys in preference to that.

The Bass Strait's Passenger Vehicle Equalisation and TFES will have to move to full equalisation to justify northbound freight without World Trade Organisation concerns and to justify southbound consumables on a sustainable policy basis. Anything less will be an unjustifiable assistance scheme and not give all effective access to an inter-state surface link. Without it, the people of Tasmania will not be able to enjoy a competition policy or the ability to connect to a national integrated transport network called AusLink - nothing more, nothing less; and that's what the mandate was for.

The Prime Minister put this case in 1996, and he puts it again a few weeks ago; and now the government of Victoria puts it: link the states with AusLink or an AusLink-type connection. The issue is how to do it.

Regarding TFES, they don't collect a subsidy on the Hume Highway from every shipper or transport company, do they? They don't turn the Hume Highway funding into a selective tourist policy based on who can afford access or a free Commonwealth car. Put both schemes out to tender - the Bass Strait Equalisation Scheme and the Tasmanian Freight Equalisation Scheme - under AusLink or an equivalent. All can then choose to participate at the lowest tender price, maintain it at highway equivalence for people, freight and vehicles over the years. Put the formula in place. The World Trade Organisation arguments will have no impact, in my view. If they do, then you may suggest closing the Hume Highway to the Port of Melbourne, because if we establish in Albury, as a major factory - you can travel to Melbourne and take it on the AusLink corridor to the Port of Melbourne. If you establish a factory in northern Tasmania, why shouldn't you have the AusLink corridor to Melbourne? If you're not going to have one to Melbourne from northern Tasmania, why should you have one from Albury to the Port of Melbourne? Close

the Hume Highway. I'm sure that's not what we want.

This is not an issue for querying budgets or competition that Tasmania might have to fight or Victoria for a southern link - might have to fight for an AusLink link on Bass Strait. This is the only AusLink link that's not included in the AusLink Integrated Transport Network. If you expand this link, then, in my view, budgets are relevant. It's important for Victoria and Tasmania to justify an expansion of the link; but not for one link between two states; not for the only link between two states. I don't think any state would stand up and say it shouldn't occur.

This issue has gone through the Liberal Party nationally. It's gone through the National Party nationally. The votes have been for a national highway connection; that's why the policy in 1996 - AusLink is expansive. Each capital city is given a link except Melbourne-Hobart. True, there's an AusLink link in Tasmania, but what's the use of it if it's not linked to the integrated grid.

You see, with AusLink there's a common playing field. There's a process - a competitive process for moving along the AusLink. That's why it can then deal with infrastructure; it can deal with just the infrastructure issue. But when you have an AusLink that is - so therefore you need the same approach to Bass Strait as you do on any other link. If you can achieve as close to that as possible, then the whole thing would be an integrated system; but we don't have that across Bass Strait.

I'm going to say this, that the extra cost of delivering comprehensive sea-based equivalence is about 10 per cent the cost of an inner city racecourse - and capital costs of an inner city racecourse a year. I haven't done the figures but just on freight volumes.

If you share this amount between two states - let's say it's \$150 million, shared between two states, paid for by the nation, on the same basis as AusLink is. You've got examples of Tasmanian money going into Bass Strait. You've got examples of so-called private-sector money under GBEs going into Bass Strait, and you've got federal money going into Bass Strait; it's almost like an AusLink formula. But I think most of the inter-capital country connections are paid for by the Commonwealth still. So my issue is that this is a Commonwealth matter.

Change the way these schemes operate, Mr Commissioner. Don't change their names; don't suggest that. If just change the name or you don't move from TFES and you leave all those massive gaps, you're limiting the potential of south-east Australia, and what the Prime Minister called - he said, I think, "Bass Strait was the single greatest impediment to the population, investment, and jobs for Tasmania."

AusLink needs to be about outcomes. The infrastructure in AusLink is for

outcomes. That's why you put the infrastructure in there. You need the outcome between these two states.

If Tasmania is, as you say, Mr Commissioner, a small part of regional Australia, then it's because these policies - these equalisation policies - have not been advanced or have been relaxed in such a way that's it's made Tasmania that way; and the great sea lanes of this world connected those capital cities including Hobart and Sydney. Tasmania wasn't backwards. Tasmania is clearly a state, justified on our flag. Every capital city is linked. Why not the shortest route? You can't discriminate because of water.

If you get your priorities right, then \$50 fares and 200-with-a-car and its passengers are available now under AusLink. The capacity is there. The money is there. How can you deny access to Tasmania for the whole of Australia on a highway basis, on the same integrated basis that we justify spending 11 billion new dollars for AusLink.

All I'm asking is you spend federal dollars effectively; and I don't apologise for asking for billions of dollars for a ring-route connecting perhaps the Hume Highway through to Greensborough, then into Scoresby, then down to the shortest route from Stony Point to Burnie, Tasmania, because that's the route; that's the highway route that would be under AusLink. That's the link that is needed, and once you establish that link then every industry, wherever it locates itself in any state - any part of Victoria and any part of Tasmania, has that choice. They can locate wherever they want to, and they can pay the costs to get to that link; and once they pay the cost to get to that link, then that's - Canberra's responsibility is to maintain the link; nothing else, nothing more, nothing less.

The Prime Minister has a very sound policy basis for what he suggests, and I would ask that this commission fall in line with that very sound policy basis, and that people in Tasmania and Victoria - everybody else - understand that it's critical that all the equalisation schemes that are put into place fall within an integrated transport grid for this nation; and that's the best outcome you, Mr Commissioner, can do. It's the best outcome that you could come to for Tasmania, for Victoria, and for this nation. I ask nothing more than transport equality across Bass Strait.

PROF WOODS: Thank you, Mr Brohier, for your opening remarks. You've raised a number of issues; in fact, we have the benefit of, as I last counted, nine submissions from you, for which we are grateful, and your statement this morning draws a number of those together. You also provided a folder of additional information which I've had the benefit of being able to go through.

Although a number of the issues you raise are strictly outside of our terms of

reference, I think it would be useful for the public record to wander into a couple of those so that they could be adequately put forwards, so that we do capture fully your arguments. So if we can explore some of those in that spirit, I think that makes best use of the time and effort you've made to make representations and to come here today. In that respect, highway equivalence clearly is the core point of your - - -

MR BROHIER: Yes.

PROF WOODS: - - -argument, and I understand that, and we, in our draft report, canvassed - although from your point of view perhaps not as fully as you would wish; that that is one of the various rationales for some form of support for that transport link.

At various stages, you refer to costs such as \$40 million or 150 million. We have currently got the Bass Strait Passenger Vehicle Equalisation Scheme expenditure. We've got the TFES - another 90 on top of that. As you point out the key gap - southbound consumer goods, passengers, and then there is a separate question of exports, and of course we take advice from DFAT on where that fits into WTO, but nonetheless let's keep it within the broad ambit.

Can you pull the various figures that you raised from time to time together into a what-costs structure you're looking at to achieve your \$50 fares and 200 for vehicles, and presumably some other quantum for containers to pick up the southbound component.

MR BROHIER: Sure. Mr Commissioner, I'm no expert in this area but I will try. I think there were three governments that got together and came up with a figure of \$28 million, including what expansion they felt would come from this idea of \$50 and 200 across Bass Strait.

PROF WOODS: Yes.

MR BROHIER: That was in 2001. I've just assumed that if the Bass Strait Equalisation Scheme was operated in a more targeted approach to delivery highway equivalence there would be some savings because foot passengers would leave their cars at home and there would be some who would join together and go on one car. So there may be savings there.

PROF WOODS: You do make a very relevant point, that the incentive at the moment is actually in the reverse direction, which is quite a powerful point.

MR BROHIER: Yes, I think so. Let's assume that, say, 2001, we've got a 28 million, probably today 40 million - the Bass Strait scheme is costing something

around that. I think for the same dollars we'd be able to pull in equalisation. The cost of moving a car on a road hasn't - well, if you make - - -

PROF WOODS: So the 40 million - - -

MR BROHIER: - - -tax, that would sit quite comfortably with that side of it.

PROF WOODS: Okay, that just helps me clarify, because I kept trying to label bits of money with bits of the scheme.

MR BROHIER: Then you've have a shorter reach, Mr Commissioner, so you'd have - - -

PROF WOODS: I have actually looked up Stony Point on the map since your submission. I noted it with great interest. It hadn't come to my attention earlier but it now certainly has.

MR BROHIER: Yes, it's service by road and rail and - - -

PROF WOODS: Yes, I noticed the rail link there.

MR BROHIER: - - -provide an adequate ring road around Melbourne. But, look, if it happened at station pier I'm certainly not going say, "Don't put in equalisation." But all right.

In terms of freight volumes, I think freight volumes are about equivalent in each direction. So let's say we double the equalisation scheme probably 90 - let's say - it's 90 million, is it? 80 or 90?

PROF WOODS: Yes.

MR BROHIER: So let's say we're looking at, say, I don't know, about - well, we're looking at another 90 million, aren't we?

PROF WOODS: At least. We pick up, currently, 40 per cent of freight under that scheme - containerised freight. So, yes.

MR BROHIER: I think by looking at the actual freight volumes I think you're looking at probably another 90 - a doubling of that, a 90 million.

PROF WOODS: So that's - - -

MR BROHIER: That's your 90 million, yes. Now we've got the existing 40; we've

got an additional 90. Then let's say there's another 30 million or so for international exports going through the port of Melbourne; instead of them going down the Hume Highway they cross Bass Strait and they go to the port of Melbourne and then you give them the same as a land-based highway to Melbourne. So really, those are the figures.

PROF WOODS: That just helps, because I'd seen your various figures but I wasn't clear on which figures were attracted to which part of the scheme. Separate question. I just had a confusion between the 40 to 150, et cetera. So thank you. That helps clarify that side of it.

If I can go back to the fundamental issue of highway equivalence, you draw on two different issues, if I may offer that comment. One is equivalence in effectively a per kilometre travelled context. The second is the reference to cheap. Those two don't always fit together, and you yourself draw attention to that in various parts of your submissions by identifying that there are two that you identify, capital cities, that are outside of the standard freight schedules, and that's both Hobart and Perth. Both of them are the result of, I would have thought, geography. You may be able to produce a per kilometre equivalent cost to Perth but the cost to Perth remains much higher as a simple consequence of geography.

MR BROHIER: That's where I differ, Mr Commissioner, because I argued this in 1996, that geography is the key to this. I mean, Australia is remote from Europe. You can't do anything about the geography but you can't do anything about the geography of Perth. Perth is a great distance from the east coast to the centre of population in this country. It's a geography issue, no doubt. But, you see, Tasmania - - -

PROF WOODS: And there's another geography issue called "Tasmania is an Island". It is a geography issue.

MR BROHIER: No. Mr Commissioner, I'm dealing with the distance from the great generator of wealth in our country, apart from the mines, the east coast of Australia. Tasmania is not remote in geographical terms from the east coast of Australia. All it is is it's discriminated against. And you know why it's discriminated against? Because you are making the difference, if you would hold these views, that you would be making the difference between the nature of the terrain or the distance of the terrain or the nature of the terrain because what you do is you're prepared to have mountains of - a road over the Great Dividing Range; you're prepared to have bridges over at Albury; you're prepared to have everything like that; but when it comes to water we as a nation go to water. What we say is Tasmania is so close. Its geographical proximity to this east coast of Australia is so close, and yet we say, "Because you're separated by water we're going to treat you differently." Actually,

probably the cost of connecting Tasmania to Victoria by water might turn out - if you put this over to tender you might turn out to find that you're going to make some incredible savings across Bass Strait.

But let's say I'm wrong, that you don't. The reality is, it's close. Perth is a distance away. You can't do anything about distance. What you've done with that distance is, you've given them a ribbon of national highway or AusLink linkages to Perth. You've been fair to Perth. But you're not being fair to Tasmania unless you direct these schemes. If you don't direct these schemes you will not give Tasmania the advantage of its geographical location. And let's put Tasmania aside: you won't give Melbourne the advantage of its geographical location because that's the shortest inter-capital route: Melbourne-Hobart.

PROF WOODS: Let's get on to the tendering in a minute, because I think there's an issue I would like to explore there, but just tidy up a couple of geography points. (1) The shortest inter-capital route. I would have thought that Canberra to Sydney was the shortest inter-capital route. But that's a minor point of geography.

MR BROHIER: Look, I had considered that, but - - -

PROF WOODS: It doesn't fit neatly. I have been putting that in brackets every time. It sort of just doesn't have the same flow to it.

MR BROHIER: No. Canberra never fits neatly with anything, I'm afraid, Mr Commissioner.

PROF WOODS: I understood that it wouldn't suit your purpose to have to then have that bracketed qualification every time.

MR BROHIER: I think I actually at one stage said "interstate capital", in one of my papers.

PROF WOODS: I did notice during your presentation here you said, "Let's keep taking Canberra out of this."

MR BROHIER: You're being very generous, Mr Commissioner.

PROF WOODS: One other brief point, and that is that Darwin of course also has a very high cost structure. But again, that is geography.

MR BROHIER: Perth and Darwin are the same arguments. Look, we have no difficulty. I think Darwin is connected to an AusLink link between Adelaide and Darwin, if I recall. So Perth and Darwin have very nice treatment and yet the Bass

Strait scheme has failed to deliver.

PROF WOODS: That tidies up geography. I have an interest in geography, you may know.

MR BROHIER: I like maps too, Mr Commissioner, so I have an interest in there.

PROF WOODS: Yes, and thank you for your various maps that you've contributed to this inquiry.

Tendering. One of your submissions suggested that we hadn't actually dealt with the top, and page 74 of our draft does draw attention - - -

MR BROHIER: I knew I'd be open to something.

PROF WOODS: No, but it's just basically the question of - because I want to tie up your other point about competition. You make a valid point that the premise of having the Bass Strait Vehicle Equalisation Scheme was that you would have some competition and that that would keep driving down costs. In your presentation today you referred to how TT Line sort of basically covered the market and competition hasn't developed. If we've got tendering - and there are basically the two markers. I mean, we appreciate that TT Line picks up passengers and some freight, but putting that small intersection aside, you've got your passenger market with the passenger vehicles and you've got your container freight.

On the container freight side there is competition. We've got four, inverted commas - how Patrick's will be dealt with will unfold, but that's not material for today's discussion. We did explore whether putting that side of the public support out to tender to the shipping companies would be an improvement on paying the producers. Our concern there is that to an even greater extent than may currently be happening there would be the potential for capture by the freight companies, the shipping companies, to appropriate part of the benefit of that public support. That's in a competitive environment where you've got three/four competing companies.

When you then look at the passenger side, as you yourself point out TT Line basically covered the market. There are significant but not insurmountable barriers to entry and the cost of drawing on passenger and vehicle ferry vessels and setting up pier positioning, et cetera. By putting the passenger and vehicle side out to tender, what competition would you expect there to be given that none has materialised under the current framework?

MR BROHIER: Hard to know, and 40 million a year uncapped federal funding is a pretty large lump of money. Who knows who would come forward. But let's say

my suggestion failed. Let's say nobody came forward. There's another way of dealing with this. If I were to give you some money to do something I'd put a string on it. I would attach a string to it. I wouldn't just give you the money.

PROF WOODS: Elaborate for me.

MR BROHIER: I'd put a condition on the Bass Strait Scheme funding to deliver at least highway equivalence. The nicest possible way to do that would be to deliver a string that suggested that day sailings across Bass Strait be offered at highway level. It fits perfectly with the concept of a highway. I suppose it would be better to have three sailings a day; one at night as well, but the reality is that these ferries can cross Bass Strait by day. And there's no reason why that string couldn't be put onto \$40 million of uncut federal funding.

I may be speculating to know who would come in to Bass Strait with 40 million, but if it was advertised and if they could choose their route, who knows. But let's say I'm entirely wrong. At least put the string, attach it to the money, ask that it is a condition, and a certain percentage of that vessel should be dealt with that way.

PROF WOODS: So just to explore this so I can get a clearer understanding, we'd put a requirement so that - let's use tendering to start with. Whether that then is successful is a market question. But if we explore tendering there would be a government tender proposal that says, "You must provide at least x number of passenger positions at \$50 for the crossing."

MR BROHIER: And the 200 including the passengers with a car so you've got the highway incentives the same as on a road.

PROF WOODS: Okay, so we pick up both bids. And that you would want them to guarantee a minimum number of slots at that rate or slots at that rate.

MR BROHIER: Yes, because over time I think it will become very clear as to how many people would travel in any particular month or year or day. So it would be easy to identify after a short period of time.

PROF WOODS: Would you start your base number from the current crossing information that we have plus some allowance for growth? Because if you identify it to a quantum that is less than what the current market reveals, then you have to get through the question of how you allocate the cheap slots to the normal commercial slots, and that then I think raises all sorts of issues about is that income-based targeting or first in, best dressed, or - - -

MR BROHIER: Premier Rundle provided - he offered some fares on a very low - - -

PROF WOODS: It was a cap number, 1100 and something, I think it was for - -

MR BROHIER: Yes, it only cost him \$350,000. There was a dramatic increase in the numbers crossing Bass Strait, absolutely dramatic.

PROF WOODS: 60 per cent, 70 per cent increase. I saw that. But you couldn't do that on a long-term sustainable basis.

MR BROHIER: No. But I don't think you'd need to move necessarily to a long term. I think you could move to a short term suck and see approach, accepting the principle, but it would be a learning curve as to where the figures would drop to. I think you could start with maybe an approach similar to the Rundle approach and then when the numbers panned out, you would set the level of the string on that basis, it seems reasonable to me.

PROF WOODS: Two issues there, one is if at any point you end up having to differentiate between passengers on the \$50 fare from all other passengers, there is an issue as to how you do that; but I'm not asking you to design the scheme in its entirety at the moment, but that is an issue.

MR BROHIER: It's not an insurmountable one; because you've got a lot of money here and you'll gradually get a feel for the numbers travelling across Bass Strait and I don't apologise if given the amount of largesse that's gone into the AusLink network of \$11 billion why this link should be any different.

PROF WOODS: The second issue then is how to ensure that the price that the successful tenderer, if in fact it is a competitive tender process, is reasonable from the general taxpayer's point of view. If I were a private business and I felt there was not a high competitive environment in which I was bidding to supply those fares, I think I would ensure that I made a reasonable profit from that process.

MR BROHIER: I think already inbuilt in those calculations that I referred to you, the ones where we've costed it at 28 million, there's been a return to the operator included in that. And I think we had to wait something like 12 months to get those figures out. So we've waited long enough to have the answer to that question, Mr Commissioner.

PROF WOODS: It is notoriously difficult to get very accurate pricing from the transport industry, as we have found in this inquiry. Clearly you've experienced similar situations.

MR BROHIER: We've left it to government, Mr Commissioner, and government have pontificated over it and come up with a percentage.

PROF WOODS: It's a very difficult area. So there is that question of how to design such an arrangement so that the carriers are appropriately recompensed without being - - -

MR BROHIER: I have a sneaking suspicion that we've probably done that in the past in relation to other industries. Whether we've done it well or not is a separate issue.

PROF WOODS: Can I draw you back now just briefly to the freight equalisation side of it which after all is where our terms of reference particularly direct us, although I have benefited from this broader conversation. A growing number of participants have put to us that the scheme as currently designed can be manipulated such that people are compensated for more than the underlying cost disadvantage that they are experiencing. I appreciate that your primary focus has been on the passenger freight equalisations scheme, but do you have some views or evidence that you can offer to the commission that would help us unravel that side of our concerns?

MR BROHIER: No, I have no specific material that I can put before you, but all I suggest is this: the closer you bring it to an AusLink-type arrangement where you really fund the infrastructure including the ferries and you tie it all into a ribbon, the most efficient route ribbon between Hobart and Melbourne or Melbourne and Hobart, then I think you're only liable for the gap. And if you're only liable for the gap, in terms of providing the bitumen component of that gap under an AusLink-type arrangement, then perhaps some of your difficulties in regard to pricing or manipulation might disappear because you're not longer having to - I mean, you couldn't, if you were offering south-bound freight equalisation and north-bound freight equalisation for international exports, really, you don't want to be playing with the number of players in this game. The fewer the players that you play with are better, I think, if you can manage to put this out to tender in a cost effective way, then you've solved all of that. And you've probably solved the world trade argument. I'm not giving you legal advice here, but my suggestion is that the Hume would be in jeopardy.

PROF WOODS: That is a broader and very significant debate in its own right, which we are exploring. On the freight equalisation though, you yourself have drawn on the Victorian government submission to us for various parts of collaborative and supporting evidence. We note in their submission that on the freight side they canvass the possibility although don't give unqualified support for a

flat rate scheme and that certainly is consistent with the direction that we're looking. You've characterised our draft report as one-way only; ie, to abolish the scheme but of course the report has two parts.

MR BROHIER: Yes, I don't support the second part at all.

PROF WOODS: You haven't dwelt on the other part of our report, which is to look at how the scheme works.

MR BROHIER: Do you know why, Mr Commissioner, I didn't deal with that because I felt that was the minutiae of this whole scheme. I think that would be the smallest possible way you could look at this scheme; and I would urge you to look at it in its broadest possible context because that's where productivity is going to come from. There are many corporations around this country that like the idea of being able to reduce staff and be more efficient that way. I don't see that they should be paid substantial amounts of money just to reduce things and make sure that - or do what an accountant could do. In my view you should be paid for broad vision, you should be paid for the ability to make a nonproductive thing productive. And with the resources of this commission I felt that the commission needed to move to the broader ambit of this rather than minutiae.

PROF WOODS: I appreciate your point of view nonetheless. There are a lot of companies very interested in how the scheme itself works and devoting our report in a large part to that end.

MR BROHIER: Yes, I can certainly understand your particular concern and I think if you make things simpler - I would certainly support a simpler approach to Bass Strait and I think you've tried to do that. I would like to say too that I think you've raised a number of issues in this report that have been very helpful to my cause. And some of the conclusions that you've come to have been very helpful. It's just that you would need to move from the narrow picture to the broad picture because otherwise you'll be just offering assistance and not a broad framework for travel and freight.

PROF WOODS: Yes, and we are conscious of the need to canvass both. I certainly covered the issues that I needed clarification on. We've provided you an opportunity to put your position and we have, as I said, nine submissions to date from you. Are there matters that you wish to reinforce to the commission at this point? No doubt we will receive one or more pieces of correspondence if this inquiry continues but we remain grateful for those.

MR BROHIER: If an integrated national transport network is good for mainland Australia, it's good for the whole of Australia. And your inquiry allows you an open

opportunity to treat this issue broadly, widely and to give a national integrated transport system including all states of Australia. Tasmania isn't a remote part of this country. It is a fully fledged state. It's one of the original states in this federation and it's entitled to equal links, don't give them anything more, anything else. Don't accept the idea that Tasmania is surrounded by water so it's entitled to an open bucket full of subsidies from time to time because then you're recommending assistance schemes. If you keep the Bass Strait - Tasmanian Freight Equalisation Scheme as a narrow scheme, you're offering an assistance scheme and in my view they don't deserve that, they deserve every right to stand on their own two feet and use their natural and developed strengths like any other state. Give them equal air links, give them equal sea links and let them stand as a rich part of the east coast of Australia; that, Mr Commissioner, is the focus that I would like this commission to take.

PROF WOODS: Much appreciated and thank you for the time and effort that you have made in assisting this commission in its deliberations during this inquiry. That concludes today's scheduled hearings. I adjourn these hearings to be reconvened at another time. Thank you very much.

AT 11.53 AM THE MATTER WAS ADJOURNED ACCORDINGLY

INDEX

	<u>Page</u>
NATIONAL SEA HIGHWAY COMMITTEE: FORMER CHAIRMAN PETER BROHIER	2-23