



**PRODUCTIVITY COMMISSION**

**INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT**

**MS K. CHESTER, Presiding Commissioner**  
**MR D. QUINLIVAN, Head of Office**

**TRANSCRIPT OF PROCEEDINGS**

**AT HOBART ON TUESDAY, 4 FEBRUARY 2014**

**Continued from 3/2/14 in Melbourne**

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**MS CHESTER:** Good morning everyone. Welcome to the public hearings of the Productivity Commission inquiry into Tasmanian shipping and freight, including the current arrangements for supporting freight and passenger services between the mainland and Tasmania. My name is Karen Chester and I'm the Presiding Commissioner on the inquiry and I'm joined by my colleague, Daryl Quinlivan, Head of Office from the Productivity Commission.

The purpose of this round of hearings is to facilitate public scrutiny of the Commission's work and to get comment and feedback on our draft report which we released on 24 January. At the outset and I guess for the record, I just wanted to say that we'd like to thank the inquiry participants for the timeliness and overall quality of the initial submissions that they've made and their availability for meetings back in December. I think we all appreciate the relatively compressed time frame for this inquiry and I think we've all been moving forward on another best endeavours basis.

We actually commenced our public hearings yesterday in Melbourne and we'll be having public hearings today in Hobart and tomorrow. Following our public hearings in Hobart, we'll then be holding public hearings for two days in Launceston and then a day in Canberra. We'll then be working towards completing a final report to the government on 7 March, having considered all the evidence presented at the hearings and in the submissions, as well as having other informal discussions with interested parties.

We look forward to the provision of final or supplementary submissions which are due by 7 February. Our final report will be made available once released by the government, which may be up to 25 parliamentary sitting days after completion. I'd also like to say that we like to conduct all of our hearings in a reasonably informal manner but I do remind participants that a full transcript is being taken and for this reason comments from the floor cannot be taken but at the end of today's proceedings I'll provide an opportunity for any persons wishing to make a brief presentation to do so.

Could I also remind any media attending today to make yourself known to our Commission staff. Please also ensure that you've read our facts sheet on what's required of media representatives attending the public hearings. Those facts sheets are available on the table at the entry point. Participants today are not required to take an oath but should be truthful in their remarks, and participants are more than welcome to comment on other people's submissions.

The transcript from today's hearings will be made available to participants and will also be available from the Commission's web site following the hearings. As many of you would already know, public submissions are also available on our web site. To comply with the requirements of Commonwealth occupational, health and safety legislation and

good old common sense, you're advised that in the unlikely event of an emergency requiring the evacuation of this building, follow the green exit signs. There's one just out the back. Lifts are not to be used and the assembly point is the adjacent carpark off the (indistinct)

With no further ado, I would like to welcome to the hearings our first participants from Norske Skog, Ron Bender, Arnold Willems and David Quinn. Could you each just alternatively state your name, title and organisation for the record and for the recorder.

**MR BENDER (NSB):** Sure. Thanks, Karen. Rod Bender, general manager Norske Skog Boyer, about 35 kilometres upstream on the Derwent River out of Hobart, making newsprint and about to make some different grades of paper.

**MR WILLEMS (NSB):** Arnold Willems, supply and logistics manager at Norske Skog Boyer.

**MR QUINN (BQA):** David Quinn, managing director Bartholomew Quinn and Associates. I've been a consultant to Norske Skog for 17 years and have worked on the last three I think Productivity Commission inquiries into the Tasmanian freight equalisation scheme.

**MS CHESTER:** Thank you very much, gentlemen. Thank you also for your initial submission and your supplementary submission that you've provided following the release of our draft report. We very much appreciate that. I think you also note that some of the evidence that you've provided in your submission we've been able to incorporate into our draft report, but just initially I'll open it up to see if you'd like to make any initial opening comments.

**MR BENDER (NSB):** I think what we've prepared and in the submission we've made in response to the draft report which we submitted yesterday - we've got copies here for people who might want a copy later - we've tried to identify six or seven points that we thought we'd go through today, so I guess I can head off into those now. There is some detail I'm going to ask Arnold to talk to about some concerns we have around some of the parameters and the discussion about parameters in the review, but I think what I will do is take you through about six or seven points and pass on to Arnold when we come to the detail part.

Arnold has been responsible for freight logistics at the Boyer mill now for over a decade. He is a 30-year service employee, so he has a long history with the company and I think given the relatively compressed time line that you spoke about, Karen, has done probably some good work that has given us a lot more insight from our perspective at least into the BITRE report and figures

and how that sort of inter-plays into your recommendation, so we'd like to comment on those, I guess, in detail.

I think to start with, first of all we'd say we appreciate the tight time line that the Productivity Commission has been given to work with. That's of course also true for us as respondents and for other respondents as well. We believe that this has led to some fundamental errors that we'd like to talk about, or at least some large questions that we have about the figures that are presented. We would also like to encourage the Commission, if it becomes necessary or if it is prudent, to ask for an extension to the time line that the terms of reference outline, particularly if that means that the quality of the work and the type of outcomes for Tasmania and the scheme can be improved by an extension.

Karen, for your benefit, we did meet with Daryl at the roundtable meetings in December. There were several participants in the scheme. We were one that raised issue with the use of the word "subsidy". I didn't do a word count in the report but we notice that "subsidy" is still a widely used word.

I think we particularly feel as a participant in the scheme that it's a low rent description for what is a very important scheme. We think "subsidy" gives the impression of being given something that you maybe aren't entitled to and we do feel entitled to this. We think that the use of the word seeks to undermine the importance and legitimacy of the scheme. In the public domain I can say that actually the use of the word has that consequence. We quite often get feedback from others that lead to that conclusion.

It's also not helped by the fact that in the report you talk in the second paragraph about the accumulated costs of 2 billion since the inception of the scheme and I think predict that there will be a further 2 billion of outlay over the next 15 years. While that might be true, we respectfully suggest that we don't see equivalent numbers put forward in the report for the cost of the Hume Highway, including the cost of having 420 kilometres length of highway constructed, the construction costs maintained, periodically replaced while also servicing the cost of the debt of building that particular piece of infrastructure. I think Tasmanian participants in the scheme see this as equivalent to having the roading infrastructure between our island and the mainland.

While we have serious concerns regarding some of the material in the draft report and we'll deal with that in detail in a moment, we first thought it would be worthwhile pointing out we wholeheartedly welcome the discussion concerning the inclusion of northbound export freight, export from Australia rather than from Tasmania. We think this is the best solution to the current dilemma facing Tasmanian exporters, particularly given since the removal of

the option to transport directly out of Tasmania in 2011 I think it was, May. Since then costs of our business have increased dramatically by shipping through Melbourne and of course we don't attract any scheme assistance for that.

This matter needs to be firmed up as a key recommendation in the final report. We notice that you have sort of opened a discussion up about it in the draft report, rather than make a firm recommendation. We would encourage you very strongly to make a firm recommendation in the final report to that extent, but not at the expense of existing assistants or the size and scope of the budget impact of the current scheme, but in terms of its own merit. We think that, for the same reasons that freight leaving Tasmania attracts assistance from the TFES, we find it very difficult to understand why that same logic, identical logic, doesn't apply to north-bound export from Tasmania that on their way to Melbourne to leave the country. So we think that it should be on merit rather than - we get a sense from the report that we are maybe trying to fit all this within a certain frame budget.

We think, at least at very first, these things deserve to be looked at on merit, and maybe there are broader considerations to be taken over time by people other than us, maybe about whether that can be afforded, but we think, at least at first, the merit of that should be made into a firm recommendation in the report.

Now, maybe if we talk more specifically about some of the concerns that we have about the report - sorry, there was one other thing. We do also welcome the suggestion and the support you are providing, I think, for the government to get on with the coastal shipping regulation review. I think there's one particular figure in the report. I don't think I will be brave enough to quote which number it is, but it might be 2.6, I'm not sure, where it clearly shows, and I think the text after the figure indicates that there were some significant increases in costs after the 2009 changes to cabotage, industrial relations law and that sort of rule, and we think, clearly, that there as an impost and we would welcome the review and we would welcome your support of the review.

Going back to the issues and the flaws that we potentially see with the Productivity Commission's draft report, you invited comment, and to the extent that you would provide it either in a public submission or in a confidential submission, which we also might, data from industry to reflect the current cost disadvantage, and we note that in the terms of reference there's a specific request for you to identify the cost disadvantage, and I also note and acknowledge the comment you make quite often in the report is that that's very hard to do. The problem isn't a single number that represents the cost disadvantage. We would agree with that; however. we do think there's a cost

disadvantage.

We firmly agree with that from our experience and we note that other respondents to the report are also seeing a cost disadvantage, and interesting to us was that in terms of magnitude it would appear that some of those are very similar to the cost disadvantage that we see, which is 27 per cent. The frustration we have is that you have been asked in the terms of reference to identify this cost disadvantage. You are then asked respondents to provide data on that and then, from our point of view, seemingly ignored that and instead deferred to information from another agency, the Bureau of Infrastructure Transport and Regional Economics, which suggests a different assessment of the cost to industry to what we see through world commercial reality.

We spent a lot of time on this. This became something that really did become a frustration for us. In drawing your conclusions from BITRE's work you formed the view that Tasmanian businesses are overcompensated by 33 per cent. I think you will say that's not the current parameters, they're parameters from the past, but okay, 33 per cent is like nothing. We have never been overcompensated, full stop, and 33 per cent is a rather large overcompensation, I think we would agree.

I will dwell on this a little bit. I have been particularly frustrated by the use of figure 2.5 in the report. I think indexes are a very important graphical representation of what's happening. I just don't think that - first, an index doesn't tell you anything about the current relativities. It tells you about the relativities over time, but without knowing what the relativities were at the strike rate or on a date, which in this case is 84, 85. It doesn't tell you anything about the current relativities.

I also find it hard to work out why we are using a strike rate or index at 100 back in 1984 and 1985. I was barely out of high school. It seems like a long time ago.

I work with some very bright people. I asked a group of 11 in one meeting of my middle managers, senior middle managers, what this chart told them. All of them, unanimously, with discussion, although there was some debate, said that it showed that shipping costs and rail costs were lower than road costs. That's not what it shows. It doesn't speak to the relativity today of the costs, it speaks only of the relativity since 1984, 85. We struggle to see the relevance of that; so to help with that what we have done is we have - Arnold can take full credit for this, he has looked at the BITRE base data that is behind this particular figure and we have redrawn it from 1977 to 2007, both as a nominal rate and as an index, and it shows a completely different story, same date, completely different story. So we have also used an index, but we have, we think quite appropriately, shown the nominal rate on which that index is

based; so the nominal rate clearly shows that Bass Strait shipping is much more expensive than road freight.

We have then also done that in real terms, based on 2007, 2008 dollars; that's the second set of charts. Again, both the normal or the real rates and the index of those real rates are shown and, again, a different perception is built. We think this reflects more the reality for our businesses. It shows that Bass Strait shipping is more expensive and it shows that the relativities, over at least the last 15 years, have tracked very closely together.

**MR QUINN (EQA):** Just expanding on that, I think - and time arising we have specifically chosen because that was the start of the TFES scheme in 1977. It's pretty clear from the information, just shown a different way, that the actual increase of road and shipping costs are over that period of time are very similar; so over that period of time if you look at the index in nominal terms, the second graph I have provided, you can actually see that the shipping costs increased at a slightly rate than the roading costs, which is quite a different perspective than what you would get from the chart in figure 2.5 and obviously the commentary that follows.

**MR BENDER (NSB):** I think, just going on from that, I did appreciate, after reading about the 33 per cent overcompensation, clearly, if that's the case, then there will be a review, and I think I would be wholeheartedly supported with that review if that was the case, but how would that be done was my thinking as I read. Then I read on and found that you had actually addressed that, fairly briefly, in the report, but no doubt more to be written on this.

You go on to discuss how savings to the Commonwealth budget - we weren't sure that was part of the terms of reference, but nevertheless - would result from a parameter view if the 33 per cent overcompensation was real. That should be implemented using an appropriate transitional arrangement over two to three years. We contend that two to three years is not appropriate. Not only is that not long enough for large businesses with significant fixed assets, a billion dollar replacement cost for our mill to reposition our business, either by adjusting its capacity, moving it elsewhere or shutting it down, it does nothing to respect the fact that there are sovereign risk issues involved here with regards to the investments we have made on the basis of the scheme's existence.

Of course, we know the scheme comes up for review from time to time. I have been involved in two of them. I have been general manager for less than eight years, but it does nothing to respect the fact that there's \$175 million worth of investments been made over the past six years, all of which are underpinned by the existence of the TFES scheme for our business in Tasmania.



Delving more deeply into this 33 per cent overcompensation, it really isn't our experience, in fact it's almost diametrically opposite. Our experience is 27 per cent currently under-compensation, rather than 33 per cent overcompensation; so we really - I remember writing a comment in the report, you know, "There's something wrong here, there is something wrong. We can't be this far out of the ordinary." As I say, Arnold has got lots of experience. He is also very good at sort of dealing with the data and trying to work out from that what can be found and so like a fast scale, I'm going through the four or five areas of concern that we've found with the BITRE data.

**MR QUINN (BQA):** All right. So we have hopefully put enough detail in our submission in regard to the areas of concern but I would just like to go quickly through those if we have time. As Rod said, after TFES, we still see a 27 per cent lack of compensation between what our current costs are against what we believe it would be if we had a connecting rate, a connecting corridor, which is really the basis of the compensation under the TFES.

So obviously, we started asking the question, well, why the difference and I think when we looked at the basis of the conclusion that the Commission has come from, it is obviously that BITRE information has been provided. So we have looked at that and we have looked at, you know, the assumptions in the data and the methodology was used by BITRE and we believe there's a number of consistencies, certainly from our review of those documents, to the extent that we have had time to review them and go through the documents.

So I would just like to quickly go through those. One of the key elements obviously of the scheme and the methodology determining the compensation is the Bass Strait shipping cost and what the scheme has used over time is the median costs of shippers and I do notice over the last five years that the median has actually dropped, so that infers that the actual shipping cost into Tasmania has actually dropped and dropped by 5 per cent, according to the data that has been provided by BITRE. Now, that's certainly not our experience. Our experience is that the shipping cost has actually increased by about 10 per cent over the last five years and in fact BITRE's own assessment has been the shipping cost over the past five years has been a 9 per cent increase, which is consistent to our view.

So I think the conclusion that we have come to there is that the median, the calculation that's used, doesn't actually correct reflect the change in the shipping costs that we are seeing over the last five years and it therefore distorts or potentially distorts the difference between the shipping cost and the trucking cost for this and so that's an observation we have made.

The other major component of course is the assumptions around the road

freight equipment costs and in our report but we have looked at what the assumptions are of BITRE and that's that green line there made over the last - well, since - yes, of each bit of the graph and the red line is what our actual costs are for road transport from our Albury mill in New South Wales to our customers in Melbourne and there's a 40 per cent difference in the rate of increase between BITRE's information and what we have actually seen out in our real examples, so - - -

**MR BENDER (NSB):** Similar volumes, 250,000 tonnes a year, the same packages, the same shape items, almost identical.

**MR QUINN (BQA):** So really the question then arises, well, where is the difference and why do we see such a large difference between information that's coming out the department compared to what we actually see in real life and so there are a few technical aspects that I believe are inconsistent in the way that SKM, which is the major consultant BITRE is looking at.

The first is that, well, BITRE is assuming a 30 per cent empty rate and in fact escalate the rates by - well, I think they escalate the rates by 30 per cent to account for the empty run rate and my point is that SKM is actually providing the rates based on negotiated pay rates on the mainland that already include an empty running rate, so I am not sure. It looks like to me that they are doubling up. The rate already includes an empty rate, yet BITRE are making an adjournment for an empty running rate or an increased empty running rate. That's one point. The second is that that BITRE's rate for dry freight costs, which is the predominant volume of products that leave the state, is \$650.

**MR QUINLIVAN:** Per TEU.

**MR QUINN (BQA):** Per TEU and that's based on a cents per tonne kilometre rate of 13.46 cents. Now, again I'm not exactly sure where BITRE have got there but if you go back to the SKM, they're suggesting that the mainland rate - and I think that's the most applicable rate if we have a corridor - is actually 11.8 cents a tonne a kilometre for a B-double, so there is a difference already between what BITRE has assumed of 13.46 cents a tonne a kilometre to 11.78 and if you put that back into the calculation, that reduces the dry rate costs by 14 per cent to 569 already.

**MR QUINLIVAN:** So again an over-estimation of the road costs.

**MR QUINN (BQA):** The road costs. If you - - -

**MS CHESTER:** It might be helpful at this junction, because I am also very conscious of time and we do want to talk through with you some of the other recommendations we have got and the relative impact they may have on

Norske Skog.

**MR QUINN (BQA):** Sure.

**MS CHESTER:** It think it's fair to say that in our draft report, we do form a view that it's intrinsically very difficult to come up with what is a notional relative cost disadvantage between the shipping rate across the Bass Strait for any individual firm and we have received some additional evidence, which is very helpful, in terms of the disparity of the rates that you are actually getting from rates in Victoria and New South Wales travelling with their own businesses.

We accept that and that's part of the reason why we are recommending a move away from the parameter system, because it is intrinsically difficult to get that notional cost disadvantage calculation correct and for other reasons, our preference is to move towards a flat rate but if we were to stay with the parameters as currently developed and framed originally in the scheme, we have now proposed that there's a process whereby industry like yourselves can be involved more directly to make sure that the methodology is correct and is reflecting actual experiences. That said, I think we all agree that the data and the formula that the bureau is working on has been established and set in place as part of the design of the scheme. It's whether or not in applying that, the methodology is correct from your experience with respect to low capacities and the like.

**MR QUINN (BQA):** Yes.

**MS CHESTER:** So I don't think we can resolve it here.

**MR BENDER (NSB):** I think the issue that we have, Karen, is that the Productivity Commission has taken the information as being the best available or the correct information, then made conclusions about the fact we have been over-compensated, and right through the document, you have come to that conclusion and that's the issue that we have. We don't think you can come to that conclusion, because I think there are issues with the data you are basing it on.

**MR WILLEMS (NSB):** Industry is being exposed to public scrutiny, as indeed it should when taxpayers' funds are involved, through the Productivity Commission's review, so industry is being exposed to scrutiny. The Productivity Commission is being exposed to scrutiny, because we believe that you are making recommendations based on inaccurate data from another government agency. BITRE need to be exposed to the same level of rigour, intellectual rigour, and scrutiny as the rest of us are. So for us, if you don't go back and review the BITRE data, then you are not doing your job and we end

up being the ones who are penalised as a result.

**MS CHESTER:** So let me just clarify. If we think that there is a factual error in the way that the bureau is currently applying an existing methodology that's been in place and well established under the scheme since its inception - - -

**MR QUINN (BQA):** But that was not the methodology used when it was initially put in place by the Nixon Review. So BITRE has used different methodologies and as you know, the parameters haven't changed, so there has been no industry or other peer review of BITRE's work in the reports that were done subsequently.

**MR BENDER (NSB):** It hasn't had any negative points.

**MS CHESTER:** No, I see that.

**MR BENDER (NSB):** You are proposing it will become a very important piece of work and we are saying, I think, on first blush of the information it looks erroneous, and I think we have gone into enough detail in the report to show that at least there's concern that's well founded. Whether we have got it perfectly right - we can only get the data that's publicly available. We have only had a relatively compressed amount of time, but for us, I mean, the alarm bells are ringing and the reason we dedicated so much time and effort to this in lieu of running our business in the last two or three weeks was because we were completely confounded by the fact that overcompensation of 33 per cent had been estimated.

We're the single biggest participant in the Tasmanian Freight Equalisation Scheme and on that basis we may be a reasonable test. We have got another business operating in Albury, New South Wales that ships the same products in the same volumes very similar distances by road - largely by road. We think we have got internally a very good comparison. We work hard on minimising the cost to our business. We work hard with our freight companies and our partners in reducing costs, particularly around logistics.

We feel well positioned - and we said this in 2006 - we feel well positioned to be able to come to our own assessment about what the compensation should be or shouldn't be, and we just find it hard I think to come even close to understanding how this 33 per cent can be right. The work we have done shows that there's probably good reason why it's not right.

I think, going back to where I started, the frustration is - I think if you read the submissions by many of the shippers out of Tasmania, 20 and 30 per cent, the estimates of freight cost disadvantage from each of those participants' point of view seem pretty common. It's diametrically opposed to

the - - -

**MR WILLEMS (NSB):** Equally to then say, "Oh, it's all too hard. We're going to go to a flat rate," I think that needs to have a very good discussion because last time around in 2006 when the Productivity Commission put that forward, it was universally not accepted.

**MR BENDER (NSB):** I think in the report, to be fair, you're saying BITRE would be a group that could participate in a review - every second year I think you have suggested - of the parameters. If that were the case and there was a chance for us to engage with BITRE in that work, as we are trying to do now I think in putting forward some questions really - if you take them as nothing else, they're questions at least - I think we would be okay with that. I would worry about the administrative cost of that to my business - Arnold is not cheap - but at the end of the day they're things that I think we would feel more comfortable with. The current BITRE work, as reflected in the draft report from the Commission, we think is flawed, and the conclusions that are drawn on the back of this potentially flawed work we think are wrong.

**MR QUINLIVAN:** If I understand what you're saying correctly, you would be comfortable if the government were to use the bureau's work - and it is the appropriate body because it can do it on an ongoing basis. We can't. That's not the nature of our engagement in this scheme - providing they did a review as we recommend, with the kind of process we recommend, before its numbers and its conclusions are adopted for the scheme.

**MR BENDER (NSB):** We would be agreeable to that.

**MR QUINLIVAN:** That's the kind of proposal - - -

**MR BENDER (NSB):** Our only reservation, Daryl, our only reservation, to be really honest with you, is that what we can see of the current work is so far removed from our real world commercial experience that we are nervous about that. If it was close, we're absolutely okay with BITRE work being able to be publicly commented on and some processes that were engaged with - you know, open dialogue around, "Is it this or is it that?" and, "Why is this higher than there?" those sort of things. If that could be somehow built into a mechanism, we would be open to engaging with that. We think it would be a better platform than having some fixed rate that doesn't get reviewed for years and years.

**MR WILLEMS:** Cutting to the chase, we really don't see how the Productivity Commission, if the material is fundamentally flawed from BITRE, or at least the suggestion is there that it may be fundamentally flawed - we don't see how you can then make recommendations that have very serious

impacts across Tasmanian industry and the Tasmanian economy without going back to BITRE and at least asking those questions.

**MR BENDER:** I think that's our final request. Our request would be, you know, if we could have any feedback over the ensuing weeks about whether some of the questions we have raised maybe are not even correctly founded. The work we have done in the compressed period of time leaves us with significant concern and if we were you, we wouldn't be making recommendations or even decisions based on the basis of this work.

**MR WILLEMS:** And while you probably aren't in a position where you can go back to the Federal government and say, "Can we please have an extension?" I think Tasmanian industry, Tasmanian government, could certainly say to the Federal government, "Get it right. There is so much at stake here. Get it right."

**MR BENDER:** That's clear in the press release that Senator Abetz and I think Senator Colbeck made and the terms of reference. I think Joseph Benedict Hockey sees this as a very important piece of work for Tasmania and, to be fair, for the nation.

**MS CHESTER:** So do we, and that's why having the process as we do with initial submissions, public hearings, final submissions, does afford us the ability to try to get it right. I think that said, we all are universally in acceptance that it's intrinsically difficult to come up with a parameter that's really going to reflect the individual freight cost disadvantages of those in Tasmania and that's where we struggle with the parameters.

I think the report also highlighted that it wasn't just administrative simplicity that made us go for a draft recommendation of going to a flat rate of assistance. If you accept that it's intrinsically impossible to get that calculation correct through a parameter for each individual firm and you're in the world of medians and averages, for us there's a perverse disincentive that is created by the way the scheme is currently calculated. It doesn't create an incentive for businesses to get the lowest cost transport option because they can be rewarded by the costs of shipping being higher in the calculation.

That plus a couple of other perverse anomalies that we have identified in the report is really what is behind our thinking to move towards a flat rate of assistance, but very cognisant that in coming up with what would be an appropriate flat rate of assistance we would be again on average looking to equalise or offset the freight cost disadvantage across business as a whole.

**MR BENDER:** I think the biggest problem with a flat rate is that it disadvantages the smaller shipper, so while there are companies like ours

which can drive - or has more opportunity to have lower costs, I think for smaller shippers a flat rate means that they don't get compensated as much for the disadvantage that they see compared to large shippers. I think that's the issue with a flat rate.

**MR WILLEMS:** The flaw in the argument of moving to a flat rate is the basis that you think people are being overcompensated at present, whereas the fact that people are not, and in the case of Norske Skog there's still the 27 per cent net disadvantage - there is still every incentive there to try and drive down costs.

**MS CHESTER:** I think it's fair to say that we do appreciate that there is a very different competitive dynamic for smaller shippers versus larger shippers when they're negotiating with the shipping lines and we do comment on that in - - -

**MR QUINN:** And the road costs, so it's both sides.

**MR BENDER:** But, see, the same commercial pressures are in the room when you're negotiating road transport. I mean, we see that at our Albury mill. We have had our own experience of that. So to some extent the opportunity of scale - whether it's equal or not I think would be debatable and probably would be lost, but there's an equivalent, let's say, pressure on scale in terms of commercial negotiation outcomes, so - - -

**MS CHESTER:** I think we're also very cognisant that across the Bass Strait shipping services are provided by three providers at the moment, two of them really have the lion's share of the market, and for the smaller shippers with the way that the subsidy is calculated today that does create a dynamic that's manifest in the shipping rates that they're offered and effectively who is getting the benefit of the schemes funding? It's obviously, from our perspective, intuitively being shared by the shipping lines and the businesses, and more so for the smaller shippers. They're the sorts of factors that I think are sort of informing our - - -

**MR QUINN:** Do you actually have evidence of that, Karen?

**MS CHESTER:** We have had some anecdotal feedback in the - - -

**MR QUINN:** Yes, but hard evidence for that assumption you just made or that proposition you just made.

**MS CHESTER:** In the submissions that we have received, the large shippers like yourselves have told us that you think that there is some element of competition between the shipping lines in terms of the rates that you get

offered. The smaller businesses that we have received submissions from do not have that experience, so it is - - -

**MR QUINN:** The competition or - - -

**MR BENDER:** In terms of the freight rates that they're being offered by the shipping lines rather than the shippers. Did I hear you correctly?

**MS CHESTER:** That's correct, yes.

**MR BENDER (NSB):** So you have evidence of that?

**MS CHESTER:** I know you have a different view on the figure 2.5, and figure 2.5 was really meant to show the rate of change in the indexes over time, but we're happy to have a look at your reconfiguration of that figure. That's helpful, but if you look at when the introduction of the Tasmanian freight subsidy occurred - - -

**MR QUINN:** I don't think this is a matter that can be proved, if that's what you are getting at.

**MR BENDER (NSB):** No, and I think at the end of the day that is why the Productivity Commission needs to be very careful about stating that sort of position.

**MS CHESTER:** And we are very careful in stating that, but if you look at what happened to freight rates following the introduction of the subsidy - - -

**MR BENDER (NSB):** Have you looked at my graph here? You will see the freight rates since 77 have not increased - it's been very similar to road costs so I think that's why - I don't think they have increased significantly any more than road costs.

**MS CHESTER:** I was just talking about the shipping costs at that point in time post the introduction of the equalisation scheme. It would be good if we could run through some other issues that we were hoping to cover with you this morning. I do appreciate your point earlier on in your opening comments around the terminology of the word subsidy. For us it's not a pejorative, it's an economic term, but we do appreciate the media may be presenting it in a different way, so when we use it, it's an economic term with no connotations attached. We are happy to refer to the scheme as the Tasmanian Equalisation Scheme today.

With Norske's operations where, you know, a wonderful position where you have three Australian locations with Boyer in Tasmania, Albury in New



South Wales and the Tasman in New Zealand, so across Australasia to provide us with a truly cost comparative insight to the relative logistic costs for those different operations and where they are based. In your initial submission you talked about the freight logistic charges for the Boyer mill representing about 20 per cent of the total operating costs.

**MR BENDER (NSB):** Correct.

**MS CHESTER:** What would be the comparable figure for the other two mills that Norske is operating?

**MR BENDER (NSB):** Certainly for Albury it's a lot less, but I think you need to take into consideration the fact that they are probably closer to the market, so I think it's very hard to separate specifically, or make a comparison, because of the distance of the market. It's an awful lot less for Albury. It's about half. I don't know what it is as a percentage of the total costs. It would be about half. I think that's the best way I can answer, and if you had a desire for the actual information, we're more than happy to come back to you with it but off the top of my head, their per ton costs are about half our per ton costs, which largely comes down to their location.

**MR QUINN:** It's a boat, so it's a location and the cost of the transport per se itself for the distance, so it's the matrix of those two, and obviously even for the Boyer mill we are going from Western Australia, obviously, to Melbourne, right to Brisbane and into Asia, so the average cost obviously depends a lot on where the tons are flowing and which destination and the quantity.

**MR BENDER (NSB):** But I would say it's in the order of half. For our New Zealand mill it's lower than Boyer. Boyer has the highest regional logistics cost, again different from a geographic point of view. Their local market is about - well, now they have only got one machine operating. We closed a machine there last year as a result of a strategic review which was part of the same decision that led to the investment at Boyer.

Their market in New Zealand I think now is between 70 and 80 thousand tons. They make 150, so about half their production goes to domestic markets and the rest goes into Asia, and their Asian freight rates are ridiculously low compared to ours, particularly given that we go through Melbourne.

**MR QUINN:** Our Tasman mill can export into every Australian port except for Hobart and Melbourne at significantly cheaper prices, and Boyer get their paper there, even with TFES.

**MR BENDER (NSB):** They are cheaper than we are in every estimation bar two.

**MR QUINN:** Yes.

**MR BENDER (NSB):** With TFES included.

**MS CHESTER:** Thank you for that. Your initial submission was the material (indistinct) strategy that you had for the Boyer mill I think was about 165 million over the past seven years.

**MR BENDER (NSB):** Yes.

**MS CHESTER:** How does that sort of cap expend compare to the other two levels and if you could just take us through what were the key factors underpinning the business case for that strategic capital investment program?

**MR BENDER (NSB):** Sure. The 165 million investment at Boyer is made up of about four different projects. The two significant projects that make up well and truly more than half of it are the \$85 million investment that's happening now, and a \$50 million investment we made in 2009, so I would probably focus on those. The other two investments were relatively small. It was a \$14 million effluent treatment upgrade for our plant which was part of our work with a local environment protection agency, and a bleach plan upgrade in 2006 which was really moving into a slightly different product range, so let's partition those off.

The two investments that we have made, very strategic investments, they were trying to position the mill as being more competitive from a cost point of view, and therefore able to sustain its operation for a longer period. There were originally cost pressures and there have been for 30 years in our business. The Boyer mill has been - its existence has been under review probably four or five times in the past 20 years. That will probably continue. Our ambition then as a group of management at the mill and in the region is to try and work out whether there's a strategic roadway, a strategic pathway, that we can follow that will make those assets more profitable and/or give them a longer chance to run.

The software conversion project: we moved away from using eucalypt fibre and went to 100 per cent plantation pine, so strategically environmentally a very good thing for the mill. We are FSC certified for all of our fibre inputs now which is important from a marketing point of view, but more importantly reduced the costs of the operation by about 20 million a year.

The current market conditions in newsprint over the past four years have seen the size of the newsprint market domestically decline by - well, it was 20 per cent last year, or close to it, I think 18 per cent overall last year, and it was 15

per cent the year before that compounding, so the size of the market has significantly dropped. We used to have 90 plus per cent market share, so when you've got 90 per cent market share and the market drops by - even in the first year in 2009 I think it dropped by 11 per cent; suddenly there's no headroom in the market any more and you start to lose sales.

As a result of that there's been significant pressure on how many production assets we've run in the region, and we basically came to the conclusion in early 2012 that we needed to shut two paper machines. It would have been a very easy decision to shut the Boyer mill. That wasn't the strategic pathway that the company chose. In the end we did a structural review of our assets in New Zealand and we now operate one paper machine there, and we converted one paper machine at the Boyer mill, an \$85 million investment that's about to be commissioned in a month's time, to make lightweight coded paper and move away from newsprint, so move into a completely different family of paper, a different market segment, one which is 100 per cent imported to Australia, a 300,000 ton market per year, and we will produce about 140, so we will need almost 50 per cent of the market to fill our machine, but we think that's more than possible.

We've done it with newsprint for many years. The product will be good quality and delivered with a level of service that overseas suppliers can't match. So that's strategically the basis for these investments, but both of those investments would not have occurred without the TFES scheme being in place, so I don't know if I can be more categorical. The TFES scheme is fundamental to those investments at the Boyer mill, maybe less so for the two I excluded from the discussion, the bleach plant and the effluent treatment plant. The two significant strategic investments we've made over the past four or five years are both underpinned by the scheme.

**MS CHESTER:** Am I right in saying then that for Norske Skog in Australasia the material capital investment has really been in the Boyer mill and rationalisation in the two other locations, there hasn't been any sort of material cap expense there.

**MR BENDER (NSB):** The Albury mill was significantly upgraded in 2005, 2006 I think it was, with \$120 million upgrade. Really other than by a geothermal energy plant we constructed last year in New Zealand that sits on a large geothermal field, 20 megawatt geothermal plant there, I think the most significant investments have occurred at the Boyer mill.

**MS CHESTER:** Your initial submission also highlighted a number of the broader market forces, particularly in Asia, for your product. It would be good for us to get an understanding of what do you see as the outlook for your product, domestic sales on the Australian mainland versus going into Asia and

what do you see as the profile for the exports.

**MR BENDER (NSB):** We run two paper machines. One of our machines will be operating in a month or two's time in this new lightweight coated paper range, so effectively it partitions that off from the threat of the newsprint industry decline. One machine that the mill, the biggest machine we have, the fastest machine we have, will remain exposed to the newsprint market vagaries in Australia, particularly the domestic decline.

We, therefore, are sending around half our product off that machine into Asia. That will likely grow significantly probably over the next two or three years to a point where we're shipping most of our product into Asia bar some special products we make on that machine that are for inserts in newspaper, high white inserts like television guides, car magazines, real estate guides.

So that machine will be more and more exposed to foreign exchange and we're very happy to say that it's now coming down but we've been through a period where we've shipped up to a half of that machine's production into Asia at exchange rates above parity. I don't know for other exporters what that looks like. Our experience is in the history sense we've only sold domestically, so we've got little exposure on the sales side to foreign exchange.

We've certainly had that come to bear in the last three or four years, at the same time that we lost access to export shipping out of Tasmania, so it has been - you know, I didn't think much of the term "perfect storm" to be honest. Five years ago I would have laughed if someone used it. I thought they were kidding themselves. I don't any more. I think we've been in one, declining newsprint markets by 10 to 15 per cent per year.

You had 90 per cent market share. You've got huge fixed assets, a billion dollar replacement cost for Boyer mill. You've got foreign exchange rates above parity. You've got no access to international shipping out of Tasmania, nor by the way for the record do I think that's the best option. I think the best option is to go through Melbourne and get access to the competitive market in Melbourne. I just think we should be given equivalent road costs to get there.

So that's the reality for the Boyer mill and that will unlikely change unless a decision is made to close that asset, close that machine and a very real risk of changes to the TFES scheme for us is the existence of that asset and the operation of that asset.

**MS CHESTER:** Are you able to give us some sort of order of magnitude of some of the volume forecast that you're hoping with respect to exports over the next three or five years?

**MR BENDER (NSB):** Sure. Probably not over the next three or five. I've given up trying to predict our business beyond three. Next year we'll be exporting, and Arnold might correct me if I'm wrong, I think between 60 and 80 thousand tonnes, so about half of the machines' production. It will probably be more like the 80 number the year after and I think the year after that would be maybe a hundred plus.

**MS CHESTER:** Thank you.

**MR BENDER (NSB):** That's specifically into Asia as export.

**MS CHESTER:** I think it would be good if we could now talk through some of our other draft recommendations.

**MR BENDER (NSB):** Sure.

**MS CHESTER:** And then give us some feedback from yourselves on the relative impact that would have on Norske Skog. I feel comfortable that we've probably covered all the parameters and so thank you for - - -

**MR QUINLIVAN:** Yes. Can I just say one thing on that.

**MS CHESTER:** Yes.

**MR QUINLIVAN:** We are talking to the bureau in the Canberra hearings next Monday. Your letter today, it's obviously a solution and public.

**MR BENDER (NSB):** Yes, it is.

**MR QUINLIVAN:** So we'll be drawing that to their attention. I was just wondering if we could have an electronic copy of these graphs that you've provided, Arnold, so we can also provide those to the bureau?

**MR BENDER (NSB):** Just before we move off parameters, there's one more point that I feel - it's very simple, straightforward. The mobile allowance - - -

**MS CHESTER:** That was one of my questions.

**MR BENDER (NSB):** Okay.

**MS CHESTER:** Don't worry. I wasn't going to leave the mobile allowance.

**MR BENDER (NSB):** Thank you.

**MS CHESTER:** Daryl rightly raises the point that Monday does provide us

with an opportunity in a public hearing context and on the public record to raise some of your concerns around the way the methodology has been applied by the bureau. So turning to the recommendations and you rightly pointed out earlier on there are two streams to our recommendations as they relate to the scheme.

The first was in definitive draft recommendations. There they formed a sort of triage. If you're going to stick with the parameters then let's use the parameters and update them on a biannual basis. Let's make sure we've got them right, so let's consult with industry. What would be an appropriate transitional period if we were to move to the parameters following that consultation occurring? I appreciate you made the point before that the two to three years that we raised in our draft report you would still consider to be not an adequate period of adjustment if it was found that the overcompensation - the adjustment with the organisation (indistinct) set down in the report. We then say, if we can move away from the parameters for a moment and go to a flat rate of assistance, if a flat rate of assistance, if the quantum of the flat rate of assistance was a quantum that you felt compensated you - - -

**MR BENDER (NSB):** Equalised.

**MS CHESTER:** - - - for the freight cost disadvantage, noting that it wouldn't be for your individual circumstances but it would be some form of reasonable average, does that address your concerns around the flat rate of assistance?

**MR BENDER (NSB):** To be frank we thought long and hard about this in 2006 and again we've seen the recommendation in the draft report and we've talked about it again. Our reluctance to comment on the flat rate is probably more with due respect to others. For us we think as long as the quantum is of the magnitude that would see our business able to operate as it does today, even under some challenges from Tasmania, then I think the flat rate wouldn't pose any significant hurdle for us in terms of a mechanism, let's say, but we do understand that smaller shippers, smaller businesses therefore, will probably be impacted to a greater extent than we would by that.

Again, it comes down to the quantum of it and the very first question I have about the flat rate, "Well, tell me what it is?" and of course we're not ready to do that today but I just don't want to let anyone forget that at the end of the day the mechanism, for me as general manager - for Arnold the mechanism maybe holds much more weight. For me as general manager, the mechanism serves as something I'd look at quarterly in terms of its return to the business and how that leaves us in a sense of profitability running the operation in Tasmania. That's fundamentally my job, sitting between the mill as an asset manager and operation manager and our corporate office in Sydney in Onslow to make sure that the business is making the right strategic decisions and

respecting all the factors that have to be taken into account. TFES is one of those.

**MS CHESTER:** Thank you. Look, we do appreciate your comments and concerns around the small shippers of Tasmania and we do share those concerns. We're very cognisant at the moment that the scheme is very administratively complex, so much so that a lot of the small shippers are going through agents to access the scheme's benefits and in doing so they have to share some of those benefits with the agents that are helping them. So there could be some benefits in a flat rate of assistance for the smaller shippers. In terms of removing that complexity they can do it themselves and then they get more of the benefit.

**MR BENDER (NSB):** I think the agent costs, if I understand them, are a pretty small component of the total.

**MS CHESTER:** We're still getting some evidence on that but it is quite material is our understanding at this point in time.

**MR WILLEMS (NSB):** Having the current system though does apply some intellectual rigour in coming up with the figures, so there is a basis for it. Plucking a flat rate out of the air I think that's what people - you know, "We're going to give you a flat rate." "Tell us what it is." Then it allows people to go away and do their calculations but what's the near to the year 3, year 4 after you've moved to your flat rate? What's the basis for the calculation? It can't be just a figure that the five of us or the people in the room agree. It needs to be something that has a direct reference. Also, I pose the question to the Commission: are you proposing a flat rate based on the incorrect assumption that people are being overcompensated, based on the flaws in the BITRE analysis and data.

**MR BENDER (NSB):** Which comes an overarching concern about the material in the draft report. If that's solidifying the basis for your decision, I think - are we just again highlighting our concern?

**MR WILLEMS (NSB):** It's an easy thing for one government department - and I'm a former government adviser so I can say this with some experience. It's an easy thing for one government department to hide behind another government department's set of information and then if the criticism comes you later then say, "That was because we based it on them." The moral and appropriate thing to do is to challenge that other set of information. If you believe on information that's provided by Norske Skog and other respondents to the inquiry, the correct moral thing to do is to go back and challenge that other agency's data, lock us all away in a room together, as the industry has previously suggested, and no-one leave the room until you have actually agreed

on the factual data.

**MS CHESTER:** I think we made some comments before on how we will be engaging with the bureau next week, and we do appreciate your factual evidence that you have provided. I think the beauty of the Commission's process is that it is an open and transparent process and we do get to your feedback, and we are able to engage with other agencies upon which information we are relying, so thank you.

Turning to intermodal, it would be helpful, and we have received some evidence in submissions suggesting that the Intermodal rate, which hasn't been adjusted, no longer reflects what the Intermodal costs are. Are you able to share with us today some evidence about your experience with respect to intermodal costs and what you think would be an appropriate rate?

**MR BENDER (NSB):** The evidence I can share with you, and Arnold might be able to shed more light on it, is the Intermodal rate for Boyer is \$145 a tonne, to you, sorry. The flat rate, and I think this goes somewhat to the, you know, "Let's have a flat rate for the whole scheme" that the tendency - I think we had a flat rate for Intermodal and it hasn't worked for us, it has not been escalated, it has not been reviewed for way too long, the flat rate of \$100 that the scheme provides is now 45 bucks short of what it actually costs us. In terms of evidence of that and how that's made up, I think Arnold would have to be the one who comments, but I do know the total is 145.

**MR WILLEMS (NSB):** So that 45 gap multiplied by the number of tonnes to Boyers is a significant amount.

**MR QUINN (EQA):** We provided a breakdown in our (indistinct) submission of various aspects - - -

**MR QUINLIVAN:** We have had other evidence that is quite consistent with that.

**MR QUINN (EQA):** Yes, and I think the thing that we didn't include there was that if you take the example of us supplying customers in Melbourne, obviously under our current arrangement we have got a very short transport leg between the Melbourne wharf and our customer, and if you actually look at the costs of that, if we truck directly from Boyer to there, we wouldn't have that very expensive leg. That's actually on our most recent analysis, another \$150 saving we would get per TEU if we didn't have that very short leg between the Melbourne wharf and our customer. The actual cost per kilometre for that 15 kilometres is about \$15 a kilometre. It's just, obviously, because of the very short time and the traffic through the city itself, but that cost would be a hell of a lot less for that 15 kilometres if it was par of a route from Boyer to our



customer.

**MR QUINLIVAN:** 750 kilometres?

**MR QUINN (EQA):** Which is 750 kilometres. Traditionally, we haven't included that as an extra Intermodal cost, but really I think if you could include that, and I know other people have got similar examples where they have got an extra leg that is at a lot higher rate for the same distance.

**MS CHESTER:** Thank you, and we do appreciate you provided us with more detailed information in your commercial-in-confidence submission, but is great for us to get the order of magnitude into the public record in today's hearings .

Moving then to the second stream of our draft recording in relation to this, so we discussed the draft recommendations, but we do then raise more fundamental changes to the design of the scheme. I think it's more fair to say that overwhelmingly in the submissions that in recognition that there's no access to a regular international container shipping service to Tasmania, but that brings into question the efficiency and equity of the scheme with respect to it doesn't apply to all commodities trans-shipped through the port of Melbourne, exports. Are you able to share with us what impact the extension, assuming that it wasn't done on a cost-neutral basis to begin with, but if the existing rates for assistance were to apply, what impact that would have on Norske Skog Boyer operations?

**MR BENDER (NSB):** The impact would be, I think on today's rates, probably a two half to three million dollar impact, but that's off the top of my head, and it would serve not necessarily to change the strategic outcome but I think, you know, it will take, but it would definitely give that PM3, the one machine that's exposed to the Asian newsprint market and the declining domestic market, more chance to operate for longer. If there's one thing I've learnt as general manager of a facility like the Boyer mill, then the time that there is a real value of time in a strategic sense when you're making decisions, so if you can buy time, if you can get time, extend things, run them longer without investing or closing, then other things change, other things happen, and I think to the extent that we can prolong the operation of one of the machines that blew, then of course this would help.

I don't think it would necessarily be the thing that changes the strategic outcome because at the end of the day if there's no market for our paper that we can sell profitably into, then clearly the conclusion or the decision is quickly made. I mean, I'm the first to admit that. I've said to employees collectively at face-to-face meetings, you know, I don't find that particular part of my job, making that decision, at all difficult, but I will do everything I can to fight for the operation, up to the point that that decision is made in order to make it

more profitable, and therefore to sustain itself, and I think that this is part of that.

The logic, and you have to forgive me, I am an engineer at the end of the day, at least I was some 20 years ago, the absence of the scheme's application to export from Tasmania to me defies logic. I have heard all sorts of what I call excuses, and I think that is being kind as to why it doesn't. The World Trade Organisation and other things have been mentioned on more than one occasion, all of which just serve to frustrate me.

**MS CHESTER:** We do have some careful commentary in our draft report that suggests that some of those obstacles will no longer be present, but we do have to be careful with how any change to the policy is designed and framed to ensure that we don't run into any of those obstacles.

**MR BENDER (NSB):** Yes. I guess, just to make it clear maybe to other people who are reading, listening or in the room, we look at this scheme as effectively paving Bass Strait, so it effectively gives us - it doesn't give us the equivalent of road transport, it's 27 per cent short for us, but it gives us costs that are like that. On that basis, if there are those sort of world trade authority organisation-type hurdles, then we would regularly hear discussions about the upgrades of the Hume Highway, the upgrades to rail infrastructure on the eastern seaboard of Australia. I mean, it just doesn't occur; it's a fallacy.

I acknowledge that at the start of that, the founding part of this particular logic is that we are treating this like a road, and maybe that's something that only I do, but I think that's the best way to view this scheme. The equivalent would be, and I know it can't be done, but to pretend there was land there and pretend you build a road on it, pretend you invest billions of dollars in that, have to service that debt, have to maintain that road and periodically resurface it, and we know the costs of that very accurately.

**MR QUINLIVAN:** I think that's an engineering perspective on it.

**MR BENDER (NSB):** Sure.

**MR QUINLIVAN:** Karen's point is the main one. We think that the problem can be overcome with careful design.

**MR BENDER (NSB):** That's good.

**MR WILLEMS (NSB):** On the Australian mainland you can use roads, you can use rail, you have got some alternatives. In the case of Tasmania we have got no alternative, other than to go across the water, and we cross the Australian waterfront twice and, as you have heard from the evidence already

presented today, the Australian waterfront is an expensive place to cross compared to New Zealand and other countries.

**MS CHESTER:** Absolutely, and I think for us it also highlights the importance of the coastal shipping that has been announced by the government and we hope to be expedited, particularly from the perspective of Tasmanian business.

**MR WILLEMS (NSB):** We support that, we feel very strongly about that too.

**MR QUINN (EQA):** Because it's not only just Bass Strait, we use the coastal shipping service a lot to other ports, so certainly the change in the legislation that occurred a couple of years ago had an impact, particularly on the number of sailings and the number of boats that are on these legs, so - - -

**MS CHESTER:** If you have any other evidence that you haven't provided in your initial submission on that point that would be very helpful to us, because there's a wide range of parties that are involved in this public hearing process who have a slightly different view on coastal shipping and Tasmanian business.

Turning then to the other proposal where we're asking for feedback from parties like yourself is with respect to the southbound component of the scheme. Our thinking there was twofold, firstly in the event that the government wished to frame the improvements to scheme in a cost-neutral manner, where for us was one element of the scheme where there are a lot of smaller payments made, a large number of smaller payments, but also where there were some more arbitrary lines drawn in the sand about eligible commodities and non-eligible commodities and the codes for industry sectors that are eligible, so if you could give us your views on that suggestion as perhaps a trade-off, given the extension.

**MR BENDER (NSB):** I think the first and the easiest way to answer at least at a principle level is that I don't think that a trade-off is what we should be talking about at all, so I think the premise of the question, if the premise is "Would you accept a trade-off or what's your view about a trade-off," fundamentally, I don't have an answer to that. I think this scheme is to be viewed as something that's very important. I can tell you from our business and from other businesses in Tasmania it's critical and therefore it deserves to be viewed on merit for the benefit it brings socially, economically to the state and to the national economy. I have an issue with the trade-off.

I would also reflect that if those changes were going to be made and even if I was sitting here quietly supportive of rid getting of southbound, which I don't think I am but even if I was, I'm not sure I would rush out and say it

because I think to implement that would be a completely vexing implementation. There will be businesses that rely more heavily on the southbound than the northbound. We are not one of those and again, we therefore may be less susceptible to changes in this regard.

So in terms of a comment, I personally don't feel I could do any better than that. I think it would be a very difficult thing to implement and make fair and an transitional arrangement, if an appropriate one, would have to be put in place. I would again comment it would need to be more like a decade than anything like two or three years, if that was the case, but it would have a variable implication for each of the participants in the scheme and I think that's probably going to be challenging but again, the only way I can conclude is try and encourage you to think on merit about these things rather than as a trade-off. We all make trade-offs in life. I accept that. We do it in business but we only do it when we have to.

**MR WILLEMS (NSB):** I would strongly support Rod's comment from my time as political staff. I might say to a government agency if they were reviewing a particular thing, "You look at it on merit and you make your recommendations and then it's up to the minister and it's up to cabinet to make the political decisions and the trade-off." So I would suggest the Productivity Commission should be intellectually pure and come up with its recommendations and then the politicians, as they would do anyway, will look at the Commission's recommendations as to what is achievable in the real world.

**MS CHESTER:** Thank you for those comments. I think we feel it's important to get the design overall right.

**MR WILLEMS (NSB):** Yes.

**MS CHESTER:** Setting aside cost factors but also bearing in mind that the government, if they did want to make those changes in a cost-neutral fashion, we do have that evidence in court and that our report does cover off the relative costs and benefits or the merits of how that can be designed. So we are just really looking at covering off both camps to make sure that when the government does consider our report, we have given them as fulsome information as possible about what the impact of a cost-neutral design would be if we are to extend it to exports as well.

**MR BENDER (NSB):** To be honest, I think the removal of the southbound scheme support would benefit our business more than it benefits others, if the total scheme was kept in place, but I'm still not willing or able to sit here and say I would support that. I think there are plenty of other businesses in Tasmania that deserve the support of this scheme equally, if not more equally

than ours and it would be, I think, difficult for me to accept that that was going to be the outcome. Again, I'm first focused on whether these things have merit and I think this is a much important decision. The size of the scheme I think should be expanded. I think the importance to Tasmania, particularly at this juncture, economically is quite important. I know from our experience that Norske Skog has made some very pivotal strategic decisions on the back of this scheme. If we are one business that's doing that, I imagine others are doing it as well, and this is much more important than a trade-off situation would have me comfortable with.

**MS CHESTER:** Thank you for those comments. That covers the questions that we were hoping to work through with you. Is there anything else that you wanted to say at this point in time that we haven't covered?

**MR BENDER (NSB):** Look, I don't think so, other than just to reiterate again that we appreciate the chance and to reiterate that in our 2006 submission, the Productivity Commission report, and in our previous submission and in yesterday's submission, we open an invitation to the Commission's representatives to come and talk to us. It may be a way of discovering how our sense about this over-compensation versus what we actually see is revealed. Of course we would be more than happy to share what's in our books with the Commission's attendance and we would welcome that. We will make ourselves available to the extent we can over the next month.

**MS CHESTER:** Thank you very much, gentlemen. We very much appreciate you being here with us today and all the work that has led up to the presentation.

**MR WILLEMS (NSB):** Thank you very much.

**MR BENDER (NSB):** Thank you.

**MS CHESTER:** So I can please call up out next participant, Mr Grant Wise.

**MR WISE (TBACS):** Good morning.

**MS CHESTER:** Good morning and thank you very much for attending our hearing today. Just for the record, can you state your name and there is any organisation that you are representing.

**MR WISE (TBACS):** My name is Grant Wise and I represent the Tasmanian Bus and Coach Society and probably to a lesser extent on an issue to do with this, probably Incat Tasmania, if I could just say a few things, but pretty much the Tasmanian Bus and Coach Society is the main one.

**MS CHESTER:** I appreciate you are here to talk about the Bass Strait Passenger Vehicle Equalisation Scheme.

**MR WISE (TBACS):** Yes.

**MS CHESTER:** Did you want to make any opening comments?

**MR WISE (TBACS):** Yes, I would. Well, firstly, thanks for having me and thanks for having the inquiry. The Bass Strait issue has been a frustrating one for me and many Tasmanians for many years and recently, I have just started the Tasmanian Bus and Coach Society. It's a diverse group that basically preserves buses and basically, we have got several buses that we would like preserved and we would like to take to the mainland to vehicle shows, of which there are many in Melbourne and Sydney and elsewhere. So basically, we are coming on like a massive roadblock called in Bass Strait in terms of the cost of bringing our vehicles to and from Tasmania.

This is a very good example. Basically, I bought a bus in Sydney four years ago and I have wanted one of this particular type of bus for years. I got it and my father and I drove it from Sydney to Melbourne and that was okay but basically when I was planning the trip, I called the TT-Line and found out to bring my bus across on the Spirit of Tasmania in July was \$1806 one way not including a cabin. Now, I was told that basically the reason for this is the bus is not covered under the Bass Strait subsidy scheme. Passengers cars are but unfortunately not a bus. So the end-up cost including the cabin was around \$2100, which obviously is a lot of money to bring one way.

My friends and I in the club would very much like to take our vehicles to the mainland to shows but unfortunately, we don't have five and a half thousand dollars to go over and back each and basically, I have been trying to work on this for years and I was very happy to hear that the Commission was having the public hearing. So I thought I would turn up today and basically tell

them about my problem and the problem with many others in Tasmania but I will you this. Yesterday, I called the TT-Line to get an updated figure on what it would be to bring another bus that I have in Sydney back to Hobart or across on the Spirit. The cost is now \$2681 one way, not including a cabin. I worked out the cost of travelling the 420 kilometres which is basically the length of Bass Strait if I was driving, and it works out to be about \$126 in diesel to get the bus that distance. \$2681 is a lot of money and it's not only a deterrent to business and a deterrent to people's pleasure activities, I guess, getting across, but who can afford that?

I'm basically here to say that when you go back to Canberra, if one submission to put in could be that the subsidy or the guidelines or categories of vehicles to fit into - could be expanded slightly to cater for people that don't just have a Toyota Corolla or something, that want to go across and back, but a bus itself. It's still a vehicle. It's still something that we have to get across Bass Strait.

I tried very, very hard over the years to get people to realise this. Only a couple of years ago I contacted every politician in the phone book. Incredibly I only got four replies on this issue. No-one wants to touch it. So basically I'm here today in the hope that you can put an idea forward to the politicians to say that it would be a great idea to expand this slightly and it wouldn't cost a massive amount of money.

I was reading in your draft online that last year the subsidies cost around \$93 million. Well, \$9 million or \$93 million is a lot of money in anyone's language but in terms of \$2 million being spent on a road just around Sydney somewhere that I was reading about recently, it's chicken feed. There's a lot of people - certainly we just had Norske Skog here, a big company, but we're all facing the same issues here and it's Bass Strait. \$2681 is a lot of money to bring something one way. The scheme really does need to be expanded and I don't think it would cost a massive amount of money to do so.

**MS CHESTER:** Thank you for those comments and we are very conscious and do have some commentary in our draft report around the material increase in the - the cost of taking vehicles and passengers across Bass Strait on the TT-Line and how that has increased a couple of years after the scheme was introduced. So we are very conscious that those costs are going up for individuals, especially those like yourself, who currently aren't eligible for the subsidy. I do understand you had some discussions with the department because it could potentially be a matter of ministerial discretion or direction.

**MR WISE (TBACS):** Yes.

**MS CHESTER:** Does that look like it may resolve the issue for you?

**MR WISE (TBACS):** It resolved the issue probably for me but I'm not sure about the other people that this might affect. There's me and the guys and girls in our club that basically want to bring the buses across Bass Strait and attend rallies but there's a lot of other people like me, we're just some people that are missing out on this category or this subsidy to get vehicles across Bass Strait.

A few years ago I engaged one politician, Andrew Wilkie, which was about as helpful as sticking your face in a fan, I'm disappointed to say. Eric Abetz, who I met last year, was extremely helpful and within two weeks I had a lady from the Department of Infrastructure and Transport - Katrina Cristofani is actually here today which is very nice to see. She called me within two weeks of visiting Eric which, you know, shows you what people can do if they try.

Katrina has sorted things out a bit with the TT-Line and at this stage I could get a discount in the rate, the fare, the 2681, to get it across. How much we're not sure yet, there's still a fair bit more talking to do but now that this inquiry is on, that might be slightly up in the air. I think we would wait to see what would happen, what is the outcome of this inquiry, once it's given to politician, to see what sort of discount I and others can receive.

**MS CHESTER:** Just two other quick questions I have for you, if that's okay. So with the bus at the moment, you take it across just to attend rallies or is it your sort of form of primary transportation on the island here as well?

**MR WISE (TBACS):** No. It's a special interest vehicle.

**MS CHESTER:** Right, okay.

**MR WISE (TBACS):** It's on special interest, and the other one in Sydney will be put on special interest as well.

**MS CHESTER:** Okay.

**MR WISE (TBACS):** So they're basically 1978 model Mercedes buses that you would have seen in Sydney years and years ago. Basically we restore them and keep them undercover for, you know, future reference and just, you know, restore them and make sure they're safe and sound but we want to go to a rally. There's rallies all over the mainland all the time but we can't get there as a group and everybody else does and it would be just fantastic if we could do it, but it is a lot of money to get there. I have been trying for years to get some sort of solution to this but hopefully this will actually do something to help out.



**MS CHESTER:** Apart from your associates that have these vintages buses as well and take them across the Strait for shows, are there other sort of special purpose vehicles like this that you're aware of that aren't currently covered by the scheme, that would be picked up if we did broaden it?

**MR WISE (TBACS):** Yes. There's a few people who have restored trucks that would love to take them to shows on the mainland as well and they're facing the same obstacle that we are. So we just have to keep trying and see what it can do; but there's rallies in Tasmania. We've had our vehicles on display in several locations in the last 12 months, but we just have to hope for the best and hopefully you can do something.

**MS CHESTER:** Thank you very much for your submission and for presenting here today. We do appreciate your time. Is there anything else that you wanted to say to us today?

**MR WISE (TBACS):** Well, not really on that issue but we just heard the gentleman from Norske Skog talking about the cost of Bass Strait. I work in Incat and I have been there for 18 years. We know pretty heavily there how much Bass Strait really affects our business. I can give you an example here; a container, 20-foot TEU, last year was brought from China to Hobart, carrying carpet for one of our boats. The China to Melbourne leg cost \$1966, the Melbourne to Hobart leg was \$2300 and the fees and charges was 1332. The final cost was \$5993 to get one container to Hobart. The chief purchasing officer recently was telling me only two days ago so I thought I'd throw it in and just give more ammunition for the cost of Bass Strait.

With Incat alone we're doing all right at the moment but our main competitor, Austal Ships in Fremantle, we know has taken orders in recent years and we have missed out on orders simply because of - they might have beaten us by half a million or a million in price for the vessel. When you look at it, that price might end up being the difference in shipping materials for our vessels across Bass Strait. Austal being closer to Europe where a lot of our supplies come from, it ends up being cheaper for them to build a vessel.

It's the same sort of thing, if I can draw a similarity between bringing my bus across Bass Strait for the Tasmanian Bus and Coach Society, myself and others and Incat, we're all facing the same issue, Bass Strait, and we really need it sorted out. Norske Skog just said the same thing and everybody else you're going to have here in the next two days, we're all faced with the same issue. We really need it sorted out.

**MS CHESTER:** Thank you very much, as I said, for your submission and also for presenting here today, Grant.

**MR WISE (TBACS):** Thanks very much for having me.

**MS CHESTER:** Ladies and gentlemen, we might take a 10-minute adjournment to stretch our legs and have tea and coffee. So we will just adjourn for 10 or 15 minutes. If we could resume again at 10.45, that would be much appreciated. Thank you.

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**MS CHESTER:** Ladies and gentlemen, we might resume our proceedings and I would like to welcome our next participant, Mr Doug Massey from Forestry Tasmania, for joining us today and for his submission. Just for the record could you state your name and the organisation that you are representing and your title?

**MR MASSEY (FT):** Doug Massey and I am a senior manager at Forestry Tasmania.

**MS CHESTER:** Thanks, Doug. Are there any opening comments that you would like to take us through in the first instance?

**MR MASSEY (FT):** No. I just have a prepared statement that relates to our earlier submission.

**MS CHESTER:** If you would like to take us through that.

**MR MASSEY (FT):** I will just take you through that and if you have any questions at the end I will try my best to answer them and if I can't I will have to take them on board and get back to you in an email or something.

**MS CHESTER:** Thank you.

**MR MASSEY (FT):** In our earlier submission to the Productivity Commission we identified the importance of export facilities in the south and the northwest of the state as being critical. Until there is a domestic demand for wood residues it is crucial to the Tasmanian forest industry to have access to ports and infrastructure to export logs and chips arising as a result of harvesting to meet domestic demand for saw log and peeler log. Selling these arisings into the market is essential to the overall economic and operational viability of harvesting operations.

As these arisings are at the lower end of the value scale it is important that the port facility be close in proximity to the resource to make export commercially viable. The arisings are traditionally exported in bulk quantities between 25 to 60 thousand green metric tons at a time in dedicated bulk vessels which are typically arranged either by the exporter or by the end user. There are also times in which we use containerised freight on a smaller scale to undertake trials such as the export of pulp quality logs to be peeled overseas, reconstituted and sent back as a finished product.

In regards to the south, as you are aware, Triabunna, which had been exporting wood chips since the early 1970s, has been closed to forest product shipments since around mid-2011, and this has had a dramatic effect on the

saw milling and plantation industries in this region. Without a suitable replacement, these industries have been left with no choice but to send residues an additional 240 kilometres north to Bell Bay or to export them as logs through Hobart, and these logs are logs which had traditionally been going to Triabunna to be processed and then exported.

Government subsidies have been put in place to meet for a period the large additional costs associated with the hauling of forest residues to the north but these subsidies are not a permanent solution. A commercially viable and permanent solution needs to be found for the saw mill and forest residues in the south. In the north-west, since we wrote the submission, we have had some positive results in regards to the north-west. Very recently, we saw the announcement of the intended reopening of Burnie to all forest products, with Tasports announcing the purchase of the Burnie chip export facility which was purchased from Gunns KordMentha. We welcome this result and we look forward to working with others in the forest industry who have been waiting for this opportunity to deal cost effectively with arisings from the north-west of the state.

While only a small part of our business, we can empathise with industries such as Norske Skog and other customers of ours downstream who rely heavily on containerised shipping for their products either overseas or just into the mainland. The added costs and inefficiencies of product passing through Melbourne or elsewhere has had a negative impact on ourselves with our innovation plan with, for example, the shipping of relatively small quantities of trial product, as we mentioned, to Chinese facilities being peeled which can't be done here and then brought back into the state and we're actually selling some of the product into the market now and that was it. Thank you.

**MS CHESTER:** Thank you very much for your statement and I appreciate that the focus of your submission has been around accessing the appropriate facilities and ports that fit the need of the businesses that you represent.

**MR MASSEY (FT):** Yes.

**MS CHESTER:** It would be helpful if maybe just at the outset you could run us through an overview of the Tasmanian products industry in terms of how many businesses flow through Tasmania, how many businesses are currently operating, what sort, the volumes of exports and the break-up between bulk and non-bulk.

**MR MASSEY (FT):** You have caught me off-guard on that one. Look, I wouldn't want to lead anyone else. I'm not going to name anybody but there are a variety of businesses, forest industry businesses which have been long standing in the state, both in the north and the south of the state. Look, I don't

want to put a number on that at the moment but if you want a number on how many people we employ indirectly through the forest industry, I can give you that number later.

**MS CHESTER:** That would be helpful.

**MR MASSEY (FT):** We also have, as I said earlier, Tyan, for example, which is a large customer of ours, who is heavily dependent upon shipping as well.

**MS CHESTER:** Just with respect to the port of Burnie, that's now been resolved satisfactorily from your respective.

**MR MASSEY (FT):** Yes.

**MS CHESTER:** To give access to the facilities that are required and then departure from the port.

**MR MASSEY (FT):** Yes, the announcement of Tasports taking over that facility is very positive because it will allow for the other third party wood to go through there. Since I think it's probably around 2010 or 11, neither forest products have been excluded from that facility and that will be a huge help to the industry up there, huge.

**MS CHESTER:** So are there any other outstanding issues of access to facilities and port services that were made today being put by agreement and for the industry more broadly?

**MR MASSEY (FT):** Yes. So for the last few years, as a third party, there's one large company that owns a few facilities but the third party forest growers, we have been limited to Bell Bay. Burnie, as we know, has just been reopened to third parties. Triabunna though has been shut to all forest products and a solution for the south is desperately needed to keep the industry down in the south part of the state commercially viable.

**MS CHESTER:** What was the rationale for the closure of Triabunna for the products you are talking about?

**MR MASSEY (FT):** Well, it was actually sold to an investment group and that investment group decided to go through a certain process and it has remained shut since then. I really don't want to comment further.

**MS CHESTER:** Thank you for that. You may also be familiar with the work of the state legislative coordination team and a report they provided late last year to the Tasmanian government that talked about the issue of rationalisation

of ports in Tasmania. I am not sure how familiar you are with that and Tasports coming up with a meaningful return strategy for the ports in the state. It's that something that Forestry Tasmania has a view on?

**MR MASSEY (FT):** I can't comment on that right now, sorry.

**MS CHESTER:** So with the export today of primarily the bulk exports that are being shipped from Tasmania, the forestry products, what shipping lines are being used at the moment and are you able to provide some commentary around changes to coastal shipping that have occurred more recently than back in 2012 just in terms of any impact that you have seen to shipping line services that are available to the industry?

**MR MASSEY (FT):** For ourselves, we ship two different products in bulk. We ship logs and we ship wood chips. In the case of logs, we usually sell them on a CIF basis, which means that we arrange our own shipping and we put it out to different shipping companies who come back and give us the best rate. In regards to wood chips, we typically sell on a free on board basis, which means that the end user or the buyer of that product will send a vessel. So we have nothing to do with the arrangement of shipping in that case and for the last year or so, that's been the majority of the product that we send out now and looking forward as well.

**MS CHESTER:** So the shipping services that you are arranging, the export of the bulk product, what has been your experience with the recent changes to the coastal shipping arrangements, the new licensing arrangements? Has that impacted?

**MR MASSEY (FT):** Look, I can take that on board and answer that for you, if you like, but my own experience is more on the bulk wood chip side and I have very little to do with the actual log shipments, sorry.

**MS CHESTER:** That's okay.

**MR QUINLIVAN:** Could you just explain the market for products in southern Tasmania now. I think, if I understood you correctly, you were saying that the northern ports when Burnie is open are now the only two avenues to market.

**MR MASSEY (FT):** That's right. So if we go back say five years, residues from the south would typically go from the south to Triabunna, which is their support. Since the closure, we have either had to readjust the type of harvesting we do, which makes it less commercially viable, or make use of one way or back-all carts by road and we have recently been able to reopen train logistics from Brighton straight to Bell Bay as well, which has been a big help,

but it doesn't deal with the volumes that are required, so our only other option at the moment is to sell it as logs through Hobart and export it overseas in that form.

**MR QUINLIVAN:** So the wood chips are going direct to export markets, obviously, and those logs from Hobart are going also direct to export markets and neither of those are affected by the Bass Strait arrangements.

**MR MASSEY (FT):** No.

**MR QUINLIVAN:** Then you do have some product going to or through the port of Melbourne.

**MR MASSEY (FT):** Yes, we do. We have some containerised logs that go to China, mainly for trials, that relates to potential products that we are looking to do domestically here.

**MR QUINLIVAN:** And those, because there are not great exports from there, are not receiving the equalisation payment.

**MR MASSEY (FT):** That's right, yes.

**MS CHESTER:** What are the volumes? Do you know?

**MR MASSEY (FT):** Very small, very small, less than a thousand tonnes in total, yes.

**MS CHESTER:** Is there anything else you wanted to comment on this morning?

**MR MASSEY (FT):** No. Thank you for the opportunity.

**MS CHESTER:** Thank you very much for presenting and thank you for your submission.

**MR MASSEY (FT):** Thank you.

**MS CHESTER:** So ladies and gentlemen, that concludes our morning session. We will now adjourn and take a break for lunch and we will resume our public hearings at 1 pm this afternoon. If you are attending this afternoon, if you could be back just before 1 pm, that would be much appreciated. Thank you.

(Luncheon adjournment)

**MS CHESTER:** Good afternoon, ladies and gentlemen. We will resume our public hearing proceedings now. I would like to welcome our next presenters from Tourism Industry Council of Tasmania. Firstly, thank you very much for your submission and for joining us this afternoon. Just for the record, if you could each individually state your name, title and the organisation that you represent for our recording.

**MR MARTIN (TICT):** Luke Martin, chief executive, Tourism Industry Council of Tasmania.

**MR SAYER:** And Luke Sayer, chief executive of the Cradle Coast authority.

**MS CHESTER:** Thank you. We have received an initial submission from you, and we are having public hearings here today in Hobart and again tomorrow, and then two more days of public hearings in Launceston and then a day in Canberra. I think I ran you through the process and transcripts and all those sorts of things. If you have any other questions, don't hesitate to ask. I will hand over to yourselves who gives any opening comments that you would like to make before we get into a bit more of a dialogue on the perspective of your council.

**MR MARTIN (TICT):** Yes, absolutely. Thanks for the opportunity and thanks for the pretty thorough hearings I understand you are doing across the state. I guess just to give some context, we did a joint submission between three organisations; the Tourism Industry Council of Tasmania is a statewide peak industry body for the Tasmanian tourism industry. Cradle Coast Authority, which is an original authority made up by the nine local government areas of the northwest and west coast of Tasmania and also acts as a regional tourism body for the Cradle Coast region which fundamentally is part of the Tasmanian tourism industry that most depends on the Bass Strait sea arrivals, and the third organisation is the Australian Tourism Transport Forum which you would probably be familiar with as the national collective for Australian tourism transport operators, and their joint submission, and they endorse our contributions today.

So our organisations collectively represent the Tasmanian tourism industry at a regional, state and national level, and as is seen from our submission, I don't intend to go into it in any detail. It's referred to in the report - the key themes in our submission, but more perhaps today to talk about some of the issues that we identified in the draft report that's come through. Specifically, really looking at some assertions about particular the BSPVS, passenger vehicle equalisation scheme that we saw in the report.

We are particularly interested in exploring the implications of the



recommendations relating to the BSPVS, or the draft recommendations, and of course TT-Line and some issues we believe not being considered in the Commission's hearings thus far that were addressed in our report, particularly around the relative value of the BSPVS. Firstly, probably an important assertion to probably try and address in the context of us presenting is that we are a bit concerned by the content in the report, essentially adopting a premise of the BSPVS as a tourism initiative. It is not the case. We don't believe in it - and it never has been. It's predominantly a scheme that was established on the principle of equalising passenger vehicle access across Bass Strait.

Tourism is obviously a beneficiary but of course also for the Tasmanian travelling public. Indeed, when you look at the original policy intent of the Australian government in 1996 when they established the scheme it was to recognise Bass Strait as Tasmania's sea highway and, to quote, "recognise that the Australian government had a special responsibility to achieve a quality for Tasmania in developing opportunities for the state" and that included providing for the affordable movement of passengers and vehicles.

So originally establishment of the principle is based on this equity argument. It's not on the basis of tourism returns and as such it's based on modelling around the equivalent of travelling the same distance on the national sea highway, 420 kilometres, and it's payable to the vehicle, not the passenger, and of course there's no differentiation between the payment paid to tourists as opposed to locals.

I guess the concern we have is that no Commonwealth Government that we can see, or find any recordings of since 1996, has ever moved away from that policy decision, and there's been no stepping away from that basic principle of equalisation that underpins the BSPVS, so while obviously tourism is a beneficiary, assessing the scheme should not be viewed within the premise that it is established as a tourism initiative. We think that is critical, and indeed the question posed in the report's draft recommendations essentially suggesting would \$35 million be better spent on driving inbound tourism to Tasmania, we think it's a falsity when you consider that 40 per cent of the beneficiaries of the scheme are Tasmanian outbound motorists, and we will go into more on that recommendation in a moment.

Looking at it purely from a tourism perspective, a couple of other assertions that we didn't necessary agree with were the suggestion that it's targeting grey nomads, and the scheme is designed to support grey nomad tourism into Tasmania. There's absolutely no basis for that comment, and indeed we would argue that grey nomads implies a specific market demographic of low yielding visitors, obviously around the context of drivers with caravans, motor homes and other forms of self-sufficient travel.

I know you are going to be briefed by John Fitzgerald from Tourism Tasmania tomorrow about the data from the Tasmania visitor survey, and I implore you to take on board the data showing what the average visitor spent and that the length of stay for visitors to Tasmania by sea is significantly above those arriving by air, and that's reflective of the strong traditional Australian touring market continuing to utilise the Spirit of Tasmania for domestic holiday stays who have a strong inclination to travel in their own vehicle, and because of this, stay significantly longer. This is not restricted to a grey nomad market, in inverted commas, but rather high yielding visitors across all market demographics.

There's also an assertion in the draft report that suggests that the Spirit is not generating the return that it should for tourism returns. What we know from the introduction of the scheme is that visitor arrivals to Tasmania by sea grew significantly and dramatically, in fact increased by over 100 per cent, over a 10-year period from 1996 to 2006-07 following the introduction of the scheme, obviously coupled with the introduction of additional capacity on the group through initially (indistinct) the twin Spirit of Australia ships, and then of course for a short period of time the Sydney service.

Since then growth has slowed significantly and for the last three years the arrivals to Tasmania have flatlined to some degree and indeed, according to both TT-Line's annual report and the Tasmanian visitor survey, decreased in the last 12 months. Some are very quick to point at low cost airlines as the cause of this and suggest a structural market shift to visitor arrivals to Tasmania from sea to air.

This is the assertion that we believe ignores the broader market conditions for Australian domestic travel, particularly over the five years since the global financial crisis which has seen domestic holiday growth market flat to all regional destinations across Australia, the Australians taking advantage of the high dollar and low cost air fares to drive dramatic growth in outbound travel at the expense of domestic tourism destinations and regional centres like Tasmania.

Indeed when you look at the Tasmanian visitor survey, Tasmania experienced an overall decline of 24 per cent in holiday visitor numbers over the period 2010-2012. In this context when you look at TT-Line's performance in delivering sea arrivals you could argue that its performance in terms of visitor numbers has been outstanding over a relatively difficult period for the industry, and indeed, rather than a structural shift, we would suggest there's a large cyclical change under way in the tourism market, and we are starting to see a significant nationwide shift and uplift in domestic tourism including Tasmania where we've seen 16 per cent growth in visitor numbers in the past 12 months.

Indeed we expect this will start to flow in TT-Line's performance as we note from a statement by the company in the last 24 hours indicating it's had its strongest January performance in eight years. So predominantly our arguments are only assertions. There are some concerns we have about the implications of the recommendation but I will pass that on to my colleague to go into that in some detail.

**MR SAYER (TICT):** As someone who comes from the regions, there's great concern, I suppose, out there that changing the parameters of this scheme and putting it somewhere else could have, yes, a significant impact, particularly in regional areas where we see it as creating the greatest value both for inbound and outbound. This call comes back to the original intent and structure of the BSPVS, which was to provide that equity for passenger vehicles no matter where they're coming from, where they're going to, and what their purpose for their travel is.

Tourism is one of the big beneficiaries of this but the inbound, outbound, without any real backing for that - if that changes, we see that there is a significant risk there that particularly regional areas could suffer, and we think it ignores that long I suppose nearly 20 years of growth that we've seen in that sea market from the days when there was a single ship carrying passenger vehicles across the strait, the confidence that was shown to introduce the twin Spirits and at one stage three Spirits that really showed a commitment to that market and it grew for a time. Over time that value has decreased without the indexation that was only recently introduced.

We don't believe that it is the Australian government's role to direct an ongoing subsidisation of the tourism industry, and there seems to be an underlying suggestion that maybe some support for them, the tourism industry, through other ways would be a better alternative to this but, as we stated earlier, this isn't about tourism. We see it is a more general support for that equalisation of people travelling backwards and forwards across the state. Things like marketing activities, product development, subsidising airline services or the like travelling backwards and forwards across the state, so things like not marketing activities, product development, subsidising airline services or the like as probable alternatives uses, we just don't believe that would be the best thing for Tasmania, particularly the regional areas.

I don't think a lot of other states would also seek value in the government providing support for our regional tourism of a state tourism initiative such as that. We don't think there's a practical solution to deliver the same tourism returns as we see at the moment, and we believe that maintaining the BSPVS and looking at potentially from a state perspective, giving TT-Line more scope to grow the passenger numbers is the best way that we can reinforce the value

and increase the value to Tasmanian tourism, but to Tasmania as a whole, and also the value to mainly inbound from Tasmania with people travelling across the state.

It's difficult to imagine a market scenario where it wouldn't impact with a significant increase in that fare, particularly for people bringing vehicles to the state on the Spirit of Tasmania. It would make it non-competitive and there's not the huge capacity and airlines at the moment to bring that type of passenger to Tasmania. We have got a good airline service at the moment into Tasmania, but we don't believe that that would cater for the market that is there with TT-Line at the moment.

**MR SAYER (TICT):** So looking at the specifics, the recommendation - what we do know, the impact of removing the scheme would be \$408 immediate reduction on the subsidisation of Bass Strait which, from our perspective the outcome would be a significant restructuring of the market dynamics around the Spirit of Tasmania service. The implications for that we think need to be fully considered by the Commission. We believe under that scenario the current operating model for TT-Line would almost immediately unviable, requiring a major restructuring of the business model and probably massive ongoing government support, followed by the Tasmanian government, for the service to be maintained in its current form or, alternatively, a significant reduction and cutback in the service, replacing a highly effective current sustainable business model for the state.

Abolishing it would, of course, abolish any basis of equity under any terms around equalising the cost of taking passenger vehicle access across the Bass Strait. It would put the state firmly at the mercy of the ever-volatile Australian tourism industry for passenger access to and from the island. It would make a non-competitive destination for the domestic tourism market and, as I pointed out, predominantly supports regional areas of the state. It would inevitably concentrate tourism in Tasmania around increasingly the major population centres and airports, increasingly Hobart, with again major consequences for the industry in regional parts of the state and its long-term growth.

We think the implications of a restructured TT-Line need to be considered in the context of freight. We know that obviously TT-Line has had a significant injection of activity on the freight market and, whilst it is not our bag, we understand that when TT-Line started operating freight the TEU was around \$1200 and today it is around \$600, so the implication of the market presence of TT-Line has on freight needs to be considered in the context of its viability if the scheme was to be reduced.

Finally, we just want to make the point that we were disappointed the

Commission didn't consider the arguments we put in the report, it doesn't seem to in the draft report, I should say, consider the arguments we have put around the relative value of the BSPVS when it was introduced it was based on a pretty simple scenario at the time, equating the average cost of an average family sedan to travel 420 kilometres on the national sea highway, according to the NRMA, which equated to \$170 in 1996.

Evidence suggests the relative value of the scheme today is very different to when it was established. Indeed, it is now \$204, so for the best part of 18 years it has only increased by \$34 one way. Using the same original modelling as when it was established, the value of the scheme should be in the order of 79.42 cents a kilometre, or \$339 one way, using the exact same formula as was used in 1996. Of course, the scheme wasn't indexed until 1998, so it lost its relative value over that period. If it had been indexed since that time, it would be around \$280 each way, in which case when you look at the reality, the commercial marketing of TT-Line at the moment, the gap price that is being paid by passengers equates to about that gap; so we think if the original relative value of the scheme had been maintained over the past 15 years, the need for that gap payment on the cost of taking your vehicle across Bass Strait would not be in place and, ultimately, that would drive down prices on TT-Line by \$200, as opposed to what the recommendation we are considering here, which would put \$400 more onto the price. Again, that point we think was worthy of consideration in the report and on that basis we leave the opening statement.

**MS CHESTER:** Thank you very much for those opening comments. I think in your opening comments you do get to the crux of the issue and it's what we were trying to address in our draft report as well is there seemed to be quite a bit of confusion if you look back over how the scheme has been portrayed by government, and how it's perceived by participants in the scheme as to what really are the key policy objectives; so we are very careful in framing out draft report and including our draft recommendation that if the overriding policy objective is purely to promote tourism, there will be question about whether or not that's the best value for your buck, but the scheme's objective is broader than that in terms of trying to offset the cost disadvantage or make it easier for individuals to bring their vehicles across Bass Strait, whether it's residents of Tasmania or people visiting Tasmania on holiday, then that's a different benchmark against which you would assess the scheme.

Overwhelmingly, a lot of the evidence that we did receive from recipients of the scheme and their primary beneficiaries is that they did view the primary policy objective (indistinct) and that's what we are really trying to draw out in our draft report, so we do appreciate you making it very clear that your position is that it's that broader policy objective against which you think the scheme should be assessed.

**MR MARTIN (TICT):** And also acceptance that the way it should - whilst the way it was structured is now over 17 years created a tourism outcome, that needs to be measured and it needs to be put in that context. However, that's not the intent that has been evolved for a market over 17 years, where the reality of the original structure is what should be measured here, not the tourism return.

**MS CHESTER:** Yes.

**MR MARTIN (TICT):** Yes.

**MS CHESTER:** So I think it might be fair to say then, and let me know if you agree or disagree with this, but perhaps there's twin objectives of the scheme. The primary one is to address the cost of individuals having to bring their vehicle across the Bass Strait when there is no land bridge.

**MR MARTIN (TICT):** Yes.

**MS CHESTER:** Secondly, there's obviously a benefit to tourism, and that has obviously been sought to have been optimised over time by expansion of the scheme and eligibility to bring vehicles to encourage a particular group of tourists to come and spend time in Tasmania.

**MR MARTIN (TICT):** Yes.

**MS CHESTER:** So if we are conscious that there is the two objectives, I do note that in your initial submission you did have some concerns around a benefit cost analysis that had been prepared on the impact on tourism. Are you just able to run us through your key concerns with that benefit cost analysis, and if you can give us some evidence or data that would shed some light on that.

**MR MARTIN (TICT):** Yes. Look, it's predominantly - the one thing, as you know of the scheme that's been a constant, has been the BITRE - sorry, BITRE, bureau, industry - - -

**MS CHESTER:** I'm just saying bureau today.

**MR MARTIN (TICT):** Annual returns on it, and the concern that has always I think been around that from a tourism perspective is how much they measure the actual direct return, how they have directly stimulated visitors and suggest as low as 15,000. We have never, I believe the state has never calculated exactly what the price elasticity in overall terms of the Spirit of Tasmania, or the overall visitor numbers in the Spirit of Tasmania if you totally removed the subsidisation. I guess, whether it's historical measurements or anecdotally or

looking at the price sensitivity around airlines to Tasmania, you would argue they would be far greater than 15,000, and if you look at the fact that the scheme essentially more than grew by 120 per cent the number of passenger arrives when the scheme was introduced, we would assume that the cost, if it was taken away, the impact would be far greater.

The measure always needs to factor in how many of those people who would not come and still fly down and hire a car, again we have never calculated, I believe, the state, the actual price market shift dynamics that would be round that, but what we do know is to be able to track that there are two very distinct markets who come to Tasmania for holidays, and whether it's by the data from the TBS, the data from TT-Line shows that that traditional touring market, that Australian holidaymaker who has a strong predisposition to want a holiday driving a car as still a strong and grounded individual market, and people who would be far more inclined to want to travel to the state with affordable Bass Strait sea access as opposed to wanting to hire a car and do the hire car experience, and again you look at the TVS data in terms of the visitation into metropolitan areas by air are generally significantly shorter stays, significantly less visitor spend and don't get that same regional dispersal as the (indistinct).

**MS CHESTER:** Am I right in saying then that you haven't done your own analysis around what the benefit costs would be but you disagree with some of the assumptions that have been made by the bureau with respect to what's the inducement impact of the subsidy being in place?

**MR MARTIN (TICT):** Yes. Essentially their key point is that it's around 15,000 return and we would argue that it would be significantly a greater number of people who won't come obviously by sea if you took the scheme away, and we would challenge the premise that it's only 15,000 who would not come to Tasmania at all if the scheme wasn't in place. Again has the modelling been done - certainly not by, I believe, anyone within the state or the industry, and whether TT-Line has done it - I don't believe they have so - no, it hasn't, but it's a very conservative projection to say that it's only a net return of 15,000 visitors when you look at the more clear undeniable returns in terms of the impact of the visitation who does come by sea and where they actually disperse through the state.

It would require a significant market shift to want to fly in, still to have that length of stay, still have that high level of visitor spending by rental car. At that moment that would be a significant mind shift for that consumer, 80,000 consumers, to still want to come to Tasmania and go through those steps as opposed to the convenience and the significant financial benefit of being able to drive their own vehicle on the Spirit.

**MS CHESTER:** Are you in a position today to take us through the numbers as you understand them in terms of the number of passengers and vehicles currently benefiting from the scheme that are coming to Tasmania for tourism purposes and average length of stay and their average spend?

**MR MARTIN (TICT):** I understand you have got John Fitzgerald from Tourism Tasmania coming tomorrow, is that correct, on behalf of the Tasmania government?

**MR QUINLIVAN:** I don't think we have got a final schedule for tomorrow. We will check that while you're talking.

**MR MARTIN (TICT):** I believe he's coming and will be armed with the Tasmanian Visitor Survey data, but I can give you some - we know what the broad numbers are. It's around 110,000 people sea arrivals who are tourists, holiday makers. In terms of measuring the impact of the scheme, it was around the 45 to 50 thousand mark prior to the introduction of the scheme. It peaked at around 130. So literally 100 to 110 thousand, that's about 10 per cent of holiday visitor - arrivals to the state.

**MS CHESTER:** Sorry?

**MR MARTIN (TICT):** It's about 10 per cent of total arrivals to the state.

**MS CHESTER:** All right, and I think it's fair to say that you were commenting before that those numbers have fallen off and we're now back to sort of pre-2001 levels with respect to sea passengers.

**MR MARTIN (TICT):** No, I wouldn't say 2001; 2011.

**MS CHESTER:** Okay. I'm just looking at one of the figures that we have got in our report, but that's okay. One of the issues that you did touch on - - -

**MR MARTIN (TICT):** I'm just trying to get a sense of what that would be. 2001 was prior to the introduction of twin ships, so with the introduction of the twin ships basically sea arrivals doubled.

**MS CHESTER:** I'm just looking at figures that (indistinct). One of the issues that you did raise is around TT-Line and we did in our draft report have some commentary around the incidents of subsidy and that when a subsidy is meant to be targeted at particular recipients if there's a provider of the service - and in particular one who provided a service, you would intuitively expect that some of the benefit of the subsidy would flow to them.

**MR MARTIN (TICT):** Yes.



**MS CHESTER:** There is some evidence - and it's more sort of correlation versus causation for want of a better description - where we see that when the scheme was first introduced the post-rebate cost of coming across on TT-Line with a vehicle did reduce, but then within two years after the introduction of the scheme the rates then started to increase exponentially, such that effectively it eroded the benefit of - - -

**MR MARTIN (TICT):** This is the bureau suggest it was about 50 per cent (indistinct) and it's now around the low 20s - per cent of the total cost?

**MS CHESTER:** There's just one figure that we do have in our report that is actually what the cost is to travel with a passenger vehicle across TT-Line - across Bass Strait at the beginning of the scheme with the rebate and without the rebate.

**MR MARTIN (TICT):** Yes.

**MS CHESTER:** You will see that effectively the price that is today being charged by TT-Line has increased such that the benefit has kind of washed out of the system, for want of a better description. It would be good to get your views then on TT-Line as the sole provider and mechanisms to ensure that the benefit of the subsidy needs to go to the recipients so they're enticed to travel to Tasmania.

**MR MARTIN (TICT):** Okay. The scheme - again go back to the original tenor of the scheme based on the principle of the cost of your vehicle, not what you do above deck. Ultimately the challenge for TT-Line, we believe, is that they are catering for multiple markets, from people who want the comfortable double bed suite at the front of the ship and the full bells and whistles hospitality experience because that's an important part of their Tasmanian holiday experience, through to a large contingent of visitors plus Tasmanians who are quite comfortable getting the absolute cheapest passage across Bass Strait that they can; a ferry service.

That is the balance that they have to cater for in terms of (indistinct). That is a battle for TT-Line as the provider and in terms of the policy levers for that, ultimately from government - it's a responsibility of the Tasmanian government - has the onus of that highway, that asset, that infrastructure, that provider.

If you look at the scheme, again measuring the impact of the scheme, it's based on the cost of the vehicle passage underneath and below decks. I can't imagine a more fairer or equitable model than what it currently is based on the comparable cost of travelling that distance on the national highway, which is

70 per cent funded by the Australian government and everywhere else around the country.

Again we could argue that the relative value of the subsidy has declined compared to doing that anywhere else around the country, but from our perspective we think it's important the Commission considers that whether the operation of TT-Line or another operator - again the scheme, like the freight scheme, is open to anyone else. You know, from a tourism perspective we would dearly love to see another company who wanted to start doing free, cheap, low cost passenger cross for passengers. There's nothing stopping anyone doing that under the current scheme. However, we don't think that's the purpose of the Commission to look at the scheme in terms of the support that the Commonwealth government is putting into it.

In terms of the operations of TT-Line, its price structuring and the directive it's given, their responsibility is to the Tasmanian government, the owners of those assets. I don't know that the Australian government has got a role to embark on that. If you're measuring the effectiveness of the scheme as it has been in play since 1996, it's about looking at the various ways to deliver that and through the vehicle, through the below deck cost, and equating that to the equivalent cost of travelling anywhere else around the country should be the measure in which it's tested.

**MS CHESTER:** That's very much the issue that I'm trying to get to in terms of who is actually benefiting from the subsidy, how much of the subsidy is being benefited by TT-Line and how much of it is really going through to the users of that service, and just looking anecdotally at the increase in the rates of TT-Line's - the fees that have been paid to bring a passenger vehicle across the Bass Strait has effectively eroded the benefit of that subsidy over time - - -

**MR MARTIN (TICT):** Does that consider the fact that the (indistinct) value of the scheme has fallen so far behind when it was originally established? I mean, 10 years for no indexation. Costs are significantly (indistinct) TT-Line to deliver that service.

**MS CHESTER:** I think that's the issue, is what's the basis of TT-Line increasing their rates. If that's justified for commercial reasons, that's fine, but then it does erode over time the benefit of the subsidy. We don't have any insights into the commercial operations of TT-Line apart from being able to say that as we understand it they're not currently making a commercial rate of return across their two lines of business, and whether or not there's an element of cross-subsidisation between the freight versus the passenger services that are being (indistinct).

**MR SAYER (TICT):** I suppose essentially the ability of the scheme to be

available to anyone who can bring passenger vehicles across the Strait and it's paid direct to that provider as opposed to via the customer - you know, the person travelling - makes it a lot easier from an administrative point of view. I think a number of travellers would balk if they had to be part of that transaction.

**MS CHESTER:** No, sorry, I wasn't suggesting - the incidence of the subsidy is actually who gets the benefit through what price they're ultimately paying as opposed to who has to do the paperwork to claim but that's more (indistinct) but I think it's fair to say that if TT-Line are providing the service today, at least at a headline level overall they're not making a commercial rate of return, it might suggest that the volumes of passenger and passenger accompanied by vehicle travel across the Bass Strait may not be sufficient to justify another party offering that service, given the purpose built vessels that are obviously involved in the cost.

**MR SAYER (TICT):** That's right, and if you restructured it, would you want to see competition on that route? Absolutely. For passengers, you'd want to see a competitive market tension there for what happens above deck. At the moment we don't have that. What we do have is a highly efficient government run supported service from two levels of government, delivering what we understand is probably the highest level of service to a community the size of Tasmania that is comparable of anywhere in the world, and ultimately whilst it's not delivering a return to the state, it is, we believe, we're having to run a significant community service obligation that no private operator would be able to meet without significant regulatory control.

So if you restructure from the start, would you look at doing it differently? Who knows but what we do know is the scheme, the way the Commonwealth support is delivered in terms of equalising the cost of passenger vehicles across the Bass Strait, is delivered in a way that is relatively fair and equitable for the passenger. Again, what they do above deck and what TT-Line charges and how they run their overall business is a decision for them as an operator. I don't know if it's relevant to the effectiveness of the scheme. That's our - - -

**MR QUINLIVAN:** A couple of submitters and some other anecdotes we've heard have suggested that TT-Line is giving priority to freight over passenger operations, passenger and vehicle operations, both in their operations and in their planning and that might be a quite sensible thing commercially but these people have suggested that and we've picked up on this a little bit in the recommendations. This sort of indicates some lack of clarity about the primary purpose of TT-Line and what the government's objective is in supporting TT-Line. Have you got a view? Well, firstly, are you aware of that kind of conflict - - -

**MR SAYER (TICT):** Sorry?

**MR QUINLIVAN:** Or have you got a view about it?

**MR SAYER (TICT):** There's a lot of anecdotal suggestions of this but I'm not aware of anywhere that anyone has actually been able to prove that there's a priority given to freight over passengers. People often complain, "I rang up and I couldn't get a fare," but you ask them, "When?" and they rang up today and wanted to sail in two days, during a peak or fairly busy period, so it's testing that detail that gives you a bit of an indication that, yes, maybe that was the problem, travelling when there's a lot of passengers on there, not necessarily that there was a lot of freight and things were being moved over. So I'm not aware of any hard facts to say, "Yes, we know they shifted us off the boat or wouldn't let us on the boat because of" - that they've given this preference to freight.

**MR QUINLIVAN:** What we do know is the business model for the acquisition of the two ships was always based on the premise there would be a significant freight component. The impact of removing freight from those ships throughout the quieter months of the year for passenger access would essentially make the service significantly unviable to run the two passenger ferry services across the quieter winter months of the year. We know that - you just have to look at their modelling to determine - the financial reports to give that indication about the significant income they do make from freight, when ultimately as a freight operator they do, therefore, have an obligation to maintain those contractual obligations to their freight clients throughout the summer months of the year when the tourism demand is there.

The other issue of course is the larger decks, the high decks, which has an impact on particularly the caravans and the motorhomes who also compete for that deck space alongside freight. Again, it's a market challenge for TT-L and the providers for - and the policy leaders, the better for its shareholder, the Australian government. Could we see a situation where you take freight off what would the impact be? Those services would need significant direct government support to continue offer the service it currently does. Freight is a critical part of the role. As I understand the intent was when they purchased the two ships, to actually provide a role for freight, logistics are ongoing anyway.

So one of the issues we do know is that they've cut back their daytime sailings over the past few years which are always going to be prominently directed towards passenger movements and they're not viable. Without the freight component, the market is not there to support the daytime sailings at the level in which they were intended. So if you use that as the basis, what

would the impact be if you took freight away from the service ongoing? I think you'd have a very different business model to have to operate within.

**MS CHESTER:** I think in our draft report and the recommendation that Daryl referred to it's really getting some clarity around the two business objectives of TT-Line and what is that the government is trying to achieve through those operations, particularly we're very cognisant that the passenger service, it's really a monopoly service and for the freight they're also competing against two privately owned commercial operators.

**MR SAYER (TICT):** I absolutely accept that, yes. Purely from a tourism perspective, what do we know? The introduction of the twin ships provided some substantial increased capacity for passenger arrivals. Part of the business model to justify that investment was that they would embark on freight. 12 years later down the track we also do get the comments, particularly from our operators, about the perception that there's more freight over passenger but it's fair to say I think, an observation, if you took the freight away it would have a dramatic implication on our industry and again on Tasmanians who rely on that service for a reliable nightly passenger service.

**MS CHESTER:** So to date you don't have any evidence that you're able to point us to with respect to any unmet demand from tourists looking to use the passenger vehicle service offered by TT-Line?

**MR SAYER (TICT):** Look, no. Sorry, you should be asking TT-Line that, I suspect. They know the market, ask them to show what the impact would be, if they had additional capacity over the four months of the year over summer and the demand is greatest. What we do know anecdotally more than through market data is that there are periods when particularly caravan and motorhome users can't get passage at the level they want, and as Luke was saying, a lot of short-term turnaround and that's I think a cause of a lot of frustration.

People who can't get on and then they anecdotally see or hear that there was a mountain of freight, but I think the broader understanding you need to be aware of here is again trying to make that model work in a most cost effective outcome for the state in maximising of capacity on and off the island. It seems to achieve a lot of those benchmarks. I would dearly love to have a situation where we'd have the need for a significant influx of passenger arrivals for 12 months of the year but it's not there. At the moment what we do know is that the freight is significantly supporting the service for a larger part of the year when the passengers aren't there.

**MS CHESTER:** Thank you very much for those comments. There was one other stream in our report and I do appreciate you're probably more focused on the Bass Strait Passenger Vehicle Equalisation Scheme but there was another

stream in our report where we talked about stepping back for a moment away from the schemes and just looking at what might be other policy methods that the government may have to help improve the competitiveness of the Tasmania economy. We're very cognisant that the Tasmanian economy has been going through a lot of structural changes, particularly in the last seven to nine years, and tourism has played a key role and has obviously grown in importance and its contribution to gross state product. Do you as a council have a view in terms of what are some of the other obstacles or areas where it's difficult to be cost competitive in the perspective of providing services to tourists travelling to Tasmania?

**MR SAYER (TICT):** Just continuing with the access theme, clearly our has been the critical driver in the turnaround in Tasmania tourism over the last two years. The figures I mentioned earlier, 24 per cent decline over three years post GFC; we've seen a 16 per cent decline in the last nine months. The introduction of 21 per cent capacity injection into the state, predominantly given by one company, Plasgroup, has just shown that if we really want to stimulate short-term stay, again a different market I would argue than what is coming by sea, particularly for Hobart, Launceston and the short-break stays more at capacity is critical. Ultimately what we do know in our capacity in Tasmania is that of course it has got a lot of challenges, like everything, particularly being at the end of the route.

The fact that we are constantly competing against further carriers for their capacity against destinations on the mining regions that are also at the end of routes and we know we have a very limited business market for passengers, so the capacity to get more freight onto air has got to be a critical opportunity for the state, particularly into new routes; you know, the opportunities around south-west Queensland, WA, SA, as much as getting the passenger demand to support those services. Certainly looking at the opportunity that that will stimulate the use of freight onto air has got to be an opportunity and certainly, you know, in terms of barriers to stimulate the Tasmanian economy, from our perspective it always comes down to the fact of encouraging investment.

We have a critical challenge of securing investment, particularly into the parts of the market and the industry that we know want to come to Tasmania; investment into our natural areas. 51 per cent of the state is under protection. Trying to get a tourism venture up into any one of those sites or in conjunction with those sites is inherently difficult and it's inherently hard to get the investment. So measures to try and stimulate and create investment appetite for people into the industry and also existing operators. We have a lot of tired stock that's just not meeting the market, particularly in the regional areas. It's hard to get the investment appetite from existing operators.

From our perspective it's constant, it's always the three drivers with

tourism; ultimately good marketing, good branding of the state, obviously access whether by sea or by air and certainly, you know, trying to restrain any impact that has on the price pressure point on your access which makes that competitive position a lot more challenging, and then ways to stimulate investment and that's the critical third pillar. If we can get the demand here, we have got to generate supply.

**MR SAYER (TICT):** From our perspective as an authority owned by nine local government bodies, the critical factor to us, and we highlighted this in a separate submission that we made, is the SeaLink, is that vital component for so many of our industries in the region from manufacturing to agriculture to many others.

We have been looking at this fairly closely over a period of a couple of years and the logistics and the management of that constrains them and the cost factor for some of those because of the anomalies between what's eligible either southbound or northbound because of export components, has limited a lot of potential growth there.

We convened a forum about nine months ago where we had manufacturers, exporters and the like around the table, including the tourism industry as well, to look at these various factors. The sea access and the logistics that support that were the number 1 impact on business and the overall market in our region. There's nothing else that we could highlight than providing the best mechanism to support and grow that, so you know, a long-term logistics package underpinned by the TFES and BSPVES is, yes, the number 1 that we can suggest in that - - -

**MS CHESTER:** Thank you very much for those comments and your feedback and thoughts. Is there anything else you wanted to address with us this afternoon?

**MR SAYER (TICT):** No, and from our perspective it's good to appreciate the position you're in. Certainly reading the report you do get a sense of the conflict you're probably under in terms of any expectations that people have to the report and the misassertion around what some of the schemes are designed to do. So I appreciate that dialogue. Again if we can let the (indistinct) the broad implications of any dramatic change to any of the schemes are going to be significant and to consider that and any recommendations.

**MS CHESTER:** Thank you very much for coming this afternoon.

**MR QUINLIVAN:** Thank you.

**MS CHESTER:** Can I please call up our next participants, Nicholas Dowie and Christian Hanley from Austrade? Gentleman, thank you very much for attending today. Could you please state your names and what organisation you're representing just for the record?

**MR DOWIE (ATC):** Nicholas Dowie, assistant general manager of the tourism policy branch, Australian Trade Commission or Austrade.

**MR HANLEY (ATC):** Christian Hanley from tourism transport and access section also at Austrade.

**MS CHESTER:** Thank you. Would you like to make some opening remarks or comments?

**MR DOWIE (ATC):** Yes, thank you very much. Thank you very much for the opportunity to present to you this afternoon. Firstly, before we begin I would just like to place on record our appreciation for the work that the Commission has done in churning out what is a comprehensive report in such a short space of time. I think this must be setting records for the swiftness with which you have produced a report of this nature. I know that there's a number of staff from the Commission here today and I would just like to acknowledge the work and the hard work that must have gone in from a whole range of individuals to actually complete this report in such a short time frame.

**MS CHESTER:** Thank you very much.

**MR DOWIE (ATC):** Having said that I think the key point for us to actually reiterate here is it is government policy to maintain the Bass Strait Passenger Vehicle Equalisation Scheme or if I can just call it the scheme from this point. From our point of view this inquiry is a useful mechanism to consider how best the maintenance of that scheme can be done, in a way that increases its effectiveness and cost efficiency.

Within that though we think it's important just to note that we think that the Commission has underestimated the impact of the scheme on the Tasmanian tourism industry and the benefits that it provides, and in that context we think that some of the recommendations that the Commission has made in relation to the scheme needs to be thought through in a little bit more detail.

Specifically though just before I get back to our specific comments in relation to that I just wanted to actually talk about the context, I guess, in which (indistinct) in the scheme. Under the national long-term Tourism Strategy or Tourism 2020, as it is known, the Australian state and territory governments



and industry have committed to work together to double the industry's overnight visitor expenditure from the base line of 70, 209,000 to between 115 million and 140 million dollars by 2020.

A key part of that endeavour is increasing tourism access, ensuring that all parts of Australia have the ability to attract tourists and they have the ability to do so in a cost-effective and efficient manner. It's that context that we're particularly interested in the BSPVES or the scheme and the role that it plays in the Tasmanian tourism industry.

With respect to the Commission's findings we, I guess, take issue with the Productivity Commission's assessment on page 16 of the report, that the scheme provides only diluted support to the Tasmanian tourism industry. I think it's worthwhile explaining that a little bit more. I think from our point of view it's worthwhile considering what - in answering the question of what the impact of the scheme is, it's worthwhile considering what the counterfactual is; in other words, what would the impact be if the scheme was in place?

We think that's a useful starting point to address the question of the impact of the scheme rather than using an indication of how many people are travelling on the - or are coming to Tasmania via sea compared to air. We just don't think that's necessarily helpful a comparison in the context of the work that the Commission has been asked to do.

In that context we think it's also worthwhile considering the broader impacts of the scheme because whilst the scheme has a very direct impact that has been acknowledged by the Bureau of Infrastructure, Transport and Regional Economics, there's also a secondary or an indirect impact that the scheme has that we don't think the Commission has quite picked up and we think that that's particularly important to assess in the context of the terms of reference that the Commission has been given.

The latest available data from BITRE shows that in 2012, 2013 the Australian government spent \$32.8 million on the scheme, inducing an additional 14, 400 new leisure travellers who spent an estimated \$42 million in Tasmania. Put another way, the scheme generated \$1.28 in tourism expenditure in Tasmania for every dollar spent. This equates to an additional \$82 for every Tasmanian year. In our view, that's not necessarily an insignificant amount in the context of the Tasmanian economy and I think it goes to the way that the scheme is described in the report of only having a diluted impact on the tourism industry.

Secondly, I think we would just like to reiterate our concerns that the modelling that BITRE has done in relation to the scheme has been a little bit conservative in that BITRE has only estimated the impact that the scheme has

on inducing additional leisure travellers. It hasn't assessed the impact that the scheme has on inducing travel from (indistinct) travellers; for example, those who would use the Spirit of Tasmania on the TT-Line to visit family and friends or relatives; secondly, it hasn't assessed the impact that the scheme has had on consumers' capacity to spend once they're in Tasmania. So, for instance, the existence of friends or relatives. Secondly, it hasn't assessed the impact that the scheme has had on consumers' capacity to spend once in Tasmania. So, for instance, the existence of the scheme may not have been a determining factor in whether or not a consumer chose to come to Tasmania but the monetary value that they did receive from the scheme may have been a decisive factor in that consumer spending more in Tasmania throughout the Tasmania industry supply chain. So we just want to put that on record, that we think that BITRE's assessment of the benefit of the scheme is based on very conservative principles.

For example, BITRE's analysis shows that around 40 per cent of visitors to Tasmania by sea were non-leisure visitors. So what BITRE is actually capturing in terms of the benefits of the scheme are exclusive of the market that's actually coming through via sea. So if we were to basically use the assumptions that BITRE has used in terms of the inducement rate for leisure visitors, for non-leisure visitors, a reasonable upper bound of that might be that the total amount of induced expenditure might be closer to \$70 million or \$136 per Tasmanian. Now, once again, we would enumerate, as we did in our submission, that that is not a definitive figure. It would very much be an upper bound and would need to be subject to further analysis but we share that with you, I guess, to actually enlarge our point about the conservative nature of BITRE's estimates.

Leaving aside what we take to be the conservative nature of the estimates about the impact of the scheme, BITRE's analysis shows that the number of sea passengers with a motor vehicle would have been 35 per cent higher than without the scheme. So that's in the alternative; 77,000 additional people have come to Tasmania with a vehicle because of the scheme. That's, I think, an important point that would need to be acknowledged in the report, about the impact that the scheme has on visitor numbers, and once again, we go to the initial findings, that we think that the Commission has underestimated the actual impact that the scheme has and we think that that's something that's worthy of further evaluation in the final report that the Commission looks at.

Secondly, a declining share of the model for traffic accounted for by maritime versus aviation should not be seen a sign that the scheme is failing. Rather, it is simply a recognition that in a sense, it's perhaps not as attractive to consumers as it was when it was introduced in 1996. Nevertheless, it is still important in inducing a significant number of business and expenditure to Tasmania that would not have otherwise occurred. This issue is relevant to the

Commission's point about how many people it is actually inducing. We think that on the Commission's own numbers in the report, that it is about one out of every nine people who are coming here are using this but that actually doesn't go to the point about how effective the scheme has been or how cost efficient it is or how it can be improved.

We also note in our submission the existence of the scheme itself has likely had a flow-on impact in other parts of the tourism aviation plan and our submission noted the impact that that's likely to have to actually induce price pressures on hire cars. The Commission hasn't actually asked the question of what the impact would be on aviation prices if the scheme wasn't there or secondly, what the impact would be on the viability of the TT shipping line and those two services if the scheme was not there. Now, we think those questions are relevant to addressing the overall theme of the impact of the scheme, which is one of the Commission's terms of reference, and answering those questions would provide a basis of providing useful advice to the Australian government in determining how best to redesign the scheme moving forward, recognising that the Australian government is committed to its retention.

Another point that we would just like to make is that we do not accept the PC's conclusion that the scheme is now being targeted at a minor component of the tourism market, largely the grey nomads, and that's a passage that I have just referred to on page 16 of the report. This statement is not supported by data the Commission used on page 85 that shows that the campervan, caravan and motor homes or vehicles that typically are used by grey nomads account for just 12 per cent of Bass Strait vehicle traffic. So we think that the claim that's being made that the scheme is targeted towards the grey nomad market is not borne out by the data about who uses the scheme.

It's also worthwhile noting that we think that there is certainly some prima facie evidence to support the PC's claim of a portion of the benefit of the subsidy leading from consumers to the PC line. That claim just needs to be nuanced a little bit and I will explain a bit more about what I mean by that. The PC said that basically it's claimed on the fact that the real weight of decisions on the Bass Strait passenger - sorry, the real Bass Strait passenger prices have increased since the introduction of the scheme but that the price paid by consumers has remained relatively flat. This question was addressed by BITRE in their 2014 evaluation of the scheme and they noted, and I am quoting here:

This in our view should be treated with caution given there have been improvements in the ships used to provide the service, including changes in the on-board service offerings. Passengers can choose different standards and prices in a combination and the comparison is for the peak season only.

So I guess what we are saying is whilst we don't necessarily disagree with the overall conclusion the Productivity Commission has made about the impact of the subsidy and the degree to which it has leaked across to the provider of the service rather than the consumer, we just feel there should be a nuance a little bit in how it may be expressed and to put that another way, it's not unreasonable to have observed higher real prices since consumers are paying for a totally different package than when the scheme was introduced.

One of the findings and indeed a recommendation that the Commission makes is looking at how the \$32 million that the Australian government spends on this purpose could be spent more effectively. From our point of view, we would think that any change would need to be carefully considered, particularly if any changes involved paying a subsidy directly to passengers rather than the current arrangements. The reason for that is that that would increase the administrative costs to government of administering the scheme, plus it would also make it harder and more complicated for the consumers who the scheme is intended to benefit to make a claim as well.

One of the things that our submission did highlight was the impact of the coastal trading regulations on Tasmania's ability to attract shipping services from a tourism perspective. From that point of view, we certainly support the recommendations that the Commission has made in relation to that. We would simply note, however, that the two are not necessarily an ideal proposition, in that we don't necessarily see that reducing or reviewing the coastal trading regulations would remove the need to continue the Bass Strait Passenger Equalisation Scheme. We consider that those are two things that can be pursued simultaneously rather than alternatives to one another.

Whilst on that point, whilst certainly we agree with the Commission's recommendation about the review of the coastal shipping regulations, we would just say in terms of any review, that should give consideration to the impact of that on the exhibition cruise market, which is quite different to most of the coastal shipping fleet and which effectively has the potential to be particularly beneficial to Tasmania, given that Tasmania has a number of remote areas of high environmental value that could only be accessed by the exhibition cruise market.

So we make those comments in a spirit of cooperation in recognising the very short time frame which the Commission has been given to complete this task for government but our main overarching comment is that we think that with all due respect, the Commission has underestimated the impact of the current scheme on the Tasmania tourism industry and in doing so, has made a number of conclusions and findings in the report that don't necessarily support the recommendation which you have made, which seems to imply that the

current scheme is not effective and that there are better ways to spend the money.

**MS CHESTER:** Thank you very much for those comments and for giving us feedback on our report in drafting. Maybe if we just come back to the policy objective of the Bass Strait Passenger Vehicle Equalisation Scheme, which I will now refer to as the scheme, and you would have heard from our previous presenter that there are some different views about what his objectives are. What does Austrade view as the policy objectives of the scheme?

**MR DOWIE (ATC):** Going back to when the government initially announced the scheme in 1996 it was clear it was part of an equalisation measure to recognise the disadvantages that Tasmania had by dint of not having a highway that connected Tasmania to the rest of the country. Therefore from our point of view it's very much a scheme designed for equalisation, if I can call it that. It just happens to be a scheme that happens to have a number of tourism benefits associated with that because in providing equity of access, it directly addresses the issue of tourism access which has been identified under tourism 20 as being significant in growing the Australian tourism industry.

**MS CHESTER:** Thank you. You did provide some commentary on your thoughts around the bureau's cost benefit analysis of the scheme's impact from a tourism perspective. Are you able to share with us the analysis that Austrade has undertaken to help inform your view that the bureau was too conservative?

**MR DOWIE (ATC):** Yes, we have. We can send that to you. That is basically based on BITRE's own analysis of the number of nonleisure travellers that use the scheme, but we can certainly share with you the workings and the methodology that we got to that underpinned the figures that I have shared with you today.

**MS CHESTER:** Okay. If we just set aside for a moment leisure versus nonleisure given, I think, the focus of the cost analysis was really around the impact on the tourism, so you will be focusing on the leisure - - -

**MR DOWIE (ATC):** Just to be clear about that, when we say tourism we don't just mean leisure. In some ways it's a bit of a misnomer. When we say tourism we mean visitor. That definition is one used by the Australian government. It's one used by the Australian Bureau of Stats when it calculates the size of the Australian tourism industry and it is also consistent with an internationally agreed definition used by the United Nations World Tourism Organisation, so in other words we, for instance, today are classed as tourists to Tasmania because we have visited Tasmania for the purposes of business even though we're not here.

**MS CHESTER:** You're correct and this is not the letter.

**MR DOWIE (ATC):** Absolutely.

**MS CHESTER:** In the data that you reviewed then, there's obviously several buckets of people that are claiming the scheme. There's those coming here as leisure travellers, there are those that are coming here to visit folk, which is another form of tourism, and then there's residents of Tasmania and then there's business travellers that would be viewed as tourists as well.

**MR DOWIE (ATC):** That's right.

**MS CHESTER:** Can you just take us through the numbers and what you think has been included by the bureau or not included by the bureau when - - -

**MR DOWIE (ATC):** Yes. I'm looking at the bureau's report here for 2014. If I can refer you to page 19 of the bureau's 2014 report on the effectiveness of the scheme, which I'm happy to share with you, this documentation, now, what that does is that breaks down the visitors by their purpose or their mode of travel, and it breaks it down to holiday or leisure, which I guess is the conventional definition that most people understand to be meant by tourism, the visiting friends and relatives market, which is not considered to be holiday or leisure. It's a separate category.

**MS CHESTER:** Tourist?

**MR DOWIE (ATC):** Yes; and business and other, and basically what this shows is in 2012-2013 there were 62,800 holiday or leisure travellers by sea out of a total of 101,900 visitors to Tasmania by sea, so that basically says that you've roughly got 60 per cent of the travellers by sea are for holiday or for leisure purpose, and roughly 40 per cent are for other nonleisure tourist purposes.

**MS CHESTER:** Is there a separate number there for those that are just residents of Tasmania travelling to and from, across the Bass Strait, or is that picked up in the allocated group?

**MR DOWIE (ATC):** No, sorry, it's not here on this chart. I will have to take that on notice and see if that's here. This chart that I'm referring to there just refers to the number of adult visitors travelling to Tasmania by purpose and mode, so that only includes those obviously who are (indistinct) but it doesn't include by their location of residence.

**MS CHESTER:** So it would include Tasmanians that are travelling across?

**MR DOWIE (ATC):** As I understand it, yes, but I suspect that question is probably best put - from my reading at this table, yes.

**MS CHESTER:** Okay. Obviously when the bureau is undertaking a cost analysis they are looking at what the impact is, so you are looking at the level of inducement. Am I right in saying that Austrade has formed a view that what is assumed by the bureau as the level of inducement care of the subsidy is too conservative?

**MR DOWIE (ATC):** That's correct, and the reason why we have that view is because it only looks at the number of leisure travellers that are induced. It doesn't look at those numbers of visitors in other categories that might have been induced to come to Tasmania because of the scheme.

**MS CHESTER:** They have the inducement factor right but they've got the quantum of the denominator wrong, the number (indistinct) inducement percentage to.

**MR DOWIE (ATC):** That's correct, yes, because they're not doing it across the board. They're only doing that to one particular category.

**MS CHESTER:** Thank you for explaining that. We will obviously be having follow-up discussions with the bureau and they will be appearing at public hearings on Monday. Just a couple of the other points that you raised in your opening comments, and just for the purpose of clarification, when we referred to the diluted benefits of the scheme we were hoping to clearly refer there to the sharing of the subsidy and where the benefit may reside between TT-Line as a monopoly service provider and the tourists, and we do try to be very careful, given that we don't have any definitive evidence that we can point to there apart from what we can intuitively assume when we look at what's happened to the race - the rebate being put in place and how that's managed to move up in line with the eroding of all benefit of the scheme subsidy.

**MR DOWIE (ATC):** Thank you for that clarification. Yes, really, our point just goes to its - our broader point is that - I guess what is not clear from the draft report is whether or not the Commission holds the view that the current scheme is effective and cost efficient.

**MS CHESTER:** I think our primary objective in assessing is to say against what policy benchmark - what policy objective are you making that assessment, and that's where we felt there was a lot of confusion about whether it was very much focused on the tourism sector in Tasmania or whether it was focused more on the broader equalisation, or the cost to the individuals who cross the Bass Strait with their vehicles. You form a different view on the

relative merits of the scheme. It's fair to say that our commentary in our draft report was very much focused, based on the submissions and the feedback that we received from other parties, and a lot of the material and commentary of governments over time when they were ascribing what they saw as the benefits of the scheme - we were very much focused on the policy objectives being that related to tourism as opposed to the broader one. From Austrade's perspective, if we agree on what the policy objective should be, are there any design flaws that you've identified in the current scheme?

**MR DOWIE (ATC):** We are conscious that given that the original stated intent of the scheme was, if I can call it, broadly a means of equalisation for Tasmanian residents who didn't have access to a national highway. It appears that there are a number of vehicles that could be taken across on the boat that would be disadvantaged by not having that national highway but are not available to access the subsidy, so we think this inquiry is an opportune time to consider the merits of extending to those classes of vehicles who are disadvantaged by the absence of a national highway who do not have access to the current payments under the scheme.

**MR QUINLIVAN:** Can you be more explicit?

**MR DOWIE (ATC):** Yes. As I understand it, although I do get some of my transport terms confused so you will have to bear with me on this one, leisure boats and leisure craft of that nature can be brought along on the boat but you cannot get a subsidy from that under the current scheme. Changing that we would not anticipate would have a significant impact on tourism numbers. It would be more consistent with the original stated intent of the scheme to reduce the cost disadvantage that it would have a significant impact on tourism numbers. It would be more consistent with the original stated intent of the scheme to reduce the cost disadvantage that people would have about transporting equipment from Victoria to Tasmania without having a national highway.

**MS CHESTER:** So you're viewing a boat as a passenger vehicle?

**MR DOWIE (ATC):** Yes, a boat as a means of something that you could extend on a tourist purpose. So for example, there would be a number of people who would seek to actually take a boat with them. If I can give an example. If you lived in Melbourne and you wanted to actually take your boat down to Western Port Bay, you could do so by towing it on the back of your truck from where you lived in Melbourne to Western Port Bay and Hastings to there when you used that for leisure purposes. The point we're making here is that the absence of the national highway connecting Melbourne and Victoria means that you can't do that when you would be wishing to actually use that vehicle for fishing related purposes off the coast of Tasmania.



**MS CHESTER:** Is that related to the secondary tourism policy objective that you seek with the scheme or the primary policy objective in terms of the cost of a passenger vehicle being brought across the Bass Strait?

**MR DOWIE (ATC):** We would say in that example it contains elements of both because if you look at the broader passenger vehicle being the car or the thing that you are towing, the boat, you can't do that but certainly the secondary element is equally relevant in this case.

**MR HANLEY (ATC):** I guess it would apply in the same way that a towed caravan would apply. A towed caravan is not necessarily a vehicle that you're driving but something that is used for leisure which is currently falling under the scheme, whereas boats on a trailer are not.

**MS CHESTER:** I think the rationale that was put forward, something like a caravan or a motorhome, was that it would induce that class of tourist to stay longer. I guess it depends on the boat you're bringing along. Are there any other design issues that you view with the current scheme?

**MR DOWIE (ATC):** No.

**MS CHESTER:** Are there any other comments that you wanted to bring to our attention this afternoon?

**MR DOWIE (ATC):** No, not really, just as I said our overarching comment was to ensure that the impact of the scheme was properly considered, given the government's view that it wishes to retain the scheme and for us then when we're looking to this inquiry to provide some assistance to the government and then taking that forward, thinking how the scheme could be more effective and cost efficient.

Secondly, as I said, we agree and support the Commission's findings in relation to the changes that you are recommending happen - or the review, I should, to coastal shipping regulations. We just want to make sure that when that happens sufficient appreciation is made of the impact that they may have on tourism, particularly on the expedition cruise market in Tasmania but other than that, I'd just like to thank you for the opportunity of presenting to you this afternoon and to thank your officers once again for the quality of work that they've done in such a short time and I guess the high expectations that everyone now has on you all to get it done in the next month.

**MS CHESTER:** Thank you very much for those comments and thank you for attending this afternoon.

**MR DOWIE (ATC):** Thank you.

**MR HANLEY (ATC):** Thank you.

**MS CHESTER:** At that junction, ladies and gentlemen, we'll just take a short break to have a small caffeine injection for some. We're down to resume at 3 o'clock but I'd like to be brave enough to suggest that we might try to resume at 2.30 if that's okay, if we've got the next presenters from Fresh Freight Tasmania here. Great. Is that okay?

**MR QUINLIVAN:** That's fine.

**MS CHESTER:** So if we could all be back at 2.30 we'll resume proceedings then. Thank you very much.

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**MS CHESTER:** Ladies and gentlemen, we might resume proceedings. I would like to welcome our next presenter, Mr Grant Riley from Fresh Freight Tasmania.

**MR RILEY (FFT):** Thank you.

**MS CHESTER:** Just if you could, for the record, state your name, your title and the organisation you represent, please.

**MR RILEY (FFT):** Grant Riley, Hobart manager, Fresh Freight Tasmania.

**MS CHESTER:** Thank you very much for appearing this afternoon, Mr Riley. Were there any sort of opening comments that you wanted to make before we go into some questions that we had?

**MR RILEY (FFT):** I would just basically like to give a brief opening view of our business and where we fit into this. The only other part of it is probably more just some personal thoughts of mine and if you want to ask me any questions, we'll do it that way.

**MS CHESTER:** Thank you. That sounds good.

**MR RILEY (FFT):** All right. Briefly, Fresh Freight is only a young company. It has been going for 10 years. We offer a door-to-door service for customers not just in Tasmania but on the mainland, so we ship freight northbound and southbound. We have grown to the extent whereby we are TT-Line's biggest customer, so we deal direct with TT-Line regarding shipping rates.

I must disclose that we're also now a part-shareholder of SeaRoad, but we put 80 per cent of our business on TT-Line. The reason for that is - it's due to customer demand and the nature of the service that we offer, and this will be raised in your reports. We do a lot of perishable cargo, so we specialise in refrigerated freight, but we still move - about 30 per cent of our freight is dry freight as well.

I won't go into what we spend with TT-Line but I think, you know, one thing that is important to us is guaranteed space on the ships. In most cases throughout the year we are guaranteed that space but there are times, particularly in the busy tourist times, that we struggle to get space on TT-Line.

It's also important that we're guaranteed cut-off times because there's pressure on us, particularly with freight coming out of southern Tasmania, and we've got to roughly about 7.30 of a night to get the freight to the TT-Line to

catch the ship to be in Melbourne the next day, and then we need to on-forward freight to Perth, Adelaide, Sydney, Brisbane in a timely fashion, and vice versa coming in we need that continuity of service coming in to Tasmania. We need to make sure that the TT-Line is getting in at a certain time of a morning so we can get our freight distributed throughout Tasmania. Ideally we would like to put more freight on our own ship, SeaRoad, but it's to do with the cut-off times that we can't do that.

We move just as much freight southbound as we do northbound. I think we have to be careful that we don't lose focus on the freight that comes into Tasmania and the customer that lands in Tasmania for freight coming into the state. So we get a lot of freight where it leaves Melbourne, say, today and there's customers expecting that freight to be delivered in Hobart this afternoon, so it's vital that we have to get the freight off the ship, down the road to our depot.

We use 45-foot refrigerated pantechs and then a lot of the freight that we then deliver are in smaller vehicles because in our pantechs we might have 20 different customers, so we have to get all the freight married up together and then use different vehicles depending on the destination it has to be dropped off to. I think it's important - I know that people would probably understand this anyway, but the TT-Line is predominantly trailer freight, which we use trailer freight. Our business has grown on the back to the TT-Line service.

I will just touch on sea freight rates, and I think this is important and I think we can - CPI over the last 10 years has been about 25 per cent. I could be not quite right there but I have been told it's about 25 per cent. Our sea freight rate with TT-Line has increased by 51 per cent. That includes a (indistinct) fuel surcharge as well. They never used to have that back 10 years ago. That's a significant increase. To put that into perspective, SeaRoad's sea freight rates have increased 27 per cent. We can only go back 10 years, because that's how old our company is, to compare freight rates. Of course sea freight rates are our biggest cost when it comes to how we price our customers, so we can't continue. We have to obviously get that money back from our customers so it impacts all the way down the line. That's just a brief overview on us.

**MR QUINLIVAN:** Can I just ask a question about the freight flows? As I understand it, you specialise in refrigerated freight.

**MR RILEY (FFT):** Correct.

**MR QUINLIVAN:** Going north, so you're sending refrigerated freight north.

**MR RILEY (FFT):** Correct.

**MR QUINLIVAN:** And then you talked about southbound freight. What's the character of the freight coming south? Is that also refrigerated?

**MR RILEY (FFT):** Yes; a lot of finished goods. I'm just trying to explain. Let's say it's a PFD or a Bidvest or national companies, they might buy product off a supplier by the pallet load or pallet loads and then we charge PFD to move that freight to Tasmania. There's a lot of finished goods coming into Tasmania, of course, Woolworths and Coles. We don't do Coles work but we certainly take product in state-wide in Melbourne for the supermarkets. Yes, and it has got to be in a timely fashion too, like when we're moving freight out of Tasmania, basically the expectation is that we deliver in Melbourne tomorrow, two days to Adelaide, two days to Sydney, three days to Brisbane and four days to Perth, and being perishable freight, it's not just a case of we can leave it another day. It doesn't work that way. We have to meet those demands.

We have little networks up for Australia with our subcontractors and relationships where we can make sure we meet these demands and it's crucial for, for example, Houston's Farm, who is a customer of ours. They have got to be at the Woolworths and the Coles DCs by certain times. On the mainland, you just can't turn up when you want to turn up. They give you a time slot, so you could be going to a Woolworths DC which could be Sydney and you can get there between 4 am and 5 am, not quarter to 4 and not quarter five 5, so there is real pressure on there. Then shipping obviously is integral. I'm trying to explain from the mainland if we miss this ship and let's say we had a breakdown in the Midlands Highway and we're broken down for an hour and we miss the ship, you're not an hour behind. You're 24 hours behind and then you have got perishable product. There is a lot of pressure on. Any more questions on - - -

**MS CHESTER:** Just to obtain a business model; so you are basically providing a door-to-door service, for want of a better description, for your clients.

**MR RILEY (FFT):** Yes.

**MS CHESTER:** For your customers in Tasmania to get their fresh produce.

**MR RILEY (FFT):** And the mainland.

**MS CHESTER:** And the mainland, to and from.

**MR RILEY (FFT):** Yes.

**MS CHESTER:** To get it to supermarket or the store where it's being sold.

**MR RILEY (FFT):** The warehouse, yes, that sort of thing.

**MS CHESTER:** Yes, wherever, and so you obviously have been negotiating the best rates possible along the transport logistics chain.

**MR RILEY (FFT):** Correct.

**MS CHESTER:** So whatever that cost is, that goes through to your customer.

**MR RILEY (FFT):** Correct.

**MS CHESTER:** Then is there like a percentage of a service fee on top that is what you charge for providing that service?

**MR RILEY (FFT):** Correct. We work on a margin, depending on the customer and the nature of the work and what's required. We work along those lines. We have to work from the time we pick up to the time of delivery and you're right. If you're going to Brisbane, it's quite complex. We use an on-forwarder to go from Melbourne to Brisbane. We have got an unloading agent in Brisbane, because in that vehicle that goes to Brisbane, we could have, like I said before, 20 different customers, so you just can't drive around Brisbane in a big 45-foot van. So we have got a network where we have got someone doing our deliveries around and - - -

**MS CHESTER:** With your customer base, say if we just focus on Tasmania to begin with, is there a particular sort of size threshold in terms of if customers have enough volumes of fresh produce going themselves, they would do the whole freight logistics chain themselves and wouldn't use your services or - - -

**MR RILEY (FFT):** No.

**MS CHESTER:** So everyone just basically getting fresh produce from Tasmania to the mainland would be looking at using your services or the services of someone similar to yourself.

**MR RILEY (FFT):** Correct.

**MS CHESTER:** Is there anybody else providing door-to-door service of fresh produce?

**MR RILEY (FFT):** Yes, there is: Toll, SeaRoad, Tasfreight.

**MS CHESTER:** Yes.

**MR RILEY (FFT):** So there's a few. There's a couple of others as well, yes.

**MS CHESTER:** Any others say that are sort of virtually innovations of the shipping lines themselves?

**MR RILEY (FFT):** Sorry, what does it mean by that?

**MS CHESTER:** So with Toll and SeaRoad, they also have a shipping line service as well.

**MR RILEY (FFT):** Correct. So Toll and SeaRoad have got their shipping division and they have also got their transport division or the logistics division, so that - - -

**MS CHESTER:** But is there anything else competitive that you have in Tasmania that are like yourself that don't have shipping line containers?

**MR RILEY (FFT):** Yes, there is, like SRT and, look, in some ways to give you an example, Toll Tasmania have got the contract to do Coles into Tassie and you can check this out, in fact, if I'm wrong, but you will find that Toll use TT-Line into Tasmania because of the service that TT-Line can give to fulfil that contract. They don't use their own ship into Burnie, so it's not like - it's just a case of using your own ship at times to do the business.

**MS CHESTER:** You mentioned it beforehand I didn't quite catch the reference to the percentage you have found that freight goes by TT-Line. Did you say 80 per cent?

**MR RILEY (FFT):** 80 per cent.

**MS CHESTER:** Thank you.

**MR RILEY (FFT):** That's north and south.

**MS CHESTER:** North and south, okay, and that - - -

**MR RILEY (FFT):** 20 per cent is with SeaRoad.

**MS CHESTER:** That's due to the timing of the departure of the vessel.

**MR RILEY (FFT):** Correct.

**MS CHESTER:** So if the timing of the departure of the other vessels were the same, is there a past differential or it just between the Commission there?

**MR RILEY (FFT):** Look, if other vessels were leaving at the same time, it would certainly create more competition on Bass Strait when it comes to prices. That's exactly right. We have to use TT-Line for our customer needs, obviously.

**MS CHESTER:** Well, that's - - -

**MR RILEY (FFT):** Houston's Farm would be a case in point. I will explain more tomorrow. A matter of TT-Line which I noticed in the report, it's not quite right. TT-Line is the only shipping service that does provide six sailings a week. Sorry, Toll and SeaRoad, they do sail six times a week but they don't discharge on a Sunday, whereas TT-Line do discharge on a Sunday. So we send freight out of Tasmania, pick up Saturday to be in Melbourne Sunday or on board into Perth, Adelaide, Sydney, Brisbane and vice versa. There's freight coming out of Melbourne - so we work seven days a week, our depots - coming out of Melbourne into Tassie on Sunday, so we will bring freight down to Hobart. We have got a depot in Brighton as well and a depot in Melbourne, so we do rely on that six nights a week sailing.

**MS CHESTER:** Thank you for clarifying that and you would be in an ideal position to have a view on how you see the competitiveness of shipping services across the Bass Strait over the 10-year period that you have been operating. Could you share those views with us?

**MR RILEY (FFT):** From a container perspective - and I believe that it is very competitive between Toll and SeaRoad when it comes to sea freight rates but because TT-Line has got this niche market and it's not - the rates are reasonably higher with TT-line than if we was to use SeaRoad but we really haven't got that much choice in the matter, but TT-Line has created that service and good on them for doing it and there are some in Tasmania - without wanting to be critical of TT-Line, from a numbers perspective, TT-Line has probably saved some shippers some money in that TT-Line was started up in 2003, I think, with the two new ships and I'm sure when they put the two new ships on, their thinking was tourism, passengers, cars.

That would be the thing, though they did have some capacity for freight, and slowly over the last few years, that capacity for freight, they have taken advantage of it and in the past where Tasmania shippers have probably saved a lot of money on all of them, but some of them have saved some money on air freight, because what we're doing and some others, we will ship out of Tassie. Cherries are a classic examples. A lot of cherries at the moment will go on the ship overnight and be taken to Tullamarine Airport tomorrow morning. So we do freight like that, where we have taken freight to the Melbourne Airport. Now, the cost factor as opposed to flying it from Hobart or flying it to Melbourne, it's a quite significant saving to the shipper.



**MS CHESTER:** I appreciate that things are very different, depending on what is being shipped and to which ultimate market, but I wonder if you could take us through what on average would be the respective cost components of the door-to-door freight logistics task with fresh produce coming out of Tasmania to the mainland through Melbourne.

**MR RILEY (FFT):** The product cost, of course, and that depends on the nature of the pick-up. You could be going somewhere and picking up one product or you could be going somewhere else and picking up 20 pallets, so depending on - there's a cost factor regardless, your equipment costs, of course, the cost of a 45-foot - we own our own equipment - your depot costs, because our depots are refrigerated, plus we've got a freezer. Picking up in Hobart, I've got quite significant freezer capacity. So you've got depot costs. Like everybody else, you've got staff costs. You've got the cost of the land transport component up to Devonport and of course you've got the shipping costs. Then in Melbourne, you've got the cost of going to pick the vans up, so in Melbourne, we pick all the freight up off the ships and take all the vans back to our depot in Melbourne because in that van, you might have freight for Adelaide, Perth, Brisbane, so you have got to break it all down and then you have got all the other freight coming in, and then you've got to work it all out and get - - -

**MS CHESTER:** If we were to take one of your larger-volume customers and if we were to have a few cost component buckets, so the land freight task in Tasmania, intermodal, the shipping intermodal and then the land freight task in Melbourne, just indicatively what percentages would you sort of allocate to those different parts - - -

**MR RILEY (FFT):** Across the board, we trundle it, we're working on about four per cent of our cost is sea freight. It's very (indistinct) trying to work out a fuel surcharge with all our different contractors on the mainland with different fuel surcharges, trying to average it all out.

**MS CHESTER:** There has been discussion we have received evidence, and you probably would be more familiar with this with respect to potential investments in new vessels by some of the existing commercial operators, what do you see the potential implications for your customer base with that additional capacity coming on line?

**MR RILEY (FFT):** We think it will be fantastic. It will be a win-win for everybody.

**MS CHESTER:** How do you see that sort of impacting freight costs?

**MR RILEY (FFT):** Yes, and I think it will drive freight costs down.

**MS CHESTER:** Do you have some sort of sense of the order of magnitude of what that may be?

**MR RILEY (FFT):** No, but you can look at it this way. I will just give you an example. Let's say SeaRoad put new ships on, or a new ship, and all of a sudden instead of SeaRoad having a cut-off at half past 3 in the afternoon, it cuts off at 5.30 in the afternoon, that gives you the capacity to push more freight onto that service and then it makes TT-Line have to compete more for your business, I suppose, if you look at it that way. Yes, I think it would be, not just for us, I just to think across the board it would be good.

**MS CHESTER:** We have received some evidence in some of the submissions and we commented upon it in our draft report around the nature of the Bass Strait shipping market in terms of it being a relatively thin market with some limited competition. Focusing then on the land freight and the port side of the equation, are there any areas where you can see potential for greater efficiencies being secured to the benefit of your ultimate customer base?

**MR RILEY (FFT):** Not really. I think all three shipping lines do an incredible job really. I don't want to sit here and bag out the shipping companies because it's not an easy task, and you have got so many types of freight going on these vessels, it's not just a standard 20-foot container. You've got different types of containers, you've got 40-foot containers, you have got tautliners, you have got live cattle, you've got refrigerated. People get a bit confused when they are doing comparisons on the mainland. Basically, you can go to a warehouse and pick up a full load and go to Sydney straight to another warehouse, and it's just the cost of picking up and going straight there, whereas all the shipping lines have got different types of equipment to get your freight on and off the ship.

**MS CHESTER:** With the landside freight task that you have in Tasmania, what percentage of that is then transported by road versus rail?

**MR RILEY (FFT):** That's road, purely and simply because the rail is an overnight - it just adds another day to equation, and it's based around dry container freight. There's no refrigerated freight, not that I'm aware of.

**MS CHESTER:** Do you have any views on - there are two issues: firstly, I guess how competitive you see the road transport sector in Tasmania at the moment, vis a vis your experience on the mainland.

**MR RILEY (FFT):** I think Tasmania is very competitive on road transport. There's plenty of options out there, yes.

**MS CHESTER:** So similar rates that you would be quoted for similar transport tasks on the mainland?

**MR RILEY (FFT):** Yes. Yes, it's comparable, very much so. That's fine.

**MS CHESTER:** There's one other area we commented on in our draft report with respect to the road transport network within Tasmania, and that was the potential for some of the network to bear the high-performance freight vehicles. Is that an area that you have got any views on?

**MR RILEY (FFT):** No, I haven't got any views on that.

**MS CHESTER:** I guess the issue there would be other (indistinct) posed by the current road network in terms of the size of the vehicles that you would like to be able to use or are there no constraints?

**MR RILEY (FFT):** There's no constraints with us. We don't operate the B-double vehicles, for example, so we are not restricted in that way.

**MS CHESTER:** In our report we do make some draft recommendations around the TFES scheme. If you could give your feedback and thoughts on some of those changes - - -

**MR RILEY (FFT):** I would be a bit careful there. I'm not really an expert when it comes to the TRES scheme. Obviously, I believe it's essential and I was going to touch on that talking about overseas shipping. I'm not talking (indistinct) I was going to talk personally about my views there. What I know, I know say an LCL space for freight from Hobart to Melbourne is, say, roughly \$235. FCL space for freight from Melbourne to Sydney is, say, about 150. If you did a full load Hobart to Melbourne, you would get back about \$88 I think for a space, so if you take 88 off 235, brought it into line with the distance between Hobart and Melbourne and Melbourne and Sydney, it's reasonable comparable, but that's about as far as I will go, I don't know enough about the scheme. We don't claim, of course, it's our shippers who claim and we stay out of all that.

**MS CHESTER:** Are there any other comments or views that you are willing to share with us this afternoon?

**MR RILEY (FFT):** I was going to touch a bit on the pros and cons of overseas shipping in Tasmania.

**MS CHESTER:** Thank you.

**MR RILEY (FFT):** A lot of it is already in the report, which says that approximately 37,000 TEUs leave Tasmania a year to go overseas, but what it doesn't say in the report is how those TEUs are actually loaded, so I don't know if that's 27 loaded or you work on the principle that 33 per cent of the containers that leave Tasmania across the board is empty containers, which is in the report. If that's the case, it brings it down to 25,000 loaded going out of Tasmania. I think that's a key point that needs to be looked at. It says 12 per cent of what goes out of Tasmania is for export.

The other thing that is not in the report, when the RSE service was coming to Tasmania I'm told that some in instances, not all, but what sort of rate they were made in Hong Kong, that could be dearer, that could be \$300 or \$400 dearer than the rate you would get ex Melbourne. I say you have got to take the line of thinking that if the route ex Tasmania to an overseas destination is exactly the same as the rate ex Melbourne overseas, and in some instances I would suggest that it would be higher out of Tasmania, then you are taking into account before the AAA service ceased (indistinct) as we were going out of the Tasmania via the port of Melbourne anyway. How many containers a year were not using that AAA service, because there was a significant amount of containers that weren't using the AAA service. Then you have got to narrow it down to what percentage of these TEUs are going to Tasmania are made up of, say, Nystar or (indistinct) and then their views on what they want, whether they want overseas shipping or to continue through the port of Melbourne. I think they want to continue through the port of Melbourne due to (indistinct) over there.

Another thing too is more (indistinct) for example, that it's a (indistinct) system whereby you freight on it at Bell Bay or Burnie on an overseas shipment and get it dropped off in Fremantle, and that was used, but companies stopped using that before the service fell over. This is my personal view. If there's (indistinct) made available in regards to the overseas exporters, I believe it go to the exporters themselves, not an overseas shipping consortium. It's a win-win situation here because then also those export containers could then continue to go on the Toll, SeaRoad, which are national companies, so you keep the money in Australia whereas if you'd taken the risk of throwing money at an overseas shipping consortium that might not be here for that long - the figures don't add up. The only ship you can get into Tasmania, overseas ship, is less than 3000 TEU, correct, and to make that viable according to, is it (indistinct) report? It's known to be between 36 and 52 thousand containers a year. Quite clearly that's not going to be the case. So that's an issue in itself. I just believe if there's money to be splashed out it should be given directly to the exporter. I'm a great believer that the exporter should be entitled to freight equalisation or whatever you might want to call it.

**MS CHESTER:** And you do raise a very important point, and it's one that we

do comment on and focus on in our draft report; it's important to understand where the incidence of the subsidy rests and who is getting the benefit.

**MR RILEY (FFT):** Yes.

**MS CHESTER:** Whether it's actually going through to the exporter through a real reduction in freight costs or whether it's being shared or partially going through to a service provider.

**MR RILEY (FFT):** Yes.

**MS CHESTER:** That is something we are very conscious of and it does need to be taken into account in terms of how you frame the scheme.

**MR RILEY (FFT):** Yes, and like I also said, it helps the current Bass Strait shipping providers. It's freight they would - not all of it but they would lose some of that freight as well, so it helps them.

**MS CHESTER:** But also our draft recommendations are also framed in such a way to try to get the incidence of the subsidy correct but also making sure that it doesn't create a perverse disincentive to not get the lowest shipping cost rate possible.

**MR RILEY (FFT):** Yes.

**MS CHESTER:** In terms of how the subsidy is calculated. So you do raise a very important issue and one we are very conscious of.

**MR RILEY (FFT):** Yes. That's about all I've got to say really.

**MS CHESTER:** Thank you very much for appearing this afternoon and for your comments and feedback.

**MR RILEY (FFT):** I think I will just quick raise too that the Bass Strait shipping rates have gone up significantly over the last three or four years and we all know that's due to the carbon tax that the shipping lines had to pass on, and the licence fee certainly hasn't helped either. That's another problem in itself. Thank you.

**MS CHESTER:** Thank you very much for appearing.

**MS CHESTER:** I would like to call on our next presenter from the Tasmanian Exporters Group, Mr Bob Gozzi.

**MR GOZZI (TEG):** Thank you.

**MS CHESTER:** Good afternoon.

**MR GOZZI (TEG):** Good afternoon.

**MS CHESTER:** Could you just state your name, title and your organisation for the record that would be very helpful.

**MR GOZZI (TEG):** My name is Bob Gozzi, I'm the chairman of the Tasmanian Exporters Group. The Tasmanian Exporters Group comprises companies from the Bell Bay area, Northern Tasmanian Development, the mayors of the region, and there are eight local councils and the mayors of those councils are members of Northern Tasmanian Development. It includes Nystar and Cuthbertsons, ECKA Granules, BHP Billiton and Rio Tinto.

**MS CHESTER:** Thank you. I appreciate that that's a large spectrum of organisations that you are representing. Is there a way of describing the common interests of those groups that you are representing?

**MR GOZZI (TEG):** Generally they are all international exporters but also the northern councils have constituents in agriculture particularly, wool, also using the national service. My main focus in being here today is to talk about the possibility of an international direct shipping service out of Tasmania, and I have probably a bit of a contrary view to the last person on some of those issues.

**MS CHESTER:** Just if I could clarify this. The exporters that you are representing are bulk, nonbulk, what sort of different commodities?

**MR GOZZI (TEG):** A mixture of bulk. Because of the discussions with Swire Shipping which commenced in June 2012 there was at the same time opportunity for Rio Tinto to renegotiate their bulk contract and those discussions were successful with Swire and currently Swire are providing a bulk service to Rio Tinto, BHP Billiton, but there's also still container freight. In the case of BHP Billiton the bulk freight goes to Taiwan. There's a container (indistinct) Taiwan, so there's another issue because it can't be containerised here because there isn't a viable service at the moment.

**MS CHESTER:** I didn't want to interrupt your opening comments. I just wanted to make sure that for the record we had an understanding of who it is you are representing. Would you like to make some opening comments?

**MR GOZZI (TEG):** Yes, I would. What I've done is to go through the reports. I just thought I might make some comments about certain parts of it. The main focus of what I want to talk about really does relate to international shipping but to start with, clearly there are anomalies in the TFES. I don't propose to talk too much about the TFES because it's not involved in what I do but it does appear that it has moved away from its original basis and it should realign with what the real issue, the real mitigating issue, was, and that is to provide an equalisation, not a subsidy, in terms of wharf to wharf disadvantage.

You canvass in your report the possibility of a flat rate and I think it's pretty well accepted by most that there are significant administrative costs in the current arrangements, and to that extent a flat rate, adjusted from time to time, would seem to have some efficiency aspects to it, and from a person perspective is something that the Commission should pursue fairly strongly. I think the current anecdotal evidence comments are that the administration of the scheme as it stands is very costly, cumbersome and probably doesn't go to what was intended back in 1976 when it was introduced.

I particular want to talk about international shipping. In the report it seems to suggest that there isn't a capacity for Tasmania to have international shipping, and probably the best way for me to talk to you about that is to go right back to how the Tasmanian Exporters Group formed, and that was in 2011 when international shipping was withdrawn. There was immediate concern that this would dramatically impact on the viability of industry, particularly in Bell Bay.

Why Bell Bay is important is because it contributes - 15 per cent of gross state product comes from manufacturing, and about 68 per cent of that comes out of the Bell Bay area. The Bell Bay area has direct employment of about 4000 people with a multiplier of about another 20,000 people, so it's a very significant component, and it was extended beyond that to say that those costs of having to transport by land, by road, from Bell Bay and other parts of northern Tasmania to Burnie was at a significant additional cost.

Just on the additional cost, you mention in the report the \$20 million that was provided by the Federal Government, which was watered down to \$14.5 million. When you think that there were 36 recipients of the \$14.5 million, they had to demonstrate a cost disadvantage to access that money, state treasury estimated that the actual cost disadvantage through the loss of international shipping was something like about \$38 million, so you can recognise that when you look at 36 exporters who share that money, the actual cost was something like, let's say, \$38 million, those 36 don't really represent the entire cohort of exporters, and that's a really important point. I will come to more of that in a moment.

I just want to quickly pick up the additional costs scenario. There's a suggestion that costs in some cases are dearer from Tasmania to international destinations than by direct international ship. Excuse me while I get my papers organised here.

**MS CHESTER:** That's fine.

**MR GOZZI (TEG):** With smaller exporters the invoices that I have, and the Commission is welcome to have these documents, they're all in February 2011. Bell Bay to Hong Kong for a 20-foot container it was \$852. As at 12/9/13, 12 September last year, the same costs were \$1728 for the same container, so from February 2011 to September 2013 the cost has gone from \$852 to \$1728. I'm not sure how I can give this to you but I would like the Commission - I've got some more. May I just put them here and give you all the papers afterwards? They are copies of actual invoices.

In June 2012 the Tasmania Exporters Group engaged with Swire Shipping following a number of discussions with other international shippers. There was Norfolk Island Shipping Co, Asian Line. There was the operators of the Pacific Guardian, all of whom considered that they couldn't provide the service that we wanted.

In the discussions with the Swire group, it became obvious to us that here was a regional operator who would ride the type of ship that would service Tasmanian needs particularly, and it was also a company that was in fact expanding its shipping fleet and the size of vessel that would suit the Tasmania ports. Swire Shipping is part of The China Navigation Co and I've got some background here for you on that.

The vision of the company is to be leading providers, sustain all shipping solutions on the customer partner of - and to be a partner of choice. Swire have made it very clear and there are probably other operatives out there as well who have made it very clear that they want to partner with Tasmania for the long term. They have the size of ships that we need, 31,000 deadweight tonnes. Eight new ships are being currently build. They have the capacity that would meet our requirements.

They operate a reasonable service through Asia and the Pacific and it has ascertained in discussions with exporters in Tasmania that there are something like 31,500 TEUs per annum available to be shipped. Notwithstanding, it would take time for that cargo to gravitate back to international service. Those assumptions are that vessels capable of physically calling on Tasmanian ports are size limited which we know. Tasmania would benefit from a competitive international container service linking Asia. This service benefit dedicates new



container capacity, market size in Swire's estimation is probably closer to 40,000 TEUs and significantly they also would look to achieve a significant import volume. On their estimates they would think that they could get to 15,000 TEUs over time.

The market segment indication for Tasmanian exporters, and this is based on their discussions with exporters, direct discussion with exporters, is that 30 per cent at the moment goes - exporter region, East Asia, China, Taiwan, Hong Kong, 10,500 containers which is currently going by Melbourne and the alternative would be go direct to Shanghai or Hong Kong or via Hong Kong. South East Asia 18 per cent or 6300 containers. It goes via Melbourne. It would be proposed to go via Hong Kong. Japan, Korea at 14 per cent or 4900 containers which would go via Hong Kong. So the Asia total with Tasmanian exports, according to the work done by Swire, is 62 per cent. New Zealand 10 per cent, 3500. US, Canada, 6 per cent which is 2100. I will make this chart available to you. Europe 5 per cent, 750 containers. With at least 4 per cent which is 1400 containers - South Pacific Islands, 4 per cent, 1400 containers.

All of that freight currently goes via Melbourne and it could be directed efficiently via Hong Kong in the hub from Hong Kong to other international destinations, so I'll give you that.

The type of ship. There is something like \$8 billion worth of shipping being provided, new shipping being in the pipeline for Swire Shipping. Some have just been launched. Others are being launched this year. The Laurel-T nearing capacity is on the deck 1166 TEUs and in the hull it's 916 TEUs which would amply meet our requirements. I'll pass that on to you as well.

As we know, the break-bulk service is currently operational and will continue into the future. Swire have made it very clear that they want to partner with Tasmania. They want to provide a long-term solution. The crunch line is to start the service would require start-up assistance and that is a contentious point because often it's said that the company would simply put their money in the back pocket and cut and run after three years. Swire totally reject that notion. In fact they feel offended by it. They simply make the point that if Tasmania wants to have a cost effective competitive international shipping service then there will be a start-up cost associated with that.

They have agreed to operate on an open book basis and it could be that other efficiencies could be put into the system. There's a lot of talk about the cost of repositioning empty containers. In your report you talk about 33 per cent of empty containers and you also talk about the repositioning costs. Because of the way Swire currently operate their regional service, there is repositioning of empty containers at the moment in Papua New Guinea. Swire

have committed in our discussions, and let me just say that those discussions have actually found their way as part of scenarios that have been put to the Tasmania government - Swire have indicated that they would reposition as part of their schedule empty containers in Tasmania at no cost which would be a significant cost benefit as far as Tasmanian exporters are concerned.

I mentioned before that the 40 and a half million dollars was distributed to something like 36 exporters. It did not include freight impacted industries for export for wool, meat, grain, fish and dairy, so we believe that the volume is there. The Tasmania Exporters Group contacted a number of key exporters. Perhaps I shouldn't name them but I can give you the list. It showed that immediately, subject to contractual arrangements being able to be put in place, from a minimum of 13,890 containers to a maximum of 17,150 containers would be available for migrating to the service immediately. What people want though of course is certainty and if there was certainty through a transitional arrangement, we are confident that we could get a viable shipping service up and running.

**MS CHESTER:** Sorry, could you just repeat what that initial commitment - - -

**MR GOZZI (TEG):** The indication from the companies that responded to the survey was that there would be a minimum of 13,890 TEUs available immediately to a high of 17,150 and that only involves eight companies. Mind you, some of them represent other exporters; for instance, one of the companies here, Glencore, provide export shipping services for a range of customers but, as I said, it doesn't include those other categories that would make up, in our estimation, about 35,000 available export containers. Whilst it's a small number, what I'm trying to say here is that the cost is significant to Tasmanian exporters.

If we look at the modelling that was done by the Tasmanian treasury which showed that because of the removal shipping, the cost to exporters, international exporters, was something like about \$38 million a year. Whilst it's a small percentage of the total, it's a significant cost, at the end of the day, which brings me to the point about putting exporters into the Freight Equalisation Scheme. We very strongly support that exporters need to be compensated for the cost that they incur. We think that should be a stopgap measure as opposed to a continual measure against the scheme. It's a lot more cost efficient both to the tax payer and to the exporter to in fact have a competitive international service.

If we just do a simple arithmetic maths exercise and use the current level of subsidy of \$855 a container, multiplied by a notional 30,000 containers, if you just do nothing and put them into the TFES you immediately have a

recurrent cost of about \$25 million. If you raise that to about 34 - you get a recurrent cost of, let's say, \$30 million. Whilst you say that it could fit into the funding envelope with the scheme, as a trade-off if you're in the southbound subsidy, it's far better to have a long-lasting solution and it introduces competition. At the end of the day, that will introduce competition and it will be a lesser freight cost than what is currently the case.

In your report you talk about policy settings in respect of better efficiencies, you talk about retention rates and other social issues and the unemployment rate, those things are critical that Tasmania has to address. We need to be able to stand on our own two feet. I have been in Tasmania and have been part of the Tasmanian economic scene for a long time. I have here in front of me job losses in Tasmania since 2010. I can get to 1600 jobs lost very quickly, if I look at Paperlinx Leslie Vale, Paperlinx Burnie, Tascot Devonport, McCain Smithton, Australian Weaving Mills, ACL Bearing, Simplot, Vic Stock. Without even including Caterpillar or BHP or Rio Tinto, we need to stimulate our economy. We need to have efficiency. We need to have a reduction of input costs. We can't sustain our major industrial base without having a competitive input cost base. It's just not feasible and so we need to take some tough decisions.

I just want to return - I'm sorry to be jumping around here but I just want to return to the international shipping scenario. There are sceptics about an international shipping service and the efficiencies of it. There are competing interests and we know that there are competing interests on this issue. In our discussions, in Tasmanian Exporters Group discussions, with Swire we talked about how some of that could be overcome and they have also proposed for consideration what they call a Tasmanian shipping management model. The Tasmanian shipping management model - the objective would be to establish a partnership with a shipping service provider which provides Tasmania with a dedicated and long-term international shipping service.

How would the management agreement work? An experienced international carrier would be appointed to develop, operate and manage the service. This would be an open-book consultative approach based on key agreed criteria. The intention would be a five-year long-term back-to-back commitment where suitable ships would be chartered or purchased. The service would be developed against the criteria. I will make that available to the Commission to have a look at. It simply demonstrates, in my view and in the view of the TEG, that there is a very serious high-level intent to engage in the partnership with Tasmania to ease the cost of getting our goods to market in a competitive way.

I heard mention about the carbon tax and there's no doubt that the carbon tax in combination with the port licence fee increased the cost of container

handling in the Port of Melbourne. The port licence fee I think took the cost of a container from about \$40, \$42 a container to something like about 63 or 64 dollars a container, plus the carbon tax, to \$69. So it was a significant increase in cost.

I'm not sure whether the Commission has had the opportunity to read the report Containerise Freight Specialisation at the Port of Bell Bay, A Cost Benefit Analysis, September 2012. It is a report that the TEG commissioned and the participants who put that report together include, the authors, were Dr Bruce Felmingham, Paul Marlow and Ian McMahon. I think to most of us Dr Bruce Felmingham was the chief economist for this project and was the principal consultant for MMC Link who produced the report and probably doesn't need - I think most people know of Bruce. I understand the Commission know him as well.

So we placed a lot of weight on our thinking about international shipping, about a two-port option at Bell Bay and Burnie. This is not a case of parochial Burnie or Bell Bay. We say that there is a place for both. We note that the Commission's report relies on the Bureau of Infrastructure as a basis for data. A lot of that data was utilised by MMC Link in this report. The extrapolation of container growth, which is historically acknowledged by it to be ahead of economic growth, demonstrates quite clearly that the capacity for Tasmania container handling, albeit that the economy is where it is and the growth is projected to be under 2 per cent for the foreseeable future, projects a volume growth to 800,000 containers.

Whatever we do we have got to get this right. We know that improvements are being made at Burnie and there's some argument about how that money is being spent at Burnie. I'm pleased to say if there's money being spent, the \$8 million has to be spent at Burnie, then at least the operators are also contributing as opposed to the four and a half million dollars which was put into Burnie with the operators' rent contributing. This is not a parochial issue. It's simply a case of getting it right for the long term. I think Tasmania needs to take a longer-term view about where it wants to head and clearly with the constraints that Burnie has, having the CBD behind it, and dredging really is - they don't even want to think about the cost of dredging.

Then the capacity to expand really is at Bell Bay. The port is the deepest of all the ports. Yes, there is a reef there, navigable with the sort of ships we're talking about. We can put in a place in infrastructure project which Tasmania badly needs and would - let me just put it the other way. In your report, you talk about leading people in the region as opposed to taking people out of the region. Well, it just so happens that Bell Bay-George Town is unfortunately a high unemployment level. That's why probably the pulp mill was an important issue but certainly in terms of looking at our future shipping requirements, this

is a project that would meet a lot of the criteria for infrastructure spend and engage people in that community, as opposed to keeping people out of the community.

You talk about numeracy and literacy and up-skilling and so on. We know we have functional illiteracy here in Tasmania. I think about 50 per cent of our population, working population, is functionally not literate. We know we have got these sort of problems but we need to start somewhere. In my view, Burnie rightly should do what it's doing. Bell Bay offers an opportunity and I have come to the conclusion in reading the MMC Link report and reading all of the stuff that was put out by Tasport since 2006 or the government since 2006 about port rationalisation and also port specialisation, it makes sense that the proposals have been put in Infrastructure Australia about getting the port ready for future expansion. To me, that time is now.

I just want to - if the Commission hasn't got this report, I am happy to leave this report with you. Without labouring the point too much, at page 12 of the report, using historical data going back to 1972, the viable most recent estimate of the average annual growth of inter-coastal shipping freight between Tasmania and Victoria was 3.4 per cent per annum for the period 2008 to 2030. This study does, however, desegregate container from bulk freight. Slightly more dated figures have predicted that the container task will increase at around 3.8 per cent per annum resulting from the starting point in over 800,000 TEU in container removals by 2025. The Tasmanian government 2008.

If we are going to rely on wide information, and the historical data support what they are saying going back 10 years, then when do we start to say we need to plan for long term? We don't need a five-year solution. We need a long-term solution to get ourselves organised once and for all. This offers the opportunity. You have an opportunity to look at that and come up with some recommendations. As I said, it fits the infrastructure envelope. It fits the geographical requirements and it fits the needs to have positive infrastructure development. So that's page 12 of that report.

It also goes on about implications on page 14. It can be seen that in the short run, due to growth at Burnie and Devonport, growth at Bell Bay is substantially constrained and may continue to be in decline in the short run. However, it can also be seen that due to capacity constraints at Devonport and in Burnie, growth may pick up in the latter part of the decade and the overall system reach capacity around 2023. Without a substantial investment in new capacity at that time, Tasmania shipping and vehicular activity will be substantially constrained. So this is not me saying it. As I say, we place a lot of weight in the research and the work that's been done here and it's a very comprehensive document.

**MS CHESTER:** If it's helpful because there are some questions we would like to ask you.

**MR GOZZI (TEG):** Right.

**MS CHESTER:** We are happy to take that document as part of our public hearing.

**MR GOZZI (TEG):** Yes, and I have already mentioned that in the case of BHP Billiton, their preferred position is to containerise here. They now take their bulk product to Taiwan for containerisation in Taiwan. It doesn't help Tasmania's employment, sorry to say. Yes, I will make that report available.

**MS CHESTER:** Thank you very much.

**MR GOZZI (TEG):** In your recommendations - I think recommendations - without going through them all, 1 to 8 are yeses from my perspective. Recommendation 9: apart from infrastructure, should extend the self-assessment facility on Tasmanian freight in the scheme to more payments. Yes - sorry, yes, that was recommendation 9 and you talk about exploitation and geographical advantages. Well, I think I have covered that in what I have said. Look, I think without going on any more, I would also like to make available the submissions to the Freight Logistics Council of Tasmania, which cover some of the matters that I have raised. So I think I will just leave it there for now.

**MS CHESTER:** Thank you very much for those comments and just to provide us with an opportunity to get a better understanding of the international service that's been discussed with Swire Shipping and to get a better understanding of I guess the scope of that service, are you able to provide us with a bit more of an overview of how this potential shipping service was seeking to supply a business model and the size of the Swire Shipping service, how many vessels and what geography they are currently covering and the size of those vessels?

**MR GOZZI (TEG):** Yes, I can do that. The service operated by Swire Shipping is a regional service. The current trades are north Asia, Australia Pacific over east, south-east Asia service, Papua New Guinea service, trans-Tasman service, west coast North America service, Pacific island service, East Timor, Europe. So it's a very integrated service but from a Tasmania point of view - - -

**MS CHESTER:** Just to get a sense of the order of magnitude of the Tasmanian business and what that means to Swire, what is involved internationally at the moment as part of their businesses, with how many

vessels? Do you - - -

**MR GOZZI (TEG):** Look, I don't know but currently, they have 30 vessels in their fleet. Currently they have 30 vessels in their fleet owned and chartered and there are new vessels coming online. So they are one of the few companies that are actually investing in new purpose-built shipping.

**MS CHESTER:** And more vessels.

**MR GOZZI (TEG):** Yes, the sort of vessels that we need, 30 to 34 thousand tonne vessels, which would be ideal. So they are not as cost effective of course as the hundred thousand TEUs which, as rightly pointed out, we won't get but certainly in their assessment, they will offer a competitive service at a better rate than what is currently the case going via trans-shipping via Melbourne.

**MS CHESTER:** The other figures that you - the other shipping lines, sorry, that you spoke to in terms of ascertaining their interests and engaging sort of a regular international service to Tasmania, you mentioned a couple of names. I didn't catch them.

**MR GOZZI (TEG):** Yes, Norfolk Island Shipping Company just wasn't geared up to do that sort of trade, didn't have the capacity both in shipping and size. Asia Line, I think the same, and the Pacific Guardian was really a one-ship operation which really didn't go anywhere. All the conversations we had we felt that Swire was the one that we wanted to pursue. They were the only ones that actually said, "We are very interested in this. We already provide a service in Asia incorporating New Guinea." They already call in Townsville, and they were very interested to partner for the long term, and prepared to do that on an equitable basis and on agreement but, as I said, the sticking point is the transitional funding.

**MS CHESTER:** The scope of the service that they are looking at offering, if you just talk us through the volumes and containerised versus - - -

**MR GOZZI (TEG):** I think the bulk shipping train is operating once a month a month at the moment. My understanding is that that bulk trade will probably increase. I'm certainly aware that there will be some - I think that service will probably expand. Certainly, when the bulk ship came on there was a tremendous amount of enthusiasm about using that as a container ship as well. The capacity for containers on a bulk ship is not that great and it's not an efficient container service, but in terms of a dedicated container service the transitional funding that we talk about, which is \$11 million, would see a vessel call at Tasmania once every 18 days.

If we wanted to have a weekly service the start-up transitional funding

would be double that amount, and why I have said it really is up to Tasmania what sort of service it wants, but the proposal, scenario planning, that I'm talking about has been based on an 18-day turnaround, 18-day port call.

**MS CHESTER:** Is that one or two ports?

**MR GOZZI (TEG):** That would be Bell Bay or where it's directed to, but we would see Bell Bay as being the logical port.

**MR QUINLIVAN:** To one point in Asia?

**MR GOZZI (TEG):** It would hub in Hong Kong.

**MR QUINLIVAN:** To Hong Kong?

**MR GOZZI (TEG):** Yes, and then distribute Hong Kong, or it might hub in Shanghai, but yes, it would be either Hong Kong or Shanghai.

**MS CHESTER:** I didn't quite catch it, sorry, earlier. The parent company of Swire Shipping?

**MR GOZZI (TEG):** It's the China Navigation Company.

**MS CHESTER:** Thank you.

**MR GOZZI (TEG):** Which is also part of the Swire Group.

**MS CHESTER:** So there is already in place with Swire, I understand, this one per month bulk shipping service to Bell Bay?

**MR GOZZI (TEG):** Yes.

**MS CHESTER:** Was that negotiated by your group or was that negotiated by the commodity exporters - - -

**MR GOZZI (TEG):** That was negotiated by Rio Tinto. I guess it was fortuitous that the contract that Rio had with the previous shipper had lapsed. Swire had previously provided bulk services and, as has been acknowledged by Rio, Ray Mostogl, who is general manager of Rio. It builds on the sort of discussion that we have been having with Swire about providing a container service, but we can't claim anything more than being party to some of the earlier discussions about getting Swire engaged in the process of providing a container, a bulk service.

**MS CHESTER:** Obviously, Swire were working through the commercial



matrix of this from their perspective. What sort of volumes would you need to commit to?

**MR GOZZI (TEG):** We think the break-even point is a balanced trade of export and import, and that balanced trade would probably take about three years to achieve, which would be round about the 30,000 out and probably about 15,000 in, which would see a break-even to - a sustainability thing.

**MS CHESTER:** And that again from one port?

**MR GOZZI (TEG):** Yes, from one port. I mean, look, if we said Hobart or both ports, it would just simply - it's doable, but it just adds to the cost, so what we are looking at here is a start-up service which we think is sustainable for exporters once every 18 days, but if we want to do it once every week, then we could have that. one port would cost us double, \$22 million start-up.

**MS CHESTER:** You referred this subsidy amount over a three-year period, \$11 million. Is that an annual figure?

**MR GOZZI (TEG):** \$11 million for three years. We think three years would allow time for freight to migrate back to the international ships would also allow certainty in discussions with importers. I can indicate that Swire earlier on in our discussions did approach some major importers into Australia about bringing freight directly to Hobart. Whilst there was interest in utilising Swire service, there was no capacity to make any commitment because there was no certainty. We think that once the service was up and running and we could promise certainty about the ship being on line, then we could grow the import volumes as well.

I'm not a shipping expert, but I take very much on board Swire's comments that to be sustainable, it doesn't matter who it is, it's not just a case of going out, it's also a case of bringing stuff in, and they have undertaken to negotiate volumes in, and they have undertaken to reposition empty containers and they have also said they are happy to be as innovative as they can be, but it's a case of saying, well, when do you want to start this service? How do you start it and over what period of time, and will Tasmania foot the bill for the transitional cost of doing that?

**MS CHESTER:** So from their perspective Swire have suggested that once you hit the 47,000 of international TEUs, with the combination of the imports and the exports - - -

**MR GOZZI (TEG):** We would be sustainable.

**MS CHESTER:** --- it would be commercially viable service for them to

provide once every 18 days, an international container service?

**MR GOZZI (TEG):** That's the indications that we have, yes.

**MS CHESTER:** So in the discussions and negotiations that you had with Swire to date, was it their suggestion to have this transitional assistance arrangement?

**MR GOZZI (TEG):** I guess we came to the conclusion that we couldn't restart a direct international service without some contribution towards the cost, and we asked Swire what they thought that cost would be. The scenarios that they provided had a range of costs. The more time it takes to do the loop, the less amount of money, so we thought that in terms of the needs of exporters an 18-day cycle would be about it, and their costings to us were about \$11 million. That's where the \$11 million came from. They always said that they are prepared to justify their costs on an open-book policy and if there are other efficiencies and innovations that can be brought to the service, then we would reap the benefit of that, but on their calculations in terms of reposal had been discussed, that was the figure that they came up with.

**MS CHESTER:** So that \$11 million, sorry, if I can clarify the point, \$11 million is per annum figure over three years, so it would be \$33 million - - -

**MR GOZZI (TEG):** It's 33 million for three years.

**MS CHESTER:** --- over a three-year period. What does the represent as a percentage of the potential, effectively the volumes and the freight rates, so what percentage of Swire's revenues would that represent?

**MR GOZZI (TEG):** Look, I don't know. I just don't know what the overall - - -

**MS CHESTER:** What on-average freight rate would you be looking at for that service to be provided?

**MR GOZZI (TEG):** We haven't actually worked out what the freight rate would be, except to say that it would be cheaper than what the current rate is.

**MS CHESTER:** Okay. You touched on before infrastructure investment that would be required at the port, this is at the Bell Bay port. What infrastructure investment would be required for this service to be operated, and what sort of order of magnitude of cost would be - - -

**MR GOZZI (TEG):** Nothing at the moment. All I'm saying is there is no

infrastructure requirement at the moment to commence an international service. The infrastructure work that I'm alluding to is to accommodate the growth in containers over the next 12, 15 years, and the proposals that have gone to Infrastructure Australia up to as recently as 2011 I think it is, probably the last one, talk about extending the wharf and redesigning certain aspects of Bell Bay to accommodate that growth. That was proposed to Infrastructure Australia to be at a capital cost in 2011 dollars of \$150 million, and what we have proposed is that that infrastructure be phased over a period of, say, three years, \$50 million per annum, to get the port ready for that sort of expansion, for that container growth which I referred to just a little while ago.

**MS CHESTER:** Okay, so when would the infrastructure investment commence then?

**MR GOZZI (TEG):** We would say the sooner the better. To generate the economic development that I talked about in the region, this would be an infrastructure project that fits the bill. It's a requirement based on BITRE data. It engages the community. It provides a shipping service that can utilise existing facilities and create shipping competition. There are all those sort of factors coming together.

**MS CHESTER:** Who was it who nominated Bell Bay for the port for this container service to be serviced from?

**MR GOZZI (TEG):** Who nominated the port?

**MS CHESTER:** Yes.

**MR GOZZI (TEG):** Up to about 2012 the Tasmanian government, Tasports, all thought that the expansion to accommodate exports should be at Bell Bay and the rationale was that Bell Bay had the capacity to expand without encroaching onto - it had the capacity without infringing on the CBD and it had the room to efficiently operate a container service.

Port specialisation was really the driver for Burnie dealing with bulk commodities and Bell Bay dealing with containers. That has got lost probably because of the Deegan Report in 2012. I think the Deegan Report had a number of findings which we had some real difficulty with, including that Tasmania would never, ever see the return of international shipping. I don't know to what extent that influenced the thinking of the then minister for infrastructure, I don't know the extent that it influenced the Tasmanian government, but from that point onwards the Bell Bay option went off the agenda.

What I'm trying to point out to you is that that's wrong thinking given the

extrapolation of container growth that's forecast. There's no way that that growth on that data that I have talked about can be accommodated at Burnie. It just doesn't stack up. What I'm saying is to make Tasmania ready for what I believe to be sound projections, that work should really start now - or it could be deferred progressively but why defer it if it needs to be done? Today's dollar is probably better than 2020 dollars or 2018 dollars.

**MS CHESTER:** No, I was just conscious that, looking at the current figures for the container traffic, 90 per cent of that traffic is currently going through Devonport and Burnie, so you would be proposing that this 37,000 would be redirected through Bell Bay - - -

**MR GOZZI (TEG):** Effectively up to 2011 that traffic went through Bell Bay anyway, so the argument that somehow there would be a loss - it's only something that happened because AAA pulled out, and the reason AAA pulled out - again it's something I meant to cover; it's covered in the MMC Link report - was that they had a vessel that had problems, they had docking problems in Melbourne and they became uncompetitive, and the scheduling became unreliable so exporters couldn't rely on the service, so they had no choice other than to make changes.

When Toll pulled out as a consequence of the joint venture with ANL, it's quite wrong for the government to have said that shippers followed - or the market determined that Burnie would be the port. The fact is there was no damn ship in Bell Bay so the market had no choice other than to follow the only option that they had and that was to get onto transshipping by Burnie to Melbourne.

You asked me about the rates. Logically, putting stuff on one port, taking it to another port, taking it off, taking it then to a holding area, reconsigning it to a ship that's going - that handling alone, you can see that that cost is quite significant. To put it on a dedicated ship here and get it to where it needs to go is a lot more efficient and cheaper.

**MS CHESTER:** Have you had an opportunity yet to discuss this opportunity and the implications it has for Bell Bay with Tasports given that my understanding is at the moment that they're in the process of developing a medium to longer-term port strategy for Tasmania?

**MR GOZZI (TEG):** No, we haven't, apart from these responses and the campaign that we have had with the Tasmanian government. We haven't actually taken it any further with Tasports at all. Tasports were - and I did make those observations and quotes. Tasports were totally on board with the intermodal expansion of Bell Bay up to about 2011 and a lot of businesses in fact followed the lead and established in that area because of the transport that

they thought they were going to have. As I said, it's only since 2012 and 13 that the whole focus of the debate changed and, as I say, I think the focus has changed based on incorrect extrapolations of what Tasmania freight effort will be in the future.

**MS CHESTER:** With respect to the entire service that Swire are contemplating, obviously there's two streams to it: the bulk services that will continue and that have already been negotiated locally with Rio Tinto, and then the regular container service. Is Swire sort of keeping those two services on a stand alone basis in terms of commercial - - -

**MR GOZZI (TEG):** Yes. The Asia Pacific Australia, APA Service as it was called, which is a bulk service, is not connected with this at all so if the container option doesn't float, then that doesn't prejudice anything at all as far as the APA Service is concerned.

**MS CHESTER:** Thank you. That has been very helpful in terms of us getting a much better understanding of what is being contemplated with Swire on the container side. You touched on before the draft recommendations in our report.

**MR GOZZI (TEG):** Yes.

**MS CHESTER:** Am I right to say that overall the Tasmanian Exporters Group is supportive of those draft recommendations, or are there any that you would like to discuss with us now or raise any comments?

**MR GOZZI (TEG):** Yes, just a couple of things there. Recommendation 14 - also, just while I'm looking at that cabotage, we would certainly say that there should be an urgent review of cabotage laws, which would also support volume because if those international ships could call at other ports not only does it introduce further coastal shipping competition, but also offers opportunity to onload volume back out of Australia, so we certainly support that. I think the stocktake makes a lot of good sense. In draft recommendation 14 you talk about a comprehensive long-term integrated freight strategy for Tasmania, and I suppose what I was talking about in terms of volume increase, and in every case BITRE has got it right in terms of their projections of volume increase. It seems to me that a long-term freight strategy really does also need to look at port infrastructure, and it is in that context that we would say whilst Bell Bay is ready now for international shipping in terms of long-term. The infrastructure Australia proposes that has been put forward and supported by the Tasmanian government really should be activated, if that makes sense.

**MS CHESTER:** So the infrastructure that you're talking about would be for one international container service on a regular basis once every 18 days, and

then the growth on top of that.

**MR GOZZI (TEG):** Yes. The infrastructure I'm talking about is the actual expansion of the Bell Bay wharf.

**MS CHESTER:** But to meet the requirements of that service.

**MR GOZZI (TEG):** No. What I'm saying is that there is current capacity - Bell Bay port as it currently stands can handle all international containers without any work at all. What I'm saying though is that to handle future volumes, there needs to be expansion of the Bell Bay facility, and I'm saying that expansion could really commence as soon as possible in accordance with what has been put to Infrastructure Australia previously.

**MS CHESTER:** Just one other point of clarification if I could. You referenced before a survey that had gone out to Tasmania exporters seeking their interest in what sort of volume they thought they could commit to if such an international container service was to resume by Bell Bay.

**MR GOZZI (TEG):** Yes.

**MS CHESTER:** Can I just understand status of that, what sort of question was put to them, and was it once every 18 days to one port - - -

**MR GOZZI (TEG):** No. It stemmed from our discussions with the Tasmanian government, with the relevant minister who said, "Well, I need to be satisfied that the service will actually be used," and that triggered a letter to various international exporters to ask them whether or not they would utilise a shipping service if it was introduced and their response was that yes, they would, and that response was communicated to the minister at the time.

**MS CHESTER:** So it was just high level in terms of a potential additional shipping service - - -

**MR GOZZI (TEG):** Yes: "Would you use it?" and "Subject to commercial reality, yes, we would."

**MR QUINLIVAN:** And their assumption about rates was they would be competitive or something like that.

**MR GOZZI (TEG):** Their assumption was that rates would be competitive and in fact cheaper than what they are currently doing, yes.

**MS CHESTER:** And it would be a regular service, once every couple of weeks.

**MR GOZZI (TEG):** Yes, that's it.

**MS CHESTER:** Thank you. Did you have any other comments you would like to make this afternoon?

**MR GOZZI (TEG):** Just to reiterate that it's worth very seriously for the Commission to contemplate a transitional funding model as opposed to an ongoing recurrent cost to the TEFS by simply putting everything through the Port of Melbourne. In saying that, we certainly support that international exporters should be compensated until such time as an international ship could be put back on line.

**MS CHESTER:** Thank you very much for attending and for your time and obviously your strong interest in this issue and topic area.

**MR GOZZI (TEG):** Thank you very much.

**MS CHESTER:** Ladies and gentlemen, that concludes our hearings for this afternoon and we will resume our public hearings in Hobart tomorrow morning at 8.45 am. Thank you very much for your attendance.

AT 5.04 PM THE INQUIRY WAS ADJOURNED UNTIL  
WEDNESDAY, 5 FEBRUARY 2014