



**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 WEDNESDAY, 5 FEBRUARY 2014 AT 8.48 AM**

**Continued from 4/2/14**

## INDEX

	<u>Page</u>
<b>PETER BROHIER</b> <b>JOHN JONES</b>	<b>153-164</b>
<b>JOHN LIVERMORE</b>	<b>165-173</b>
<b>RICHARD JOHN BURGESS</b>	<b>174-186</b>
<b>WINEMAKING TASMANIA</b> <b>JOHN BARKER</b>	<b>187-195</b>
<b>HOUSTON'S FARM</b> <b>DAVID NELAN</b> <b>JOHN BARKER</b> <b>ERIC SEIDLER</b>	<b>196-207</b>
<b>NATIONAL SEA HIGHWAY COALITION TASMANIA</b> <b>MICHAEL LARISSEY</b> <b>COLIN HOWLETT</b>	<b>208-217</b>
<b>CAMPERVAN AND MOTORHOME CLUB OF AUSTRALIA</b> <b>DON NAPIER</b>	<b>218-222</b>
<b>INDEPENDENT MEMBER FOR DENISON</b> <b>ANDREW WILKIE</b>	<b>223-233</b>
<b>NEKON PTY LTD</b> <b>ROBERT ROCKEFELLER</b>	<b>234-246</b>

**MS CHESTER:** Well, good morning, ladies and gentlemen, and welcome to the public hearings for the Productivity Commission inquiry into Tasmanian shipping and freight, 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 this inquiry, and I'm joined by my colleague Daryl Quinlivan, head of office from the Productivity Commission.

Just at the outset and for the records I would like to thank the inquiry participants for the timeliness and overall quality of their initial submissions of which we've received over 60 to date. The purpose of this round of hearings is really just to facilitate public scrutiny of the commission's work, and to get comment and feedback on the draft report which we released on 24 January. We commenced our public hearings earlier this week in Melbourne and yesterday in Hobart.

We have a day of hearings today in Hobart and then following today we'll be proceeding to Launceston for two days of public hearings and then to Canberra. We will then be working towards completing our final report, drawing upon the evidence presented at the hearings and in the submissions that we've received from the participants to date. Our final report will be presented to the Government on 7 March. We look forward to the provision of final supplementary submissions from participants and interested parties, and they're due by 7 February.

The final report will be available once released by the Government, which under our act as required can be up to 25 parliamentary sitting days after completion. Just briefly on how we like to conduct our hearings, we like to do them 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 do so to make a brief presentation.

Could I also remind any media that if they are attending today, to make themselves known to commission staff, and please also ensure that you've read through our fact sheet for media representatives and what's required for your involvement in the hearings. Now, participants are not required to take an oath, but to be truthful in their remarks, and participants are also welcome to comment on other submissions that the commission has received.

The transcript that we'll be taking from today will be made available to participants and will also be available to the public on the commission's web site following the hearings. Public submissions are also available on our web site. To comply with the requirements of the 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, you should follow the green exit signs - there's one just at the back of this corridor - and lifts are not to be used.

I'd now like to welcome to the hearings our first participants for this morning, Mr Peter Brohier from the National Sea Highway. If you could just state your name and the organisation that you're representing for the record, and the other gentleman that's with you as well, thank you.

**MR BROHIER:** Thank you, Commissioner. I'm Peter Brohier. I live at 143 Kooyong Road, North Caulfield. I represent myself only in relation to this matter, but I use the term National Sea Highway because it was a term that was spawned by me many years ago. I've been following the Bass Strait issue and initiated a campaign for the Bass Strait Passenger Vehicle Equalisation Scheme about 20 years ago, and I come to this hearing on that basis. With me is John Jones. John is a Tasmanian business person, and I've asked him to help me with some papers and other matters while this conversation with you is taking place. I think John might want to say a little bit more, I don't know.

**MR JONES:** Good morning. John Jones, I live at Kempton. I'm manager acting of Jones Contracting, also director. We employ people and we're sixth generation Tasmanian and feel so strong about the equality or lack of it for Tasmania's future, and I feel very strong in relation to what I'd call the sea highway, and without equality there Tasmania doesn't have a future. Yes, I'm involved in many things, because I'm a true believer in betterment for Tasmania, and it is crucial.

I know there's difficulties and I know there's problems, I've read your reports before. There are problems to overcome I may suggest, because the ultimate aim, unless we have a commonwealth and we have equity, we don't have a future for investment in Tasmania. I've employed up to 135 people. I've exported overseas and I'm dealing with someone in America now. The crucial part to get from here and through our barriers, and especially if you want to say Victoria has, with its port system, has a complete barrier, and I do believe - and I'm also a founder of Rural Alive and Well, and that's anti depression suicide, and I do know the effect and the hundred million dollars (indistinct) lost each year. Why? Because of decisions and failures. I'm here to promote and help Peter and others for the future of all Tasmanians. Thank you.

**MS CHESTER:** Thank you very much. Now, Mr Brohier, thank you very much. We've received two initial submissions from you as I understand it. If you would like to just say what interests were being represented by those two submissions, or was it as yourself as an individual?

**MR BROHIER:** Well, I think it's clear that the representation is really me as an individual. But the other issues are these, that there's been a vast number of people who have supported my campaigns over the years, and I felt that it was important to put a submission forward that reflected their collective will as and when they were part of this process. So it's really my position, but it's my position representing a vast

amount of collective will of the Tasmanian people and Victorians in support of this, and I propose to hand up documents that will reflect that. But at this stage you can take it as my view only. But it's in summation reflective of many major campaigns that have been run for years to get even the Bass Strait Passenger Vehicle Equalisation Scheme in place.

**MS CHESTER:** Okay. Thank you very much, that's helpful. Well, look, before we get into some questions that we'd like to raise with you this morning, would you like to make any brief opening comments?

**MR BROHIER:** Yes, I'm happy to do that. Do you know at school I really hated history, but I know have grown to appreciate its importance, and I've grown to appreciate it this way, that the colonies in Australia were connected by the great sea lanes of the world, and those sea lanes connected the colonies. Now, when Tasmania federated, it federated for security purposes, but it also - or I should say the colony of Hobart federated for security purposes with the other colonies.

But it also federated to develop integrated economy through the movement of people and freight, and that was the aim of this federation, and what has happened since then is the other states have very nicely connected themselves with road and rail across deserts, across mountain ranges and across rivers, and the link to Tasmania has gone backwards as a result. So the concept of the national sea highway that we brought to politicians across this country was that the same linkages, but using shipping, should apply to this state as they do effectively through road and rail between other states.

This is the shortest interstate inter capital route in this country, it ought to be fixed and it ought to be fixed properly. So I'd argue that all people, all vehicles and all freight should be covered by an Equalisation Scheme. It should be comprehensive in the same way as the road system (indistinct) between Victoria and New South Wales is concerned. I believe there's two punts in existence, and those punts provide that link between those two states. The same should apply between Victoria and Tasmania.

We see our arguments as economically dry. The Commonwealth is required to deliver that outcome between other states, let it do so between these states. We were extraordinarily successful in 1996 in getting both Prime Minister Keating and John Howard to accept low passenger fares and low vehicle fares crossing Bass Strait. The Coalition announced a Tasmanian package. I propose to give you a copy of that package in writing so you're aware of it. But it announced that Bass Strait was to be part of the National Highway.

That's our political reality. The bureaucratic reality in this matter is quite different. It seems to have turned a poor, economically dry, equalisation scheme into

something quite different, into a subsidy, and we're really here not to ask this commission to remake policy, we're asking this commission to stop its erosion. To stop it being eroded into something else that it wasn't. We've got proposals that turn our scheme into a subsidy, unspecified subsidy.

We believe the best way is to develop what we were promised and (indistinct) we went to the Australian public to have a Bass Strait Passenger Vehicle Equalisation Scheme funded, and they funded it. Parties went to their national conferences, the Liberal Party, the National Party, and got support for this. We got this scheme in place. We don't want it said to be something else other than equalisation. We believe it should be comprehensive equalisation.

We don't want suggestions that it ought to be eroded by removal of one element or the other, such as southbound or northbound. We want it to cover effectively people. The Bass Strait Passenger Vehicle Equalisation Scheme was designed to equalise the driver and the car, and then to have competition come in to drive passenger fares down. Now, that competition didn't come in, and what has happened in the meantime is this scheme, which is still called equalisation, is not delivering equalisation. We object to that. We believe that agencies of the Commonwealth, including this commission, should be affirmative of the position and the mandates of the people of Australia and their money that has gone out to Bass Strait. We asked them for their money to go into Bass Strait for equalisation for this state in accordance with a fair principle, and we want that principle maintained, not subsidies for education and everything else.

This was quarantined from other government funding for Tasmania when this originally announced, and this was special money to deliver a national infrastructure link to Tasmania. At one stage it was supported by Victoria. I have a letter here showing that Victoria saw this matter as a strategically important corridor. The words - this was written in 2003:

The Victorian government's submission on Auslink, however, recognises that Melbourne to Hobart route is a national strategic corridor which would meet objectives of Auslink.

It's not a Tasmanian issue. I just go to a media release by Jim Bacon. When we took this matter to Canberra, and I don't know if I have got a date, but it's 1995. August 1995 is one date that I have here, but here is Jim Bacon:

Peter Brohier, chairman of the committee for Bass Strait Transport Equality, who was spearheading the campaign, welcomed the TTLTC support saying that every section of industry, commerce and the union movement, and all equal parties, now back the campaign. For further information contact Jim Bacon. Under the project Bass Strait would be

treated as part of the national highway system with basic sea travel subsidised to the level of car travel between the mainland states.

So really this was an enormously well supported position, and I might just read a few little excerpts from the Tasmanian package which has some relevance too, and this, I might say, is the political reality of this:

The federal government has special responsibility to achieve equality for Tasmanians in developing opportunities for their state. The Coalition accepts this responsibility and the Government will implement the initiatives detailed in the Tasmanian package. The Tasmanian sea highway, the transport disadvantage posed by Bass Strait is the single most serious impediment to the growth in jobs, investment and population for Tasmania.

He goes on to say:

The Coalition will work with the Tasmanian government to promote competitive and efficient daily vehicle and passenger services across Bass Strait.

It goes further, "The scheme will at last recognise Bass Strait as part of the national highway." Then it gives some forward cost estimates which were far greater than what was taken up. It says, "It's an extension of the fair and equitable and proven freight equalisation scheme." It goes on to say, "The scheme will be reviewed annually by the Bureau of Transport Economics and Communication Economics to maintain equity." So that the processes were in place. The concern was also raised that this was not to be a subsidy for Tasmania. If I can see that here. It was not to be a subsidy for Tasmania. I'll give you the actual documents at some stage but I can't quite read it here, and then it had provisions to make sure that the scheme value wouldn't be eroded.

So, Commissioners, we got in place an equalisation scheme. Now, I notice that in your report you cover a lot of documents. Those documents haven't referred to our documents. There is about, I think, it's two metres of documents dealing with this Bass Strait campaign based upon equity, and you perhaps weren't to know that, but the reality is this was a massive united campaign for that. That was eroded and this notion not offered - the infrastructure that's important to it, and the money turned into subsidies, and erosion of southbound instead of (indistinct) on this equalisation scheme, we would have something that will make our private enterprise and our public activities lack critical mass, lack the ability to use that infrastructure.

We will see something else, a new animal being created, and we don't want to see erosion and erosion and erosion of a scheme that has such wide support. This

scheme didn't come from the Government. It wasn't a government scheme. It came from private sector involvement and the private sector asked the Government of the day, and two political leaders, to support us. They did. We want that support to continue. We want it to be built upon. We want this nation to enjoy that. It's not Tasmania. It's not a subsidy. It's the same linkages that you have given everyone else, and we want this commission to be able to build that. So they're my initial comments.

**MS CHESTER:** Thank you very much for those opening comments. We might just turn to each of the respective schemes first. So if we look at initially the Bass Strait Passenger Vehicle Equalisation Scheme. It would be good to get your comments and your views on two issues, I think, that you have raised. One is the coverage of the scheme as it is today, and then secondly, where perhaps the benefit of that support is going, given, as you pointed out, there's no competition for the provision of those services with the TT-Line being the sole provider. So if we turn to maybe the first issue, your comments or your views on the coverage of the Bass Strait Passenger Vehicle Equalisation Scheme.

**MR BROHIER:** Yes, sure. The Bass Strait scheme wasn't designed, we believe, to offer a peak hour reduced price car. That's the most effective way that an operator could use that scheme because it results in two masters; the Commonwealth and the traveller, and if I was the operator I wouldn't do anything about that, but that's not in the spirit, we think, of equalisation. Equalisation should be a low passenger fare to allow people to keep their car at home and save the Commonwealth the amount of \$198 or \$9 each way. That should be in place. That provides the equivalent of a bus link.

The second proposal should be an inclusive car and passenger fare based on the formula, updated formula, of course, that was used in the initial ministerial directives of a two-year-old Magna crossing Bass Strait, and I think it was something like 40 cents a kilometre then. It's probably a bit more than that now, maybe 60 cents a kilometre, and that should cover the car and its passengers. Now, it shouldn't cover for hotel accommodation on the ferry but it should be basic accommodation, basic crossing the Bass Strait. If this Bass Strait Passenger Vehicle Equalisation Scheme, as it was called, I think, the Bass Strait Passenger Equalisation Scheme in the first place, that scheme should be covering the movement of people.

It's people that are needed, not cars, and it's not about the accommodation sector. We want to see it come back to cover the movement of all types of people; encourage the most efficient use of the Bass Strait scheme for the passenger. It was 3.3 passengers per vehicle in the past. It is now, I think, 1.9 according to your report. We want it brought back and we want the focus of that scheme to not be just on leisure travellers, Ten Days on the Island and supporting the Hawks Football Club. We want it to be a basic transport scheme, not a tourism scheme, that covers the



wider definition of tourism and which are the magnet of people currently across Bass Strait.

Apparently the scheme was supposed to be for people who want accommodation and jobs from interstate, so we want it brought back to what reality is, a highway equivalent, a most basic punt would take everyone crossing between two highways. We want the scheme to reflect the equivalent of a punt across there. We don't want that size but we want the equivalent of that, and we need to connect the billions of dollars of infrastructure on both sides of Bass Strait. We have public infrastructure, we have private infrastructure, and if Bass Strait were to operate that way, we would say it to be working. The only reason it's not working is people have started to turn this issue into a subsidy, and turning it into a subsidy then you have a problem with hire car rates and everything else. Keep it directly as a highway, make everyone else compete against surface travel. There's not a problem with that. That occurs in every interstate, inter-capital highway across this nation. Why not between Victoria or Melbourne and Hobart? So that's our aim. I'd like to see a scheme do that. That's on the coverage issue.

Where is the scheme going, I think was the second point. Well, I think it's going in a way that is destroying infrastructure and (indistinct) something else. We want a better infrastructure. If the Prime Minister wants to be an infrastructure Prime Minister, this is his chance to connect Victoria and Tasmania with infrastructure. It's shipping infrastructure, but it must be shipping infrastructure that delivers highway equivalence, and that's a Commonwealth responsibility. They've offered it to us, and we've asked you to review why and what has gone wrong here.

Why have certain interest groups changed the emphasis of this Bass Strait scheme into something that it really wasn't. We (indistinct) got the national support for Bass Strait for a multi-billion dollar scheme if it had been something about supporting an accommodation sector. Only it's not about the accommodation sector. Your paper refers to it. It's about real hard give us the highway and let Tasmania stand on its own two feet. That's why we're concerned about you eroding it. So we don't want an erosion of that scheme. We want it built upon. So cover people, cover all the vehicles, including ancillary vehicles, and cover all freight.

If you don't cover southbound freight, for example - I'm sorry, I'm diverting from your original point, but I just might mention this on southbound freight. If we don't cover it and we have an international service that comes into the state, international suppliers of consumables may get their access into Tasmania, but a mainland supplier of the same consumable won't be able to get that consumable down into the Tasmanian market at equalised cost, whereas he could get it anywhere else. So I'm sorry, I just did divert, but I just wanted to get that point in before I forget it.

**MS CHESTER:** No. No, that's absolutely fine. So as I understand it then, from your perspective the Bass Strait Passenger Vehicle Equalisation Scheme, you'd like it to be extended to passengers, as well as passengers accompanying vehicles.

**MR BROHIER:** Yes, but the scheme wasn't intended that way. It was extended to driver and car and with competition to come in to push the passenger fare down. If you can't get competition into Bass Strait intervene, and that's why I like the idea of actually putting the whole thing out to tender, or coming to an agreement. I convinced Tony Rundle to introduce a low passenger fare during winter, and all the sales were - or all the fares were sold. The reality is he did it by negotiating with TT-Line I understand. So all sorts of things can be negotiated.

But Bass Strait has surplus capacity. Those ferries are operating less than half capacity, and only sometimes - most of the time one sailing a day. So the reality is we have the opportunity of opening up that corridor right now before this report is finished - this Productivity report is finished. We have the opportunity. If the Federal Government took that opportunity of opening up that corridor, they could start changing the face of the Tasmanian economy today.

If you think that people can fly into this state, don't think so because go to the TT-Line web site, go to the ads that are currently showing. TT-Line is suggesting that the cost of flying has to have lots of add-ons, and the lots of add-ons is the cost of travel each end. So the reality is if air is looking expensive, and if sea is looking expensive because there's not even a fare schedule for sea, the reality is the expense of coming to Tasmania is driving people to other states and not across this ditch.

Now, there was a \$400,000 study, visitor access study, and it found that it was price and capacity that were the major determinants of crossing Bass Strait by sea. Now, if that's the case, there's plenty of capacity. We've got to get consistent prices because we just don't want to see a tourism venture here. What we want to see is a quantum movement of the demand curves outwards for every activity across this state, and you can do it by opening up a region that hasn't been opened up for many, many years. That's what we want to see.

**MS CHESTER:** Thank you for those comments and feedback. That's very helpful. I think one of the issues, and we do cover it in our draft report, is the switch between passengers - individuals travelling via Bass Strait on TT-Line or on a ship versus coming to Tasmania by air. With the entrance of two low-cost carriers and the price of airfares to and from Tasmania over the past seven or eight years dropping dramatically, you have seen an increase in passengers coming to Tasmania, but they've chosen to come through the lower cost means of air travel versus the TT-Line service.

**MR BROHIER:** Sure. So if you deal with that, you might wonder what ferry

services across the rest of this world do with discount fares. I'm sure fares have come down across the world, but we still have ferry services in Europe and other places that perform a function. If low fares are attractive for air, why shouldn't they be attractive for sea, and that \$400,000 study suggests that. So the reality is you need both. Just imagine Canberra, for example, without - with just air services. Let's cut the roads. We'd save a lot of money. Cut the roads to Canberra and just let Canberra survive on air, and we won't give people the certainty of all-year certain fares on roads, or access costs on roads, and I'll tell you something, the day we announced that the day would be that Canberra would die, and the reality is this, Tasmania needs to have air against sea.

Now, you could leave very early in the morning and get an air flight that might be cheap, but most times air flight isn't always cheap and the reality is once you pay for parking, you pay for access, you don't have a car at the other end. It's fine for some business travellers that the Commonwealth picks up the tab, but the reality is there's nothing like being able to get onto a ferry with your own car cheaply, maybe \$60 a person including, say, the car and the - and maybe if there were four people per car, the reality is you might even struggle to - you might even go and get four people in the car, put them in there, get over for \$60. You might load the ute with your trades equipment and go and work on the other side of the ditch. These are the things.

Surface travel provides a function, and we're talking about a very short route here. We're not talking Melbourne to Perth or Melbourne to Darwin. We're talking about an opportunity of what ferries do and punts do around the world: move people, vehicles and freight, and the more efficiently we can do that - there's no downside to this because if people don't like it, they won't use it. So you put in a highway and they fund it and people don't want it, they'll fly. What have you lost? You just haven't spent any more.

**MS CHESTER:** So turning then to the TFES scheme, the Tasmanian Freight Equalisation Scheme, I take it from your comments that the feedback that you would have for us is that you would like to see the southbound eligibility remain in place.

**MR BROHIER:** I'll put it this way: if we took southbound off the Hume Highway today, you wouldn't dare. You wouldn't dare. If you took people out of cars, you wouldn't dare. You see a highway and a punt need to carry everybody consistent with the billions spent on the other side of the ditch. Now, we need that coverage for everybody, and it's affordable, and if you think it isn't affordable, I mean there seems to be an unwritten sort of invisible hand saying you can't spend money here. It's almost like a multi-billion dollar vein of gold, and you can't afford the mine shaft to get to it. Course you can afford the mine shaft to get to it. We can afford this. There's all sort of ways that schemes like this can be introduced: progressively, immediately. Lots of ways of doing this, and we need to cover the lot. We need to

have that principle. How can you have a highway, a national highway, that doesn't cover things? You can't go that way. If you start to go that way you start to erode equalisation and then you end up with some sort of subsidy for regional Australia. This is not regional Australia really. It's a state of the Commonwealth, and it's a state of the Commonwealth that is entitled to have the links. Why use the word Commonwealth, two words. I think John Jones referred to that. It's got to be a Commonwealth that's integrated. Why not integrate economies? It makes sense. It made sense then and it makes sense now.

So cover the lot for freight, and international exports - I've heard so much about WTO problems and all the rest of it. You don't have WTO problems on the Hume Highway. That allows people to establish a factory in Albury to send their goods to the port of Melbourne. What's the difference if there was a point in between or a bridge in between? This is just a longer punt and a longer bridge. The problem is how you structure these schemes. TFES has been structured in such a way that it goes to the shipper.

The reality is go and do a deal with the operators, if you need to, say to the operator, "What's it going to cost to deliver the outcome across Bass Strait?" and you've put that in your alternative use and I thank you for doing that but it shouldn't be on eligible goods; it should be on the whole bang lot, everything, because the highways take everything. The day you remove it from the Hume Highway or you remove it from the (indistinct) interstate highways I will vary my view, but the day you don't, and you don't now, give them everything, and this state deserves it. I think it was the second largest economy when the whole thing started.

**MS CHESTER:** Thank you very much for appearing here this morning and thank you very much for your comments and feedback. It's been very helpful, an important supplement to the two initial submissions that you provided to the commission as part of our inquiry. Is there anything else you would like to comment on that you haven't had an opportunity to this morning?

**MR BROHIER (NSH):** Could I say that I've put a written response into your paper. You should have it by now. I need to give an annotated version of your draft as well to accompany it, so I will do that, but in closing I would say this: the equalisation scheme that we asked for was not a subsidy. The subsidy model that appears to have emerged without mandate fits Hayman Island whether you come by sea or you come by air. It seems to suit the accommodation industry in this state but it doesn't suit a broadbased state economy.

I'm not against the accommodation sector. If they want to take benefits out of a highway there's no problem with that but the reality is that all should be able to take the benefits and the highway will be winners. You don't have to pick them, Canberra doesn't have to pick them. The equalisation model, which is the national

sea highway model, fits the federation of the states and the concept behind that of integrating economies.

We base our claims on the coalition and the mandate promises that have been offered to this nation. They weren't offered lightly. They were offered with widespread support from people like even Elizabeth Proust in her chair at Nestle. It was, I think at one stage, the CEO of the City of Melbourne. The reality is we went with that support. We went with interstate support to Canberra. We don't want a subsidy that was so - an equalisation scheme that was so hard, fought for, to be diminished. The subsidy model we have at the moment is not transparent. I think you've said that. It needs to be transparent.

As far as costs are concerned I believe a subsidy model could cost more than a national sea highway model or an equalisation model in the end. We could be paying and paying and paying for subsidies that aren't transparent. That could be the costly model and then the drip feed from the accommodation sector to the rest of the economy is not good enough. It's not good enough to support a state. If that's been going on for the last 15 years or so it's not good enough to support the state, and the economic position of the state is clear from that.

What is clear is this: the equalisation model is to directly benefit people. The biggest sectors of contribution of Gross State Product are the service sectors in Tasmania. They need people. They need low cost consumables because they need southbound equalisation, as all Tasmanians need, but they also need the movement of people, and they need direct movement of people, not a flow-on benefit from one small sector. They need to have an appropriate link that drives a whole state, and Tasmania needs to have its exports recognised as though they were just part of the operation of a punt.

In closing I say you have a perfectly well-defined model. It was defined in the Tasmanian package. All you have to do is enhance that to cover all freight crossing Bass Strait and ancillary vehicles and you will deliver and allow this (indistinct) to deliver to this nation a connecting link between the states of Victoria and Tasmania that's economically dry. It's as sound as you could get and it doesn't need variation.

What it needs is clever ways of implementing it, and the Productivity Commission is well funded, extremely well funded to be able to get these answers and get these answers quickly as to how best to do that as efficiently as possible and to get Tasmania the same benefits as every other economy in this country, consistent with the Commonwealth, consistent with the intention of federation, and if you don't and if this government does not, it hasn't done its job. Clive Palmer is also putting ads out talking about national highway connections already on Tasmanian television as we speak. This is not about a political support for one party or the other. The issue will be in the public electorate very, very shortly, and it already is starting to be

that that's the case.

This is the third time it's been there. You've had 20 years to fix it. Even Michael Deegan suggested to Albanese that all freight should be covered as one of the options to Albanese. Deegan was right. Deegan didn't have to report on people; I don't think he did, but the reality is that everything needs to be covered. You have that opportunity. There's nothing stopping you. It's a win-win for everybody including accommodation sectors. All can build on the highway as they do interstate. Do it, do it, win-win-win. We have the answer. Thank you.

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

**MR BROHIER (NSH):** Can I tender those documents?

**MS CHESTER:** Yes, we can take them in.

**MR BROHIER (NSH):** I will need copies to be made of them but I'm sure that could be arranged. Thank you.

**MS CHESTER:** I would like to call up our next participant, Mr John Livermore, to join us.

**MR LIVERMORE:** Peter, you are a tough act to follow. John Livermore, transport consultant, currently editor of *Laws of Australia Transport*, member of the Tasmanian Freight Committee. In my submission, which I will pass in, I put a disclaimer in which is that the submission does not necessarily reflect the view of the Tasmanian Freight Committee or my publishers. I do have two particular points that I might put through, given the time frame.

The submission that I will pass on covers a number of issues that are raised in the information request section of the Product Commission's draft report, so one I've got here is the issue of the freight equalisation scheme and export shipping and the other relates to, what I've cut down as shorthand, the Coastal Trading Act and the issue of competition but that doesn't mean that within the body of the submission I haven't looked at other issues as well, including port connectivity and a rail-road infrastructure, but I think to save time and make sure that I get to the point, I'll deal with that first information, the information of request 1 first.

What drew me into this area particularly, apart from the fact that I've been writing and studying transport law and transport policy since the University of Tasmania set up a transport economics course in 1979 - that course went by the way but it did bring me not only into touch with those who worked in what was then the Tasmania Transport Department but also people who worked in the industry. The background I've had recently has been enriched by contact with people in the Tasmanian Freight Committee.

It's quite clear that from an operator that like Doug Dickenson of Cuthbertson there are problems in relation to freight disadvantage. He doesn't seem to have the problem that some economists have of trying to find out what freight disadvantage is. It's quite clear to him what it is. He is a producer of skins and hides. I'm not sure whether he is actually going to appear before the Productivity Commission but I'll put his 10 cents in.

They export direct to China and they don't have the competitive advantage of a similar Victorian processor. Because the Tasmanian processor is not entitled to \$900 per container payment, this is clearly a disadvantage. The loss of the AAA service from Bell Bay - this is the April 2011 here; I haven't got a current figure - Doug Dickenson argues has cost Cuthbertson an estimated extra \$230,000 annually.

In a letter to Andrew Wilkie in June 2011 he claim the loss of overseas services has doubled shipping costs for local exporters as they now have to pay to get their goods to Melbourne before they can be shipped overseas. He gave an example:

2006 a wharf to wharf freight rate per container was \$1160 compared to \$570 road freight equivalent. On top of this the intermodal costs were more than a hundred dollars per unit. With the depletion of shipping competition, costs have risen in that time.

He also noted, "While there are issues relating to international trade agreements relating to subsidies on export goods, we want to ensure that the Commonwealth government gives equal consideration to Tasmania freight issues as it does on the mainland, for instance, with its large AusLink highway investment."

The end of AAA service has been compounded to Tasmania export shippers because of additional costs, because they have to pay for goods to go through Melbourne before they're shipped overseas. On top of this, to add to this, from July 2012 the Port of Melbourne imposed a charge on port users which DIER estimates is, and this is 2012, to cost Tasmanian exporters \$30 million a year.

Already, last year, I put to the minister, David O'Byrne, that you could challenge this particular port licence fee. The Transport and General Prices Oversight Branch gives advice to the ACCC, assessing it with regulating third party access to essential infrastructure services under the national access regime and undertakes certain price oversight functions. One of TGPO's main roles is to advise on regulation of transport and general infrastructure access in industries with infrastructure or supply chain bottlenecks or limited competition.

This role includes the TGPO assessing proposed access undertakings and arbitrating access disputes in industries such as freight, rail and ports. This is done in the case of bulk wheat export terminals around Australia. Whether or not it's actually worth bringing up before the TGPO, quite clearly the Tasmania government has decided that this is in the too hard basket. It's certainly a good deal cheaper than a possible High Court challenge under the *Hughes v Vale SA* (1955) case where the High Court struck down *R v State Transport Facilities Act* requiring interstate road traffic to pay more than a reasonable sum for the use of its roads as breaching section 92 of the Constitution.

The other aspect that I want to look at is the export leg. The draft report put before us, the Product Commission 2014 draft report, offers extending the northbound component TFES to include all eligible goods shipped from Tasmania to the Port of Melbourne. As I say, and I've already noted, if you referred the port licence fee, the Melbourne Port licence fee, the TPGO, this would be an alternative to extending the TFES to the export leg to Melbourne.

There is another aspect of this that I put in the main body of my submission. Canada may offer a better model for dealing with shipping costs and transport efficiency. Canada has what is termed a short sea shipping policy which covers all



of the Canadian provinces and territories and has extended a multimodal concept involving passenger goods and transport - that's the non-ocean traffic - to the United States and Mexico.

Now, it presents arguably compared to Australia a more rational and national approach to the issue of holding transport costs. The Canada Transportation Act 2001 outlines Canada's national transport policy. It states the objections of a competitive economic and efficient national transport policy. The ways in which these can be achieved under the Act include ensuring that rates do not constitute an undue obstacle to the traffic movement within Canada or its exports, and in addition, the Government and the private sector are required to work together for an integrated transport system.

One of the problems that we have within the TFES, and in fact within particularly state government policies, we do not have a CONUP, coordinated transport policy covering all modes. This has been an issue that has been raised frequently. It was an issue that I raised when I did a public inquiry into the bulk split between Robro Freight in 1992 and since 1992 we're basically no further on. I'll stop there. I'm sure there are some points that you might want to make to me.

**MS CHESTER:** Thank you very much for those opening comments. Just to clarify, you will be providing your written submissions?

**MR LIVERMORE:** I have a written submission here, yes. I went through it last night and dotted the i's, crossed the t's but I'm still responsible for any errors that may be in it.

**MS CHESTER:** Thank you very much. We'll gratefully receive that. Just to clarify, Cuthbertsons are presenting during our public hearings, so we will be hearing from them, I think in Launceston from memory.

**MR LIVERMORE:** Yes.

**MS CHESTER:** You raised a couple of issues in your opening - - -

**MR LIVERMORE:** I have, yes.

**MS CHESTER:** Maybe if we could just run through some questions that we have in regard to that.

**MR LIVERMORE:** Sure, yes.

**MS CHESTER:** The first issue, with respect to the Port of Melbourne licence fee, which we do have some commentary on in our draft report, you seem to be raising

that as an access issue that should be subject to ACCC - - -

**MR LIVERMORE:** Yes.

**MS CHESTER:** Could you just elaborate on how you see that being an access issue as opposed to a licence fee that's a further cost impost on the voyage costs of travel in the Bass Strait.

**MR LIVERMORE:** It does relate to price. It does relate to price, so since it's a pricing issue and it could be regarded as a freight barrier, it's a disadvantage. I don't think there's much argument about that. Having through to go to McCarthy about this for the Port of Melbourne, and I must say he's very accessible and he has provided a great deal of data to the Tasmania to the national freight committee which, quite honestly, has not necessarily come from being available from transport, but I would see this as a matter that simply could be referred to the Transport Pricing Oversight Committee, branch I should say, because it does in fact - this additional impost makes it even more difficult in terms of pricing, so certainly you don't really want to go the section 92 rate, in fact I think the Department of Justice in Tasmania decided this was too hard, and I would agree, but you have got an avenue here which could be used - I mean, I don't have to do anything. I don't have to advise the Government on it. They don't want to know - any operator, any freight operator or shipper could raise this with this particular body.

**MR QUINLIVAN:** Are you aware of the reason that others have not done that?

**MR LIVERMORE:** No. I'm only aware of what the transport pricing body has done in other issues like wheat export pricing.

**MR QUINLIVAN:** But this issue has been around for some time now, and there are lots of affected parties. Presumably, they have thought through the options and chosen not to take it to the ACCC. I'm just curious as to what you know about their reasoning.

**MR LIVERMORE:** I only provide the bullets, someone else has to fire the gun. The Minister had this in February last year when the coordination team were setting up, and it does strike me as an avenue that could be used.

**MS CHESTER:** You have referenced some discussions that you had had with the Port of Melbourne. They have been very helpful in providing you with data. In those discussions around the licence fee did the issue come up of the Essential Services Commission and the oversight powers that they have with respect to - - -

**MR LIVERMORE:** I don't think it has come to the oversight - commission. I remember actually that there was an article by Dr Bruce Felmingham about this last

year, in 2012, when he simply said that the licence fee was simply a grab by the Victorian government. This fee does not go back to the port itself, it goes back into consolidated revenue.

**MS CHESTER:** One of the other areas that you touched in your opening comments was around the mooted option of extending the TFES scheme to all eligible commodities shipped to the Port of Melbourne, which by its very nature would then become exports that hadn't been eligible. In the work that you have done, do you have a sense of the volumes of exports that you think are currently being transferred through the Port of Melbourne that are currently not eligible under the scheme, but would be if that extension were to be made?

**MR LIVERMORE:** I don't have details of these. I would expect organisations like Net Sea represented here and other freight forwarders would have details of exactly what export goods are covered, but I mean at the moment with the AAA service out, exporters have got no option but to cop the licence fee in the Port of Melbourne and exports from Melbourne.

**MS CHESTER:** One other idea that was submitted in evidence to the public hearings yesterday by the Tasmanian Exporters Group, I'm not sure if you're familiar with their proposition. You may be aware that Rio Tinto has entered into a commercial arrangement with Swire Shipping Services to provide a bulk freight service from Bell Bay port.

**MR LIVERMORE:** Yes.

**MS CHESTER:** The idea that was put to us yesterday in submission was that negotiations were under way with Swire Shipping Services to provide a regular international freight containerised service, say once every 18 days from Bell Bay port. When we in our draft report discuss extending the scheme to effectively exports that are being shipped by container to the Port of Melbourne, that's effectively on the premise that containerised ships at the moment do not have access to a regular international service. I would be interested in your views and your comments on the merit of the regular container service from Bell Bay that has been proposed that could be provided by Swire versus extending the scheme to eligible exporters transhipping through the Port of Melbourne.

**MR LIVERMORE:** I have already gone public on this issue because Bob Gozzi, who is the chair of the exporters group, was very critical of Burnie being categorised, certainly by the coordination team, and really the follow up from the Tasmanian government, as the key container port. In my submission, I have noted that the MLC Link report, which was done by Dr Bruce Felmingham, he finds a very strong case for funding, putting investment into port infrastructure, improving rail connection and berthing in Bell Bay as simply a corollary to building up Burnie as a container

port. In my submission I've got details of that report and how it comes out in favour of not bypassing Bell Bay, because currently the cost, as Bob Gozzi would probably mention - producers, operators in Bell Bay having to ship to Burnie; so the Swire solution may help.

In the end, you have got to have a commercial solution, whether or not a \$30 million subsidy, which is proposed by the Tasmanian Liberal Party, would be the sugar on the table, as it were, to bring an international operator in, I don't know. People in the industry know far more about this than I do. I have just kept my ear to the ground as far as I can in relation to policy issues, and in my submission I do mention this issue under port specialisation of whether or not you should simply go for single container port in the north.

**MS CHESTER:** Certainly, what was presented to us yesterday was that Swire would contemplate entering into the service on the basis of, I think it was described, an initial transitional assistance arrangement of \$11 million per annum for three years until the volumes were reached.

**MR LIVERMORE:** Yes.

**MS CHESTER:** I think the volumes that were mooted were around 35,000 TEU. It would be good to get your feedback and commentary in terms of what you would see as a commercially viable service in terms of the freight volumes that would be required, assuming departure from one port in the north.

**MR LIVERMORE:** I will set these out in the submission so, rather than go into detail at this point, I will leave this for the commission to have a look at, but the MLC Link report does actually indicate that with an infrastructure spend, which has been on the table with Infrastructure Australia since 2009, you could improve the TEU capacity of Bell Bay quite substantially, but this is one of the things that has been ongoing for some time. It seems to me that this is all part of a lack of coordinated transport policy on the part of the Government and particularly DIER who (indistinct) and I guess effectively you have got to look at Tasports as well so that - which hasn't really been done. I mean, I notice the Productivity Commission report mentions a uniform pricing system, imports. I don't really want to go into that at this point but obviously there has been a loss in relation to the change of operation. I mean, in the old days or pre-transport, you had a system of port boards that had some degree of representation from users.

There was competition between them, some of it may have turned into the absurdity of who got the biggest Goliath crane and obviously the Merrick report basically put the nail in the coffin of that system, but when you think that New Zealand operates on a system very dissimilar to the one we have got, I think as part of the review of how you run your ports, and this has been hinted in the

coordination team report (indistinct) suggests that perhaps there should be a buying or leasing by port users of port infrastructure. At the moment the money isn't there.

When Tasports was created the Tasmanian government simply put all the funds that those port authorities had into consolidated funds. So if you have got an organisation starved of money, you have to look at either getting money from Infrastructure Australia which is - you know, you have got to put a pretty good case. On the other hand, the possibility of commercial integration, even possibly privatisation. I have got no axe to grind on this one. If anything, I'm a bit of an old-fashioned - look, the Government built the railway across the Nullarbor. You wouldn't get private enterprise do it. Overland telegraph; government funding. The completion of the railway to Darwin; government funding, John Howard. So I recognise that there are some political issues in this but I think when it comes down to it, you have got to be pretty pragmatic. Have I run out of time?

**MS CHESTER:** No, not quite yet.

**MR LIVERMORE (NSH):** Well, I was going to - - -

**MS CHESTER:** I just have one other question.

**MR LIVERMORE:** Yes, sure; yes.

**MS CHESTER:** A lot of the focus obviously of your interest and analysis has been around freight imports.

**MR LIVERMORE:** Yes.

**MS CHESTER:** In your submission do you have any - are you looking at the Bass Strait Passenger Vehicle Equalisation Scheme?

**MR LIVERMORE:** No. I haven't commented on that. I thought given the wide scope of the issues that you're (indistinct) bearing in mind it's a very wide area, I'd just concentrate on some of the areas that I have already done some work on. I have kept on my eye very much on the issue of port connectivity, the role of rail and the role of the Hobart-Burnie corridor. The issue that I would like to raise just quickly is the issue of competition on Bass Strait itself.

The Tasmanian Government Freight Coordination Scheme has already identified the effect of the Coastal Trading - I will give you the whole term - (Revitalising Australian Shipping) Act 2012 which I will refer to as the Coastal Trading Act. The team concluded that its cabotage restrictions were like they have an anti-competitive effect. This impact will be a cost on shipping borne by Tasmanian business. So this issue of competition is actually quite a crucial one.

In 2012 Deputy Prime Minister Warren Truss as Minister for Infrastructure and Regional Development signalled changing of the Coastal Shipping Act and this would involve streamlining the system for temporary licenses to use foreign ships on Australian coastal voyages. The minister expressed a concern of a blow-out in domestic shipping costs because the Coastal Trading Act had tightened cabotage rules that preserve freight routes from one Australian port to another, for Australian flagships. One of the issues cited was that it was now cheaper to ship sugar from Thailand to Melbourne than between Melbourne and Queensland. It was reaching a stage where it was cheaper to ship cement from China to Australia than move it between domestic ports.

The Minister's preference apparently was for Australian flagships supplying the coast in larger numbers than in respect to speciality journeys. The better option was more internationally-flagged vessels making the journey around the Australian coast than have the product simply imported from another part of the world. Various industry leaders, the cement industry CEO, Mark Thompson, said the industry was concerned that the Coastal Trading Act proposal would create a monopoly on coastal shipping for dry bulk freight users that was protected by legislation and room for price gouging could have occurred.

Now, it's possible that modification of the Coastal Trading Act as proposed by the federal minister may have beneficial effects which might reduce freight rates for Australian coastal shipping including services on Bass Strait. The Productivity Commission in 2006 considered barriers to entry into Bass Strait shipping were high, one reason being that there was very little opportunity for a new entrant to gain access to berths or develop additional berths within the Port of Melbourne. That may be less of a problem because we have moved on from 2006, but the issue of barriers to entry in relation to cost and so on and manning costs and so forth are important.

It also identified physical integration between carriers and freight (indistinct) high capital costs without any guaranteed volume and the deterrent imposed by current excess capacity. The Deegan report commented that where freight cost advantage included the need to move goods a short distance by sea, issues regarding the actual monopoly arises especially at exchange ports, potential barriers to entry in capital intensive (indistinct) such as shipping and that where market power exists, at the moment no study has actually grappled with the problem of whether or not there is in fact an exercise of market power between the operators on Bass Strait.

The risks in placing subsidies to supply change - and this is Michael Deegan terms - as some parties are able to exercise significant market power. The presence of multiple operators which has been raised in the draft report - you know, there's mention perhaps we just need two operators. I would have thought the reverse was true. We need more operators. It doesn't rule out market power. Assessing and

correcting the problem are matters for the ACCC. So if there's something that comes out of this I would strongly urge that in fact the issue of competition in Bass Strait shipping be examined by the ACCC and is a major priority.

**MS CHESTER:** Thank you very much for those additional comments. Our first recommendation is that the Government's foreshadowed review of coastal shipping regulations be expedited given the costing (indistinct) that that is potentially having on Tasmania. So thank you very much for appearing this morning and we look forward to receiving your submission.

**MR LIVERMORE:** Thank you very much for the opportunity. Thank you.

**MS CHESTER:** I would like to call up our next participant, Captain Dick Burgess.

**MR BURGESS:** Good morning, commissioners.

**MS CHESTER:** Good morning.

**MR BURGESS:** I should be horizontal but I'm still vertical.

**MS CHESTER:** It's good to see. Thank you very much for attending this morning and presenting to us during these public hearings. If you could just state your name and - - -

**MR BURGESS:** Rank and serial number, I know.

**MS CHESTER:** - - - for the record, that would be very helpful.

**MR BURGESS:** My name is Richard John Burgess, master mariner, ballast and sail. I was elected to the Port of Devonport Marine Board in 1966. It was a public franchise covering three or four municipalities. I topped the poll and I topped the poll in every three-year election they had after that until the Government took over in 2002. We all had a one-year term and I was given another year-term and the minister and rang me and said, "Well, you know, I think you'd better go. You've been here long enough. You know you're going to get the offer for a year. It's okay."

Anyway, the whole point, in that time, I covered about every battle - when I say battle, similar to this, waterfront reforms, like the other reforms. It covered everything and it was a bit like the Gonski report but only better. We had the Nimmo Inquiry. We had that many inquiries, you could fill a book with it. You could fill a house with it. The first one that came up was the Nimmo Inquiry, volumes as long as the table, and in the end of it, they all came up. We had one port, which was Bell Bay. You had two mega ships, one leaving Melbourne, one leaving Tasmania, and that would solve Tasmania's problems.

Now, what's happened since is the Curran Report, the last one out, got down to the stage where there was no - it wasn't people came to talk to you but what they did, they sent them a form to fill it in and so you had these potentially going to a hospital and all these different things, all your charges and what have you, and then the fellow came around and he asked to see your shippers to find out what they thought before, your handling of their business arrangements with - you know, what you find.

In that particular case, Goliath was doing a project to Devonport and they wanted to have a talk to the management and I said, "Well, that can be arranged. I'll give them a ring and tell them you're around and you make an arrangement," and so I



rang the cement works up and Jimmy Evans said, "What do these fellows want?" I said, "I don't know. They're inquiring into the usual set-up and he'd like to have a talk to you." "Well," he said, "I'm leaving work." He said, "I'll leave work early and I'll come around to talk to this fellow," and I said, "You can use our office. All right?" So anyway, I told this commissioner that and he said, "All right." So Jimmy turns up and he says, "You'll have to leave the room," and I said, "I don't mind that," and so what the upshot of it was, the person said to Jim, "What's wrong with this? Like, what's wrong with the port? They're overcharging you," and he said, "No, we get on very well, sport."

Now, I'm going to leave it at that because I've given you a bit of build-up about me. What I came here to tell you was that I'm a bit of a relic, because I've been around ports and ships since I was very young. I went to sea when I was five, on a passenger ship to Tasmania. I had a good spew on the way across with my mother and what have you but anyway, the point is that I do know about the waterfront and all the years that I've been involved in the port fields and managing the ports and planning it, I mixed with everybody and the waterside workers, the agents, all sorts of people, and I knew what I was talking about because I could talk the language.

Sometimes you never knew where I'd be. I could be down the hatch, the bottom of the ship. I could be under the wharf in a boat. I could be everywhere. Everybody knew me but the beauty of it, everybody trusted me and so whatever people told me in private about certain matters that was going on in the waterfront, even in my own organisation, they stayed down there. They didn't go to the board. They stayed with me and I never used anything to my advantage. So going back to the foundations of all this - I've got something wrong with my nose. Must be in here, your Honour.

What happened was when Botany Bay started up, Tasmania was a part of the Botany Bay administration and later, we were cut off. In the latter end of the 1700s, we were cut off and we became a separate little colony. We all know that and what we inherited through the British system was what was known as the Trust Ports and the Trust Ports operated ports in England, all things to do with maritime. They operated examinations for the masters of ship because at one time, there was no certificates. It was serve seven years as an apprentice and it was on the say-so of who whoever was the master. It was really like a trade.

Well, Tasmania was the last colony, if you want to use that word, in the Australian continent that still operated under the trust port system and it was a good system because as time went by, we modified, unlike Hobart, where they had a franchise with shippers, shipowners, exporters and ships. Their franchise was very limited. Our franchise in the north of the state - that's Launceston, Devonport, Burnie and the others (indistinct) was the odd one and the Stanley one. We operated on a municipal franchise, so the same people that would be on the Hobart franchise

were actually on our franchise too but ordinary ratepayers and so we had more of an open franchise.

Now, in Devonport, we were a fairly progressive port when I went there. We had a very good man at our helm. He was an excellent man and he - and we had a board of nine people. Ulverstone went broke because they had no trade and the premier of Tasmania says, "We want you" - "We," the Government, meaning - "We want you to take over the port of Ulverstone and all their debts and whatever and all their equipment and everything like this and take in their area because we haven't got any money to run that place proper." A dead duck, in other words, and I said to the premier, "What are you talking about?" I said, "What do we get out of it," and he said, "Well," he said, "if you broke," he said, "We'll guarantee 3 per cent of your borrowings."

We didn't go broke. We paid off Ulverstone's debt and we gave Ulverstone Marine Board ground back to the people that lived in Ulverstone. The real estate fellow wanted to buy up some of the - you know, the frontages where there's good views and it came to our board and I said, "No, if they - we're only a trustee for that. We don't own that." "We can make money on it," he said. "Yeah, but," I said, "it's not ours. It belongs to Ulverstone. We're only trustees." So I won the day and it goes back and that's where it is today.

Now, getting around to the more modern bits, the problem with all of this freight organisation, this freight this and freight something else, it's about - in Tasmania because we were still working as trust boards, the Governments of Tasmania, the modern governments of the Tasmanian transport departments knew nothing about shipping and when they go to what used to be called the Premiers Conference and the inter-state conferences between states - of course, they call them COAG now but the point is they couldn't talk about shipping because maritime matters in New South Wales was taken over by the Maritime Services Board, which is another government thing like the Tas boards and South Australia is South Australian Marine Board's business and the Port of Melbourne was like a maritime service. It was a big organisation but it was government run. The Government appointed people.

So Tasmania was run by us. We didn't get paid, by the way. We got paid to go to board meetings which we was on committees, certain things. I was on quite a few committees but the thing there was, we did it because we had an interest in the place and we had an interest in the community and the community had an interest in us because they used to vote. Don't you worry about that but these boards where people get paid - like councils, they all get paid - it's not a bad racket. You know, you pick up a few - \$30,000 or something here and you get a free computer. You get this and you get something. It becomes a bit of a profession and you get a lot of people that are put into those things, especially with governments. They appoint people on the

board, mates. The Government changes and the boards change and they put their own blokes in and so a lot of these people on boards of directors, mainly boards, they're perhaps on three, four or five companies. Now, they rely too heavily on their management staff.

In the port of Devonport, we had a management staff too but we used to keep a pretty tight rein on these fellows because they started to grow in their stature. We started off with secretaries. Ours was called secretaries, our managers, and then it grew from secretaries and they became managers and then they became general managers and then they became administrators and then they said the administrators of the various - Burnie, Devonport and Launceston, so why don't we all get together and make one port and have one port. Well, what's the appropriate latitude is coming out of Burnie and came into Bell Bay and came out of Hobart. Devonport had no look in because they want everything in Hobart, they want everything in Bell Bay and they want it in places like that. Now, there was a thing about development.

One of the big catchwords was "over development", the ports are all over-developed. Well, some ports were over-developed but my philosophy in my port as a warden, we were called wardens and when we used to go to conferences in Melbourne, ports conferences, they'd say, "You're gaolers, eh?" I said, "No, we're wardens. We're trustees. Look in the dictionary: warden. We hold the thing in trust. We're not, you know, locking up gaols or anything. We don't get paid, we do it on a voluntary situation."

So anyway, this great thing about the containerisation came in in the 60s; a matter of fact Australia, which most of the rest of the world don't reckon it, Australia was the first country in the world to run a long-distance container service between Melbourne and Fremantle, Huddart Parker had a nice big ship built and they used to run proper containers; but containers in Bass Strait and this, I suppose, to go back to Australia, William (indistinct) used to have little containers about half the size of this table, probably from there down to here, but bigger, and they used to put fish in there, barracuda, which there was plenty around, and they used to split those here and they used to salt - not salt them down but they'd put ice on them and they would be the last thing on board the ship that night before she sailed, so the old (indistinct) or any of the (indistinct) company or other, when they arrived in Melbourne the wharves there where their berths was was just across the road from the old fish market and so there was an overnight service.

Sounds familiar doesn't it. An overnight service with iced fish and they would be on the market next morning; caught today and filleted that day, put into the ice and loaded on the ship and she arrived in Melbourne the next day and because it was deck cargo where it could be first off, that means it got to the market where people would buy. Now, that was another small container. It all started in Tasmania, because we're an island state. Then we got down to the stage where the Government

started to get interested in ports because as I said before, when their bureaucrats went to premiers conferences, (indistinct), blah, blah, they couldn't talk about ships because they knew nothing about it.

So they said, "We should, you know, have something to do with the ships," and then it got to, well, you know, "We should control the ships for New South Wales and all that," and so that this thing came about, well, you should be paying a tax, you should pay taxes. And the Field government of course dreamed up a lot of these ideas that came out of the Whitlam government about mega departments. So you have mega departments, you don't need the secretaries of the department to know anything about the department; as long as they know how to manage people, then you can transfer them from say tourist department right across (indistinct).

I said at the time it's rubbish because the politician in charge of the department or his portfolio doesn't know anything about it basically and he relies heavily on his head of his department, who was the secretary of the department. And so I said to Field, what the hell's the good of a bloke knowing how to administer, then his minister gets up in parliament to take the flak and he asks his secretary and he said, "I don't know. I know something about farming, the farming portfolio, I used to know that, but I don't know anything about wildlife."

So out of that group the ports were greedy, the ports had all this money that we didn't have. We needed this money and the Government said we need the money and so somebody said we'll have port tax, we'll tax them, Field it was and he put a proposition to the ports at our conference in King Island and I was elected after, at that meeting as the president at the time. Now, he said they're going to put this Bill into parliament in six weeks time and so we said "hang on a minute, we've got to talk about this, there's pretty big, heavy ramifications because this so-called tax you're putting on, it's got to be passed on to the industry and the industry don't want any more higher charges."

So the four major ports we had a meeting in our port, my port, and they said, well, "This is no good, people won't stand for it," and I said of course they won't. I said the only way you can collect a tax is we put our port charges, our bills or invoice in and put a bit on the bottom government tax, government impost: tax. Therefore it shows, a bit like the GST, you know what you're paying for freight, because our charges didn't go up and down like yoyos and there's a reason for that I'll explain. That means that people can clearly see it was a government impost.

It was a lot of fiddling around with competition as they say and I mentioned earlier, there's competition between ports. The policy used to be in some ports, that was Burnie, Launceston and Hobart, that if you build a wharf someone will come and use it, and my argument at my board table when I was a warden, when I was a deputy master warden and when I was master warden, that's rubbish, you've got to

have the area to do these things, but you don't spend your money because everything you build may not fit the ship of the future; and it's quite right, that's just exactly what happened.

The first roll-on, roll-off passenger ship, passenger/cargo ship that came into - on the Australian coast was ANL's Princess of Tasmania: absolutely revolutionised the whole coast. In fact, the Union Steam Ship Co and Huddart Parkers who were the joint company called Tasmanian Steamers, when the Tarooma came up for the final survey they said we're not going in the passenger, we're out, and they're going to build little cargo ships to carry whatever cargo she used to carry; and they did, they built this nice little ship.

The ANL of course in those days was chartered. Their charter was they had to operate on an unprofitable run or runs that a commercial shipping company of today wouldn't run on, and the act was structured because the ANL flowed out from the old Australian Shipbuilding Board or the (indistinct) who was building merchant ships and was structured that it couldn't compete with the companies. Because it was government owned and government financed it mustn't - it had a disadvantage on the private companies, so therefore they had to be chartered to them or the shipping companies could charter the ships. So there were certain sized ships built for the North Queensland run and there was others built, bulk carriers and they even had all sorts of carriers.

Finally it went bust as you would know, like the old Billy Hughes line in the 1920s and the reason it went bust is because the militant Maritime Unions, that was the Seamen's Union, and all the other unions, there were all sorts of unions at sea then and on the wharf, they were militants, a left wing union. I use the word "communist" because that's what they were, but the thing about it is they finally went out of business, went out of business, so did the ships. Now, we come back now to the Bass Strait situation. So when the ANL went out of business, she ran this passenger ship, had the Little Princess, that had gone, and they had the bigger one, the ones running to Sydney, they brought her down here, that was a dead duck in the trade and they brought her down here and they put it on Melbourne to The Entrance.

Finally they got to their - and they were on a subsidy I think, I've forgotten what it was now, it doesn't matter, and they made an announcement they weren't going to replace any ships, in fact they were closing the line down. So the man at the top, a political type, come over to Devonport and he said, "I've come down to tell you that we're not going to replace the ship," and he said, "But we're going to look after you," he said, "we're going to give you a cheque," he said, "and there's \$10 million for the next 10 years." And I looked at this bloke and I said, "What?" He said, "You don't seem very happy?" I said, "Happy? Why should you be happy?" I said, "You're giving us a subsidy that you owe us anyway for 10 years, but you're telling us 10 years before you've cut this line down and you're on your own."

So with a lot of foresight and hard work the Gray government set up those ships they bought from overseas and we had a service again. Now you say what's all this got to do with this commission. Because if you don't know the history of it, we keep repeating these things about every 10, 12, 13 years, it goes on and on like a bad dream. Now, when we come to the Tasmanian thing, we come back to the Field government and this tax business, paying port tax, the new way and you've got assets, you've got all this money, but the state owns it.

So Field dreamed up all this business about taxing the ports, as I said. The ports said we're opposed to it. Some of the ports then, three of the ports and four of the ports made some sort of a deal or tried to make some deal, thinking they were escaping their assets being taken over; but we didn't, I struck out against it because it was an impost on our shippers. We wrote a letter to all our shippers asking their views about it. They said, "For God's sake, don't put any more charges on it. We can't afford that." And we had meetings in private with them, we had meetings in public with them and the Town Hall was full of people and they were sitting in the aisles, against the fire rules of course but they said, "Don't get involved in that. Don't pay port tax." I was (indistinct) to the public because I was elected by them. I listen to what the people said. My views were that it was a tax grab by greedy governments who recklessly spend money that is not theirs. It belongs to people. They get it out of people. All right; they stripped the ports down there.

One particular fellow said to Robin Gray, "The ports have got some money, you know." This was when Fielding went out of it. He said, "Robin, the ports are getting money. You ought to take the ports over." He said, "No money - shake them out" and he said, "What - a few million dollars?" and he said, "We're empty. The treasury is empty. We've got no money. We've got to do something very drastic" but Fielding put it in motion about this port tax and I opposed it and it took many years actually. It went on and finally it drifted over into the Groom Government. Robin Gray of course wasn't going along with that but Fielding went along with it. Then we had the Groom Government and we had the Rundle Government. They said, "But Devonport owes all this money to the Government" and of course it was accumulating - a few hundred thousand dollars accumulating - and they won't pay.

Then they said, "But Dick Burgess said he would pay and now he has welched on the idea." I never welched on the idea because the (indistinct) in Hobart called us together and he said, "I've got to talk to the Premier about a deal. We will pay this tax and that will get us out of all the troubles and all these various restrictions they are going to put on." We are all doing it; we were doing the Australian accountancy standard. We were doing all the things, reporting. The only thing the Government ever gave the ports in the old-fashioned days was permission by Treasury to borrow money to build a facility. There was no problem about that because we didn't use any government money. We used our own banks who we had been dealing with for

a hundred years. They have always lent us money. We never had any trouble in Devonport in raising money. We never had a penny out of the Government because the banks knew that we were a good business and they would lend us money.

Now, you had a place like Burnie down the road. They were busily trying to outdo Launceston, and building things. Then there was pulp mill thrown in, the Wesley Vale pulp mill. "All the pulp is going to go out of Devonport. What are we going to do?" The newspapers and the ABC all go down to the docks in Launceston. They say, "This pulp mill - where's all the cargo going to go?" "It's going to come out of Bell Bay." You go down to Burnie. They say, "You know, Bell Bay - Burnie" and they come along to me and they say, "Where's all this pulp?" I said, "Some will come out of Devonport. The thing is only along the road but we can't handle all that. It will go out to other ports." Everybody else wanted everything. No-one wanted anything from Devonport.

What we did in Devonport was many things. We didn't build wharves to encourage people in. There was an arrangement amongst ports, an open arrangement, and one of the shipping lines knew. ANL is a big shipping line. If you put so much volume cargo through the port - whether it was their port, our port or whatever it was - we would give you a percentage off the actual charges; so, in other words, encourage you to use that particular port. It never worked because we never collected anything because their transport set-up, their hub set-up, was that they picked up cargo here, here, there and there, and the same all over Australia. Eventually when the ANL folded up, there were monuments to the ANL in all sorts of places; big buildings and little buildings, mosaic floors and all sorts.

My philosophy was, as I said before, that when a company comes in and they want to use your port, they know exactly where their hubs are and what they want to do. They know where their catchment area is. They do that. We had an ANL depot there and we had an ANL depot or they had an ANL depot in the other ports, other Tasmanian ports. Eventually the hub for general cargo was coming out of this north part. Even Brambles in those days, which is now Tolls, came down to see me. They had set up in Burnie and they were very interested in all the ports.

When this port tax came along, Brambles said to me, "You're collecting the tax." I said, "We're not collecting the tax." He said, "Burnie is." I said, "Get out. They're not collecting the tax" and he said, "They are." I said, "It hasn't been finalised." He said, "They're collecting it. We're paying it." I said, "You can't pay it because it is not even legal." I said, "All right" and I know the Brambles people well. I had no business with them but I always got on well. I said, "You show me an invoice, one of your invoices where it says that. I don't want your details. You can white all them out. Give me an invoice that has got the Burnie set-up on it and this port tax. Take all your details out because I'm not interested in your details." Sure enough; there was a thing there - port tax.

At the end of the day because I wouldn't budge, there was great controversy in the papers about it. The Government dreamed up a strategy on how they were going to fix me up in Devonport. It's a damning sort of a paper for any politician to cook up against a person who is duly elected by the people carrying out legitimate arguments for the port. It was there and it came to me on the back of a truck. When I say "on the back of a truck", somebody walked into the office there one day and went downstairs and gave the girl an envelope and this bit of paper was in it. It was given up to me and I said, "Who dropped it in?" They said, "I don't know." "What sort of person?" "It was a girl, an office-type girl. I don't know who it was." I opened it up and I nearly fainted. I won't go into that. I will tell you why. This led to the stage - "Well, Burnie's paid; Launceston's paid; Hobart's paid and Burgess hasn't paid in Devonport. We want our money back."

Somebody came and said, "You didn't pay." We didn't have to pay. I said, "This was some deal they cooked up with the Government to get them off the hook on other things - less control from the Government." I said, "That's a joke, isn't it?" They wanted their money back and the Government wouldn't give their money back. The Government has never given money back once it's in the bag there. It has gone, probably spent and sold, you know. They can't give it back.

The next thing that came along - "How are you going to do it? I'm going to threaten you." This paper was put into place. When I got it, I published it in the paper. Anyway, there were a few upset people in Hobart I think in the bureaucracy and other places but at the end of the day it got into the Groom Government and he said, "What are you going to do about this paper?" I said, "Look, I'd take you to court but it would look funny, a statutory authority like us taking the Government to court. You take us and sue us."

In the meantime, interest was rising up, so we were taken to court. No-one understand the case. The judges didn't understand the case. The (indistinct) didn't understand the case. The day I arrived in the Supreme Court down there with our legal people, Solicitor-General Bale was in a huddle with our fellows and I said, "This bloke is trying to make a deal or something but it is not going to work". Our bloke came back and he said, "If you pay the money, they'll let you off the interest." I said, "What sort of a shonky deal is that?"

What happened? We went to court. The Crown was represented by the solicitor-general. He said to the Supreme Court justice, "The Crown doesn't wish to go ahead with this case, your Honour" and the judge nearly fell off his seat. He said, "What? Do you know what this means?" He said, "Yeah." He said, "I'm afraid I've got to find the case against you" and he looked around and he said, "What sort of charge - what sort of damages do you want?" We said, "We don't want any damages. They can pay theirs and we'll pay ours" because what they were doing was wrong.



Then it went to an appeal court. Our fellow was arguing about the bad faith and all of that. That went to court and the judge who had already given judgment on not paying it said the state could pass these laws but it wasn't about that. It was about the bad faith in the first place. That's why the Government didn't go ahead with it. When he handed his thing, we went to the appeals court.

**MS CHESTER:** Captain Burgess - - -

**MR BURGESS:** I know, but this is important. This is what no-one wants to listen to because this is what we are getting back today. I am going to say to you - and I don't argue with you. The bit I was going to tell you then has all now gone. Don't worry about it because I am giving to give you a paper which you can take away and do what you like, but that's one of a series of volumes which proves everything I am saying.

Now, we come up to what this thing is all about. What it was really about - the Government wanted to get hold of and control the ports. That is where Tasports come in. It is now a government corporation. Quite frankly, it doesn't work. I read in the paper, "It ought to be privatised. It ought to be this; it ought to be something else." It worked very well. When I was master warden, P&O came into Bell Bay and they signed up an agreement with the wharf in Bell Bay that that was their exclusive use; in other words, it locked anybody out from that wharf. The P&O fellow came down to me, a nice bloke, and he said, "We want to tie your number 3 berth with your number 2 berth up in east end." I said, "No. It's a common user. Anybody can use it." He said, "What about us?" I said, "Anybody" so that finished that bit.

Out at Devonport at the time we had a big export trade. Apart from our roll-on trade, over a million tonnes of cement goes out of Devonport every year now and there could be more, so we had a bit trade. We took an airport over, the first in Australia. We ran the airport successful. The reason for that was because of the problems with the strikes and the passenger ships, to get the people out. Everybody in the other ports said, "You don't use them" - well, complimentary. We had an airport. We did a deal the Government and we got an airport. It cost about four hundred and something thousand - half price - the passenger building.

We also had a meat meal factory. The local butchers had a lot of problem with their fat. There was an old bloke who used to buy the stuff and cook it up under a hill and stink out half of Devonport, so we built a meat meal factory. Somebody said in Hobart, in Burnie and Launceston, "What are you doing (indistinct)? It's not yours." It is actually because the fat goes out, so it is all relevant.

Cool stores - we had produce companies up there and the canners were up

there. We had the largest cool stores in Tasmania actually in Devonport. Hobart said, "We'll build a cool store." They made some sort of sweetheart deal with the quarantine people down here and it has been a dead duck ever since the thing has been on. Burnie had a single one. That's a dead duck. Devonport was a progressive place, a really progressive place.

When the silos wanted to be built down in Devonport, the terminal was there. It was close to the cement lease but the cement wanted a bigger room, so I said to the cement company - they asked me what could we do. I said, "No problem. I'll go and have a talk to them. They're a commercial company; you're a commercial company. If you pay to shift their terminal to another place in the port, which I will give them, they will be happy." That's exactly what happened.

**MS CHESTER:** Captain Burgess, I am very conscious that we have six other participants.

**MR BURGESS:** But this is important. If you don't get this right, you will never get this ever right.

**MS CHESTER:** I'm happy to have a discussion with you during the break but we have now reached a point where we do need to adjourn the proceedings for 15 minutes.

**MR BURGESS:** I don't mind coming back after lunch because I've got plenty of time after lunch but what I am going to say to you now, and I take your point, is that Devonport had no problem at all with what we did in anything. We were a good port. Devonport today is nothing. The headquarters - and I will finish on this one before you break.

**MS CHESTER:** Thank you.

**MR BURGESS:** You're good; you're pretty good. I know I do waffle but there's a lot of sense if you read between the bits. Now, headquarters. [A government official] came to me and his secretary and they sat in my office and they said, "Now, listen, Dick. You've got a problem here." I said, "What's the problem?" He said, "Burnie and Launceston want to amalgamate but they want you in. If you join the amalgamation, we will make Devonport the headquarters and you can be the chairman of the system." I said, "That's a bribe. You're not on the racecourse now. That's a bribe. There's not a paper bag full of money. You can't bribe me because it's wrong." I will finish on that. You can call me back after lunch if you want to.

**MS CHESTER:** I would be happy to have a chat with you myself.

**MR BURGESS:** I have taken too long.

**MS CHESTER:** One of my colleagues is very happy to take the paper that you mentioned.

**MR BURGESS:** By the way, this is only volume 1 where all the ports of Tasmania agreed to fight the port tax and some of our shipping people are there. These will probably finish up in the library in Canberra and all over the place. It is very, very well researched. How we got a lot of this stuff - it's our own papers and also when the court case was one of course we had discoveries, didn't we? Most of the staff you will find in my paper clips will be filed away in some libraries and probably wouldn't have seen the light of day for probably 30 years.

**MS CHESTER:** Thank you very much for joining us this morning.

**MR BURGESS:** I'm not here to ask for subsidies. I don't think we should get subsidies but I think Tasmania should get, and this is the main thing I am getting at - when we federated - that is why I said we were the second state in the Commonwealth. When we federated at federation, we were the sixth founding state to federate. Now, we joined together and those conferences were pretty heavy. It was the equal trade between the states. In other words, the customs barriers came down; the defence obligations of serving our own states, our own armies and all the rest of it all went so you could go from one state to another without any hindrance. The customs borders went.

Tasmania didn't get what it signed up for at federation. It didn't get the Bass Strait bit. That's the thing that's going to kill it and kill it until the Commonwealth faces up - across Bass Strait is just like it was up alongside the island. We had federal people standing at the gate saying, "Why is Tasmania always squealing?" I was in Canberra at a conference and a fellow said to me, "You're always squeaking down there. You've got 500,000 people." I said, "Yes, but we own a sixth of the company. There's only six shareholders and we hold one-sixth. What do we get out of it? We don't get federation at all. We get what you want to give us. You can go from Victoria and go right around up New South Wales, Queensland, the Northern Territory, down into Western Australia and down to Adelaide and you are there. You can walk down if you want to. We can't." Thank you very much.

**MS CHESTER:** Thank you for coming this morning. On that note I will - - -

**MR BURGESS:** I don't represent anybody, by the way - only me. My representation is this when I go to some of these sort of things: I represent the future, the unborn, the people who are going to give up and say - your grandkids who are going to say, "(indistinct) these people were. They never got the point. They missed the boat." I can tell you how the shipping industry has changed. As for (indistinct) ships today, they have gone. The deregulation of the Navigation Act is a story on its

own. That's something that (indistinct) years ago.

**MS CHESTER:** Let's chat about that over a cup of tea. I will adjourn the proceedings for now. We can resume again in about 20 minutes at 5 minutes to 11. That would be very much appreciated. Thank you.

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**MS CHESTER:** So, ladies and gentlemen, we'll resume our proceedings and I'd like to call up our next participant to present, Mr John Barker from Winemaking Tasmania.

**MR BARKER (WT):** Thank you, commissioners.

**MS CHESTER:** Good morning, and if you'd just state for the record your name, title and the organisation you're representing today, please?

**MR BARKER (WT):** John Barker, principal of John Barker and Associates, government relations consultant, and I'm here representing Julian Alcorso the managing director of Winemaking Tasmania.

**MS CHESTER:** Thank you very much. Would you like to make some opening comments?

**MR BARKER (WT):** Yes, I have a submission here for the commission. Winemaking Tasmania did not make an initial submission. So I have some notes here for the benefit of the commission later.

**MS CHESTER:** Thank you.

**MR BARKER (WT):** What I was proposing to do was to give a little overview of the concerns of Winemaking Tasmania, who Winemaking Tasmania actually is and what it does, and also concentrate on one or two points that are included in the draft recommendations of the commission and address one or two of the information requests.

**MS CHESTER:** Thank you.

**MR BARKER (WT):** The executive summary basically is this, that the Tasmanian wine industry is a sunrise industry in this state. It's recognised as one of the few potential growth industries, and when the economics of the wine industry on the Australian mainland is currently suspect. A cider industry, producing products from apples, pears and cherries, is showing exciting recent growth. Currently there are approximately 15 cider producers, when there were virtually only one or two, two years ago.

Cider production has grown 17 per cent, two years ago, it's grown more than 20 per cent now. Those figures are not also dissimilar to the continued growth of the wine industry. The cost of shipping is paramount to the development of wine production in Tasmania. It is ridiculous that the transport cost of equipment for winemaking from Europe to Melbourne, for example, is more than the sea freight

from Melbourne to Hobart. Removal of the small southbound Tasmanian Freight Equalisation Scheme assistance for bottles, packaging, tanks et cetera, will place at risk potentially scores of industry jobs and kill investment and growth.

In the case of Winemaking Tasmania, a potential reduction from 30 employees to as few as three. Tasmania could then resort to me only to being grape grower, with grapes and juice moved to other Australian states for production. It's ironic that these shipments would attract freight equalisation payments at the cost of Tasmanian jobs. The Tasmanian brand is a point of difference in the market place, and currently our wine is made, bottled and finished here.

The brand has assisted and complemented the growth of the industry to the point that Tasmania's grape value is a stand-out in Australia. Over recent years, major wine producers such as Treasury, Yalumba, Brown Brothers, Adelaide, and Shaw and Smith have entered the Tasmanian industry. Winemaking Tasmania contends that the emphasis of the Productivity Commission inquiry should be on encouraging growth opportunities, minimising economic impacts on Tasmanian businesses.

It welcomes any initiatives that have the potential of reducing Bass Strait sea freight costs, but also warns that having read the draft report, it will be very difficult to reach a cost neutral outcome in respect to these considerations. As far as Winemaking Tasmania is concerned, it was established 14 years ago as a specialist contract winemaker service to the Tasmanian wine industry. Since that time the business has expanded and now offers a full range of winemaking services, including bottling, filtration, alcohol adjustment, juice concentration, sparkling wine disgorging and packaging, and a comprehensive range of reverse osmosis treatment services.

Winemaking Tasmania's commitment to its clients is the undertaking that they do not have a brand of their own. All their efforts and attention are therefore squarely focussed on the wines they make for their clients and place in the market place. Winemaking Tasmania operates from a modern, purpose built, 1200 plus tonne winery located in Cambridge near Hobart. They service a range of grape growers from all the state's wine regions and specialise in making table and sparkling wine. I mentioned the introduction of the cider division earlier.

Winemaking Tasmania, as I said, currently employs 30 people, and in 2008 Winemaking Tasmania won the Telstra Tasmanian Business of the Year in the 16 to 20 employee category, and its principal, Julian Alcorso, in 2009 was the chief - and won the gourmet traveller chief winemaker of the year in Australia. The company has a total reliance on sea freight. There's no option other than sea freight across Bass Strait. The volume of its imported bottles, for example, is such that air freight is completely uneconomic.

The sea freight comprises a large proportion of Winemaking Tasmania's cost base. If I can address one or two of the recommendations, the draft recommendations of the commission. In terms of draft recommendation 1, Winemaking Tasmania supports the urgent review, as so many others that have appeared here so far, of the coastal shipping regulations. At last this will provide an opportunity to accurately assess impacts on Tasmania from both freight rates and cruise ship visitation perspectives and the bona fides of the regulatory impact statements which supported the net benefits which resulted in the 2012 changes.

As far as draft recommendation 2 is concerned, we contend that it's flawed in as much that it starts off with, "If the Australian government had chosen to retain the Tasmanian Freight Equalisation Scheme in its current form." It shouldn't be an "if" at all. The Australian government has clearly indicated that it supports the retention of the current scheme. As I indicated before, the fiddling at the edges in terms of trying to get to a cost neutral scenario, either by reducing the payments of the Freight Equalisation Scheme in the one end in respect to northbound, and the complete removal of the southbound component of the scheme, balancing that as a cost saving against the potential of including the much needed inclusion of export goods under the Freight Equalisation Scheme is really not the way to go.

I have to say also that we have some doubt in respect to the Bureau of Infrastructure, Transport and Regional Economics parameter reviews, and we really think that the detail of that should be further examined, and I do understand that Norske Skog yesterday dealt with that in some more detail, having seen that last night. One issue that is recommendation 6 in terms of the public reporting and the suggestion of more comprehensive public reporting, we don't particularly support that. The recipients are competitive businesses and information should not be publicly released.

In respect to draft recommendation 8, which dealt with a minimum level of assistance, or a minimum level of activity that obtained assistance from the scheme. I mean, very small businesses, start ups in particular, should not be excluded from the Freight Equalisation Scheme. Their disadvantage should be considered less than other larger businesses, but small businesses should not be penalised. A lot of the businesses that are appearing before you over this inquiry were very small to start with, have now developed quite well, and without the scheme may well have not even been here to talk to you today.

As far as the Vehicle Equalisation Scheme, or the Passengers and Vehicle Equalisation Scheme, it's not within the purview of Winemaking Tasmania, other than to recognise the significant contribution that scheme supports Tasmanian tourism, and if you'd like to draw quite a tenuous link with the wine industry in respect to tourism, the tourism industry is an icon with huge potential, and any reduction in passenger vehicle rates would be beneficial to industry and the state's

economy.

The information request, which was really the point that - information request 1, the extension of the TFES northbound component to include all eligible goods shipped from Tasmania to the Port of Melbourne, effectively introduces exports to the scheme. This is supported. The financial impact on the scheme requires further analysis. Inclusion of goods through Port of Melbourne should not be at the expense of the removal of the southbound component or reduction in payment rates.

The TFES southbound support ensures that, as I have said, Winemaking Tasmania business is able to continue to operate in Tasmania. Withdrawal of support for the business's essential items would ensure that all winemaking would be undertaken in other Australian states.

The impacts on a Tasmanian growth industry and the Tasmanian brand would be catastrophic and the Productivity Commission would seem to be complicit in forcing jobs and investment from Tasmania to other states and Winemaking Tasmania contends that's contrary to section 99 of the Australian Constitution. I think that is sufficient in terms of my contribution. I'll leave these documents here for your further consideration.

**MS CHESTER:** Thank you for those opening comments and thank you very much for preparing a submission to present to the commission. Are you able to outline the nature of the TFES claims that Winemaking Tasmania is currently making?

**MR BARKER (WT):** It's making, and has made, claims in - it continually has inconsistent interpretation in respect to the goods, I'm told, that it's seeking to claim, but nonetheless it claims for its bottles, its tanks, equipment that comes into the winery, to all of its caps and its essential items to actually bottle wine that they make.

**MS CHESTER:** So it's solely through the southbound component of the scheme?

**MR BARKER (WT):** Yes.

**MS CHESTER:** That's because their service is to make and bottle the wine and then it is given to - - -

**MR BARKER (WT):** That's right. It's given back to the producer for them to do with it which they will, whether they sell it internally within the state but obviously interstate as well and overseas.

**MS CHESTER:** So if you were to step back for a moment and look at it in terms of getting a wine bottle from Tasmania to market in the mainland or wherever, it's



probably good to look at it across a couple of companies and who's actually getting the benefit of the northbound and the southbound.

**MR BARKER (WT):** Could well be, but I think you will find in Tasmania that that's a rarity. You will find two or three contract winemakers; very few wineries. There are a couple but only small.

**MS CHESTER:** As I understand it at the moment with Winemaking Tasmania, part of their scheme claims they make directly themselves and part of the scheme claim is made through Net Sea Freight. Are you able to talk us through the reasons there?

**MR BARKER (WT):** No, I'm not. I am aware that they do utilise the services of Net Sea Freight from time to time and I think Net Sea Freight may well have also referred to wine in their submission. I'm not aware of the reasons why some components are and some aren't.

**MS CHESTER:** The submission that you're providing from Winemaking Tasmania, does it go into the administrative complexity of the current scheme, which is why I understand some people that are using the scheme make their claims through Net Sea Freight?

**MR BARKER (WT):** No, it doesn't, but we would be quite happy to provide that information to you.

**MS CHESTER:** That would be helpful. If you could provide that information in terms of the reasons between doing it directly versus doing it through Net Sea Freight, the administrative complexity of the current arrangements and then the additional fee that's involved in going through a third party agent. If any of that is commercial-in-confidence, we can take it on that basis as well.

**MR BARKER (WT):** Yes, confidential. Yes, absolutely.

**MS CHESTER:** In your feedback and commentary on the draft recommendations that we have made you touch on the issue of the parameters that are prepared by the bureau and they are reviewed at the moment every three years.

**MR BARKER (WT):** Yes, I know.

**MS CHESTER:** I'm not sure I picked up any commentary or feedback on one of our recommendations which was that if the Government did decide to continue with the parameter basis for the scheme, that that happen on a biannual basis and that we have suggested a bit more of an open and transparent process for that review such that the bureau could get feedback and input and consult with impacted parties like

Winemaking Tasmania. Does that address the concerns - - -

**MR BARKER (WT):** It does, and we do have some comment in here in respect to that, but Winemaking Tasmania would support a regular review for sure. The comments I made earlier in respect to the particular entity is really some warning of being careful before it's committed for that particular entity to undertake these reviews, but we're not opposing that.

**MS CHESTER:** Okay. Thank you very much. You also made reference to one of our recommendations where we say that we would like the scheme to be more open and transparent and for it to be documented what the recipients are receiving in terms of support on an annual basis through the scheme. You suggested there were some concerns about that information being made publicly available. I'm not sure I understood why.

**MR BARKER (WT):** Yes, I just wondered that some of that information may well be commercial-in-confidence in terms of competition. I just made the point that that needs to be considered.

**MS CHESTER:** Do you have any evidence from Winemaking Tasmania that they would have a concern and what sort of commercial-in-confidence information that would release?

**MR BARKER (WT):** Not from Winemaking Tasmania in particular. I would be quite happy to comment on that tomorrow in Launceston when I'm, as you know, appearing for another client, but you will see that.

**MS CHESTER:** Okay, because it would be very important for us to understand. If there are legitimate concerns regarding commerciality, we're happy to hear those, but it would be helpful to get a better understanding of what those concerns are.

**MR BARKER (WT):** For sure.

**MS CHESTER:** Earlier on you touched on the cost base, I guess the sort of cost of production including the path to market for Winemaking Tasmania. You mentioned that sea freight was a large component of that.

**MR BARKER (WT):** Yes.

**MS CHESTER:** Perhaps this is touched on in your submission but are you able to just talk us through what component of the cost base for Winemaking Tasmania sea freight currently represents today and how that has moved over time for the company?

**MR BARKER (WT):** I can't give you the background on moving over time but it's now in excess of 20 to 26 per cent, I'm told, of the total cost base of the company.

**MS CHESTER:** Sorry?

**MR BARKER (WT):** 20 to 26 per cent, depending on some information I have.

**MS CHESTER:** Okay. Thank you for that. You referenced, of course, the view of Winemaking Tasmania around the mooted - it was just an area where we didn't make a draft recommendation but we did request from participants and interested parties what impact any change to the eligibility for southbound would be. Are you able to present any evidence on what the impact would be on the costs of Winemaking Tasmania and the likely impact on the prices of their services if the southbound component was removed?

**MR BARKER (WT):** I don't have it in this submission but I can certainly give it to you. Yes, I can certainly provide that for you.

**MS CHESTER:** That would be very helpful. One of the other issues that we touched on in our draft report was I guess stepping back for a moment from the two schemes and I think it's fair to say that a lot of the focus in the dialogue between government and business in Tasmania around the cost disadvantages of shipping and freight across the Bass Strait has very much focused on the schemes, but we sort of put forward in our draft report and we have a draft recommendation of stepping back for a moment and having a look at maybe some broader policy levers that government may have at their disposal that could help reduce the overall competitiveness of the Tasmanian economy. Is that an area that you have any views on or Winemaking Tasmania has any views in terms of areas of insufficiencies that - - -

**MR BARKER (WT):** No, I'm not able to make that comment for Winemaking Tasmania, but again I can tomorrow for another client.

**MS CHESTER:** All right.

**MR QUINLIVAN:** I would like to just follow up your comments on the recommendation about a threshold. We take your point about impact on start up and small businesses, but I would like to know whether you're saying your client would oppose that kind of a proposal as a matter of principle or whether, given that there are a very large number of quite tiny transactions under the scheme both north and southbound and it's clear that some of them are so small that the costs of managing that transaction both for the - - -

**MR BARKER (WT):** Are greater than the return.

**MR QUINLIVAN:** Yes, both sides of the transaction are much greater than the value of the claim, so I would like to know whether it's a matter of principle that you oppose any threshold or whether it's just a matter of what the threshold is bearing in mind the obvious costs - - -

**MR BARKER (WT):** It's both actually. It's a matter of principle from him but as far as applying a threshold, surely there is another method then of determining - the process I mean - the process by which those particular recipients could still obtain the support of the scheme, consider some other form of - if it's cost inefficient in terms of the application in the administrative process vis-a-vis the return they receive, surely there must be some other form of administrative process that could deal with that.

**MR QUINLIVAN:** Have you got any specific ideas? Obviously we've talked about flat rates for larger volumes.

**MR BARKER (WT):** I'll think about that definitely. Not off the top of the head, no.

**MS CHESTER:** If the Government were to decide to move towards a minimum threshold of, say, \$250 or the like for a line item, would that have an impact on winemaking Tasmania in terms of the assistance that is currently being received under the scheme?

**MR BARKER (WT):** To my knowledge, no.

**MS CHESTER:** If you are able to confirm that for us, that would be very helpful.

**MR BARKER (WT):** I will confirm that for you.

**MS CHESTER:** One of the other recommendations that we had was extending the self-assessment facility under the scheme.

**MR BARKER (WT):** Yes.

**MS CHESTER:** Is that something - - -

**MR BARKER (WT):** That's included and we have addressed that and support that.

**MS CHESTER:** All right. I don't think we have any other questions to raise with you today.

**MR BARKER (WT):** Thank you.

**MS CHESTER:** Are there any other comments that you would like to make?

**MR BARKER (WT):** No, not at this time. Again, I apologise for Mr Alcorso's nonattendance today. He's interstate I'm afraid.

**MS CHESTER:** No problem. Thank you very much for your time and for appearing this morning.

**MR BARKER (WT):** Thank you.

**MS CHESTER:** I would like to now call our next participants presenting from Houston's Farm, Mr David Nelan and Mr John Barker. Good morning, gentlemen. Thank you very much for appearing at our hearings today. If you could each just individually state for the record your name, title and the organisation you are representing today.

**MR SIEDLER (HR):** Eric Siedler. I'm the general manager of supply (indistinct) procurement for Houston's Farm.

**MR NELAN (HR):** David Nelan, I'm the chief financial officer for Houston's Farm.

**MR BARKER (HF):** John Barker. You know me.

**MS CHESTER:** Thank you. Gentlemen, I will hand over you to see if there are any opening comments you would like to first make.

**MR NELAN (HR):** Firstly I would like to thank the commission for giving us the opportunity to come here today. It's fair to say that Houston's Farm tends to ride in the shadows of darkness when it comes to public events like this. We have had a long association with Net Sea Freight Tasmania and we support a lot of the submissions and the comments and observations that they have made on our behalf.

Having read the draft review that came out on 24 January, it is clear to us that the time has come for Houston's Farm to step forward and step into the light a little bit and give the commission some insight into the freight equalisation as it affects our business, as it currently is affecting our business in terms of some administration issues that exist, and looking forward if the scheme is to change what that might mean for this well regarded agribusiness in Tasmania.

In 2012-13 we shipped just over 1800 20-foot equivalent units. That's a fairly large number. We mainly ship in good quality Tasmanian air in the form of salad in bags, so it's very lightweight. So we're talking about two and a half thousand tons of product. So when you read through a lot of these reports it's all focused on tonnage, but we are a fairly large player in the market.

Just some key outcomes from our review of the draft report: I would say we have been working with Net Sea Freight for sometime but we have had very limited time to prepare for this. The report came out at the start of a long weekend. We've had very limited time. I appreciate the Productivity Commission has had a very short time frame with which to undertake this review and has actually acknowledged that all issues haven't been covered to the same level of depth. That for us is a bit of a concern, and we are interested in whether the commission agrees that the focus of the review is perhaps too broad for the time frames that you have been provided and

what we have been provided, and if so how will the commission mitigate the risk of skewed outcomes that may harm the Tasmanian economy further, which is already struggling in many respects.

The views conveyed in the draft report that the amount of freight subsidy received overcompensates people compared to mainland freight. That's not consistent with our experience, and it's certainly not consistent with those other views that we're reading in submissions in the past. We would like the commission to try and elaborate, and perhaps that was covered yesterday by Norske Skog. I'm not sure, I wasn't here.

One of our concerns is that Tasmania should be exempt from the Melbourne port licence fee currently charged on all freight moving from Tasmania through the port of Melbourne. This charge did not exist when the scheme we operated under was introduced. Last year it increased more than 50 per cent. I think this is anti-competitive, and to say that those recipients of scheme funding now are overcompensated - all these costs are coming in and rising and increasing. I don't see how we could be overcompensated.

One of the things that I don't think is very clear in the review that's been done is our national highway that is part liquid, ie Bass Strait 420 kilometres, is not open seven days of the year, 52 weeks. For six months of the year you cannot get product off the island on a Sunday through shipping services. As a participant in fast moving consumer goods with a very short shelf life product, that has major implications for us. We cannot air freight. It is not economic to do, but we can't get our product off the island. We have to rely on the TT-Line as our main source of getting product off the island because it sails at times that are best suited to our production cycles; but the TT-Line, because its focus is tourism and not freight, doesn't sail on Sundays through the winter nonpeak tourist seasons.

This has major implications for our business. The other thing is, when you look at it our competitors on the mainland can load a truck any time they like, drive wherever they want to on the mainland at any time of day or night. We can't. We have to meet a 2.30 pm deadline, because we are based down here in Cambridge, to get our product to market. That increases our costs to work, and if you read the draft report it would suggest that if Tasmania business can't compete, then it needs to consider whether it competes at all. I think that is missing the point. In our case it's missing the point.

The recommendation that southbound support be removed: we vigorously oppose that. The fact that we have had major issues with southbound subsidies or support because of our classification and our nature and our choosing to be a virtually integrated salad producer, we have been significantly disadvantaged.

What it means is that as an agricultural producer and as a food processor you

can only have one predominant activity. Houston's Farm, being integrated, we grow our produce. We also procure produce. We also manufacture it. We blend, we add dressing, make meal solution. Now, we have had a constant battle in the administration of southbound freight to get support on bringing in raw materials because depending what you argue, you can get southbound support on raw materials and input for agriculture but you can't get them for manufacturing and vice versa.

I note earlier with Winemaking Tasmania you asked the question about the impact of southbound freight and why would you use a business like Net Sea Freight. The complexity of southbound freight is absolutely a minefield. If it wasn't for Net Sea Freight I doubt some of our initiatives over the years would have even got off the ground because they have been able to, as experts in freight equalisation and with good contacts with the department, go through and make the claims process easier for us. So I just draw on that one.

Any changes to the current schemes that affect the original intention of both northbound and southbound freight otherwise in the further development of the food goal concept that's in Tasmania, and particularly for fresh produce, you're going to influence them not to succeed. You know, does the commission see value in the food bowl concept? With climate change, if you're a believer in that, and global warming, there is a view that extreme weather events are more frequent. Our competitors are now starting to move to Tasmania to grow the same produce that we do in the Coal River Valley

Now, as much as I don't like to see competitors move into our little patch of turf, that's good for Tasmania. That's creating jobs, it's creating competition, but if you remove or start changing the subsidies that are available, which are there to serve a purpose, that potential for future investment and continued development disappears. I guess just on the southbound support, just to give you a demonstration of how significant it is to us, we're in a low-margin business. This year, or in June 2013, we opened a tug line in Cambridge, we opened another one in our Rocklea facility in Queensland in November last year, with a third one originally planned for Tasmania but because of the ongoing uncertainty about southbound support, we're actually commissioning that line, that third line, in our Queensland facility. That's 13 Tasmanian jobs that should have been here.

Now, I'm a proud Tasmanian and I hate to think that we've been forced down a path because of a scheme that has fundamental issues in its administration and its intent. From a Houston's Farm perspective, freight across Bass Strait is an issue to be considered in our own future plans. There is no room for us to pay above the odds for anything, so when we talk about investing in Tasmania, you know, we have to give consideration to "Can we afford to be here?" We've just committed a million dollars to the south-east irrigation scheme stage 3 to develop some new farms down at Fawcett and when you read this draft report and hear things like, "Well, flat rates



of \$400 an equivalent unit", that causes us significant concern about the future by (indistinct) of being able to get stuff off the island.

The Commonwealth government is budgeting to spend \$14 billion this year on road infrastructure and maintenance. What is being spent on the three schemes in this draft summary is insignificant. I don't see any road crews fixing pot holes on Bass Strait. I just think that there needs to be a review on the scheme and how it operates before we start trying to save the economy of Tasmania because the economy of Tasmania is a very complex beast. This is a very small part of that.

That's basically what has come out of our executive summary. I don't know if you would like me to talk more about Houston's Farm and who we are but we are very much employing 200 people in Tasmania with a \$50 million turnover Australia wide. We're not a small operator; we've come from very small things so when you talk about limiting small claims because they are too administratively expensive for either the claimant or the department that manages it, you're stifling innovation, you're stifling the dreams of businesses to grow, and we have grown significantly since 2000 to become an iconic leading producer of salads in Australia.

We invest heavily in food safety and quality assurance. You know, the \$1 million investment in the stage 3 scheme - all these things are put at great risk because of where we are geographically and I guess they are the main points that I wanted to convey to the commission today. We have, in our submission, addressed all the recommendations, particularly those that are of importance to us, and we've also provided some feedback regarding the information request as well. I don't know if you want us to run through those.

**MS CHESTER:** No. Look, thank you for very much for those opening comments and the submission that you're going to be providing us when it runs through the draft recommendations and the other information requests - that will give us evidence in terms of the likely impact that these changes would have on Houston's Farms?

**MR BARKER (HF):** As best we can, but some of the questions in there sort of equate to "How long is a piece of string?"

**MS CHESTER:** I know. I appreciate that. I'm thinking more about the changes to the scheme.

**MR BARKER (HF):** Yes.

**MS CHESTER:** Okay, that's very helpful. Thank you. I might just provide some comments back on some of the questions I think you put to us, and we're happy to try to answer those and then we might get into some questions that we had to get a better

understanding of Houston's Farms and the impact of the freight cost disadvantage (indistinct) on your operations.

Just initially in terms of the time frame and the scope of our review I think we do all accept and acknowledge that it is a relatively compressed time frame and for that reason, and it's not uncommon, the commission has focussed some of its detailed analysis on some of the key areas, so in particular we have focussed a lot of our analysis around the TFES scheme and we haven't done as much analysis and research that we would have liked to have done on, say, the issue of stepping back from both of the schemes, what other policy levers a government has available to it to result in an overall reduction in the cost structures of the Tasmanian economy.

So that's where we sort of hopefully got that balance correct but we've been given the scope and we've been given a time frame by the Government and we will meet those deadlines and we're very confident that we will be able to provide a report to the Government that does justice to that scope. I think in saying that though it's very much this process that we're going through at the moment that gives us some confidence in saying that. You know, we did have initial round table meetings with parties that were available; we did take initial submissions; we're now having a public hearing process which allows us to get frank and fearless feedback from folk like yourself, but also then to get follow-up submissions and information so we can fully understand what are the impacts of some of the recommendations or ideas that we've floated in our draft report so we can get things right in our final report.

So we do very much value people like yourself appearing today to give us that feedback but also to get some more detailed information from you about the impact that those draft changes would have on Houston's Farms. One other issue that you touched on was the suggestion that in the draft report we make a factual comment that the design of the scheme was meant to be based on the parameters that were calculated by the bureau, which is meant to be coming up with an average notional cost disadvantage of transporting freight across the Bass Strait.

I think we all accept that it's intrinsically very difficult to come up with an accurate notional cost disadvantage of moving freight across the Bass Strait that would be reflective of the experience of every business. I think it's fair to say it's probably impossible to do, and so we're very conscious that businesses like yourselves might have a very different experience with respect to the costs of road or shipping that you might experience, but appreciating that the bureau is using data sets that are in the public domain to make those parameter reviews and those calculations.

So from our perspective it was relatively a statement of fact, that the scheme was designed to provide assistance based on those parameters. Those parameters have moved over time, notably though those parameters haven't made any impact on

the scheme. So governments of the day have decided not to update the scheme's assistance based on those parameter reviews. But that said, those parameter reviews do show that with the movement in the relative costs over time of sea versus road in Australia, that road costs have gone up at a greater pace than it has for shipping across Bass Strait.

But we did go into some detailed discussion with your business colleagues at Norske Skog yesterday, and through our public hearings on Monday we'll be talking further with the bureau, to understand if there's any methodological issues in the way that they're calculating those parameters at the moment. But it is fair to say that we do have one of our other draft recommendations that does suggest that if the Government did decide going forward with the scheme to make an assessment of what assistance is to be provided based on the parameters, that it be done on a biannual basis, and that that process that the bureau goes through would be open to feedback and consultation with industry participants. So it would be good for us to get your views on that draft recommendation and whether that goes some way to addressing the concerns that you have.

**MR NELAN (HF):** Yes, so that was draft recommendation 2 or something, was it? Yes, draft recommendation 2 or 3? Both. So just on draft recommendation 2; over the last 10 years Bass Strait shipping costs to our understanding have increased between 25 to 50 per cent, depending on which carrier you talk to. As I've said earlier, we're limited by carriers due to the nature of our products, our location in the south of the state. So any review of payment rates needs to be carefully considered as there clearly exists conflicting viewpoints, and that's the feedback I seem to be getting.

I refer to the Net Sea Freight report from December which talked about freighting timber to Western Australia and the road freight components and the differentials how the scheme has failed to keep pace. So I understand there's a bit more work to do there. Regarding draft recommendation 3, chapter 2, we agree that future reviews should be a public multi stage process. But I think there needs to be sufficient time for all parties concerned to deliberate, research, understand and study and provide feedback.

I understand Houston's Farm's position is that we would support the bureau leading such a review process if it was determined to have the best understand, expertise and resources to complete such a review on a timely and objective basis. We have no issue with that, and draft recommendation 4, you know, we agree that the Australian government should respond publicly in a timely manner to all TFES matters. That goes without saying. I don't know if that answers your question.

**MS CHESTER:** No, it does. Thank you very much. You also touched on the issue of the Port of Melbourne licence fee and that's been a matter of some discussion in

the hearings to date. A semi related issue is the intermodal allowance that's allowed for under the scheme, and you may go into more detail on this in your submission. But do you have a sense from your operations in Tasmania whether the current intermodal allowance is appropriate? We have received some evidence from other participants that as the rate has not changed over time, that it's not currently meeting the intermodal costs that they're experiencing.

**MR NELAN (HF):** No, that's not something that we can give any information on at the moment. But we can do if you would like, do some work on that and let you know. Yes.

**MS CHESTER:** Okay. Thank you very much, and maybe that's something that Net Sea Freight could give us some insights on. So I don't want you folk doing a lot of additional work, you've got a business to run and we're very conscious of it. If you want to get things right and get an understanding of what the costs - - -

**MR NELAN (HF):** Yes. No, we're more than happy to keep Net Sea Freight busy on that one.

**MS CHESTER:** Okay, all right, thanks. We'll allocate that task to them. Now, you mentioned before with Houston's Farms, you also have operations in Queensland. So you have operations here in Tasmania and Queensland. Are there any other states?

**MR NELAN (HF):** No. So we have a production facility in Queensland and one in Cambridge. We also have all our farms here in Tasmania. So no other processing sites. We have a few marketing officers in Melbourne and that's about it.

**MS CHESTER:** Okay, and the operations in Cambridge and in Queensland, are they similar? So do they provide like a cost comparative basis for you to view the costs of, you know, production and getting your freight to market in Queensland versus what it is in Tasmania?

**MR NELAN (HF):** Yes, they certainly do. They're reported as separate entities, separate business units. So we do monitor the costs. You've got to understand that the Queensland facility was only opened in 2009 and was a very small facility. It is now in the last 12 months doubled in size to the point where it's almost at the same capacity as our Tasmanian plant.

**MS CHESTER:** Okay, so if we just set aside the issue of transport costs for a moment, how would the cost of production in Queensland compare to the cost of production in Tasmania, if they're sort of broadly comparable operations today?

**MR NELAN (HF):** With the exception of perhaps building infrastructure, where

we own the buildings here, in Queensland we lease them, generally the operational costs are comparable. There are slight differences in labour. I could say that Tasmania has some of the most expensive electricity in this country for hydro generated power compared to what we pay in Queensland. But generally I would say that the factories now being of equivalent size are now aligning. Prior to expanding Rocklea it had a higher cost of production, because it had lower throughput.

**MS CHESTER:** In terms of your overall cost of production then in Tasmania, do you have a sense of what order of magnitude or what percentage transport costs are, and then of that what do the shipping costs represent?

**MR NELAN (HF):** Yes, we do.

**MS CHESTER:** Is that in your submission or is that something - - -

**MR NELAN (HF):** No, it's not.

**MS CHESTER:** Okay, are you able to share those numbers with us, or give us a sense of order of magnitude?

**MR NELAN (HF):** I'm not sure that I want to talk about our costs necessarily in a public domain. I'm happy to perhaps provide that outside of a public hearing environment. But, you know, we're very sensitive to our financial information. Just telling you what our revenue is is something that we're not overly comfortable with. But, you know, freight and blue water freight is a significant part of our operational costs, and we can quantify that for you, but I wouldn't feel comfortable doing that in this environment.

**MS CHESTER:** No, and we do appreciate that some of that information is commercially sensitive. So perhaps if it's helpful, not wanting to know the quantum, but then say if your cost of production was \$100, what percentage of that \$100 would be transport and then of that what percentage would be shipping, and I think that might be helpful in terms of avoiding any issues of - - -

**MR NELAN (HF):** Yes. No, we can certainly provide that information to you. It's not in our report though.

**MS CHESTER:** Okay, all right. Thank you very much. You've touched on the issue at the moment that given the nature of the produce you're getting to market, which is time sensitive, and being a consumer of your products I do appreciate that, but at the moment you are using TT Line.

**MR NELAN (HF):** Yes.

**MS CHESTER:** Can you just run us through the reasons why you're using TT Line?

**MR NELAN (HF):** I don't know if you want to do that, Eric, being - - -

**MR SIEDLER (HF):** TT Line offers a service that suits our production environment. For most of the year TT Line has a departure of 7.30, which allows us to run our production right through to 2 o'clock to get the last product on the truck and up to Devonport to make the sailing at 7.30. We need to be there around an hour beforehand to make the sailing. The other two (indistinct) SeaRoad for example leave at 5 o'clock in the afternoon, which means that we need to leave here a lot earlier to get our product there because TT-Line provides (indistinct) parts of the year a seven-day service and then for other parts of the year, a six-day service which the other two don't provide. It's really a choice. It gets our product to market as quickly as we need to get it there.

**MS CHESTER:** So it's more an issue of the timing of departure of the TT-Line vessel. Is it anything to do with the refrigerated roll-on trailer capacity that TT-Line has versus the other vessels as a sea route?

**MR SIEDLER (HF):** No. I can't really give you too many details there. That's something our freight provider would know more about, but essentially the SeaRoad service is something that we could use (indistinct). It means that we need to start our production a lot earlier which is not something that we can do most of the time, so that's why the choice was made to go with TT-Line.

**MS CHESTER:** I'm not sure if you're familiar with SeaRoad. In their submission to us they did outline the potential for them investing in a new vessel which would allow them shorter time to cross Bass Strait and potentially being able to leave at a later time. Is that something that you're familiar with?

**MR SIEDLER (HF):** Yes, we are aware of it, although our understanding is that the service is not going to change. It will still be a 5 pm sail. It might get there a little bit quicker but the time is still the same, unless that has changed since the last time but, yes, that's our understanding.

**MR NELAN (HF):** I guess the fundamental issue for carriers is the cost of Sunday sailing, for instance. It's just not profitable for carriers to do that. The bulk of product coming out of Tasmania, I assume, is not of a true fresh nature in the sense of our product that needs to be consumed within eight days, so therefore, there is no incentive for carriers to provide seven-day a week freight services to a business like ours. That is a fundamental concern for us. The highway slowly gets closed in winter.

**MR SIEDLER (HF):** The fundamental difference, I suppose, for us is that all the product we make we make to order, so any of our product that comes off our production line is not in storage at all. It's what the customer has ordered and it's what we're going to deliver. You will be aware Coles and Woolworths are waging a bit of a war on freshness and we're part of that. They want us to get the product there as quickly as possible, so we're under increasing pressure from our customers, our major customers, to get the product to their market as quickly as possible.

**MS CHESTER:** Thank you. That's very helpful. Just turning to some of the comments you made around the southbound element of the scheme and the administrative complexity. We do understand that there are some issues around categories, the ANZSIC categories, and for vertically integrated businesses, for yourself, that does pose some issues. Are you able to just provide a little bit more detail around how the administrative complexity is impacting your business and to the extent that that became a different point then as well for having to use an agent to assist you through claiming under the scheme.

**MR NELAN (HF):** Okay. We have used Net Sea Freight for quite some years now, for both northbound and southbound. The reason for that is that in a business that is growing as fast as Houston's Farm has been we did not have the resources or expertise within our business to manage the freight claims efficiently and you hear these horror stories of administrative delays in getting refunds of subsidies paid back, delays in getting your returns lodged because you're too busy focusing on dealing with a massively growing business. So for us it is far better that Net Sea Freight managed those claims.

The northbound claims are fairly straightforward because we are generally sending full container loads these days. In the early days we weren't, so there was a little bit of complexity but it's a fairly straightforward process. The southbound though, it is knowing what you can claim, what you're not claiming that you should be claiming that you're entitled to claim, and that's where Net Sea Freight were able to come in and work with us to identify where we weren't maximising our entitlement to the subsidy on southbound within the spirit of the scheme.

Even today we don't have the expertise in the business to do southbound claims, so for me that indicates to me that the scheme is too complex; it is not clear. From a southbound component, this ANZSIC classification for me is a major frustration and it's discriminatory because if we had a competitor who had a farm as a registered business or if we had a farm as a separate business to our manufacturing operations, both could claim under different ANZSIC classifications and receive subsidies for southbound.

We can't for either one or the other, and depending on who I offend in Centrelink or in the department in Canberra, they'll take my words and say, "Well, if

you say you're an agricultural producer, that's what you are. You now can't claim this," or if you're a pack house which we're not but if you are, you're a pack house, you can now claim this. We've been going around in circles for years on this and I'm telling the commission that it is influencing our decision about where we spend our money and it has influenced us this February with this tap line in question that was originally earmarked for Tasmania, because if we can't get a level playing field to buy materials to put into our products that aren't available in Tasmania all year round then - what? Don't operate here? The only (indistinct) we've got in the market that we operate in under tight margins and I want to see that turned around.

I want Australians to see the value of what Tasmania has to offer by way of good soils, good climate, water, high quality food, the food bar concept, but we've got a fundamental Achilles heel at the moment and that's getting it off the island for an economically fair price.

**MR QUINLIVAN:** Just on this industry classification issue, I take it you're suggesting that the eligibility should be based on the nature of the activity, not the designation of the company - - -

**MR NELAN (HF):** Yes, I've searched through the ANZSIC codes and I can't find anything that says vertically integrated food processor, so I'm either an agricultural processor or I'm a food processor. What is our predominant activity? Our predominant activity can change depending on where we invest our money. If we invest it in new farms, does that mean our predominant activity is we're an agricultural producer? If we invest it in new factories, does that mean it changes? I think it's a misleading application of a classification code to justify denying people eligibility to subsidy assistance.

**MR QUINLIVAN:** Okay. On the general complexity of the southbound transactions, have you got any ideas or proposals you'd like us to consider for simplification?

**MR NELAN (HF):** Yes. What I think should happen is that the Government should tender our all freight, pay all freight bills and then just change the end users a flat road freight rate for all the products coming to and from Tasmania. Then they'll probably understand how we have to deal with it.

**MR QUINLIVAN:** Short of that, have you got something - - -

**MR NELAN (HF):** Look, I'm sure there is a way of simplifying the process. I don't have the solution. If I had the solution I'd probably be sitting on an island somewhere living it up but I think we need to take the complexity out and whether it's just a flat rate for southbound, not northbound, based on certain parameters and it's easy to calculate and the claimants can self-assess easily and the parameters are



quite clear, it's going to clean up a whole lot of confusion but I think the parameters aren't clear. What you can and can't claim is not clear, and how you put that claim together is certainly not clear, so I think the first step is keep it simple so people can understand it, and flat rates are probably the way to go for some southbound stuff.

**MS CHESTER:** And flat rate for the northbound component assuming we were to get the quantum right?

**MR NELAN (HF):** That's the fundamental key because I think I read somewhere a proposed flat rate of \$400 per TUE or - - -

**MR SIEDLER (HF):** TEU.

**MR NELAN (HF):** TEU. A \$400 flat rate would be business ending for us.

**MS CHESTER:** We don't make any recommendation of what would be the appropriate flat rate. We do realise that it's quite a complex calculation to make to try to get it right, given once you move to flat rates, you are doing an average across all business.

**MR NELAN (HF):** Yes, because everyone is different; whether you're doing LCLs or FCLs, it's all different.

**MS CHESTER:** Thank you very much for appearing today and for giving us the comments and feedback. We do appreciate it. Is there anything else you wanted to comment on? I am mindful that we are getting a submission from you which will obviously have a little bit more detail in it.

**MR NELAN (HF):** Yes. No, thanks once again for having the opportunity to present and we hope that the outcomes of this are good for all Australia's and in particular for Tasmanian industry and more particular for agribusiness in this state.

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

**MR NELAN (HF):** Thank you.

**MS CHESTER:** Ladies and gentlemen, we'll adjourn our proceedings for the purpose of the luncheon break. Let's hope there's some good Houston salad awaiting us. If people could return at 5 to 1, that would be very helpful. Thanks very much.

(Luncheon adjournment)

**MS CHESTER:** Good afternoon, ladies and gentlemen. We will resume our hearings and we will be now hearing from a gentleman from the National Sea Highway Coalition. Thank you very much for appearing this afternoon and for your initial submission to the commission's inquiry. If I could just ask you for the record if you could please just state your name, title and the organisations you are representing today.

**MR LARISSEY (NSHC):** Michael Larissey, the National Sea Highway Coalition Tasmania.

**MR HOWLETT (NSHC):** My name is Colin Howlett and I am a member of the Tasmania regimen and I also chair the State Concerned Farmers and Rural Communities Tasmania.

**MS CHESTER:** Thank you very much. Would you like to make some opening comments.

**MR LARISSEY (NSHC):** Yes. First of all, we have our submission document which we would like to put forward in which there are - - -

**MR QUINLIVAN:** We will pick that up later on.

**MR LARISSEY (NSHC):** Thank you.

**MR QUINLIVAN:** We won't be able to read it until then.

**MR LARISSEY (NSHC):** That's fine and, yes, we would like to run through our points as far as the state is concerned for the access. Basically, we are wanting fair trade and access for the 420 kilometres. It's the biggest obstacle as far as transport is concerned for this state and we see that the original concept appeared to be working. When the ships first went on, it worked. The passengers and the freight was working and now it's gone off track somewhere along the line and there's a number of issues in that, which is in our submission, that we feel need to be looked at and considered but obviously, an island state is dependent on the 420-kilometre state access.

**MR HOWLETT (NSHC):** Commissioner, we've actually - and Mike will be able to tell you these. We've actually written down some key thoughts that support our 23-point submission and Mike will take you through those and there is one or two things.

**MS CHESTER:** Thank you.

**MR LARISSEY (NSHC):** The executive summary points basically are that TFES and/or BSPVES, referred to in the document, are not considered a subsidy where

they serve equalised offsets or compensation for the cost disadvantages that other mainland states do not face. The second point is Bass Strait is part of the national highway and the infrastructure that makes it work to improve productivity and efficiency is no different than a road or rail on the mainland. This is why a "one in, all in" approach to passenger and freight movements is considered justified in spite of potential added cost.

The third point is although BITRE has produced data to support lower equalisation payments and therefore a lower cost assistance scheme, the simplicity of the notional payment calculation based on B-double freight rates, for example, assumes broad application of this technology if it is to be realised as a benchmark in a complex freight system.

Four, it's well recognised that the coastal shipping management level significantly inflates the ferry cost between Tasmania and the mainland for farmers, tourists, logistic operators, which are at the front end of supply chain, cannot be expected to bear this cost. This is not helped by government owned or such services including the ports. The National Sea Highway questions the evidence that supports the PC claim that more tightly defined regional projects would necessarily produce a higher investment return, considering the statistical nature of Tasmania's population, workforce, participants and age demographics.

Item 6, in the absence of the direct import and export shipping from Tasmania, there is considered to be no basis on which to exclude international freight from TFES through Melbourne as in addition to the impact on competitiveness. It tends to be discouraged, value adding to Tasmania. Further, until such freight arrangements can be re-established, such assistance is considered to be SWTA compliant. In spite of the significant recurring budgetary expenses, the TFES and the BSPVES, the cost parallels that would normally apply to mainland road and rail infrastructure maintenance over vastly larger distances and obviously, that's something that hasn't been split between Victoria and Tasmania.

Item 8, the balance of productivity increasing infrastructure investment that improves operational flexibility and reduces manning around key northern Tas ports would appear to take priority over broader land based road and rail upgrades. Nine, unbundling the freight and passenger cost in general supports is in the interests of greater transparency and reduces distortion of product flow to and from Tasmania. Currently, Tasmania has the capacity to produce significantly more grain for rural sectors' consumption than is currently the case and the last item, 10, infrastructure targeted at feeder niche based markets freight and passenger movements to and from Tasmania, to the mainland, is expected to be the way of the future. If cost efficiency is to be improved, this reflects the scale trends towards larger ships and fewer ports around the world.

**MR HOWLETT (NSHC):** Commissioners, before we are questioned on our so-called executive summary, I would like to say that our submission is based on fair trade and the current arrangement is not providing fair trade. As you probably noted, I sat in on some of the earlier submissions this morning and there seems to be commonality between our submissions and arguments with a lot of other business operators and potential tourist visitors to Tasmania and we know that the current shipping service across Bass Strait is putting insurmountable handicaps on Tasmania's ability to create economic development. It's causing young people to leave our state and if you permit this, and the Government permits it, within a very short time, we can turn out the lights because we're not going to be able to survive. We're often criticised by other state premiers that we have our hands out for government money.

What we're simply saying is take the shackles off us, remove the handicaps, provide us with a level playing field, provide us with equity and allow us to have fair trade and a lot of those so-called handouts will be removed. I think, at this particular point, that's what I need to say. I know (indistinct) are involved in a lot more costs than they should and for the Productivity Commission to suggest that they're going to remove the south bound equity, that's just horrendous for the state and I certainly hope that the commission can be persuaded that that was blatantly wrong. Thank you.

**MS CHESTER:** Thank you very much for those opening remarks. If I could just start with two points of clarification. The submission that you are providing to us today, is that the submission that you provided to the commission earlier?

**MR LARISSEY (NSHC):** We supplied a summary, but we have a full document here with all the facts and figures supporting.

**MS CHESTER:** Underpinning? Thank you very much. The Coalition itself, I appreciate that it is representing members of the Tasmanian community and business. Are you able to just give us a little bit more of an idea of which businesses and sectors - - -

**MR LARISSEY (NSHC):** Yes.

**MS CHESTER:** - - - that you are representing?

**MR HOWLETT (NSHC):** The National Sea Highway Supporters consists of (indistinct) Services Australia Limited, based in Launceston. The gentleman that's leading that organisation is Phil (indistinct) the Anglican Diocese of Tasmania, the Reverend John Harrier; the Australian Weaving Mills, Geoff Parker; Bales Brothers Chrissy, Mr Rob Bales; Bishop Barristers and Solicitors Launceston, Tasmania; Fenton, Jones and Partners; Break O'Day Council; Scottsdale Council; the

Campervan and Motorhome Association of Australia, Ken Kipping; Caterpillar Underground Mining, Burnie, Tasmania; Circular Head Tourism Association in Stanley.

Coles Bay Community Householders; Coster Group Sunshine, Victoria; Michael Tovey is the corporate affairs manager; the Commodore Regent Hotel, Launceston, Rowan Larcy; Council of Small Business Organisations Australia, Peter Strong; Derwent Bridge Chalets and Studios, New Norfolk; Devenport Chamber of Commerce and Industry; Devenport City Council, unanimous support is noted there; Devenport Tourism Association; Derwent Bridge Chalet; Derwent Valley Council; Dorset Council; Exclusive Cars of Perth, Tasmania; Farm Machinery Tasmania Pty Ltd, Launceston; Georgetown Council; Glamorgan Spring Bay Council; Glenorchy City Council; Glenorchy City Council, Aldermen, Jenny Branch; Heavy Vehicle Australia; Somerton, Victoria; Hobart City Council; Hobart Mid-City Hotel; Kubota Tractors Australia Pty Ltd; Launceston City Council; Master Builds - still there's more. Do you want me to continue?

**MS CHESTER:** No, that is - - -

**MR HOWLETT:** That is only half, and - - -

**MS CHESTER:** That was very helpful, in terms of it has given us into the breadth and spectrum of organisations and individuals.

**MR LARISSEY (NSHC):** It's very broad.

**MS CHESTER:** Which plays a really important role, given that quite often, in the public hearing process, we get to hear from very large firms, but good to get a submission that you have organised that represents the interests of that spectrum of individuals and organisation. So thank you, that - - -

**MR HOWLETT (NSHC):** Commissioner, I have only read half of those (indistinct) of which is a large percentage of city and rural councils throughout Tasmania and we've actually had networking with those people and they absolutely support our arguments, but you'll have the ability to be able to see the remainder of those because that's only half of what I've read out.

**MS CHESTER:** Thank you. We can take that as evidence as part of your submissions.

**MR LARISSEY (NSHC):** Thank you.

**MS CHESTER:** It has been helpful for everyone today to understand who you are representing, and fair to say then that the suggestions and the position in your

submission represent the views of all of those parties collectively?

**MR HOWLETT (NSHC):** Well - - -

**MR LARISSEY (NSHC):** That's correct. The document went out and then we asked whether we had support for the document, and then the response from the document, we've generated those names.

**MR HOWLETT (NSHC):** It's in writing, Commissioner.

**MS CHESTER:** Thank you very much. That is very helpful. Just turning first to the concept of fair trade, which I think you state before sort of underpins the position of the Coalition. Is it fair to say that - and correct me if I am wrong - that your definition of fair trade is the equalisation of the cost disadvantage of freight and passenger travel across the Bass Strait. Is that what you mean by "fair trade"?

**MR LARISSEY (NSHC):** Basically, the Bass Strait is 420 kilometres and proposal supports that we pay for 420 kilometres as if we were on the Hume Highway and that's what everybody else in the country enjoys, and we're quite supportive to pay that, but we're paying penalties.

**MS CHESTER:** Thank you for that. Does the Coalition have a view on the competitiveness of Bass Strait Shipping as it is today?

**MR LARISSEY (NSHC):** Probably not.

**MR HOWLETT:** I think I can probably answer that. We believe that is the federal government's responsibility to fund Bass Strait. We believe it is the federal government's responsibility to manage Bass Strait and it is their call. They should be able to provide funds and manage it to provide equity for all (indistinct) and people wanting to do business in Tasmania and people who want to visit Tasmania. I'm not sure if that answers your question, but that's our submission, is that the federal government should be financing it totally to bring total equity for us and they should - it's their call how they do that and they should manage it.

If they want to outsource it, they do so. If they want to allow a TT line to continue, that is okay with us, but what we are asking is for, whoever provides that service, they provide a service that gives us equity in line with other states of the Commonwealth, in terms of - Michael has just referred to the 420 kilometres distance from the Melbourne wharf to approximately the closest land mass in Tasmania and that's what we're asking for. It shouldn't cost any more to cover that stretch of water than, say, approximately Wollongong to the Melbourne north.

**MS CHESTER:** Thank you for clarifying that.

**MR LARISSEY (NSHC):** Ms Commissioner, if the question was directed more on competition, should competition push prices down, well, obviously it hasn't, and we believe that probably for an island with half a million people that competition won't fix the problem because it's proven it hasn't fixed the problem; that the cost to do 420 kilometres by ship is going to be more than the Hume Highway, and that's what our point is. For us to exist in any format, whether we're farmers, or whether we're transport operators, or whether we're other establishments as per our list, we need to be able to get product at the cost of 420 kilometres on the Hume Highway that everybody else pays.

**MS CHESTER:** I think it is fair to say that the current form of assistance that the federal government provides to try to address that cost disadvantage of having to ship freight or passengers across the Bass Strait is through the two schemes that you mentioned, the TFES and the BSPVES.

**MR LARISSEY (NSHC):** Yes.

**MS CHESTER:** So is your coalition broadly happy with that as the mechanism through which to off-set that cost disadvantage?

**MR LARISSEY (NSHC):** Yes. We are happy - as I understand, we are happy with the mechanism but it's the management of the mechanism and the volumes that are needed and the lack of volumes to bring cars and so forth across the Strait and for Tasmanians to get out of the state. We have turned back into a convict state. We're gaoled here. We can't get out. The argument over cheap airfares just doesn't wash because if you have got relatives on the mainland and you want to get out of this stage, it's costing you \$500 one way to get to Melbourne. So cheap airfares are fine for people who can plan holidays but we're talking about people who need to access the mainland and we're just not being given that.

**MR HOWLETT (NSHC):** Commissioner, if I could make a comment. I'm connected with a family in Queensland and they have immediate families in Tasmania and they have immediate families in Western Australia. They claim that they cannot come to Tasmania and, from a family perspective, they're often criticised but they say that they go to Western Australia because (1) there is certainty. They can go when they want to go, they can come back when they want to come back, and they travel by road in their own car. They can't do that when they come to Tasmania because if they can get to Tasmania, they can't get back on time and the cost is overwhelming for the trip to Tasmania and that's killing the economic viability of Tasmania.

**MS CHESTER:** So the cost that you're focusing on there is them getting their car across the Bass Strait with TT-Line given their chosen mode of transportation is

road, not air. Do I understand what you're saying?

**MR LARISSEY (NSHC):** Yeah, and the cabin cost.

**MS CHESTER:** Okay, all right.

**MR LARISSEY (NSHC):** The cabin costs are extremely expensive, TT-Line can answer those questions but that's quite probative; like people are coming down from Queensland and they have to come to Tasmania, so they have to go via the Melbourne airport to get most of the family on the plane and then one person - they break up the family. One person brings the vehicle across because they just can't keep together, it's just cost - - -

**MS CHESTER:** Thank you for that. I think we might just cover the Bass Strait Passenger Vehicle Equalisation Scheme first. As I take it from your summary comments, you feel there's an issue with the current eligibility or is it the level of assistance that's being provided?

**MR LARISSEY (NSHC):** It's the lack of space to be able to get the cars on the vessel and if it's not a lack of space problem, it is a lack of accommodation problem.

**MS CHESTER:** So do you have some evidence that you're able to present in these hearings of the unmet demand in terms of individuals not being able to get access to space on the TT-Line as passengers or passengers - - -

**MR LARISSEY (NSHC):** No. We don't have that evidence but there are groups that are coming before you that have members that can provide that information to you from what we can see.

**MS CHESTER:** All right. We will wait to hear from them to get some evidence on that then.

**MR LARISSEY (NSHC):** Thank you.

**MS CHESTER:** So then with respect to the Tasmanian Freight Equalisation Scheme, you touched on before some issues around the eligibility. Would you like to just outline where you feel that there are commodities or sectors that aren't currently eligible under the scheme that should be?

**MR LARISSEY (NSHC):** Yeah. Well, there's a number of split-ups we could actually cover in that but, for example, we know that there's a number of businesses that are moving from Tasmania to Victoria so they can qualify because of what the product of.



**MS CHESTER:** Yes.

**MR LARISSEY (NSHC):** I'm presuming you can obtain that information but if you can't, we can certainly obtain that information for you. Obviously there is major concern - when Colin referred to the southbound - for example, beer, Boag's Brewery which even a non-beer drinker should know, we don't have a bottling glass factory in Tasmania, so the bottles have to come in from the mainland. Now, obviously if that is not continued, that will close down Boag's.

So in our submission, we are saying that we believe there are two issues; that it's an island state and we need to be able to get product in for those businesses here and what it's doing and the product, once completed in different formats, needs to be shipped out and you shouldn't have to be based in Victoria to be eligible. We not saying there are other issues that shouldn't be getting the allowance. We are not that far in debt but we can flag those type of issues that we see.

**MS CHESTER:** Okay, thank you. If you do have any evidence - we have heard anecdotally of some reports that for firms to get eligibility under the TFES, they have moved some minimal processing to Victoria so they are eligible and these are companies that would have been exporting their products out of the Port of Melbourne.

**MR LARISSEY (NSHC):** Yes.

**MS CHESTER:** It would be very helpful if we could get some evidence on that if you are aware of those examples.

**MR LARISSEY (NSHC):** Yes.

**MS CHESTER:** That would be very helpful because it is one of our concerns with how the schemes are currently structured, that it's meant to be to the benefit of Tasmanians and to relieve the freight cost disadvantage and then it perversely results in processing activities being shifted from Tasmania to Victoria.

**MR LARISSEY (NSHC):** Yes.

**MS CHESTER:** So can I take it from your comments then that if the TFES scheme southbound leg remained in place, the northbound leg remained in place as it is under the current scheme and the northbound was broadened to any eligible commodity transhipped through Melbourne which would pick up some that might ultimately be for international export destinations, that would address the concerns that you currently have around the TFES scheme?

**MR LARISSEY (NSHC):** Yes, I believe so.

**MR HOWLETT (NSHC):** Yes, it's possible that it would. However, if we are treated with fair trade as other states are, that will let the market decide and this is where we are coming from, that (indistinct) fair trade, our argument is that we are not getting fair trade.

I have heard submissions here this morning and it's exactly true and it's the same information that we're getting, that people (indistinct) offshore, they're moving out of Tasmania to develop businesses in other states, and that's not in Tasmania's economic interest. We have got a lot of very, very (indistinct) benefits why people would like to continue to operate in Tasmania but Bass Strait's constraints are preventing that from happening and it has happened intermittently over a number of years; for instance, even with the regime that you refer to there has been no indexation for some significant time and that again is just - it's just a handicap and the shackles (indistinct) Tasmania's economic wellbeing to the extent where intermittently we're just going to - we will die.

There's no question that economically we will die and we would like to be able to - we need to be able to rely on industry and on doing our business in the clean, green state of Tasmania. We need industry, it may well be light industry and there's lots and lots of opportunities for us to be able to develop our economy but currently we're not allowed to because of the constraints that are placed on us and Bass Strait is the principal constraint.

**MS CHESTER:** Thank you for that. That's very helpful. In terms of broadening the eligibility on the northbound part of the scheme to exports that are being transhipped through the Port of Melbourne, from the groups and businesses that you're representing, are you aware of any exporters that currently are not eligible for the scheme that would be eligible if that was broadened?

**MR LARISSEY (NSHC):** Yes. We understand that most are not and that that's the reason the state called on international shipping out of Bell Bay. We don't have the expertise on the international side to be able to make comment but there is one thing that we are very convinced of, that the issue of Tasmania to Victoria is about 95 per cent of the freight movement and that percentage came off Infrastructure Australia. So I suppose we would probably say that the federal government needs to get best bang for buck, and if their best bang for buck is to make it eligible - that international can go on that vessel and then connect to the international ports, well, that should be the decision, but we don't have the expertise on the international side because that was running separately to us.

**MS CHESTER:** Thank you for that. We are getting submissions and hearing evidence during our public hearing processes from some of the firms that are exporting but I just thought that given there were some smaller businesses that you

were representing you might have had some insight on - - -

**MR LARISSEY (NSHC):** From our side of it, they would like to use it and be eligible on the basis that the product is ready and they want to be able to ship it tomorrow, and the international result, we understand, was the best possible outcome was every 17 days.

**MS CHESTER:** Yes, we received some evidence yesterday that it would actually be once every 18 days which may or may not meet the needs of the exporters of Tasmania.

**MR LARISSEY (NSHC):** It might meet some and it mightn't meet others.

**MR HOWLETT (NSHC):** Please excuse me if I've misunderstood what you've said but Blundstone Boots has been a well established manufacturer in Tasmania for many, many years, and there's a part of their manufacturing business - and I understand it's in hides, where there's any export component - they miss out on getting, and they send it to Victoria and then the only way they can get reimbursement or any type of equity is that they have to do the manufacturing in Victoria. I'm not sure whether I've misunderstood your question but that's one example, and Doug Dickenson has been trying for many, many years to get some equity in that regard and to this day he has filed in doing it, from Tasmania, and he wants to operate in Tasmania but he has no other alternative but to operate in other states.

**MS CHESTER:** Thank you. We have received a submission from the gentleman and his company and we are speaking to them through the public hearing process as well. It would be very helpful if, as we mentioned before, we could get some evidence, if you are aware of any, of processing moving to Victoria to be eligible for the scheme. I think that really sort of covers the questions we were hoping to work through with you this afternoon. Are there any other comments you would like to make?

**MR LARISSEY (NSHC):** No. I suppose I would only sum up by saying that if this can't be corrected we need to dig our roads up and we need to all go and lay on the beach because it's got to a point where we can't go any further like this.

**MS CHESTER:** Thank you very much for your time and for appearing this afternoon, and for your submission as well.

**MR LARISSEY (NSHC):** Thank you.

**MR HOWLETT (NSHC):** Thank you.

**MS CHESTER:** I would like to call our next participant to join us from Campervan and Motorhome Club of Australia. Good afternoon. Thank you for presenting this afternoon and for joining us. If you could just state for the record your name, title and the organisation you are representing today.

**MR NAPIER (CMCA):** Don Napier, and I'm both representing my own submission which I put in plus speaking for the CMCA as well.

**MS CHESTER:** Thank you. Take a seat please. Mr Napier, the two submissions you are representing, do they have similar views on the issues around the schemes?

**MR NAPIER (CMCA):** Yes, they do.

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

**MR NAPIER (CMCA):** I didn't actually prepare definitive notes on what I wanted to say. I thought you may want to ask questions on my submission and then my response to the draft report.

**MS CHESTER:** I'm happy to do so if that works for you.

**MR NAPIER (CMCA):** Yes, and I do have some other comments as well, so if you would like to go through those first.

**MS CHESTER:** If you got some other comment, would you like to share those first and then we can move into questions new have on your submissions?

**MR NAPIER (CMCA):** Yes.

**MS CHESTER:** Just so we know where you stand on the range of issues that we're dealing with this afternoon.

**MR NAPIER (CMCA):** I don't profess to have any qualifications on freight issues at all; purely on the passengers and passenger vehicle crossing Bass Strait mainly for the RV tourists or campervan, motorhome and caravan tourists that come to the state. So that's where I am basically, covering that issue.

There's currently something like 474,000 registered RVs in Australia; that's, as I say, motor homes, caravans and campervans, and probably approximately 200,000 of them are on the road in Australia at any one time. We are not even getting a very small proportion of them coming to Tasmania. The CMCA represents about 35,000 vehicles, and their membership is approximately 70,000, so they do have speak for a significant portion of that RV travel industry. They were instrumental in forming a

group called Motoring Australia which has brought caravan clubs and other organisations into a cohesive group to represent RV tourists, and that's going from strength to strength at the moment.

The TT-Line is the big issue as far as we are concerned here. As I say, there's only a very small proportion of those RVs that are on the road that are coming to Tasmania, and there's a couple of main issues why they are not coming here. As I have heard others say and I've seen in other submissions, the cost is the main one but there's also things like the convenience of getting on the ship in Melbourne.

The costs are split up into several categories: the cost of getting your vehicle across is one; the cost of meals and accommodation on the ship is another, and just the inconvenience of being able to board in Melbourne in a high traffic area with no parking and all that sort of thing; the lack of convenient booking too to get on the ship and the fact that to get a travel date for your preferred date of travel, you have to often book months ahead. You have to pay within a day of booking, and there is a penalty for changing those bookings if you need to change it.

This is one place where I will mention freight. I can't back this up with hard evidence but I've been told on several occasions that freight bookings can be made up to the day before the sailing and there is no penalty for cancellations whereas there is a penalty for cancellations with vehicle traffic, so that is something where freight competes unfairly with the RV tourists, and again I'm not sure if the TT-Line will back this up because it's maybe not in their interests to say such a thing, but we are quite sure in our fraternity that freight takes precedence to RVs, especially in the high vehicle area because there are quite a few high motor homes and caravans these days. The size is increasing in the later model, the newer RVs, which need to be parked on the main vehicle deck on the ships and the height restriction does compete with freight and it's anecdotally quite apparent that freight takes precedence over those higher vehicles.

**MS CHESTER:** Are you able to provide us with any evidence? You refer to some unmet demand where members of your club are unable to get slots for their motor homes on the TT-Line service.

**MR NAPIER (CMCA):** It's difficult to provide hard evidence on that because the RV travellers are individuals and, you know, make individual bookings and as such you can only get sort of word of mouth. There's no cohesive group that represents them that could collect hard figures on that, but anecdotally I have spoken to a lot of people.

I'm one of these grey nomads that travel Australia pretty well full-time. I spend seven to eight months each year on the mainland and come home to Tasmania for the summer and to catch up with the grandkids and that sort of thing. I have been

doing that for a number of years and amongst the RV travellers one of the great strengths and benefits of travelling is the friendships you make and the daily happy hour gatherings which are a great source of information, a great source of exchanging information on what you do, where you go, where you don't go especially too, and so you hear all sorts of comments around these gatherings that are difficult to quantify but they have to be true because there's so many of them.

**MS CHESTER:** Okay. Thanks, that's helpful. We do appreciate it's difficult to have hard evidence but anecdotal reporting is helpful as well. From what you're saying, the largest obstacle for more motorhomes potentially coming to Tasmania is the cost and we're very conscious that there is only one service provider, being TT-Line.

**MR NAPIER (CMCA):** Yes.

**MS CHESTER:** If you read our draft report, and I'm fairly sure you have, you would have seen that one of the issues that we provide some comment on is that when the scheme was introduced and extended to eligible vehicles including motorhomes, after one or two years the rates charged by TT-Line went up so much so that it effectively eroded the benefit of that subsidy through the scheme.

**MR NAPIER (CMCA):** Absolutely, yes. Yes, very worried at that. My own vehicle, which is a small fifth wheeler van being towed by a four-wheel drive utility - since I have started using that, and it will be eight years in about a month's time since my first trip across with it, the price for that has doubled in that time and the cost of cabins has doubled, the cost of meals has doubled on the boat in about eight years.

**MS CHESTER:** That's covered in your submission?

**MR NAPIER (CMCA):** Not in hard facts. I can give you the cost of my last crossings but I just didn't keep receipts. When you're travelling in a van you don't have space to keep much so I didn't keep receipts and things from previous travel times, but when I first started travelling with this rig it was a little over \$800 return and my last trip when I came back from the mainland in November was \$802 one way, which suggests double that for a return trip.

**MS CHESTER:** Okay. Thank you. From your perspective then the structure of the scheme, the Bass Strait Passenger Vehicle Equalisation Scheme - the structure of the scheme and the subsidy provided is an appropriate mechanism to offset sort of the cost disadvantage?

**MR NAPIER (CMCA):** It's appropriate as far as it goes but my own view is that Bass Strait should be part of the national highway system and that we should have to pay rates based on taking a vehicle an equivalent distance on a national highway

between the states on the mainland. Whether that's achievable or not, I'm not sure, but that to me would be the ideal situation.

**MS CHESTER:** So in terms of how the rate of subsidy is calculated, you would like it to be more akin to the way the subsidy is calculated for the Tasmanian Freight Equalisation Scheme which is trying to come up with a notional cost disadvantage compared to travelling a similar route on the mainland?

**MR NAPIER (CMCA):** No, the cost is based on a cost per vehicle and in the RV fraternity there's a very big difference in the size of vehicles and the deck space they occupy. I have been involved with shipping over the years in a small way and, you know, I understand how freight is charged, normally in the shipping industry on a volume basis or deck space occupied, and some of the RVs do occupy quite a lot of deck space which causes the cost to be increased dramatically for that vehicle, so the Equalisation Scheme as it stands now doesn't cater for that change in cost due to the length of vehicles.

**MS CHESTER:** I think that covers the questions that we were hoping to discuss with you this afternoon. Are there any other comments that you would like to make?

**MR NAPIER (CMCA):** My view is that there are a lot of savings that could be made in the TT-Line service. The ships at the moment are adequate for the job but they're a bit more like mini cruise liners than ferries which does add to the cost, I'm sure.

I think that there's another factor too and that is the distance they have to travel. I think that planning to change the Victorian terminal for the TT-Line to Hastings would be a good thing to consider. The Hastings port development is in its infancy, I believe, but there's a lot of planning and some investment already taking place there, I believe, in expanding the port at Hastings and that would cut some seven or eight hours off the return trip for one of the TT-Line ships and therefore they could change the structure of the ship so that they didn't have to provide so much overnight accommodation and they could maybe do it just as seating only trips, which would save a lot of cost both in planning and building the vessels and also in staffing and running costs.

The shorter time would allow maybe an extra trip per 24 hours, which again increases the utilisation of the investment in the ships. Also my view is that the TT-Line ships should be passenger and passenger vehicles only and all the freight should be handled by private enterprise ships. I might be a bit controversial in saying this but I think that the Tasmanian government and the TT-Line are not really interested in our sector of the travel because of the difficulties in booking and that sort of thing and the fact that they base their administration in Melbourne rather than Tasmania.

I have been told by an employee of the TT-Line that all their machinery for loading in Devonport is taken to Victoria to be serviced and repaired, so they're not interested in maintaining any economic benefit for Tasmania, so I think there's a lot needs looking at in the management philosophy of the TT-Line as well.

**MS CHESTER:** Which is definitely an issue that we have raised in our draft report as well in terms of asking the Tasmanian government to better articulate what are the objectives of government ownership with TT-Line and what are they expecting in terms of performance in commercial returns, so hopefully we will get some answers.

**MR NAPIER (CMCA):** I have had issues with trying to get bookings in the past. They try and encourage you to book online. I have always looked online and almost always found that the ship is fully booked for the dates I want to travel, so then I ring them and the first response is, "Yes, it's full on that date. We can't fit you in," and after you argue with them for about five minutes they will often say, "We will have a look," and then they come back and say, "Well, yes, maybe we can fit you on on that date," but you have to really push your case to get that. Then, of course, you pay a higher price because you're not taking one of the flexi bookings or whatever they call them for the cheaper rates.

Things like the pensioner discounts - last time I travelled back to Tasmania they told me that they're only allowed to sell 60 pensioner discounts on each sailing and they had sold 59 and I was coming back with my partner so we had to pay one full fare and one pensioner fare. That to my mind is ridiculous for a public transport operation; you know, there's no limit on the number of pensioner fares on the train going between Melbourne and Sydney for instance and any other public transport. I've never, ever struck a limit on the number of pensioner fares that they're selling in the past.

I did go to Melbourne with a car earlier last year and I got a pensioner fare one way, I just went over and back but I took an old vehicle over, traded it in on a new one and brought the new one back. I got a pensioner fare one way and an adult fare the other way because there wasn't another pensioner fare available on that sailing. And just for that exercise, to go over and back, over one day and back the next, with the same-sized vehicle was 640-something dollars I think it was, which is ridiculous. I did save more than that on the trading of the vehicle in Melbourne but even so, it was a big cost to take into account by doing that.

**MS CHESTER:** Thank you very much for your comments and your feedback today and we do appreciate you taking the time to come and present it.

**MR NAPIER(CMCA):** Okay. Thank you.

**MS CHESTER:** Thank you.



**MS CHESTER:** I'd like to invite our next participant to join us: Mr Andrew Wilkie, MP for Denison. Good afternoon. Thank you very much for joining us and taking the time to present in our public hearings today in Hobart. If you could just for the record state your name and title, and I think that should about cover it.

**MR WILKIE (MP):** Yes, Andrew Wilkie, the Independent Member for Denison here in Hobart.

**MS CHESTER:** Before I ask you to make any opening comments you'd like to make, Mr Wilkie, it would be helpful for us to sort of understand, you're obviously representing the members of Denison, if you're able to sort of articulate what sort of business groups and interests you're representing here today.

**MR WILKIE (MP):** I'm very mindful that the Productivity Commission over these, I think, three days in Tasmania are meeting with all sorts of interest groups. My concern is to make sure that the broader community is represented and these are the people that approach me, seemingly every week, to voice their concerns about the current situation with shipping and freight in Bass Strait. I'm very concerned that they are heard as well, apart from the big (indistinct) bodies and the big industry groups.

**MS CHESTER:** Okay. Thank you very much, that's helpful. Would you like to make some opening comments before we have an opportunity to ask some questions?

**MR WILKIE (MP):** Sure. Thank you. Just to flesh that out a little bit, I am approached regularly by all sorts of people, not just people who live or work in the electorate of Denison but also from throughout Tasmania and even people from the mainland travel down to talk to me about their concerns; for example, just a couple of weeks ago I had the head of JB Swift in my office talking to me about his challenges. But by far the big proportion of the people that approach me in my work are just ordinary members of the community; they might make an appointment to come in and see me in my office, or when I'm out and about. Frequently people are raising with me their concerns about Bass Strait and the way it is impacting on them.

It's telling that every Friday or almost every Friday I go out to a local shopping centre in Glenorchy city and I hold what I call a mobile office, I'm out there for about half a day most Fridays but people don't need an appointment, they just wander up and tell me what's on their mind and ask for help about all sorts of matters. It would be a very rare or unusual Friday that at least one person or group of people don't come up to me to talk to me about Bass Strait. So I suppose the point I'm wanting to labour here is please don't think this is just about Blundstone boots or Cuthbertson Bros or JB Swift or TT-Line or the big tourism operators.

This genuinely is an issue that affects and concerns many people in the community, people that you might not think would even give something like this a second thought; but as it turns out just about everyone is affected by Bass Strait; whether it be a disadvantaged family who are struggling with the high cost of goods, in part because of the cost of getting them to Tasmania or perhaps a small tourism operator in a regional area perhaps a little drive out of Hobart who has noticed in recent years that the number of people who are coming to Tasmania with their vehicle or with their vehicle and caravan it seems to be less than it used to be some years ago.

Perhaps it's in part because of cheap air fares; you know, people instead of coming to Tasmania, as I did for the very first time in 1990, I came down for what was about a four-week driving holiday, had a lovely time and fell in love with the place and ended up moving here eventually. But of course these days many people jump on a flight, \$69 out of Melbourne, so they come into Hobart or they go to Launceston and they don't get out into those regional areas and bolster those small towns and those small businesses. So lots of people are coming to me.

There are clearly many members of the Tasmanian community who have a sense of social dislocation because it is unaffordable for them to travel to the mainland with their vehicle because of the cost of Bass Strait, and it's not just disadvantaged people. If I could just say somewhat indulgently, Christmas a year ago I was going to take my two little daughters to Melbourne on the Spirit, I thought that would be a real adventure for them, take them up on the boat, but it was going to cost me \$1500 return for a Ford Territory and exclusive use of a four-berth cabin.

Now, I'm a very fortunate man and I'm on a very good income but even I baulked at that and I ended up going and buying some camping gear and took them camping instead. So if I'm baulking at it, imagine how people, and most people in the state would be on a lower income than me, imagine the barrier to them and that sense of social dislocation. So there is that social issue. I know within your hearings and the work you've already done so far, you've done a lot of work about the commercial dimension of this and that's important that the point is made to the Productivity Commission.

It is clearly an absurdity that we live here in a place where perhaps three-quarters of the cost of getting a 20-foot shipping container to North America, three-quarters of the cost is getting it landed in Melbourne; or vice versa getting a container of consumer goods from China, three-quarters of the cost of getting that container is from the Port of Melbourne into Hobart. It's an absurdity and it is a brake on our standard of living and on our economic development that is quite remarkable that it is such a serious influence on what goes on in Tasmania but it's also something that is so easily remedied.

I lament the fact that over the last three years we had a federal Labor government and a state Labor government and I would've thought the opportunity was perfect for them to put their heads together and try and solve this but regrettably they didn't and in fact I was very disappointed that in June last year I couldn't even get the support to bring on in the parliament a debate on a motion about trying to address Bass Strait. So I'm not trying to score political points here, I'm really looking at the history in a previous government, a previous parliament. But I think it was the case there was a lack of political will, so I'm pleased to see there might be more political will these days to try and deal with it.

If I could just very briefly dwell on one point which may not have been brought up in the hearings already and I think it is something that should be considered by the Productivity Commission and that's the costs or the fees charged by the Port of Melbourne. You would be aware I'm sure that in 2012, yes, in 2012 the Victorian parliament passed a law requiring the Port of Melbourne Corporation to pay - and at the time it was a \$75 million annual fee to the Victorian government and that's indexed annually I assume, so it has already gone up. That would appear to be a fee on interstate trade which, in my understanding, is unconstitutional. It is as unconstitutional and as unacceptable as it would be the Victorian government has a toll both on the Hume Highway at Albury Wodonga and charging every truck going up or coming into Victoria, you know, so many dollars in tax. If that was to happen on the Hume Highway, that would be clearly unacceptable and people would be up in arms and complain about it, but yet there seems to be little commentary about a virtually identical arrangement by the Port of Melbourne being required to charge extra fees on freight coming in and out of the port that is to do with Tasmania.

I think it's unconstitutional. I actually sought the advice of the parliamentary library on this and they were cautious in saying something was unconstitutional, as I'm sure you would appreciate, but they went as close to agreeing with me as I think they felt they were allowed to go, so that is completely unacceptable behaviour by the Victorian government. I think it has been quite frankly spineless by the Tasmania government that it hasn't been prepared to challenge that because that is a tangible way of bringing down the cost of Bass Strait.

If in closing I could just say I'm very pleased that the Productivity Commission is looking into this matter. I have a lot of time for the Productivity Commission. I think it is just the right sort of organisation to look into Bass Strait, but I do have two particular concerns with the draft report. I was disappointed to see little attention paid to international shipping. I would hope to see in the final report that the issue be addressed in more detail because, you know, that freight cost is a real problem for any business in this state that is wanting to send good internationally. I'm sure you have heard all about that by now.

It would seem to make sense to me that in the absence of a weekly and reliable international shipping link to the state, it would seem reasonable to me that so long as any goods bound for international markets have to first go through Melbourne, then it would seem logical that they attract a subsidy from Tasmania to Melbourne. I know there are people who disagree with me on that, who say, "Well, that would be in breach of some international treaty or trade commitment we have made," but I don't agree with them. There are, you know, examples of intrastate trade in Canada, for example, where no-one has any concerns with that sort of subsidy being applied.

So I would like to see in the final report the whole issue of the problem that our international exporters have. I would like to see that addressed in more detail please, if that's possible. The other issue that I'm sure yesterday much was said about this, the suggestion in one of the recommendations that the subsidy on inbound passenger vehicles be removed. That suggestion would be very problematic for Tasmania; very, very problematic, and I know one of your witnesses, it was Luke Martin, from the tourism body - I'm sure the tourist operators explained this far better than I could ever do but I suppose I want to just reinforce the point.

It's not just about getting mainland tourists here affordably, it's also that point I made about social dislocation, and it is an injustice when it is already unaffordable for many Tasmanians to travel by sea to the mainland and take their car and if there was any reduction in that subsidy, it would increase it every further. I do think the federal government has an obligation to do what it can to diminish, as far as it can, that - well, it's a social injustice effectively if people from one state can't - it's unaffordable to travel to other states.

In closing, what I would hope that one day we see - and my motion that I couldn't get debated in the parliament was to this end - what I would like to see is an enhancement of our federal government subsidy arrangement so that all people, vehicles and freight travelling in and out of Tasmania attract an appropriate subsidy to bring the cost of that gap down to the comparable distance on a mainland highway, which of course was the intention of the, I think, three fiscal equalisation arrangements that are in place currently.

Clearly not only have we - I mean, arguably they were never equalised and even if they were, with slippage over time they're now definitely not equalised. I think it should apply to anything going to and from Melbourne including goods bound for international export. I'm firmly of the view that the costs of Bass Strait is the single most significant break on our economic development, and I think it's the easiest thing to fix and yes, that would require more money.

I'm coming back to my concerns about the draft report. It seems that the commission is looking to adjust pretty much within the current arrangement and trying to do it - it looks like the commission is looking for ways to do it at little or no

extra cost. I suggest that to fix this problem it requires more money. Now, of course that's a decision for the Government but I think that's a decision the Government, a government, has got to make.

Yes, it might be quite a bit more money but when you consider the amount of federal assistance that comes to Tasmania for special purpose payments, right through to Centrelink payments, there is an enormous amount of money already coming into the state and I suggest that gross amount would be reduced if they fixed the cost of Bass Strait because that's an essential economic enabler to get the economy moving. If we get the economy moving, we will need less federal assistance. If it's done right, it would be a net saving for the Commonwealth. Thank you.

**MS CHESTER:** Thank you very much for those opening comments. That has been helpful in terms of us being able to frame some questions now better understanding what your position and your thoughts are. Turning first to international shipping which was a primary focus of our draft report where we sort of covered it in three streams, firstly with respect to a substantive discussion on coastal shipping regulations in Australia, what impact that has had on Tasmanian shipping opportunities, particularly bulk freight; secondly, with the discontinuation of a regular container international shipping service to Tasmania and evidence on the commerciality of that ever resuming on a regular basis, and meeting the commercial needs of the Tasmanian exporters and then, thirdly, with respect to the Tasmania Freight Equalisation Scheme where we actually did put in our draft report the suggestion that the scheme be extended to all eligible commodities being shipped to the Port of Melbourne regardless of their further destination, so we would be including export. So they are the three areas that we did focus on. Is there a particular area that you felt that we have missed there? International shipping?

**MR WILKIE (MP):** Well, I have two concerns with that approach the commission has gone in - one is the suggestion in one of the recommendations that the money that might be freed up to assist that type of freight could come from the abolition of the subsidy on passenger vehicles. I think that is - - -

**MS CHESTER:** No, that's not suggested in our report.

**MR WILKIE (MP):** That was my understanding.

**MS CHESTER:** Okay.

**MR QUINLIVAN:** You might be thinking about - we did raise the proposal of whether the southbound subsidy which is applied only to a very narrow - - -

**MR WILKIE (MP):** Yes.

**MR QUINLIVAN:** - - - category of goods might be removed. So that's probably the proposal you were thinking of.

**MR WILKIE (MP):** Okay. In any case, there shouldn't be any reductions to any existing subsidies to find the money for this. It comes back to that closing point. We need more money. This isn't just - when I say that, it's not just, you know, as some people on the mainland would say, we're a beggar state, putting our hand out all the time. I am sure that with a little more money carefully targeted, it would foster economic development in ways that would be a net saving to the Commonwealth. Yes, I acknowledge that it is addressed in some ways but I was hoping to see a hard-hitting specific recommendation which I didn't see.

**MS CHESTER:** No, that's fair. We did have two streams to our report. There are draft recommendations where were quite definitive at this stage and then there was somewhere - we still needed some further evidence to understand the relative impact of those proposed changes and that's where we put forward the idea of extending eligibility on northbound under the scheme to exporters but then, conscious that if the Government did want to do that in a cost-neutral basis, one potential offsetting element would be removing the southbound. That's what's important about the whole public hearing process, we are supposed to get feedback from Tasmania business and industry in terms of what relative merit would they see if you did need to frame the design of the scheme in a cost-neutral fashion, so we are very conscious that the task that has been put to us is the Government policy is to retain the two schemes, but we are to review the design to make sure that they are as optimal as possible.

If we believe that there is merit in extending the TFES scheme to exporters, and the Government didn't want to do that on a cost neutral basis, what's the best way for us to get the design right, but if the Government were not to do it on a cost neutral basis, what would be the best design? So we are trying to make sure that we elicit through the public hearing process and through further submissions that we will be receiving from impacted parties how that would relatively impact on them, given it's really a distributional effect with efficiency follow-on consequences as well.

**MR WILKIE (MP):** Like you, I get to sit back and see all the bits and hear all the different arguments by different groups that are affected here. I think there is - I know there is an understandable nervousness among some sectors that the act of looking after other sectors is going to be to their disadvantage. Certainly, the tourism sector is a little anxious that as other businesses get their needs met they might suffer some sort of reduction and, as you would have heard yesterday from the tourism operators, our tourism sector, it has its challenges. We are having a lot of people flying in now on cheap airfares, but they are just going to Hobart, or many of them are just going to Hobart and Launceston.

There can't be any changes on freight that lead to any reduction in the assistance to tourism.

**MS CHESTER:** Just focusing on the international shipping, you would have read our commentary around coastal shipping and our draft recommendation the Government expedite the push to review coastal shipping regulation, given Tasmania is relatively more exposed as an island state with respect to many costs and efficiencies that are related there. Is that something that you have a view on you are able to share with us?

**MR WILKIE (MP):** Yes, it is, and I supported the previous government's modest shipping reforms, which the new government may want to wind back or overturn. At the same time as I want Tasmania to be well looked after, I also am (indistinct) that we restore Australia's much larger and stronger fleet, so I would make that as a general guiding principle. I don't want to see reforms that are purely based on bringing the cost down, I want to see reforms that bring the cost down and help Tasmania in particular, but also which do result in more Australian flagged ships, more Australian crewed ships, more certainty for those operators.

**MR QUINLIVAN:** I think it would be fair to say that the balance of opinion from submissions and witnesses so far would be that they are incompatible objectives. We have had that, I think, more or less unanimously and quite firmly from people so far.

**MS CHESTER:** Based on the evidence, just expanding on that, that we have received from businesses in Tasmania where they have cited the impact of those previous government changes to coastal trading, the cost impost of that has been to completely swamp, say, the Port of Melbourne feed, so from their perspective reviewing and potentially changing the coastal shipping regulations and arrangements is quite paramount to them being able to access more cost effective and efficient shipping services.

**MR WILKIE (MP):** I suppose it's all about where the balance is decided to be. When those reforms were going through the previous parliament, on one hand I had people who rely on the shipping of bulk commodities such as the zinc works near Nyrstar, Cement Australia, Impact Fertilisers. They are all arguing against the reforms of the previous parliament, but at the same time I had firms like - well, the shipping companies themselves, even TT-Line, arguing for the reforms, and particularly some aspects of the reforms which they saw as very, very effective, such as the better tax treatment on the purchase of new vessels. The point being that for every benefit for someone, there's a risk of a loss for someone else, but that of course is a matter for government; it becomes a policy judgment.

I make the point again I am supportive of any reform that makes Bass Strait cheaper, but at the same time it needs to be balanced with that need that there be

certainly no further weakening of Australia's coastal shipping arrangements, and I make the point again, I think the last time I saw the figures, it was something like 23 large vessels now that are Australian flagged, down from much, much bigger figures than that, and that's lamentable. By the way, I would add, and completely at odds with a number of other countries, including trading partners. You know, you try and have a foreign flagged ship working the coast of the United States, not allowed.

If other developed countries, our trading partners, can look after their maritime sector better, and they can compete in the global marketplace well, effectively, I can't see any reason why we can't get the balance right.

**MS CHESTER:** We might then move on to the Tasmania Freight Equalisation Scheme, and I take it from your comments today - will you be providing us with a submission?

**MR WILKIE (MP):** No, but I would be happy to if there's a particular area you would like added input. I would be happy to prepare that.

**MS CHESTER:** Thank you very much. With respect to the TFES you mentioned that you would be supportive of what we have at the moment mooted as a potential change to the design, and that is to extend the eligibility of the northbound component to exports. Are there any other design elements under the TFES that you had any comments of view on?

**MR WILKIE (MP):** Quite simply, I think the freight subsidy should apply to all freight in and out of the state with no exemptions at all. It's a gold-plated desire, I know, but it's as simple as that as far as - I just think, I'm of that school, and I think you have heard from Peter Brohier today, this national highway idea, I'm of that school that it should be from a cost point of view the same as that distance of road for whatever travels on it, whether it be passengers, passenger vehicles, and all forms of freight.

**MS CHESTER:** If the Government did want to do things on a cost-neutral basis, so retain the schemes on a cost-neutral basis, are there any other design elements around the TFES that you have any comments on.

**MR WILKIE (MP):** I fundamentally don't agree with doing that as a cost-neutral reform.

**MS CHESTER:** To get your sense of priorities, given that you know the members of Denison and Tasmania so well, where would you prioritise eligibility?

**MR WILKIE (MP):** Look, I'm reluctant to do that, because for every winner there's a loser. I don't know that international exporters, they shouldn't have priority



over people producing goods just for the Australian market. Exporters shouldn't have a priority over importers, for those people who are bringing things into the state, that's a critical input to their manufacturing or to whatever their business is. I'm not going to buy into a sort of list of priorities because I make the point again, I'm of the view that all people, all vehicles, all freight should have the cost of moving across Bass Strait subsidised to the point of them travelling a comparable distance on a mainland highway.

**MS CHESTER:** Okay. Thank you, I appreciate that. One of the issues that we grapple with in our report is that with the Bass Strait Passenger Vehicle Equalisation Scheme, there's only one service provider at the moment, and that's TT-Line. There's an interesting chart in our draft report that shows what has happened to the rate that TT-Line charges for eligible vehicles being accompanied by passengers across the Bass Strait, and if you have a look at that chart it basically show that the subsidy was introduced and there was an immediate impact in terms of the post-subsidy rate that had to be paid by individuals accompanying an eligible vehicle fell by the rate of subsidy and then within one or two years the rates being charged by TT-Line went up, so much so that over time it has effectively eroded the benefit of the subsidy. So it's around the incidence of the subsidy and intuitively you would expect that if there's a monopoly service provider and the ultimate beneficiary is meant to be the passenger accompanying the vehicle, there will be some sharing of the benefits of that subsidy. Is that something that you have given some thought to or have some views on in terms of how we deal with that issue, that if you have a monopoly service provider the benefits may not ultimately go into the intended recipient's - - -

**MR WILKIE (MP):** Well, a few things come straight to mind. One is the indexing of any subsidy and whether or not that is being done effectively, and I don't think in the past it has, given that the relative value of the subsidy has now declined by so much. There's the issue of competition and whether or not there's any way that government can encourage competition as a mechanism of applying downward pressure to the fees, and while there is a monopoly, the issue of - and particularly by a government business enterprise - the role of government as far as directing that business to ensure it's affordable.

Now, my understanding is that the TT-Line is expected to make a profit, but only inasmuch as to pay for the replacement of vessels in the future. Maybe there should be an expectation that it will make even less than that. I mean, at the extreme end of the spectrum you could argue to let everyone get on the boat for free and all these people will come down and will turbocharge the economy. Of course that's not a realistic proposition but the point is valid. The more that cost comes down - I mean, wouldn't it be wonderful to see a return to the days when I came down, you know, for the first time not that long ago, when there were many more people on touring holidays around the state and the little country towns were really benefiting from it?

**MS CHESTER:** I just only have one other question, and that was in our report, because it has a broader scope of reference than just simply looking at the schemes - we're looking at sort of the competitiveness of shipping and other freight logistic networks within Tasmania - we do, however, sort of step back for a moment and try to say, "Well, look, we're really seeking to get the most low-cost structures and to lift the competitiveness of the Tasmanian economy. What are some of the key policy levers that government may be able to pull?" and one we have raised there is coastal shipping. That would be a key policy that could be pulled that would result in a material reduction of costs of doing business in Tasmania when you have to get your freight out of the state.

In the context of the two schemes having cost \$2 billion to date, and if you look at it on a net present value for the next 15 years, the two schemes, if they are retained in their current shape and form, would cost another \$2 billion, what's your sense of priorities about, is that \$2 billion being spent in the best way? Are governments getting the best bang for their buck for the Tasmanian economy or are there other policies that we should be pursuing?

**MR WILKIE (MP):** Well, I don't think we've got the best bang for the buck because we wouldn't have this need for this inquiry and I wouldn't be encountering the widespread concern I am in the community every week if the scheme was working well. I make the point again, I think getting the cost of Bass Strait down is - the cost of Bass Strait currently is the single-most significant brake on economic development in this state, so for me to say that, clearly I feel that the current arrangement is not working nearly as well as it should.

What levers have government got to fix it? Well, excuse me for sounding like a broken record: the federal government is going to spend more money. It's as simple as that and I simply do not agree with - and I don't know if this is the Government's position or the Productivity Commission's view or your view by direction of the Government, that it be revenue neutral, that any reform must be revenue neutral. I think if that is going to be the guiding principle through this, then we're not going to solve it because in my opinion, there's simply not enough money going into it and if we move money around there will be some winners but there will be just as many losers.

So what levers has the federal government got? Expand the scope and put more money in and do it with the understanding that as we start to unleash the potential in this economy other federal payments are going to come down and, you know, billions of dollars of federal money comes into this state every year, and that can be reduced but we'll only bring down all of the other Commonwealth payments if we can get the economy moving, and we'll do that by getting the cost of Bass Strait down.

What levers has the state government got? I singled out one there in some detail, and I want to reinforce the point that the \$75 million-plus fee that the Port of Melbourne corporation is required to pay to the Victorian government is unconstitutional and the Tasmanian government should have the backbone to challenge it. Now, that \$75 million across all things is only, you know, a relatively small amount, \$75 per container, but these are the tangible sorts of levers that the state government has to challenge that tax on interstate trade.

**MS CHESTER:** Thank you very much for your comments this afternoon and providing your view on the issues before the commissioner under this inquiry. Are there any other comments you wanted to make?

**MR WILKIE (MP):** No, other than good luck with your work. I do have a lot of time for the Productivity Commission. I've worked with it closely on other policy areas and I think it's just the sort of organisation to look into this.

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

**MR WILKIE (MP):** Thank you.

**MS CHESTER:** I would like to call our next participant in our public hearings this afternoon, Mr Robert Rockefeller from Nekon Pty Ltd.

..... : Apparently Mr Rockefeller is (indistinct) on the way.

**MS CHESTER:** Okay. We might just take a five-minute break, let people stretch their legs and give Mr Rockefeller some time to join us.

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**MS CHESTER:** Ladies and gentlemen, we'll resume our proceedings. We're joined this afternoon with our last participant for our public hearings today in Hobart, Mr Robert Rockefeller from Nekon. Thank you very much for appearing this afternoon and taking the time and also for your initial submission that you provided to the commission with your views. They are broader views which we very much appreciate hearing, but if you could just state for the record your name, company and title, thank you.

**MR ROCKEFELLER (NPL):** Yes. My name is Robert Rockefeller. I'm a director of a family business called Nekon Pty Ltd. We've been long-term investors in Tasmania for about 25 years. Tasmania needs tough love. While my discussion really isn't on the Freight Equalisation Scheme and various other issues with Tasmanian shipping, I think what people fail to understand is that there's two sectors in the economy. There's a non-tradeable sector and there's a tradeable sector.

I would go so far to say that the tradeable sector is extremely competitive, generally extremely innovative and has to deal with the vagaries of change. That sector needs help and assistance because you get things like the Port of Melbourne fees and those things which can cause an enormous amount of damage to the tradeable sector in Tasmania.

In terms of the non-tradeable sector, Tasmania needs tough love. It is extremely inefficient and it requires an enormous amount of change. As Jack Walsh said, "If you are not changing faster than the environment around you then you will be history." If you actually look, as you're well aware, commissioners, of the decline of Tasmania's GDP as a percentage to the population of the rest of Australia, it has been in a decline for 50 years.

If you actually look at the reports over that period of time, and there's tomes of them, Tasmania has failed to actually deal with their problems and it's the non-tradeable sector. So it's the state government; it's local government, and it's business in general and business has a lot to answer for in this state. The federal government has been able to hand out money on a continual basis, a bit like Joh Bjelke-Petersen used to say, "Just feed out some money and keep the chooks happy." That's sort of what has actually happened, and the welfare dependency.

We're not talking about people who have issues with work. It's the welfare dependency of state and local government and in the business sector. The non-tradeable business sector has continued to actually foster the inability to know change. I'll go so far to say that the federal government has also been one of the major causes of the problem.

I put some lengthy submissions to the National Competition Council back in 2002 in relation to water and sewerage reform. They actually had competition

payments back then and I made the comment - these were lengthy submissions. They were probably hundreds of pages long with various documents. I made comments that we didn't actually meet our actual obligations under the National Competition Council but we still receive payments.

The National Competition Council came back and said, "We've moved on. We've made mistakes in relation to actually dealing with these but we're on to the next" - they had a category each year in terms of the moving on. So consequently I reflected back and said, "You know, here's an example whereby the federal government and the National Competition Council was actually more interested in the Murray River and those types of issues and not the issues of Tasmania."

I just want to sort of put stuff into context so you actually understand where I'm coming from and I think probably why more money into Tasmania actually just doesn't work. If you look at what happened with the GST and the rivers of gold, what actually occurred. This is I guess a speech I made in 2007. It was a really good article by the Institute of Public Affairs about opportunity squandered, how states have wasted their reform bonus. If you look at Tasmania, the property market took off when we went to parity in relation to government wages.

Effectively there's only two ways real estate values go up. One is if average weekly earnings is increasing or, alternatively, if interest rates fall. So we look at Tasmania and we're talking about here 2007. This is what I write and it just sort of puts this into perspective, "The state of Tasmania has received significantly more revenue than they expected over the last five years because of the GST and the growth of state taxes. The restored states that in the case of Tasmania recurrent spending between 2000 and 2005 is a percentage of windfall gained from the GST and other taxes." They've spent 100 per cent on recurrent expenditure.

Tasmania led the way of all states by increasing recurrent spending to 32 per cent above expectations over that five-year period. The main focus of the state's spending spree has been on public service salaries with employee entitlements, the average growth in Tassie at 11.3 per cent between 2003-04 and 2005-06. The actual growth in employee numbers between 1999 and 2005 was 19.5 per cent. It's little wonder that if you give them more money, how they actually waste it and unfortunately nothing is actually tied. They don't tie anything to doing microeconomic reform.

If we then go forward and I'll just jump around here but if you go forward to local government reform, there's 29 councils, 34 planning schemes et cetera. Various surveys have been done. Over 70 per cent of the people think that there should actually be - call it amalgamation. Access Economics did a report and said that there would be a saving of 40 per cent in terms of actual decrease. Whether there's a decrease in someone's rates or, alternatively, services improve 40 per cent, those

sorts of numbers are just outrageous. Even if they got it wrong by 50 per cent, 20 per cent, we're not wealthy enough to be wasting this sort of money.

So what ends up happening is in this case about three years ago a few eminent people were actually invited on to a panel, including Saul Eslake and Jude Munro who used to be previously the chief executive of Brisbane City Council - were invited on by what was called the Southern Tasmania Councils Association and they actually applied to the federal government for money for the report. So my concern was that - I wrote to Simon Crean who was the minister at the time and said, "You know, my concern is this will just be another report that will be filed." He actually wrote back and said, "Look, you're right, Robert, but in the end it's a state government issue, so we're happy to fund but in the end it will be the state government that has to deal with it," and then I've got the letter here which says that.

So they come out with something which the STCA originally said in the councils who all agreed to doing it, that we would actually undertake those reforms. It so happened that the councils who were actually thinking they were going to be winners through amalgamation, Jude Munro and the esteemed panel came up with a totally different concept of actually amalgamating all the metropolitan Hobart councils and actually keeping the country ones, something which I didn't really expect, and all the metropolitan councils in Hobart didn't expect it either, so they start putting things in their newsletters saying how bad the report was. They actually even put signs on my property at a shopping centre, illegally I will say, so you've got this push-back then, but what is actually really not being understood is just Tasmania's economic problems, because they are all protected species, and we're talking about the vulnerable in Tasmania becoming poorer and poorer.

I call it the intelligencia. I think really it should be questioned where they really look after the most vulnerable, and I will go through that with you. If you look at the employment rate of Tasmania and you look at what is actually undermining the entire state, the actual unemployment rate is probably more like 14 or 15 per cent because the participation rate has fallen so dramatically since 2008. It has gone from 62 per cent, 62.5 to maybe 59.5. Then when you actually look at the actual characterisation whereby in 2008 you had full-time employment - I can just actually grab the numbers here. Full-time employment has gone from 164,000 to 145,000, and the part-time work has gone from 75 to 81, so if you took every part-time person and the change of the jobs, there's two part-time to one full-time and you get up to a number which is significantly higher.

You sort of say, "What's really going on?" and I'll just give you a couple of examples. We have water and sewerage corporations in this state which were actually owned by local government. There were massive cost subsidies within classes and between classes, and the water was actually charged on an AAV basis, which I'm sure a lot of the commissioners were aware that happened in a state maybe

20 years ago.

There was a total under investment by local government in the water and sewerage industry. They actually cross-subsidised and failed to invest in the infrastructure of water and sewerage which is what they were writing against. I will just go through some points in this but it's just an example of what's actually going on. So the state government, with local government, to be nice and friendly will set up four water corporations. So submissions by various people, including myself, said there should only be one water and sewerage corporation.

So we set up four. Two years later, they get rid of one, which was the service provider for the other three, but there were four boards. There were some cross-directors, so they get rid of one, millions of dollars to actually unwind that sort of structure. Three years later they actually unwind the other three and merge it into one, so I sort of go to the economic regulator and say, "You know, what's going to happen with the water and sewerage?" because all of a sudden it's cost about \$50 million. I said, "Where's the consumer in this? Why does the consumer have to pay?" because the local government who undercapitalise these assets, who actually rated them, are still the owners. They are still actually getting their dividends of \$30 million a year. It doesn't cost them anything, so the shareholders don't have to put their hand in the pocket for the \$50 million of waste, let alone the five years of lost efficiencies.

The Government and the regulator, the Treasury and all these people who had the bright idea, they're not held accountable. The economic regulator isn't held accountable because this is actually an inefficient structure, but the consumer actually gets duded the 50 million plus the lack of savings, so you sit there and say the poor person who is incapable of fighting these things are having their water and sewerage bills going up, you know, 10, 20, 30 per cent per annum. It's unacceptable, particularly when you look at the actual low income that people are actually on.

I go to the economic regulator and they actually look at the WAC sort of say, "Look, it's at eight per cent. You don't understand." The long-term bond rate, when I actually went to see them and, you know, they would go into the - the long-term bond rate is 3.7 per cent. I said, "It's at historical lows." They should be going as long as possible in terms of their funding structures. You know, give them another one and a half per cent or five, so instead of eight at five, 60 per cent of the actual requirement - it would actually lower everyone's bills by 30 per cent but, no, they set it at eight per cent, so they couldn't care less about the poor person because just as long as they've met their government terms of reference and Treasury, and what effectively is going on is - and whether it's electricity, whether it's water and sewerage, whether it's rates, it's actually a form of taxation, but there's no actual serious review of this taxation, so effectively everyone is in on the game because the people controlling it all are actually all the ones getting the tax.

There's absolutely no accountability and no actual requirements. So you have the water and sewerage corporations and you sort of sit there and, you know, we have to have everything cost plus. There's no efficiencies. It's all cost plus. So you sort of say that here you've got a monopoly with no competition, and there's no efficiency requirements. I always said when they merged these things a water and sewerage corporation is actually an economic development agency.

This is the problem with Tasmania. You've got all these cliques and they all see themselves as being independent, so consequently they all have a cost plus mentality and no-one is there for Tasmania, so in other words, they are all running a cost plus operation but there's no-one over-arching, looking for what's in the best interests of Tasmania. What ends up happening is, "Oh, developer charges are really high," and they might not be high compared to the rest of Australia but in terms of trying to get a development up in Tasmania it is because the rents are different and the building costs are different.

If you don't get more people connected, in the end your marginal cost keeps on going up. So theoretically if you are taking a 10 or 20 or 30-year perspective, you want more and more people connected to the system to keep on reducing your marginal cost, but they look at cost plus because there's no incentive. If it was me, I'd be looking at a 10, 20, 30-year program of how do we grow our business.

So then what the Government does is - someone complains and because you are a poor businessman or it has, you know, a high profile, they actually shave the price. The Government might tip in some money or the water and sewerage corporation might cut a special deal or whatever. Instead of rationalising the entire business and getting it right - you know, people might say - this is all on the public record. You just have to look at all my submission to, you know, GPOC and to the water corporations and to the councils over the last 10 years. In other words, if you've got the opportunity to scream you get a special deal. That is not a level playing field. It's about getting the structures right.

So you say - you know, we have a thing called Aurora pay as you go, and I've made a commitment that that will change in my lifetime. It is the most abhorrent policy and disadvantages the poor the most. They pay about 10 times more than I do for my power. I'm not here having a go at Aurora because, you know, the way the whole system works - but here is the most disadvantaged. They actually don't have enough money to say - to have their power tested or to manage their power account, so they have a meter on the back of their house and they go and stick it in but the fixed cost, it's a bit like the ATM. You know, if you're not at the right ATM, it's \$2.50. So if you're actually a poor person and you can only get 20 bucks sort of thing, you know it's costing you 14 cents or whatever, 14 per cent of your money. You know, if you've got 300 bucks or 400 bucks, it's only costing you, you know, .7



of a per cent or 1 per cent.

This thing here is so expensive, so what you're doing is you're actually forcing people more into poverty. So we've got these all different types of schemes going on or then they create concessions which create more money. So you've got all these schemes going on but no-one is looking at Tasmania as a whole. What can we all do about it to lower the cost? Now, you might say that I'm - and I will just give you an example of something and this is where Tasmania is dumb. My business can thrive here because I'm small and I can create economies of scale. So I'm actually on the right side of the cost curve.

Tasmania is actually on the right side of the cost curve because they're small, so anything they add on, they can lower their cost if they're intelligent and they take a long-term approach to things, while major cities in Australia and around the world, they're actually in dis-economies of scale. There's all these extra costs associated with travelling, commuting and public transportation and building bridges and doing all those things. So Tasmania if they actually did it right and actually got aggressive and were intelligent the way they went about business - and this includes - business people are the worst offenders. We're talking about the non-trainable business people because they're rent seekers.

Yes, there's an enormous amount of opportunity but they've to get hungry and I will just give you an example. Right now there's a review of the retirement benefits fund in Tasmania which is the state superannuation and there's actually three superannuation funds. One is the Retirement Benefit Fund, the second one is Tasplan and the third one is Quadrant and I will actually just bring this out a bit because this is really - - -

**MS CHESTER:** We can follow this one. Okay. Thank you.

**MR ROCKEFELLER (NPL):** Yes, Tasplan is probably the employer and union sort of fund which was set up a number of years ago. Quadrant is the actual local government fund and the third one is the Retirement Benefit Fund. If you actually look, Tasplan - if you look halfway down, Tasplan's administration cost per member is \$1.77. For the Retirement Benefit Fund, it's \$6.50 and Quadrant, which is the local government, is \$13.32. Now, I could go through all sorts of reasons why there's issues with that and who's paying for it and what it's costing people and all that sort of stuff.

So there's a review at the present time. The state government says, "Look, we will probably offload it to an inter-state fund," instead of somehow merging it say with Tasplan. What ends up happening in Tassie way too often is they keep on losing capacity, so instead of getting better economies of scale with one, making sure they're efficient, increasing say in this case the finance sector which are generally the

better paid jobs and those types of things, they will probably offshore it, which is to me the mainland and beyond, and we will lose capacity and then we will lose more jobs instead of actually growing what is actually a pretty efficient business and actually a lot of scope going forward.

So again, I don't think at times government actually takes the soft option or what I call the option which will ensure the least potential political outfall but you look at that and say - and then you look at the local government thing and think, you know, it's costing the ratepayer because there's, you know, the side benefits people. So the ratepayer is chipping in more money. You can actually also have - you know, the actual member actually is, you know, getting effectively its cost and then, you know, compared to the Tasplan \$12 more a week. You know, that's 600 bucks a year.

I mean, you look at that over a lifetime of 40 years, so you've got a whole range of things in this place which actually requires a total review and people need to be for Tasmania and growing the state and making it really efficient but as the federal government continues to pour money in, it gets wasted. So if we just look at say something in recent times, which is the \$100 million sort of forestry funding, we could go through and you could say what actually - and this is interesting and I don't have, you know - I will go on something I just found something in Sorell.

It had a medical clinic. I ended up - the council ended up actually competing against myself for the medical claims, for the GP super clinic. So they actually became the participant to actually compete against me. Then my rates compared to - you know, this is on a similar business there on the main street. My rates are six times more, so here you have local governments and - you know, even though it's a crazy plan by the federal government but, you know, there's the money flowing down but then you have local government competing with you.

Ultimately, I had another property in a disadvantaged area, had a government tenant, and this is an area where there is an oversupply of space, so it's actually very difficult to actually get redevelopment and renewal and we always thought it was actually a pretty marginal type of investment. We did this fantastic deal with what was actually a library. It had really fantastic outcomes. You know, the Kevin Rudd splurge came along, the federal government putting in this money. The state government goes and puts in this money. They build this massive complex.

So I go and talk to a librarian and now they're fighting over the jobs. Because the place is so big, they're got X number of people, X number on this level and this level and this level, and I look at this facility. It's massive. So they take my tenant decrease of economic value, like they feel you've made an investment in a disadvantaged area, take - you know, they don't think about this. The operating cost of this massive building is just - like they used to complain about, you know, the

operating costs, you know. Well, they've just gone and not doubled it. It would be 10 times, let alone the actual number of librarians. Believe it or not, they've got less people going there now.

So they take the money but they're really good at turning \$1 into 20 cents. Well, normally in business, you take \$1 and you might turn into two or three. So we then look at say the \$100 million and, you know, I will give you an example. There was - I will tell you when this actually came out and I have nothing against anyone, you know, from a business and like I said, I think the tradeable sector is unbelievably competitive and it's really difficult and they do a great job and you can just sort of see in some respects how efficient we are because our GDP is not too bad.

It shows you how strong the tradeable sector is and what the potential is but here's Petunia - and it was in the papers this one quoting it - they weren't successful in putting in a grant but their two competitors were. So by actually having that public policy, they had actually weakened the competition in that same industry and that's what they actually said in the paper, you know, and I can actually relate to that. So governments don't necessarily think of the unintended consequences when they put money into Tasmania because they're doing it for other purposes, ie, political purposes.

So you look at two things here just in terms of - without going - and there's two I just want to point out. One is the Hobart City Council "Sell Hobart" community hut, \$1.6 million. This is actually an old school, quite an enormous amount of money, so there's so many community buildings in Hobart and in Tasmania but we get this little special interest group. You know, a few politicians get around, a few of those, so then they put money into the federal government or state government, local government, and they go and redo an old school. You know, if they thought it was such a good idea, these people should put their own money up and buy it but then what we will end up doing is having recurring costs to actually keep this thing going.

Well, then they will start running out of space and competing against someone who is paying rates and taxes and land tax and all these other things because they're getting concessions.

The second one is the Clarence City Council. They have this land at Kangaroo Bay so they get \$5 million. Well, what about the person next door, the developer or the property owner who has bought it? They get this free \$5 million and you just sit there and say all these government agencies end up distorting the market. There's a reason why there isn't growth, but to actually create jobs or to create their own position - you know, some things might take a bit of time.

I did consulting on the Docklands and nothing happened at the Docklands for 10 years, but economic conditions change, number 1, and number 2, the demands of

corporations change where they need bigger floor plates, more efficiencies, and then Docklands took off, but sometimes things take time. What we do in Tasmania far too often is actually push things forward and by pushing things forward we actually then have the unintended consequences of actually making one dollar into 20 cents. I know I have sort of covered a lot and I guess I'm open for questions.

**MS CHESTER:** Thank you very much for what were not only opening remarks but also a refreshing broader perspective of some of the issues facing the Tasmanian economy, which very much goes to the heart of our report even though the report very much has to focus on the two existing schemes and their design to make sure we get rid of any perverse incentives or anomalies or inefficiencies that they're creating, but there was a large part of our report where we wanted to step back from the existing schemes and look at what are the more meaningful levers or what are the more meaningful changes that governments can make at all level, federal and state, to improve the cost competitiveness of the Tasmanian economy and you have certainly focused on that, in particular as it relates to the non-traded sector.

I think for us it's highlighted very much so in the whole freight logistic task that impacts both the traded and the non-traded sector in Tasmania when we tried to cast the report in the context of the overall performance of the Tasmanian economy relative to the other states and you have touched on some very key and pertinent statistics, and we did as well, in terms of, you know, government accounts for 27, 28 per cent of state GSP in Tasmania whereas it's only 19 per cent in the other states and territories, so there is a pervasiveness of the role of state government in all sectors of the Tasmanian economy.

That's highlighted very much so in the freight logistics task where the state government owns the ports, the rail, the roads and even the passenger and vehicle line that also offers a freight service competing against two privately owned commercial lines, so it is an important part of our report but one of which we have not received very much evidence or submissions on apart from yours today, so we do thank you very much for that.

You have identified some very meaningful areas where state government could move some policy levers to get some cost efficiencies into the state economy and in particular the non-traded sector. In our report we touched on a couple at the federal government level. One in particular would be coastal shipping. Are there other areas at the federal government level where you see that there might be some broader policy levers that the federal government could pull to make more meaningful difference to the cost competitiveness of the Tasmanian economy?

**MR ROCKEFELLER (NPL):** Yes, they should start tying payments to Tasmania to actually microeconomic reform. I think once they did that - you know, I sort of look at this and say that the amount of savings just in terms of really general

microeconomic reform is hundreds and hundreds of millions of dollars a year, and you sort of then say whether that all passes to the consumer or to the individual or it's actually then put into what I call a development fund or a capital investment fund, there's an enormous amount of opportunity in that, but what has actually happened is the people what I call in control are actually - I just want to read a quote I have got in relation to it. It's the actual inertia to change, and so the only way you can actually get government to change is by actually forcing them through tied grant payments. This is what I actually wrote in 2007:

The inertia to change has, in my mind, been the major contributor to Tasmania's long-term underperformance to the national economy over the last 50 years. The trend unfortunately, even with two years out of the wilderness, is now continuing.

So they get a little spurt and then they get lazy, and you could say that's with the Australian economy and those things but I will tell you what, it's a lot worse down here. The thing is what the federal government has to do is they have to require tough love and they have to actually start tying payments and they have to actually force a total review of the economy. That might mean that Tasmania gets - call it a national competition payment for actually doing the tough love, but they need a carrot but they need a great big stick because everyone in Tasmania has been unbelievably lazy in terms of reform.

That's where the federal government by tying can actually reduce the cost structures and, you know, the cost structures of whether it's in local government rates, whether it's actually in superannuation, whether it's actually in water and sewerage charges, whether it's in relation to planning schemes, whether it's in relation to a whole range of red tape - you know, the amount of money is so easy, will fall off the trees, they won't actually believe the windfall they will receive.

Then you have to make sure they don't waste it and then it goes into the capital account - you know, and that's the problem, government is actually - and I'm talking about local government. I'm talking probably people in general, they don't actually realise they have got two sets of books. They have got their P and L and they have got their capital account, and unfortunately everything goes in the P and L account and nothing goes into the capital account, and then when they do put money in the capital account we get things like the Hobart City Council's South Hobart community hub or the Clarence City Council Kangaroo - or, you know, their art this or art that, you know, and I could go into charities here.

The actual cost structures of - you know, we have got every charity there is in this place. The actual cost before the delivery, just to run their overheads - but, you know, you talk to them about actually merging and getting efficient, maybe even having the same headquarters or sharing the same PA or sharing the same accounting

services, "Oh, can't have that." The problem is federal government, state government, whatever else, local government, whoever, are all dishing in money. I'm dishing in money. They're coming to me and, you know, all that sort of stuff. You're actually just letting a continuation, but it's all wasting of money when you can actually better deploy it in relation to the service provision. It runs across every sector. I'm as much to blame as anyone else.

**MS CHESTER:** You touched on the issue of electricity. That's an area where we have received some evidence in submissions from businesses in the traded sector. Are you able to just elaborate a little bit on your views on that sector?

**MR ROCKEFELLER (NPL):** Yes. There's no gatekeeper. You look at the system and you say to me, "Where is the gatekeeper?" It's a disgrace what has happened there, and the investment and the investment which was allowed and the growth rates which were allowed to be accepted to allow the investment. Effectively it was good for the Government to have all this extra investment. It was good for the economy. Effectively you could get a rate of return lower than your cost to capital. Regulator ticks, he gets the terms of reference from Treasury, who actually owns the assets, who gets the dividends. You look at what has happened with (indistinct).

Then what they do - and this is obviously a national - they just keep on increasing the fixed costs, so you look at it and say, "Where is the risk in this?" They have no risk the way the whole thing has been priced. I will be on the record here because, to me, sometimes you have to stand up and too often, you know, I stand up in closed doors. I'm on this consultative thing for the regulator and I said to him - and it's more about the box-ticking types of things. So we have a presentation from Transend and Transend says, "We're looking forward and we can get these efficiency dividends and therefore our returns can be lower and the charges," and I sort of said to the regulator at this meeting, which I'll get to, I said to him, "That actually demonstrates that you actually haven't done a very good job," because if they're now demonstrating three years later when they're doing their resets again or whatever it is and they can get all these efficiencies, that means you didn't actually push those efficiencies hard enough, it means that the actual consumer has now spent five years paying for this as an example, or the actual requirements in terms of actually putting the fixed charges.

So consequently and I said this, I said this to the energy regulator, because of my own business I said, you know, this is what I'm doing in my own business. This is five or six years ago, I said. Energy demand's going to continue to climb because of the sheer lowering of the costs, of actually have efficient practices, but you still had this demand requirements going up in terms of their whole set-up and you sit there and say five years down the track who's going to pay for it? The consumer has borne all the risk and the actual regulated entity just keeps on getting the money in. So I'll get to the point in relation to - this had to do with electricity and water and

sewerage and that.

I said, look, you know, at this consultative thing, we really need to start talking about the WAC and what your pricing of the WAC is because the long-term interest rates are as low as possible and what you should be forcing Transend or you should be forcing Aurora or you should be forcing the water and sewerage corporations when I think it's 60 per cent is like my business, you should be taking this as long as they humanly possibly can, you should be taking it 20, 30, 40, 50 years because there are historical lows and what you're doing is by forcing this lock-in, you are locking in the actual profits for the consumer because - I gave this example and then I'll tell you what actually happened at the meeting.

I said in my business I have never been able to actually take money more than five years. I said in fact I was even trying to sell off income streams to be able to lock in long-term money because it was so cheap. I said all of a sudden the banks open up the opportunity where they say these rates are at historical lows, you can take 10 years. So what did I do? Take as much 10-year money as I could possibly get, because I'm happy to lock in the low rates for 10 years. That's what these agencies should be doing, to lock in the profits for the consumer in lowering their costs over a period of time.

They want to have resets, so they take the average cost every year over a five-year period and all that. What that means is when you're actually at historical lows it means that the consumers are going to keep on paying more and more. It's not about lock-in and lower, lower. So the nice gentleman who's head of the economic regulator says, "Robert, we've got a tough agenda here. If you don't - you know, we've got to move on," all that sort of stuff. I said, "I'm not really happy." He goes, "Well, if you think - if you want to leave you can leave." I said, "I'll be leaving and I'll never be coming back." I said, "If you don't want to talk about the most important thing, then there's serious problems and all that you are is a box-ticker."

So I don't know if I've answered your question but the WAC's really important, the long-term interest rates. The consumer has been duded something serious. There's no gatekeeper in this state and the terms of reference are wrong, and then what they end up doing is coming up with crazy ideas of splitting stuff and everything else and what people don't understand, and this is the Productivity Commission and everything else, this is a small market, you cannot have competition in a small market, especially in capital in terms of assets, but you've got to make damn sure - like I'm not here to sell off government assets or anything like that, I don't believe in it and I don't believe the private sector, I think they can actually sting people, but you got to make damn sure that the Government sector or whoever's the provider is actually providing that service at the lowest possible cost and they're actually for Tasmania, they're not actually for a shareholder who just happens to be

the Government of Tasmania or the local government of Tasmania or whatever and that they actually don't have any interest in Tasmania.

That's a very general thing and obviously they have a positive bent in relation to Tasmania, but what I'm saying is first and foremost they actually have obligations to their shareholder. And then you say who the shareholder is and what's that all about and that's probably my point and that's the thing, people need to be here delivering services at the lowest possible price. And you look at local government, the biggest waste organisations there are, they talk about looking after the community and the interests of the thing, they couldn't care less about what they charge people, they are the most inefficient and loaded operation, you know, and if it was a private business they would all be merged and amalgamated; but no, they don't really have an interest in what's in the long-term interests of Tasmania or in the region.

**MS CHESTER:** Thank you very much for those comments and as I said, it was an area of our report that we did want to get evidence and views from the Tasmanian business community and so we welcome yours this afternoon because we haven't had too many others like it.

**MR ROCKEFELLER (NPL):** Thank you for the opportunity but I just hope you can get extra funding to just have a full-blown review on Tasmania with the real blowtorch.

**MS CHESTER:** So we do have some recommendations that a little more forward looking along those lines, but without using the word "blowtorch". Thank you very much for your time and attending this afternoon. It's very much appreciated.

**MR ROCKEFELLER (NPL):** Thank you.

**MS CHESTER:** Ladies and gentlemen, that concludes our official proceedings for this afternoon but I am able to open up, if there's anybody else who did want to provide a brief presentation if they wanted to step forward. If not, I will adjourn today's proceedings and the commission will resume our public hearings in sunny Launceston tomorrow at 9 am. So thank you very much.

AT 3.27 PM THE INQUIRY WAS ADJOURNED UNTIL  
THURSDAY, 6 FEBRUARY 2014