



Australian Government
Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT

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

TRANSCRIPT OF PROCEEDINGS

AT LAUNCESTON ON FRIDAY, 7 FEBRUARY 2014 AT 9.19 AM

INDEX

| | <u>Page</u> |
|---|----------------------------|
| FRUIT GROWERS TASMANIA PHIL PYKE | 379-389 |
| GREG McDONALD | 390-398 |
| CIRCULAR HEAD DOLOMITE TONY HINE | 390-398 |
| SUSAN MACDONALD | 399-403 |
| CARAVAN RV AND ACCOMMODATION INDUSTRY OF AUSTRALIA DENNIS AUSTIN | 404-410 |
| KING ISLAND SHIPPING GROUP JARROD REEMAN | 411-424 |
| KING ISLAND COUNCIL GREG BARRATT | 411-424 |
| PALMER UNITED PARTY TIMOTHY PARISH | 425-428 |
| GOVERNMENT OF TASMANIA DAVID O'BYRNE GARY SWAIN | 429-456 436-456 |
| NORTHERN TASMANIAN DEVELOPMENT DEREK LE MARCHANT BEN ATKINS | 457-463 |

MS CHESTER: Ladies and gentlemen, we might get under way this morning; firstly, welcome to the public hearings for the Productivity Commission Inquiry into Tasmanian Shipping and Freight including the current arrangements for supporting freight and passenger services between the mainland and Tasmania. My name is Karen Chester and I'm the Presiding Commissioner on this inquiry and I'm joined by my colleague, Daryl Quinlivan, head of office for the Productivity Commission.

Just at the outset, and for the record, I would like to say and thank the inquiry participants for the timeliness and overall quality of their submissions that they have provided to the Commission. The purpose of this round of hearings is to facilitate public scrutiny of the Commission's work and to get comment and feedback on the draft report which we released on 24 January.

We commenced our public hearings in Melbourne earlier this week, followed by two days of public hearings in Hobart and then two days of public hearings here in Launceston yesterday and today. Following today's public hearings we will resume our public hearings in Canberra for a further day of participants presenting to us.

We will then be working towards completing a final report to the government, which we will be providing to them on 7 March, having considered all the evidence presented at the hearings and in the submissions and in the follow-up submissions that we have received and all discussions with interested parties and participants. We do look forward to the provision of final or supplementary submissions which are due by today, 7 February.

Just in terms of how we conduct our hearings, we like to conduct them in a reasonably informal manner but I do remind participants that a full transcript is being taken. For this reason comments from the floor cannot be taken but at the end of today's proceedings I will provide an opportunity for any persons who would like to make a presentation to do so.

Participants are not required to take an oath but should be truthful in their remarks and you're also very welcome to comment on the issues raised by others in their submissions. The transcript of today's hearing and our other hearings will be made available to participants and available on the Commission's web site following the hearings. Public submissions are also available on the web site including any follow-up submissions that we get from interested parties.

To comply with the requirements of the Commonwealth Occupational Health and Safety legislation and a little bit of commonsense, you are advised that in the unlikely event of an emergency today requiring the evacuation of this building, you should just follow the green exit signs. Lifts are not to be used but given we are on the ground floor, I think we are all fairly safe.

So with no further ado I would like to welcome to the hearings our first participant for this morning, Mr Phil Pyke from the Fruit Growers Tasmania. Would you just like to state your name, title and organisation that you're representing for the record and for the transcript?

MR PYKE (FGT): Certainly. My name is Phil Pyke. I'm the business developer manager with Fruit Growers Tasmania which is the industry body representing the state fruit industry.

MS CHESTER: Thank you very much for your attendance today. Would you like to make some opening comments?

MR PYKE (FGT): I will. Thank you, Karen. This fruit industry in Tasmania is certainly one such industry which relies on freight to maintain markets both domestically and certainly in the growing sense internationally across Taiwan, South Korea, Japan and China and others into Hong Kong. Some growers are actually exploring further, into Europe, at this stage and so it is an area where domestically we're fairly limited because we don't have the road access to mainland markets in a timely fashion. It's mainly international exports where the future growth will be.

Just a bit of background on Fruit Growers Tasmania; we represent the apple, pear, cherry, stone, summer fruit and berry growers in the state and they represent the overall contribution to the Tasmania economy, about 100 million. The fruit industry is very unique as most agricultural centres are. It plays an ongoing role in sustaining rural and regional towns across Australia, particularly with the seasonal workers moving in for picking and some of these are staying on to do pruning and harvesting and we're working on projects so they can share seasonal workers across a number of rural centres to keep them in the state for longer.

As an industry body we don't manage the commercial aspects. That is done between the growers and their marketers and freighters, so I can't talk about dollars and volume et cetera at this stage. One point that we would really like to push is the fact that Tasmania needs to have that recognition of regional differentiation. Dare I say there's often an approach to have a one size fits all approach and particularly if we're having a look at a cohesive freight analysis across Australia, particularly around Coastal Shipping which I noticed in the paper, I think that regional differentiation must be maintained for Tasmania. One size fits all would certainly not work in many ways in Tasmania's case and I just wanted to actually emphasise that.

It's that unique isolated status - you know, that we need adequate freighting options developed for the long term. This has been a discussion for as long as I can ever remember but nobody has actually ever come up with a real adequate solution and it's maintained to ensure the ongoing viability of primary industry here. Based

around some of the other work we have done, you know, the economic modelling indicates that our future freight commodity growth has slightly been modest overall and economic forecast growth about 1.7 per cent per annum. The difference in that is that agriculture is the exception to that.

An example I use is: one of the berry farms is looking at expanding in the next four years by 400 per cent. So these are - you know, there are unique opportunities in the cherry industry. International demand has exceeded supply tenfold. You know, we probably have an annual tonnage of cherries in Tasmania of approximately 5000 tonnes. We can put that into one supermarket chain in China. So the area for growth is absolutely mind-boggling. We just can't understand at the moment what that potential is and that is due to our unique status, our high security status and temperate climate that is drawing these customers here.

The other side is, you know, the key irrigation projects across Tasmania, the irrigation projects and the extension projects, research and development, we're lucky to have any of those, the National Centre of Excellence under the Tasmania Institute of Agriculture and, you know, they have a significant impact on the productivity of the sector and obviously that's (indistinct) regional communities.

Some of the points we would like to raise, to quickly encapsulate, is that we believe that the freight equalisation scheme should apply to exports and I guess you have heard that quite a number of times. You know, it's fine to have it going across Bass Strait for mainland markets and there are some risks around those markets which I will elaborate on in a minute, but to have it apply to export would actually give a considerable advantage to our growers.

From the growers the general comment I have picked up there is the freight equalisation scheme doesn't equate freighting produce across similar distances on the mainland. So if we were to bring it across Bass Strait - I think it's about 420 K's if we were to bring it a similar distance - it certainly doesn't equate to that coverage. Port of Melbourne landing, I'm sure you have heard that before about being an additional unfair cost. Alternative options for Tasmanian exporters, particularly with the cessation of the international shipping line, no-one would come past here, indicates that might be changing as I sit here right now.

MR QUINLIVAN: Sorry, could you just explain what you mean by that?

MR PYKE (FGT): I believe the premier is making an announcement this morning about international shipping.

MR QUINLIVAN: Okay.

MR PYKE (FGT): The other point being that we have TT-Line, we have two

prime operators, with the exception of this month - of this year, sorry, those two primary operators generally put their ships into dry dock over the harvest season and the summer season because that's at reduced capacity. That actually leads to significant capacity issues on the TT-Line.

We would like to see the consideration of airfreight as part of an integrated strategy, taking into account the coalition's pre-election promise of looking at airfreight from Hobart - Hobart airfreight. We would like to see that explored more particularly as part of the Productivity Commission's work and one of the positives was the TT-Line does provide a strong service but southern growers are restricted by sailing times. What I mean there is that if basically they pick in the morning and they pack in the afternoon, they are not going to make that evening sailing, so they're actually - unless they get on a daily ship, if they are running at the particular time - and for the cherry season, that's quite good - they generally won't make the markets for two days or the airport for two days.

From our perspective opportunities to develop further into mainland markets are limited for Tasmania's fruit growers just simply by the distance, by the closeness of other growers to those particular markets and by developing the national market there's always a potential for what we term as industry failure and that is where there's an abundance of crop on the mainland, there's an abundance of crop here and we're putting them into the markets and the dollar is just not there, the money is not there and fruit is left to rot on trains. So it's cheaper to leave it on the trees than actually pick it and that happens on an ongoing basis, so every three to five years you may well see that in various sectors where fruit is just left to rot because it's not viable to pick it because the value in the national market isn't there. So that's why, you know, while Tasmania has some very good national markets, Coles, Woolworths, Harris Farms, some of those really big players, and certainly into the fruit markets in Sydney and Melbourne, the focus is international for us; that is the place where we're going to win and as I said before, the demand is exceeding supply. The Chinese delegations in particular that come into this state I couldn't count them, the numbers of inquiries that have been received direct to the growers and through us as well.

I think part of what we look at, we have a number of growers who are exceptionally good in what they've achieved, particularly at national and international levels, but they are a handful. What we have below that is a number of smaller growers and they are on the cusp of moving from farm-gate local supply to, you know, the youngest vegie sheds, you know, local IGA supermarkets, to actually growing to the next level and we spoke to a number of them yesterday and it's just the opportunity, the encouragement of how they get to that level and freight just remains a consistent obstacle to them to move into that next level and that's the one way that while we've got the big people here that cost us as well, to get those medium-sized growers up to that export level is going to take some work and if we

could solve the freight issue I think we're almost there.

When we originally had a look at this paper, cabotage was obviously a discussion point notwithstanding what has been announced very recently, with a view that non-Australian registered vessels should be considered for shipping services within Australia, particularly across Bass Strait. Under the state government review there was the work of Thompson Clarke, I'm not sure whether you're aware of that, that was looking around the international shipping and we haven't seen a final report out of that but I just wondered whether the Productivity Commission would consider any outcomes from that as part of your ongoing work.

MS CHESTER: That work that you're referring to there, the Thompson Clarke work, was that an input to last year's freight logistics coordination team report?

MR PYKE (FGT): It was, but I don't think it had been completed at the time that the papers were released and I haven't seen a final report as yet.

MS CHESTER: Okay, and the focus on that was? We do have a government representative later today so we'll take the opportunity to raise it with them.

MR PYKE (FGT): Yes, just to see where that's at. Yes. Okay, that's really my main points. We certainly accept the fact that it would be a desired outcome to have an integrated comprehensive strategy across the country but obviously for that, regional differentiation really needs to be looked at. Okay?

MS CHESTER: Thank you very much for those opening comments and remarks, and also for the input that your organisation has had to the inquiry to date. Just reverting back to one or two of the comments that you did make, with respect to the point of regional differentiation which we do understand and we tried in our draft report to provide a broader context of the relatively different needs and some of the challenges faced by Tasmania, vis-a-vis, the other states and territories in Australia and I think it's fair to say that to date the focus of federal government has been really on assisting to address the cost disadvantage and that's what the TFES scheme is really all about.

When we sort of step back and see what we thought might be the other levers at a federal government level for addressing sort of the cost competitiveness of the Tasmania economy and in particular the transport freight task, the obvious one to us was coastal shipping. You mentioned in your comments a little bit earlier doing something different in that respect for Tasmania. Our approach in the draft report had been to take the evidence that we've received from Tasmanian business and use that as a basis to co-opt the government to expedite the coastal shipping regulatory review, which we understand that they've heard and they're looking to progress with that and review sooner rather than later. Does that address the concern from your

perspective or is there something separate that you're thinking of there for Tasmania?

MR PYKE (FGT): No, I'm not thinking of anything that's completely outside the square but I think overall since we've lost shipping, since we lost the Port of Hobart, you know, there's a number of different pressures for southern growers than there is for those north (indistinct) ones and I think it needs to be looked at holistically. We've always just concentrated just on Bass Strait shipping without, I guess, consideration for other alternatives and I just think that, you know, as I said we've been talking about this for decades, this has just been ongoing and we've got a great opportunity at this time with this inquiry and the Department of Agriculture inquiry, with the state government inquiry to actually pull something together and if it means an overall review of coastal shipping and looking at that and how that might benefit Tasmania, then I think that's the way to go.

Having said that, at this point in time, bar anything that may come out of this inquiry that will actually benefit growers and other people to get freight across Bass Strait, we don't support any change to the freight equalisation scheme except encouraging the application to exports; but we'd certainly oppose any changes to that unless we could see some other benefit coming along which would result in reduced freight cost or something of a similar nature.

MS CHESTER: Yes, and our draft report does look at the option of extending the TFES to exports, particularly given with the departure of the AAA service which was several shipping lines providing a regular international container service for Tasmanian business having discontinued that that sort of brought up the anomaly that exporters transshipping through Port of Melbourne weren't eligible for the scheme when that was the only option they had to get their product to market.

We now find ourselves in the situation with there obviously being some recent developments and negotiations with international shipping lines and the mooted return of an international shipping service to Tasmania on a regular, albeit once every 18 day basis as we understand it, which then gives us pause to think whether or not it would then be a reasonable recommendation not to extend the TFES to exports given that that would then have implications for the viability and the ability to attract volumes to the international shipping line. I would be interested to get your thoughts on that balance.

MR PYKE (FGT): I think you've got to look at it in the context of the commodity and cherries and certainly any soft fruits that we may be actually getting into Asia, will still have to go by air and would have to go out through Melbourne so therefore they will still require shipping across Bass Strait. So it's predominantly, I think, fruits like apples et cetera that will go via the ships because of the timeliness.

MS CHESTER: So it would be good to get a better understanding if we can this

morning of the shipping needs of the industry that you're representing, the fruit growers and perhaps if we wind back the clock a little bit to when the AAA service was in place, were fruit growers using that regular international service?

MR PYKE (FGT): Unable to tell you that because I'm actually in my fourth month in this job, so I couldn't.

MS CHESTER: Okay.

MR PYKE (FGT): But I could find out for you, Karen, about who was using it and, you know, historically as you'd be aware the apple industry in Tasmania has always used shipping and I think that suddenly sort of in the 80s and 90s that's died away. Having said that, and this is part of the problem with the Port of Melbourne too and when I moved into the job last year I heard last year was the first time in 130 years that Tasmania had not exported apples, but that was actually wrong though because it was going through the Port of Melbourne it was actually the exports were being counted as Victorian exports not Tasmanian exports.

We actually have very little facts and we're getting a lot of distorted figures because what goes through the Port of Melbourne isn't counted from a Tasmanian perspective. I'm not sure of the extent of that, I couldn't tell you the extent of it but I certainly know there were quite a few containers of apples that went out of here last year but according to Apple and Pear Australia Ltd who actually collate a lot of the national statistics, there were zero.

MS CHESTER: No, and that raises an important point that we're looking into as well to make sure that we do get appropriate data to give us a better understanding of the exports that are leaving Tasmania and being transshipped through the Port of Melbourne.

MR PYKE (FGT): And the data is very hard to come by because we've obviously - you know, cutbacks across government et cetera and it's there are fewer areas now collating all of this.

MS CHESTER: Thank you for that comment. Perhaps it's better then if we just focus on the immediate shipping needs of the growers and for us to get a better understanding of if there were a regular international shipping service, how many of the fruit growing sector would that assist in terms of exporting to market versus those that you mentioned before who would still need to tranship through Port of Melbourne either to be on-shipped from there or to be air-freighted?

MR PYKE (FGT): My view is it will more relate to the apple growers. If we had an international shipping line that went from Bell Bay straight to Melbourne and then onwards, I reckon it would be strongly utilised because it's not domestic shipping

fees, it will be international shipping fees. That was the point I made about could non-Australian registered ships be used to ply that sort of trade to reduce that cost. No doubt as you have heard many times here, it's a damn expensive waterway and that's in a competitive situation of three freight companies at the moment, TT-Line and the two private companies. How it would work I wouldn't - bar the apples and pears to a lesser degree, it wouldn't be used for berries or cherries. That still has to be air freight.

MS CHESTER: Okay, so if we look at it by produce, then apples and pears could potentially use a regular international container shipping service leaving from wherever and going direct to a hub in Asia.

MR PYKE (FGT): Yes. That's predominantly the users that I see of this at this stage, notwithstanding anything else that may come down in the future.

MS CHESTER: Your reference before of you seeing the potential for exponential growth in demand for this product particularly in Asia - can you give us a sense of the order of magnitude of where you see that demand going? I know it's anecdotal but based on - - -

MR PYKE (FGT): Karen, one of the growers up here produces 1500 tonnes of cherries a year. He had one Chinese client who wanted 800 tonnes just in one load, so that's over half his output. That's just for one client for one load for one lot of stores. When you look at talking particularly with the Chinese - let's use them as an example. We talk in tens of tonnes. They talk in tens of thousands of tonnes, so that's where the growth is.

Of course you just can't plant an orchard and it will produce fruit the next year. There's a lot of planning that has to go into that. I just don't think - and I'm leaving here to work with an Indonesian supermarket delegation up at the casino and I just don't think we're even fathoming how much is actually there for Tasmania. It's because of, you know, the unique biosecurity status, the fact that we don't have that evil little fruit fly and the very fact that we produce cherries up to 35 mil, which are just huge. In fact the record here has been 38 mil.

MS CHESTER: In terms of your sense of what are the impediments to Tasmanian fruit growers being able to respond to that demand, is it more a production side issue here in Tasmania or is it to do with the freight path to market?

MR PYKE (FGT): It's a combination. It's absolutely a combination. How the domestic guys get around most of this - because even with the subsidy a bin of loose packed apples still incurs a freight cost of about \$125, so what they do is they loosely pack them into the bigger bins that are sent to Victoria now to be packed in a large central packhouse. That's to reduce cost, so it goes over there and it gets packed for

Coles and Woolworths in Victoria. There are some cherry growers that are doing the same thing, so they grow them and pick here and then they send them over to Victoria to be packed.

MS CHESTER: Just on the shipping side and the freight to market in Asia for that produce, is it the cost is the impediment or is it getting the volume access on the shipping lines?

MR PYKE (FGT): It's a combination of both, particularly over the summer period. I watch this quite carefully: thankfully the time-sensitive freight does go with TT-Line even though they are leaving other freight behind because of the capacity issues. The reduction will catch up. It will catch up and where it goes is down to commercial interests of growers, but we certainly see it - as we could see with the berries here, you know, increasing by 400 per cent and that's just for the domestic market here on the mainland, fruit people like Costas and (indistinct).

MS CHESTER: You mentioned before the efficiency of doing some packaging once the produce is shipped to Port of Melbourne. Is that the case for produce that's also then transhipped out of Port of Melbourne to international export destinations?

MR PYKE (FGT): No. All that is done here at the particular packhouses because they all have to be inspected by the particular country that's coming in for export, so each year we tend to get Japanese inspectors, the Chinese, Koreans, and we will have the Taiwanese come a bit later for the apple season. So they will come down and they have to be registered with them.

MS CHESTER: Okay, so that has to occur in Tasmania so there's no processing or - - -

MR PYKE (FGT): No processing. That's because once you start packing over there for international markets, then you run the risk of fruit fly the moment you undo the containers.

MS CHESTER: Understood. You mentioned before that your growers felt that the current scheme - setting aside the issue of extending it to exports, that the current scheme doesn't really address the cost disadvantage that they have road versus shipping. Are you able to give us some evidence on that?

MR PYKE (FGT): It's really anecdotal because when we do these submissions we put the requests out to the growers. When you look at something that's lightweight such as berries - so it takes up the size, it has that volume in size but not in weight - they're paying a higher premium because it is on volume, not weight. As you said, his advantage is that he actually palletises frozen berries so he actually gets value for money, whereas some of his counterparts don't. So it's more anecdotal rather than be

able to give you specific dollar versus dollar examples.

MS CHESTER: Have the growers given you any feedback in terms of the parameters that are used at the moment for calculating the assistance?

MR PYKE (FGT): No.

MS CHESTER: So the key issue really from your perspective is the extension to exports being transhipped through Port of Melbourne.

MR PYKE (FGT): Yes, and how do we overcome some of those capacity issues particularly around peak times.

MS CHESTER: As I understand it, if there was an international shipping service that was once every 18 days, that would meet part of the shipping needs of the pears and the apples?

MR PYKE (FGT): Certainly. What I think there, Karen, is that the industry would have to readjust again and so it would be a matter of, notwithstanding what announcement may have been made this morning, understanding then how industry will orientate itself to utilise the very shipping service that they have requested. What does that then mean? One of the markets that we don't fill is the US market, so we have this great free trade agreement with America but we actually don't send fruit into the US and part of it is the freighting costs, so if we had particular shipping heading that way, that may mean a lot of difference.

MS CHESTER: Is that since the demise of the AAA service or has that always been the case?

MR PYKE (FGT): No, on the previous international service there was some produce going into the US and I think that was post free trade agreement, so I couldn't tell you the volumes but it was certainly - and it's certainly a market that always sits there. We have the protocols we have to export to it, but it just hasn't been developed at this stage, mainly because of Asian demand too.

MS CHESTER: I appreciate you don't have the information to hand today but it would be extremely helpful for us if you're able to give us a sense of the relative order of magnitude of the growers in terms of if there were the return of an international shipping service once every 18 days, what sort of percentage of the growers' market that would help, the export task, and how many are still going to have to tranship through Port of Melbourne given that balancing issue that I raised earlier on.

MR PYKE (FGT): Yes, indeed. I will certainly follow that up with them and I

will provide that feedback to the Commission.

MS CHESTER: That would be great, and if you could get that to us early next week, that would be very much appreciated.

MR PYKE (FGT): I will do a lot of ringing around, Karen. It's a long weekend down south.

MS CHESTER: We didn't have any other questions - sorry, we do.

MR QUINLIVAN: I wouldn't mind just checking precisely what you said about packing and transshipment. If I understood, what you're saying is that those products with high value, low shelf life are exported directly, either shipping and then air freighted out of Melbourne but not transhipped to the Port of Melbourne, but you have at least a suspicion that some fruits are sent in some kind of bulk form to Melbourne?

MR PYKE (FGT): They are. They definitely are.

MR QUINLIVAN: And they are packed for export and then transhipped via Port of Melbourne?

MR PYKE (FGT): No, packed for domestic market.

MR QUINLIVAN: Packed for domestic market.

MR PYKE (FGT): Yes.

MR QUINLIVAN: Right, but if I understood you right, you said that for the first time there had been no recorded exports of these products from Tasmania and you were doubtful whether that was right.

MR PYKE (FGT): I confirm that there were apples sent overseas. They were actually freighted through the Port of Melbourne but I couldn't tell you at this stage where they had actually gone from, so whether they went international shipping from there or they went air freight, et cetera. We will follow up on some of that for you, but once it hit Port of Melbourne it was just shown as an export (indistinct) Port of Melbourne, so based on that I believe it was probably shipping that took it to its particular destination.

MR QUINLIVAN: That's really what I'm getting at. So you do think that Tasmanian apples were sent to Victoria and packed possibly as Victorian exports from that point, I'm not sure, but they have gone to export markets probably - - -

MR PYKE (FGT): They have. Sorry, Daryl. When they were packed for export they were actually packed fully in Tasmania, so it's only the binned apples for the domestic market that will come through and then be repacked in Victoria.

MR QUINLIVAN: Okay.

MS CHESTER: Thank you. That's very helpful. Are there any other comments that you would like to make this morning?

MR PYKE (FGT): No.

MS CHESTER: Thank you very much for appearing.

MR PYKE (FGT): Thank you for the opportunity.

MS CHESTER: We do appreciate that and we look forward to hearing back from you on those few points of follow-up.

MR PYKE (FGT): I will just send that to Melissa.

MS CHESTER: Yes. That would be great. Thank you very much.

MR PYKE (FGT): Thank you very much.

MS CHESTER: I would like to ask our next participant, Susan Macdonald, to join us. It looks like Ms Macdonald is not here, which is perhaps not surprising because she wasn't tentatively due to appear until just after 10.15, so if Mr Dennis Austin from the Caravan, RV and Accommodation Industry of Australia is here? No. We might take a short break for five minutes and stretch our legs until one of those two joins us and we can then reconvene our proceedings. Thank you.

MS CHESTER: Ladies and gentlemen, we'll resume our proceedings very kindly helped by our next presenter, Mr Greg McDonald, who has very kindly agreed to come up in the slot order and present to us now and I think he's joined by another gentleman. If you could both just state your names and the organisations that you're representing for the record, that would be very helpful.

MR McDONALD: Yes, I'm Greg McDonald. I'm a farmer cum contractor from Wynyard. I could elaborate a bit further but I won't bother on how the submission was presented originally but it's irrelevant so I will present as a farmer/contractor from Wynyard.

MS CHESTER: Okay. Thank you very much.

MR HINE (CHD): Tony Hine, a rural fencing contractor, former dairy farmer, representing the Circular Head Dolomite company.

MS CHESTER: Sorry, what was the name of the company?

MR HINE (CHD): Beg yours?

MS CHESTER: Pardon, what was the name of the company?

MR HINE: Circular Head Dolomite.

MS CHESTER: Thank you.

MR HINE (CHD): That's one part of why I'm here. The other, I'm involved with the Concerned Farmers Group, the midlands, headed up by Colin Howlett who as part of a coalition have formed a group called the National Sea Highway Coalition so I've been heavily involved with that side as well.

MS CHESTER: Thank you very much for appearing today, gentlemen. Would you like to each make some respective opening comments?

MR McDONALD: In my submission, the first part of it was to do with freight equalisation on exports out of Australia and on the news this morning you're well aware the state government have stated that they are in the process of negotiating with Swire Shipping to try and reintroduce an overseas container vessel onto the run. Now, I have a friend on the north-west coast who is a director of a small onion exporting business, predominantly the onions go to Europe and they just can't compete when they have to send the onions via Melbourne.

But he tells me that the shipping agent that he works with in Launceston here stated that if the Tasport charges were in line with other ports around the Australian

coast, they would be quite prepared to bring another ship onto the Australian run. I think at the moment they have nine and they would bring another ship onto the Australian coastal shipping scene; smaller, not a very big ship and could easily negotiate the rock in the middle of the river down at Bell Bay so that's not an issue, which has been put up as an issue over the years; but they have stated that they don't require help from the government, all they require is Tasports to be more realistic in their charges.

So the Liberal Party have said that they will provide 11 million per year to bring an international ship in, but whether that's realistic I'm not - and then I have had other comments to say that there's not enough freight in or out of Tasmania to warrant bringing an international ship in here so I don't know where the truth lies but it's a bit of an ambiguous question. But the Tasmanian economy, like I'm pretty ancient and it's the worst that I can remember it being and as I said, I'm a contractor and I'm having more difficulty getting my money in; you know, I'm financing people I work for and I've never seen it like this in all my years contracting so like Tasmania here's a basket case, I'm afraid, at the moment and . The exchange rate's not helping of course. Like John Keiran said once that the definition of waste is a busload of economists going over a cliff with an empty seat in it, but I don't know - - -

MR QUINLIVAN: Thank you for that.

MR McDONALD: But, you know, the Reserve Bank board, in my humble opinion, are not looking after us people in the lower end of the scheme of things. You know, it's all right to look after the population centres in Sydney and Melbourne and Brisbane but we're at the end of the chain and like everything that we lose we're the end result of it; we can't pass it on, the farmers in our area. We've got another little group of farmers that have just set up company now exporting potatoes and vegetables to South-East Asia and they've looked into this and that without international shipping it's not a goer, as simple as that.

That's on the overseas export. Another little funny anecdote I've read, I've read all the submissions that have been presented to you and there's a lot of interesting information in there. Apparently we're paying 28 per cent of the freight, Tasmanian shipping contributes 28 per cent of the funds to Port of Melbourne Authority. The predominance of those increased charges from the Melbourne Port have been brought about by excavating the main sea lanes up Port Phillip to increase the size of the ships going in and out of Melbourne.

Well, I'm afraid this is another case where Tasmania's been shafted again. Like, we don't provide - we're subsidising Melbourne manufacturing exporters because we're not sending out 28 per cent of our freight on those huge container ships; you know, it's a bit of a funny way of doing it but, I mean, we're paying a big percentage of that levy that the Melbourne Port Authority have imposed.

MR QUINLIVAN: Just for the sake of clarity I think the charges for the channel-deepening are separate, they're part of the wharfage charges which the 28 per cent is certainly relevant to. The licence fee is unrelated to funding the channel-deepening, that's a revenue-raising measure by the Victorian government and I think both the Port of Melbourne Authority and the Victorian government have been fairly explicit about that. It doesn't perhaps change your underlying point but just for clarity, those two things are quite separate.

MR McDONALD: But it is messy isn't it.

MR HINE (CHD): Yes, that's right.

MR McDONALD: You'd have to - - -

MS CHESTER: It probably reinforces your underlying point.

MR McDONALD: Yes, yes. That's about all I wanted to say. Like, this news we're getting about an export ship coming back to Tasmania heartens me greatly because there's no doubt about it, having to send stuff through Melbourne, like the cost of transporting from the Toll terminal around to the international terminal is just horrendous, like nobody wants to do it. So that about cleans up the point on the export part of it. Do you want me to continue on with what I wrote in the submission about the inequities of the freight equalisation scheme to and from Victoria now, do you want me to?

MS CHESTER: We have read your submission but if you'd just like to, if you wanted to provide a summary comment on that for the purposes of today's hearing that's absolutely fine.

MR McDONALD: I've got some figures. I've got some figures and through most of the submissions I've read the discounted freight rate for bulk shippers - like I'm a grain harvester so I'm interested in wheat and everything that goes along with that, \$760 has been quoted as the discounted freight rate for a container of wheat, say, or canola meal and the dairy farmers get \$855 back. Well, that just doesn't add up, make sense to me. They are being given a discount on their shipping services but they're getting a rebate on the retail cost of a container, the wharf-to-wharf cost. So if you can get \$855 back when you've only paid 760 wharf to wharf, that sounds a bit Irish to me.

MR QUINLIVAN: This is for southbound?

MR McDONALD: Yes. Predominantly wheat I'm talking about, and it applies to pellets and canola meal and stuff like that.

MR QUINLIVAN: And your point is that that disadvantages producers of those things here in Tasmania?

MR McDONALD: Taxpayers of Australia are subsidising Victorian wheatgrowers, and the further away from Melbourne you're bringing it the higher the invoice, the more money you get back, up to a total of 855. One classic case is canola meal from Cargill's plant at Sunshine, one freight forward charge is \$1650 door to wharf and the end recipient gets back the \$855. Another exporter charges the same person \$1350 for the same product from the same plant, door to wharf, \$1350, and then he only gets \$650 back. Depending on the size of the invoice - that was the point I made in the submission - there are, what is the word I am looking for, inequities. I was going to say "rorting" but that's not quite the right word. That just beggars belief - how the size of the invoice determines how much rebate you get back. I mean, they are figures that I have been given that are factual. I'm not making them up.

We are presently importing about 400,000 tonnes of grain and grain-type products to feed our growing dairy industry. I think in the future with the Tasmanian Government's pursuit of irrigation schemes, primarily to grow poppies - like, you just can't keep growing poppies; you have got to have a rotation. I think we could increase our wheat and barley and that sort of stuff here to feed these dairy cows a lot more in the future but that remains to be seen.

Another issue - Toll and SeaRoads and the TT-Line can increase their charges at their whim. I feel there should be some oversight body like the ACCC that looks into the reasons why they increase their charges. I know wages go up and fuel goes up and all that sort of stuff but there should be some oversight body that looks into the freight price increases that those shipping companies charge. They are virtually monopolies. There are three of them doing it but, I mean, there's a lot said in the submissions about deregulating the Australian shipping business by using overseas manned ships and probably the federal government may do something about that; but it would be pretty difficult to get one of those ships into a Tasmanian port because the major shipping companies have got the ports tied up, unless we make a container berth at Triabunna or something like that.

The demise of the McCain vegetable plant in Smithton has probably had a pretty big impact on vegetable growers on the north-west coast. They just up and left and went to New Zealand. We all know why. I mean, the wage structure in New Zealand is nothing like ours but New Zealand also has a free trade agreement with China. Vegetables are coming in from China and they are repacked by McCains and sent to Australia as produce of New Zealand. We are going into war with one hand tied behind our back in that regard.

The third issue: on southbound freight, I know farmers don't buy a new tractor every year but a lot of them buy them every two or three years and a lot of the

machinery used on the north-west coast is manufactured in Europe. There are virtually no agricultural machinery manufacturers left in Australia - not that suits our way of farming on the north-west coast. Our little group feels that we should be eligible for freight equalisation on, say, a tractor. There are no tractors manufactured in Australia so everything that is imported doesn't attract freight equalisation. That is another issue. I know Joe Hockey won't agree with me. That's about all. I will answer any questions but that's the main point of my argument.

MS CHESTER: Thank you very much for those opening remarks. We might allow Mr Hine an opportunity to make some opening remarks and then we will have some questions.

MR HINE (CHD): Thank you. Just to follow on from Greg, just on part of what Greg was talking about, the actual free trade agreement set up between Australia and New Zealand in 1983 has turned out to have a real detrimental effect I think on agricultural products and the agricultural industry in Tasmania. With the different wage structure in New Zealand, the opportunity there to get cheaper fertiliser and those sorts of things has had a real impact on the Tasmanian agricultural industry.

There are two aspects that I would like to touch on. One is that I was heavily involved with submission 41 in the 2006 Productivity Commission on behalf of the Circular Head Dolomite on an anomaly that exists within the shipping classification at the moment. There are two classes there, a class for high density and a class for low density. There is a penalty put on high density products which only qualifies for 60 per cent of the freight rate, compared to a low density class product.

For a product like Circular Head Dolomite produces, it is a ground rock and therefore it is fairly heavy but if you fill a full container up of that to ship across the water, you're looking at a gross weight in excess of 55 tonnes and yet you can only really legally cart anywhere in Tasmania and Victoria about 25 tonnes; yet you compare that to, say, a container of breakfast cereal. You fill the whole container up and it still only might weigh 8 to 10 tonnes. They qualify for the full freight subsidy on that.

For a company like Circular Head Dolomite, the analysis of dolomite is around about 55 per cent calcium and 40-odd per cent magnesium and so a product that is critical in first of all neutralising low pH soils to bring it up to - like an average soil in Victoria is probably about 4.6 pH and Tasmania is the same. The pH level of the low sand areas is around about 4.6 to 5 and to get really good grass growth and vegetable production, you need a pH of either 6.5 to 7 so you need to have to neutralise it to bring it up to that level to maximise your production from that; but the magnesium is very important in the health of animals and the green colouring of grass and vegetables - magnesium plays a big part in that.

The newer source of magnesium or dolomite for the Gippsland area in Victoria is Mount Gambier. It is about 400 kilometres from Mount Gambier to Melbourne. For a company like ours to be able to grow the company - we are land-locked at the moment in Tasmania. To grow the company, we really need to be able to get into that area in Victoria but to compete with, say, Mount Gambier, the product from Mount Gambier, on the basis of a 400 kilometre trip from Mount Gambier to Melbourne and from Tasmania to Melbourne, the cost differential between the road transport and sea is just exorbitant, so therefore it just keeps us, you know, right out of the market.

If that penalty, or classification, was removed, and if you read the 2007 report you will find, even going back to Peter Nixon's report in 1998, there's comments there made by some people who did submissions. For the life of me I can't understand why that anomaly is there and why it should be there when you can only legally cart 25 tonne anyhow, and you can't fully fill a container otherwise you will be overweight, so that's an anomaly, and if we are able to open up and compete with Mount Gambier and Victoria, we would probably grow our company product by at least 20, 25 per cent. So that's one anomaly that we tried to address in 2007, there has been nothing happened since. I've got a copy of the submissions there, but it's a 2007 and nothing has changed since.

That's one thing that I would sort of like to pursue. The other is, as a member of the Concerned Farmers Group and therefore add on to the National Sea Highway group, I fully support the ten key points that were presented to you the day before yesterday, but there's one important point I think that was not added to it, and I had discussions with the representatives at the time, and that is what we should be looking at is, to overcome the immediate problem as far as (indistinct) is concerned, but we also should be looking at further appeals with a vision of how we overcome - yes, no-one likes to see a subsidy - it's really not a subsidy, it's an equalisation or an equity situation, no-one in Tasmania or anyone from Victoria should have to pay any more to travel from say Seymour to Albury, which crosses the Murray River, or from Shepparton to Finley and wherever you're going across a beach from one state to the other, there shouldn't be any more cost to a Tasmanian going that way as a Victorian or anyone from the mainland coming back here, and so that sort of an equity situation should be addressed, I think, and that should be the bottom line as far as cost to any party in Australia is concerned.

Leading up to that or going on from that, a chap by the name of Mike Peterson has done a lot of work on looking at a different design ships that would service Tasmania. There's two or three different designs, but the one that probably fits in better for Tasmania is what they call a pentamaran. It has actually never been built, it's designed and all the patents are taken out on it, et cetera, et cetera, but if it does what they say it will do, cross Bass Strait within five hours, then the opportunity there is to have day sailings, two day sailings from that ship, and probably a third

sailing at night where they could do the passenger side, two trips in a day and just changing ramps, et cetera, et cetera, and do a freight service of a night, and that would cut a lot of time out as far as a lot of expense, particularly if you plan ahead and incorporate going into Hastings, there's a big development going on in Hastings in Victoria as far as a new port is concerned. It would cut, I think, about 20 per cent of the time off the trip going from here to Port of Melbourne compared to from here to Hastings, so I wonder whether the Productivity Commission would be able to take on board a complete analysis of looking at that design, and whether that wouldn't be a better fit for Tasmania in the long run, if you had each of the three companies that are in Tasmania now, the Spirit, Tas Ports or the owners of the Spirit - TT-Line, and Toll and Kelly or SeaRoad, each had one of those ships, our situation would be overcome overnight, virtually, and if you got that turnaround in time, and so on - so I've got a copy of his presentation. I would like to pass that over to you and to follow through.

To me, we need to look further ahead and try and replace the ships that we've got with something that's twice the speed, but has still got the same stability. If what has been said is correct, with all the tests that have been done, these ships are said to be more stable even than the Spirits that we have got now.

MR McDONALD: Apparently, there is one or two under construction in the US by the US military as we speak. It's virtually a trimaran, but instead of the outriggers being outriggers like you envisage on a South Pacific canoe, they are little pods aft and forward on each side of the main hull. Tony has got a copy of it. We would like you to have a look at it.

MR HINE (CHD): One of the other aspects of that ship is, and you noticed - you probably wouldn't see it, but the government have come out, the minister responsible, deputy premier, on Monday, about some improvements to the Burnie wharf and upgrading that to form more capacity for containers, et cetera, et cetera. One of the points that they are using is that they can go ahead and unload the whole capacity of the ship before they start reloading.

One of the advantages of the pentamaran is you have got two ramps going on, one is unloading, one's loading at the same time, so you are halving the time. I've had a thought that those designs of that type of ship, and I think it happens between New Zealand, the two islands of New Zealand, where you have actually got containers on a rail track, and you can have them loaded and just shunt them on pretty quickly and off pretty quickly, and so shipping design and so on is a key point I think in what we should be looking at to try and speed up the turnaround.

MS CHESTER: Thank you very much for those opening comments and for your feedback on our draft report, and also for some of your comments on some of the other submissions that you have obviously taken the time to review. Just a couple of

follow-up questions, just to make sure that we fully understand those comments and feedback.

I think just firstly on the issue of potential new vessels, it's probably beyond the scope of our terms of reference and probably beyond the expertise of the economists, but it is a very important commercial matter for the shipping lines, so I hope that your colleague is able to engage with the shipping lines if there is some new technology and design of vessel that might meet the needs of shippers across the Bass Strait.

Greg, on your commentary around the discussions that you had with the Launceston shipping agent in terms of the international shipping line that felt that one of the key obstacles with them resuming some sort of regular service to Tasmania was more to do with Tasport's charges, do you know the name of that international shipping line?

MR McDONALD: I can give you the surname of the agent, but it was the AAA line that he was referring to, but would be quite happy to give you in private the name of the shipping agent.

MS CHESTER: Okay. That would be very helpful. So it was one of the three or four shipping lines that were part of the original AAA consortium. Okay. Thank you for that. Tony, in terms of the dolomite anomaly from your perspective that you touched on, just to make sure that I fully understand the situation there, is that an issue of eligibility under the scheme as it currently stands or is it the rate of assistance under the scheme that's giving rise to the anomaly from your perspective?

MR HINE (CHD): It's the rate of assistance if - right borderline, as you put it. If we're able to get the full subsidy as other claimants are, it made it right on the borderline to - and it's a product down the track that you would say should be handled bulk, but you have got to start and grow your market first and with the amount of empty containers that are going back - I have seen some where there's probably up to 50 per cent of the containers shipped back from Tasmania to Victoria are empty so, you know, there's an opportunity there to actually value-add or utilise those to start and develop a market.

Back when we looked at it there was a bulk ship bringing wheat into Tasmania that would handle around about 5000-odd tonne. We did look at that but there's problems with a product like dolomite compared to wheat. Wheat will gradually fall onto a belt and you can unload it with a conveyer and so on, but a product like finely ground rock, it actually hollows out underneath and so you need a different designed ship or something with a grab that can grab it and take it out.

The ships are just not about anyhow, but you have got to crawl before you can

walk as far as developing your market and so on and it's a product that's not perishable and so therefore you could leave it on the wharf or somewhere for a fortnight or a month or so until such time as there was capacity in the ships to be able to take it and stockpile it on the other side. We stockpile it. At the plant there's probably 20-odd thousand tonne there at a time. It's crushed all the year round but you can only get it on the ground surface at certain times, you know, when it's reasonably dry, but it will stockpile and sit there till you're ready to spread it.

MS CHESTER: Thank you very much. That does help with a better understanding and certainly we do have the benefit of going back and having a look at the earlier submissions that you referred to. I didn't have any other questions so, gentlemen, thank you very much for joining us this morning and for presenting, and I do appreciate you moving your time slot from this afternoon to this morning. That was very helpful. Thank you again.

MR HINE (CHD): Thank you.

MS CHESTER: Ladies and gentlemen, we will adjourn our official proceedings for about 15 minutes to have a short break to stretch our legs and have a cup of caffeine. Thank you.

MS CHESTER: Ladies and gentlemen, we will resume our proceedings and I would like to welcome our next participant, Susan Macdonald. Susan, if you would just like to state your name and if there's any organisation or interests that you're representing just for the transcript recording.

MRS MACDONALD: Thank you. My name is Susan Macdonald and I'm representing myself today but I have in the past been a member of the committee Bass Strait Transport Equality.

MS CHESTER: Thank you very much and thank you for appearing. Are there any opening comments you would like to make?

MRS MACDONALD: I have a page here of some points that I have made, so I will read this.

MS CHESTER: Thank you.

MRS MACDONALD: I wanted to comment on some aspects of the Tasmanian shipping and freight draft report in relation to current Bass Strait Passenger Vehicle Equalisation Scheme. Although I do support the concept of an equalisation scheme which covers freight, people and vehicles in both directions at the lowest cost to the taxpayer, I'm more familiar with the passenger scheme so I will limit my remarks to that scheme.

I was a member of the original committee for Bass Strait Transport Equality. We were a very active committee of ordinary Tasmanians who were highly committed to the principle of a sea highway across Bass Strait. Our aim was never limited to providing a subsidy for the tourist industry. We were concerned that Tasmania's isolation had a profound effect on its economic future and that we had a democratic right to be fairly connected as far as possible to the rest of Australia.

Tasmania is after all a state of the Commonwealth and all other capitals are connected by highways under federally funded programs with billions of dollars being spent on road infrastructure each year. Most of my mainland family, friends and acquaintances regularly travel interstate with little difficulty or extra expense. I believe that being cut off to an extent from family and friends is part of the reason that Tasmania has a stagnant population and that Bass Strait is a barrier to people settling in this state.

In the early 90s members of our committee with others made several trips to Canberra at our own expense to lobby the federal government. We had enthusiastic support from the ALP, Liberals and Greens in Tasmania as well as the Victorian government and local government in both Tasmania and Victoria. As you know, at the 96 federal election our lobbying was successful and both major parties offered a

solution to the need for a sea highway across Bass Strait. As the coalition was elected, the Bass Strait Passenger Vehicle Equalisation Scheme came into being.

With the introduction of the scheme we understood that fares would fall and that a basic low fare similar to the cost of road travel and consistent all year round would be offered. We also expected that downward pressure would be kept on travel costs. Instead fares have risen significantly in the last decade as highlighted in the Commission's draft report.

TT-Line is owned by the people of Tasmania but, in my view, the shipping line has allowed the scheme to morph into a tourism subsidy skewed towards inbound tourists. I'm not suggesting tourism is not a marvellous thing but that wasn't the original intention of the scheme. That was for Tasmanians, for everyone really. Whatever reason you have for travelling, that was the idea.

Currently TT-Line does not even list fares on its web site. Prospective passengers have to undertake a cumbersome process completing many screens of details including full particulars of vehicle; make, model, body shape, year and even numberplates, before finally receiving your quote which is not fixed until the fare is paid. Their advertising tends to sell a cruise-ship like experience rather than a crossing. There's also a question of maximising capacity.

As the Commission suggested in the report, some of the subsidy is captured by the TT-Line; in other words, funds provided by the scheme are used to improve TT-Line's bottom line. Occasionally in mid-winter low fares in the same ballpark as the cost of road travel are offered but these, in my view, should be offered all year round.

I take issue with draft recommendation 11 of the Commission's report. Rather than examining the alternative use of funds to support inbound tourism, the Victorian and Tasmanian state governments should work together with the Australian government to achieve the original purpose of the scheme. They could begin by taking out the Commission's suggestion to clearly articulate the scheme's broader objective. All other areas of Tasmania are linked by road and we were promised that a sea highway would complete the missing link. Equalisation was promised but it hasn't been delivered.

MS CHESTER: Thank you very much for those opening remarks, Susan, and clearly we are able to benefit from your history and interest in the scheme given that you were directly involved in its inception. Just a few questions and comments by way of follow-up; clearly when we drafted the report we were looking for the views of interested participants, about what they saw as the policy objectives of the scheme. We have received quite a bit of evidence and presentations while we have been here in Tasmania, including from yourself, to highlight that the scheme's original policy

objective was to provide affordable passage for passengers with their vehicles travelling to and from Tasmania and the mainland regardless of the purpose of their visit.

I think it's fair to say that some confusion had entered with commentary from others and different governments over time, focusing very much on the secondary benefits of the scheme; that is, that it does make that passage more affordable for tourists who want to bring their own vehicles or motor homes or caravans and the like. So we do appreciate getting that feedback on what the policy objectives are and we do think it does need to be a little more clearly articulated because then ultimately becomes the benchmark against which the Commission will want to assess the effectiveness of the scheme.

I think it's also fair to say that the other key developments since the scheme was conceived or put in place is the dramatic reduction in airfare costs to Tasmania which we see manifest in the uptake of passengers travelling to Tasmania via air versus sea. You do highlight an important point and an issue that we are grappling with and that is with respect to - the benefit of the scheme ultimately should go to the passengers accompanying the vehicles going across the Bass Strait but given there's a monopoly service provider that's government-owned, there is an issue of where the subsidy is actually (indistinct) who is getting the benefit of it, whether it's being absorbed in rate increases of TT-Line and whether or not those rate increases are reasonable given the underlying commercials of TT-Line of which we don't have sufficient information to form a view.

So we are hoping that the Tasmanian government may be able to help us with some further insights and we have got some questions that we will be raising later today (indistinct)

MS CHESTER: (indistinct) some evidence that we have received from interested parties is that TT-Line today provides both a passenger and vehicle service but also a freight service. We have received anecdotal reports to suggest that the freight is taking the priority over passengers and vehicles coming across on the TT-Line vessel. Is that something that you're able to provide us with further evidence or insights on?

MRS MACDONALD: No. I'm sorry, I can't provide you - I have heard exactly the same thing and I think there is definitely a capacity problem on the ship. I find, because I travel with someone that doesn't fly, that I usually can't get on the ship if - for example, I recently had a relative die and wanted to go to Shepparton to a funeral. I wanted to drive but I couldn't get on the ship. I know you can't have unlimited capacity but I think definitely that that is a problem.

I think you mention in your report that fewer people were travelling. Well,

availability is a problem as well as cost; yeah, availability and cost basically. The reasons why, you know, you don't use the ferry - you know, it becomes a holiday experience rather than a useful way of getting around, because airfares are cheap but if you want to get to Tathra or Newcastle, not particularly cheap. You know, if you want to go to a capital city, sure, you can get there very cheaply out of Tassie, but as soon as you want to go into regional Australia it's more of a problem of cost, and I know you can hire a car but quite often you've got a lot of stuff to take, or you go to pick stuff up from family or, you know, visit a child that has left the state and take stuff to them, et cetera. So there's all sorts of reasons why people require their car. I still see that shipping is a very necessary part of reducing Tassie's isolation.

MS CHESTER: So overall you're comfortable with the design of the scheme in terms of its intent to provide support but it's just given the rate increases of TT-line and issues around availability that that supports being diluted over time?

MS MACDONALD: Well, I think so, and back in 1996 both sides, you know, the two major parties - the coalition offered the Bass Strait passenger vehicle equalisation scheme and the then government offered a free ferry and I think it was going to go from Georgetown. Some controversy resulted when Peter Brohier, who was then the chairman suggested - we were very apolitical for it - I must emphasise that - but he actually suggested that the free ferry was cheaper and better overall because you would then have, you know, two different shipping lines, and if the free ferry was going to offer the \$50 fares or whatever, then, you know, that would bring the competition in.

So we weren't ever asking for any particular scheme; we were just asking for reasonable fares, you know, similar to - and predictable and consistent as well, you know, as if you were going to catch a bus, you know. You can look up coach fares and they remain pretty much the same all year round, so if you want to travel from Melbourne to Albury or whatever, you can soon know what it's going to cost you, whereas on the ship, honestly it takes you 10 minutes to get a quote and then you go in and try another day or "Unavailable today. Try again", you know, so yeah. It's not as if it's - we don't have a shipping service that is easy to use and encourages you to use it at a reasonable price other than if you're having a holiday experience, if that's clear. I hope I didn't rave on too much.

MS CHESTER: No, no, it is very clear and it's very helpful and it is quite consistent with other evidence that we've received from other interested parties and submissions as well, but good to hear from yourself, particularly given your history with the scheme and knowing its development since inception. So did you have any other comments you wanted to share with us this morning, Susan?

MS MACDONALD: I don't think so. I just wanted to make those points because I have read quite a few of the submissions and I'm aware that many arguments have

already been put to you in detail. I just wanted to add a little bit extra.

MS CHESTER: Thank you very much, and thank you for appearing today.

MS MACDONALD: Thank you very much for having me.

MR QUINLIVAN: Thank you.

MS CHESTER: I would like to invite our next participant, Mr Dennis Austin from Caravan RV and the Accommodation Industry of Australia, CRVA.

MR AUSTIN (CRVA): Good morning.

MS CHESTER: Good morning, and thank you very much for attending today, and thank you for your submission to us post the release of our draft report. It would just be very helpful if initially you could just state your name and the organisation that you're representing today, just for the transcript recorder.

MR AUSTIN (CRVA): Yes. My name is Dennis Austin. I'm one of five executive directors of CRVA. I represent Tasmania on the national board. The national board is made up of 13 directors, each representing their respective states and we cover the caravan parks, the manufacturers of caravans, the retailers, every facet of this part of the leisure industry. We are the peak body. We have over 1000 voluntary contributors; we have a head office in Brisbane with a staff of 10 and we have a vital interest in what's happening here at the moment. I'm a Tasmanian caravan dealer down in Burnie and hence today I'm representing the national board.

MS CHESTER: Well, thank you very much. Are there any opening comments you would like to make today?

MR AUSTIN (CRVA): I guess it really relates to our total conclusion. It relates to equity in this whole scheme. Our concern is the draft recommendation 11. I guess I don't need to read it out; you're aware what I'm talking about. CRVA strongly disagrees with this draft recommendation. It fails to take into account the value of the BSPVS and ignoring the large proportion of leisure visitors who have arrived in the state as a result of this scheme and the type of visitor that this scheme helps to attract. Specifically, it overlooks the fact that visitors who arrive in Tasmania with their own vehicles for leisure tend to stay longer and spend more money during their stay, visiting regional areas that other travellers do not. In other words, we have travellers on the boat spend 18 nights compared to 7.5 by air, and caravanners in particular spend an average of 35 days. The spend also is vastly more because of the length of time that they are staying.

The issue is one of equity and the federal government's responsibility toward it under the national highway, and in 1996 it was recognised but here, 18 years later, it has not been indexed and we kept pace with the current costings. As I understand, it took the visitor numbers from 150,000 per annum up to over 400,000, so it went from 3000 a week to nearly 9000 but sitting around, I understand, 7000 a week or 1000 a day, and we would contend very strongly that the removal of that subsidy would be disastrous and in fact it should be increased and recognised that it is our national highway and the cost in fact should be probably no more than it would cost anyone on mainland states to travel from A to B, a distance of 200 or 250 kilometres,

whatever that distance might be.

Caravan and camping activities help ensure that the value of the tourist dollar is not only spent in major areas and the sector provides valuable means for economic expansion for remote area and for every \$100 of caravan park revenue there is \$138 worth of economic benefit that flows to the local community, creating growth and opportunities for local government areas and committees, and I can stress that this part of the tourism industry helps those remoter areas and lesser areas that are normally less available or accessible or visited by somebody who is a mainline, as I'll call it, tourist.

According to the Caravan Industry of Tasmania - that's CAIT - the Tasmanian caravan industry has a capacity of around 1.7 million room nights per annum. It's the largest accommodation sector in the state. In 2012-2013 the caravan parks contributed over \$290 million to the state economy, with those using caravans and staying, as I said, an average of 35 days in the state. The Productivity Commission's recommendation to abolish the BSPVS will increase the cost of taking a vehicle across Bass Strait by over \$400 return but also ensuring that the number of travellers travelling by water over Bass Strait will fall dramatically.

In establishing the scheme the Howard government in 96 acknowledged that the Australian government had a special responsibility to achieve quality for all Tasmanians in developing opportunities for this state and recognising Bass Strait as the Tasmanian sea highway, providing affordable movement of passengers and vehicles between Tasmania and the mainland. CRVA submits that the BSPVS should be properly indexed so as to serve the scheme's original purpose and that BSPVS should bring the costs of passenger vehicles across Bass Strait in line with the equivalent cost of travel on other interstate highways, as I have previously mentioned.

Interestingly, the report refers to the grey nomads in a number of places. We have established beyond a shadow of a doubt that this market is not so much the grey nomads; in the last two years the research that we have, undertaken by KPMG, indicates that of the 6,750,000 people who have been travelling and caravanning, it was only 750,000 in the grey nomad grouping which is plus-65 years of age and in fact the largest range happens now to be in the 35 to 49-year-old age group and the figures will be provided to you and that is the growth area for the future. So when people think it's the grey nomads that's being impacted, it's the families and we see that as a very important future market and it means that not only have one or two people come to Tasmania as grey nomads as people referred but families and you end up with three, four, five, six people and that's certainly a plus.

Conclusion: Tasmania as a whole benefits greatly from the recreational vehicle and hired parks industry. Regional areas in particular depend upon interstate

tourists travelling to the state with their own vehicles in order to undertake drive-throughs and holidays and the BSPVS helps to ease the significant financial burden for such travel purposes. The CRVA also submits that the draft report has overlooked the complexities of the caravan and camping sectors' broad economic contributions to Tasmania and the rest of the country. Travellers who arrive by sea with their own vehicles contribute more money over a greater period of time and disperse further through regional Tasmania than visitors who arrive by air and as I mentioned that before.

Regional and coastal tourism destinations rely upon visitors in Tasmania with their own vehicle. The detrimental effect of the BSPVS abolition on these areas has not been addressed by the draft report and is a matter of considerable concern. To recommend the abolition of the BSPVS without first thoroughly considering the extent of the economic benefit that the scheme imparts, particularly in terms of caravanning and camping market, is in our opinion a strong word but irresponsible. As an industry designed to serve the caravanning and camping sector of the tourism industry, CRVA welcomes the benefits of the BSPVS provided in this area. However, we submit that at its core the issue is not about tourism but about equity and the government should step up to their social responsibility to bring the cost of passenger travel over Tasmania's sea highway into line with that of other road highways. Rather than abolishing the BSPVS, it should be retained and enhanced.

MS CHESTER: Thank you very much for those opening comments and remarks and feedback on our draft report. Perhaps it might be helpful and you would take some comfort from a point of clarification that I'd like to make for the record that the Commission's draft report isn't recommending the abolition of the scheme, indeed we acknowledge that it's the government's policy to retain the scheme. What we're seeking to do is to better understand what are the underlying policy objectives because there seemed to be some confusion as to whether or not it was it was an issue with addressing the cost disadvantage of any passenger accompanying a vehicle across Bass Strait which comes to your point of more of an equity issue, or whether it was seeking to target growth within the Tasmanian tourism industry.

So in that context, given a lot of the more recent commentary, over the last four or five years it's been very much focused on the tourism being the primary policy objective of the scheme. We suggest that if that is the primary objective, then perhaps there may be better ways to spend those moneys but we're still acknowledging that it's the government's policy to retain the scheme as it currently exists. It has been important that we've received evidence and submissions from parties like yourselves during the process of our inquiry which has highlighted that whilst some have been focusing on tourism, but clearly the policy objectives from the inception and from the way that it's being viewed by recipients of the scheme today is that it's far broader than that, and that's a very different benchmark against which to assess the scheme. So I hope that helps to clarify and hope that gives you

some comfort.

MR AUSTIN (CRVA): Yes. Thank you.

MS CHESTER: So from your perspective the primary objective of the scheme is not tourism related, that if there are some benefits to tourism that's largely secondary; it is just to address the cost disadvantage of passengers accompanying a vehicle across the Bass Strait.

MR AUSTIN (CRVA): That's correct.

MS CHESTER: Okay. But you did provide some reference, which is very helpful, to some numbers that you're aware of around the benefits to the Tasmanian economy of individuals with caravans or RVs that are travelling across the Bass Strait. I think you mentioned a number of 219 million. Is that available in a public report or - - -

MR AUSTIN (CRVA): Yes, this will be available. I mentioned it would have been transmitted to you via email and you would have them by now.

MS CHESTER: Okay, so we'll have that in the next little while.

MR AUSTIN (CRVA): You'll have it today.

MS CHESTER: Okay, that's terrific.

MR AUSTIN (CRVA): Guaranteed.

MS CHESTER: Thank you. You also referenced - our reference to grey nomads was actually based on evidence that we'd received from others, so we're always happy to receive evidence if that's not the case.

MR AUSTIN (CRVA): Yes, we have the evidence and it will be in the report.

MS CHESTER: Okay, so that's the KPMG report that you referred to?

MR AUSTIN (CRVA): Yes, that's correct.

MS CHESTER: Those numbers that KPMG were quoting about percentage of caravan or RVs that were grey nomads versus non-grey nomads, does that relate to the Tasmanian experience or is that broadly across Australia?

MR AUSTIN (CRVA): No, it's broadly Tasmanian - Australian, sorry.

MS CHESTER: So the evidence that we had received was particular to Tasmania

where there was a suggestion that a large percentage of the RV and caravans that were coming across the Bass Strait were the grey nomads, not that there's anything wrong with grey nomads, we've received some very helpful evidence and submissions from them and they do bring money to the economic activities of the Tasmanian economy but do you have any evidence that's actually Tasmania related when you make the point that that was incorrect?

MR AUSTIN (CRVA): Not specifically that I'm aware of. I mean, I am aware of anecdotal trends in the transfer from the age group down. I will endeavour to see if we can source some. I don't have it specifically at present.

MS CHESTER: Maybe KPMG, if they've done that detailed work for you - - -

MR AUSTIN (CRVA): Yes.

MS CHESTER: - - - and I'm sure they've charged you for it - - -

MR AUSTIN (CRVA): They have indeed.

MS CHESTER: - - - might be able to help you with giving some insights that are a little more relevant to Tasmania. But we do appreciate that you've commissioned that work and we do appreciate getting a copy of it because that's important evidence for us to draw on and we'll be careful in our grey nomad commentary in our final report. I guess one of the issues that we're grappling with is that it's the incidence of the subsidy and who's getting the benefit of it, and we do appreciate the point that you're making that the subsidy from day one to where we are today, relative to the rate increases that TT-Line have charged, has diluted the effectiveness of the subsidy.

MR AUSTIN (CRVA): Yes.

MS CHESTER: And that's something that we're trying to get a better understanding of. If the TT-Line rate increases were commercially justified based on cost increases that they've had over that period of time then that's understandable, but we need to understand whether it is based on that or whether it is just the benefit of a subsidy shifting from the intended recipients to the provider of the shipping service across Bass Strait.

MR AUSTIN (CRVA): Could I say perhaps we would contend that the additional costs these days would be simply the equivalent of maintaining a similar national highway and instead of that money being spent maintaining a highway it's simply being invested back into the scheme.

MS CHESTER: No, and we do understand that argument and that position. I

guess the issue that we're trying to deal with is if the government were to increase the rate of the subsidy and TT-Line then turns around and increases their rates, I don't think that works for any of us.

MR AUSTIN (CRVA): No, understood.

MS CHESTER: Yes. One other area that we've received some evidence on and it's been anecdotal and perhaps you might be able to help us out a little bit here is a suggestion that because TT-Line is offering a freight and a passenger and passenger vehicle shipping service that at times there has been a priority given to freight and there is some unmet demand from folk wishing to travel across the Bass Strait accompanying their vehicles. Is your organisation aware of any evidence of that unmet demand?

MR AUSTIN (CRVA): Yes, we certainly are but regrettably we've got nothing factual, only anecdotal and it goes over and over and over it again in that there are people who wish to book particularly with a reasonable length of caravan and they simply can't get on when they wish to, or if they can get on they can't get off. So it becomes too difficult in too many cases and one would shudder at the amount of capacity for increasing this segment of our part of the industry but it simply can't be quantified and it's a matter of ringing at different times to see when you can get on and off the island and it is extremely difficult.

But having said that, there are times when it is relatively easy but our members in Tasmania will contend and anecdotally they are picking up from travellers that it is a significant issue and I know at mainland caravan shows the feedback is that people just don't consider coming here, (a) because of the difficulty and (b) because of the cost.

MS CHESTER: Given the organisation that you represent but also your own business, do you have a sense of the caravans and RVs that are crossing the Bass Strait, the break between those coming from the mainland to visit Tasmania, whether it's to visit family or friends or a holiday, versus Tasmanian residents going to Victoria with their van arriving for a holiday.

MR AUSTIN (CRVA): Can you just tell me the question again.

MS CHESTER: I'm just wondering whether you had a sense of the split of the passengers accompanying caravans and RVs across the Bass Strait, how many would be people coming from the mainland to visit Tasmania versus Tasmanian residents going to Victoria for a holiday?

MR AUSTIN (CRVA): Again, I can't answer that definitively. Suffice to say our records note that Tasmanian-ownership of caravans and motorhomes is twice the

national average, so one can conclude that it is greater, that is Tasmanians heading to the mainland than tourists coming here.

MS CHESTER: You may not have the data here with you today, but do you know what the ownership levels of caravans and RVs are in Tasmania?

MR AUSTIN (CRVA): Yes. I haven't got it with me, but we have it and we can have it available by the end of the day.

MS CHESTER: That would be great.. Are there statistics about on average how often those individuals would travel with their RV or caravan?

MR AUSTIN (CRVA): Yes, there is.

MS CHESTER: That would be very helpful if you could provide those numbers to us.

MR AUSTIN (CRVA): In the last 12 months we have invested a couple of hundred thousand in various research areas, and most of those areas we can supply up to date information on.

MS CHESTER: Okay. That's very helpful. Thank you. We didn't have any other questions for you this morning. Is there any other comments you would like to make.

MR AUSTIN (CRVA): No, just thanks for the opportunity.

MS CHESTER: Thank you very much for appearing.

MR AUSTIN (CRVA): Thank you.

MS CHESTER: Ladies and gentlemen, I would like to welcome our next participants representing the King Island Shipping Group, Jarrod Reeman and mayor, Greg Barratt. Gentlemen, thank you very much for appearing today and for coming from afar to join us here at Launceston. It's very much a shame that we weren't able, because of timelines, to actually get out to King Island, but it's on my daughter's list of holiday destinations in the not too distant future. If you could just state for the record your names, just for the transcript records, your names, title and the organisation you are representing; that would be very helpful.

MR REEMAN (KISG): Yes, thank you, and thank you for the opportunity to come today to speak in regards to the response to the draft report. My name is Jarrod Reeman. I am currently the (indistinct) leader at King Island Dairy, so I'm representing Lion-King Island Dairy as well as the current chair of the King Island Shipping Group.

As a bit of background, King Island Shipping Group is an arm of the council made up of council representation, the Department of Infrastructure, Energy and Resources representation and the King Island businesses that use and utilise the freight service between King Island and the rest of the world. That's basically what we engaged are engaged in, advisory to comment and to provide advice to the council in regards to positions, as well as understanding our own constraints within the support team.

MS CHESTER: Thank you.

MR BARRATT (KIC): I'm Greg Barratt, mayor of King Island. I won't say any more.

MS CHESTER: Thank you. Gentlemen, would you like to just make some opening comments .

MR REEMAN (KISG): Yes, certainly we would. I would start, I commend the Commission on the depth and focus of the inquiry, as well as the timeliness in compiling the draft. I understand, from our perspective we have gone through similar scenarios and it is quite a time-consuming process to get the information together and collate it and present it, and I commend the Commission on the speed in which we have got this report together so that we can provide opportunity.

MS CHESTER: Thank you for that.

MR REEMAN (KISG): Yes, it has been a challenging couple of years for us in terms of the journey we have been on, and as I mentioned we have gone through several iterations of review and constantly challenged by the current supply chain constraints and, yes, this is the opportunity now for us to discuss what we are here to

go through.

In response to the invitation to respond to the robustness of evidence, I will just begin by - there appears that some of the evidence used to factor in the impact to King Island Freight Services has been largely reviewed on third party or external reports that have had little or no stakeholder involvement in King Island, and I urge the Commission to review the GHD submission report that we tendered, which was just recently completed. It was commissioned on behalf of the King Island Shipping Group through the Department of Infrastructure, and that has more relevant up to date information specific to King Island. A lot of the reports that are referenced do tend to come out pre the abattoir closing, and this report is the significant one from King Island, and that is post abattoir, so there is some changes in the make-up of the freight tonnage.

To begin, I suppose we wish to challenge some of the recommendations that came out of that, so I would like to begin with the box 2.4 on page 60 of the draft report, which references the cost disadvantage for a dry freight box between King Island and Tasmania as \$350. The (indistinct) that we see there is it does not factor in the cost of the return empty, and the return empty is \$900 per TEU, which actually makes the cost disadvantage \$1250. In addition, there's no note regarding refrigerated freight, which is a similar cost disadvantage of \$1400.

It's raised in our submission and by the most recent reports that we have got to tender, such as the GHD report and the Tasmanian Freight Logistics Council report, they identify the significant impact the cost of empty containers have on the supply chain in Tasmania. For us, that's the most significant impact and, as the Commission's report summarises, the details on King Island and the impact on King Island are magnified.

We view our position as somewhat of a concentrated example of the Tasmanian supply chain, and some of the constraints that we have gone through over the past four years highlight those difficulties in our ability to influence those control measures within our supply chain, which we invariably hope to address in the near future. Accordingly, page 57, table 2.2, the overall median TEU freight task sort of sits within the 600 to 1800 dollar band. I would just like to make note that the entirety of the King Island freight demand sits within that 0.1 per cent of 1800 and above, so any effect or any changes to the TFES or a reduction towards the median would leave us at a significant disadvantage because our freight cost sits in that higher bracket and is so far from the median that it doesn't actually have any ability to aid in any way.

It is our view that a zone-based approach may be applicable to the TFES where it's linked to the Australian Tax Office zoning of special zone or isolated zone; King Island is an isolated zone, and that would help preserve the (indistinct) a policy

design as well as satisfying that fact that the median of 1 per cent of our freight, total freight, is in that top band. That's one of the views in terms of responses to it.

We to wholeheartedly support the regular review of parameters as recommended by the Commission's report and the BITRE report. The parameters should be reviewed every two years, which will enable us to establish benchmarks and therefore provide challenges to those benchmarks when presented with freight costings. The charges we get charged or that are applied to our freight charges are dictated to us. We don't have the flexibility of competition that the rest of mainland Tasmania have; we have only one service provider, and that service provider only turns up once a week so our constraints are somewhat magnified in terms of addressing any competition examples.

In response to the information request, the information requests around the tender or open tender process, that's one of the points that we'd like to reference as well. Over the last four years we've gone through that process in terms of we put our freight task, the consolidated freight task to the market and our market response was less than adequate in terms of what our demand was and we could not provide, could not generate any solutions out of that market tender and as such the current situation with the King Island freight task still remains a challenging position in terms of trying to find alternative solutions to competition.

The King Island Shipping Group's main objective is to maintain a consolidated freight task and all solutions so far are leaning towards fragmenting that freight task, which it is our view that it's a significant detrimental impact to the economy given that some people may get better advantage over the others and the smaller shippers will lose out in the end. So that's some of the opening statements we have to support.

As mentioned in the report on page 62, the current manufacturing climate in Australia is already driving significant change in its efficiencies. Manufacturing and agriculture businesses are forcing change within their organisations to streamline and problem-solve and remove waste that's within their own control. This is relatively new and relatively in its infancy in terms of the manufacturing industry and therefore it's probably more important for us to control that in terms of making sure that those disciplines are embedded.

In the manufacturing industry and the producing industry before we go and expand out to the service providers of shipping and freight, the supply chain as a whole is something that we need to look at in the context of the efficiencies of the supply chain as every component of the supply chain is responsible for delivering a healthier supply chain and therefore the manufacturing industry will lead the way in terms of driving down those cost pressures within their own control.

But as mentioned in several reports and submissions from the King Island side

of it as well, 26 to 33 per cent of the cost to deliver product to market is purely freight. So whilst we can control the cost to manufacture goods and produce goods, getting it to market is the single most significant hurdle that we face in terms of cost pressure. I believe that it is therefore in our best interest to assist in those businesses and supply chains to develop those strong leaders within the supply chain who are focused on driving this chain, so looking at those ways to better eliminate waste and improve efficiency.

MR BARRATT (KIC): I think you'd have to take note that our situation changed dramatically with the close of the abattoir in September 2012 and freight, as Jarrod said, now equates to about 26 per cent of farm operating cost whereas prior to that it was only minimal, 3 to 5 per cent or something like that; so, I mean, really this is brought about because 35,000 to 40,000 head of live cattle now has to be shipped from the island and at between 100 and 120 dollars a head so it has dramatically affected the profitability of farming, therefore land values or rural land values have decreased dramatically and of course the overall wealth of the island, you know, the businesses in the main street are suffering because that money is not being spent there. So really that abattoir closure brought our freight situation to a head, so to speak.

MS CHESTER: Thank you very much for those opening comments and that feedback on our draft report. A couple of follow-up questions if I may just to make sure that we do fully understand your views and the evidence that you'd like to share with us. I appreciate that some of the evidence that we pointed to in relation to the King Island freighting experience was from third parties and some of it was dated, like pre the abattoir closing, so we will look further at the GHD submission to make sure that the evidence that we draw upon is contemporary, so thank you for that.

On the key point that I think you've just made with respect to the abattoir closure resulting in it and just make sure that I got this correct that previously the freight task cost was about 3 to 5 per cent of the overall cost of production when you were shipping meat not livestock. Is that right?

MR REEMAN(KISG): Yes, so the live cattle - - -

MS CHESTER: And now it's gone - - -

MR REEMAN(KISG): Yes, the live cattle export was 3 per cent.

MS CHESTER: Okay, and now because the freight task has changed to cattle, live cattle, it's gone to 26 to 33 per cent.

MR REEMAN(KISG): Yes.

MS CHESTER: So it's more you're shipping a different commodity in its form as opposed to the increase in shipping costs, or is there a combination of the two in there?

MR REEMAN(KISG): That was because it began with the combination of there was some freight, cattle being shipped live by some producers but the majority of producers were rearing their animals to slaughter and go to the abattoir on the island and then with the removal of the abattoir that functionality was left and those producers had no experience or had no other alternative than to ship the freight.

Beef producing is they're locked into a two-year cycle, like they've committed their capital and their process now for the next two years so the removal of the abattoirs left them significantly worse off than what they were, to the tune of 3 to 4 million dollars off their collective bottom lines and that was a significant impact to the King Island industry which had prompted the assistance in regards to linking it to efficiency measures for the farms and that to develop their abilities to get their live cattle off the island and into it. But yes, the sheer volume of export of live cattle contributed to the cost because those people who were locked in that had not planned on that extra burden coming into play.

MS CHESTER: Of that 26 to 33 per cent, do you know what sort of percentage of that is the shipping costs of the live cattle from King Island to - - -

MR REEMAN(KISG): The beef figures are 26 per cent. The rest of the manufacturing, though, the King Island dairy, manufacturing produce, ours is 33 per cent; so the range is varied. So it is 33 per cent of our perceived margin that is freight cost. We can manufacture but we cannot get it to market unless we - a third of our costs are eaten up through that.

MS CHESTER: Okay. I appreciate that you mentioned before that you have sort of a consolidated freight task service that's being provided at the moment, but do you have a bit of a breakdown of across that consolidated freight task, what percentage is sort of shipping costs versus other sort of portside handling and intermodal?

MR REEMAN(KISG): Yes. So the freight cost is basically it is a consolidated charge to the shipper and two-thirds of the cost is freight because a third of it is the rest of the port charges and handling charges.

MS CHESTER: Okay.

MR REEMAN(KISG): So that puts the price in where it is. Infrastructure on the island is fairly reasonable in terms of cost differentiation to the rest of the state, but it's just that leg. And on King Island we have that added probably hurdle of going from King Island to either transshipping through Tasmania or Melbourne. So the

current vessel circle goes from King Island to Tasmania and then to Melbourne, so getting product to market, especially refrigerated product and high perishable product is a day delay anyway so that's where the costs comes into it.

So the actual meat of the cost is purely in that shipping charges which is included in those empty (indistinct) so I refer again to that point, 3.2, on the report of who benefits from the claim. Although the commodity is shipping, that's the access to the TFES, the infrastructure and the cost of shipping those empty containers purely dissolves it. The benefit from the TFES is the cost of shipping an empty container. So even a conservative estimate of removing that 75 per cent of that cost would deliver \$1.2 million to the King Island alone economy based on the charges that it takes to ship an empty container, so it is purely that - once it leaves the wharf, that's where the cost hits.

MS CHESTER: Of the produce that's leaving the island today, what percentage is destined for Australian domestic markets versus international?

MR REEMAN (KISG): For pure produce - so now following the abattoir closure the King Island area is a major shipper in terms of produce to market and that is 97 per cent domestic. We ship a very small amount export, but that is exported via Victoria anyway. Next in line would be the kelp industries who ship export and that is 100 per cent export.

MS CHESTER: Thank you.

MR BARRATT (KIC): There is a mineral sand industry there that by volume would be fairly great and most of that goes overseas.

MS CHESTER: Okay, and obviously being transhipped through Port of Melbourne at the moment?

MR BARRATT (KIC): Through Melbourne, yes.

MS CHESTER: We have heard some reference to the proposal for an abattoir to potentially be opened by the King Island multi-species abattoir group. Are you able to give us an update on that proposal and whether it's actually something that's going to happen.

MR BARRATT (KIC): Yes, it looks as if it will happen. It's looking very promising, but I would ask you to take note that it's a very small operation. It's only going to process about 100 tonnes of meat a year. You compare that with the larger abattoir we had which I think processed something like 6000 tonnes a year, so it's a fairly minimal enterprise.

MR REEMAN (KISG): Yes. Its intention is to relieve the burden of those animals that can't be shipped, so live animal export to market will still continue but the intention is to relieve that burden of those that can't. There are animals that can't be shipped depending on which way the vessel goes, so in the advent of reverse sailing they can't get a live product to market. The only animals that can be sent can go to Melbourne, which is for smaller processing, so to get that burden lifted, that's the intention of that multi-species - and to provide other avenues for economic development. But, yes, it's a reduced capacity.

MS CHESTER: Okay, so there's only a very small percentage of the ultimate freight tasked for livestock (indistinct).

MR REEMAN (KISG): It's a reduced capacity and, yes, it will generate other markets, so it will generate more markets in terms of King Island beef to be presented but, yes, it is significantly reduced capacity to what it was so the live export will still continue.

MR BARRATT (KIC): Actually the beef may well be only a small component of what they process. I mean, they're talking about wallabies, bobby calves and sheep and lambs, which were not processed by the larger abattoirs that closed.

MS CHESTER: You referenced before a commercial tender process that you sought to go through to test the market for somebody else to potentially service that consolidated freight task for you. Were there parties that you had identified that you felt had sort of the capacity and the vessels to meet that service?

MR REEMAN (KISG): Definitely, yes. The process we undertook was as part of our - the reference to the partnership agreements between state government and the King Island Council. In that partnership agreement our responsibilities as the shipping group were in the advent of market failure, to go to market in terms of providing a response to the service. We were advised that due to the fact that SeaRoad would be initiating a process of getting larger vessels to cope with the mainland, Tasmania, Victorian demand, that the vessel that currently services King Island would be taken out of service and we wouldn't be left without a vessel.

That prompted us to go down the path of - that constituted market failure so we went down the path of releasing our expression of interest to market, which was just an expression of interest to find out what services were available and could they meet our demand. We had established an eight point plan around our demand which was consolidated freight task and at that time included the shipping of carcass or processed meat, because that was pre abattoir closure.

Our expression of interest went out to the market. We got several responses from that and some clear indication that there were some really beneficial modes of

transport that we could pursue. None of them actually met the eight point plan 100 per cent and therefore we were in the process of renegotiating whether the solutions were there and, you know, where do we go, which bits do we negotiate and which bits do we - so then one of the scenarios, such as a new build from a major operator, was looking viable but then that was removed from service based on the restrictions around the infrastructure and restrictions around the wharf and restrictions around the cost impediment.

In their view it became unviable based on the fact that they could not get into the wharf for a start, so in order for us to get to market we needed a larger vessel. Subsequent scenarios that we have gone through - we have documents from other supplies that are still viable and still sitting there that we can pursue, that we're still looking at, but it still remains the same restriction so we need a large at least 106-metre vessel.

Port restrictions - it needs to be a twin screw bow thruster, which probably doesn't mean much but it means that it's a specific type of vessel and those under 106 metres do not exist, so therefore - and the port's restriction on the current Grassy Port is 95-metre restriction. The SeaRoad Mersey is a 120-metre vessel which has an exemption to get into the port. Therefore, any other avenues face that obstacle of getting through to the wharf before we could even get competition to the island.

That's the result of the process we went through when we released it to market. As I said, the next part of the negotiation was for us to go back across our eight point plan and our consolidated freight task and all the elements of that which needed to be questioned, what we can do, what's in our sphere of control, what can we adjust. That's where we sort of ended up at the moment.

The draft shipping report was up for review in June of 2013. We have currently finished our report, which is the GHD report, which is the next step in the process. We now have the draft contingency report on the table, so we're in the process of renegotiating that draft shipping policy which will address those constraints and then we can begin again the process of trying to understand what it is that we can either have leverage to negotiate or maintain that consolidated freight task.

Yes, there are some challenges and there were some responses and there were some positive responses and some of them are still available and still applicable, but there are some certain restrictions around the way things operate now that really hamper any further development for us at the moment.

MS CHESTER: I just want to make sure that I fully understand the situation. So you are able to secure the services for a consolidated freight task but you have gone to market and because of the requirements of the freight task and the infrastructure

interface you're unable to get any other competitive element - - -

MR REEMAN (KISG): Yes.

MS CHESTER: - - - at this point in time through a tender process. So there is still someone to provide the services but - - -

MR REEMAN (KISG): There are solutions, yes.

MS CHESTER: - - - (indistinct) in that process.

MR REEMAN (KISG): There are solutions that were provided that could be expressed and worked through and they have varying levels of application to King Island. Some may be more expensive than what we currently do. Some may be less expensive but constitute more transshipment. So there are solutions that we can work through but the process that we went through in terms of tendering to market and maintaining our eight point plan is - that's the result we got because that's our freight demand. It is our responsibility to maintain our freight demand to the market and the market response was less than adequate in terms of what was able to be provided.

MR BARRATT (KIC): We felt that other shipping companies were reticent to become really interested until SeaRoad flagged their intention to leave or retire the SeaRoad Mersey. We just felt that that was the way to operate it, so they didn't really fully explore the potential of coming - - -

MR QUINLIVAN: Is there a known time frame for that occurring?

MR BARRATT (KIC): No.

MR REEMAN (KISG): Any day we wake up is two years away from no boat, yes.

MR QUINLIVAN: I see.

MR BARRATT (KIC): Very frustrating.

MR REEMAN (KISG): We have been in that scenario for four years so, yes, we have been waiting for two years. I just note that the recommendation out of the GHD report did back up the King Island Shipping Group's position and we're into the eight point plan. It is a triangulated service. That is the requirement. It is a consolidated freight task for the economy that we're looking for, so we're on the right path in terms of what we need to get to the market and, yes, the problems or issues were obstacles we have around no commitment and no firm avenue of actually engaging in a service provider, so the Shipping Group is not a commercial entity and cannot enter into an arrangement on behalf of anyone apart from itself.

Each of the parties involved in the Shipping Group can enter into an arrangement with a service provider to provide their service, but in order for us to maintain a consolidated freight task some of those challenges that we have around collusion and market exclusion and stuff we faced early on in the process around, "Well, okay, we have got a couple of solutions but we can't actually go any further than this solution because we can't establish a consolidated entity to deliver that."

One of the recommendations out of our report is that we can form a consolidated freight entity and then tender from that position, so that's something we will be exploring further with the Department of Infrastructure as well.

MR BARRATT (KIC): The fact that there's no commitment or no contract with SeaRoad does make us very nervous because they could say, "We're not coming next week," and there's nothing we could do about it and there's unlikely to be a decent shipping service that could be put in place in the short term.

MR REEMAN (KISG): Yes. The references around the economic viability of the islands is primarily the Tasmanian government's responsibility. They don't include the fact that the state government's view is that the service is commercially viable, but that's commercially viable for the operators and not commercially viable for us. It is at our expense and every reference to it is around we can afford to pay for the service. We cannot continue to afford to pay for the service because it does make our processes very ineffective and, as witnessed by the removal of the abattoir, it can have detrimental effects to a lot of different areas.

MS CHESTER: Perhaps if we turn to our recommendations on the scheme. I take it from your earlier comments, but I just want to make sure that I fully understand it, that if the government were to continue with the parameter basis for calculating the rate of assistance under the scheme, you're comfortable with that on the premise of it being updated on a biannual basis and our draft recommendation that that process - which is already open and in the public domain, but there would be a form of consultation that we would suggest that the bureau go through to make sure the parties are comfortable with the underlying data and the methodology being used for parameters.

MR REEMAN (KISG): Yes. We wholeheartedly support that review, those parameter reviews, and especially the new objective around that wider public stakeholder consultation in those processes. That is definitely the way forward in terms of how effective the scheme or the process is. Yes, we do welcome those recommendations and acknowledge the fact that the report does state that if it were to undergo a review, then the King Island contribution would increase as opposed to be decreased. Yes, it's those other points around the southbound leg, the other factors that may impact negatively, that we look to be involved in in terms of public

consultation.

MS CHESTER: In terms of the TFES scheme at the moment, do you have an understanding for King Island businesses as a whole - the nature of the assistance they're getting under the TFES at the moment; you know, southbound versus northbound and those sorts of aspects?

MR REEMAN (KISG): Yes. From my personal perspective, yes, we deal with both southbound and northbound aspects of the scheme. As I have mentioned before, though, the benefit that we do receive based on the current parameters is completely dissolved based on the cost it takes to ship an empty container, so there is no direct benefit towards freight cost. It's just the net-net against something that probably should not be charged in the first place.

MS CHESTER: We do have another draft recommendation which we would be moving away from the parameter system to a flat rate of assistance, but mindful that it's not sort of a one size fits all flat rate of assistance particularly given the circumstances of King Island and the relative freight cost disadvantage that you would have to businesses on the mainland of Tasmania. It would be good to get your thoughts and feedback on the suggestion for a flat rate of assistance.

MR REEMAN (KISG): Yes. In terms of that flat rate, as I mentioned before, our entirety is in that 0.1 per cent of 1800 and above, so a flat rate is detrimental to our position but I can understand the Commission's perspective in terms of streamlining administrative needs and making the two-year review speedier to put into place. As I said before, our view is that if it's a zone based application to that, that still satisfies the Commission's responsibilities in terms of public policy design. It has rules applied to it and they are rules that are linked to other changes.

MS CHESTER: From what you're saying, if the flat rate was to be structured with the zone rates of assistance for, say, King Island and the Furneaux Islands, Furneaux Group - - -

MR REEMAN (KISG): In reference to that table of the medium TEU shipping and how the majority of that freight task sits within that 600 to 1100 dollar band, yes, that is understandable for those constant reviews and benchmarking against that, but if a benchmark was established at \$1200, ours is significantly more than that. Ours is \$2800 on average a TEU, so for us to come down to that level would definitely be detrimental to our ongoing viability and it doesn't actually provide any incentive to change our behaviours in terms of supply chain management. A zone-based approach would feel more effective in terms of how it is applied because, yes, our freight task sits above.

MS CHESTER: Just in terms of getting a sense then of the current nature of the

assistance that King Island businesses are getting from the scheme today, do you have an idea of what the percentage is that they're getting through southbound versus northbound aspects of the scheme?

MR REEMAN (KISG): I think it's pretty much on par because inbound is fertiliser and anything that's manufactured within Australia. That's a consideration that I didn't feel was raised very well in the draft report, the consideration that the TFES for inbound or southbound freight or southbound equipment or southbound goods are largely applied to stuff manufactured in Australia, so in the broader context the Australian manufacturing industry benefits from the application of that.

I think it is on par. It's pretty much fifty-fifty inbound and outbound. Our TEU equivalents, as referenced in the GHD report, are 80 TEUs on and off on average a week, so that is some of the data that's evidenced in that report and that consolidated spread. There are peaks and troughs throughout the year for sure, but it is pretty much fifty-fifty. The spread is equal.

MS CHESTER: It is an important point that you make that eligibility under the southbound at the moment for imports are for those from mainland Australia. From your experience, do you have any evidence or any sort of intuition around of the southbound items that are coming to businesses on King Island? You know, is there machinery and equipment that's actually being sourced internationally and not from mainland Australia?

MR REEMAN (KISG): Yes, the large farm machinery is - there's limited availability in Australia for farm machinery to come in, but for the major part as a business we source and try to target locally made manufacturing equipment. Yes, there is definite incentive in that because it is driving incentives to source things locally, but some things are excluded because they don't exist but, yes, there's a fair amount that does come from exporting.

I guess one of the key issues around that southbound is that it does include the intrastate mode which is from King Island to mainland Tasmania and that is of significant benefit to the beef industry at the moment in terms of it makes it more accessible, the markets are accessible to the live cattle, so removing the southbound, if it applies to the intrastate component as well, would mean that that would severely be detrimental to their industry.

In terms of farm machinery in and out, access to an export port or an import port is definitely the advantage around it. I guess it's the only point we have around the coastal shipping review. A review is good in terms of the way it works. We don't have anything to contribute to that information request or recommendation around reviewing the coastal shipping aside from the fact that, yes, access to imported farm machinery and stuff would be a greater advantage to King Island.

MS CHESTER: We didn't have any other questions for you today. Are there any other comments that you would like to make at this point?

MR BARRATT (KISG): There were bodies on the island that did feel that it would be beneficial if you could send an officer over there, but I gather from your opening remarks that's not possible.

MS CHESTER: Given the short time frame of the inquiry that the government has given us - we got the terms of reference on 29 November to get a draft report out by 24 January, take draft submissions, public hearings. If we had had more time, we would definitely have made the effort to come out to King Island and listen to the businesses directly, so apologies we can't but it's just we're a victim of time.

MR BARRATT (KIC): Okay.

MR QUINLIVAN: Can I just check that we have got a copy of the report? Have you forwarded that to us?

MR REEMAN (KISG): Yes, that went in with our submission.

MR QUINLIVAN: I can't picture it but, anyway, we will - - -

MR REEMAN (KISG): I will forward one as soon as - - -

MR QUINLIVAN: No, that's okay. If we have got it - - -

MR REEMAN (KISG): It was included with our submissions, yes.

MR QUINLIVAN: Okay.

MR REEMAN (KISG): The only thing I would like to conclude with is obviously, as you're aware through listening to all the other participants in the review and the draft, there is no silver bullet solution to the Tasmanian supply chain. We have gone through a lot of work in terms of how we manage our supply chain and understand it over the last few years and that is the area we need to focus on in terms of trying to get things moving.

Each component of the supply chain, be it service providers, shipping and freight, is one component of the supply chain. The supply chain has built up over the time based on need and demand and it is time to focus on looking at how it works together and each component working together to get a better and healthier supply chain will be beneficial to the Tasmanian economy for sure.

MS CHESTER: Thank you very much for travelling to Launceston today and thank you very much for presenting and for your submission.

MR REEMAN (KISG): Thank you very much for your time.

MR BARRATT (KIC): Yes, thank you.

MS CHESTER: Ladies and gentlemen, we will adjourn our official proceedings for a break for some stretching of legs and a bite of lunch for everybody. We would like to resume at 1 o'clock so if you're planning on attending this afternoon, if you could come back about 5 to 1, that would be much appreciated. Thank you.

(Luncheon adjournment)

MS CHESTER: Ladies and gentlemen, welcome back to our public hearings. I'd like to welcome our next participant, Mr Parish from the Palmer United Party, I understand?

MR PARISH (PUP): Yes.

MS CHESTER: Welcome to the hearings and thank you for attending. If you wouldn't mind just stating for the transcript record your name, title and organisation that you're representing today?

MR PARISH (PUP): My name is Timothy Parish. I'm representing the people of Bass as a candidate for the Palmer United Party. Thank you. Good afternoon, everyone. First of all I'll commend this federal public inquiry and all its participants. I know the hard work that everyone has put into their submissions. Commissioners, as you're aware, Tasmania's freight is a peculiar parochial sort of can of worms. As an island state, the cost of freight affects us all. The cost of goods is higher than we wish, higher than it ought to be. Anti-competitive arrangements that this four-term government have ignored, perpetuated or not recognised, means that the communities of Bass in particular and Tasmania in general have not been able to reap the rewards and full benefits of productivity gains that have been made over this time.

Instead of the productivity gains being reused in our economy, the benefits to everyone, profits that may have been made rather than not made which then would have meant taxes for the federal revenue and Australia in general, this has all been lost because - or not all but a lot of it has been lost because of our freight arrangements. Many businesses trade in survival mode in Tasmania. Some do well out of our peculiar set of freight arrangements and others with other add-on freight compartments to their business struggle, really struggle.

At Rio Tinto need to be congratulated that they have shown the way in survival mode by instituting an international freight service. Now, that's it, five-weekly at the moment and Swire is hoping that that can become more prevalent. Other exporters in theory will be able to come on board their new large faster vessels et cetera.

This is important: at present Bell Bay largely a bulk commodity shipping port other than the welcome of the Rio inspired international container services props up Tasports' revenue. The bulk shippers all have to pay fees to be in port whereas in other ports the shippers that use those ports get a freebie off the Tasmania taxpayer. Tasports is quiet about the fact that Bell Bay props us their bottom line.

Rio Tinto needs to be congratulated again for cutting through all the mess that

the state government has given us in relation to freight over Bass Strait over four terms. They've had plenty of time to fix it but they just make it more complicated. I note in the scope of this inquiry that you will inform the Australian Competition and Consumer Commission of your findings. I trust that they can help unravel this can of worms because I believe lack of open and fair competitiveness over a period of time does us a lot more harm than maybe initial productivity good by giving someone a help. Thank you.

MS CHESTER: Thank you very much for those opening remarks.

MR PARISH (PUP): That's it. That's all I've got.

MS CHESTER: Thank you very much for those opening remarks. I might just have a few follow-up questions to make sure that we fully understand your position and your views. We've issued a draft report on 24 January. I'm not sure if you've had an opportunity to look at that?

MR PARISH (PUP): Yes.

MS CHESTER: Did you have any views on the draft recommendations that we made in that report?

MR PARISH (PUP): It was good that the review highlighted a need for changing some of the parameters of the past. I can't offer an answer to what you reckon your Commission might find but all I could say is that I've had concerns with the way the state government with their review and members of their panel advise. I was concerned that there might have been conflicts or pecuniary interests in some of the submitters. I was thinking it's going to be very difficult for them to come up with a fair finding and I think your productivity and also the Competition Commission might have a better handle on fixing the freight. Thank you.

MS CHESTER: Thank you for those thoughts and feedback. You touched on in your opening comments some potential concerns about the competitiveness of shipping across Bass Strait. Are you able to elaborate on that an further?

MR PARISH (PUP): Yes. In two ways it's difficult. One is the fact that there's a lack of competition. Okay, we all know, everyone knows, that Toll gets a freebie out of Burnie and Patricks get it out of Devonport because they're in Braddon and bad luck for Bass. They are leases that are in place and so it would be difficult to rewrite those but if a solution has to be found that has got long-term future viability about it then it needs to encompass all the ports. I'm not a fan of this. We're on an island; I'm not a fan of one port being favoured over another. I think they should all face the competitive winds fairly. That's my belief.

The other thing that makes it difficult is that most of our trade goes to Melbourne and that's renowned as being an expensive place to trade through. It wasn't that long ago we had a federal member of the Labor Party here in Bass and he promoted a proposal that involved instead of lots of federal handouts going in relation to subsidies in general, it related to putting on a purpose-built training/container vessel trading from Bell Bay to Brisbane on a weekly basis. That would have trained up the people in the maritime industry and at the same time been able to solve or help solve Tasmania's freight crisis and may be cheaper than this other mixture of methods.

When federal Labor put it back to state Labor, I understand they didn't want to have a bar of it because it would upset the applecart that they are comfortable with at the moment, or in the recent past, and so sadly that idea wasn't progressed to a proper study. Then of course there's that one brought up from time to time, the cabotage or the charges. Cabotage doesn't necessarily affect other states too much because they're all joined by land links for freight, whereas we're an island. So there needs to be some negotiations in relation to that I believe, and Palmer United because having our balance of power in the Senate, come July 1 we might be able to help change those outlooks.

MS CHESTER: Thank you very much for those comments. In that respect, based on our understanding from the evidence that we've received from submissions and participants that Tasmania is probably more vulnerably exposed to the costs of shipping and the costs of coastal shipping, one of our draft recommendations is to seek the governor to expedite to bring forward the foreshadowed review of the coastal shipping regulations, so then if there are to be any reforms or any changes there then Tasmania would benefit from those sooner rather than later. Do you have a position on that draft recommendation or does the party that you represent have a view on that?

MR PARISH (PUP): Our party is looking at it very closely, yes.

MS CHESTER: But to the extent that that would help facilitate access to lower cost shipping services for Tasmania, in principle that would be something that you would be supportive of?

MR PARISH (PUP): Definitely. It has got more relevance for Tasmania than other sovereign states of Australia.

MS CHESTER: Given that you are looking to represent the wider interests of the businesses and the folk of Bass, are there any other suggestions you have in terms of improving the efficiencies of the current freight task faced by Tasmanians?

MR PARISH (PUP): Don't get me wrong. I believe that despite the quasi-type of

monopoly method of moving freight is fairly efficient, I feel though that the bureaucratic side with all the - hands-on side was efficient but how that efficiency is then sort of realised is what the problem is. I think that improving Tasmania's freight in the whole picture relates basically to (a) we're in some way still a beggar state to the Commonwealth in relation to funding. Thanks to Mr Harradine years ago, we were able to get a freight equalisation scheme that may not be as perfect or as good as what could be but some businesses have become comfortable with what's existing and there's always anomalies, so I think it's very difficult for you to find an answer, an easy answer, to all the problems but I wish you well.

MS CHESTER: Thank you.

MR PARISH (PUP): I'm very keen to sort of insisting on making Australia a better place. Thank you.

MS CHESTER: Thank you. We didn't have any other questions, so thank you very much for your attendance and presentation this afternoon.

MR PARISH (PUP): No, thank you.

MR QUINLIVAN: Thank you.

MS CHESTER: Ladies and gentlemen, our next participant is just briefly detained and should be able to join us hopefully in about five minutes, so we might just adjourn for five minutes and people can stretch their legs if they'd like to.

MS CHESTER: Ladies and gentlemen, I would like to resume our proceedings this afternoon and welcome our next participant and presenter from the Tasmanian government, the minister for infrastructure, Mr David O'Byrne. Thank you very much for coming this afternoon, minister, and for taking time from what must be a very busy and hectic schedule but obviously today's busy schedule is directly pertinent to the terms of reference in our inquiry. If I could just ask you for the transcript recording, just to state your name and title.

MR O'BYRNE: David O'Byrne, Minister for Infrastructure, Tasmanian Government.

MS CHESTER: Thank you. Minister, if you would like to make some opening remarks, that would be very much appreciated.

MR O'BYRNE: Yes, thank you, and they will be somewhat truncated, so I will do my best to make a coherent argument.

MS CHESTER: Thank you. Just for the record, we do appreciate there is a more detailed statement that you have prepared and we will arrange for that to be taken into the transcript as well. Thank you.

MR O'BYRNE: Also it will be attached with a very detailed submission to the inquiry. So thank you for the opportunity to discuss today. Before I go to the government's position on the Commission's specific draft recommendations I would like to place on the record once again our concerns about the timing and the conduct of the inquiry. Simply put, we believe that the time frames in which the Commission has been required to undertake have been manifestly inadequate when the breadth and complexity of its terms of reference are taken into account. We understand you're following instructions.

The Tasmania government notes that a number of recommendations in the draft report, particularly with regard to the changes of the current equalisation scheme, appear to be based on broad assumptions and the high level application of general economic theory with little in the way of an assessment of the economic costs and benefits of proposed assistance arrangements as was required under the inquiries' terms of reference.

The scheme; over 99 per cent of goods leaving and arriving in Tasmania are moved by sea and the Bass Strait crossing is proportionally the single largest transport cost in the supply chain of the typical Tasmanian business. Supply chain analysis undertaken for the Tasmanian Freight Logistics team indicates that in percentage term it accounts for around 60 per cent of the supply chain cost for a medium volume shipper. Freight costs and services across Bass Strait are therefore a key determinant of Tasmania's business efficiency, profitability and competitiveness.

The state's unavoidable reliance on sea freight is the key reason why Tasmania does and should continue to receive direct Commonwealth assistance to reduce freight cost disadvantage, addressing this two-way cost advantage relative to the comparable road transport task has been a core element of the Tasmanian Freight Equalisation Scheme for over 30 years. Assistance to offset sea transport cost disadvantage therefore plays a substantial and ongoing role in helping Tasmanian industries remain competitive. It provides significant levels of assistance to a number of important Tasmanian manufacturers and it supports 1500 Tasmanian businesses.

In the draft report the Commission recommends at a minimum the TFES assistance rates are adjusted in accordance with parameter reviews undertaken by the Bureau of Infrastructure, Transport and Regional Economics, the BITRE report. Based on its existing methodology and assumptions the adoption of recommended BITRE parameters would lead to a significant reduction in overall equalisation assistance to Tasmanian businesses.

Its own estimates suggest that if the 2013 parameters had been adopted for 10-11 and 11-12 years total payments under the scheme would have been reduced by an average of 45 million per annum; that is, close to 15 per cent. A reduction in assistance of this magnitude would have serious negative impacts, not only on individual recipients but on the Tasmanian economy more broadly; in fact there is evidence to the contrary, that the current TFES parameters are, in effect, on average under-compensating shippers relative to the estimated cost of moving same freight task on the mainland via road. This important matter does need to be settled.

In light of the highly contested views about relative sea and road freight cost, the government's strong position is that the enhanced BITRE process recommended by the Commission in its draft report should be adopted and a fresh parameter review undertaken using the enhanced process before any consideration is given to transitioning away from the existing TFES assistance rates.

The Tasmanian government strongly supports the extension of TFES eligibility to northbound exports and welcomes the Commission's active consideration of such an extension. The Tasmanian government believes that the extension of the freight equalisation scheme eligibility to transhipped international exports could already be achieved almost entirely within the Australian government's current forward estimates budget envelope while still retaining the southbound component and without the significant cuts in the rates of assistance contemplated by the BITRE parameter review.

The Commission is suggesting in its draft report that the TFES southbound component could be abolished as part of the extension to the northbound exports.

The Tasmanian government strongly opposes this suggestion on the basis that such measures would have serious negative impacts on the Tasmanian economy at the time of transition and vulnerability and are inconsistent with the original intent of the scheme to address the two-way cost disadvantage of Bass Strait.

The Commission's remaining recommendations regarding TFES deal mostly with enhancements to the existing equalisation schemes that are designed to improve their efficiency, equity and transparency. The Tasmanian government is generally supportive of the Commission's intent on this front but of course we would like to work through with the details.

With regard to the Commission's recommendations for a flat per TEU rate, The Tasmanian government is extremely concerned that it has significant potential to generate winners and losers at the individual business level with consequent adjustment issues, in particular a flat rate would likely impact negatively on smaller shippers who do not have either the requisite volumes or frequency of volumes to negotiate highly competitive rates. The Tasmanian government's overriding concern is that a flat rate would come at an overall cost to the Tasmanian economy and, as noted above, it's Commission modelling to estimate the economic impact in terms of how that would respond.

Before I move away from the freight equalisation scheme to discuss the passenger vehicle assistance arrangements, I would like to touch on the equalisation assistance to wheat and other grains. Given the scheme is not currently being utilised, the government does not oppose the proposed abolition of that scheme but does request that the budget allocation for the scheme is rolled into the forward estimates.

We believe that there are practical difficulties with the approach as proposed. More fundamentally, however, the proposal to treat this commodity differentially is opposed on the grounds that it would increase complexity and work against administrative efficiency and simplicity. Notwithstanding the contribution the TFES eligibility may or may not have had in encouraging the shift to containerised wheat shipments, bulk wheat shipment is not currently a viable option for Tasmanian producers. Reduced equalisation assistance calculated on a notional bulk shipment rate is therefore inequitable in the current circumstances and would negatively impact on producers.

In relation to the Bass Strait Passenger Vehicle Equalisation Scheme, whilst the federal government is committed to the retention, we are concerned by some of the draft report recommendations. Unlike its more detailed analysis of the TFES, the Commission gives relatively scant consideration in its draft report to potential improvements to scheme design.

The draft report offers no suggestions as to alternative uses of funding that would, in the Commission's view, be more efficient and effective in supporting Tasmania's inbound tourism industry. The Commission also suggests that the significant leakage of benefit of equalisation payments to TT-Line is likely but again provides little in the way of persuasive concrete evidence to support this contention.

Self-drive tourism provides a significant source of economic activity for Tasmanian communities, many of which are facing pressures. The Tasmanian government, the Tourism Industry Council, the Cradle Coast Tourism Executive, the Tourism and Transport Forum and Austrade have all highlighted in their initial submissions the critical importance of the current scheme in supporting Tasmania's self-drive tourism market.

Our report, in our submission, goes at length to the support of the Bass Strait Passenger Equalisation Scheme and we have provided support and assistance in terms of the cost differential and important role it plays in moving tourism, but also it should be acknowledged that in the original 1996 inclusion of the Bass Strait Passenger Equalisation Scheme it was intended to support not just tourism but also Tasmanians travelling across Bass Strait.

Just quickly in relation to infrastructure policy and economic development, the Commission makes a range of observations and draft recommendations relating to what are fundamental aspects of the Tasmanian government's ownership, planning and delivery of landside infrastructure. While the focus of the inquiry is shipping cost competitiveness, the Commission provides no indication of the likely impact of implementing these recommendations in terms of reducing Tasmania's businesses' actual freight costs, nor does it recognise the potential transition costs.

The largest cost component in the supply chain for businesses remains the blue water Bass Strait crossing which is largely outside of the control of the Tasmanian government. As I have said before, the Bass Strait crossing can count for over 60 per cent of the total door-to-door costs of the typical freight user whilst port costs, for example, represent only around 5 per cent of the supply chain costs.

We have worked very hard to ensure that we have an appropriate infrastructure response to our freight needs. We were the first state to implement and create an Infrastructure Advisory Council and through the work of the Freight Logistics Coordination Team it has provided evidence-based expert advice on freight and supply chain issues in Tasmania and it has and it will inform the development of a long-term freight strategy which includes a long-term port strategy that clarifies the future roles and functions of each of Tasmania's northern ports, taking into account their relationship with key road and rail links and specific freight needs, the ongoing strategic prioritisation of road infrastructure investment around a high-standing principal freight corridor, and the development of a high-productivity vehicle access

policy, greater clarity in the role of rail and a clear plan to better focus infrastructure investment on the optimal modal mix across both road and rail to meet Tasmania's freight needs.

We believe it's the state's role to determine its transport infrastructure policies and it's a fundamental element of federalism and the allocation of constitutional responsibilities of the Commonwealth vis-a-vis the states. Future ownership arrangements of the state's major infrastructure assets and the strategic ownership objectives with regard to the state-owned businesses are a matter for the Tasmanian government and it is in fact the Tasmanian government position that none of its freight or freight-related assets are up for sale.

The Tasmanian government contends that equalisation can and currently does and should continue to co-exist with other strategic policies that improve the competitiveness and productivity of the Tasmanian economy more broadly. This issue should not be viewed through a simplistic either/or analytic lens.

The Commission also makes a number of high level comments regarding the existence of a range of programs and policies designed to improve Tasmania's productivity and overall economic performance, suggesting that they are likely to be fragmented and lacking in strategic alignment. However, the draft report contains only a cursory reference to Tasmania's current economic development plan which has a clear focus on the key areas identified by the Commission including skills and training, coordinated and efficient infrastructure provision, and encouraging private sector investment through regulatory reform.

The Tasmanian government's written submission contains more information on the strategic economic development infrastructure policy frameworks and I would implore the Commission to consider these documents in further detail before recommending a wholesale review. State level policies can make a difference to the future growth prospects of the economy, mainly through impacting the investment climate and the productive capacity of our economy. This is why the economic development plan identifies and focuses on the key levers with which the state government can support the growth of our economy.

With those few truncated edited words, I'm now open for questions. Sorry, instead of 15 per cent in terms of the BITRE report, I meant to say 50 per cent. It's a significant difference. My apologies.

MS CHESTER: Thank you very much, minister. Did you want to make any opening comments with respect to developments today or did you want to just leave that to questions? I'm happy to ask some questions around - - -

MR O'BYRNE: I suppose the matter is about the state government's position

around the inclusion of northbound international exports in the freight equalisation scheme. We have been without an international direct container carrier to Tasmania for three years and that has put some enormous pressure on a number of our international exporters.

In the drafting of the original freight equalisation scheme it was never envisaged that we would be without an international carrier link and we believe that until a service is able to be re-established that's commercially viable and sustainable, the inclusion of northbound exports is an appropriate inclusion in the freight equalisation scheme.

MS CHESTER: Thank you, and thank you very much for those very comprehensive opening comments. It was very remiss of me at the beginning not to also pass on our appreciation for the very substantive submission that we did receive from the Tasmanian government and the constructive help and assistance that we have had from your officials throughout this inquiry.

We do note that the time frame is relatively compressed but, that said, we were also able to benefit very much from the very substantive body of work that had been undertaken with a large amount of input from Tasmanian business and Tasmanian government by the Freight Logistics Coordination Team and particularly some of the work that they commissioned by experts around relative cost comparators of shipping across the Bass Strait and European and also the economics of what volumes might be required for a viable international shipping service to return. We were able to draw on that body of work and that was very advantageous from our point of view.

MR O'BYRNE: That body of work has put us in a position where we're able to go to the market and facilitate a conversation. As you know, individual shippers take a stab at markets and try to build relationships with exporters to build volumes. We know it's a volumes-based industry and we were able to, with the work of the Freight Logistics Coordination Team, pull together that market intelligence, I suppose, in a commercial-in-confidence manner to go to the market and to have a broader conversation about the kind of volumes that might be available, what kind of timing in terms of a port call for an international shipper, and also I suppose the markets and the projected growth volumes. We have got some fantastic people around that Freight Logistics Coordination Team and good people in the department. This is a significant issue for Tasmania.

MS CHESTER: Why don't we turn to that issue first because it is fairly fundamental. As you rightly pointed out, previously the scheme wasn't extended to all commodities shipped through the Port of Melbourne. It didn't cover those that may be transhipped through the Port of Melbourne to international export destinations largely because previously, as you rightly pointed out, Tasmania with

the AAA service did have access to three or four shipping lines providing a regular containerised international service to North Tasmania.

I guess from the FLCT report and the GBS study that did inform that report, it suggested that the quantum of volumes that might be required for an ongoing, commercially sustainable, regular international containerised shipping service to Tasmania, and assuming that was from one port, was around 39,000 to 54,000 TEU per annum.

As we understand it at the moment, the TEU per annum of international imports and exports from Tasmania is around 37,000. I'm just interested in getting your views given the FLCT report suggested for something to be sort of commercially viable and sustainable in a longer-term basis versus the quantum of volumes that we're looking at and - - -

MR O'BYRNE: We're talking about now.

MS CHESTER: Yes.

MR O'BYRNE: I suppose prior to the GSC we were trending towards 50,000 container movements internationally. The AAA service - and I suppose some of the challenges that they faced in dropping volumes was the regularity and their ability to make a port call to Bell Bay consistently. That caused a number of international exporters out of Tasmania to make a decision that they would value reliability and that is a more predetermined imperative as opposed to the cost, so they moved to another carrier because of the cost issue.

Now the global trade is starting to recover we still believe that whilst there's a conservative advice around the expected volumes, we believe that ultimately the market - and that's in our discussions with our shippers, having a conversation with them about the kind of volumes they need and the kind of, I suppose, port calls in terms of timing that they need - is ultimately a matter for the market. Whilst the advice is around 37, 39 thousand containers, we believe that an innovative solution from a shipper that can engage with Tasmanian exporters may be able to make it work.

We have to let that commercial negotiation run. We want to support those discussions, but again if there isn't volume to support Swire coming in or any international shipper coming in to Bell Bay, then the market has spoken and therefore that strengthens the argument for the northbound inclusion.

MR SWAIN: (indistinct)

MS CHESTER: Sorry, if you could just state name, title and organisation you're representing, just for the transcript record, Gary, before you speak.

MR SWAIN: I'm Gary Swain. I'm the deputy secretary of Department of Infrastructure, Energy and Resources and I was a member of the Freight Logistics Coordination Team and have been involved in the exercise of talking to potential shippers. Just to add to the minister's comments, one thing that has been proven up in that work is the circumstances of each shipper is very much their own circumstance so, you know, depending on the extent of empties they have got, the loading of their vessel and so on and so forth, what we know already from talking to the ones that we have is their load requirement varies and it's different between export and import and it's different over time, so it all depends on what else is going on.

MS CHESTER: We do understand, particularly from the submissions and evidence that we have received from a large number of shippers, Tasmanian businesses, that it is quite a matrix of needs in terms of the shipping tasked to international markets.

MR O'BYRNE: Particularly in timing and particularly location of market. There are some international exporters that refer the transshipment to Melbourne because they're able to divide I suppose their volumes to meet the specific needs of the port call they need to make internationally.

MS CHESTER: Okay, so it would be helpful if you could give us an update. Firstly perhaps, though, we had understood that there was a third party consultant, someone who's expert in these shipping matters, providing you with some advice in terms of those commercial discussions and which shipping lines you could speak to and what sort of volumes you'd require. Could you give us a little bit of insight into that, and then if you wouldn't mind giving us just an update on where those discussions are at with - I understand it's Swire, is that correct?

MR O'BYRNE: Yes.

MS CHESTER: Where those discussions are up to with Swire and if you can give us an idea of the scope of service that's being envisaged at the moment.

MR O'BYRNE: Okay, I'll do my best to answer most of those. Some of them are yet to be resolved because essentially we're at the point where we've identified a preferred shipper and we do need to have those discussions and negotiations and I would not want to compromise the Tasmanian government's position in those commercial negotiations and the assistance we may or may not provide to that company to make an international port call. Following the work of the Freight

Logistics Coordination Team we have as I said previously, it has given us a greater level of information about the nature of the freight task out of Tasmania. It's the first time that that has happened as far as I'm aware in the state's history, so very comprehensive.

We then through a consultant, the consultant in Thompson Clarke, put out information and expressions of interest to all and sundry. We then identified and narrowed that down to approximately six shippers that we believe and they in their discussions with us indicated to us that they were interested in a discussion around providing a port call to Tasmania. We then in further negotiations with those half a dozen shipping companies we narrowed down in terms of a final sort of discussion with the preferred shipper. We announced today that that preferred shipper is Swire and we have now sent them a letter of intent to establish an MOU to negotiate what it would look like for them to make a port call in Tasmania.

Now, we've made it very clear that we are not interested in, for example, an \$11 million per year subsidy over three years, totalling \$33 million, and throw that at a shipper and hope for the best. We don't think that would lead to a sustainable provision beyond a three-year period and at the end of the three years we'll have a shipper saying to us, "Okay, well, unless we continue this \$11 million we're leaving Tasmania." What we will do, though, is look at the kind of things potentially infrastructure, potentially issues and resolutions dealing with empty containers and how we move them in and out of the state to support a start-up for an international container and shipping service port-calling to - Bell Bay is the obvious choice but again that does need to be attached to very clear and transparent agreements with Tasmanian exporters so that we know that it is a sustainable service.

MS CHESTER: Okay. In the discussions that you've had to date with this preferred party, is the frequency of the service something that you've come to a landing on in terms of what could be contemplated?

MR O'BYRNE: We've spoken to them about an 18-day service, but again that is also something that we need to sit down and work with. It does depend, we have a number of exporters from small, medium and large with different requirements. It is about aggregating up enough volume on the port call and the timing that meets the needs of those exporters, which also has the capacity of the Swire international to deal with that freight task. So that is a matter for negotiation. We are not locked in. The Freight Logistics Coordination Team does suggest an 18-day port call. We believe ultimately that is a matter for the exporters to work with the shippers to resolve.

MS CHESTER: When you mentioned before that your government would not be contemplating a level of assistance of \$11 million per annum, there is some quantum of assistance that would be required during the transitional period?

MR O'BYRNE: We have indicated that we would be interested in supporting, particularly in the first year of start up, a level of support; but not necessarily an underwriting concept, more of is there an infrastructure need or if there's an issue with I suppose locating empty containers, to pick up the volume because that's one of the biggest challenges with our freight task; 30 per cent is fresh air and we need to find a way to, I suppose, aggregate up the volumes in containers that are returning an economic dividend to the state and to the exporters. So we would look at a more innovative way to support. We wouldn't put a dollar figure on the table necessarily to underwrite a service.

MR SWAIN: If I could add, interestingly Swires and the other shortlisted companies themselves have been very clear that they want a sustainable commercial service. So what they're talking about as the market risk of the ramp-up, of the take-up, is really the difficult challenge for them, based on industry supporting the service.

MS CHESTER: I appreciate that in terms of the transition of the ramp-up but have they indicated what the end point for that ramp-up would be, what volumes would be required ultimately to be reached for it to be commercially sustainable for them without any transitional assistance of any kind?

MR O'BYRNE: We wouldn't want to put a figure on that. Ultimately that is a matter for the discussions between the shipper and the exporters. Our role is to facilitate that and identify the gap or identify the opportunity for us to intervene to ensure that the service is sustainable.

MS CHESTER: So Swire hasn't conveyed any minimum quantum of volumes that might be required medium to longer term for it to be sustainable for them commercially on a longer-term basis, given they've made some recent vessel acquisitions?

MR SWAIN: They've had some discussions with the consultant, but again it does very much depend on where the export volume is going to because the revenues aren't all the same. So it's not as straightforward as a single number and it is early in discussions and they are commercial as well.

MS CHESTER: Okay. So is there any range of volume numbers that have been discussed, and I'm just trying to get a handle on--

MR O'BYRNE: More than one; less than 50. I mean, I'm not going to put a figure on it. It's something that they need to - and of course it has to be in the thousands of TEUs that they will need. They will need a level of volume, they will identify a certain type of vessel that will be suitable for the task. They are large, as you know

Swire are a large organisation with a whole range of vessels with different capacities and it's a matter for them to make it all stack up, not only physically but financially.

MS CHESTER: No, I'm just conscious we've received a submission, we've received evidence from other submissions and other parties who are also in discussions with Swire on what the minimum volumes might be required medium to longer term.

MR O'BYRNE: I know that they've talked about 10,000 TEUs, 15,000 TEUs, 20,000 TEUs. I think the figures that have been bandied around would not be dissimilar to some of the discussions that we're having.

MS CHESTER: Okay. Thank you very much.

MR SWAIN: Sorry, just going back to the FLCT's role in this, I mean, the FLCT recommended to the government that it further investigate this and sort of, you know, knowing that it would be difficult and it would be lineball either way, whether the volume was there, whether it was attainable at the same time. Swires have said they think it will be challenging but they're very interested in exploring it.

MS CHESTER: Okay. What sort of hub options is Swire able to offer for this service, the key Asian hub?

MR O'BYRNE: It depends on the clients and the exporters that they have formal arrangements with. Ultimately we want to find a market solution; we don't want to dictate to Swire or our exporters, what we want to do is facilitate efficient freight movements out of Tasmania. It is frustrating at this point because we really are at the early stages with discussions with Swire. We obviously have parameters in place but ultimately we want to facilitate an economic commercial outcome.

MR SWAIN: And part of that, we've given them a breakdown of some of our freight flows so they are aware what's going to north Asia, what's going to south Asia, you know; so they've got all that in their mix and they're comparing that to their own freight arrangements and forwarding arrangements.

MS CHESTER: That freight flow information, was that part of the submission that we've received to date from the department?

MR SWAIN: No.

MS CHESTER: Would we be able to get that information as well as part of - - -

MR SWAIN: Mm.

MS CHESTER: Okay. Thank you, that would be very much appreciated. So as part of that exercise of understanding the freight flows and I guess the export shipping needs of the individual shippers of Tasmania, the businesses, do you have a sense at the moment of a service that's once every 18 days going to some hub in Asia, and as I understand it it wouldn't be Singapore but some other hub in Asia with, I think, about 16 to 18 stops along the way, how much of the current Tasmanian export task would that sort of meet their shipping needs? Just so we can get an idea of order of magnitude of--

MR O'BYRNE: Can we take that on notice? We'll provide that information to you. It's a good question and I think the freight flows will answer that for you.

MS CHESTER: Okay, great. Because I'm sure you'd understand that we've received not competing evidence but we've received evidence that there are very different needs of the shippers, as you rightly pointed out, before Gary and, given we are at the juxtaposition of potentially extending TFES scheme to exports transhipped through Port of Melbourne, and then an international service resuming, which would be fantastic, but by extending the TFES scheme to transhipments through the Port of Melbourne we could effectively be undermining the economics of exporters choosing to go thorough a service that Swire is offering from Bell Bay.

MR O'BYRNE: That's true, absolutely, but in some - - -

MS CHESTER: Do you have any views on how we can - - -

MR O'BYRNE: Let me clarify this.

MS CHESTER: Sure.

MR O'BYRNE: The timing is not of our making. We have been working through an extensive process following the establishment for our logistic coordination team. We didn't want to just throw taxpayers' money at a problem with no solution at the end of it, so we have been working through a process. The productivity Commission's timing in terms of the submissions, in terms of the review that you are going through, is a matter for the federal government's timing. We, I suppose, have been working through a parallel process that - we do believe an international shipping line may be able to come into Tasmania. We want to support that, because exporters have told us that's what they want us to try and investigate. We are doing that, but parallel to that we would not want to miss the opportunity to put on the record through this process that, in the absence of that direct link, we do believe to support for Tasmanian exporters that they should be included in the freight equalisation scheme.

I suppose the timing is awkward in relation to our dual positions, but

essentially the position is we want to make sure that we can get our international exports off island in an economically efficient way and by way of a direct service. Without a direct service, in the absence of a direct service, we want support across Bass Strait to the hub of Melbourne.

MS CHESTER: Okay, so could one configuration then be, if we were to recommend an extension of the TFES to all eligible commodities transhipped through the Port of Melbourne, I need to be careful not to use the word "exports" at times for reasons you would understand - - -

MR O'BYRNE: Yes.

MS CHESTER: - - - until such time as a regular international shipping service was re-established in Tasmania?

MR O'BYRNE: Yes. When Triple O first pulled out, that was a part of our original submissions to the federal government about how we would resolve and work through the challenge for our international exporters, but again it has got to be - in some respects the capacity needs to meet the needs of our exporters' needs, so if we have a service that is at maximum, they are not able to get on to a direct international, and I know that's difficult in a regulatory sense about how you define that, we believe that until a sustainable service is in and out of Tasmania then the freight equalisation inclusion is the way forward.

MS CHESTER: Okay.

MR O'BYRNE: I know that's a sort of a half answer to your question.

MS CHESTER: What would be your answer to anticipated time frames for resolving, and I appreciate - - -

MR O'BYRNE: Hopefully, for the second half of this year, so in the second half of 2014 we will have clarity about whether there is enough volume at an appropriate timing for the needs of our industry. This relies on the Tasmanian industries to sign up to it. We may not be able to resolve that question. It's ultimately a matter between international exporters and Swire. That's not a matter for the state government to distort those negotiations. It has to run its course.

MS CHESTER: So to throw into the melting pot one other lever that could influence the economics of all of this, and I think we were all very cognisant that the cost of shipping is the single greatest cost of the past to market of Tasmanian business.

MR O'BYRNE: Yes.

MS CHESTER: As such, the Commission felt that it was really incumbent on us to look at what other schemes or other policy levers are available to government in this regard, and in that sense our draft report does recommend the foreshadowed review of a the coastal shipping regulations be expedited. You would no doubt be very well aware of the evidence that we have received in submissions of the costs to Tasmanian business of the current coastal shipping regulatory arrangements. I'm not just referring to the changes in 2009, 2012, I'm talking more broadly about the cabotage and, interestingly enough, of all of our draft recommendations the overwhelming support that we have received from 59 of our 61 submissions was the bringing forward of that coastal shipping report.

Just one other important piece of evidence that we have only just recently received as part of our public hearings, so one other very large shipper and a large Tasmania business has been having some discussions with international shipping lines for the resumption of an international service. Those shipping lines have indicated that, premised on the assumption that there is meaningful reform of coastal shipping arrangements, that the whole economics of resuming regular international service to Tasmania changes such that no assistance would be required. So with all of that comment it would be good to get your views on our draft recommendation and the scope of that foreshadowed review.

MR O'BYRNE: Yes. We obviously support your review. We are making contributions to it. I think this is where two policy imperatives clash. If you look at pure cost, of course any layer of costs in terms of Australian shipping has an impact on Australian businesses, and particularly Tasmanian businesses, given our heavy reliance on shipping.

I think the challenge for us is, and it's a policy question for the federal government, is whether they want a viable Australian shipping industry. Ultimately, having support for the shipping industry does create jobs, it creates a whole range of skills. There's a whole range of protections for the country, but I think if you look at purely cost, yes, there is a cost impost in terms of the current arrangements, but it was the policy imperative of the previous government to have an Australian shipping industry which is viable, which is sustainable and which is safe. We will be putting submissions to that review, but this is where, I suppose, two levers or two policy directions have collided.

I know there's view - if you looked at purely a narrow cost, yes it has caused an extra level of cost, but I think there are bigger questions at play in terms of what kind of shipping industry we want in Australia.

MS CHESTER: From your perspective, just viewing it through the lens of the best interests of Tasmania and the state economy - - -

MR O'BYRNE: Of course, always, but ultimately our position to that review will be a matter for cabinet to consider. There's no cabinet decision which gives me a direct - I would be talking as an individual, and then in terms of the Tasmania government position there would need to be a process that we would need to go through, which we haven't got to at this stage.

MS CHESTER: Okay. Minister, am I right in understanding your earlier comments that you do support our draft recommendation in terms of expediting that foreshadowed review?

MR O'BYRNE: We support the review; in terms of bringing it forward it's a matter for the Commission, it's a matter for the federal government, as long as there is enough time to allow for appropriate submissions and to allow people to have their say. I think that's the underlying principle of our response.

MS CHESTER: Thank you for those comments. One other cost impost that you are more than well aware of is with respect to the introduction by the Port of Melbourne of a licence fee that's not related to any services that are being provided to shipping lines shipping through the Port of Melbourne. As we understand it, that fee involves cost impost of \$75 million per annum and indexed. Given that Tasmanian - - -

MR O'BYRNE: That's all freight in Melbourne.

MS CHESTER: That's everybody - - -

MR O'BYRNE: Yes.

MS CHESTER: And given that Tasmanian businesses represent 28 per cent of that shipping going through the Port of Melbourne, that's a \$20 million transfer to the Victorian state government budget, and to some extent from the Commonwealth's perspective that could be construed as diluting by \$20 million the benefits of the Tasmania Freight Equalisation Scheme.

MR O'BYRNE: Yes.

MS CHESTER: I would be very interested in getting your view on that, but more importantly in terms of what action to date you have been able to take in addressing that matter with the Victorian government, and also your views on the appropriateness of the oversight of the regulator in Victoria, the ESC, who would typically have oversight of most charging matters from the Port of Melbourne, but as we understand it, perhaps not in this case.

MR O'BYRNE: When the Victorian Liberal government announced that port

licence fee we were obviously very disappointed and concerned. The previous Labor government in Victoria had proposed a land-based transport fee, which would raise a certain amount of money to allow them to fund a while range of activities, maybe not even connected to Melbourne ports. At the time of the announcement, I went to Melbourne and met with the then minister, now premier, Denis Naphthine, and raised our concerns, basically saying that it impacts significantly on Tasmanian businesses, on the Tasmanian economy, and directly the Victorian economy as well, because we obviously are a big support by virtue of our freight volumes through Victoria. At that time he was pretty clear. He said, "I've got a \$75 million hole and this is how I'm going to fix it." So he was very unsympathetic to Tasmania's cause. We took advice on the constitutionality of it and of course because the licence fee, the Port of Melbourne fee, was levied on all business, not necessarily just interstate business but that was clearly not a matter for constitutional lawyers to argue.

We then met with Melbourne Port. Obviously the licence fee is were our fee; for example, TT-Line in terms of per car, there's a matrix of fees that the Port of Melbourne levy on their customers. We then negotiated, I suppose, a partial waiver or an increased holiday for want of a better way to describe it with some of our other fees to try and minimise the impact on Tasmanian businesses, moving freight through Melbourne Port.

Very disappointed. There is obviously a redevelopment of Melbourne Port and the Webb Dock area where they want to aggregate up Tasmanian freight and containers. That is a number of years off. It has very little tangible benefit for Tasmania. We're extremely disappointed with their decision. Our understanding is that unless the Victorian government makes a determination that they will change their position then ultimately they have acted lawfully. They are well within their rights within their ports to, I suppose, impose fees which are consistent with charging of any piece of infrastructure. It's very frustrating. Angry, and we're very disappointed with it. I can't say more than that.

We had extensive discussions. We meet regularly with the Port of Melbourne, every time they work towards their determination of fees to try and reduce and minimise the impact on Tasmanian businesses, but in some respect we are held ransom because it is the only and the closest hub port of any size that is of benefit to the Tasmanian economy. It's very frustrating.

MS CHESTER: Is it also your understanding that given the nature of this fee and how it's being levied that it's not subject to regulator oversight by the ESC.

MR O'BYRNE: Do you want me to take advice on that?

MR SWAIN: I may be wrong but I believed it was only a light-handed oversight, not a fee setting or deterministic oversight and the FLCT did identify or advocate for

closer policy discussions between the Victorian and Tasmanian government in relation to this whole issue or port policy in Victoria and recognising that Tasmania has an interest, but also at the departmental level it certainly got us thinking about whether Tasmania is able to be adequately represented in that process, because it's a little bit different if you think about potential electricity networks or other price deterministic processes where you have one or two parties who have a very strong interest and commit substantial resources to that process. The way this has been applied to Tasmania, effectively it's a fractured offer across a whole lot of customers as opposed to one or two who have a really strong commitment for resources.

MS CHESTER: So what would happen in Tasmania if Tasports were to - and I'm not suggesting this would ever be the case but would there be any regulator oversight in Tasmania if Tasports sought to charge such a levy on shipping lines, because I'm just trying to get an understanding of the disparity at the state based regulator level. I'd understood that, New South Wales in particular, there was greater oversight on these sorts of matters.

MR SWAIN: We've got a local regulator in Tasmania who has a lot of expertise in economic regulation and applies a range of different models from very light-handed to quite deterministic. Port being a volume based business, the government of the moment has taken the view that the drivers of the business are to keep prices down because they need the throughput and they need Tasmanian businesses to be able to move freight successfully, but it's always the case that treasury in particular reviews the need for economic regulation if circumstances change for any business that has monopoly characteristics.

MS CHESTER: So this is an issue that we'll probably try to look at a little more closely, given the dilution of the effect of the TFES on benefits to Tasmanian business by that cost impost. We might touch on some other broader transport matters before coming back to some of your individual comments on some of our draft recommendations if I may. One of the other areas that we touch on in our draft report is that trying to be very cognisant of the economic and fiscal challenges facing the Tasmanian economy, and particularly with an ageing population, whether or not there was some need for rationalisation of road and rail where you have duplicated networks. I guess a blunt way of saying that is: can you afford medium to long term having the level of duplication you've got across road and rail networks in the Tasmanian state?

MR O'BYRNE: I think it's important that we provide intermodal options for Tasmanian businesses, particularly given the different nature of the freight task - heavy bulk commodities. We believe you not only need to manage the cost of the piece of infrastructure, the cost in terms of putting the capital in to support the infrastructure. There's a whole range of other community interests that need to be taken into account in regard to public safety and road safety. It's not appropriate that

we have large amounts of heavy freight, non-time sensitive freight, on our roads and we believe intermodal options provide a competitive environment for companies and industries moving their freight north and south and across the state from their facility to the various ports. So we believe that having competition is very important and that there is a broader community interest in how we move freight around Tasmania. We have I suppose an increase in volumes of time sensitive freight. That does need to be moved via our roads. It's not appropriate for that to be taken onto rail but we believe as a matter of principle, competition is important and providing options for our businesses is very important.

MR SWAIN: I've been asked this as someone who provides policy advice to the government. The one thing I would say, without getting into the minister's territory, is it is a very, very big policy call. You can look at it and say "Are the volumes there?" but if the rail were to be closed, it would be very hard to imagine it being reopened. So it's a very big call for Tasmania, if you think about economic development and growth over a 20, 30, 40-year period.

MS CHESTER: I guess the one thing that's not going to change is the distances travelled and the economics of road versus rail have been well known for a period of time.

MR O'BYRNE: I suppose the cost of maintenance of the road over a longer period of time in comparison to rail is pretty clear. The problem is that we've had to invest significant amounts of money in our rail to get it back up to scratch, effectively get it to a point where we can start to move volumes. We're very confident that the above rail business of TasRail will be profitable. It's not going to make us a lot, a lot of money but it will be profitable in the short to medium term, so we're confident that volumes will grow on the rail to make it sustainable and that, I suppose, the one-off infrastructure capital costs that we've had to incur, both state and federal, has been to essentially re-establish what was a failing rail.

MR SWAIN: It's probably worth notice that the shortest leg on the rail is the most profitable, so the Railton to Devonport leg is - specifics and exceptions do exist based on historical and the state - - -

MS CHESTER: And the particular freight task that's required. I do understand and appreciate that.

MR O'BYRNE: Yes, and the businesses involved and their needs and the timing.

MS CHESTER: But as I understand it today, TasRail isn't covering its operating costs, so what do you see changing in the short to medium term to see it actually return to - - -

MR O'BYRNE: They are building volumes. For many, many years, well, for the years that it was in private hands, essentially the below rail was falling into disrepair. There were derailments. There were delays in scheduling. Basically it became a non-viable form of intermodal transport for our businesses, so we've effectively had to rebuild the business, not only in terms of the capital, above and below rail, but the confidence of businesses to use rail and know with surety that it will get to the ports or get to their facility in a reliable way, so the reliability is starting to return. Volumes are increasing. Confidence is increasing. It's a well-led organisation with good people, and again, we're seeing a massive increase in mining on the west coast with the Melbourne line.

MS CHESTER: Thank you very much, minister. Maybe then if we touch on ports. I understand that you're representing Tasports this afternoon as well. We've had a large number of businesses provide us with evidence and raise concerns around costs subsidisation across the ports with a system of uniform pricing and provide some comparative data that suggests that those are charges that aren't sort of reflecting ideal efficient practices. Do you have information on the performance and efficiency of the individual ports?

MR O'BYRNE: Yes. Just in relation to the assertion, I think it's important that we acknowledge that we have a number of ports all being managed under different organisations up until - was it 2008 or 6? - 2006. We amalgamated all the ports into one organisation to try and create a level of consistency across our states and working with Tasports, they have rationalised and tried to be more consistent and in fact are more consistent in terms of their charging and their wharfage fees and the associated levies that they charge the businesses that they deal with that use the ports.

Overall, in terms of preferential treatment, in terms of the exporters like domestic and international, it's 5 per cent of the overall cost of a total supply chain cost structure, so even if it was for free, it would make little difference in terms of the preferences of the shippers and the logistics companies and where they build their infrastructure to support their activities. For example, there was a view that - and many, many years ago, Burnie Port made an arrangement, a commercial arrangement with a company over many, many years now. That has evened out. There is no preferential treatment across the ports but there is existing infrastructure, private sector infrastructure, which is significant, which means that those arrangements will be in place.

MS CHESTER: I guess I was thinking more from the perspective of the submissions and evidence that we have received that the port charge, as I understand, takes 5 to 10 per cent of the total freight charge.

MR O'BYRNE: Yes.

MS CHESTER: And for the businesses, 5 to 10 per cent is a material part of the cost that they are facing and the issue was more about Tasports currently having uniform pricing across the ports and they felt that there was an element of cost subsidisation happening which doesn't sort of work all that well with the sort of commercial port rationalisation. Is that something that's going to be addressed in the forthcoming port strategy or do you have views on how realistically it can be resolved?

MR O'BYRNE: Well, that's obviously something that needs to be considered. We don't have a single port strategy but we do have a port specialisation strategy and we need to work with our exporters, domestic and international, and we need to work with the logistics companies and the freight companies that are existing operators within the system to work with and we have a myriad of businesses with different requirements and it is a volumes based industry. Where the volumes are, that's where we want to support our industries.

There was a proposal through Infrastructure Australia for a \$150 redevelopment of the container port at Bell Bay. At the moment, there are very few containers moving out of Bell Bay. There's some with the Swire arrangement with Pacific Aluminium on top of their bulk exports but effectively, when a number of companies moved away from AAA to work with Toll through Burnie, the market spoke. So we have said that whilst we do believe that one day potentially that redevelopment may be appropriate for Tasmania in Bell Bay, at the moment, the volumes are not there to justify that and we would not want to expend that kind of money to a port which at this stage, and I stress at this stage, does not move a volume of containers which would justify anywhere near that expansion.

MS CHESTER: What's the time frame around that longer term port strategy being available?

MR O'BYRNE: At the end of this quarter.

MR QUINLIVAN: Sorry?

MR O'BYRNE: At the end of this quarter, we're targeting.

MS CHESTER: So end March, yes.

MR SWAIN: So the proposed timing of the freight strategy--

MS CHESTER: That was my next question.

MR SWAIN: Part of it, there was a sequencing to the freight logistics coordination team to deliver its report in November. There was a government initial response in

December. That response acknowledged that it needed some more input before landing the freight strategy and one of the key inputs was the port strategy during the end of the first quarter and that led the minister to come out and say that the freight strategy could then be delivered by the end of June. So it's a piece of the puzzle that's missing but it's not far away.

MR O'BYRNE: We have also established that the chair of the freight logistics coordination team is also the chair of our infrastructure advisory council which also provides significant input into the work of both of those groups, so that gives us some consistency between those two organisations or two bodies.

MS CHESTER: Thank you for that and in our draft report, we did touch on the issue of which parties it may be appropriate to get input from for the coordinated freight strategy and we did suggest some level of involvement by the Commonwealth, given the amount of funds that will be obviously forthcoming or ideally forthcoming from the Australian government's perspective from the Commonwealth to fund that strategy over time.

MR O'BYRNE: And that's where we work very closely, particularly around the Nation Building 2 program that was announced by the previous government, essentially focusing on the freight task and the freight link between Burnie and Hobart. We also with the infrastructure advisory council have worked very closely with Infrastructure Australia. We are obviously waiting to see where that reform goes in terms of that body. We don't oppose a level of involvement in consultation with the federal government. I think that's completely appropriate and consistent but ultimately, the Tasmania government will make the final decision on how and where we invest in infrastructure.

MS CHESTER: We do understand and appreciate that, minister, and it's helpful of you to clarify that you don't have a problem with Commonwealth involvement and input and from what you were saying, just so I fully understand your position, it is that it would be Infrastructure Australia you would looking at providing that involvement and input.

MR O'BYRNE: Well, we had an existing relationship between CEO Michael Deegan and the chair, Rod Eddington, and Infrastructure Australia and our chair of the infrastructure advisory council of Tasmania meet regularly and discuss the challenges and the opportunities for Tasmania, both from freight and infrastructure but also economy wide, so we believe the broadest possible consultation and discussion is appropriate. We don't think necessarily it should be just one channel through Infrastructure Australia. Clearly, we have engaged with federal governments over many years and particularly we are starting to engage with the deputy prime minister trust around our freight tasks and our freight needs. We had a good relationship with the previous minister, Minister Albanese, and that really

informed our Nation Building 2 submission and the support that was provided by the previous Labor government in terms of the road and rail and port support.

MS CHESTER: Thank you for that. That's very helpful. We might turn briefly - well, not briefly but let's turn to the Bass Strait Passenger Vehicle Equalisation Scheme, which I will now call the scheme because I don't want to repeat that again, and I think it's fair to say our draft recommendation around that scheme was really aimed at trying to get a better understanding about what was the underlying policy objective against which we could more meaningfully assess the merit of the scheme and there seems to be an element of confusion in the past statements of governments, both state and federal. Our understanding of the original intention was that it was to facilitate passengers accompanying vehicles, regardless of whether they were tourists or residents of Tasmania, from some alleviation of the cost disadvantage of travelling across the Bass Strait but we are also mindful that the scheme was passed at a time when the cost of air travel to Tasmania was exponentially greater than what it is today. So it's very much--

MR O'BYRNE: Those that even fly today. I suppose the stated aim of the scheme, as you refer to it, when it was introduced in 1996, was to reduce the net fare of a driver sharing a standard cabin to a similar cost driving an equivalent distance on a highway. The scheme was clearly expected to assist Tasmania's tourism industry in Tasmania more broadly, so the intent was and is, we believe, to support or equalise the freight and transport disadvantage by considering the sea link as a part of the national highway. Now, the very nature of that calculation for this disadvantage does support that intent, so we don't believe that that intent has changed. It's still, we believe, a part of our national highway and we do want the scheme, both passenger and freight, to equalise the cost out as best as we can make it.

MS CHESTER: Thank you for that, minister, and we have obviously received submissions and evidence clarifying those views. Some folk do still view the scheme as primarily around tourism and should be focused on that but we have a much better understanding now of what is the broader participants' view of that scheme. I guess one of the issues that we're grappling with in that respect is the monopoly provider, being TT-Line, which is owned by the state government and if you look at the movement in the rate charged by TT-Line one or two years after the scheme commenced, you will see that effectively the subsidy or the impact of the subsidy has been completely washed out by the increase in rates by TT-Line. Minister, given you are sort of a shareholder and are unable to comment for us on TT-Line, we don't have any insights in their cost structures or their rate-setting processes, so for us it's trying to get an understanding of - when you have a monopoly service provider and you have a subsidy and you have a bunch of people that are meant to be benefiting from the subsidy, there will also intuitively be some subsidy-sharing but looking at face value where the rates have moved to have completely equalised the rate of the subsidy, it does beg the question: are those rate

increases justified by the cost increases, and this is a matter that you have oversight of or you can share some insights with.

MR O'BYRNE: Well, they are a government business enterprise, so let's be clear we do not receive a dividend from TT-Line. There is a view that we gouge the asset and we charge people, you know, significant dollars and then, you know, we take it from them. We don't receive a dividend at all from TT-Line.

MS CHESTER: No. We understand it's not commercially run.

MR O'BYRNE: I understand you understand that but I'm just making it very clear for all and sundry that we do not gouge that asset.

MS CHESTER: Thank you.

MR O'BYRNE: Clearly when we bought the two vessels, it was very important for our freight and our tourism industries. Their cost structures are very similar, in fact identical to airlines in terms of I suppose a scale or a hierarchy of opportunity in low and high seasons. Unlike airlines we provide pensioner fares. Unlike airlines we provide some children's fares which are more generous than what the airlines provide.

What we're trying to do is every time the vessel moves away from whichever quay it is berthed at - there is a sunken cost and it is significant in labour and in the operational costs. What we try to do is balance out that so (1) we can ensure it's a viable business but also that we're able to replace and/or refurbish the vessels.

So we believe and we have worked very hard and there's a whole range of - at any given point in time there will be eight or nine different price points, depending on what you want to do or where you want to go. They're aggressive in terms of their marketing at various times and, you know, you have the second person travel free. They have a whole range of initiatives; in fact January of this year was the second most successful in terms of passengers in the vessel for - I think it was about 10 years.

So we believe that the price points are marketable. Yes; it's not free, it's not necessarily something that - I suppose we can just continually discount those fees. We do need to - those charges and the prices to getting on either your vehicle, your caravan or as a passenger. It is a balance and it changes from day to day, season to season, to ensure that we have enough money there to replace, refurbish and maintain the asset.

MS CHESTER: So from your perspective then, the rate increases that have occurred to the effect of washing out the benefit of the subsidy to participants over

the past sort of six or seven years, do they reflect cost increases in the cost of operating TT-Line or is it just improving the relative commercial viability of the line over time?

MR O'BYRNE: Well, it's probably a combination of both. It's really about maintaining viability and ensuring that we are in the market to the point where we don't lose money on sailing. There are some sailings where we lose money on the TT-Line but the TT-Line are providing a submission to the Commission, to the Productivity Commission review, and I think some of the details that you ask there will be provided in that submission.

MS CHESTER: So we are to expect a further submission from the TT-Line that will answer some of these issues for us?

MR O'BYRNE: Yes.

MR SWAIN: I would say that we are - my treasury colleagues may have looked into this issue in the past. We, in the department, will have a further view based on your analysis and we haven't unpacked it to say - and I have got the graphics that you're referring to - what other factors were or weren't in play during that period. So I think we have got a bit more work to do.

MS CHESTER: That would be helpful if we could find that out sooner rather than later because realistically for the Commonwealth government to change the quantum of assistance under the scheme as it currently exists, if it's just to be offset by rates going up by TT-Line, then it's really a transfer from the Commonwealth government to the Tasmanian government which doesn't benefit the people travelling across the Bass Strait.

MR O'BYRNE: I understand your position but if the charges - and if the state government was receiving a dividend, if the vessels were - attracted a significant debt when we first purchased them, We have repaid the debt in 2011, the 10-11 financial year, after 12 years of operating. Vessels are very, very expensive to purchase. They're very expensive to lease. They're very expensive to run. You need to make sure that you have a sustainable proposition.

What we want is - and ideally with the TT-Line vessels is that they are able to manage I suppose their books in a way which does not seek further Tasmanian government dividends - or support, sorry, not dividends; support to underwrite the services. We do think the services do need to stand on their own two feet.

MS CHESTER: So if we turn to the other side of the TT-Line equation which is the provision of freight services to Tasmanian business. One issue that has been raised with us by participants to the inquiry is I guess trying to understand the

rationale with the government providing a freight service given there are commercial providers doing so, albeit we do understand that TT-Line does offer a unique service that's not being provided by the others currently with their current vessels.

MR O'BYRNE: Yes, that's right.

MS CHESTER: It then becomes a little bit of a catch-22. Given we have had feedback from the shipping lines that TT-Line being owned by the government and given that it's not commercially viable and therefore perhaps investment decisions are not being made on the same basis as they would be by a privately owned commercial operator, it does raise uncertainty for them in making informed investment decisions and some of the shippers have viewed the delay or the deferral on a decision by SeaRoad for a vessel upgrade of its fleet to be partially linked to that uncertainty.

So I would just be interested to get your views on the role of government, particularly when you are competing against commercial operators and how to mitigate the uncertainty that causes for them in making material investment decisions.

MR O'BYRNE: Yes, I understand that. Well, with the original establishment, the freight equalisation scheme and - sorry, the original establishment of the ferries, it was about moving people, cars and freight between Tasmania and Victoria, so it was in the original understanding of when we established the service that freight would play a role.

You quite rightly identify the fact that they have a particular market segment which they meet which is peculiar; in fact two of TT-Line biggest customers are the other two shippers, Toll and SeaRoad. They regularly use TT-Line's capacity at various times based on I suppose the kind of freight that they are carrying, either on island or mainland and using a sea leg which is more appropriate.

We believe that TT-Line play a significant role in supporting particularly our time-sensitive fresh freight. That is something that Toll and SeaRoad are not able to fully respond to. They are going through a retonnaging process. SeaRoad over the last three or four years have said that they were in the final stages of finalising their retonnaging. They are not able to do that.

We believe that there is capacity for all three players. In the act that governs TT-Line they must act commercially. They do not act in undermining competition principles. If there is a suggestion of that, then clearly an investigation by ACCC should be undertaken to see if there's anti-competitive behaviour. We don't think there is; in fact we reject that there's anti-competitive behaviour. They play a role in the freight task for Tasmania which is crucially important, which is a gap in the

market, and have done for many, many years.

MS CHESTER: Thank you for that. Just to clarify though, there was no suggestion in that evidence or submissions that there was any improper conduct by TT-Line. It was more just a statement of reality that as a government-owned operator, investment decisions aren't made on the same commercial basis and that raises a level of uncertainty for when, you know, shipping lines are looking at investing hundreds of millions of dollars in a new vessel.

MR O'BYRNE: Absolutely.

MS CHESTER: And it's not easy to see our way around mitigating that risk for them. I am conscious of time. There are just two other quick questions I did have for you, if I may, on your comments on the draft recommendations. It was more around - you suggested that you had come up with a configuration whereby we could extend the TFES to exports, we could retain the southbound as it currently exists and we can leave the parameters at the current level and that that could be within the budget envelope. Perhaps it would be good if I could understand what you meant by the budget envelope because that certainly wouldn't be cost neutral to the current cost of the scheme.

MR O'BYRNE: Well, I suppose in our discussions at the time of AAA being a removing service, we sat down with the federal government, both the department and the minister, to talk about the funding envelope. There is an allocation so we believe in head room within the budget forward estimates so this could be accommodated.

MR SWAIN: So while the cost to the scheme at periods has been sort of 95 to 100 million, the allocation has been more 120 to 125 million, I believe, so there is an allocation at the moment - - -

MS CHESTER: In the forward estimates.

MR SWAIN: - - - in the forward estimates.

MS CHESTER: Okay. So are we able to get the calculations that you have around that and some of the assumptions that you have made around exports so we can better understand because this is an important factor for us.

MR O'BYRNE: In terms of the north-bound - - -

MR SWAIN: Yes.

MS CHESTER: Yes.

MR O'BYRNE: Okay. Well, we believe that's between 20 and 25 million dollars.

MS CHESTER: So that's premised on, what, \$37,000 TEU? Is that the number?

MR O'BYRNE: I would have to go back and find out at what point of time, in terms of the volumes, we calculated in two years.

MS CHESTER: That would be very helpful because there are different numbers that are being bandied around and we want to make sure that we can frame any design improvements of the scheme in an appropriate way. Just one other quick issue that you raised was around not wanting to make any changes to the eligibility and the way that wheat is provided assistance under the TFES, and you mentioned that bulk was not a viable option. As I understand it, in the absence of the TFES, wheat was traditionally shipped primarily by bulk but because the TFES scheme was more generous than the TWFS, the wheat was moved across to containers so they could get the more generous assistance which is a perfectly rational thing to do but it does then throw up the issue that you have wheat being transported in not the most cost-effective way and we've certainly received evidence in submissions, and including evidence that we've heard this morning, from impacted farmers in Tasmania who feel that they are disadvantaged because of what they consider to be the overly generous nature of the assistance provided to wheat through the TFES.

MR SWAIN: The government's submission will address this but I believe however the transfer occurred from bulk to container, bulk transport isn't occurring now, so it would end up being - if there was a move to a bulk sort of assessment it would be a theoretical assessment and I believe that the key assets involved in bulk storage are for sale. So that's one aspect. You know, we're concerned that you would be moving to a theoretical model, not an actual world comparison.

MR QUINLIVAN: Gary, who owns those assets now? Are they Tasports assets?

MR SWAIN: I don't know the answer to that.

MR: (indistinct)

MR SWAIN: I think we - - - -

MS CHESTER: I'm sorry, gentlemen, we can't take comments from the floor but we can clarify this matter later in discussion if that's easier. Thank you.

MR SWAIN: But the other thing, I suppose, we will be giving some thought to is that if part of this exercise is simplicity, administrative simplicity, and efficiency there's some concern around going to a different (indistinct) arrangement because you're adding complexity in the end; you're not taking it away.

MR QUINLIVAN: Yes, we understand that but it would be good to test this question of feasibility, of operational feasibility, which apart from the differentiation, I thought that was the other point being made so it would be good to get some confirmation about whether it was operationally feasible or not.

MR O'BYRNE: We'll take that (indistinct)

MS CHESTER: Look, they were all the questions that we had for you this afternoon, minister and Gary, and we do very much appreciate your time and the constructive support and involvement we've had from the department and officials through our inquiry process and your being able to present this afternoon. Are there any other closing remarks that you would like to make?

MR SWAIN: No, look, I think we've really traversed the ground. This is an important issue for Tasmania. It's probably the most important issue facing our island. We do need clarity on it. It's not only important for the business environment within Tasmania; it also goes to our ability to attract investment in Tasmania, particularly with our agricultural and aquacultural industries, where they are looking at significant expansion and the Bass Strait, the bit of blue water there, is a key component of their costs. Having this scheme in place provides significant assistance and without it, if people think Tasmania will become a (indistinct) state, it will get a whole lot of (indistinct) if we don't get a balance. Obviously it's a (indistinct)

MS CHESTER: Thank you again for appearing this afternoon.

MR SWAIN: Thank you.

MR O'BYRNE: Thank you.

MS CHESTER: I would like to invite our next participants to join us from the Northern Tasmanian Development, Mr Derek Le Marchant and Mr Ben Atkins. Yes? Thank you. Thanks, minister. Thanks, Gary. Good afternoon, gentlemen. Thank you for joining us this afternoon. If you could just state your names, titles and the organisation you're representing just for the purposes of our recording.

MR LE MARCHANT: Sure; Derek Le Marchant, executive officer with Northern Tasmanian Development.

MR ATKINS: And Ben Atkins, project officer, Northern Tasmanian Development.

MS CHESTER: Thank you very much. Are there any opening comments you would like to make this afternoon?

MR LE MARCHANT (NTD): No, only that it's a pleasure to be here and a dubious honour. I think everyone says "bookending" these days between the Commission's hearings and the weekend, but we've made our submission to the initial report and we've got a couple of comments that we'll make on the draft findings but overall we've found the report to be insightful and meaningful and a valuable contribution to the freight and logistics debate in Tasmania.

I'll quickly recap on our key issues, if you like, and the first one is that in investigating freight systems for the state, there needs to be some adequate accounting for the significance of certain areas of the state, and in particular the Bell Bay industrial area. Now, at risk of sounding parochial we'll try and keep it at a statewide level. We're a regional organisation made up of eight councils. Now, we speak in their interests; we don't speak on their behalf and I think that's important to note but given that the Bell Bay industrial estate accounts for around about 35 per cent of the value of Tasmania's exports it's fair to say that it's of state significance and indeed, you could argue it's of national significance, given the metal processing that goes on there.

The other point that we would make is the importance of direct export and import into Tasmania and the other point that doesn't get raised very often is the valuable contribution that direct imports or alternative means of import would actually have for Tasmania in introducing competition into consumables.

The other point to make is that we often hear that Tasmania and I know a lot of the freight logistics coordination team sentiment focussed on a relatively flat trajectory for Tasmanian growth and we consider the estimates to be overly pessimistic, and where does a pessimistic outlook take you? It takes you into a situation where doing nothing is a real option and the outlook we believe for the state is very positive and we look at investments made in the state like the irrigation networks.

Those investments wouldn't be made if we were looking at a flat trajectory and a pessimistic outlook. They are meaningful investments for Tasmania, so we don't concur that the freight task outlook is flat. We commissioned a report in 2012, the MMC Link cost benefit analysis report, and it showed that within a decade - and we're well within that decade now - we're looking at constraints in our freight system for containerised movements.

The downside of constraints is very real and the lead times for improvements in infrastructure are long, so we hear - I know there were some submissions that said we don't need to do anything now; it's not now we need to look at; it's having a vision for the next decade that we really need to be focussing on in terms of infrastructure. The other point to be made, and I think the minister also made that point, is looking at the relative benefits and costs of different policy implications, and once again the cost benefit analysis showed, with the data that was available to us at the time, which was fairly scant, mind you, that there's a real downside to not doing anything.

So they are the original points that we did make in our submission. The points we would like to make in response to the draft findings is the Commission very rightly pointed out that uncertainty is a bit of a curse. The uncertainty for exporters, importers; the uncertainty for the community, it really perpetuates a stagnation that is, you know, economics is a little bit about confidence and a little bit about a few other things but the uncertainty around infrastructure priorities and freight systems that are within the government's control to introduce some certainty is having a real and a detrimental effect.

Whilst in our original submission we didn't make comments about the freight equalisation scheme, we do note that there are some likely effects of the freight equalisation scheme that are incentivising offshore processing, that are incentivising less than optimal behaviours from some of the players in the logistics sector and that is particularly concerning given that that scheme is designed to assist, not impede.

The other point we would make is we noted that there was I think a request for information for the option of, if you like, government's purchasing capacity for freight movements rather than having a subsidised arrangement and what I'd say is the direct export assistance model put forward by the Tasmanian Exporters Group, of which we are a member as noted in our submission, it's not dissimilar and we believe that the role of government in this particular circumstance, given that you could very well argue there's some failures in the market, is potentially to introduce some disruptive but positive change and some alternatives and the direct export and import assistance package is a real way of introducing some alternatives and it was very pleasing to see that the minister today has announced some work with Swire.

I note that that wasn't actually an initiative of the Freight Logistics Coordination Team, it was actually an initiative that was taken to the minister in December 2012 by the Tasmanian Exporters Group. So whether it's Swire or whether it's another shipper, the work that particularly Bob Gozzi has done with the Tas Exporters Group shows there is demand and there is volume that could start a service off and just for your knowledge, I believe that Swire will be presenting on Monday in Canberra and they do actually have some different break-even scenarios that will be available.

That's about it for the moment. I'm happy to take any questions but actually one other point I will make is you mentioned some port infrastructure before. Once again without wanting to sound parochial, we've been struggling in this region with the future for Bell Bay, an industrial area. We believe it has a strong future as the state's largest industrial area and with significant amounts of vacant land and existing shipping infrastructure, logistics infrastructure. I wouldn't hold your breath for the Tasport strategy. They've been perpetuating a one-port, three locations strategy for some time and in fact we requested that strategy back in December 12. It's not there, I doubt it's there and I know this isn't about getting on high horses but we desperately need a clearly articulated, meaningful and purposeful port strategy if we are ever to get any private investment, any more private investment in the state import infrastructure.

Three locations across the north, all ports with some various different levels of constraint, be it manoeuvrability or draft or whatever, but that is something that the federal government can have a positive impact on and, Commissioner, I noted that you rightly pointed out that the influence will be when it comes time to talk about funding and that is a positive area that the federal government can have some impact.

MS CHESTER: Thank you very much for those opening remarks and feedback on our draft report and we do appreciate the submission that you provided to the Commission. Just a couple of follow-up points if I may.

MR LE MARCHANT (NTD): Sure.

MS CHESTER: You mentioned this MMC report and we have heard about that from other inquiry participants but we haven't yet seen a copy of it.

MR LE MARCHANT (NTD): Okay.

MS CHESTER: So if you could avail us of one that would be very much appreciated.

MR LE MARCHANT (NTD): Yes, indeed.

MS CHESTER: Also just wanting to know given you're also involved in the FLCT work, was the MMC report an input to that report process?

MR LE MARCHANT (NTD): It was indeed. Yes, we've supplied that submission a couple of times to the Department of Infrastructure, Energy and Resources; one when it was completed in 2012 and it was also noted in the FLCT report.

MS CHESTER: Okay. But am I right in saying that there's a disparity in what's in the FLCT report in terms of the outlook for export growth for Tasmania versus what's in the MMC report?

MR LE MARCHANT (NTD): Correct.

MS CHESTER: Why is that? Obviously you've been persuaded by the analysis and logic in the MMC report but the FLCT were not?

MR LE MARCHANT (NTD): It depends on which model and which assumptions you're using to cast your mind out that far. The economist that did our report thought it was - you know, they looked at trend data, they looked at what else was happening; they presumed it was, you know, and they also provided a couple of scenarios; but I think the point to be made is the down side of underestimating capacity is much greater than slightly overestimating capacity and that's the difficulty we find ourselves in. If you get it wrong on a constrained side we find similar to what we're finding now, we have periods where competition is scant or non-existent, we have price pressures, we have people with more power than others and able to influence the market.

So the market isn't necessarily deciding; the market is not hungry, the market is well fed and it seems to be determining it. It's odd when you've got intermediaries really dictating the terms to the broader trade flows in Tasmania. But in the MMC report they've got their assumptions in there and they are assumptions based on the facts they had at the time. We actually found it very, very difficult to get trade data out of Tasports at the time but I understand the FLCT they had access to more information and they've made their own decisions and conclusions.

MS CHESTER: Okay, thank you. You also made reference to one of the anomalies of the scheme as it's currently designed is such that it could encourage the offshoring of minimal processing activities to get eligibility for the scheme. That would in part be addressed if the scheme were extended to exports transshipped through the Port of Melbourne, albeit we don't know if that's going to be a final recommendation or adopted by government or whether it would make sense if there is a return of an international shipping service, but do you have any actual evidence or examples of that that you're aware of that you would be able to provide to us?

MR LE MARCHANT (NTD): Yes, I do. I'm just wanting to add that from the Tasmanian Exporters Group, Cuthbertson Bros have done the sums that if they offshored some of their processing to Victoria what the difference would be on their bottom line, and they've thought long and hard about their business and their manufacturing, they process hides, and that information is available and we can also supply that.

MS CHESTER: So that's an example of Cuthbertsons having looked at the commercial merit of retaining their operations completely in Tasmania and which is where I understand they have them now, and offshoring into Victoria. I guess the issue that we were looking for evidence on more immediately and we are aware of that issue from Cuthbertsons' perspective, they have provided us with a submission and they also did appear in our public hearing, I think yesterday, of evidence of businesses today transferring processing or minimal processing to Victoria, or Melbourne in particular, to get eligibility for the TFES scheme which they wouldn't otherwise be eligible for the exports.

MR LE MARCHANT (NTD): No, I don't have an example of somebody chasing the subsidy. That would be a business decision and probably not very wisely made, but I think it's the underlying incentive and these things, as economics tends to, it's in the margin and it's the influence on decisions I think that we're seeing. What is the impact of that scheme? Do we really know, do we really know what the other alternatives are and what the outlook for Tassie would be and I don't think we need too many more reviews about the TFES to say that it's not doing what it's designed to do.

MS CHESTER: Just one final question because I'm conscious of time.

MR LE MARCHANT (NTD): Yes, sure.

MS CHESTER: You referenced some break-even scenario analysis that had been conducted by Swire and we will have some follow-up discussions with them but you've obviously been privy to those as part of your involvement in the Tasmanian Exporters Group, is that right?

MR LE MARCHANT (NTD): Yes.

MS CHESTER: From your knowledge of that break-even scenario analysis, what sort of volumes did they feel were required to have sort of an ongoing sustainable, commercially viable international shipping service from one port in northern Tasmania?

MR LE MARCHANT (NTD): I can't recall. But what they did do and maybe that's a question for Steve Clark but I know they put a number of different scenarios

to the government. It was based on different cycles, 18 days, 21 days, and I think there was a more regular cycle as well. All of them involved a different level of support in transition, and that is essential. I also understand there has been shipping lines canvassing exporters potentially with offerings that wouldn't require support, but there is a time lag that if we really wanted something to happen, there's probably a transitional package that needs to work its way through our legacy contract, but no, I couldn't tell you.

MS CHESTER: That's fine, we will take it up with Swire. I'm just interested to know, in terms of those scenarios that were being looked at by Swire when they were doing their commercial analysis, were they all premised on no changes to coastal shipping regulatory arrangements?

MR LE MARCHANT (NTD): No, they weren't part of the model and I have actually had a conversation with Steve Clark and said what impact would it have, and he has very clearly said it would be a positive impact rather than a negative impact, and that's something that we have noted in our submission that we support, and I think Tasmania in particular, with our reliance on shipping, needs no other impediments to our trade flows, and the coastal shipping reforms, by the looks of it, are going to be pushed quite hard, and I note that the vast majority of people supported that.

MS CHESTER: Okay. Just so I understand what you just said, so Swire do have a view on what the impact of coastal shipping reform might have on their costs of operating around the Australian coast, and they do have that view and they have done some analysis around it, but it was in part a break-even scenario analysis, but they would have a view on it?

MR LE MARCHANT (NTD): Yes, correct. I mean, the break-evens when I was - and a lot of the micro detail were weren't privy to, because it was really - at that stage Swire were looking for, they were gathering letters of intent, so with every other letter of intent they got it changed where they sat and what the support package might have been. That was also roughly 12 months ago that we were talking with Swire about that, the conversations I was involved with; so I think it's one to take up with Steve Clark. As I said, informally I had a chat with him and I said would it make a difference and his answer was an unequivocal yes.

MS CHESTER: Okay, thank you. That's very helpful. We didn't have any other questions for you this afternoon, but are there any other closing remarks you would like to make?

MR LE MARCHANT (NTD): No, only that a lot of the changes and a lot of the proposals that we put forward would have an impact on competition. It's a tricky thing, I think, for Tasmania is the balancing of scale efficiencies and competition.

We can't always hope for vast quantities, and we have heard a number of times that it's a quantities game. Yes, it is, but it's also about competition, and the coastal shipping reforms may be bypassing our dear friends at Melbourne port. Maybe having some genuine competition in terms of pricing and fees and cost structures, it's all heading in a direction where we can have the optimal amount of competition with what otherwise might be a small market in the freight perspective.

MS CHESTER: Thank you, and we agree with that. Thank you again for attending this afternoon and presenting, and for our submission and interest in our inquiry process.

MR LE MARCHANT (NTD): You're welcome.

MS CHESTER: Ladies and gentlemen, that closes our official proceedings this afternoon and given, I think, everybody here has been able to speak, I don't think I need to open up for any other presenters from the audience. So on that note I will close our public hearings in Launceston and we will resume our public hearings around 10 am I think in Canberra. Thank you very much.

AT 4.15 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 10 FEBRUARY 2014