



Australian Government

Austrade

13 December 2013

Ms Melissa Edwards  
Tasmanian Shipping Inquiry  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601

Dear Ms Edwards

### TASMANIAN SHIPPING AND FREIGHT

Austrade welcomes the opportunity to provide a submission to the Productivity Commission's inquiry into the current arrangements for supporting freight and passenger services between the mainland and Tasmania.

As part of the national long-term tourism strategy, *Tourism 2020*, the Australian Government is committed to working with states and territories and industry to double overnight visitor expenditure to between \$115 billion and \$140 billion by 2020. Improving tourism access and ensuring the transport environment supports growth is a key part of this agenda.

In this context, Austrade's submission to the Productivity Commission's inquiry, which I have enclosed, highlights:

1. The importance of drive tourism and tourism more broadly to the Tasmanian economy;
2. The impact of the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) on the tourism industry;
3. The potential for the BSPVES to be restructured to create a more competitive tourism industry.
4. The negative impact of the Coastal Trading Act on Tasmania's competitiveness as an expedition cruise destination.

Should you have any questions or queries about Austrade's submission, please contact Nicholas Dowie, the Assistant General Manager of the Tourism Policy Branch

Yours Sincerely

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## **Austrade's Submission to the Productivity Commission's Inquiry into Tasmanian Shipping and Freight**

Austrade welcomes the opportunity to provide a submission to the Productivity Commission's inquiry into the current arrangements for supporting freight and passenger services between the mainland and Tasmania.

Austrade is an executive agency of the Australian Government with responsibility for developing international markets, winning productive foreign direct investment and promoting international education. Following the recent Machinery of Government changes that followed the federal election, Austrade is now the Australian Government agency responsible for tourism policy, programs and research.

Austrade is responsible for leading the Australian Government's implementation of the national long-term tourism strategy, *Tourism 2020*, which seeks to double overnight visitor expenditure to between \$115 billion and \$140 billion by 2020. A key pillar of *Tourism 2020* is ensuring the tourism transport environment supports growth and that policies and regulations facilitate rather than frustrate tourism access.

The Productivity Commission's inquiry into Tasmanian Shipping and Freight is relevant to *Tourism 2020*, because it examines

- the effectiveness of the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) in the context of shipping passenger numbers; and
- factors prohibiting the provision of shipping services to Tasmania.

These issues impact on the competitiveness of the Australian tourism industry because they affect tourists' capacity to access Tasmania's unique cultural and natural attractions, which for many tourists can be a factor in choosing to visit Australia.

### Drive Tourism and the Tasmanian Economy

The tourism sector is a large component of the Australian economy. Tourism consumption was worth \$107 billion in 2011-12 and tourism was Australia's largest service export, earning \$26 billion in export income. The tourism industry also directly employs more than half a million Australians.<sup>1</sup>

The tourism industry is even more important to the Tasmanian economy, with tourism consumption contributing \$2.3 billion or 9.3 per cent to Gross State Product (GSP).<sup>2</sup> The significance of tourism to Tasmania's regions is even greater. Data from Tourism Research Australia shows that the Tasmanian West Coast and Tasmanian East Coast were two of the most tourism dependent regions in the country. Tourism made up 16.2 per cent of the West Coast's economy and 14.6 per cent of the East Coast's economy.<sup>3</sup>

The Tasmanian tourism industry is disproportionately reliant on drive tourism because tourists have less intermodal transport options in Tasmania compared with the mainland. Tasmania does not have any commercial rail services, and intra-state aviation services are limited. While major town centres have regular bus services, consumers can find these services irregular and not offering these same convenience as drive tourism.

Out of necessity, private road vehicles are the dominant tourism transport mode. According to Tourism Tasmania, in 2012-13, 91 per cent of all visitors used their own road vehicle, a rental vehicle, or a friend's or relative's vehicle, as their main form of transport in Tasmania.<sup>4</sup>

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<sup>1</sup> Australian Bureau of Statistics, *Tourism Satellite Account 5249.0*, 2011-12

<sup>2</sup> Tourism Research Australia, *State Tourism Satellite Accounts 2011-12*, p.39

<sup>3</sup> Tourism Research Australia, *The Economic Importance of Tourism in Australia's Regions*, 2011

<sup>4</sup> Tourism Tasmania, *Tasmanian Visitor Survey*, 2013

Given the size of the state's economy and the significant contribution tourism makes to Tasmanian economic output, even small changes in visitation and expenditure can have a significant impact on Tasmanian communities and businesses.

### The Impact of the BSPVES on the Tourism Industry

The combination of these two characteristics – a high dependence on private road vehicles for tourism dispersal, and a high economic dependence on tourism – means that any changes to the BSPVES that result in changes to overall car usage have the potential to impact significantly on the Tasmanian economy and the communities of which it is comprised.

The BSPVES aims to reduce the cost of sea travel to Tasmania and does so by providing a rebate to cover part of the costs of transporting private vehicles, including campervans, motorcycles and bicycles to Tasmania. The BSPVES's stated objective is to increase demand for travel across Bass Strait, with direct benefits to the tourism industry and potential growth in jobs, investment and population for Tasmania.

Since being introduced in September 1996, the scheme has helped to significantly increase the number of visitors to Tasmania travelling with their own vehicles. In 1995-96, the year before the scheme was introduced, 63,000 vehicles were taken across the Bass Strait. In 2012-13, this number has grown to 151,901. However, over the last five years, uptake has fallen by 22.6 per cent.<sup>5</sup>

The Bureau of Infrastructure, Transport and Regional Economics (BITRE) estimates that around 15,000 new leisure visitors travelled by sea to Tasmania in 2010–11 as a result of the BSPVES. These additional visitors spent an estimated \$36 million in 2010–11.

However, the tourism benefits of the BSPVES are likely to go beyond those identified by the BITRE. In particular, the BITRE evaluation did not assess the impact of the BSPVES on:

- business tourism, tourists visiting to see family and/or relatives or other non-leisure tourism;
- inducing Tasmanians to travel to Melbourne by sea (ie the impact of the BSPVES on the Victorian tourism industry); and
- Tasmanian hire car prices.

These features of the BITRE evaluation mean that is likely to have significantly underestimated the benefit of the BSPVES to the tourism industry.

#### *Impact of the BSPVES on non-leisure Tourism*

The BITRE's focus on leisure tourism reflects a narrow definition of tourism that is not consistent with that used by the Australian Government or international organisations such as the United Nations World Tourism Organisation, the Organisation for Economic Cooperation and Development or the European Union. The more conventional and internationally accepted definition of tourist is "a traveller taking a trip to a main destination outside his/her usual environment, for less than a year, for any purpose...other than to be employed by a resident entity in the country or place visited."<sup>6</sup> This definition captures visitors who travel for business and to visit family and/or friends (VFR) and other purposes that go beyond the leisure category that BITRE's evaluation captures.

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<sup>5</sup> Bureau of Infrastructure, Transport and Regional Economics, *Bass Strait Passenger Vehicle Equalisation Scheme Monitoring Report, Number 13*, 2012

<sup>6</sup> United Nations Statistics Division World Tourism Organisation, *International Recommendations for Tourism Statistics*, 2008

Data from Tourism Tasmania shows that only 40 per cent of all visitors to Tasmania visit for leisure purposes,<sup>7</sup> demonstrating that BITRE's evaluation potentially captures less than half of the population induced to travel to Tasmania by the BITRE.

While business and VFR travellers are sometimes thought to be less discretionary in their travel patterns (they do not choose the location of where their business or friends and family are located) and therefore less likely to be responsive to an initiative like the BSPVES, a subsidy can induce additional travel demand for these travellers. This is because the cost of travel to the location of their business interests or their family and friends can be a determining factor in whether or not the travel is undertaken. For these travellers the choice the BSPVES is influencing is not whether to travel to Tasmania in comparison to another destination, but in some cases whether to travel to Tasmania at all.

**Recommendation 1 – That the BITRE broaden its definition of tourist to be consistent with that conventionally used by the Australian Government in conducting future evaluations of the BSPVES.**

Assuming the BSPVES induces a similar ratio of business and VFR travellers as leisure travellers, Austrade suggests that a reasonable upper bound estimate of the total number of travellers induced by the scheme is 37,500. Similarly, assuming the same average expenditure for these travellers as leisure travellers, Austrade suggests that a reasonable upper bound estimate of total induced tourism spend is \$90 million a year.

While these assumptions need to be further tested, Austrade considers that to properly address its terms of reference that the Productivity Commission should attempt to estimate the impact of the BSPVES of all travellers and not just leisure travellers.

**Recommendation 2 – That the Productivity Commission estimate the impact of the BSPVES on total travellers and not just leisure travellers for the purposes of addressing the terms of reference of this inquiry.**

#### *Impact of the BSPVES on the Victorian Tourism Industry*

The stated objective of the BSPVES is to increase the level of travel to Tasmania by sea. Nevertheless, the subsidy the BSPVES provides reduces the cost of Tasmanians travelling with a vehicle to Victoria and in doing so provides a financial incentive for Tasmanians to travel to Victoria. Because growing the Victorian tourism industry is not one of the BSPVES's stated objectives, its impact on the Victorian tourism industry is not assessed by the BITRE.

Despite not being one of the BSPVES' stated objectives, assessing the impact of the BSPVES on the Victorian tourism industry is relevant to the Productivity Commission's inquiry because it helps to assess the broader economic impact of the Australian Government's intervention.

Data from Tourism Victoria shows that in the year ending 30 September 2013, there were 381,000 overnight visits to Victoria from Tasmanians.<sup>8</sup> Austrade is not aware of how many of these visits were made by sea. Therefore it is not possible to apply BITRE's assumptions about the impact of the BSPVES on travel to Tasmania to estimate its impact on travel to Victoria.

In the absence of any empirical evidence assessing the impact of the BSPVES on travel to Victoria it is difficult to conclusively state what impact it has had. Nevertheless, just as the presence of the BSPVES has induced additional travel to Tasmania, it has likely to have induced additional travel to Victoria. Because of the significantly smaller size of the Tasmanian market, the BSPVES is likely to have induced a smaller number of new passengers to travel to Victoria and generated a smaller financial impact on the Victorian tourism industry than what it has for Tasmania. But the impact of the BSPVES on the Victorian tourism industry is still likely to be positive.

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<sup>7</sup> Tourism Tasmania, *Tasmanian Tourism Snapshot for year ending July 2013*

<sup>8</sup> Tourism Victoria, *Domestic Visitor Estimates to Victoria by Origin, Year Ending September 2013*

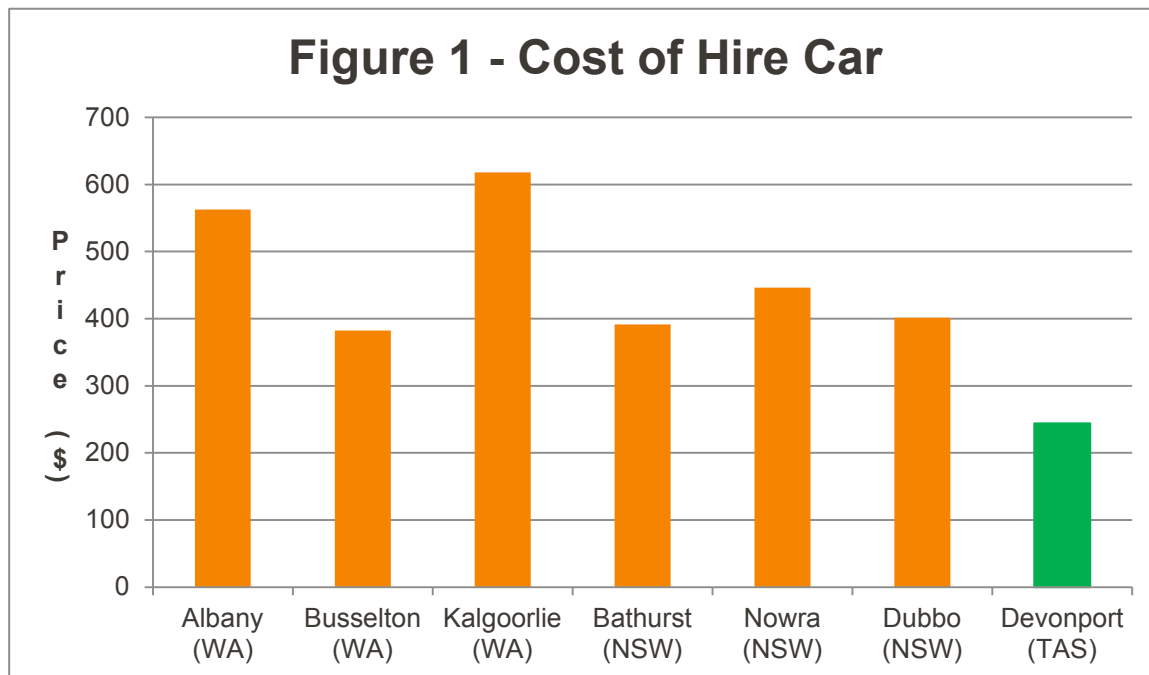
**Recommendation 3 – That the Productivity Commission estimate the impact of the BSPVES on the Victorian Tourism industry for the purposes of addressing the terms of reference of this inquiry.**

### *Impact of the BSPVES on Hire Car Prices*

The subsidy provided by the BSPVES reduces the cost of travelling with a vehicle across the Bass Strait by sea. Consequently, it is likely that the Scheme also puts downwards pressure on hire cars in Tasmania, as hire car companies have to compete with travellers bringing their own vehicles from the mainland. This is likely to have delivered consumer benefits and made it more affordable for tourists to access regional Tasmanian tourist attractions.

The pricing of hire cars is determined by a number of factors including demand, the level of competition, the costs associated with returning the vehicle from where it was originally hired and the disposable income of consumers. Consequently, it would not be helpful to compare the prices of hire cars in a small regional city with those present in larger capital cities.

In order to provide an accurate comparison, Austrade compared hire care prices in Devonport (where the Spirit of Tasmania arrives and departs) with a number of other similar sized regional Australian cities. As figure 1 illustrates, hiring a car from Devonport is between a third to two and an half times cheaper than six other similar sized Australian regional cities who do not have to compete with a BSPVES type subsidy that makes self-drive tourism more affordable.<sup>9</sup>



These findings are consistent for other Tasmanian cities. The price differential for hiring a car in these cities is negligible.<sup>10</sup>

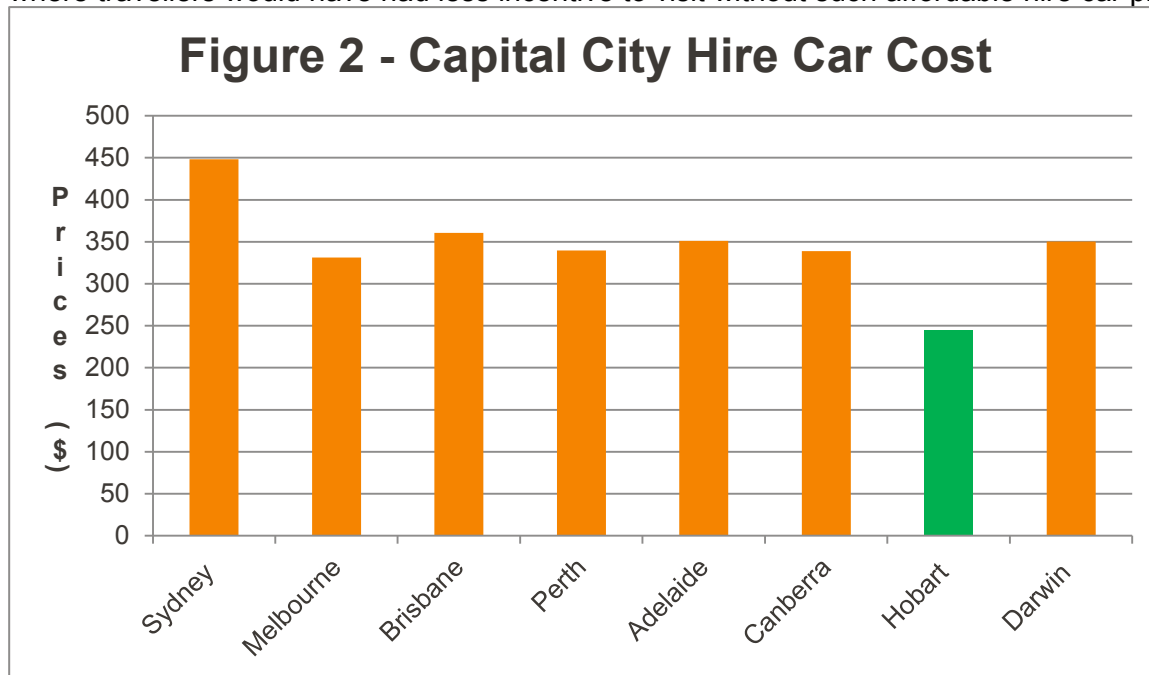
Figure 2 shows that hire care prices in Tasmania are significantly less than those in mainland capital cities. In fact figure 2 shows that there is a degree of pricing parity between most capital cities, with the significant exception of Hobart.

It is not clear why hire car process in Tasmania are significantly lower than the rest of the country. However, Austrade notes the BSPVES is likely to exert downward price pressures on hire cars and result in lower prices than would otherwise be the case. This is likely to be an unintended consequence of the BSPVES. This feature is likely to deliver benefits to Tasmanian consumers and visitors which is likely to result in higher tourist expenditure, particularly in regional areas

<sup>9</sup> Data is based on the cost of hiring a 'compact' sized car for eight days in June 2014 based on prices quoted by car hire companies that operate nationally

<sup>10</sup> The difference in hiring a compact sized care for eight days in June 2014 was just \$2.19.

where travellers would have had less incentive to visit without such affordable hire car prices.



Given one of the BSPVES's objective is around benefiting the Tasmanian tourism industry, then assessing its impact on hire car prices and the relationship this has on the broader Tasmanian tourism industry is relevant to this inquiry.

**Recommendation 4 – That the Productivity Commission assess the impact of the BSPVES on hire car prices and the flow on effect this has on the Tasmanian tourism industry.**

Possible Changes to the BSPVES to Create a More Competitive Australian Tourism Industry

On a simple level, the BSPVES does achieve its stated objectives of making travel with a vehicle across Bass Strait more affordable, and increase demand for travel to Tasmania. BITRE's analysis shows that the Australian Government's investment of \$36.8 million in 2010-11 induced an additional 15,000 visitors and \$36 million in expenditure in 2010-11, the Australian Government spent \$36.8 million. This equates to a return of approximately 98 cents for every dollar spent by the BSPVES. Alternatively, BITRE's analysis shows that the BSPVES directly costs the Australian Government \$2,450 for each new traveller it induces to visit Tasmania.

However, as discussed above BITRE's estimate should be considered conservative because it does not take into account the impact of the BSPVES on

- inducing non-leisure travellers,
- inducing additional travel and expenditure to Victoria
- the broader industry supply chain and the flow on effect this has on the Tasmanian tourist industry

Using some of the upper bound estimates suggested by Austrade then the level of induced expenditure is around \$90 million, suggesting a rate of return \$2.45 for every dollar invested in the BSPVES. Using these figures suggests the BSPVES directly costs the Australian Government \$1,020 for each new traveller it induces to visit Tasmania.

However, as noted above, the broader benefits associated with each dollar spent under the BSPVES will be not be known until consideration is made to how its impacts on travel to Victoria and Tasmanian hire car prices and any flow on effect this may have on tourist expenditure in Tasmania.

Leaving aside these significant data gaps, Austrade considers that consideration should be given to how the BSPVES could more effectively and efficiently achieve its stated objectives. The BSPVES directly costs taxpayers between \$1020 and \$2450 for every passenger it induces to

travel to Tasmania. The Productivity Commission's inquiry is an opportunity to consider how the BSPVES could encourage more people to travel to Tasmania more efficiently. This is particularly important given the Government's commitment to retain the BSPVES.

The BSPVES has been in place for almost two decades. The transport market has evolved significantly during this time. Consumers are travelling more and the entry of low cost carriers to the Australian aviation market has made travelling more affordable and accessible. It has also meant that travelling to Tasmania by air has become much cheaper compared to travelling to Tasmania by sea. In this environment the BSPVES's appeal to consumers is likely to have diminished.

In this context the Productivity Commission should consider how the BSPVES could be made more appealing to travellers. Similarly, the Productivity Commission should also consider how the BSPVES could attract more high yielding tourists to ensure it delivers a greater return on taxpayers' investment in the subsidy. Doing so will assist to achieve the Australian Government's *Tourism 2020* objectives and maximise the benefit to the Tasmanian economy.

**Recommendation 5 – That the Productivity Commission consider how the BSPVES could be made more appealing to tourists and how it could encourage more tourism spend in Tasmania to increase the BSPVE's effectiveness and efficiency.**

#### Impact of the *Coastal Trading Act* on Bass Strait cruise shipping costs

The *Coastal Trading Act* (the Act) is currently having a negative impact on expedition cruise shipping costs, acting as a barrier to foreign flagged operators wishing to include Tasmania on domestic itineraries that commence from another Australian port.

Foreign flagged vessels under 5,000 gross tonnes, (smaller vessels offering luxury product to high yielding tourists) cannot operate domestic cruise services without a temporary licence. This regulation is a key barrier to expedition cruise operators commencing services to Tasmania, is imposing opportunity costs on Tasmania's tourism industry, and is limiting tourism expenditure in the state.

Advice from foreign-flagged operators is that temporary licences are not attractive because they do not provide long term certainty and can only be obtained through a cumbersome application process that is not well understood. Operators also assert the licence assessment process is unfairly weighted towards locally flagged operators.

The expedition cruise sector, as opposed to the mass-style cruise sector, consists of smaller operators running smaller vessels, offering niche and high quality tourism product, and attracting high yield tourists. An example of the expedition cruise sector's high-yield potential can be seen in the "Art of Arnhem Land" itinerary run by Orion Expedition Cruises (OEC) in cooperation with the Art Gallery of New South Wales. Discussions with OEC representatives have suggested that it was not uncommon for the 10 day itinerary to generate up to half a million dollars in cruise passenger expenditure. Given the state's small economy and high dependence on tourism, this high-yield tourism product has the potential to bring significant benefits to Tasmania.

Further to tourism expenditure, Austrade estimates that vessels operating expedition cruise services have the potential to add \$370,000 in port expenditure on ancillary goods and services per port turnaround.

OEC, now known as Lindlad, has flagged an interest in operating itineraries that take passengers along the Tasmanian coast, visit remote coastal communities, and complete turnarounds in Tasmanian ports. However, at present Lindblad does not offer itineraries including Tasmania, citing licencing difficulties and increased operating costs caused by the Act.

As there are only three locally flagged operators providing limited expedition cruise services, the Act is restraining demand for expedition cruise services, reducing tourism expenditure and preventing coastal communities in Tasmania from fully leveraging the economic returns from Tasmania's unique natural, cultural, and culinary attractions.

Liberalising the current coastal trading regulations would allow for growth in the expedition cruise sector across the Bass Strait. Increased services to Tasmania by expedition cruise operators would drive demand for tourism across the Bass Strait, particularly among high-yield tourists.

Granting expedition cruise ships weighing between 500 and 5,000 gross tonnes the same freedom to operate as larger cruise vessels will increase tourism expenditure, deliver economic benefits across Tasmania, and help the Australian Government achieve its broader policy objectives.

Austrade suggests the Productivity Commission include the impact of the Coastal Trading Act when examining Bass Strait shipping costs and competition.

**Recommendation 6 – That the Productivity Commission consider the merits of liberalising the Coastal Trading Act and reducing the threshold requiring a temporary licence from 5000 gross tonnes to 500 gross tonnes.**