



The tourism industry's submission to the

**Productivity Commission inquiry into Tasmania's shipping costs and the competitiveness of Tasmania's freight industry.**

Prepared by,

**Tourism Industry Council Tasmania (TICT),**

**Tourism & Transport Forum (TTF),**

**Cradle Coast Tourism Executive (CCTA)**

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Luke Martin (Primary contact)  
Chief Executive Officer  
Tourism Industry Council Tasmania  
[luke.martin@tict.com.au](mailto:luke.martin@tict.com.au)

Ken Morrison  
Chief Executive Officer  
Tourism Transport Forum  
[kmorrison@ttf.org.au](mailto:kmorrison@ttf.org.au)

Rod Stendrup  
Chairman  
Cradle Coast Tourism  
[rrstendrup@bigpond.com](mailto:rrstendrup@bigpond.com)

## Summary

- Visitors arriving to Tasmania by sea with their own vehicle, on average stay longer, spend more while they are in the State, and disperse further through regional destinations.
- The Australian Government has an indisputable responsibility to address the inherent disadvantage created by Bass Strait for Tasmanians travelling to other parts of the Federation with their own vehicle, and, in turn, for Australians from other parts of the Commonwealth to travel to Tasmania.
- The Tasmanian Government has historically assumed a major part of this responsibility from the Australian Government through the acquisition and maintenance of the vessel infrastructure providing passage across Bass Strait.
- Australian Government assistance through the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) was established on the principle of reducing the cost of bringing a passenger vehicle Tasmania by sea to the comparable cost of driving the same distance on the national highway network.
- The BSPVES has been critical in the growth of regional tourism in Tasmania over the past two decades, and remains a vitally important strategy to ensure Tasmania remains an affordable destination for Australian holiday makers.
- The BSPVES has been proven to be a highly effective and fair model for distributing Australian Government support aimed at reducing the disadvantage of Bass Strait.
- Evidence suggests the BSPVES has lost its relative value over the past 17 years and is today worth significantly less per vehicle than when it was established.
- Restoring the relative value of the BSPVES will have a significant positive impact on the Tasmanian economy, by reducing the cost of passage to Tasmania for an average passenger vehicle by \$160 for a return trip. This is likely to have immense benefits for the Tasmanian economy and restore the equity principle on which the scheme was established.
- The BSPVES should be either legislated or the Australian Government should establish a long-term grant deed to depoliticise the arrangements, and provide long-term certainty to service carriers, the Tasmanian tourism industry and broader community.

## About us

Tourism Industry Council Tasmania, Tourism & Transport Forum and Cradle Coast Tourism Executive collectively represent the Tasmanian & Australian tourism industries at a national, state and regional level.

Tasmania is Australia's most tourism-dependent state with tourism generating 7.5% of Tasmania's Gross State Product – the highest rate of any State or Territory – while generating direct and indirect employment for 35,000 Tasmanians<sup>i</sup>.

Tasmania's tourism industry is regionally structured; with 58% of tourism operators located outside the capital city of Hobart<sup>ii</sup>. The West Coast of Tasmania is Australia's fifth most tourism dependent regional economy, the East Coast of Tasmania is sixth<sup>iii</sup>.

**Tourism Industry Council Tasmania (TICT)** is the peak industry organisation for the Tasmanian tourism industry, bringing together the many industry sectors that together generate tourism in Tasmania, including accommodation and hospitality operators, transport and tour operators, attractions and experience operators, regional tourism organisations and industry associations. TICT is an industry funded organisation governed by a Council of industry representatives.

**Tourism & Transport Forum (TTF)** is the peak industry group for the Australian tourism, transport, aviation and investment sectors. A national, member-funded CEO forum, TTF advocates the public policy interests of 200 leading corporations and institutions in these sectors.

**Cradle Coast Tourism Executive (CCTE)** acts as the regional tourism organisation for the Cradle Coast region incorporating the north-west and west coast of Tasmania. CCTE is supported in its activities through the Cradle Coast Authority, a regional development organisation established by the 13 Councils of the Cradle Coast region, along with Tourism Tasmania and industry.

The three organisations will be henceforth referred to as ‘the tourism industry’ through this submission.

### Response to Terms of Reference

The tourism industry welcomes the opportunity to contribute to this Productivity Commission inquiry into Tasmania's shipping costs and the competitiveness of Tasmania's freight industry.

The tourism industry's interests specifically refer to paragraph 4 sections c, d & e of the Inquiry Terms of Reference:

*4.) Assess the merits and weaknesses of the current arrangements for supporting freight and passenger services between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.*

*c.) quantify any cost disadvantages for passengers travelling to Tasmania who are currently eligible for support through the Bass Strait Passenger Vehicle Equalisation Scheme;*

*d.) assess the effectiveness of the current schemes as a mechanism for addressing cost disadvantages, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements; and*

*e.) identify any alternative mechanisms that could more effectively address cost disadvantages, including assessing the full economic costs and benefits of any alternative mechanism.*

While much of the political and media context around this inquiry has been focused on the economic challenges impacting on Tasmania's freight logistics, the terms of reference do include a specific focus on passenger access, and a review of all existing Commonwealth assistance and payments relating to Bass Strait transport.

We note the Commission has not been asked to review the current and long-standing policy of both the Australian and Tasmanian Governments to support Bass Strait transport, through direct public capital infrastructure investment by the Tasmanian Government, and the Australian Government's provision for equalisation measures to compensate for the inherent disadvantage of Bass Strait. The responsibility of both the Australian & Tasmanian Governments to support affordable and accessible passenger and freight movements across Bass Strait is not in dispute. The Australian Government has made clear in its public statements relating to this inquiry – and prior to its election in September 2013 – that it acknowledges and supports its responsibilities relating to Bass Strait and it is looking to enhance the effectiveness of its support, not reduce its support<sup>iv</sup>.

The tourism industry notes this review has been commissioned by the Australian Government, with reportedly no direct input into the Terms of Reference by the Tasmanian Government. The recommendations from this inquiry could, however, potentially have significant ramifications for the Tasmanian Government's response to Bass Strait. We urge the commission to be mindful through its inquiry of the unique and long-standing public policy arrangements relating to Bass Strait established by the Tasmanian and Australian Governments, which are discussed further in our submission. Any conclusions or recommendations need to be considered within the context of the implications they will have on the structure of Bass Strait transport, particularly the viability of current service operators.

### **The importance of the BSPVES to Bass Strait Passenger Transport**

The Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) was established by the Howard Government in 1996 for the purpose of overcoming the disadvantage of Bass Strait for passenger vehicle movements to and from Tasmania, and to encourage growth in the Tasmanian tourism industry<sup>v</sup> as a major economic driver for the State.

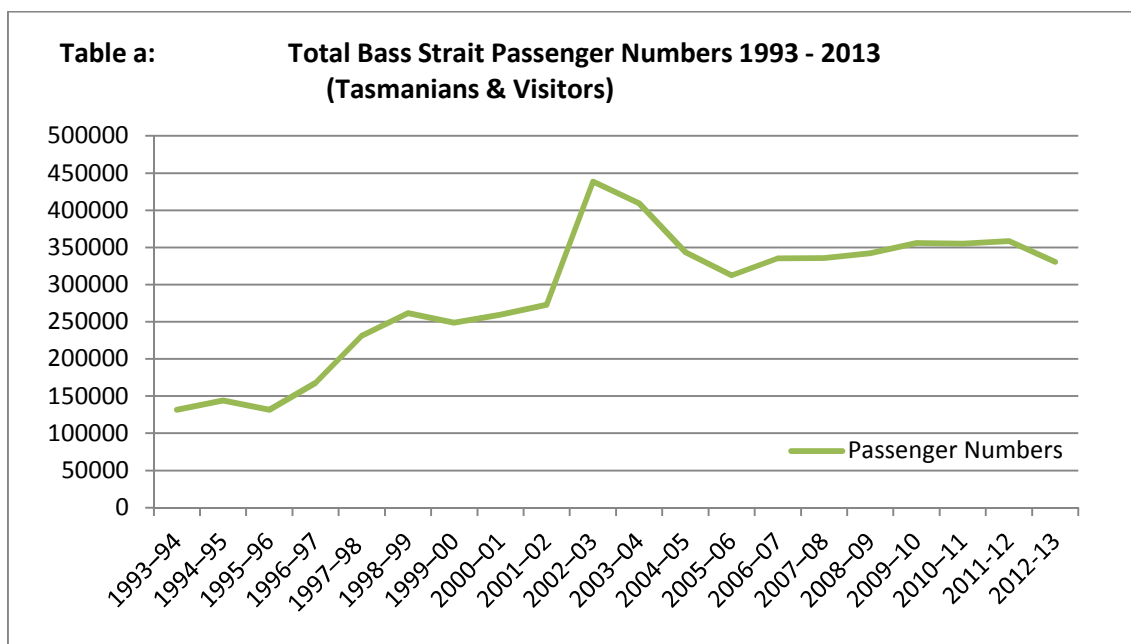
At the time of introduction, the Commonwealth Government stated that the purpose of the BSPVES was for Bass Strait *'to be treated as Tasmania's Sea Highway'*, with an undertaking *'to work with the Tasmanian Government to promote competitive and efficient daily vehicle and passenger services across Bass Strait'*<sup>vi</sup>. This was to be achieved through a per-vehicle rebate paid directly to vehicle owners through discounted fares on ships servicing Bass Strait. The BSPVES was originally set at the equivalent cost of an average vehicle travelling the equivalent distance of Bass Strait on the National Highway network.

The introduction of the BSPVES established a unique but highly effective public policy response by the Australian & Tasmanian Governments to significantly enhance passenger vehicle access to and from Tasmania over the past 17 years, with the Australian Government funding the BSPVES underpinning the Tasmanian Government's ongoing investment and support for vessel infrastructure providing high capacity daily vehicle and passenger services across Bass Strait.

These arrangements have generated significant and sustained growth in sea visitor arrivals to Tasmania over the period and a period of significant expansion in the Tasmanian tourism industry.

The introduction of the BSPVES in September 1996 triggered sustained growth in passenger crossings on Bass Strait from 150,000 annual passenger crossings per-annum in 1995-96, to around

350,000 annual crossings in 2012-13 - an average compound growth rate of sea passenger crossings over nearly 20 years of above 5% p.a.<sup>vii</sup>. This is a significant growth rate in the context of relatively low-population growth to Tasmania, while also occurring over a period when the Australian aviation industry has undergone a transformational restructure with the introduction of low-cost airlines, providing unprecedented consumer choice for transport to and from Tasmania.



This growth cannot solely be attributed to the BSPVES, but critically the Tasmanian Government’s significant investment in vessel infrastructure, initially through the Devil Cat in the late 90s, the introduction of Spirit of Tasmania I & II in 2002 and the short-term operation of Spirit of Tasmania III from 2003 – 05. These investments generated significant additional passenger and passenger vehicle capacity across Bass Strait.

The BSPVES has however proven over time to be a highly efficient and effective way of maintaining the affordability of passenger vehicle access across Bass Strait to generate sustained and growing demand to meet this additional infrastructure capacity.

**Value of BSPVES to the Tasmanian tourism industry and economy**

As a regional destination with key visitor points of interest dispersed at relatively significant distances across the State, the traditional touring market of leisure visitors who spend longer periods of time in the State and travel throughout the State in their own vehicle or rental car, remain critically important to industry.

The Tasmanian Visitor Survey (TVS) has shown since the introduction of the BSPVES in 1996, between 60% and 70% of all passenger arrivals into Tasmania each year by sea have been leisure visitors<sup>viii</sup>. The TVS also shows that consistently since the introduction of the BSPVES, visitors who have arrived into Tasmania by sea, with their own vehicle, stay longer, spend significantly more and disperse more widely through regional areas of Tasmania, than visitors who arrive by air.

The latest TVS (July 2013) shows that average length of stay by visitor to Tasmania by sea was 140% longer than visitors arriving by air (18 nights compared to 7.5 nights visitors who arrive by air) and that sea visitors on average spent 75% more while they were within the State (\$2,550 compared to \$1,450 by visitors arriving by air)<sup>ix</sup>.

The total value of direct visitor spending by leisure visitors arriving in Tasmania by sea in 2012-13 was around \$255 million.

A report undertaken by Deloitte Access Economics in March 2013 reported that the economic impact of every \$1 million visitor spending in Tasmania in 2013 was 12.46 FTE (Full Time Equivalent employment positions) in the Tasmanian economy, meaning total visitor spending by visitors arriving in Tasmania by sea in the 2012/13FY directly supported 3,200 FTE positions across the Tasmanian economy<sup>x</sup>.

Previous reviews of the BSPVES, including those undertaken by the Bureau of Infrastructure, Transport & Regional Economics through their regular monitoring reports, have argued down the overall economic contribution of the BSPVES on the Tasmanian tourism industry, by suggesting the BSPVES directly generates only a relatively small proportion of overall visitation to Tasmania, and many of these visitors would otherwise travel to Tasmania by other means (air) if the scheme was not in place.

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The tourism industry strongly believes this argument does not give sufficient weight to three critical facts:

- The BSPVES underpins the viability of the current high capacity on Bass Strait and its reduction and/or removal would significantly increase the cost of vehicle passage travel across Bass Strait, inevitably prompting large sections of the visitor market to consider other options to come to Tasmania. This will inevitable have significant ramifications on the viability of the service operator (TT Line), which would in-turn significantly impact upon other sectors of the economy such as freight exporters and Tasmanian residents, who rely upon the reliability and affordability of the current services.
- The expressed intent of the BSPVES was to overcome the disadvantage for all Australians wanting to travel across Bass Strait with their own vehicle; this extended to both Tasmanian residents and other Australians wishing to travel to Tasmania.
- Sea visitor numbers have grown, and the overall net return to the State of the BSPVES and the tourism industry has not diminished since the introduction of the BSPVES, despite the introduction of considerable low cost air capacity into the State over the same period, demonstrating an ongoing and clear demand by Australians to travel to Tasmania by sea with their own car.

The tourism industry believes the current mechanism of the BSPVES, paid by the Australian Government through a rebate paid to the operators per vehicle, that is then discounted off the fare, remains the most efficient and equitable model for delivering this assistance.

## Declining Relative Value of BSPVES

While strongly supporting the BSPVES model and its retention, the tourism industry does ask the Commission to investigate the relative value of the scheme today, compared to when it was introduced and the expressed policy intent of the scheme at the time it was established.

Unfortunately, as the BSPVES was not established under legislation in the Australian Parliament but through a ministerial direction by the government of the day, there is no second reading speech confirming the original intent of the scheme. However, statements by the Australian Government at the time of the introduction of the scheme and in the first Ministerial Direction establishing the scheme, demonstrate clearly the intent of the Government of the day in establishing the initiative.

In establishing the scheme in 1996, the Howard Government acknowledged the Australian Government had 'a special responsibility to achieve equality for Tasmanian in developing opportunities for their state', and recognised Bass Strait as 'Tasmania's Sea Highway... providing for the affordable movement of passengers and vehicles' between Tasmania and mainland Australia.

According to the original 1997 Bureau of Infrastructure, Transport and Regional Economics (BITRE) monitoring report into the BSPVES, the original rebate offered by the scheme was calculated on the basis of determining a net fare charged by a passenger vessel operator for an eligible passenger vehicle plus driver, travelling in standard share cabin accommodation, compared to the notional cost of driving an equivalent distance on the National Highway network.

An 'Equivalent Highway Cost' was based upon the sea distance of 427 kilometres between the ports of Devonport and Melbourne multiplied by an estimated running cost for an average family saloon (a Holden Commodore Sedan) as determined by the NRMA. In 1996 this equated to **39.87** cents per kilometre. This provided an 'Equivalent Highway Cost' of \$170 for a one-way trip<sup>xi</sup>.

The BSPVES was originally capped at \$300 per return trip in peak seasonal travel times. According to the BITRE Report, in 1996 this represented 50% of total net cost passage on the Spirit of Tasmania including a standard sized vehicle and an internal standard cabin space for the driver. The relative value of the scheme for the passenger at that time was to bring the cost of vehicle passage across Bass Strait to \$0, with the traveller paying for their 'above deck' or vehicle passage.

The BSPVES was not indexed or increased for over 12 years, until 2008/09 when the Rudd Government introduced indexation. Evidence suggests the relative value of the scheme is now very different to when it was established, or the intent on which was established.

The current value of the BSPVES is a \$204 one-way. This no longer covers the full cost of vehicle transport across Bass Strait, with the operator (TT Line) charging an additional \$79 per standard vehicle each-way to cover the gap between the rebate and the actual cost of passage. This cost is passed directly onto the passenger through the fares<sup>xii</sup>.

If the BSPVES had been indexed and maintained using the same formula from which it was established in 1996 this 'gap' fee passed onto vehicle owner by the service operator would not need to apply.

According to the NRMA website, the current running cost for an average family saloon (a standard Holden Commodore Sedan) in 2013 is **79.43** cents per kilometre<sup>xiii</sup>, meaning total rebate today would be worth \$339.16 one-way - \$140 more one-way than the current value of the rebate.

Whereas the 'equivalent highway cost' has increased by 100% over 14 years, the BSPVES has only increased by 20%.

If indexation based on CPI had been applied to the scheme since its introduction and not just since 1998, the rebate today would be worth much more than it is - \$280 one-way. Again, a significant increase on the current value of the rebate, and the equivalent of the current 'gap' passed onto vehicle owners.

Either model supports the claim that the relative value of the scheme has declined significantly since it was originally introduced and the expressed intent of the government at the time the scheme was established to 'equate' the cost of a passenger vehicle across Bass Strait to driving the equivalent distance of the National Highway network.

This conclusion is supported by the BITRE reports that confirm the rebate now equates to just 22% of an average fare including 'above deck' and 'below deck' costs on the current operator.

Had the BSPVES been maintained over the past 17-years utilising either the original formula in which it was established, or CPI indexation, the rebate per-vehicle today would be worth significantly more, meaning for the passenger the average return trip across Bass Strait would potentially cost \$160 less.

### **Re-establishing the original intent of the BSPVES**

The tourism industry is confident restoring the relative value of the BSPVES to the level on which it was established would be a significant positive economic benefit for the State, particularly through increased tourism activity.

Reducing the cost of bringing your car to Tasmania by potentially \$160 return, and re-establishing a market proposition of bringing your car to Tasmania for free, would stimulate visitor interest in Tasmania, similar to the effect generated by the introduction of the original scheme in 1996.

Assuming an estimated additional net cost to the Australian Government of such an initiative – approximately \$12 million in 2012/13 – an additional net increase of 5,000 visitors to Tasmania per annum would be required to off-set the cost through equivalent visitor spending.

The tourism industry is confident in market research on the price elasticity of visiting Tasmania by sea will demonstrate that restoring the original value of the BSPVES will more than achieve this outcome of additional net visitors to the State.

Restoring the BSPVES will also be a significant benefit for Tasmanian residents in restoring the original equity intent of the scheme to make travel across Bass Strait the equivalent cost to travelling the same distance on the National Highway Network.



Restoring the relative value of the BSPVES will also benefit passengers with longer vehicles, caravans and/or other trailers, as the value of the rebate for longer vehicles and trailers will increase in accordance with the base rebate.

The Commission should also consider whether it is appropriate to recommend to the Australian Government that it establishes the BSPVES in legislation, or establishes a long-term grant deed with service operators, to establish greater certainty around the scheme and establish a clear formula for ensuring the scheme retains its relative value into the future.

The political structure of the scheme through a Ministerial Direction ensures there is always a sense of uncertainty within the Tasmanian tourism industry and community around the future of the scheme. It can also be concluded this is a major reason why the relative value of the scheme has declined over time.

### Conclusion

The current arrangements put in place by State and Commonwealth Governments to affordable and reliable Bass Strait passenger and passenger vehicle movements have been in place for nearly two decades and have demonstrated through this period to be a highly effective and efficient way to address the inherent disadvantage of Bass Strait.

The BSPVES ensures Tasmania remains a desirable and affordable destination for Australian holiday makers who wish to travel in their own car. This is a particularly lucrative and important visitor market for Tasmania as a decentralised state with a dispersed tourism industry. The BSPVES underpins the affordability and service offering of the current Bass Strait Passenger Vehicle service and any reduction in the scheme is likely to have significant consequences on the Tasmanian tourism industry and broader economy.

Despite this, it is clear the relative value of the BSPVES has declined significantly since it was established and no longer represents the principle on which it was established. This has reduced the relative affordability of Bass Strait Passenger Vehicle travel for both Tasmanians and visitors. The commission is encouraged to consider the merit of restoring the relative value of the BSPVES and re-establish the original intent of the scheme to equate the cost of vehicle travel across Bass Strait to that of travelling the same distance on the National Highway network.

The tourism industry also encourages the Productivity Commission to consider the merits of confirming the BSPVES in legislation, or recommend to the Australian Government that it enters into a long-term funding deed protecting the scheme and providing an agreed indexation mechanism.

The tourism industry looks forward to the opportunity to expand upon our submission at the forthcoming public hearings.

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<sup>i</sup> Tourism Research Australia 'Economic Contribution of Tourism' (2013)

<sup>ii</sup> Tourism Industry Council Tasmania Accredited Tourism Operators Database (2013)

<sup>iii</sup> Tourism Research Australia 'Contribution of tourism to regional Australia' (2011)

<sup>iv</sup> The Advocate 30 August 2013 'Whiteley looks at list'

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vi Bass Strait Passenger Vehicle Equalisation Scheme BTRE Monitoring Report No.1 1996–1997 (1997)

vii Bass Strait Passenger Vehicle Equalisation Scheme BTRE Monitoring Report No.13 2010-12 (2012) & TT Line Pty Ltd Annual Report 2012/13 (2013)

viii Tasmanian Visitor Survey ‘Sea Arrivals Year-on-Year’ available from Tourism Tasmania

ix Tasmanian Visitor Survey July 2013 available from Tourism Tasmania

x Deloitte Access Economics’ ‘Economic impact of tourism marketing expenditure in Tasmania’(2013) – available from Tourism Industry Council Tasmania

xi Bass Strait Passenger Vehicle Equalisation Scheme BTRE Monitoring Report No.1 1996–1997 (1997)

xii Information provided by TT Line Pty Ltd.

xiii Cost of operating a car per km (Holden Commodore standards family sedan) [www.nrma.com.au](http://www.nrma.com.au) December 17, 2013