



14 February 2014

Ms Karen Chester  
Commissioner  
Tasmanian Shipping and Freight Inquiry  
Productivity Commission  
GPO Box 1528  
CANBERRA CITY ACT 2601

Dear Ms Chester

### **RESPONSE TO DRAFT REPORT ON TASMANIAN SHIPPING AND FREIGHT**

The Australian Trade Commission (Austrade) welcomes the opportunity to provide a submission on the Productivity Commission's (the Commission's) draft report on Tasmanian shipping and freight.

Austrade contends that the Commission's draft report underplays the broader economic significance to Tasmania of the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES). Further, the report draws conclusions on the value of the BSPVES that are not supported by evidence.

Consequently, Austrade does not support draft recommendation 11, which suggests the Australian Government should examine alternative uses of the funds it spends on BSPVES to promote Tasmanian inbound tourism more effectively. Austrade notes the Australian Government has made a commitment to retain the BSPVES and the Commission's final report should focus on ways to increase the effectiveness and efficiency of the existing scheme.

Austrade notes the Commission's findings about the impact of current coastal shipping regulations and supports draft recommendation 1, which is for the Australian Government to review current coastal shipping regulations.

Further information about the draft report's findings and their implications for Australia's tourism industry are explored in Austrade's submission, which I have enclosed.

Should you have any questions or queries about Austrade's submission, please contact Nicholas Dowie, or Christian Hanley.

Yours sincerely

Bruce Gosper  
Chief Executive Officer

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## Response to Productivity Commission's Draft Report on Tasmanian Shipping and Freight

Austrade welcomes the opportunity to provide comments on the Productivity Commission's (the Commission) draft report examining the current arrangements for supporting freight and passenger services between the mainland and Tasmania.

Austrade contends that the Commission's draft report underplays the broader economic significance to Tasmania of the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES). Further, the report draws conclusions on the value of the BSPVES that are not supported by evidence. Consequently, the draft report does not provide the Australian Government with a foundation to consider how the BSPVES, which it has committed to retain, could be enhanced.

Austrade does not agree with the Commission's assessment on page 16 of the draft report that the BSPVES provides "only diluted support." This appears to be based on sea travel's declining share of the Bass Strait passenger numbers compared to air rather than an empirical assessment of the costs and benefits of the BSPVES or an assessment of what the Tasmanian tourism industry would look like in the absence of the BSPVES. Austrade considers this is an important oversight that needs to be addressed before the Commission can conclude that the funds spent on the BSPVES could be more effectively spent on alternative uses.

### *The Impact of the Scheme on Tourist Expenditure*

The draft report concludes that the additional tourism benefit "the scheme [BSPVES] may provide appears to be small both in absolute terms and in the context of overall tourism spending." However, it is not clear the Commission has adequately measured both the direct and indirect effects of the scheme.

The Commission relies on analysis conducted by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) which purports to show the direct impact of the scheme. As outlined in Austrade's initial submission and in evidence presented by Austrade in direct testimony to the Commission, BITRE's assessment of the direct benefits of the BSPVES are conservative because it only applies to a subset of people who travel to Tasmania by sea: those that travel for leisure or for a holiday. It does not pick up those that travel to Tasmania for the purposes of visiting family or relatives, for business or for other purposes.

Similarly, BITRE's analysis does not assess the indirect effects of the scheme because it only applies to those who were induced to travel to Tasmania because of the scheme. It does not assess the impact of the scheme on passengers who would have travelled to Tasmania by sea if the scheme had not been in place, or the impact on the Tasmanian tourism supply chain if the scheme was not in place.

Latest available information from BITRE shows that in 2012-13, the Australian Government spent \$32.8 million on the BSPVES, inducing an additional 14,400 new leisure travellers who spent an estimated \$42 million in Tasmania. Taken at face value, BITRE's analysis shows that the BSPVES generates \$1.28 in tourism expenditure in Tasmanian for every dollar spent. This equates to the BSPVES providing an additional \$82 for every Tasmanian each year.

BITRE's analysis shows that around 40 per cent of visitors to Tasmania by sea were non-leisure visitors<sup>1</sup>; yet its estimates of the number of induced passengers only apply to leisure visitors. Austrade contends that the existence of the subsidy also has an effect on non-leisure travellers; business visitors and visitors visiting friends and relatives have a choice on whether or not to visit Tasmania and the existence of the subsidy provided by the BSPVES can influence this choice.

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<sup>1</sup> Bureau of Infrastructure, Transport and Regional Economics, Bass Strait Passenger Vehicle Equalisation Scheme, Monitoring Report 14, 2014, p.19

Visitors travelling for the purpose of business or visiting friends and relatives are legitimate tourists as defined by Tourism Research Australia's National Visitor Survey methodology,<sup>2</sup> which uses the United Nations World Tourism Organization's definition of tourist:

*"...people who have travelled for purposes including holiday, visiting friends and relatives, business, education and employment. These travellers must not have been away from home continuously for more than 364 days, or in a leap year 365 days."*

Assuming the same inducement rate that applies to leisure visitors also applies for non-leisure visitors, then the number of induced passengers is likely to increase to 24,000 a year, with a visitor expenditure of \$70 million a year. This would equate to additional Tasmanian tourism expenditure of \$2.13 for every dollar paid out under the BSPVES. Alternatively, this equates to \$136 per Tasmanian. Austrade contends that this estimate should be treated as an upper bound estimate and subject to further assessment. Nevertheless it does serve to provide a useful estimate of the magnitude of the scheme's direct impact.

Even if the upper bound estimate was used to assess the direct impact of the scheme, it would still not fully capture the scheme's total impact. In 2012-13, 151,901 eligible vehicles crossing Bass Strait benefited from the BSPVES. Visitors accompanying these vehicles therefore made a saving corresponding to whichever vehicle class they travelled with, totalling \$32.8 million for 2013-13. Austrade contends that most travellers would not have taken this saving back home with them, and that many visitors would have spent at least a portion of this saving in Tasmania. Whilst it is not possible to quantify the magnitude of this indirect benefit it is likely to exist and should be considered by the Commission in its final report and particularly in the context of the Commission's draft finding that the BSPVES funds could be better spent.

Similarly, the Commission has not assessed the impact of the additional expenditure generated by the scheme on the Tasmanian tourism industry, or the competitive responses that the scheme is likely to have induced by providers of other transportation modes. For example, the Commission's draft report does not assess what impact the subsidy provided by the scheme has on air or car-hire process or what the process of these other transport modes would be in the absence of the subsidy.

Leaving aside what Austrade takes to be the highly conservative nature of the BITRE's assessments that the Commission has taken at face value, these highly conservative estimates show that the number of passengers who would not have travelled to Tasmania without the scheme to be 77,230.<sup>i</sup> This shows that the BSPVES is having an impact and continues to do so despite the structural shift in Bass Strait traffic from maritime to aviation. The BSPVES's declining share of Bass Strait traffic should not be seen as a sign the BSPVES is failing; it is simply a recognition that the scheme is not as attractive to consumers as it once was. The BSPVES is still inducing a significant number of visitors and expenditure to Tasmania that would not have otherwise occurred. The issue the Commission should examine is not what percentage of Bass Strait travellers uses the BSPVES, which the Commission's draft report puts at one out of nine (see page 102), but how the subsidy provided by the BSPVES can be made more efficient and effective.

#### *Other Comments about the BSPVES*

The draft report contends that "the Scheme is narrowly targeted at a minor component of the tourism market, largely the 'grey nomads' sub-market" and that "this has limited any capacity to sustain growth in overall tourism expenditure."

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<sup>2</sup> <http://www.tra.gov.au/aboutus/national-visitor-survey.html>

However, caravans and motor homes, the vehicles typically associated with the 'grey nomad' market, make up only 12.1 per cent of all vehicles using the scheme<sup>3</sup>. Given the relatively modest proportion this market segment makes up of all travellers using the scheme, Austrade questions the report's suggestion that this is the scheme's primary target.

Additionally, while domestic caravan and campervan tourists spend less per night than other market segments, they stay longer and spend more overall per trip (\$667) than other domestic visitors (\$656)<sup>4</sup>. Further, Tourism Tasmania suggests that caravan tourists are also important because they disperse to regional and remote Tasmania more than other tourists<sup>5</sup>. So while the 'grey nomad' market does not have the highest potential for growth, it does bring with it other important benefits to the Tasmanian economy.

Austrade also considers the Commission's claim that a significant portion of the benefit of the BSPVES is leaking away from consumers to the TT Line is overstated. The Commission bases its claim on the fact that real Bass Strait passenger prices have increased since the introduction of the scheme but that the price paid by consumers has remained relatively static. The implication is that the TT Line has used the subsidy to inflate price to a point where the customer pays a similar price as if the subsidy did not exist.

The Commission's claim is taken from data from s BITRE's most recent evaluation of the BSPVES. BITRE's comment on this data notes that "this analysis should be treated with caution given there have been improvements in the ships used to provide the service, including changes in the on-board service offerings. Passengers can choose different standards and process of accommodation and the comparison is for the peak season only."<sup>6</sup>

In other words, it is not unreasonable to observe higher real prices since consumers are now paying for a qualitatively better product than when the BSPVES was introduced.

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<sup>i</sup> BITRE, *Op Cit*, p.27

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<sup>3</sup> BITRE (2014), *Bass Strait Passenger Vehicle Equalisation Scheme Monitoring Report No. 14*

<sup>4</sup> TRA (2012), *Snapshots 2012: Caravan or Camping in Australia*

<sup>5</sup> Tourism Tasmania (2009), *Caravan and Holiday Park Snapshot*

<sup>6</sup> BITRE, *Op Cit.*, p.16