

PUBLIC

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON FRIDAY 28 JUNE 2024

INQUIRY INTO THE TT-LINE *SPIRITS* PROJECT

The Committee met at 12:59 pm.

CHAIR (Ms Forrest) - Welcome to the Public Accounts Committee. It is a short inquiry process, like a targeted inquiry into the TT-Line vessels, basically the new vessels that are expected soon and the decision making that's gone on around that in more recent times.

Everything you say here is covered by parliamentary privilege that may not extend outside the room. If there's matters that are confidential you wish to discuss with the Committee, you can make the request to the Committee and the Committee will consider your request. Other than that, it will be public.

You are familiar with the process but are there any questions you've got before we start?

It is being broadcast and transcribed by Hansard: I assume we're using voice to text again. This is the second Committee that it has been used for a hearing. It worked alright last time. For that reason, please use your microphone and try and speak very clearly.

I'll ask each of you to take the statutory declaration and then introduce who you are in terms of the Company. Is the Chair team intending to make an opening statement? We will invite you to do that. Chair.

Mr MAYCOCK, GENERAL COUNSEL/COMPANY SECRETARY, **Ms KIM SAYERS**, CHIEF FINANCIAL OFFICER, **Mr BERNARD DWYER**, CEO, **Mr MICHAEL GRAINGER**, CHAIRMAN and **Dr DAMIEN BUGG**, DIRECTOR, TT-LINE COMPANY PTY LTD, WERE CALLED, TOOK THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr GRAINGER - By way of background, Chair, in September 2017 the final business case for the vessel replacement was completed. In November 2019, indications continued that that was with Flensburger Schiffbau-Gesellschaft (FSG), a shipyard in Germany. Indications continue that FSG was in financial trouble. In December 2019, TT-Line entered into an MOU with TasPorts to reconfigure Devonport.

In February 2020, Flensburg advised TT-Line that the best way forward was to mutually agree to cancel the contracts. On 25 February 2020, the Board resolved to cancel the FSG contract. In June 2020, TT-Line reached a provisional agreement with Rauma Marine Constructions (RMC), the current builder on vessel contract and we advised the Government. In June 2020, TT-Line withdraws from contract discussions with RMC on instruction by the Government to explore Tasmanian or Australian based constructions for new vessels.

In September 2020, the Government creates a new Vessel Task Force to prepare a report back to Government in January 2021. In December 2020, TasPorts terminated the MOU due to delays.

PUBLIC

In March 2021, the new Vessel Task Force report was presented and in the same month TT-Line resumed talks with RMC. In April 2021, the board resolved to enter into an agreement with RMC for the construction of new builds 6009 and 6010. In June 2021, TT-Line entered into an MOU with TasPorts to reconfigure Devonport, extend Terminal 1 lease and relocate to Terminal 3. That's the background.

CHAIR - I would like to continue with the timeline if that's alright. That's really helpful to have. Members may have questions as we go. This side of the table is committed to not making statements, except for this one right now, to keep our questions succinct and to the point. We hope that you are able to answer those questions directly and to the point as well.

Mr GRAINGER - Yes.

CHAIR - Can I just ask when and who made the decision to reconsider the contract to build the vessels? You have described some of this during the 2020-21 period and the work of the task force. Can you reiterate - it's hard to write it all down - when and who made that decision?

Mr GRAINGER - Sorry, the decision to?

CHAIR - You have told us who terminated the first contract, but when there was a contract that was on foot with RMC that was put on hold during the RMC period. Can you talk through that bit in the middle there?

Mr GRAINGER - Yes, we were advised by Government that there would be a one year delay to signing the contract with RMC. That was former Premier Peter Gutwein who made that announcement, if you may recall. That was through COVID. We signed the contract on 15 April 2021 with RMC and we signed that contract during COVID as well.

CHAIR - You signed the contract but when was the task force report? They were in March [2021], it was after the task force reported that you then signed the contract.

Mr GRAINGER - Correct.

Mr DWYER - We had a contract on foot with RMC post the FSG termination of that contract by both parties. RMC were one of the shortlisted companies. We continued with them to try and pull a contract together, which we had done in early 2019. The task force was formed in the period of COVID. I think it was June of that year when COVID started to have a look at whether ships could be built in Australia and content in Australia.

CHAIR - Who was involved in those discussions that led to the establishment of the task force?

Mr DWYER - That would be a question for Government.

CHAIR - I know that you as the CEO sat on the task force.

Mr DWYER - Yes.

PUBLIC

CHAIR - During those discussions, were there discussions with other shipbuilders in Australia?

Mr DWYER - Yes.

CHAIR - The report came out saying that it wasn't possible.

Mr DWYER - The report came and we were advised by the Premier of the time, Peter Gutwein, that we were to continue with the RMC contract in Finland.

CHAIR - Is that report publicly available?

Mr DWYER - I'm not sure if it's been made public or not.

CHAIR - Are you able to provide a copy of the report to the Committee?

Mr DWYER - It would have to be through the Chairman of that Committee.

CHAIR - Who was the chair of the Committee?

Mr DWYER - The head of Treasury at that time.

CHAIR - Tony Ferrall. So, Treasury were the lead agency.

Mr DWYER - Yes.

CHAIR - It would be a question for Treasury, for the Minister and Treasurer.

Mr GRAINGER - The Government created that new vessel task force in September 2020 and they were tasked to prepare a report back to Government in January 2021.

CHAIR - When this contract was signed, there wasn't a contract signed before it was asked to be put on hold while the task force didn't work. It was an MOU. Is that what you said?

Mr DWYER - It was a contract that we could have executed. We had an MOU to go through and work up a contract and we didn't sign that contract. We were asked not to sign it while that task force met.

CHAIR - Who asked you not to sign it? The Chair of the task force?

Mr DWYER - The Premier.

CHAIR - The Premier asked you not to sign it?

Mr DWYER - That is right.

CHAIR - When the all clear was given to resume progress on that contract, was the contract the same as what you'd entered into previously?

PUBLIC

Mr DWYER - All the conditions were the same, yes, I think - I'm sure all the conditions were the same, yes. It was basically a roll through of that contract.

Mr WILLIE - Variation in cost?

Mr DWYER - I think there was a variation in cost, but I don't know it off the top of my head

Ms SAYERS - I don't know the amount, but there was a change in the price.

CHAIR - There was a variation from the original contract that you were working to that was then put on hold. Can you provide the differences between those contracts? Not right now, I'm happy to take it on notice.

Mr DWYER - Yes, I don't like taking too many things on notice, but yes.

CHAIR - I guess the question is if you're able to provide both contracts to the Committee

Mr DWYER - I'd have to check legally whether we can provide the contract itself. I think we'd have to get permission to do that.

CHAIR - We'll write to you about that.

Mr DWYER - Yes, that's fine.

CHAIR - Because, as you know, the Committee can receive confidential information if it's deemed to require that cover. When did you, Chair, first become aware of the problems with RMC's ability to meet the contractual deadlines?

Mr DWYER - Just as the Chairman's answering that, evidently, the taskforce report is on the Treasury website.

Ms THOMAS - It's redacted though. It is redacted.

CHAIR - We'll ask for fully unredacted copy, that's alright. We'll do that through Treasury though.

Mr DWYER - There are two points to that question, I think, Chair. The first is that were issues around delivery and supply which were causing the builder issues around timing. Secondly, I think your question was probably pointed at cost issues -

CHAIR - No, both.

Mr DWYER - Both? Okay.

CHAIR - I'm asking about both. As I understand it, there are a number of challenges. One, COVID, was a bit of a challenge, for just about everybody.

Mr DWYER - Yes.

PUBLIC

CHAIR - And there were other factors. I'm interested in those, what those challenges were, what impact they had, and when you were made aware of both the challenges and the cost implications. Because there are two things.

Mr GRAINGER - Certainly, COVID had an impact, the Ukraine war had an impact. If you recall, the major steel manufacturing plant for Europe was in Ukraine and that was bombed very early on in that war which caused RMC to seek steel from alternative sources at a higher price. On 25 April 2022, we sent a letter to our Minister and Treasurer about the negotiated contract price, which was €8 million in the contract price to cover those steel price increases due to the war in Ukraine for hull 6009. That was the first contract price change.

On 31 May 2022, we had an amendment to that new build, 6009 *Spirit IV*. We executed an amendment to the contract to change of the contract price due to unforeseen price increase of the shipbuilding steel products, steel plates and profiles as a result of the Russian-Ukraine war and to respective change of the construction milestones and delivery date.

On 28 October, we executed an amendment to the contract for hull 6010 -

CHAIR - That's in 2022 still?

Mr GRAINGER - 2022 - *Spirit V* to reflect the construction milestones and delivery dates. On the same day we executed an amendment to the contracts to reflect changes in the builder's bank account. The builder had changed banks. On the 14th of May 2023, we executed an amendment to the contract for hull 6010 to reflect the construction milestones.

CHAIR - Pushing out, I assume that means?

Mr GRAINGER - Yes.

CHAIR - Can you tell us how far they were push out in that?

Mr GRAINGER - We can, but I haven't got that here.

CHAIR - That's all right.

Mr GRAINGER - On 11 August [2023], for hull 6009, we executed an amendment to the contract to reflect agreed changes to payment timelines to be based on a percentage of completion of the build, noting that no change to overall contract price and all other terms and conditions remain the same.

On 14 May - and we're getting towards the end of this - hull 6010 amendment 4: we executed an amendment to the contract to reflect agreed changes to payment timelines to be based on a percentage of completion of the build, noting no change to overall contract price and all other terms and conditions remain the same.

CHAIR - That's May 2023 - obviously, by this stage -

Mr GRAINGER - Yes. I can continue through this this timeline.

CHAIR - That would very helpful.

PUBLIC

Mr GRAINGER - You're happy for that?

CHAIR - Yes.

Mr GRAINGER - On 26 June 2023, TasPorts' agreement for lease staging plan: TT-Line was to be provided access to Terminal 3 construction to begin critical path works providing 12 months in total for completion of the project. So, we were expecting, on 26 June, to be able to have those works completed within 12 months.

On 27 July, at our monthly ministerial meeting, the CEO and I advised the Minister that access to the terminal site was now September 2023 as opposed to June.

On 14 August, the CEO and I advised the Minister that we had been advised by TasPorts that the company will not be allowed onto the site until the end of August/beginning of September.

On 23 October, the CEO and I advised the Minister that we still did not have access, which was due in June, to the site. The Company is looking at providing limited service and working around the schedule of the ships should the project be delayed, TT-Line cannot provide an actual date for completion with any confidence until it knows when it can access the site, also noting some parts of the construction cannot be accelerated and it will be important to revisit the staging once the company has more certainty.

On 17 November, the CEO and I advised the Minister that the project is in reasonable shape, notwithstanding ongoing delays in access by TasPorts, and the company is looking at different options to ensure ships get into service as early as practical.

We had the scrutiny hearings, which we've got the extract from Hansard on 24 November.

CHAIR - From TasPorts?

Mr GRAINGER - No, from TT-Line.

CHAIR - Of yours, right.

Mr DWYER - The Lower House and the Upper House.

CHAIR - Sure.

Mr GRAINGER - On 11 December 2023, we received a letter from the Tasmanian Public Finance Corporation (TASCORP) approving an increase in the vessel replacement project -

CHAIR - What was that date? Sorry.

Mr GRAINGER - 11 December - approving an increase in the vessel replacement project line facility limit from \$700 million to \$990 million, and maintenance of the \$45 million working capital facility, an amendment of the of the vessel Replacement Line facilities term limit from 15 years to 25 years with an advertising schedule to be determined

PUBLIC

once the vessel replacement project is fully drawn, and relinquishment of the existing deed of guarantee and associated term sheet stated on or about 21 March 2023. This was all subject to the Treasurer confirming the maximum amount guaranteed by the State is increased to \$1.035 billion.

On 13 December, we wrote -

CHAIR - 2023?

Mr GRAINGER - 2023 - TT-Line wrote to the Treasurer requesting an increase in the borrowing facility from TASCORP as approved by the Board, made up of \$990 million borrowing facility and \$45 million working capital facility, which was up from \$700 million and \$45 million respectively, noting the funding requirements to deliver the required infrastructure at Berth 3 in Devonport have increased significantly as a result of an escalation in the construction costs due to a number of factors including: civil construction cost increase, project staging, delayed access to the site, updated financial forecast right undertaken to reflect the revised construction cost for port infrastructure and these identified a maximum funding requirement of \$990 million facility and the \$45 million working capital account.

On 21 December 2023, the CEO and I advised the Minister that running Berth 3 prior to assembly of the gantry - that's the main infrastructure that is required - is being considered and TasPorts have suggested running both the new and old vessels from Berth 1 in the meantime until Berth 3 is available and the Company is investigating that option, noting that the process will need sign-off by the Harbour Master and any impact on Sea Road will have to be considered.

Can we move on to 2024?

CHAIR - If we go back to 21 December and the meeting with the Minister, by this stage - and thanks for the timeline; it's really helpful; I'll have to study it further at a later time - there has already been significant additional funds approved at this point. And that's based on rising costs. When were you aware that RMC was in financial difficulty? Was it at that meeting that you were aware of that and hence the need for additional funding?

Mr GRAINGER - No, we, we were made aware of RMC's financial difficulty in October 2023. At that stage, they said, 'We're having trouble'. We knew that they were having trouble paying their subcontractors. They made it quite clear that their costs had escalated to an extent that they couldn't continue. But they never came to us with a request for additional funding. I'll come to that.

But we should all be clear that for a number of months we were told by RMC that they are in financial trouble and we reported that to Treasury, which I'll come to.

CHAIR - By December 2023, you haven't informed Treasury or the Minister that RMC has expressed some financial difficulty concerns to you, although not asking for extra money.

Mr GRAINGER - Correct.

CHAIR - So the 21 December meeting with the Minister, you were talking about matters related to the vessel and the port particularly, but you didn't talk about RMC's challenges.

PUBLIC

Mr DWYER - I'd have to go back and look at that.

Dr BUGG - I think by way of explanation, one of the requests that resulted in contract amendment, which the Chairman has mentioned, in 2023 related to the schedule of payments without an increase in cost. So, in other words, we varied the order in which payments were to be made under the contract to improve the cash flow of the Company.

CHAIR - Presumably, you brought some of those payments forward?

Dr BUGG - That's right. But it didn't increase the overall cost of the contract. That was the first inkling we had that there were issues with paying subcontractors as far as the Company was concerned.

CHAIR - How were you made aware of that?

Dr BUGG - By the fact that they had asked for variation in the scheduled payments.

CHAIR - How were you aware that they were having trouble paying their subcontractors?

Dr BUGG - Because they needed a better cash flow from us.

CHAIR - They informed you of that. That was the reason they were asking?

Dr BUGG - I don't think they were quite specific about that, but it gave us an inkling that something was happening was, but no detail.

CHAIR - You may come to this, Chairman, and if you do, I'll wait until you get to it. When were you aware that the Finnish Government was taking an interest in this? It will come?

Mr GRAINGER - Yes, that'll come.

Going back to the 21 December meeting, we had a verbal conversation with the Treasurer, our minister, where we indicated we held early concerns about the financial circumstances of RMC. That was on 21 December at that monthly ministerial briefing.

CHAIR - Would you be able to provide the notes of that meeting to the Committee?

Mr GRAINGER - Yes, the minutes of that meeting; absolutely.

CHAIR - And any relevant notes?

Mr GRAINGER - Yes, of course.

CHAIR - I'll make sure our secretaries got that. I think Josh had a question as well.

Mr WILLIE - No, when we get to the payment.

CHAIR - Okay. Sure. We'll move on.

PUBLIC

Mr GRAINGER - On 8 January 2024, the Treasurer sent a letter to us advising that the request - of the previous item that I announced - for the maximum increased borrowing amount is approved, noting the request is driven by increased cost estimates for the new terminal infrastructure in Devonport.

CHAIR - Can I just clarify this point? So, the additional borrowings - it would be helpful to see that letter from Treasury to you, if you could provide that as well - the borrowings were not to provide additional funding to RMC for the vessels. It was entirely for the port upgrade, correct?

Mr GRAINGER - Correct, because we, we weren't advised how much RMC intended to ask us for until March, but I'll come to that.

Mr WILLIE - On this, what date was the increased facility request?

Mr GRAINGER - The Treasurer advised us that it had been approved on 8 January [2024].

Mr WILLIE - You had a contract for the port upgrades that was cancelled?

Mr DWYER - Not quite, we went through a tender process in 2023 and we ended up with a preferred tenderer. We were still working out what exactly had to happen on that berth. We still didn't have all of the geotech so there were still design work changes happening.

Mr WILLIE - You didn't have an exact cost?

Mr DWYER - We didn't have an exact cost. We had the estimate, as everyone would know, you need the good geotech part of the discussion and the information.

Mr WILLIE - What was the estimate at that point?

Mr DWYER - We are still -

Mr WILLIE - It obviously caused some of these extra requests.

Mr DWYER - We went back to the - as we said - we had the extension made so that we could cover that amount in the contract. But because we didn't have a contract signed, we had a letter of commitment with that preferred tenderer so we could get on with the work. There was a letter of commitment period where all of the long lead time items were ordered, designs were being changed as we went through as well. We never had a contract. A contract was never torn up. It was at that point there was still uncertainty in the risk in in the contract so we actually changed the format of the contract so we could really identify risk and have that well and truly covered. That is where we went back to market for a preferred tenderer. And that's the process that we're just about to finish, hoping to sign it today.

Mr WILLIE - Going back to that, what was the cost estimate at that time that you were working to? Noting that you hadn't done the geotech and that there were some risks.

PUBLIC

Mr DWYER - The cost estimate that we had back in December of last year was enough for the prediction of what the cost of this contract was going to be. The overall project was around that \$375 million. The main contract is a component of that. There is a lot of other things obviously, that have to happen in that.

Mr WILLIE - There were some additional works, yes. You knew back in December that that was around the figure.

Mr DWYER - Yes.

Mr GRAINGER - Just to clarify, Mr Willie, there are a lot of additional items that go above the contract, the automatic mooring system, the shore power, these cost tens millions of millions of dollars. They're all in addition to the works that need to be done, but we are responsible for -

CHAIR - Is that TT-Line's responsibility, the shore power and all that?

Mr DWYER - Yes, we're cold ironing it – it's what it's called. As part of this, as you know, the ships and design have happened over a long period of time, we've needed to take into account our obligations for decarbonisation as well. The ships are really designed around that aspect. What's happened in the ferry industry over the last two years has been the recognition that you can only do what you can do with the ships, but it really is important what you do on shore side as well.

Cold ironing basically means that we'll plug the ships into shore power and we won't run any engine while the ships are in port. We will be doing that in both Geelong and here. There are these extra long-term strategic pieces of work we have to do and we should do purely from the decarbonisation and the emissions that we need to comply with internationally.

Mr WILLIE - Going back to December, you had this cost estimate of \$375 million, did you advise the Minister and the Government at the time?

Mr DWYER - The Treasury would have been advised of that because that's all part of the increase in the facility. The Chairman has talked about this increase in facility, the increase in facility was \$700 million to \$990 million.

Mr WILLIE - It went to 790, then 990, didn't it?

Mr DWYER - Seven hundred to 990, \$290 million increase, that increase in facility wasn't just...

Mr WILLIE - Just the wharf.

Mr DWYER - No, it was just a wharf but there was already a component of budget we already had, so it was the net increase of that. It didn't go from 900 to 375. It was actually a net change on that.

Mr WILLIE - Are we able to get a breakdown? You're saying that you're about to finalise the contract, so there is obviously the additional work that you just talked about and the wharf upgrade?

PUBLIC

Mr DWYER - Sure.

Mr WILLIE - Can we please get some figures for those?

Mr DWYER - We've got it.

Mr WILLIE - Take that on notice?

Mr DWYER - Okay.

CHAIR - Unless someone has another question, we'll move on to after the 8 January [2024] letter from the Treasurer.

Mr GRAINGER - On 14 February [2024], we received a letter from the Premier's secretary advising the Government had assumed a caretaker role.

C

CHAIR - What day was that?

Mr GRAINGER - 14 February. On 15 February, at our board meeting, the board considered and approved a requested change to the payment milestone structure only in response to a request from RMC. This is what we referred to earlier.

On 16 February, Treasury sought, via a letter, an update on the ship replacement project.

On 20 February, we sent a detailed letter to Treasury outlining the status of the project as requested.

On 28 February, we executed an agreement to the contract for hull 6009 to reflect agreed changes to payment timelines based on a percentage of completion of the build, noting that no change to overall contract price and all other terms and conditions remain the same.

Mr DWYER - Chairman, an additional piece to that, if I may, is all payments had to be with the full refund guarantee. So, fully backed by another party so that if there were any issues with the contract, we get every dollar back that that we've paid. There was no risk.

CHAIR - They were the forward payments or all payments?

Mr GRAINGER - All payments.

Mr DWYER - All payments.

Mr GRAINGER - Every single payment that is agreed to by the company is backed by a refund guarantee.

CHAIR - Who underwrites the guarantee?

Mr DWYER - A combination of insurance companies, banks: they underwrite that on behalf of RMC.

PUBLIC

Ms SAYERS - RMC pays for that - to have that guarantee given to us.

CHAIR - Yes.

Mr DWYER - That was very much at the fore of the - if I may talk about the FSG contract - there was not \$1 given to FSG. There was no dollar -

Mr GRAINGER - because they couldn't provide us with refund guarantees, because they had no credit.

Mr WILLIE - RMC would recoup that cost though, through the overall contract, wouldn't they?

Mr GRAINGER - Maybe.

Mr DWYER - You would assume so, but we've got that guarantee that if something happens, there's no money at risk. We would not do that.

CHAIR - If the vessels weren't delivered, we'd get all of it back?

Mr GRAINGER - Correct, and we'll come to that.

CHAIR - Sure.

Mr GRAINGER - On 29 February this year, we - the CEO, CFO and I - attended a Treasury briefing with both major parties to advise the status of the procurement of the new vessels and its current difficulties. That was with Minister Ferguson and James Abbott, and then followed by the Honourable Rebecca White and the Honourable Shane Broad. That was on 29 February.

CHAIR - What information did you provide them on that?

Mr GRAINGER - I don't have the note in my notes here, but we did advise them that we'd been advised by RMC that they were in financial difficulty, but they hadn't actually asked us for an amount to resolve that.

CHAIR - You're able to provide that note related to that meeting?

Mr GRAINGER - Yes, we've got notes on that meeting?

Mr DWYER - Or Treasury would to.

Mr GRAINGER - Treasury would have notes. It was actually Treasury's meeting, in the Treasury office.

CHAIR - Treasury held the meeting and you attended?

Mr GRAINGER - Correct.

CHAIR - But you would have your own notes?

PUBLIC

Mr GRAINGER Possibly.

CHAIR - Yes, we'll have your notes, and we'll ask Treasury for theirs.

Mr GRAINGER - Yes, absolutely.

On 6 March [2024], RMC sent us a letter outlining a proposal to increase the contract price of the contracts.

On 15 March, TT-Line held an out-of-session board meeting. RMC provided a presentation to the issues that it was currently facing. The Board considered detailed options related to the contracts and how to proceed in light of the additional information received from RMC. The Board approved an increase in the contract price and the ability for the Chairman and the CEO to negotiate any further price change up to a board-agreed maximum. If I can elaborate on that, RMC was suggesting an amount. At that board meeting we decided to go back with a lesser amount, which was not accepted as it turned out. I'll come to that.

CHAIR - What date was that?

Mr GRAINGER - That was 15 March [2024]. Following that board meeting, I called our Minister and advised him of the outcome of that board meeting.

Mr WILLIE - Including the Board's maximum amount for the negotiation?

Mr GRAINGER - Yes.

Mr WILLIE Are you able to tell us what that was?

Mr GRAINGER - RMC had requested an increase of 9 per cent or €50 million? Our offer was to be €30 million.

CHAIR - Subsequently, it did go to €50 million?

Mr GRAINGER - Yes.

On 21 March [2024] the Finnish Government wrote an e-mail to me - attaching correspondence from the Finnish Government dated 20 March - outlining issues for consideration by the Company's Board in relation to the ship-build project.

The same day, on 21 March, we had our regular board meeting. The Board considered additional information received from the Finnish Government and the options open to it as previously advised on 15 March. The Board considered in detail the potential impacts on the company's financial position. The Board approved a further increase in the contract price subject to several strict conditions, including approval by the Tasmanian Government - and on the basis all other terms and conditions remained with the exception of the delayed delivery but retaining the drop-dead date for both hulls' delivery dates.

Mr WILLIE - At this time was the Board aware that the Finnish Government had a 20 per cent ownership stake in the company?

PUBLIC

Mr GRAINGER - I'm not sure. I don't know. Have they?

Mr WILLIE - Yes.

I think this is of interest, whether the Board did due diligence. You've got the Finnish Government writing to you at this time. Did you assess whether, if you didn't make the payment, that the Finnish Government may step in and what role Tasmanian taxpayers have in bailing out a company owned by the Finnish Government?

Mr GRAINGER - On legal advice, I have the letters from the Finnish Government here, which I think will answer your question.

Mr WILLIE - Okay.

CHAIR - Before you read that, is this the first contact from the Finnish Government with TT-Line?

Mr GRAINGER - Yes.

CHAIR - This is the very first time the Finnish Government contacted you?

Mr DWYER - They contacted us when we were in Helsinki dealing with it. We met with the Finnish Government with RMC as well. That was all parties around the table.

CHAIR - When was that?

Mr DWYER - I'll come back with the date.

Dr BUGG - Between the 6th and the 15th.

CHAIR - So there's been a meeting with the Finnish Government at that point, in February - after the election was called or before the election was called?

Mr GRAINGER - After.

Mr DWYER - It would have been after the briefing, in fact. So, we hadn't had that discussion with the -

Mr WILLIE - So it was during the election.

CHAIR - I'm just trying to clarify -

Mr WILLIE - Is the Tasmanian Government aware that you are dealing now directly with the Finnish Government?

Mr DWYER - We weren't dealing directly with the Finnish Government. We were dealing with RMC, and we were with RMC as they were briefing the Finnish Government.

Mr GRAINGER - That was on 28 February [2024].

PUBLIC

Mr WILLIE - You had the Finnish Government contact you directly.

Mr GRAINGER - Yes, quite a long time afterwards.

CHAIR - Are you aware of any communication between - and you probably can't answer - are you aware of any correspondence or communication between the Tasmanian Government and the Finnish Government.

Mr GRAINGER - No, I'm not aware of any communication.

CHAIR - Okay. Could refer to the Finnish Government letter that you referred to? I, go back to Josh's question.

Dr BUGG - I have a hesitation about that document going in at this stage. I think we should really look at it from the point of view of what privilege may attach to it in terms of disclosure, if you wish to see it today. But I would rather we look at this document in its entirety to determine whether it ought to be disclosed in its entirety, or some of it redacted before it's disclosed, or all of it redacted.

CHAIR - I'm not asking for it to be made a public document right here, right now. Okay? There may be an opportunity to provide it with other information you provide to the Committee, I would suggest unredacted, if it was in confidence, if that was to be the case.

Dr BUGG - The difficulty that I see with it is: where it sits with this Committee once it's made available is a matter for the discretion of this Committee, is it not? And we would rather have an opportunity to properly examine all the contents of that document before it's handed over because then it's at your discretion as to whether it becomes public. I think, with respect -

CHAIR - I think you understand that this Committee takes confidential documents very seriously -

Dr BUGG - Yes, I'm sure you -

CHAIR - and we have received confidential documents in the past - none of which have left this Committee. If we receive a document in confidence, we respect that confidence. I hear what you're saying, Dr Bugg.

Mr DWYER - I think that the one of the parties in the Lower House has contacted the Finnish Government to seek some information from a question I heard in Parliament. The Finnish Government didn't want to answer that on Finnish Government security lines. That's only our concern. Reading a letter out in a public forum is like putting it out in public. But providing it is different without us actually having to read the document out. I think that's where we're coming from.

CHAIR - Okay. I thought Mr Grainger was going to refer to some aspect of that letter when he was responding to Mr Willie's question. No?

Mr GRAINGER - No.

PUBLIC

CHAIR - Okay. We'll include this in our list of things we'd like you to provide to the Committee.

Mr WILLIE - Back to the question, so you didn't make any assessment whether the Finnish Government would step in rather than Tasmanian taxpayers given that they own 20 per cent of the company? You didn't make any assessments at the time about that?

Mr DWYER - We were aware that the Finnish Government - through a different funding arm, I think it's called Tesi - fund the yard as well. We were aware that there was funding happening, but because there are two parts of the RMC yard - being the commercial side and the defence side. Obviously, we need to be very careful, and we don't understand - and the Finnish Government wouldn't tell us - what they're doing on the defence side.

Mr WILLIE - RMC holds contracts for the Finnish Navy. It would be very unlikely for the Finnish Navy - for the Finnish Government - to allow the company to fall over.

Mr GRAINGER - That's two separate entities, Mr Willie: RMC Defence and RMC Commercial, and RMC Defence is ring-fenced so that RMC can't take money out of the defence project to support a commercial project. They've made that very clear to us. They are separate.

CHAIR - So the Finnish Government support was for RMC Commercial then?

Mr GRAINGER - Yes, absolutely.

You are correct. The Finnish Government isn't going to let RMC Defence fall over: I wouldn't imagine. But they are two separate entities and we don't know what the defence entity does or is so -

Mr DWYER - As part of our due diligence and with us meeting with RMC, having full presentations of their financial position, which at that stage was going further away from being just a cash-flow issue to actually being a monetary issue.

Mr WILLIE - Bailout.

Mr DWYER - I wouldn't say it's a bailout. It's us ensuring we get the ships. We had to ensure those contracts were fulfilled. It's purely the cost of those contracts is what we concentrated on. We even had our CFO and even had conversations with - I can't remember the name: it's essentially like the Tasmanian audit office in Finland -

Ms SAYERS - The Finnish equivalent of the Tasmanian audit office.

Mr DWYER - So there are even third parties looking at it. We were very clear with what the situation with RMC is.

This is such a delicate period. You would all be aware of what happens in a run on a bank. If something happens, the bank has got no control and there's a run. It's exactly the same thing that would happen with suppliers. If suppliers thought that that company was in difficulty and they weren't going to get their money, all the suppliers and all the workers would leave. It would stop. It would just stop dead. Then we would then have a 90 per cent completed vessel sitting in the yard, and we've got no ability to do anything with that particular vessel and that

PUBLIC

particular contract. We analysed and we discussed everything we could in relation to that contract to make sure that we could discuss with the board what the major options are if that contract fell over. I'm not worried about RMC, I'm only worried about the contract and getting those ships here. At that point, if the yard had gone into receivership, we'd lost total control. It would go to the receiver. We would have no control over whether we can buy the vessel, whether we could take the vessels to another yard to complete them. We'd have lost control of it.

Mr WILLIE - You have a money back guarantee though.

Ms SAYERS - It would take a long time to get those funds back.

Mr DWYER - A long time to give funds back, and then you have to start again building a new vessel - another three years. As the Government has said plenty of times, we need to have these vessels replaced in 2028. We're ahead of that by at least two or three years, and to lose that would have been catastrophic for - quite seriously - for this Company, it would be catastrophic for the tourism industry -

Mr GRAINGER - For the State.

Mr DWYER - and for the freight industry as well. The Board is very conscious about what is the best economic outcome for the State, for us, and making sure those vessels arrive.

CHAIR - Were extra borrowings required to fund this new -

Mr DWYER - No.

CHAIR - How was the extra €50 million provided?

Mr DWYER - We're funding that within TT-Line at this stage with our own reserve. The other thing, if I may talk about debt, is -

Mr GRAINGER - Just before you go into that, I would like to read you a paragraph and I'd like this to be held in confidence.

CHAIR - If you want to do something in confidence, we'll do it later; just hold that for now.

Mr GRAINGER - Okay.

Mr DWYER - We've talked about how TT-Line now have a debt capacity of \$990 million, plus a \$45 million capital account. This is a really unique business. We could have something happen with one of our current ships and it would cost us \$15 million to fix it overnight. That's why we have a big capital facility so that we can make sure that those ships keep going.

The Tasmanian Government is not putting money into TT-Line for the new ship build or for port infrastructure. All of the money for this is being catered for within TT-Line under debt. Our business will pay that money back over a period of time, we're not taking money out of any part of the Government. It is totally as part of the state-owned company to manage our debt

PUBLIC

levels, to manage the company that that debt is paid back, and what this company has done - brilliantly, quite frankly - over the years with previous chairmen and previous CEOs is build up a cash surplus in this business to actually buy new vessels so that there isn't a need to take money out of the State for new vessels.

Our plan - I don't know if I'll be here in 15 years, but jeez, I hope I am - in 15 years, 20 years, all of that would be paid off for the ships and the infrastructure: again, no money for Government to do that. That's purely on TT-Line as a state-owned company. Then we start building up funds again for the next generations of ships.

Mr WILLIE - I understand all that. We're getting a bit off topic. I'm still interested in this payment and the board's assessment at the time that that was the only option.

Mr GRAINGER - We can provide you with documentation that will help you to understand the situation. I have in writing reference to the expectation from the yard and the Finnish Government that the final cost to complete both vessels will be in excess of €100 million. We very carefully considered the request from RMC in terms of what we should and shouldn't do up to a €50 million, which was their request. They rejected €30 million. They said €30 million is not going to do it.

We agreed - if I can just elaborate - on 21 March [2004] at our board meeting: the Board considered additional information received from the Finnish Government and the options open to it as previously advised on 15 March. The Board considered in detail the potential impacts on the Company's financial position. The Board approved a further increase in the contract price subject to several strict conditions, including approval by the Tasmanian Government and on the basis that all other terms and conditions remain with the exception of the delayed delivery but retaining the drop-dead date for both hulls.

Mr WILLIE - On this line of questioning still, we're in the middle of an election period when this is happening. Did you seek any advice in terms of caretaker conventions from DPAC -

Mr GRAINGER - Yes.

Mr WILLIE - and what you would communicate to the Opposition?

Mr GRAINGER - I'll come to that. After that Board meeting I called our Minister to advise him of the Board's decision.

CHAIR - You called Minister Ferguson?

Mr GRAINGER - Yes.

CHAIR - There are two shareholder Ministers. I don't know who the second -

Mr GRAINGER - No, there was only one at that stage.

CHAIR - There is supposed to be two.

Mr WILLIE - He was the Minister and the Treasurer.

PUBLIC

CHAIR - I know, but they didn't appoint a second one?

Mr GRAINGER - No. I had one Minister.

CHAIR - Thank you.

Mr GRAINGER - On the same day TT-Line sent an e-mail to the Finnish Government, advising the Company had agreed to the contract price variation subject to the conditions I mentioned earlier as approved by the Board.

On 22 March [2024] we sent an e-mail to Treasury and, further to a telephone call earlier, the e-mail advises Treasury the agreed amendment to the contract price and seeks confirmation of previous advice from the State that, as the contract is still on foot, any increase in the contract price is a matter for the Board to manage and does not require approval from the shareholder. The e-mail also noted the Company has previously consulted with the shareholder Minister and Treasury verbally on this matter. That e-mail was sent on 22 March.

CHAIR - Was there any communication with the Leader of the Opposition as we were still in caretaker mode at that time?

Mr GRAINGER - This was to Treasury.

CHAIR - Keep going to the caretaker convention.

Mr GRAINGER - On the same day, in an e-mail from Treasury to TT-Line, Treasury confirms the assessment of the e-mail, which I referred to previously, is correct. Treasury confirmed that it was correct. The approval from the Minister or Treasury is not required for contracts already underway.

Mr WILLIE - When were you planning to communicate this payment with the broader public?

Mr GRAINGER - It's not our position to communicate to the broader public: that would be our shareholder.

Mr WILLIE - It is a significant amount of money involved in the State-owned company. I would have thought that there would be some transparency provided.

Mr GRAINGER - We've got enough transparency to see out the end of the day, Mr Willie, but why would we go public on matters that are delicate? If our shareholder or the Government wishes to do that, that is okay with us.

Mr DWYER - If I may add, Chairman, we couldn't do anything until the contracts were signed and we'd committed those contracts to RMC. Again, I'll come back to, if it was anything in the in the public arena, in Government's, even though we had agreed to the increase and the suppliers walked away from the yard, it was all over. There was a really delicate piece where we needed to get the ducks in a row and have the approval. Then we had another at least a week and a half, two weeks, to get to the point where the contract was signed. At the same time, we wrote to the Government on that but I'll let the Chairman go through that.

PUBLIC

CHAIR - If you continue with the timeline.

Mr DWYER - I can't stress enough how we did not want any messaging going into the marine industry because people would have walked and we wouldn't have these ships.

Mr WILLIE - I understand that. I'm talking post the contract being signed.

CHAIR - Let's get to the contract.

Mr GRAINGER - On 23 March [2024] the election was held.

On 26 March we received legal advice from HFW for consideration by the Board in terms of the contracts.

On 4 April for Vessel 6009, we executed an amendment to the contract to reflect an agreed increase in contract price on condition that any cost required to complete the vessel in excess of the contract price as increased by the buyer contribution, the excess costs are paid directly to the builder by the Government of Finland through its investment company Finnish Industry Investment Ltd. TT-Line reserves the right to suspend payments and/or terminate the contract if this does not occur. The builder confirms that the buyer contribution and the excess cost shall be used solely for completing and delivering the vessel, new build. 6010 and corporate overheads and undertakes not to withdraw capital for any other purpose prior to the delivery of the second ship. The entitlement to liquidated damages for delayed delivery is waived. All other terms and conditions remain.

Mr DWYER - If I may, Chairman, we need to be really clear on that point is that the stipulation that the funds that we paid had to be in the production of hull 6009 and 6010, not for any other purposes of the business. It had to be as part of that contract and fulfilling that contract.

CHAIR - The Finnish Government at that point had put in €50 million?

Mr GRAINGER - No.

CHAIR - When did the - I understand from media reporting that the Finnish Government or entity of some sort put in €50 million -

Mr GRAINGER - We don't know that. All we've done is -

CHAIR - There is the €100 million requirement, so there's €50 million that's not being met by anybody at this stage.

Mr GRAINGER - Correct, no.

Mr DWYER - We were capped at €50 million and the Finnish Government would pick up anything other than that. The more important point on that is if it went to €120 million, €140 million, they can't come back.

CHAIR - Where's the evidence of that?

PUBLIC

Mr GRAINGER - We have it in writing.

CHAIR - Right. You'll provide that to the Committee at a later time?

Mr GRAINGER - Of course.

CHAIR - Sure.

Mr WILLIE - You just mentioned the penalty clauses: what were they that you waived?

Mr DWYER - Only the late - not the drop-dead date that we've talked about before -

Mr GRAINGER - which is in the contract.

Mr DWYER - - all the way through, which is the delivery date.

Mr GRAINGER - delivery dates, milestone dates.

Mr DWYER - We know they were within two or three weeks of those dates now, anyway, so it's not an issue. It was trying to put a whole package together for them. The major clauses in the contract absolutely remain: speed, fuel consumption -

Mr GRAINGER - weight.

Mr DWYER - weight, dead weight, liveweight - and there's numerous clauses in the contract and none of those has been waived.

CHAIR - You haven't actually said when you signed this contract, have you? You're getting to that?

Mr GRAINGER - On 4 April [2024].

CHAIR - 4 April, right.

Mr GRAINGER - The item I read was for *Spirit IV*: we did the same for *Spirit V*, the same wording on 4 April.

On 5 April, we advised the minister we had sent a letter to the Minister of the agreed increase of €50 million and the contract price for the two vessels previously discussed, providing background on why the increases were agreed based on a compelling commercial requirement.

CHAIR - At that point there was no decision to make this decision public? It's such important infrastructure for the State of Tasmania and we've got a lot of people out there waiting for these things. TT-Line didn't see fit to inform the public of this at that point?

Mr GRAINGER - No.

CHAIR - Why not?

PUBLIC

Mr GRAINGER - I think I answered that earlier. It's a sensitive situation between a company that operates under the *Corporations Act* and we have a contract with a shipyard in Finland. They are not eager to have any announcements made on financial or sensitive commercial matters, and I think for all the right reasons. As I said earlier, if our Minister wanted to make an announcement, he's quite within his rights to do that.

CHAIR - We'll ask him about that.

Mr GRAINGER - Of course.

CHAIR - I don't expect you to speak for him.

Mr EDMUNDS - Just to be clear, there was no plan at any stage for TT-Line to make that news public?

Mr GRAINGER - I don't believe so.

Mr DWYER - If we were asked to make it public, we would have to go back to RMC to seek approval -

Mr GRAINGER - And get legal advice.

Mr DWYER - because you would be announcing a contract price publicly. Obviously, they are very careful about that.

Mr EDMUNDS - Since the information was revealed and has been widely reported since, has there been any impact on the shipbuilder since that news became public?

Mr DWYER - Not that I'm aware of, but I wouldn't know either.

Mr EDMUNDS - Thanks.

Mr GRAINGER - Mind you, every time there's an announcement, even this meeting today, it will be all over the world media tomorrow.

CHAIR - We're aware of that.

Mr GRAINGER - I receive global media notifications from the maritime industry. It'll be all over the place, which is OK; we can deal with that, but I don't believe there was any intention for us to make an announcement on a contract change. But if our shareholders or the Government wish to do that, that's fine.

Mr EDMUNDS - Did they indicate any willingness to make that public to Tasmanians?

Mr DWYER - This was in a really interesting time for the party. The final results of the election weren't declared until 10 April [2024]. We didn't know who the responsible Minister would be for us going forward. It sort of all got, quite rightly, you know -

PUBLIC

Mr EDMUNDS - Considering that state of flux. Do you think, on reflection, it might have been good to have a second briefing with the Opposition - at some stage since the first one?

Mr DWYER - We would take advice from our Ministers on that, yes, of course.

Mr EDMUNDS - You take advice from the Minister, but it was during caretaker. I think that's the point.

Mr DWYER - The point that we've made through this hearing is that we sought advice from Treasury on what we do in caretaker mode, what we can do. We received that advice and the Board followed that.

CHAIR - I am conscious of the time. Is there any more on the timeline that you haven't shared?

Mr GRAINGER - No, Chair. To be clear, we advised our Minister on 21 March of the Board's decision. On 5 April after we had gone through the legal process with the contracts, we wrote to the minister on 5 April.

CHAIR - I asked for copies of much of this correspondence. I'm very conscious of the time. Simon had a quick question.

Mr BEHRAKIS - On the sensitivities around this that you mentioned, I want to make sure I heard right and my understanding is right. You said earlier that members of the Parliament had reached out directly to the Finnish Government?

Mr DWYER - Not members.

Mr BEHRAKIS - That's why I asked. You made a comment earlier.

Mr DWYER - I heard a question in Parliament from the Leader of the Opposition saying they had reached out to the Finnish Government and the Finnish Government had said it's a security matter for the Finnish Government and they won't be making comment on it. That's why we need to be very careful with the Finnish Government.

CHAIR - Okay, I'll call it - very quick.

Mr WILLIE - I have a couple of quick questions on the wharf upgrades that you mentioned. You've got some works now being undertaken by TasPorts for Berth 1. Will that be done in time for the delivery of the first ship? Are there any other expected delays in putting it into service?

Mr GRAINGER - That really is a question for TasPorts. We're hopeful that when the first new ship arrives that we'll have a berth to operate out of.

I want to make sure that everyone understands the complexities. The ship has just done a very successful sea trial with 200 people onboard for a week, 250 people. They have thousands of items to tick off: they are complex vessels. Hopefully it'll keep going the way it's going and we'll have a clearer understanding of when the ship will be handed over to TT-Line

PUBLIC

and then we can make the plans to deliver the ships to Hobart, where they'll be laid up for a period of time to conduct some additional tests. Then we can then put it on the run from Devonport to Geelong.

CHAIR - We will wrap it up here. There's every chance we'll need to call you back as you have provided a lot of information which we're grateful for. We'll ask you to provide further information as this inquiry continues. We may need to invite you back. We thank you for your time today.

Mr GRAINGER - Thank you.

The Committee adjourned at 2:02 pm.