

Attached is a report looking at the possible consequences of the Tasmanian Government's decision – which appears to have been taken as a result of pressure from the Commonwealth Government – to over-ride the Board of TT-Line's considered commercial decision to have the replacements for the two Spirits of Tasmania built in Europe (albeit with 'Tasmanian product' featured in the fit-out), in favour of 'pursuing opportunities' to have these vessels built 'in Australia'.

In my view, this could turn out to be the most financially disadvantageous decision any Tasmanian Government has taken since January 1983, when then Premier Robin Gray spurned then Prime Minister Malcolm Fraser's offer of \$500mn not to proceed with construction of the Gordon-below-Franklin Dam (an offer which Gray had been advised by his own Department was a 'good offer'), only for the subsequent Hawke Government to prevent the dam from going ahead anyway, and to give Tasmania \$273mn by way of 'compensation', a difference which in today's dollars is equivalent to more than \$700mn. If the ships do end up being built 'in Australia' – and the report explains why I put that phrase in inverted commas – there is a very high probability that they will (a) cost more, (b) arrive later, and (c) be less reliable than had the ships been built in Europe as envisaged by the Board of TT-Line (and by the Tasmanian Government itself, up until July). And the report gives a contemporary example from Scotland which illustrates precisely those risks. In the interests of transparency, I should disclose that this report was commissioned and paid for by the Tasmanian Branch of the Labor Party. However, apart from providing 'terms of reference' (ie, the questions my report should answer), there was no attempt on their part to dictate what the report should or should not include (had there been, I would not have accepted the commission). Earlier today I participated in a media event with Opposition Shadow Minister for Infrastructure, Shane Broad, to outline the report's principal findings: on 21 September 2016, I participated in a similar event with Deputy Premier and Education Minister Jeremy Rockliff and others to support the Government's proposal to lower the starting age for children at Tasmanian Primary Schools. No inferences about my political inclinations, then or now, should be drawn from either event.

CHOICES HAVE CONSEQUENCES: REPLACING TT-LINE'S SPIRITS OF TASMANIA

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EXECUTIVE SUMMARY

Bass Strait defines Tasmania as an island. Historically, it has been both a blessing and a curse. From a shipping perspective, it has long been recognised as one of the most

treacherous stretches of water in the world: one which requires vessels with distinctive characteristics in order to provide an affordable, reliable and competitive service to both passengers and freight users.

The importance of affordable, competitive and reliable shipping services across Bass Strait – to Tasmanians, and to Tasmanian businesses – has been repeatedly recognised by public enquiries dating back to the earliest days of Australia's existence as an independent nation. That is why successive Commonwealth and State governments have, in different ways, long been involved in the Bass Strait shipping business.

Bass Strait shipping services are currently provided by three companies – one of them a subsidiary of a company majority-owned by a foreign government, one a privately-owned Tasmanian company, and the third, TT-Line, wholly owned by the Tasmanian Government – operating six ships. Together, and with the assistance of Commonwealth-funded 'equalisation' schemes, they have for at least the past two decades provided competitive and for the most part reliable services across Bass Strait, on which a large proportion of the Tasmanian economy rely.

Although air services have accounted for a growing share of passenger travel between Tasmania and the mainland, the number of passengers travelling by sea has grown over the past decade, while the volume of containerised and trailerised freight shipped across Bass Strait has grown at a faster rate than the Tasmanian economy over the past five years.

As such, the decision to replace TT-Lines two Spirit of Tasmania vessels is of critical importance to the Tasmanian economy – as well as being a significant infrastructure project in its own right, arguably the largest since the last of Tasmania's hydro-electric schemes in the early 1990s.

Until July this year, it had been accepted by all concerned – in particular, by TT-Line and by the Tasmanian Government itself – that the replacement vessels would be sourced from Europe, it being generally agreed that there was no capacity to build vessels of the required capabilities and size in Tasmania, or indeed elsewhere in Australia.

However, in July this year, following (it would seem) intervention from the Commonwealth Government, the Tasmanian Government announced that it would

'over-ride' the Board of TT-Line's decision to enter into a contract (which it was days away from doing) to purchase the replacement Spirits from a Finnish company, and instead established a 'Task Force' to "explore opportunities to have the ships built in Australia".

While that Task Force is yet to complete its assigned work, it appears that any contract to have these ships built 'in Australia' would in reality be awarded to a Western Australian company which has never built a steel monohull vessel before.

Moreover, if that company were to be awarded the contract, it would be building to an experimental design; the hull would likely be constructed in the Philippines; the engines, propellers, drive shafts, and other equipment essential to providing the 'RollOn, RollOff' capability would be imported from Europe; and the only work actually done 'in Australia' would likely be the fit-out of passenger cabins, restaurants, and other public areas.

It is not clear how much of this work would be done at the company's headquarters in Western Australia, or how much additional work would be offered to Tasmanian businesses – bearing in mind that the Tasmanian Government had previously indicated that the ships which were to have been built in Europe would "feature Tasmanian content in the fit-out."

If this company, or any other Australian company or consortium were to be awarded this work, there would appear to be a high probability that the ships would cost more, take longer to build, and/or would prove less capable and reliable than the ones which TT-Line had intended to have built in Europe.

The difficulties now being experienced by the operator of Scotland's CalMac in replacing two of its ferries, after the Scottish Government directed that they be built at 'the last surviving shipyard in Glasgow', provides a salutary warning for Tasmania of the consequences of decisions like this.

It is not at all clear why TT-Line, the Tasmanian Government and Tasmanian taxpayers should pay more, or why passengers to and from Tasmania and Tasmanian businesses should accept a potentially more expensive and/or less reliable shipping service across Bass Strait, in order to create jobs in other parts of Australia, or to contribute to objectives which may be important to the national government (such as

increasing Australia's manufacturing capabilities) but which are not the responsibility of the Tasmanian Government.

Nor is it at all clear what the Tasmanian Government, Tasmanian businesses, or the people of Tasmania, would receive in exchange for paying more for what could be less reliable shipping services, in order to create jobs in other parts of Australia or to contribute to the achievement of one of the policy priorities of the national government.

In addition, each year's delay in the delivery of the replacements for the Spirits of Tasmania, compared with TT-Line's original intentions, means up to 184.200 fewer visitors to Tasmania each peak season, which in turn implies potential losses of the order of \$350 million per annum to the Tasmanian economy – losses which would be disproportionately incurred by businesses and communities on the North-West Coast.

Having regard to the size of the investment involved – of the order of \$850 million according to the TT-Line proposal which was overturned by the Tasmanian Government, and possibly more if the ships end up being built 'in Australia' – this decision could turn out to be the most financially ill-advised decision taken by any Tasmanian Government since January 1983, when then Premier Robin Gray rejected then Prime Minister Malcolm Fraser's offer of \$500 million not to proceed with the proposed Gordon-below-Franklin dam (despite being advised by his own Department that it was a 'good offer'), only for the subsequently-elected Hawke Government to prevent the dam from being constructed anyway, and to give Tasmania \$235 million less (equivalent to \$795 million in today's dollars) by way of compensation than Malcolm Fraser had offered.

INTRODUCTION: SOME HISTORY

It's hard to think of anything that shapes life in Tasmania more than the 250km-wide, 500 km-long stretch of water which we call Bass Strait. It is what makes us an island – and that in turn is what, more than anything else, makes Tasmania different from the rest of Australia, and Tasmanians different from other Australians.

Bass Strait is both a blessing and a curse. Apart from being an integral part of what defines us as Tasmanians (surely, a blessing), it has helped keep us safe during the coronavirus pandemic.

But, historically, it has also been a significant source of inconvenience and additional costs.

For individual Tasmanians – and for mainlanders wanting to come here – it is something which has to be crossed, by plane or by ship, at an additional cost, rather than something which can be driven on, or ridden, as can highways and railways between mainland states. It is also a source of higher prices for a myriad of products which have to be transported, by plane or by ship, from the mainland

For Tasmanian businesses, Bass Strait sometimes provides protection against mainland competitors who face additional costs in getting their products to Tasmania. But more commonly, those costs are an additional burden which Tasmanian producers have to incur (and absorb into their profit margins) in order to get their products to customers on the mainland, or beyond – which their competitors in mainland states don't face.

As a result, there are few things more important to Tasmanians, and to the Tasmanian economy, than affordable, competitive, and reliable passenger and freight transport services across Bass Strait, whether by sea or by air.

This has long been recognised, including by every public enquiry that has ever looked at the condition of Tasmania's economy.

The very first Senate Select Committee of the Australian Parliament was in July 1901 given the task of investigating the need for the newly established Commonwealth of Australia to improve the steamship service between Tasmania and the mainland. It concluded that an improved service was indeed required, and that the Commonwealth Government should consider acquiring the ships required to operate it (Keating 1902: 2).

The 1926 Report on Tasmania's financial position by Sir Nicholas Lockyer observed that "the maintenance of an adequate and economical means for the transport of products to the Mainland is a matter of vital importance to Tasmania". Lockyer's Report noted that Tasmania carried "more than a fair and proper share of the ... burden" imposed by the then recently-imposed Navigation Act, which required that all coastal shipping be undertaken by Australian-owned and crewed vessels (Lockyer 1926: 5 and 11).

The 1977 Inquiry by Sir Bede Callaghan was even blunter: “Stated simply,” he wrote, “Tasmania’s major problem is Bass Strait” (Callaghan 1977: 97).

Although the Commonwealth Government had commenced the Tasmanian Freight Equalisation Scheme a year earlier, following the report of a Commission of Inquiry into Transport to and from Tasmania conducted by James Nimmo, Callaghan nonetheless noted that “irregularities and delays in transporting goods to the mainland are resulting in lessened profitability and loss of sales”, while “unreliability of shipping services causes Tasmanian industries to maintain inventories at higher levels and cost than would be preferred” (Callaghan 1977: 8).

This highlights the point – which is critically important in the present context – that, historically, the reliability of shipping services between Tasmania and the mainland has been no less important to Tasmanian businesses than the price of those services.

Indeed, it was precisely for this reason that TT-Line was established by the Gray Liberal Government in 1985, following the decision by the Commonwealth Government owned shipping line ANL to cease the service it had run (with the *Princess of Tasmania* and then the *Empress of Australia*) since 1959 – a decision which was presumably philosophically challenging for a political party which, especially at that time, was skeptical of government involvement in commercial activities (although Robin Gray appeared less committed to that viewpoint than other contemporary Liberal figures of that era, including John Howard, Jeff Kennett and Nick Greiner).

Nonetheless, Robin Gray said at the time that his Government “took up the challenge of the new service because ... it was in the best interest of the state – for too long, we have been hampered by the inadequacies of the ageing *Empress of Australia*” (Gray 1985). Tony Rundle, at the time Master Warden of the Port of Devonport but subsequently also a Liberal Premier of Tasmania, specifically welcomed the additional freight capacity which accompanied the commencement of the TT-Line service (Rundle 1985).

In 1997, the Nixon Inquiry noted that “sea freight services to Tasmania appear to have improved”, but also observed that “the competitiveness of the service provided across Bass Strait and the linkages available to international destinations for freight and passengers are critical to the effective functioning of the Tasmanian economy” (Nixon 1997: 261-2).

Passenger shipping services across Bass Strait were further enhanced with the commencement of the two Spirits of Tasmania in September 2002, each built in Turku, Finland and with the capacity to carry 1,400 passengers and 500 standard cars, as well as freight, and with an average speed of 27-28 knots (enabling faster and more frequent crossings). In January 2004 TT-Line introduced a service between Sydney and Devonport, using a third vessel (Spirit of Tasmania III), but the operation proved uncommercial and was discontinued in August 2006.

In 2013, the Abbott Government asked the Productivity Commission to undertake an enquiry into Tasmania's shipping costs and the competitiveness of Tasmania's freight industry.

The Productivity Commission noted that "the Bass Strait shipping link and its connectivity with land freight infrastructure and logistics is vital", given that over 99% of freight volumes into and out of Tasmania move by sea (Productivity Commission 2015: 7 and 126-7). It also noted that "the later daily departure time and faster speed of the TT-Line Service and its greater capacity for handling trailerised fresh freight [than the other two shipping lines] means that it offers a distinct service" (PC 2015: 9); although it also estimated that "only around 15% of freight requires an overnight service" (127).

The Productivity Commission's 2014 report recognised that Bass Strait shipping costs were not only higher than the cost of road or rail freight costs over similar distances on the mainland, but also "more costly relative to similar services in the North Sea in Europe", the sea routes most similar in terms of distances and sea conditions to Bass Strait (PC 2014: 17 and 136).

Consistent with its general disposition and with its earlier reports on the same subject, the Productivity Commission was sceptical of the extensive involvement of the Tasmanian Government in the Tasmanian freight system, and suggested that Tasmania should seek reforms to national regulations (in particular cabotage) which add to the cost of coastal shipping, rather than relying on freight equalisation schemes, which it saw as falling "well short of what is needed to improve the competitiveness of the Tasmanian economy" (PC 2014: 26).

The Commission also recommended that the Tasmanian Government should "articulate its objectives in owning and operating a freight and passenger/vehicle services business", and "initiate an independent and public review of the extent to

which TT-Line's freight and passenger/vehicle business satisfies the principles of competitive neutrality" (PC 2015: 148). This recommendation has not been taken up.

In 2013, TT-Line developed a business case for a proposal to charter two additional dedicated freight vessels, which would have increased its freight-carrying capacity by as much as 200%.

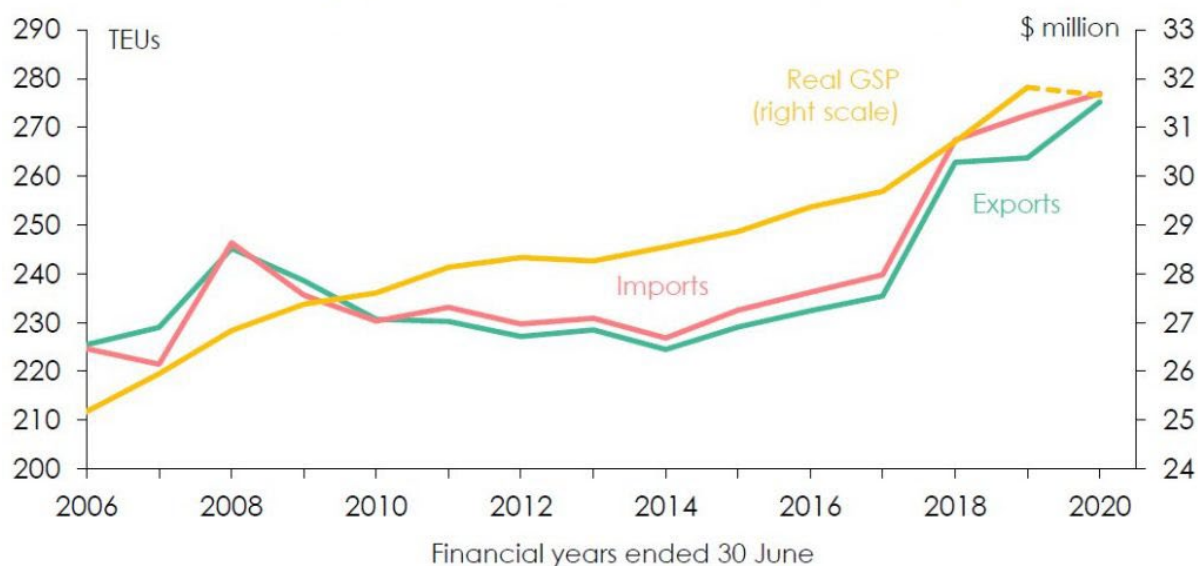
Although an increase in Tasmania's shipping capacity had been recommended by consultants to the then Department of Infrastructure, Energy and Resources (Aurecon 2013: 8 and 99), TT-Line's proposal was opposed by Treasury, which regarded TT-Line's freight projections as "excessively optimistic". Treasury was concerned that TT-Line's proposal would, if successful, "crowd out" one of the private sector operators on the Bass Strait route; and if not (as it thought more likely), place an additional financial burden on the state budget.

TT-Line's proposal was not supported by either the outgoing Giddings Labor Government, nor (after the 2014 election) by the newly-elected Hodgman Liberal Government.

In fact, TT-Line's "base case" assumption of growth in Bass Strait freight traffic of 3½% per annum turned out to be quite close to the mark: according to TasPorts, the volume of freight traffic passing through its ports (measured in tonne equivalent units, or TEUs) grew by 3.4% per annum between 2013-14 and 2019-20 (with north- and south-bound traffic growing at roughly the same rate), compared with virtually no growth over the preceding eight years (TasPorts 2020: 15). Over the past six years, the average growth rate of shipping volumes across Bass Strait has been exactly double the average growth rate of Tasmania's real gross state product (GSP), of about 1¾% pa (Chart 1).

Chart 1: Bass Strait shipping volumes and Tasmania's real gross state product

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Note: GSP figure for 2020-21 based on the Tasmanian Treasury estimate of $-\frac{1}{2}\%$ growth provided in 2020-21 Budget Paper No 1 (26). Sources: TasPorts (2020); ABS (2019); Government of Tasmania (2020).

BASS STRAIT SHIPPING TODAY

As shown in Chart 1 above, Bass Strait non-bulk shipping freight volumes totalled 552,112 twenty-foot equivalent units or TEUs¹ in 2019-20 (TasPorts 2020). The volume of freight measured in TEUs actually rose by 3.0% in 2019-20, the second largest increase in the past decade, despite the covid-19 pandemic and the recession which it has induced.

TT-Line, which typically accounts for about 20% of non-bulk shipping volumes across Bass Strait, reported record freight volumes in 2019-20, in part because the downturn in passenger vehicle traffic as a result of covid-19 restrictions (and the consequent reduction in the number of sailings) meant that more room was available for freight on board its two ships (TT-Line 2020: 4).

1 These numbers exclude bulk commodities (such as woodchips, cement, mineral products etc.) which are carried by specialized vessels. The TEU is the most commonly-used measure of the capacity of container ships and terminals, and is derived from the standard intermodal shipping container which is typically 20 feet (6.1 metres) long and 8 feet (2.44 metres) wide.

The other two Bass Strait shipping operators are Toll Group (which since 2015 has been part of Japan Post, which is in turn 57% owned by the Japanese Government),

and SeaRoad (a Tasmanian-owned business with its origins in Wm Holyman and Sons, established in the 1890s, and which in 2007 acquired the Bass Strait operations of Patrick Corporation, after the ACCC required Toll to divest those operations following its acquisition of Patrick the previous year).

Toll and SeaRoad each operate two ships on the Bass Strait route, with Toll having a market share of (typically) around 50%, and SeaRoad 30%. Both also provide integrated freight and logistics services to their customers, through their trucking, storage and other affiliated operations.

Most of the freight carried across Bass Strait by Toll and SeaRoad is in containers, although both companies' ships also have roll-on, roll-off (RoRo) capacity, ie the ability to carry trucks. TT-Line's freight business is primarily RoRo. TT-Line's main points of differentiation from its competitors are the faster speed of its ships, and its resulting capacity to offer later departure times (which is attractive for, for example, fruit growers in southern Tasmania who can harvest until later in the day while still being able to get their product to Melbourne the following day).

SeaRoad and Toll have made significant investments in their Bass Strait operations in recent years.

Toll has invested \$170mn in the acquisition of two new 700 TEU capacity ships, Tasmanian Achiever II and Victoria Reliance II, both built at Jinling in China, which commenced operations in 2019 (Toll 2016).

SeaRoad acquired a new LNG-powered 455 TEU ship, Searoad Mersey II, built at Flensburger Schiffbau-Gesellschaft (FSG) in Germany, for \$110mn, which commenced operations in June 2016 (SeaRoad 2016), joining the 265 TEU Searoad Tamar, which was the last steel-hulled ship built in Australia (at Tomago, in NSW), in 1991. SeaRoad has announced its intentions to replace Searoad Tamar with a 90% larger vessel costing \$140mn (Bennett 2019): this was intended to commence operations towards the end of this year but is yet to do so.

While data on the volume of freight shipped across Bass Strait is readily available, it is almost impossible to determine the value of that freight – so as, for example, to express it as a proportion of Tasmania's gross state product.

Data on the value of international trade is readily available: for example DFAT statistics tell us that Tasmania's international merchandise (goods) exports have

totalled \$3.7bn in each of the three years 2017-18 to 2019-20 (DFAT 2020) – which on the basis of ABS estimates for the first two of these years represents about 11¼% of GSP. With the exception of crustaceans and some other seafood (worth about \$86mn or a little under 2½% of the total), most of these exports are carried by ship, either directly from Tasmania or (more commonly) via the Port of Melbourne. Tasmania also imported goods worth an average of \$1.2bn a year from overseas between 2017-18 and 2019-20.

But these numbers are almost certainly dwarfed by the value of interstate trade – that is, between Tasmania and mainland Australia.

In the past, data on the value of interstate trade have been available. For example, a 1973 report by the Bureau of Transport Economics (as it then was) presented data from the Commonwealth Bureau of Census and Statistics (later renamed ABS) showing that, in 1971-72, the value of Tasmania's interstate exports was \$303.2mn, of which \$273.8mn went by ship, compared with overseas exports worth \$178.8mn, all of which went by ship; and that Tasmania imported goods worth \$273.6mn from the mainland, of which \$253mn came by ship, as against \$39.5mn directly from overseas (BTE 1973: 6).

Similar estimates were published for the years 1968-69 to 1975-76 in the 1977 Callaghan Report (1977: 184), suggesting that on average over this period, interstate exports and imports were almost twice and almost six times as large, respectively, as international exports and imports. Combining these estimates with other data presented in the Callaghan Report suggests that, fifty years ago, Tasmania's international exports represented a little over 4% of Tasmania's gross product, and interstate exports just under 12%; while international and interstate imports represented about 1½% and 10½%, respectively, of Tasmania's gross product.

There's no way of readily telling – at least, on the basis of publicly available information – whether those proportions have changed, and if so in what direction or by how much, over the intervening five decades. In particular, shipping companies do not know the value of the freight they carry – their prices, and their revenue, are determined by the weight or volume of what they carry, not its value.

But by way of illustration, if the 'mix' of interstate and international exports and imports has remained roughly the same as it was 50 years ago, then based on the known value of Tasmania's international trade, the value of Tasmania's interstate

exports and imports in recent years would have been of the order of \$10½bn and \$3¼bn per annum respectively – or about 33% and 10½% of GDP, respectively.

While these are extremely rough estimates, and highly dependent on the assumptions made in the foregoing paragraph, they do illustrate the enormous importance of Bass Strait shipping to the Tasmanian economy – and, in particular, the importance of the competitiveness and the reliability of that service to Tasmanian businesses, both those selling goods to customers on the mainland or overseas, and those selling goods imported from the mainland or overseas to Tasmanian customers.

And that is without saying anything about the value of passenger traffic carried across Bass Strait. Although the share of visitors to Tasmania arriving by air has risen rapidly over the past 20 years, thanks largely to the substantial increase in the number of services offered by airlines, the Spirits still account for about 14% of the total number of visitors to Tasmania, or closer to 20% of the number of non-business visitors. And the absolute number of passengers carried on the Spirits in the 12 months ended March 2020 was still about 15% higher than in the early years of the past decade (Tourism Tasmania 2020).

REPLACEMENTS FOR SPIRITS OF TASMANIA I AND II

Ahead of the 2018 state election, the Hodgman Government announced that it would be ‘delivering’ two new purpose-built Spirit of Tasmania vessels in 2021, which would be 30% larger than the existing Spirits, and which would provide increases in passenger and freight capacity of 43% and 39% respectively.

This additional capacity would be required, the Government’s publication said, to meet projected increases in the numbers of passengers and freight trailers of 29% (2.5% per annum) and 43% (3.6% per annum) respectively over the ten years to 2026-27 (Tasmanian Government 2017b).

Importantly, in the present context, this announcement noted that “there are no Australian shipyards with the capacity to build the new Spirits”, although it promised that “the vessels will feature Tasmanian products in the fit out”. The announcement also highlighted that the vessels would be delivered “two years ahead of schedule”, suggesting a degree of urgency attaching to the task.

The Government had previously provided, in the 2016-17 and 2017-18 Budgets, for four \$40mn ‘special dividends’ from TT-Line to be paid into a “TT-Line Vessel

Replacement Fund” (within TasCorp) in each of the financial years 2016-17 through 2019-20; the 2017-18 Budget also provided for two \$10mn contributions from the Consolidated Fund to this fund in 2019-20 and 2020-21 (Tasmanian Government 2016: 70 and 2017a: 73).

In the 2019-20 Budget, the ‘special dividends’ were discontinued, and TT-Line put on the same dividend arrangements as other government-owned enterprises (Tasmanian Government 2019: 76). The 2020-21 Budget also provided for \$218.4mn by way of equity contribution to TT-Line in the 2022-23 financial year towards the cost of the replacement Spirits (Tasmanian Government 2020: 102).

The 2019-20 Budget Papers included an estimate that the two new vessels would cost \$600mn (Tasmanian Government 2019: 122), although a year earlier a figure of \$700mn had been mentioned publicly (The Advocate 2020). And by July this year, the figure had escalated to \$850mn (Killick and Farrell 2020) – making this Tasmania’s largest infrastructure project (in 2020 dollars) since the construction of the King-Anthony hydro-electric scheme in the early 1990s.

TT-Line had originally signed a contract in May 2018 with German shipbuilder Flensburger Schiffbau-Gesellschaft GmbH & Co (FSG), which (as noted earlier) had previously built SeaRoad’s Searoad Mersey II, for the construction and fit-out of two ships for €219mn (\$354mn) each, to be delivered in early 2021.

This contract was cancelled in February 2020, at TT-Line’s instigation, after it became apparent that FSG were experiencing financial difficulties and would be unable to meet their obligations under the contract (Kempton 2020). FSG went into insolvency two months later (New Ships 2020), although it has more recently been resurrected under new management (Ferry Shipping News 2020).

TT-Line then entered into a memorandum of understanding (MoU) with Finnish shipbuilder Rauma Marine Constructions Oy(RMC), which according to its website specialises in “the construction and maintenance of multi-purpose icebreakers, car and passenger ferries, and vessels for use by the armed forces”, in a location with a tradition of shipbuilding “dating back 600 years”, and which had been the ‘runner up’ in the original selection process resulting in the awarding of a contract to FSG, for the construction of the two vessels.

TT-Line was within days of signing a contract with RMC for the delivery of two vessels, one in late 2022 and the other in late 2023, when on 21st July this year Premier Peter Gutwein announced that, “after consultation with the Prime Minister”,

the Government had decided to over-rule the Board of TT-Line's decision to enter into a contract with RMC, and had instead formed a 'task force', in conjunction with the Australian Government, "to determine how much work can be done in Australia, and in Tasmania" (Killick and Farrell 2020).

In considering the potential consequences of this decision, it is worth re-iterating the Hodgman Government's (note, the Government's, not TT-Line's) conclusion in late 2017 that "there are no Australian shipyards with the capacity to build the new Spirits."

It is not at all obvious that anything has changed in that regard over the intervening three years.

It is well understood by everyone with any knowledge of Bass Strait that it is one of the most challenging stretches of water regularly traversed by ships anywhere in the world.

The Bureau of Meteorology describes it as "a notorious stretch of water" in which "extreme wave heights occur often" and where "opposing tidal waves may increase wave steepness." The World Cruising and Sailing Wiki tells would-be cruisers and sailors that: "Owing to the various currents and weather systems that move through it, and also due to its shallow depth (varying around 50 metres or so, compared to the several thousand metres of the ocean on either side), Bass Strait has a well-deserved reputation as being one of the most treacherous bodies of water in the world." In 2010, the New York Times quoted an experienced navigator as saying that "the sea state that is created by this combination of wind and current [in Bass Strait] is as bad as I have seen anywhere in the world."

Apart from the maritime conditions, the other challenging aspect of the Bass Strait crossing is its distance. There are other stretches of water with similar or even more challenging combinations of currents, winds and wave heights and which are regularly traversed by ships – such as the Cook Strait between the North and South Islands of New Zealand, the Bay of Biscay on the Atlantic coast of France, the Irish Sea between Ireland and Wales, and the North Sea between Scotland and Norway. But most of them involve shorter distances than Bass Strait: for example, the crossing between Picton and Wellington (on either side of Cook Strait) is 70 kms and takes 3-3½ hours; the crossing from Holyhead (at the north-western tip of Wales) to Dublin is

107 kms and takes 3¼-3½ hours – compared with 506 kms or about 9 hours between Devonport and Melbourne.

This combination of challenging conditions and voyage length significantly limits the types of vessel which can offer a reliable shipping service across Bass Strait, without excessive discomfort for passengers and the risk of delays or cancellations in the event of safety concerns prompted by inclement weather or wave heights.

The experience with InCat's short-lived SeaCat service between Georgetown and Port Welshpool in the early 1990s – which was nick-named the "Vomit Comet" – is instructive in this regard. And although, as InCat CEO Tim Burnell has pointed out, there have been considerable advances in the construction of aluminium ferries over the ensuing three decades, he also acknowledges that although InCat has since built catamarans with lengths of "well in excess of 100m", it only has "concept designs" of more than 180m – compared with the 210m envisaged by TT-Line for the replacement Spirits (Burnell 2020). He also acknowledged that "Australia has not built a large steel monohull ferry" (the type of vessel sought by TT-Line, and operated by both Toll and SeaRoad) "for more than 50 years" (although as noted earlier, the true figure is 30 years – which is still a very long time).

POSSIBLE REASONS FOR WANTING THE REPLACEMENT SPIRITS MADE "IN AUSTRALIA"

The Tasmanian Government's decision to "pull the pin" on TT-Line's contract with RMC appears to have been at the behest of the Commonwealth Government: as recounted earlier, the Premier indicated, in announcing his decision on 21st July, that it followed "consultations with the Prime Minister."

It's not clear what incentive(s) the Commonwealth may have offered, or alternatively what pressure it may have exerted, in order to prompt the Tasmanian Government to over-ride the decision of its appointed TT-Line Board, a decision of which it had been aware (and which it had supported) for some years, and to delay the delivery of ships when it had previously claimed credit for undertaking to deliver them 'ahead of schedule'.

It is possible that the Commonwealth may have offered to under-write any additional costs which TT-Line or the Tasmanian Government will incur as a result of having the ships built 'in Australia'; or if the appointed Task Force concludes (as had previously the Board of TT-Line and the Tasmanian Government itself) that this is not possible,

as a result of the construction of the ships overseas being started later and hence delivered later (with consequent loss of revenue the increased capacity would have enabled).

One would certainly like to think so.

It is also possible, perhaps, that the Commonwealth made its continuing support for Marinus Link, the proposed electricity interconnector between Tasmania and the mainland (and another major infrastructure priority for the Tasmanian Government), conditional on the Tasmanian Government's acceding to its desire that consideration be given to building the replacement Spirits 'in Australia'.

For the Commonwealth, having such a large ship-building task carried out in Australia would be consistent with its recently-announced Modern Manufacturing Strategy's stated desire to "harness Australian manufacturing capability and drive our economic recovery and future resilience" (Australian Government 2020) – although commercial shipbuilding is not one of the six National Manufacturing Priorities identified in that strategy.

However, it has also been suggested in numerous places (for example Baird 2020 and Bruce 2020) that the Commonwealth Government's interest in where the replacement Spirits are built is a result of pressure from Western Australian-based shipbuilder Austal.

Austal has recently attracted scrutiny following its apparent success in over-turning Australian Border Force's initial refusal to make a \$39mn 'success fee' payment for eight Cape Class patrol boats which it built for Border Force in 2015-16 and which, according to Border Force, were 'plagued with problems' (McKenzie and Grieve 2020).

The subsequent decision by Border Force to make the payment to Austal has since been the subject of a report by the Commonwealth Auditor-General which found that, more than two years after these payments were made, "capability and support deficiencies remain" (Auditor-General 2020: 19). The Auditor-General's report in turn triggered an investigation by the Australian Commission for Law Enforcement Integrity (ACLEI) into the payment to Austal, which was subsequently terminated in April 2019 by Integrity Commissioner Jaala Hinchcliffe, shortly after she had been appointed to that role (by Attorney-General Christian Porter, who is from Western

Australia) to replace the Commissioner who launched the investigation, Michael Griffin (Mackenzie and Grieve 2020).

These investigations have in turn prompted investigations in the United States by the Department of Justice and the Securities and Exchange Commission, into whether Austal properly disclosed the Australian investigations to the Australian Stock Exchange, as required by law. While Austal denies any wrongdoing, its most recent Annual Report acknowledges that “it is possible that these proceedings could lead to civil or criminal penalties, damages and/or suspension or debarment from future US Government contracts, which could have a material adverse impact on its consolidated financial position, results or operations, or cash flows” (Austal Limited 2020: 125). For context, Austal has a significant shipbuilding operation in Mobile, Alabama, whose major customer is the US Navy: Austal’s US operations accounted for 80% of its revenues in 2019-20, and represented 76% of the total value of its assets at 30th June 2020 (Austal 2020: 72).

While there is no basis for any assertions as to the likely outcome of the investigations currently taking place in the United States, it seems clear that securing a contract of order of magnitude envisaged for the replacement of the two Spirits of Tasmania would represent a substantial relief for Austal in the event of an adverse outcome.

It is worth noting that, were Austal to be awarded a contract for building the replacement Spirits, the construction of the steel hulls would be undertaken at Austal’s facility on Cebu, in the Philippines (Bruce 2020).

The ships’ engines, propellers, drive shafts, and other sophisticated electronic and electrical gear required to operate the ships’ Rollon, Rolloff facilities would all be imported from Europe, since no-one else has the relevant capabilities.

The only work that would likely be done ‘in Australia’ would be the fitting out of the passenger cabins, restaurants and other public areas in the ships. Most of this work would likely be undertaken in Western Australia, although it seems probable that some work would also be contracted to Tasmanian businesses (as part of any agreement to which the Tasmanian Government would be party). However, in evaluating the significance of any such work it should be recalled that (as noted earlier) the Tasmanian Government had previously committed, in 2017, that “the

vessels will feature Tasmanian products in the fit out”, even when it was intended that those vessels would have been built in Europe.

IMPLICATIONS FOR TASMANIA OF HAVING REPLACEMENT SPIRITS MADE ‘IN AUSTRALIA’

Assuming that the Tasmanian Government does not want the replacements for the Spirits of Tasmania to be made of aluminium (which would raise significant risks of unpleasant sailing conditions for passengers, and more frequent delays to or cancellations of sailings due to safety concerns in inclement weather conditions, leading in turn to a decline in the reliability of the service), it bears repeating that Australia has not built a steel monohull ferry for more than 30 years.

As such, if steel monohull replacements for the Spirits were to be built ‘in Australia’, they would necessarily be built to an experimental design, by a company with no prior experience in building vessels of this type, or of the required size.

And because no Australian company presently has the capacity to build vessels of this type, of the required size, it will be very difficult to arrange a competitive process (involving multiple tenderers) of the sort that would be expected to ensure the best outcomes in terms not only of price, but of capability and delivery times. In effect, the company (or consortium of companies) chosen to build the ships would be setting the key terms of the contract, rather than TT-Line (or the Tasmanian Government) as the purchaser or ‘client’. That, in turn, means that it would be very difficult to ensure that TT-Line, the Tasmanian Government and ultimately Tasmanian taxpayers achieved ‘value for money’, in either the narrowest or the broadest sense of that phrase.

Tasmanian Stephen Gumley, who as a result of his seven years as CEO of the Defence Materiel Organisation (which during its existence was the procurement agency for almost all major defence equipment purchases) knows a thing or two about large procurement contracts and major projects, cautions that in any major procurement exercise, “only two of Cost, Schedule and Capability can be fixed – the third floats” (Gumley 2017: 13).

Gumley notes that this principle applies most when “there are design and innovation aspects as part of their program” – as there surely would be in this case. He suggests that a client might seek to circumvent this “three-legged stool of divergence” by “extreme conservatism on all three” – that is, having a large dollar contingency (cost), stipulating that time isn’t important (schedule) and not expecting much to be

delivered (capability) – but stresses that this is “very wasteful of ... resources” and is a “lazy, non-accountable approach”.

The risk in the context of having the replacement Spirits built “in Australia” is of ‘slippage’ on all three legs of Gumley’s ‘stool of divergence’ – ie, that the ships end up:

- costing more than they would have cost if they had been built overseas as per TT-Line’s original intention – SeaRoad’s owner Chas Kelly has suggested they could end up costing over \$1 billion (Bennet 2020) – and perhaps also more than initially specified in the contract with the ‘Australian’ builder;
- taking longer to build – again, not only longer than they would have if they had been built overseas, but longer than specified in the contract; and
- performing less well in one or more respects, such as speed, capacity or reliability – and again, not only less well than had the ships been built overseas, but also less well than specified in the contract.

And there would be very little that the Tasmanian Government could do (other than seeking monetary recompense) in any of those events, let alone all three.

The operator of Scotland’s CalMac ferries is currently encountering the first two of these problems as a consequence of a decision by the Scottish Government to have two replacement ferries built at “the last shipyard in the Port of Glasgow” (see below).

It’s also important to remember that any additional costs – and it seems highly likely that there would be additional costs – would be borne not just by the Tasmanian Government and Tasmanian taxpayers in terms of dollars, but also by Tasmanian businesses, in the form of a more expensive and/or less reliable shipping service.

If it were truly plausible that having the replacement Spirits built ‘in Australia’ meant, in reality, having them built in Tasmania, then it would be perfectly legitimate for the Tasmanian Government to contemplate paying a premium (over and above the cost of having them built overseas) for them to be built in Tasmania, in order to sustain manufacturing capacity and to create jobs in Tasmania.

That’s a normal part of the procurement policies followed by the Tasmanian Government and its agencies, government business enterprises and local governments, and by similar entities elsewhere in Australia and indeed around the world.

Even in those circumstances, however, it would also be legitimate for others (including Members of Parliament, the Parliamentary Public Accounts Committee, the Auditor-General and the press) to ask whether paying that premium (the magnitude of which ought to be made publicly available) was the most cost-effective way of creating the jobs which ended up being created as a result.

Scotland's experience provides a salutary real-time lesson for Tasmania CalMac – a ferry company owned by Caledonian Marine Assets Ltd, which is in turn owned by the Scottish Government – provides passenger ferry and freight services between mainland Scotland and the islands of the Inner and Outer Hebrides, the Shetland and Orkney Islands, Mull and Iona, Coll and Tiree, Jura and Islay, Butte and Arran – is as essential to the people of and businesses on those islands as the Bass Strait ferries are to the people of Tasmania and the Tasmanian business community.

In 2015, CalMac placed an order for two new ferries for its services to Arran and the Inner Hebrides, with the Port of Glasgow-based Ferguson Marine Engineering Ltd (FMEL). FMEL had been created the previous year from Ferguson Shipyards, a company which had been founded in 1903 but (after several changes of ownership, including a period of state ownership) went bankrupt in 2014. Ferguson Shipyards was then acquired by a company owned by Jim McColl, a billionaire with “a close relationship with the Scottish Government” and who “had been one of the most prominent business figures to support Scottish independence ahead of the referendum of that year” (Watson 2020).

It was reported at the time that the contract was awarded to FMEL as a “lifeline” for the last commercial shipyard on Glasgow's Clyde River (Watson 2020). Because neither Ferguson nor any other UK shipbuilder had ever built a ship of the type specified in the contract before, the contract was a ‘design and build’ arrangement. The contract value was originally £97mn, and under it the ships were to have been delivered during 2018. Neither of the ships has yet been delivered, and are now not expected to be completed until 2022: while the cost of the ships has blown out to £210mn (2¼ times the original price) (Dalton 2020). CalMac argues that the delays and cost over-runs started with FMEL cutting the steel hull “too early, before the design was worked out”; FMEL claimed that CalMac made “repeated design changes”.

In August last year, after the directors of FMEL announced an intention to put the company into administration, it was nationalised by the Scottish Government. It has been claimed in the Scottish Parliament that the FMEL bid was the highest price of

six bids competing for the work. A member of the Scottish Government's Ferry Industry Advisory Group, Roy Pedersen, when asked in January this year by members of the Scottish Parliament's Rural Economy and Connectivity Committee (which is conducting an enquiry into the CalMac vessels) why the contract was awarded to FMEL, replied "I don't know the answer, but three things spring to mind – one is incompetence, another is vested interest, and the other is corruption" (Lyons 2020). This episode provides a salutary warning of the risks to Tasmania of taking a similar decision for the 'wrong reasons'.

However, there can surely be no justification for Tasmanian taxpayers being asked to pay 'over the odds' for TT-Line's vessels, or Tasmanian businesses being expected to pay higher prices for shipping services and/or to tolerate a lower quality of shipping services, in order to create jobs in other parts of Australia.

In this particular context, Tasmanians might well feel justified in asking, echoing one of John Cleese's characters in the Monty Python film *The Life of Brian*, "what have the Western Australians ever done for us?" – apart from complain for over a decade about GST revenue-sharing arrangements, calling Tasmania a 'mendicant' state (as former WA Premier Colin Barnett did on more than one occasion, Dunlevy 2011) and so on (in contrast to the road- and aqueduct-building, among other things, which Cleese's colleagues in the Judean People's Front had to acknowledge the Romans "had done for us").

And while there might well be legitimate reasons for the Australian Government to want to create jobs in another part of Australia, or to expand Australia's manufacturing capabilities, why should Tasmanian taxpayers, or Tasmanian businesses, pay for it?

Even in the event that the Future Vessels Task Force established in July comes to the conclusion that it is not practicable to have the replacement Spirits built 'in Australia', and that they should be built in Europe in accordance with the TT-Line Board's recommendation (and as the Government had intended until July), there will be significant costs to the Tasmanian economy arising from the consequential delay in starting, completing and delivering the new vessels.

It is understood that the time frame in which RMC had planned to cut the steel for the hulls for the replacement Spirits, had the contract with TT-Line been signed as intended, has now been allocated to another order.

In the meantime, the 600 additional passengers per vessel which the replacements were to have had the capacity to carry (Tasmanian Government 2017b) won't be coming to Tasmania.

TT-Line's current schedule suggests that its two ships will make a total of 307 crossings from Melbourne to Devonport between the last weekend of November and the end of April. Thus, for each year that the delivery of the replacement ships is delayed, up to 184,200 fewer passengers will come to Tasmania via ship each 'peak season' compared with the number that would have been carried had TT-Line been allowed to proceed with its Board's original decision.

Given an average spend per visitor of \$1,924 (Tourism Tasmania 2020: 7), that implies a loss to the Tasmanian economy of \$354mn per season. That's equivalent to about 1% of Tasmania's annual gross state product, or about \$656 per person.

The loss may in fact be greater than this because, according to the Tourism Industry Council of Tasmania, visitors arriving by ship and bringing their own car typically "stay longer and spend more" than visitors arriving by air (Powell 2020).

Moreover, since visitors bringing their own cars also spend more time in regional areas – and in particular visitors arriving on the Spirits are more likely to spend some time (and money) in and around Devonport – these losses are likely to be concentrated on the north-west Coast.

The above calculations make no allowance for losses arising from the absence of the 37% increase in freight capacity, because it seems likely that this additional capacity would not be fully taken up immediately (or that if it were, it would be at the expense of TT-Line's competitors). But if the delay in delivering the replacement ships were to extend to more than two years, compared with the original schedule, then those losses could become significant, as a result of businesses deferring plans to increase production in order to take advantage of the enhanced capacity to transport produce to the mainland or overseas.

In summary, it seems that having the replacements for the Spirits of Tasmania built 'in Australia', contrary to the recommendations of the Board and management of TT-Line, and indeed contrary to the settled position of the Tasmanian Government itself until mid-July, would inevitably result in Tasmanian taxpayers paying a higher price (and potentially a considerably higher price) for ships that will inevitably commence

operations at a later date than if TT-Line had been permitted to proceed as it originally intended; Tasmanian businesses facing a non-trivial risk that shipping services will be less reliable than if the replacement vessels had been constructed as per TT-Line's original intention; and fewer tourists visiting Tasmania than would have been the case if the replacement ships had commenced operations as originally intended.

As such, any decision to have the replacements for the Spirits built 'in Australia' could well turn out to be the most ill-advised decision (certainly in financial terms) any Tasmanian Government has made since January 1983, when then Premier Robin Gray elected to reject then Prime Minister Malcolm Fraser's offer of \$500mn to abandon the proposed Gordon-below-Franklin dam (even though Gray had been advised by the Energy Directorate within his own Department that it was a 'good offer' which he should accept), only for the Fraser Government to lose office a few weeks later, and for the Hawke Government which succeeded it to offer Tasmania only \$276.5mn after having successfully prevented the Gordon-below-Franklin dam from proceeding, the High Court having upheld its power to do so under the Australian Constitution (Robson 1990: 579).

Robin Gray's arrogance, and his wilful disregard for the interests (at the Federal level) of the political party to which he belonged, cost Tasmania \$234.5mn in 1983 (equivalent to \$795mn in today's dollars).

It would be a terrible shame if the next most costly blunder in recent Tasmanian history were to appear on the record of a Government which, to date, has managed Tasmania's finances well.

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