

UNCORRECTED PROOF ISSUE

Friday 8 December 2017 - Legislative Council - Government Businesses Scrutiny Committee B- TT-Line Company Pty Ltd

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE B

Friday 8 December 2017

MEMBERS

Ms Armitage
Mr Dean
Mr Finch
Ms Rattray (Chair)
Ms Siejka
Mr Valentine
Mr Willie

IN ATTENDANCE

Hon. Rene Hidding MP, Minister for Infrastructure

Ministerial Office

Mr Richard Wilson, Deputy Chief of Staff

TT-Line Company Pty Ltd

Mr Michael Grainger, Chairman

Mr Bernard Dwyer, Chief Executive Officer

Ms Kym Sayers, Chief Financial Officer

Mr Kevin Maynard, General Manager Corporate Services

CHAIR (Ms Rattray) - Welcome, everyone, to the hearing. Minister, would you like to make a brief overview to the committee?

Mr HIDDING - The 2016-17 financial year was an outstanding one for TT-Line on every measure - revenue, profit, passenger numbers, freight volumes and dividends returned. The *Spirits* are clearly delivering for Tasmania. I congratulate all involved in this achievement: the chair, the executive team led by Mr Dwyer, and the crew - some 550 staff of Bernard's who do a sensational job every day for Tasmania as employees of TT-Line.

Government policy was to reduce average fare prices over four years. This is now at 15 per cent in real terms compared to the last full year of the former government. There was a policy to increase the number of visitors coming to Tasmania by the *Spirits* - passenger numbers are up more than 31.5 per cent since we have come to government. This Government worked closely with the company to refurbish the passenger areas of both vessels, with a \$30 million project that has transformed both vessels and created greater passenger demand without losing one sailing. The number of day sailings have more than doubled, which has helped absorb extra passenger demand created by the lower average fare prices and refurbished vessels. The changes are spinning off revenue, profits and dividends, which are being locked away for the replacement vessels.

TT-Line has carefully modelled future demand for travel on the *Spirits* and has projected a continuation of strong passenger and freight growth in line with the expansion of Tasmania's tourism industry and broader economy. The TT-Line has reached the position where it is getting close to capacity with day sailings and driving the business much harder than it does. Freight spaces are essentially booked out and we are entering a period where it is going to be hard to deal with the projection of demand for travellers.

Earlier than otherwise previously thought, TT-Line accelerated its ship replacement committee on its board. Two years ago it engaged with the Government to set up a cabinet subcommittee on ship replacement and we worked hand in hand on that.

As a courtesy to this committee, rather than announce in a month's time where the procurement program position was at - I did not want to sit here for two-and-a-half hours skirting around a material matter; there is also the materiality of informing the tourism and freight markets of facts we are aware of - today I announce that the TT-Line business case has been approved by Treasury and by Cabinet, and it now has formal approval move to procurement. Because of where we are at in that procurement cycle, TT-Line is engaged with a number of shipyards around the world. We are not able to discuss a price because it could well cost us a lot more than otherwise. We cannot talk about that, but we can talk about the key metrics of what the ships will deliver. I have brought some brochures - very basic brochures - to share with the committee.

CHAIR - Very glossy brochures, minister.

Mr HIDDING - They are. We found some glossy paper in my office. Amazing.

They give the key metrics of these vessels, which will show overall passenger capacity will be up by 43 per cent. Essentially, they are currently 194 metres, but the new vessels will be 212 metres and still fit in Devonport. They will be wider and deeper and passenger vehicles, particularly for those regional areas in Tasmania that survive very strongly on the self-drive tourism markets. Lane metres are going up by 71 per cent for passenger vehicles. I will get Mr Dwyer to talk about why that is necessary, particularly for caravans and high camper vans that struggle to come to Tasmania now because they can only come on certain sailings when the freight deck is up. The maximum capacity of the vessels at the moment is 1400 for the day sailing and will go to 2000. These vessels will be Tasmania's vessels for at least the next 20 to 30 years because they are brand new. When Tasmania bought the vessels in 2001 or 2002, they were built in 1998, only four years old. That is now a good 20 years and will be 24 to 25 years by the time we turn them over.

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It was time to inform the market. We have done that today and want to share the information, which we are very happy to explore with this committee. It is a good opportunity for this committee to explore the details as much as we can.

The other driver of having to move early was the federal government's advice it wanted clean ships output by 2020. The minister, Darren Chester, has said '2020, no leave passes'. In this circumstance, our vessels will be sold by then and move to elsewhere in the world. We may or may not - and is something you can explore with the TT-Line - move to later technology on the vessels or we could leave that for the new owner to do, because the projected arrival date of these new ships is 2021, essentially a year later. I am sure the federal government, if the vessels are going, would not require us to comply with that 2020 date. The new vessels are dual fuel, LNG and diesel, and therefore much cleaner and cheaper to run.

For guidance, TT-Line has been able, through its clear business case based on fact, not guesswork, which has Treasury's and Cabinet's approval, to fund the full cost of the new *Spirits* through TT-Line's own revenue projections. Its projected cash reserves at the time are \$180 million committed in the Ship Replacement Fund within government, which includes \$20 million from us. We had already committed to that.

The only money from the broader budget going into the new ships will be the \$20 million we have committed into the Ship Replacement Fund. Other than that, TT-Line can carry the debt as good commercial debt. As I say, the business case is very robust and based on the CEO calls it 'reasonably miserable projections' - very conservative projections he does not agree with; he thinks they will do better - but the business case is based on that, which means it is very conservative.

Being in this position, TT-Line has accelerated this process and hopes that in the next six months or so - we are not able to say exactly when - contracts will be signed because that also is a materiality in terms of procurement. Someone might think they will charge them another \$50 million because they will want it earlier, so they are keeping all options and sensitivities in mind.

It has been an extraordinary past year. We have hit another record for the carrying of passengers. I might ask the CEO because he knows it off the top of his head.

Mr DWYER - Approximately 433 925.

Mr HIDDING - That is a record since there were three ships on the run. There has never been any more than that. That underpins in real terms the projection done by the recognised industry experts in this field, BDA, which shows this business case is robust, sound and affordable by TT-Line and therefore the people of Tasmania.

Mr FINCH - Terrific news and it is good that you have moved forward with the process of getting replacement vessels. I suppose my old chestnut, not so much with the current minister or the current chair or CEO, but from years gone by has been what we need to do to acquire and purchase the vessels. My concern has always been we have the Treasury, the Australian Maritime College and TT-Line with all its incumbent experience, yet we are still going off to a ship broker in previous years for the replacement vessels.

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Minister, can you apprise me of the process? I welcome this board, the Ship Replacement Subcommittee of the Cabinet. Could you apprise the committee of the process from here?

Mr HIDDING - The Cabinet set this subcommittee up so there was essentially no daylight between the government of the day or the shareholder ministers and the company - the shareholder minister, myself, portfolio minister, Treasury as Treasury minister shareholder, and the Minister for Tourism, which is the Premier - so it had a very high level Cabinet representation along with all our officers from our departments and the most senior people of government.

It was working with these people - not just the two here, but the experts in international shipping - as to exactly what the best arrangement was. That included the ports that would be used, which will be Devonport and Melbourne - even that took months to make sure we had every element of procurement of ships right.

I must point out that the chairman was until very recently, I think, the chairman of Interferry -

Mr GRAINGER - Still am.

Mr HIDDING - Sorry, still is. About to come to an end, I understand, is it?

Mr GRAINGER - Next year.

Mr HIDDING - Interferry, which is the international peak body for vessel operators of this type. They have first-hand information from every kind of vessel in the world. Probably the only kind of vessel, including catamarans, we did not work with them on was a submarine. Other than that, we wanted to know everything about every other option.

That was provided in detail to that subcommittee. It is not surprising that after all that work, knowing how well *Spirits I* and *II* perform in any weather, 490-odd kilometres a night, passing each other in the middle of the night, that we have ended up with a fast monohull of this type. It is essentially the same kind of vessel as our current *Spirits* - bigger, but the same kind of solution. It's a solution we could trust and know would do us for the next 20 or 30 years. I will ask the chairman to speak to an important question, which is: How did you go about deciding which way to go? How did we go about it?

Mr FINCH - The purchasing process as well, shipbrokers and that sort of thing.

Mr GRAINGER - We have not purchased anything yet, we are still going through that process. There is still a considerable amount of work to be done with shipyards that have been short listed.

It is industry standard that a shipbroker is employed to reduce the risks. You can say that we have the AMC and things like that, but they do not have the experience in the vessels we operate. No-one in the country does because we are the only operators of such vessels.

Mr FINCH - The TT-Line does.

Mr GRAINGER - That is what I am saying. No-one else does except the TT-Line. We require a shipbroker to safeguard our decisions, to assist us in negotiations with shipyards to ensure we are getting the best value for money. It is an industry standard. Every single vessel of

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this type and size that is bought or sold will be done through a broker. It is not done independently.

Mr HIDDING - You could do it independently. It is a bit like a real estate agent. Very few properties are sold without an agent or a broker in the middle working for both parties. We have specialists in this case working for our side.

Mr GRAINGER - This is a significant infrastructure project. You would not dare do it without a broker. We, as a board, and myself as chairman, would not recommend that to the shareholder ministers. It would be a foolish thing not to have an internationally acclaimed shipbroker go with us through the various essential processes.

Mr FINCH - What percentage be in this day and age would go to the broker?

Mr GRAINGER - It depends on the broker and it depends on the project. We have not determined that.

Mr FINCH - You do not have a specified broker at this stage? In years gone by, we had the same broker for quite a few transactions.

Mr GRAINGER - Correct.

Mr FINCH - Is that broker still in business or still in the market?

Mr GRAINGER - Yes, and he is acting for us.

Mr FINCH - Acting in what capacity at the moment?

Mr GRAINGER - As our broker, as the TT-Line shipbroker.

Mr FINCH - Dealing with ship builders?

Mr GRAINGER - He will also assist us with the sale of the existing vessels.

Mr FINCH - I got a sense from what you were saying that it was still open as to whom you might go to.

Mr GRAINGER - No, we have determined who our broker is. We have not agreed on the brokerage fees. That will come once we select a shipyard and will depend on which shipyard we select. We have been engaged with our shipbroker for a number of months now. He has been travelling with management, the CEO, to various shipyards to discuss the project - how we are going to commence the project, what we are looking at, what we are looking for, what we do not need, what we do need and everything else. The broker has been established and appointed, but I do not believe there has been any brokerage fee discussed yet. He would not be able to do that until we decide on a builder.

Mr FINCH - The name of the broker?

Mr GRAINGER - Mason Shipbrokers.

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Mr FINCH - Mason Shipbrokers. That is one person?

Mr GRAINGER - That is a company.

Mr FINCH - A company.

Mr GRAINGER - It is regarded as the leading shipbroker in the world.

Mr HIDDING - Where a government company has no particular skills of its own and contracts out everything would be very expensive. TT-Line is hugely experienced and while it has a broker, it would not need as much assistance as other companies. The people we have been working with in this Cabinet subcommittee, including Massimo, who is a master mariner in his own right. He directed the refurbishment of the two vessels in an internationally award-winning way. He is a very clever man. We have that expertise in-house which means the involvement with brokers is at the market face where you need high expertise.

Mr FINCH - Can I get some idea of how that brokerage fee is ascertained? Years ago it was 1.3 per cent of the deal was the broker's fee. How do we guesstimate?

Mr GRAINGER - It will be a discussion between the broker, the company and the shipyard, when the shipyard is selected.

Mr FINCH - You may know, Mr Grainger, what is going on in the world of brokerage, what are the fees you are likely to pay for a broker at this level and at the quantum of money we are dealing with?

Mr GRAINGER - I do not know; I cannot answer that. It depends on the ships, the shipyard and the broker. It depends on the experience of the broker and it will vary by x per cent.

Mr DEAN - It is on the percentage cost of the ships. That is what it was, I thought.

Mr GRAINGER - No.

Mr HIDDING - Probably on second-hand purchase of ships.

Mr FINCH - Will the taxpayers of Tasmania be given a rundown of what the implications were of the things you mentioned to come to the fee that is paid to the broker?

Mr HIDDING - In due course.

Mr GRAINGER - In due course it will be totally transparent.

Mr FINCH - That will not be commercial in confidence?

Mr GRAINGER - It may be.

Mr FINCH - When you say it is transparent -

Mr HIDDING - Transparent to a committee such as this and we can advise you in camera as we did a year or so ago. We are able to provide advice but where it is commercial in confidence

and where it is going to cost the taxpayers a lot of money that sometimes has to be done in camera.

Mr DWYER - The broker is not involved in the decision-making within this process. The broker is purely there as an adviser. He does not sit within the actual decision-making process of which vessel, but only advises what is on the market and what is happening around the world.

Ms SIEJKA - Where is the broker based?

Mr GRAINGER - London. There is a reason for that. Most of the type of vessels like those we operate are based in Europe. That is where most of the leading brokers are based, in London or northern Europe, because that is where all the trade is done.

Mr DEAN - All the increases we expect from the new vessels are increased passengers and freight and so on. The increase is one I want to raise with the current ships. I understand there will be an increase in freight being moved on the current two vessels.

Mr HIDDING - What does that mean?

Mr DEAN - I understand that TT-Line plans to increase freight capacity on the current ships.

CHAIR - On the new ships.

Mr DEAN - On the new ships.

Mr HIDDING - There is no capacity at all on the old ships, not an inch left.

Mr DEAN - I understand, minister, initially you identified to companies and organisations that there would be no increase in freight moved on the *Spirits*, new or old, from the state. It is now announced there will be a slight increase but the slight increase now appears to be substantial.

In making that decision, has any consideration been given for those current shipping companies and organisations transporting and moving freight to and from this state? They have put on new ships, haven't they? One company has put on a new vessel to update capacity. They have made huge financial commitments. What is the impact likely to be and what is the consideration given to those organisations?

Mr HIDDING - There's been full consideration. The fact is that there are currently six ships in the Bass Strait fleet. SeaRoad had turned over one of their ships into a new ship and it has plans for the other. Toll has two ships under construction, with substantially larger capacity than they currently have. They are of a design that allows them to install an upper deck later - say in 10 years' time - when the freight market comes. Both of them have always understood that TT-Line, because it is last to leave, first to arrive, is highly sought after by the perishable freight people - the salmon growers, the cherry growers and the apple people. The later-to-leave and earliest-to-arrive is essentially TT-Line's business and has been since day one.

Our indication to the other market operators is that - and it always has been - TT-Line would seek to retain its share of that market as it grows, not to increase its share of the market, but maintain its share of the market.

Mr DEAN - That is in perishable products only.

Mr HIDDING - Well, that's its market. I remember when we did the freight study into this. A shipper sometimes might send back the same trailer with bricks on it or something, but that is part of getting that freight over there. That has been the market condition. Both those other shippers extensively use TT-Line as their own freighter. They spend millions with TT-Line themselves. They know precisely what it is that the TT-Line carries.

The commitment has been, and remains, that TT-Line won't seek to increase its share of that market. A 39 per cent capacity there recognises these ships are going to be around for 20 to 30 years. In the projection, if you were to project 2 per cent to 3 per cent over a time, you will need that kind of extra space.

That is not to say that on day one, just because that space is there, they will be going out to fill up that space at some kind of premium price and taking freight off the other people. Definitely not. That commitment is there -

Mr DEAN - I think that is what is going to be a concern to those current businesses.

Mr HIDDING - We are in constant contact with those people. They have known that TT-Line new ships were coming in 2022-23; they are now coming in 2021-22. This is a commensurate upgrade with what they're doing themselves. While it is always uncomfortable for them to see a competitor build new ships, they themselves are building new ships to cope with the growth that will be coming out of the huge irrigation uplift in Tasmania. We have seen the value of these kind of commodities go up by some 17 per cent.

Mr DEAN - Is TT-Line's cost to transport freight across that strait of water very similar to that of the private organisations? There is concern that because it is a government-run organisation, it is not a level playing field, and they can take an advantage because they do not have to cover the same costs as a private contractor.

Mr HIDDING - TT-Line isn't cheaper. There is a market rate that everybody is generally on. If that were so, they would be winning because they spend millions themselves every year, shipping their products on TT-Line just because of the time-sensitive, perishable freight leaving last and arriving first.

Mr GRAINGER - TT-Line's costs are significantly higher because we are a passenger service as well as a freight service. Our mix of passenger versus freight is still 60:40 or thereabouts.

CHAIR - Is that 60 for passengers, 40 for freight?

Mr GRAINGER - Yes.

Our costs are significantly more because we're travelling at higher speeds, burning more fuel. What everyone needs to understand is we're in the niche freight business. We're not in the business of taking freight from any of the other containerised freight, for example; it is not our business. We are the last-to-leave, first-to-arrive freight - the niche freight. We are the most expensive freight provider. People need to understand that. As the minister said, we carry

significant amounts of freight for both SeaRoad and Toll only because they cannot get it there fast enough.

Mr WILLIE - A supplementary question on the perishables and the freight, minister. Obviously Hobart Airport is expanding and there are a whole lot of opportunities there. Was a factor, when considering the freight capacity of the new ships, that potentially a lot of those niche items will end up going by air?

Mr HIDDING - It is actually a different market. The Hobart Airport extension is not only to handle Antarctic planes but also planes direct to China. That is the target. The target would be passengers in the top half of the plane, but some very significant in the belly of the plane as well. The kind of freight you would be looking to export is live rock lobster and live banded morwong fish, really high-value stuff, or very large cherries that sell for about \$5 a piece, which have to get there within days. Right now, quite a number of them, do go on TT-Line and squirt straight off to the airport in Melbourne having spent a day and a half getting to the airport where they would be flown out. In terms of quantum, it is high in dollars, low in volume.

Mr WILLIE - It is not going to impact TT-Line?

Mr HIDDING - No. They are aiming at growing that special market, that live rock lobster market, where they get a fortune for fish in that state.

Mr GRAINGER - Mr Willie, you could look at it in different tiers. The first tier would be what you have just described in terms of air freight that needs to be there the next day. The second tier would be TT-Line and the third tier would be the Toll/SeaRoad-type freight generally speaking.

CHAIR - Minister, you touched on the fact that Toll and SeaRoad both buy freight space from TT-Line. We heard some evidence yesterday that it causes some problem with other people wanting to get freight in this space which has been bought and they will not relinquish it. Do you want to comment on that?

Mr HIDDING - I will ask Bernard to do that because this is a market at work.

CHAIR - But if it is affecting the market of produce from Tasmania, I would expect that it is a problem.

Mr HIDDING - Yes, it is a problem for the Bass Strait freight market, and Toll and SeaRoad themselves as customers of TT-Line have rights. But every time we look at complaints like this, when we unravel it, we find those companies themselves have made a choice to put their own product on before that person's.

Mr DWYER - This still comes back to being this really high niche freight market that we operate in. SeaRoad and Toll have their own customers, their own primary producers in Tasmania, who have to move their freight at a similar time and way to the non-Toll and non-SeaRoad customers. It is a balancing act every day on what is the priority produce we can get on those ships, regardless of who it is. There is always a triage factor in how to prioritise that highly specific freight that needs to travel. Can we leave empties or can empties go with SeaRoad or Toll? It is a mix that happens on a daily basis that we try to satisfy.

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The minister and the chairman have talked about the sensitive freight, last-to-leave, first-to-arrive. I can give you an example. Primary producers are picking in southern Tasmania through the morning, getting it onto the trucks and onto our ships by 7.30 at night, into the distribution centres in Melbourne by 6.00 to 6.30 next morning. It is crucial for their business. The minister is fixing it but sometimes there may be issues on the Midlands Highway.

We will sometimes get a call to say that some of those trucks have been held up or are going to be late and we will hold the ship up for half an hour to make sure that freight gets on. You are talking about \$200 000- to \$300 000-worth of produce and if you don't get it into those distribution centres, the next morning it goes to waste.

Mr GRAINGER - A little bit more extreme than that, on some occasions if the trucks don't get to the distribution centre by a certain time, they are turned around and sent away. They then have to take the produce and destroy it. It is a very time-critical service we are providing and we have to make sure we can continue to do that. If you could elaborate on your earlier comment about a customer having concerns about not getting onto our ships, we might be able to explain that for you.

CHAIR - That was the proposition put to the committee: that there were concerns from people who are using TT-Line for sensitive freight that there was space available but it was taken up, paid for by SeaRoad or TOLL, or both, and that they wouldn't relinquish that space and they were having trouble getting their freight onto the ship. There is space, it is paid for, but they can't use it.

Mr DWYER - Can you be a bit more specific?

CHAIR - No. This is what the committee has been provided with. The same as you, we have some commercial-in-confidence information so we are not able to share names.

Mr DWYER - I think I understand what you're saying.

CHAIR - I didn't obviously explain myself well enough first up.

Mr DWYER - There is not one sailing we would travel that doesn't have lane metres used.

Mr HIDDING - We hear this all the time, but when we check it's not true.

Mr DWYER - If anyone is asserting there are two trailer spaces that haven't been used but paid for, it does not happen. We use every centimetre of that ship, every night.

Mr HIDDING - There are often trailers that have been waiting for three or four days with freight that is not sensitive that you would swing on if there was a cancellation. We get these issues raised; I write to the board, they will look at it and say, 'That was our situation that night and there was not an inch to spare'. People see things - they'll look down and say, 'There would have been space for my truck', or something.

Mr FINCH - We are normally not inundated, but we get plenty of questions to ask, but this year they are very sparse.

Mr HIDDING - Let me explain why that might be the case. I am going to ask the CEO to explain something he should be very proud of. He is a very senior hospitality executive in his own right in Australia and he has implemented something that has changed the way people interact with the company.

Mr DWYER - I think the minister is referring to our customer satisfaction survey. We now survey every passenger who has travelled on the day of arrival electronically. They have the ability to fill in the survey and come back to us. We implemented this not long after the ship refurbishment. Anybody who rates us less than 85 out of 100 -

CHAIR - Gets a free trip?

Mr DWYER - or raises an issue with us gets a personalised email back within 12 hours. That is mandatory within our business. The satisfaction survey has increased from 91 per cent when we first started and next month is 93.7 per cent satisfaction. We are talking about a lot of people who responded to the survey. In my experience in the hospitality industry, 93 and 94 is up around the satisfaction level of a Henry Jones- or Safire-type satisfaction. For the number of passengers we move and the different types of passengers and vehicles we move, it is very impressive this company is achieving that. That goes back to our crew on the ships. They really look after the passengers; they care about the passengers. They don't always get it right, but that's fine, and that is why we get customer feedback.

I will use an example of how we improve our service. Not long after we finished the refurbishment, we were seeing a low satisfaction on the recliner lounge, for example. The feedback was that the seats didn't recline far enough and the footrest didn't come out far enough. We implemented a test of putting a 15-degree wedge under the seat so the whole seat rocked back and then it would recline back further and the seats would come up with some changes there. We trialled that on one of the ships over two or three weeks. The complaints on that ship dropped. We then implemented them on both ships and within three days we didn't have a complaint about the recliners again.

We need to keep building those things into our service so we are listening to what the customers are saying. The customers' expectations are changing and increasing all the time, as you might appreciate.

CHAIR - What about the customers who don't get on in their desired time frames? How do you get that feedback other than through a local member of parliament?

Mr DWYER - We have emails and we have telephone calls to our contact centre. I have to say our connect centres are brilliant in the way they can help our passengers if they can't get on. I think this committee, over many years, has heard, 'I want to get on next week' or 'I want to get on tomorrow to get across'.

CHAIR - We understand that.

Mr DWYER - In the high season that can't be done. We do a lot of social media; we do a lot of communications with our current passengers and future passengers. You have to book early to make sure you get on when you really want to get on.

Mr DEAN - I think you would have read a letter to the *Advocate*, which was a very important one where a gentleman was very upset and annoyed. He booked for himself and his family to go across on the *Spirit*. They had to book several months in advance and then the return trip was about 12 months away. He had to pay upfront at the time so his complaint is why, if that were the case, he had to pay \$1000 upfront for 11 months' time when they would be returning. That was the whole trip.

He was asking: why does that occur? It is his money; they should be able to get a discount if that is the case because the line is getting interest on that money in the meantime for no service being provided.

Mr DWYER - I can draw parallels with many industries where that is exactly the same. If we didn't take money in relation to bookings, you would have a lot more no-shows and that is typical in hotels and in airlines; we are even starting to see that in restaurants.

Mr HIDDING - And they cost a fortune.

Mr DWYER - Yes, that is right. We need to have the discipline that if somebody has booked, they have paid and they are going to use that. If they cancel at any particular time, there is a certain way there is a refund for that.

We put in best practice - certainly in our industry - in relation to this. We look at this worldwide, not just in Australia because nobody is like us in Australia about that.

We very rarely hear that, I have to say, Mr Dean -

Mr DEAN - It was in the *Advocate*.

Mr HIDDING - The obvious answer is that in 2021, there will be so many more seats available that you wouldn't need to book 11 months in advance.

Mr DEAN - I see, you just rock up?

Mr HIDDING - On current projections, these vessels wouldn't be full all the time.

Mr DEAN - On the same basis, a family rang me the other day and said that they had turned up at the *Spirit* in Melbourne. They had booked a trip the wrong way around and they simply said at Melbourne, 'Wait, we'll make sure we'll get you on board'. That was himself, his wife and three children, and they were ecstatic.

CHAIR - There you go, positive feedback, thank you.

Ms SIEJKA - Just on the seats and getting access, I was curious that the model here seems to show that in the next generation some areas will have a greater increase in terms of the recliners and things like that. Obviously you have done modelling to see where you needed to increase some things more than others, and you have less of an increase on the cabins and more on the recliners. I wondered what the reasoning behind some of that was.

Mr DWYER - We have also improved the recliners.

Ms SIEJKA - It sounds like it.

Mr DWYER - It is not obvious in that literature. We are looking to implement business recliners as well as normal recliners. That is why there is a bigger increase, to put something different into the market that people are after as well.

We need more reclining space, especially for day sailings. People like to use those recliners in day sailing, not just in the p.m. sailings.

Ms SIEJKA - I know in the past people hadn't been particularly comfortable and you mentioned before that you'd improved them. People were reluctant to spend the time in the recliners.

Mr FINCH - If I could get a comment on a letter that was in the *Mercury* the other week -

Travel on the *Spirit of Tasmania*? I think not, with \$1400 to go to Melbourne in April and no pension rates and \$720 back. Once again, the Government is ripping off pensioners. Have been caravanning to the mainland since 2002, up come the Commonwealth Games, whack, up go the prices. Did vote Liberal, not any more.

I just left that little bit in.

Laughter.

Mr FINCH - I am wondering, minister, if we could get a comment in respect to the caravan issue, to and forward.

CHAIR - Only the caravan issue, not the other matter.

Mr HIDDING - We have a very successful company that now has been able to move to procure two brand new vessels, the first ever for Tasmania, to build two brand new big vessels like this, because it is successful. Success has its problems. Before we came to government, it was not difficult to get on the ship because there were 330 000 people a year travelling, now it is 430 000. That makes it a little difficult. It has taken a while for people to understand they need to book earlier. Every year it gets better. We still see one or two letters like that, but last year there were a lot. An important change for TT-Line was when somebody would book a one-way fare and the website would flash up to say, 'It would be really smart of you to book a return, otherwise you are going to get stuck.' The advice on that has changed. Bernard has the numbers.

Mr DWYER - Over the last season and season coming, we have put day sailings on since September on a Saturday all the way through to after Easter, to make sure we have the over-high caravans and campervans. We lifted our motor homes capacity in the last 12 months by 12.68 per cent.

Mr HIDDING - It is amazing what comes off the *Spirits* every Saturday morning.

Mr DWYER - We were at the rally at Pontville with the Caravan & Campervan Association and we worked very closely with them to see where the demand is. Through marketing with them

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to say, 'Book over, but make sure you book back and we will put as much capacity as we can into the market to ensure that is there for you'.

Mr FINCH - In the letter the reference to the Commonwealth Games - 'whack, up go the prices'. Is that fact?

Mr GRAINGER - It is nonsense. Overall the prices on the *Spirit of Tasmania* are reduced.

Mr HIDDING - There are far more options. That person clearly has wanted to come not only at a premium time, but on a night sailing. There are day sailings where up until recently they were being promoted at \$380, or \$199 and car for free.

Mr DWYER - With the organisers of the Masters Games or was it Commonwealth Games.

Mr FINCH - No, Commonwealth Games; I will get onto the Australian Master Games.

Mr DWYER - With the Master Games we put on an extra sailing on through the day to make sure we had capacity coming in and out of the state.

Mr FINCH - So that is not fact the Commonwealth Games come and up go the prices?

Mr DWYER - No.

Mr FINCH - It is choosing the fare that suits the time of the year and the time of the sailing.

Mr HIDDING - Shop around.

Mr GRAINGER - It is easy in Tasmania for your constituents to write to the newspaper before they raise it with us or contact you. We encourage them to contact you - that is their right and is your job to deal with them. I read those comments in the newspaper and shake my head because I know they are factually incorrect.

Mr FINCH - That is why we flesh them out during the GBEs, to give you a chance to answer.

Mr DWYER - We go through the letters to the editor and if we see something in there where somebody has written in and we can find out who they are because they have signed it, we will actually follow up with them. You may have seen on the north-west coast only a month or so ago a letter of retraction saying they had put it in the paper, and we had actually followed it up and sorted it out because we did not know about it. They actually said, 'Sorry, we got it wrong', and they put a letter of retraction in.

Mr FINCH - So Stephen can expect to here for you soon, can he?

Mr DWYER - Probably already has.

Mr FINCH - Is that fact?

Mr DWYER - I would be surprised if he has not.

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Mr FINCH - We touched on the Masters Games, and I am just curious about how that unfolded, the cooperation able to be leveraged with TT-Line, the support able to be given and success or otherwise.

Mr HIDDING - First, if you would not mind, if you just tidy up something from your previous question. In the letter that spoke about pension fares - there is a fixed numbers of fares on every sailing reduced for pensioners. If we were to say every pensioner gets a discount, the TT-Line now would not be ordering new ships. It is simply unsustainable.

Because of our success, these pension fares are getting booked out 18 months in advance. Then somebody tries 12 months in advance and they go, 'What do you mean they are sold out? Do they even exist?' Yes, they do, every single sailing. Pensioners by nature, because they have time available, look at that and go, 'I will grab one of these cheap ones' 18 months out.

It is a good thing to have, but the success causes a problem. With the Masters Games, the overriding policy for the Government with its company TT-Line is that it is first and foremost a Tasmanian company. The CEO is based in Tasmania. All the effort is in this state. Bernard works very hard for almost everything on board to come from Tasmania. Working with major Tasmanian events is also a key effort of this company. The number of times people have said to me how pleased they are to be able to engage with a full Tasmanian operation on their side to come here and do these things. Explain the Masters' arrangement.

Mr DWYER - Sure. The Masters Games, Targa Tasmania and, believe it or not - you might not be aware - the Moscow Circus. For the Moscow Circus to come to Tasmania, they had an issue getting out of Tasmania in time. They were basically saying, 'We cannot come to Tasmania because we cannot get out and back to the next schedule.' We put an extra day sailing on for the Moscow Circus.

Mr HIDDING - Filled it with people as well, of course.

CHAIR - I hope you filled it with other people, not just the circus.

Mr HIDDING - Yes.

Mr DWYER - The ships were full, if I can put it that way. Similarly with the Masters Games, I met with Scott and Mr Fairbrother. We worked as soon as we knew that was coming to Tasmania to look at the potential for demand. We worked to make sure we put sailings on to actually suit.

Did they fill with everyone in the Masters Games? No. Because people often say, 'We will attract this number of people into the state', and you will get that many. It does not always work out like that, but we open up bookings to other people, not just for the Masters Games or for Targa to fill it up.

Mr WILLIE - You said earlier it is unviable to extend the pensioner concessions. What sort of cost are we talking about?

Mr DWYER - We could take that on notice.

Mr HIDDING - We are happy to take that on notice, do a projection on it. That would be interesting.

Ms SIEJKA - To clarify, you said they were on all *Spirit of Tasmania* runs.

Mr HIDDING - Every sailing.

Ms SIEJKA - Every sailing, but there is only a percentage of them?

Mr HIDDING - Yes.

Mr DWYER - It is about between 12 and 14 per cent of all passengers are on pension fares for the year. It is around that.

CHAIR - Same as aged care beds and facilities.

Mr HIDDING - Yes, that kind of thing. Some are always going to miss out. Particularly when the travelling numbers were lowish, most pensioners were able to get a fare. Now they have to book out well in advance. That gets tricky.

Mr WILLIE - We have talked a bit about the replacement ships. Is there any capacity within Australia to build the ships? We have a very good local boat builder that builds fast ferries. Potentially there might have been capacity to have three or four of those going backwards and forwards at higher rates. Why are we looking to Europe?

Mr GRAINGER - We are not only looking to Europe; we are looking all over the world for the type of vessel we determined we needed. Let me go back a step. The current vessels have been very good. We have not missed any sailings through bad weather. They travel at high speed. We are running the daylight out of them at the moment. It was determined after a lot of input and a consultancy that a bigger, better version of what we have already is the answer to make sure we have enough capacity still at that high speed.

No-one builds those type of ships in Australia. No-one has the capability or the technology to build them. The best we can do in this country is Navy ships. Navy ships are a totally different kettle of fish.

We have the capacity to build lightweight, high-speed multi-hulls. We are the best in the world at that and that is globally known. But we determined those ships would not be suitable for what we need to do. That is based on historic data and on advice we have received from many other well-known international consultants.

Mr HIDDING - One of the key issues is the reliability. There is a standing maritime rule for multi-hull vessels that they can't leave port with a sea state above a certain height and that is a regular occurrence in Bass Strait.

Mr WILLIE - Do you know how many days per year they would be unable to leave port?

Mr GRAINGER - It depends on who you speak to. There may be a time in the future when a lightweight, high-speed multi-hull with the required capacity could be an option. It would need to be a very large version of what is being built at the moment. It might be something the

company would look at long after we are gone. At the moment, our requirements and our capacity constraints and the timing of the international legislation on emissions - put all that together and we have to get a couple of new vessels with more capacity that can do exactly what we are doing now but are more efficient, cheaper to operate and all the rest of it. That was the only option we had.

Mr HIDDING - The Government instructed TT-Line to have a very close look at Incat vessels or any other Australian-made vessels, and a large body of work took place before they were reluctantly ruled out.

Mr WILLIE - I hope that would have occurred, given it is in our backyard.

Mr GRAINGER - We could not sit here, as a Tasmanian-owned company and not look at what our greatest export business in the state has done. We would be foolish even to not consider it. We looked at it very carefully. It came down to a numbers issue, as I previously explained.

Mr WILLIE - You touched on emissions. In 2020 those new regulations come in and we will still have the old ships. How is that going to be managed, and is there going to be a cost to that?

Mr GRAINGER - Yes. It will be managed. There is still a little bit to be determined but we may need to install what are called scrubbers on the existing vessels. We may approach the federal government to allow us to continue past 2020 into 2021 or 2022, maybe, given we have new vessels on order or we hope to. It could be a case where the market for the existing ships could be down if they are not retrofitted with scrubbers to comply to the new regulation because there are not too many countries left that will not apply those international regulations. There will be a cost and it may be significant. It may be very time-constrained for us because it is quite a large project to install a scrubber on a ship. If that is the way we need to go, the company is looking at it. The company has done a lot of work already. Scrubber technology is improving almost daily. We are dealing with it.

Mr HIDDING - Right now for those vessels, the latest valuation was static from last year's, which is great news - €65 million each, which is about \$90 million. If notionally, TT-Line were forced to spend €10 million on a €65-million vessel, its value would be €75 million. You wouldn't lose your dough because it would be ready to go anywhere in the world.

Mr GRAINGER - The CEO has just reminded me that another option may be low sulphur fuel, if it is available, if we can have the infrastructure to bunker it. That might get us through. There will be some changes need to be made to the engines to handle low sulphur fuel. It's a numbers game, Josh. We have to pick the best numbers we can.

Mr FINCH - How long will it take to build the ships?

Mr DWYER - We are expecting delivery in 2021.

Mr FINCH - How long will it take to build the ships?

Mr DWYER - It is about two-and-a-half years from the signing of the contract.

Mr FINCH - You will need to have it ordered halfway through 2018?

Mr DWYER - We have announced [inaudible] to the Government, so we expect contracts to be signed in the first half of 2018.

Mr FINCH - Okay. Further down the track, with the fit-out of the ship - I notice you mention there it is going to be Australian or Tasmanian -

Mr HIDDING - Tasmanian special timbers.

Mr FINCH - I am just wondering, with the success of the refurbishment of the old vessels, would the same company would get that gig or would it be out for tender, unlike the brokerage system?

Mr HIDDING - No, the vessels will be built entirely by a shipyard in that shipyard. However, there will always be an opportunity for a special fit-out, particularly if we have our own special Tasmanian timbers. That joinery could well be made here to certain specifications to go over already fabricated, or it could go over as timber and have local craftsmen fit it there. Either way, it would be our intention that our very best special timbers are right through the vessel.

Mr GRAINGER - The Government, and particularly this minister, has made it very clear from the day we started this discussion on vessel replacement that his requirement - and we agree with it - is that we need to have as much Tasmanian content in the new vessels as humanly possible. Whether that is timber or something else is irrelevant for this conversation, but rest assured the shipyards the management has had discussions with already have been told that our intent is to have as much Tasmanian content in these vessels as we can humanly do, provided it is cost-effective and legal.

Mr DEAN - Was a third vessel considered?

Mr GRAINGER - Yes, a third vessel was considered, four vessels were considered, and different types of vessels were considered. It is a broad range of considerations, Mr Dean, but we kept getting steered back to what we have decided on. We had a lot of international consultants offer us advice and we put it to the test.

Mr HIDDING - What wasn't considered was a Sydney service. That was costing a huge amount of money.

Mr WILLIE - How are we going to pay for the replacement ships? Obviously a bone of contention between the Liberals and my party has been the dividend and the legislative lock. It is a fact that the board could have invested that \$40 million, or the \$80 million, into TASCORP if it chose to do so. We have every confidence in the work you are doing, Mr Grainger, to manage that.

Mr HIDDING - Seeing you have come at it from that angle, the reason we have sought the special dividends and put them in legislative lock is so that another party other than ours - whoever that might be, Josh - couldn't get its sticky fingers on it -

Mr WILLIE - That's just garbage.

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Mr HIDDING - It is not at all. It wasn't garbage with the superannuation account your party completely emptied without any reference to parliament. We said, 'If you want to strip money out of the TT-Line to pay for some other policy ideas you had, you had to come to parliament and explain it'.

Mr WILLIE - If you're being truthful about it, it was about putting that money on the government accounts to improve the bottom line.

Mr HIDDING - No. It was based on previous actions of a previous government and we have protected it.

An amount of \$180 million will be in that account - that is with \$20 million of general budget funds we committed to. By that stage TT-Line will have more cash at hand as well as those dividends, and the business model supports the rest.

Mr WILLIE - It is a fact that the board could have chosen to invest that \$80 million into TASCORP as a decision.

Mr HIDDING - And with one letter you could direct them to hand it over to you and pay off some dodgy election commitment.

Mr WILLIE - So the answer to my question is, yes, the board could have made that decision to invest the money into TASCORP?

Mr HIDDING - We locked it away from sticky fingers.

Mr GRAINGER - The board had to agree to what we did. The board could have said, 'No, Mr Treasurer, no, minister, the board doesn't agree with the special dividend'. We had some robust discussions over it and I wasn't prepared to take the suggestion from our shareholders that a special dividend be paid. I wasn't prepared to take that to the board and ask them to approve it without having full disclosure and full information, looking at it very carefully and it took some months the discussions with myself and the minister and the Treasurer.

We took it to the board, the board asked a lot of questions and the board decided that was a satisfactory course of action. That is how it went. The board could have said not but they did not, they agreed to it.

Mr WILLIE - There were other options available.

Mr GRAINGER - Of course. There was always other options.

Mr DEAN - On the new vessels. Have you any idea of the figures that might be required in additional employment on the new vessels?

Mr HIDDING - I think Mr Dwyer could assist us with that.

Mr DWYER - We are working very closely to look at that. Bigger vessels, more runs, more employment, which is absolutely what we are about. We will obviously need more employment to carry more passengers and freight. The efficiencies we look at in the business are to minimise the impact on passengers. We want the thoroughfare through our yards onto the ships as

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effectively as possible. My hospitality background is that you need people to give good hospitality service to passengers on the ships. There is no reduction.

Mr DEAN - That brings me to the next question. What work is being done with the education side to ensure we have the people? Hopefully a lot of Tasmanians would be employed within those two ships. Is there any approach, minister?

Mr HIDDING - Mr Dwyer is all over this.

Mr DWYER - A great question and I look forward to answering it. We are working with TAFE and the Living City in Devonport on how we tie the campus and education through their Living City program with ourself. A lot of our hospitality training, not marine training obviously, but most of our hospitality training and refresher training would happen through TAFE within Tasmania.

CHAIR - Will the Garden Island dry-dock facility cater for the new vessels into the future?

Mr DWYER - Yes.

CHAIR - No issue around that?

Mr DWYER - Availability may be an issue but certainly size is no issue.

CHAIR - Because we have had some issues before around Garden Island.

Mr GRAINGER - It might be worth mentioning given the Australian Navy's procurement of additional vessels and Garden Island being pretty much the only dock, it could be an issue down the track, but we will have to deal with it at the time.

CHAIR - Mind you, they are new vessels and not going to break down.

Mr GRAINGER - Of course not, but they still need to be dry-docked every two years.

CHAIR - We understand they still need to be maintained.

A very important issue for this committee is biosecurity.

Mr DEAN - This is an issue. A stakeholder has also talked to us about this. That is, that biosecurity is not only to be the responsibility of DPIPWE, but should also be a responsibility of TT-Line, because with so much of our produce coming in on it, it needs to be a shared situation. My question is: what is TT-Line doing to ensure our biosecurity laws are covered in the best possible way? That our borders are protected not only getting onto the ship and getting off it? What is happening this end? The question of muddied vehicles, for instance. What happens with those vehicles that come in? The other question - and you might answer these together, minister - is that there seems to be no record or check made of passengers on board those ships. In other words, like an international fare you are required to identify whether you have been on farms. If you have been on farms, what farms you have been on and so on. Transportation of blueberry rust, for instance. What is TT-Line doing to make sure we and our borders are protected?

CHAIR - Managing risk.

Mr HIDDING - Before I hand over to the company, could I say one of the things we are very proud of is that in the last few years, we asked TT-Line staff to participate in pre-board checks. Cars are sitting there before they get on. There are official staff there and it has resulted in many tons of extra material now being removed from vehicles than the Devonport checks. The fact is a huge amount of material is now removed from cars before they get on, and that is a change in biosecurity.

We need to place on the record our thanks for the terrific staff who yesterday became aware of this announcement and are very excited. They love their job and that shows why we are getting the customer satisfaction we are. Not only have they participated in checking cars and helping people to know what they can bring in, but they are also providing travel advice. They are used to saying, 'Why don't you go to the west coast? At the moment there is snow there so why don't you go that way?' The feedback we are getting from customers is staff are wonderfully helpful and it reflects very well on the company.

Mr GRAINGER - As a company we have ramped up our involvement with Biosecurity Tasmania significantly. Bernard can be a bit more specific about that.

In answer to your other question in terms of more of a security question?

Mr DEAN - Yes.

Mr GRAINGER - There are security checks made. Bernard and the management team have regular briefings from ASIO, the Australian Federal Police, Victoria Police and Tasmania Police. It is something we are unable to discuss.

The board was briefed recently by ASIO and the Australian Federal Police. Again we are not allowed to talk about it, and you will understand why. Suffice to say, we are turning the volume up on security, both biosecurity and unlawful security.

Bernard can be a bit more specific in terms of the quarantine procedures we now have in place.

CHAIR - Do we have biosecurity officers on Melbourne end?

Ms SIEJKA - What is unlawful security? What do you mean by that?

Mr HIDDING - Behaviour, bkie groups, perceived threats.

Mr DWYER - We have the [TBC] Auscar pit in Melbourne where every caravan and vehicle is checked on the way through. I cannot go into details, but there are processes around that which our staff are trained for.

Mr DEAN - I would like to know how they are checked because I have come on it several times and my vehicle has never been checked.

Mr GRAINGER - Not that you know of, Mr Dean.

CHAIR - There you go.

Mr DEAN - How is the checking done? Anyway, keep going.

Mr DWYER - Regularly audited by Biosecurity Tasmania. Since we have implemented the new arrangements in December 2014, we have collected over 50 000 kilograms of material and taken off people before they have even gotten onto our vessels.

The question you mentioned was about wash down of vehicles. The vehicles can be washed down in Melbourne or can be flagged and there is a wash down station in Devonport. Every time we come off in Devonport, there are Biosecurity people in the big shed you would have seen there.

Mr HIDDING - A sticker goes on the window, doesn't it?

Mr DWYER - Yes, plus the flag.

Mr HIDDING - You get a special stocker.

Mr DWYER - Even if people want to take fruit onto the ship to consume, their car is flagged and then the car is then checked again in Devonport to make sure there is no material in there. We do the best we absolutely can, because we are very conscious about the security of the state from a biosecurity point of view.

Ms SIEJKA - In relation to security, there is minimising the use of the *Spirits* for importing illegal drugs. Is TT-Line are happy with the level of support provided to them by Tasmania Police in that regard.

Mr HIDDING - One of the first things I was able to do, because I am also the Minister for Police as well as the minister for this company, was to bring them together for the first time a formal sense.

Sitting with the Police Commissioner and all these senior people, we had a very fruitful discussion which has led to all kinds of relationship and tactical risk improvements. As ship operators, they need to know as much as possible about who is on board and what might occur and what might take place.

Police are a part of that, and so they do inspections as people get off the ship. In the past there was some barrier the TT-Line people did not really want police to be inspecting vehicles and that has all changed.

There is a common-sense, practical relationship now. There are often drug dogs, particularly if it is intelligence based. They know what they need to be doing. We don't have any specific concerns about that at all, because it is a very strong relationship. As a former police officer you would understand that it is somewhat uncomfortable. We have the arrangement of free trade between states. You can have 1400 people on board the vessel, other than your own crew, and you have no idea who they are at all. They could use Donald Duck as a name and board, whereas airlines have a national law that says you must not travel on anyone else's ticket. We are not proposing to talk about changing that unless it should become necessary.

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As part of a national counter-terrorism effort, the TT-Line regularly participates in special counter-terrorism activity, the flavour of which you probably would be able to work out. There is a high understanding of risk and management.

Mr GRAINGER - There may be opportunities for us with new vessels for better identification, for example.

Mr DEAN - I would have thought that today it would be an imperative, a basic fundamental requirement with security the way it is and acts of terrorism,

Mr GRAINGER - I don't disagree with you.

Mr HIDDING - It isn't because of our rule between states. Neither do we want to flash it up publicly that that could be a way to do it. You would be aware that nationally we are moving to facial recognition, biometrics. You would never know if there was a set up as people were getting out of their cars, for instance, somebody gets flashed up. The onboard security staff are highly trained and can manage these matters.

Mr GRAINGER - The technology is moving ahead fast enough within the marine industry, certainly in Europe, and probably to a lesser degree in the US, that we may well be able to implement better security measures just through the normal process of booking on the ships and getting on board. Time will tell.

Mr HIDDING - Nobody should believe that the TT-Line is a soft target though. That would be a very wrong-headed position to take. They could get a big surprise.

CHAIR - Can I get to address the fuel hedging strategy for the operation? I noticed in the financials that the cost of fuel has reduced, yet we've had more sailings. I'm interested in how that's happened and what might be behind it. Have we had a very successful fuel hedging strategy?

Mr GRAINGER - I have the information in front of me, but it is complex.

CHAIR - Can we have a non-complex answer?

Mr GRAINGER - Mr Dwyer will provide that I'm sure.

Mr DWYER - Non-complex. We are becoming more efficient on how we are driving the vessels, so the consumption on the vessels has improved over the past few years. Even though there have been more sailings, the consumption of fuel per trip has dropped. The price of fuel has been pretty steady. As you would all be well aware, over many years our fuel hedge strategy has levelled it out, it is not speculative at all. It is to level that out.

The sort of things we do with these ships in dry dock, for example, is apply something we call inter-slick paint. That has given us a 3 per cent to 4 per cent improvement in dropping fuel consumption since that's been applied. There are lots of technologies. Fuel for any shipping company in the world is of high importance. We will look at any way we can to minimise that cost to the business.

CHAIR - That sounds like a very non-complex answer, thank you.

Mr DWYER - I'm not a complex man.

Mr GRAINGER - It's a complex subject, let me tell you. We entered into our first fuel hedge in July 2008. At this time the price was \$US145 per barrel and the Australian-US dollar exchange rate was 0.96 cents. Most of the expert predictions were that the price of oil would continue to rise to \$US200 per barrel. At the peak of the GFC in October, the price of oil dropped substantially from near \$US145 a barrel to \$US40 a barrel. In addition, the exchange rate dropped to about 64 cents.

We hedge our fuel in Australian dollars; therefore, hedging not only the underlying price of fuel, but also the foreign exchange movements in cooperation with that. We hedge a portion of our fuel usage over a three-year period. Sometimes it can be swings and roundabouts, but overall it has been successful.

Mr DEAN - What would be the fuel cost from Devonport to Melbourne and Melbourne to Devonport on average?

Mr FINCH - Is it about 70 tonnes?

Mr DWYER - Yes, it is about \$70 000.

Mr DEAN - For a one way trip it's about \$70 000?

Mr DWYER - Yes.

CHAIR - No wonder it costs \$1000 to put your van on.

Mr FINCH - In some of the expenses, I see the repairs and maintenance is down a couple of million dollars. Is that because the maintenance or the refurbishment might have picked that up?

Mr DWYER - Refurbishment, and also the amount of work we put into these vessels in dry dock. We would rather spend the money in dry dock to make sure they are right, rather than have an issue when they are on the run. We look after these vessels in dry dock. The benefit of that is that anticipated repairs and maintenance has decreased as well.

Mr FINCH - So you did not need to spend so much this financial year compared to the previous one.

Mr GRAINGER - Suffice to say that our dry dock costs are increasing every year. As the ships get older, they cost more every time we go to dry dock.

Mr FINCH - Some expenses are understandable but customer acquisition: in 2016, that year, \$12 647 down to \$11 845. What was the change in customer acquisition modus operandi?

Mr DWYER - That is right. Customer acquisition, mainly around our marketing obviously. We have a brilliant marketing area that is very expert in what it does. We are now more into the digital space in marketing and much more targeted marketing. That is a lot less expensive than doing mass marketing on TV, radio, et cetera. We have moved more into this targeted marketing and re-marketing. For example, if you google 'Spirit of Tasmania', on the next 30 sites you go,

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you will probably see a *Spirit of Tasmania* ad on there as well. We do that type of target marketing.

CHAIR - Does that mean that if somebody googles 'North Melbourne Football Club' that comes up with the TT-Line as well?

Mr DWYER - Potentially, yes.

CHAIR - That is a relevant question given that the marketing budget includes a new contract for the North Melbourne Football Club. I know you are not going to tell me how much it cost, minister.

Mr HIDDING - That has been disclosed.

Mr DEAN - They have given some figures now.

CHAIR - Is that the entire cost that has been shown?

Mr HIDDING - The commercial deal between the company and the North Melbourne Football Club for the naming rights sponsorship is commercial-in-confidence. It is the only way the North Melbourne Football Club would do the deal, but the Legislative Council asked for an in-camera briefing on it and got it. Four or five members turned up, and indicated in writing to the company that they were satisfied and did not need any more information.

CHAIR - The value back to the organisation - obviously signing up for a five-year extension of that contract.

Mr HIDDING - This is a very powerful relationship that goes straight to the target market for TT-Line customers. We are very confident that that is a wise investment. You can speak on that as well. It is an extraordinarily powerful market.

Mr DWYER - Like keeping it simple: 433 000 passengers with less marketing cost.

CHAIR - Can you attribute how many of those come for football games?

Mr DWYER - The sponsorship of North Melbourne is not about putting people on the ships to come and see the games in Hobart. The main driver of the North Melbourne sponsorship deal is the demographics of North Melbourne matched very closely with the demographics of our target markets. Our biggest market is out of Victoria. I cannot attribute a booking to a single point of North Melbourne but it is substantial and we are very pleased with the outcome of that sponsorship deal.

The chairman, the minister and I are very passionate about the North Melbourne and junior football and women's football in the state. Our being able to have that commercial deal, and the side benefit of the social capital in relation to that, is very dear to us.

Mr FINCH - More to this expenses page, about the employee benefit expenses. I notice there is a big increase from 2016 on the termination benefits from \$188 000 to \$545 000.

CHAIR - There is a note but it is a bit of a mixed message.

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Mr FINCH - Annual leave, long service leave, and other entitlements paid on termination. Can I get some explanation of that increase?

Mr DWYER - I am trying to work out what figure you are looking at, Mr Finch. What page of the annual report is that?

CHAIR - It is \$545 000.

Mr FINCH - I am not sure of the page in the annual report.

CHAIR - We have our own pages here. It's 'Termination benefits' and there is a note. It is a bit of a mixed message when it talks about annual payments, long service leave, and other. 'Other' always bothers me.

Mr DWYER - Can I get some expert advice from behind me to answer that?

CHAIR - Absolutely. We are happy to have expert advice at the table, Bernard, additional to what we already have. We are surprised, given we have such a happy crew, that we have a lot of termination payments.

Mr DWYER - I don't think it is a lot of termination payments.

Mr GRAINGER - It is more about a timing variance than anything else but it can be explained.

Mr DWYER - Can we take that on notice and bring some detail back on that?

Mr FINCH - Yes. My curiosity is about whether this chart is in the annual report. I have not gone back over the last year or years before.

Mr DWYER - This is the accounting standards and that is always in the annual report.

Mr FINCH - Yes. If I could just have some explanation of those employee benefit expenses but honing in on the termination benefits. When you say 'terminations', is it people finishing up work and getting their payouts? How many were involved?

Mr DWYER - Yes. That covers long service leave entitlements and everything in relation those payments.

CHAIR - Thank you. We will send a letter.

Mr FINCH - An understanding of the increase, thanks.

Mr WILLIE - It has been brought to my attention that we are spending all this money on marketing but the website might not be up to date. There is no annual report on the website, and the last press release was October 2017. I am probably getting someone in trouble here.

Mr DWYER - You are getting the CEO in trouble. That is my accountability. I will follow that up.

Mr GRAINGER - I am not sure what the question was.

Mr WILLIE - We are spending a lot of money on marketing and the website appears to be not updated regularly.

Mr DWYER - That is the corporate part of the website, not passenger. We have obviously focused on passengers. I will chase that up.

Mr HIDDING - Ordinarily, the annual report, not long after it gets tabled in parliament, would be up on the website.

Mr DEAN - I have one further question on biosecurity. I asked the question but it was not answered, not deliberately though. Backpackers are currently moving from property to property. It has been raised with us during our stakeholder meetings that they are possibly transporting some of the diseases that we are getting. I am using blueberry rust as an example only. There are a number of others that were referred to us from stakeholders. Would it not be reasonable in the circumstance to simply have a tick and flick sheet, similar to what we have on international flights, to ask whether you have been on a farming property and where you have come from, to protect our borders? Our clean, green image and Brand Tasmania are critical to Tasmania. It has been suggested by this very important stakeholder in this state saying something more needs to be done on the *Spirit* vessels and the TT-Line.

Mr DWYER - I am happy to take that up with Biosecurity Tasmania and have a look at that. No problem.

Mr DEAN - Excellent. Thank you very much. While the mishap at Port Melbourne happened in January of last year, I don't know if all of the findings were out for us in our last GBEs and so on.

CHAIR - We didn't have them last year.

Mr DEAN - That is right, we didn't. With the lessons that have been learnt from that, and I think it was suggested that TT-Line was at fault inasmuch as it didn't look at the weather reports as closely as what it could have and had more knowledge of what was happening in that area -

CHAIR - Have they got a heavier rope, is that what you are asking?

Mr DEAN - Yes, can we be reasonably satisfied that is not likely to happen again?

Mr DWYER - We had the Australian Transport and Safety Bureau investigate that and they came out with their 30-day report as well as their 12-monthly report. We have responded to that report through that period. We have updated our processes and our systems as well as what we call lines, not ropes, and we have completed that to the satisfaction of the ATSB. Can we guarantee it will not happen again?

Mr DEAN - You cannot do that. I am not asking you to.

UNCORRECTED PROOF ISSUE

Have there been any onboard security issues on the vessels with passengers and if there have been, how many have there been and what is the situation there, minister? With people offending and creating problems on board.

Mr HIDDING - I am going to hand that to Bernard because it is operational and also operational police for me.

Mr DWYER - I don't have a specific number but our security people deal with the public every night and every day. We have a brig on the ship as well.

Mr DEAN - Is it possible to take that on notice, minister? I would like to know the number of incidents and I would like to know whether there has been an increase? Are we seeing an increase in that area because of drugs like ice and all those other things? If I could be given those figures for the last three years of onboard incidents involving unruly activities.

Mr GRAINGER - It depends on the degree of incidents you are talking about.

Mr DEAN - Those requiring an intervention of some serious nature. I am not talking about somebody who might yell loudly or something like that. I am talking about an incident that requires real action by TT-Line staff or security staff.

Mr HIDDING - We can get you some information and we will pitch it at an apples with apples kind of thing.

Mr DEAN - I don't want to know about the minor things. I am not interested in those.

Mr HIDDING - I will make the point that I have learned in passenger transport, whether it is a bus or a train or a ship, the better the facilities, the fewer incidents you have. I am not sure if you have been on the *Spirits* lately; it sounded like you have.

Mr DEAN - We've had a look at them, which was great.

Mr HIDDING - They are very smart. It would likely to be fewer with a very smart environment. I would be interested. Could you put that on notice?

CHAIR - Are we getting passenger trains back then? You talked about passenger trains.

Mr GRAINGER - To provide some level of comfort, we record incidents onboard the ship that are reportable. We also report when the brig is used. That is all information we have at our fingertips.

Mr DEAN - That is all I want. I don't want to know about the other minor issues.

CHAIR - Minister, there has been some concern in the past about the Port Melbourne facility. There are new owners and Tasmania had to go and talk turkey about the arrangements. Can you just give us an update on where we are on that? Are we firm?

Mr HIDDING - I think the 'talking turkey' element was the sale of the Melbourne Ports -

CHAIR - They were going to put the price up for us to be there.

Mr HIDDING - They were. There was considerable discussion about that with the Victorian Government, directly premier to premier, treasurer to treasurer and transport minister to transport minister. We landed in a pretty good place. Both of the commercial shipping companies, which are the only ones impacted by the deal as they are in Webb Dock, we landed with pretty good tenure deals, allowing them to invest in new ships. That came out okay.

It is important I place on the record that Station Pier was not part of the sale of Melbourne Ports. It is a facility in its own right operated by Victorian Ports. TT-Line has a tenure contract on Station Pier for a period of time. Victorian Ports would be very keen to sign TT-Line up to a much longer deal. As it happens, TT-Line is in a position to negotiate for the new vessels to be there. It is a two-way street at the moment. It is the preferred port, which is what TT-Line is naming it. The negotiations with VicPorts are robust.

The business case was projected on Devonport and Station Pier. We are confident that it is what the end result will be. As I say, we are currently contracted there for a period of time. As it happens, the only other activity at VicPorts is cruise ships, which are famous for not paying very much. It could be argued that TT-Line is the anchor tenant. Without it the VicPort's facility would be in a deal of trouble. We are in a good place to negotiate a good deal.

CHAIR - That is good. That is often one of the issues when a committee likes this looks every second year. This was an issue that was raised with the committee two years ago, believe it or not.

Mr FINCH - Can we get some idea of how many employees we on the backward and forward trips? Where are the crew recruited from? How many are Tasmanians? How are they accommodated? Do they sleep onboard? Do they sleep at East Devonport?

Mr HIDDING - Good questions.

Mr DWYER - On average it is 71 crew per sailing both ways. Most of the arrangements are four weeks on/four weeks off, with personal arrangements in between. We effectively have four swings of that number. The total employment of the company is about 550 employees. From a crewing point of view, it is pretty well spread - 50:50 Tasmanian v Victoria. The crew have their own cabins on the vessel. When we have two sailings a day, we have exactly the same cabins on shore at Station Pier they can use. In Devonport we have the Edgewater Hotel, which we use for staff and crew accommodation.

Mr FINCH - That changeover and doing those extra sailings must up the ante as far as the organisation of the crew is concerned. Congratulations on being able to get the extra sailings going. Industrial relations is a linchpin of TT-Line. Can you tell us something about that? Is it the Maritime Union of Australia you still deal with? Relations must be good.

Mr DWYER - Relations are very good. My crew on the ships are amazing. I go back to the refurbishment we did three years ago. We had refurbished those vessels over three or four months on the run. We were jackhammering and working in their homes basically. The amount of goodwill we had from the crew keeps going. We look after them but they reciprocate and look after us as well. We have a very professional relationship with the Maritime Union of Australia. They understand we are trying to grow our business and they know a business that is growing is

good for our crew and their members as well. We have a very good professional relationship with them.

Mr GRAINGER - Mr Finch, I think you and I are probably the ones who have been around this table for the greatest period of time. You will remember the relationship the company had with the unions 10, 12 or 14 years ago, which was not good. At the moment the relationship between the company and the union is the best I have ever seen. They are working together, pretty much in harmony, and achieving great results. That has been a change of attitude from the unions but, probably more importantly, the company being prepared to sit down with the unions and negotiate. It is a very good relationship.

Mr HIDDING - They love their jobs and their workplace now after the refurbishment. They were so excited to show us over the new ships.

CHAIR - Some of the members have had a look first-hand as well.

Mr FINCH - So we don't have a them-and-us situation so far as the operations are concerned?

Mr HIDDING - Probably as good as you would hope for. I suspect it is because the staff love their jobs so much. There is always the possibility they might raise a point over a period of time but it will be dealt with positively. They have a very positive relationship, the union and the company.

Mr FINCH - Have you ever needed to go over the odds as far as remuneration is concerned or is there a salary you stick to?

Mr DWYER - There is an enterprise bargaining agreement we have is agreed across the MUA and all our crew, ship and shore.

Mr FINCH - Is that reviewed?

Mr DWYER - That is reviewed every four years. We are at the tail end of a negotiation at the moment.

Mr WILLIE - How do you go with recruitment? Are there particular skills shortages you struggle with? We know there are a lot of chef shortages in Tasmania, for example, maybe even some of the more skilled jobs - all the way up to piloting the ships?

Mr GRAINGER - It depends on the level. It depends on whether they are able seamen, officers or the like.

Mr WILLIE - To clarify my question, are there particular areas you struggle with in recruitment?

Mr DWYER - We don't struggle. We have a celebration of service awards every second month and I am constantly giving away awards and celebrating people with 20-, 25- and 30-year experience with the company. We have some movement in high season as people come on and off but the core of our crew is very stable.

UNCORRECTED PROOF ISSUE

Mr WILLIE - When you are talking about seamanship, you would hope there are a number of graduates who come out of AMC and others in local areas into the company?

Mr DWYER - Absolutely. You need movement, as you would appreciate.

CHAIR - So people don't leave very much, potentially?

Mr DWYER - No.

CHAIR - Minister, can I take you to the Tasmanian Freight Equalisation Scheme? My understanding is that in the last financial year the company received \$47.7 million under the Freight Equalisation Scheme. That is a decent percentage of revenue.

Mr HIDDING - No, that is not freight equalisation. That is the Bass Strait Passenger Vehicle Equalisation Scheme. That is paying for people's cars.

CHAIR - Okay.

Mr HIDDING - The federal government pays an amount of money for every vehicle that travels over and then there is a car and caravan combination.

CHAIR - Because that is our highway; that is the recognition of our highway

Mr HIDDING - Yes. It was negotiated back in the 1990s, when Senator Newman and others and all Tasmanian federal MPs, worked on it and received that as a payment for highway equalisation.

CHAIR - Apologies for not getting the exact terminology right. I knew it was a subsidy. Is there any cause for concern into the future around that? No federal government would dare take that away.

Mr HIDDING - No. It is a very good point you raise, because we are going to larger ships and it is a completely uncapped scheme.

CHAIR - There will be more vehicles, so there will be more money required.

Mr HIDDING - Yes. It is completely uncapped. There is no, 'Oh we are sorry, we did not know you would get that high'. The company does not see this as a subsidy. This is assistance for the traveller. It is an equalisation paid to the traveller to be able to come across in a reasonable cost effective way. You still have to shop around.

CHAIR - A fair bit cheaper than a road or a highway on the big island.

Mr HIDDING - The Productivity Commission did some work on that and they reckon Tasmania is doing all right out of it. There were a few people chasing this down and have backed off in case we are on the wrong side of the argument. It is a lot of money if it was maintenance, for instance.

CHAIR - Thank you. It is good to get that clarification.

UNCORRECTED PROOF ISSUE

Ms SIEJKA - As the chairman of TT-Line, you would be fully aware of your obligations under corporations law as a company director. Minister, what written assurances have you given the board about the commitment and capacity to fund the replacement vessels and the contractual obligations they will enter into on behalf of Tasmanians?

Mr HIDDING - The process for the ships' acquisition is a business case was developed by the company, went through the Cabinet subcommittee and referred to Treasury. Treasury had it for some time and it was a major exercise to assess. Treasury approved the business case, after which Cabinet deliberated on this matter and has written to the board with a certain set of position. I cannot discuss because they are in Cabinet, but you would understand what they are about, to allow the company to go to the last six months worth of its procurement processes. The board ordinarily would not be able to go any further. You would say, we could not possibly go any further without our shareholder minister's backing us in this.

In terms of commitment to the business case, the Government, from its own budget, has to commit to \$20 million, two tranches of \$10 million into the ships' replacement fund and is agreed, going to happen and is available to the business case. After that, the company is able to move to its procurement and to funding arrangements. The funding arrangements within our public sector is they are required to go to TASCORP in the first instance to talk through their commercial borrowings. Yes, there has been communication between Cabinet and the company to allow them to move to the next stage of procurement.

Mr WILLIE - If the price of the new vessels is too high, is there a plan B to continue with the existing vessels?

Mr GRAINGER - Too high compared to what?

Mr WILLIE - If you enter into contractual obligations and the price is too high and you are bound -

Mr HIDDING - That is a reasonable question. The point is the business case put to Government and to Treasury was based on a band of projected cost of new vessels, based on their advanced negotiations with a number of shipyards around the world. The business case was essentially the worst case. If they moved to this procurement and something happened and suddenly all shipyards in the world put up their price, which would be an extraordinary outcome, if that was the case clearly the business case was no longer valid and they would have to come back to Government and report that.

They currently have a live business case, based on a band of cost of vessels. We cannot discuss what that is obviously because it is highly in probity terms, they are in direct negotiating now. If there was a material change and the business case could not be complied with, it is stop, retreat and come and report.

Mr WILLIE - The existing service will continue on a cost recovery basis; you are not going to price gouge to try to meet the new price. You can rule that out?

Mr HIDDING - No reason to consider that. Incidentally, let us clear this up, the two vessels were currently valued at \$65 million Euros.

CHAIR - I will buy one at \$65 000.

Mr HIDDING - That was the life raft. \$65 million Euros, which is \$90 million-odd AUD. They will sell. They are in great condition and will be terrific ferries for someone. If, for instance, there was a step change required in the acquisition process, for whatever reason, they can easily serve Tasmania for a number of years more. However, we would not be servicing the market, because of the projected growth. That would be undesirable. The company reports this to me regularly that it is also undesirable from the cost as it gets towards the end of the ship's life, as they are, the annual maintenance cost to keep them in tip-top condition they need to do for this long 492 kilometre journey every night, is going up.

They are likely to be sold to somewhere where they came from, perhaps, the Greek Islands where there are 100 kilometre-type journeys and do a fabulous job for a company for many years to come. We would certainly get more time out of them, quite a number of years, but we would not be able to capture the market there.

Mr GRAINGER - In terms of your initial question, it is on the public record websites and news websites that vessels may be similar to what we operate are bought and sold. There are figures published. Whether they are accurate or not no one really knows. There are new buildings launched fairly regularly of similar capacity, dual fuel, and there are prices attached to those, so it is really no secret. The industry knows about what they cost. We have some pretty good indications and we have obviously taken it further.

You may not be surprised to know as early as this morning we were contacted by brokers asking if we would be interested.

CHAIR - They want our business.

Mr HIDDING - Also to buy our ships.

CHAIR - To buy the ships?

Mr HIDDING - Yes, our ships.

CHAIR - I thought they were wanting us to buy off them.

Mr HIDDING - There is great interest in the marketplace.

Mr GRAINGER - That was on one website last night has already alerted an international broker who says, 'How about I sell the ships for you.' Or 'I buy the ships from you.'

Mr WILLIE - Both of them or an inquiry about one?

Mr GRAINGER - They would take both.

CHAIR - One is already sold for \$65 000 to the Chair.

Mr DEAN - With the caravan behind it.

Mr DEAN - Looking at your annual report, page 55, in relation to employee provisions. I note that the workers compensation has dropped significantly. I have read the footnote there as

well. I take it that the company, minister, has worked hard on getting these people either back to work or getting them in a position where they have needed to leave the organisation.

Mr GRAINGER - The company has focused heavily in the last number of years on reducing the lost-time injuries and safety in general in the company to where we are today, where we have virtually no injuries. This is reported to the board each month. It is rare to have a lost time injury. Sometimes there will be a back strain when someone is making a bed or something like that but certainly serious injuries are extremely rare. That assists with our workers compensation figures.

It is through the hard work of management, I have to say, that our injury rate is extraordinary for a company of that size.

Mr DEAN - I note in that footnote it says that this is the best estimate of the future outflows relating to workers compensation payments. That is a significant drop if you believe that will be the case. It is from \$770 000 back to half - \$358 000. You must believe there is going to be a significant development in that area with those projected amounts.

Mr DWYER - And to stay in that area. We have third-party workers compensation experts to look at this as well and this is where some of that information was provided, not just by us.

Mr DEAN - That is good. I note that long service leave costs - annual costs - are going up. Long service leave, as I understand it, in these organisations needs the authority of the minister to accrue over and above certain amounts. What is the position there? Why are we seeing that going up?

Mr GRAINGER - It is really more of a timing variance. It is a bit of a hangover from a few years' back when the management hadn't implemented procedures for mandatory leave, in effect, so we had a build-up of long service leave within the company. We have dealt with that now. We have changed the way we do it and the way it is reported, so you will see that figure reduce over time.

Mr DEAN - As long as it is moving down rather than up.

Mr GRAINGER - The board has discussed it on a number of occasions and we were concerned about it a year or two ago, but management is dealing with it and that figure will definitely reduce, I am confident of that.

The workers compensation is a good result, Mr Dean, isn't it?

Mr DEAN - It is, absolutely.

Mr GRAINGER - The management needs to be commended for that.

Mr DEAN - Most other departments, if they could see that sort of reduction in workers compensation, would be absolutely elated.

CHAIR - There are some GBEs or SOC's that could take a leaf out of this book perhaps.

Mr DEAN - Absolutely.

UNCORRECTED PROOF ISSUE

CHAIR - Minister, there is more than one special event today; it is not only the announcement of two new ships.

Mr HIDDING - It certainly is. It is right up there with it.

CHAIR - For the last time in this parliament we have Majella Tilyard who has been an absolutely wonderful asset to the parliament. Majella has served this parliament over 21 years and 17 years specifically with the Legislative Council. On behalf of everyone in the parliament, and certainly the Legislative Council, we offer Majella our sincere best wishes for her retirement.

We feel sure that we will see her some time in the future when she might come back and have a cup of coffee or something with us. It is a significant day and we acknowledge the work, the hours, the dedication and the commitment to her role that she has played in this parliament.

Mr HIDDING - Madam Chair, on behalf of the lower House, the House of Assembly, and also the Government, I also recognise this last time for you, Majella. It must be very odd sitting there listening to your own name coming out on *Hansard*. Ordinarily I would spell it for the purposes of *Hansard*.

Members laughing.

CHAIR - Majella will know how to spell it.

Mr HIDDING - It will be odd not to see that beautiful smiling face around parliament. On behalf of everybody, I pass on our deep thanks for your service, Majella, and our fondest best regards for the future.

Committee - Hear, hear.

CHAIR - We totally agree with that, and all the best, Majella.

Now to you, minister, and your team at the table. On behalf of the committee, I thank you for your contribution today to our scrutiny. It appears to be in very good hands and that is something that we like to see: a GBE returning a good balance sheet for not only the company but for the people of Tasmania. The service is such an important one. We thank you and we wish you a very safe and happy Christmas and a bright future.

Mr HIDDING - Thank you, Madam Chair, and everyone.

The Committee adjourned at 4.01 p.m.