

# UNCORRECTED PROOF ISSUE

**Friday 5 December 2014 - House of Assembly - Government Businesses Scrutiny Committee  
- TT-Line Company Pty Ltd**

## HOUSE OF ASSEMBLY

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

**Friday 5 December 2014**

### MEMBERS

Mr Brooks  
Mr Green  
Mr Llewellyn  
Mr McKim  
Mrs Rylah  
Mr Shelton (Chair)

### SUBSTITUTE MEMBERS

Mr Bacon  
Mr Barnett

### IN ATTENDANCE

**Hon. Rene Hidding MP**, Minister for Infrastructure

#### Ministerial Office

**Vince Taskunas**, Chief of Staff  
**Richard Wilson**, Senior Adviser

#### TT-Line Company Pty Ltd

**Mr Michael Grainger**, Chairman  
**Mr Bernard Dwyer**, Chief Executive Officer  
**Mr Stuart McCall**, Chief Financial Officer  
**Mr Kevin Maynard**, Company Secretary

**The committee met at 9 a.m.**

**CHAIR** (Mr Shelton) - Welcome, everyone.

**Mr HIDDING** - I was appointed Minister for Infrastructure just after the March election and therefore my role as minister with portfolio responsibility for TT-Line covers only three months of the financial year that is under scrutiny today. However, it is fair to say one of the Government's more prominent election commitments around the TT-Line is also directly relevant to this state-owned company. I would be pleased today to shed light on how the TT-Line has given effect to the Government's policy. Earlier this year we moved to alter the statement of expectations so that in setting prices, fees and charges TT-Line should have the objective of increasing the number of visitors to Tasmania carried on the *Spirits*. The Government would like to congratulate the chairman, Mike Grainger, and his newly-appointed CEO, and Mr McCall in his role as acting CEO in that interim period, and his entire team for their responsiveness to this key government commitment.

We are in the hands of the committee and with the committee's indulgence I will be glad to explain why we are making this announcement today. Due to the very tight time lines in executing contracts for the refurbishment work on the *Spirits* that will be done in mid-winter, the tendering process is alive now. Cabinet agreed to the TT-Line's business case earlier this week and, with what the company had to execute as a result of that, today is the earliest we could have made this announcement to meet those time lines. This scrutiny hearing would have been a nonsense had this announcement been sat on until some later time.

TT-Line is now in a live tendering environment and I am sure member will appreciate that some matters in relation to the refurbishment work are commercially confidential.

**Mr GRAINGER** - It has been another challenging but relatively successful year for TT-Line. We are still competing with low-cost airlines and we still have some fees which affect our bottom line - Port of Melbourne fees and things such as that - but we are working very hard to overcome those adversities. We have had a very successful dry dock period again, on time and on budget. Our passenger numbers are up for the year by around 8 per cent. In somewhat challenging times I think the company is punching above its weight. You would have read or heard about the refurbishment plan. The ships are 16 years old and they have not been refurbished to any real extent since they were built, so that is well overdue. We look forward to what the future brings. We think there is scope for improvement with passengers and the overall economic benefit to the state.

**Mr GREEN** - Minister, congratulations on making a \$10.4 million net profit weighed against what were pretty difficult times and we would accept that. Minister, will you table the business case that you have talked about on radio and put out press releases exclusively to each of the media outlets yesterday. They all get an exclusive copy, apparently. Are you prepared to table that?

**Mr HIDDING** - No. Just like you would not have tabled your business case, neither would we. This is a corporation in a very competitive environment. Any notion that we would put a full business case out there is, of course, complete nonsense.

**Mr GREEN** - There are various assessments made about how a business might perform, but once a direction is made I would have thought it would have been well and truly possible to allow the Parliament to understand what direction the Government is taking, so you are refusing to table it?

**Mr HIDDING** - No. The fact is there is no scope for the TT-Line to publicise its business direction in the highly competitive environment it is in against the airlines. For that reason, the

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same reason, your government would not have dreamt of tabling or releasing a business case. One of you leaked it to some people just after the election, yes, however it is not public, never would have been public and neither will this one be, because it would be a licence to take business off the TT-Line. We all around this table today want the TT-Line to flourish. It is a state-owned company. We want them to flourish and do their job with greater passenger numbers in Tasmania. To release a business case is a complete nonsense and you should be embarrassed asking for it.

**Mr GREEN** - The way that you have constructed this whole argument has just been a load of rubbish up to this point. The way that you have pulled the TT-Line along by the nose without any proper process is what has been a load of rubbish. If anyone is to be embarrassed it ought to be you. Allow us to understand, then, how you arrived at a decision to refurbish the vessels for a cost of \$10 million?

**Mr HIDDING** - Where did that come from?

**Mr GREEN** - You. You said you would spend \$10 million.

**Mr HIDDING** - North of \$10 million.

**Mr GREEN** - You said north of \$10 million?

**Mr HIDDING** - \$10 million was, in my mind, always a minimum to do those vessels. As it happens, this refurbishment work is now tens of millions. However, we cannot talk about what is in the budget for it because we are in a competitive tendering environment right now. Do you want to blow that process as well? There are a large number of companies currently tendering for this huge job. It is expected to be in the tens of millions of dollars. This is a major refurbishment.

**Mr GREEN** - It is tens of millions of dollars straight out of the funds that have been set aside for ship replacement?

**Mr HIDDING** - Out of TT-Line's reserves.

**Mr GREEN** - It is out of the reserves?

**Mr HIDDING** - Yes.

**Mr GREEN** - Okay. So it is tens of millions of dollars out of the \$50 million or \$60 million sitting out there in the front?

**Mr HIDDING** - Currently in reserves.

**Mr GRAINGER** - The annual report will show we have around \$70 million in reserves. I would urge caution with this discussion. The minister is correct; we are in the middle of the tender process and it would be irresponsible to nail down the figures because whatever figure is announced here, and we all know this is going live, for the companies that are being invited to tender that is the figure they will be using. That is not a smart thing for any business to do.

**Mr GREEN** - I accept that and do not expect to get the exact figure at all. We believed, and the Tasmanian people believed, that what the minister said was a refurbishment would be a \$10 million project. That is what he informed the parliament. Now he is saying tens of millions.

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It is about credibility when it comes to the argument. I am not having a crack. The only reason we will have a crack with respect to this is because we want to establish whether this is the right direction for the business.

**Mr HIDDING** - That is good scrutiny. I am happy with that.

**Mr GREEN** - The issue we want to know is whether or not this is a long-term solution or a short-term solution for the TT-Line, because it seems to us that refurbishment of the vessels at this point will be a short-term solution at the cost of tens of millions of dollars.

**Mr HIDDING** - The schedule your government was on is the schedule we are on for replacement, which is around 2022. We are now at 2014.

**Mr GREEN** - So you are going to spend this money and still maintain the same schedule with replacement?

**Mr HIDDING** - That is the schedule we are working to - the existing schedule, same one as you were working to. These ships are about half-way through their life; they have a lot more to give. They have been characterised as probably the best pair of ropax vessels in the world of this type and size that suit Tasmania. The decision was proposed to Government by the TT-Line that we do a major refurbishment. In fact it is a business transformation.

The Government of Tasmania has taken a policy stance on TT-Line, on Bass Strait travel, that is different to yours. We have taken a pro-passenger business stance and the reason we do that deliberately is for regional tourism. We want to build tourism numbers to 1.5 million, but for regional tourism in Tasmania we want them to come along with visitation to the major cities, particularly Hobart to Launceston. We want regional tourism to grow. You know the situation on the west coast in your electorate. This is one of the biggest announcements that the west coast will ever get - that we are going to, for the next six to eight years, be delivering so many more tourists into that space because of the regional visitation. Circular Head the same. The east coast is transformed by a strong passenger policy stance for the TT-Line. By using the vessels to their full designed capacity, which means so many more day sailings right down into the shoulders, we want to fill those ships. Right now there is nowhere to sit on a day sailing.

**Mr BACON** - Is there an impact on more day sailings in terms of when the ships need to be replaced?

**Mr HIDDING** - No.

**Mr BACON** - There is no impact in terms of running the ship more often so that you need to replace it sooner?

**Mr HIDDING** - No, but there are likely implications for maintenance issues.

**Mr BACON** - So a higher maintenance spend.

**Mr HIDDING** - Yes. That is all built into the business case.

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**Mr GRAINGER** - There is no doubt that by running the ships more often there will be a higher R&M cost associated with that. The ships are high-performance ships and by increasing the day sailings there will be additional R&M.

We also have to understand that a lot of what we are doing in this refurbishment is necessary capital expenditure that would have had to be done anyway. We are really just taking advantage of doing that and adding on to the refurbishment program whilst the vessel is in dry dock or alongside in the middle of winter. A lot of this work needed to be done, whether we like it or not. This is something that ropax ferries around the world constantly do. In fact they would normally do it a bit more often than we are doing. There is nothing out of the ordinary here. It is a refurbishment to attract more passengers onto the vessels. The time is right; we need to be doing it. Everyone knows the vessels will need to be replaced at some stage and that will be determined as we move forward.

**Mr GREEN** - With all due respect this is completely out of the ordinary because the TT-Line had a different view. This Government has decided to vacate the field on freight -

**Mr HIDDING** - Maintain our market share.

**Mr GREEN** - You said you have vacated the field.

**Mr HIDDING** - No, no. Let's tidy this up.

[9.15 a.m.]

**Mr GREEN** - Let me finish the question. You said you vacated the field on freight. There is a profitable element associated with the TT-Line and a significant part of that is freight. This is a passenger direction with respect your Government's policy position which will lead to a more difficult position with returning a profit year-in, year-out. It will affect the ability to replace the ships so this is a different direction. It is not normal to be spending tens of millions of dollars on a refurbishment, particularly in light of the issues associated with freight, particularly fresh freight.

**Mr HIDDING** - I know you are the Opposition Leader now but that does not mean you can just make stuff up. On the *Hansard* I said clearly we were vacating the space that you went into - the commercial freight market.

**Mr BACON** - An expansion - you are still involved in freight.

**Mr HIDDING** - No.

**Mr McKIM** - You are still involved in commercial freight, the TT-Line is, is it not?

**CHAIR** - Order. The minister is answering the question.

**Mr HIDDING** - The commercial freight market, the two commercial companies, occupy 80 per cent of the market and 20 per cent of the market is TT-Line, so everybody agrees with that. When we came to government your government was trying to muscle into the commercial sector.

**Mr McKIM** - What a load of rubbish. Honestly, you are just rewriting history. Are you seriously suggesting the Government made a decision to allow the TT-Line to expand its freight capacity? You want to be very careful about misleading Parliament here, Mr Hidding.

**Mr HIDDING** - The decision had not been made but you had spent two years in gridlock blundering around in the commercial freight market. This Government came out of that commercial sector and allowed the commercial sector to order one new ship with others on the way as a result of that policy stance. We then said to the TT-Line we would like you to reconsider a business case which is passenger focussed and maintains the market share that currently exists.

**Mr McKIM** - So you are not vacating the space?

**Mr HIDDING** - I never said I was going to - to vacate this space that you had got into, deliberately trying to sink commercial freight operators elsewhere. We went into the passenger space with a suggestion that the business case needed to demonstrate to government that you could maintain the market share, particularly for the perishable freight which is last to leave, first to arrive and this business case delivers that.

**Mr BROOKS** - It is really exciting to hear, minister, and if you could further outline the impact this will have on tourists and the Government's response to the new business model that the TT-Line have put up. I know you have outlined it already but we have regional dispersal as a problem under the former previous failed minister, Mr Bacon, and those sorts of things. We would be interested in hearing about this exciting model and how we are going to get more people to regional Tasmania and visiting this great state.

**Mr HIDDING** - Through the use of a greatly enhanced regime of day sailings, which drives the day sailings right down into the shoulders, this business case proposes up to 64 000 in the early years. Some 40 000 to 50 000 growing to some 60 000 passengers a year over the term of this business case. That takes the total passenger -

**Mr BACON** - What is the time frame for the business case?

**Mr HIDDING** - Yes, between now and the replacement time for the ships, so 2022. As an early response we are expecting a 40 000 to 50 000 increase going to 60 000. How are we going to get the people on to the vessels? All of us would agree that decks 9 and 10, which is major passenger space particularly for day sailings, are essentially non-existent in terms of passenger facilities. They are not only uncomfortable, it is not attractive and on any given sailing, you go up there and there is nobody there. A major transformation of the day sailing space on these vessels will take place.

**Mr BACON** - Is there a survey or something that says the reason the passengers are not sailing is that they do not have wi-fi and things like that?

**Mr HIDDING** - We will have the chairman and his people explain that shortly. Do you want to go to that now?

**Mr BACON** - I am curious.

**Mr HIDDING** - This is not based on supposition.

**CHAIR** - If we could deal with Mr Brooks' question first.

**Mr HIDDING** - The Government took the view that in our policy stance of wanting to get 1.5 million tourists a year, we did not want to make it just about the cities. Tasmania, a regionally

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dispersed state, deserves a government that drives tourists out into those regions. Already we have seen feedback from Circular Head, the east coast and the west coast who know the chances of them getting a tourist off the TT-Line as opposed to a Jet Star visitor into Hobart is about 100 to 1. They will get so many visitors from TT-Line. This business case is very strongly a regional tourism success story.

It is a business transformation for the TT-Line. The refurbishment of the ships are not, as we have heard, timely maintenance on cabins. The cabins will all be new. The existing business clientele gets a big upgrade. In order to fill as much as we can, the day sailings, we new a whole new offering onboard. As a result of work around the world the TT-Line has come up with the model that they are absolutely confident with. The tourism industry, having seen yesterday the style of the refurbishment, understand this.

**Mr GREEN** - They have seen it, have they?

**Mr HIDDING** - The tourism industry, last night -

**Mr GREEN** - What have they seen?

**Mr HIDDING** - A presentation on the refurbishment of the ships.

**Mr GREEN** - Is there a presentation?

**Mr HIDDING** - We are happy to share that with you. We are not going to sit here and say we are going to refurbish the ships. We are happy to share with you the nuts and bolts of the business case, the projections and modelling.

**Mr GREEN** - This is going to be a fantastic legacy, isn't it?

**Mr HIDDING** - I hope it is, yes.

**Mr GREEN** - The legacy you will leave to the Tasmanian people is that you, single-handedly, have ruined and will ruin the TT-Line. You will put an amazing burden on future taxpayers.

**Mr HIDDING** - Do you think that is going to fly?

**Mr GREEN** - I know you are leaving a legacy that will effectively ruin the TT-Line.

**CHAIR** - Order, gentlemen, please.

**Mr McKIM** - While we are on the topic of the business case, I wanted to put to you, minister, that there is a little discrepancy between your language and Mr Grainger's language. You have tried to pump up the tyres of this announcement as hard as you can. Mr Grainger has said there is nothing unusual going on here. What percentage of the, 'tens of millions of dollars' is routine maintenance that would have had to be carried out anyway, in Mr Grainger's words. What percentage is the upgrades? If you are not going to tell us the split, why not?

**Mr HIDDING** - You are bagging me up before I have even opened my mouth. You are setting me up to fail.

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**Mr McKIM** - You set yourself up to fail.

**CHAIR** - Order. The question has been asked, allow the minister to answer.

**Mr GREEN** - How much does it cost to replace the vessels?

**CHAIR** - One question at a time please.

**Mr HIDDING** - I am fascinated by the Opposition Leader's stance on this.

**Mr McKIM** - I have no doubt you are but we are in a parliamentary committee and I have asked you a very serious question that I believe you should answer.

**Mr HIDDING** - I am not saying I will not answer it. I am considering what I can say and it is fair I think this through before I speak.

**Mr McKIM** - Sure, you can take some advice from Mr Grainger if you like. While the minister is doing that, Chair, I do not see any reason why that figure, the split that I asked for, could not be provided to the committee.

**Mr HIDDING** - Whatever the final number will be of the upgrade, and we would be happy to publish that when it is out, which will be towards the end of January.

**Mr McKIM** - That was not what I asked.

**Mr HIDDING** - Sorry. By the end of January we will put this total figure out there. It is about 35 per cent of what would have been spent on capital maintenance.

**Mr McKIM** - The routine maintenance, thank you. An approximate figure is reasonable in the circumstances. The question then becomes, minister, so 35 per cent of that is \$3.5 million out of every \$10 million, would have been spent anyway? So 35 per cent of whatever your total cost of this, let's call it a refurbishment, would have been spent anyway so it is not an upgrade. It is routine maintenance that would have been done anyway.

**Mr HIDDING** - All new cabins is not an upgrade?

**Mr McKIM** - No, you are not listening to my question, minister. I am confirming 35 per cent of whatever the final figure, tens of millions, happens to be would have been spent anyway under the TT-Line's normal processes for ensuring that their vessels are maintained to a reasonable standard. Is that an accurate statement?

**Mr HIDDING** - Yes.

**Mr McKIM** - So in fact you are not doing upgrades worth tens of millions are you? You are doing upgrades worth some unknown figure, that you will not tell us, and a significant proportion of the total figure is simply routine maintenance? Is that a correct proposition?

**Mr HIDDING** - You tried to recharacterise what I have said and it is all correct. Whatever the total spend is, 35 per cent of it could be characterised as necessary upgrades.



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**Mr McKIM** - Routine, it would have happened anyway?

**Mr HIDDING** - It may have happened. It has not happened in the past.

**Mr McKIM** - Oh really! So TT-Line does not do routine upgrades as a matter of course?

**Mr HIDDING** - Absolutely. The ships were built in 1998, they arrived here in 2002 and they have never had an upgrade, so it is hardly routine.

**Mr McKIM** - Are you suggesting they have not had maintenance done on them in the last -

**Mr HIDDING** - No.

**Mr McKIM** - Chair, the minister in his defensiveness because he is refusing to -

**Mr HIDDING** - We offer the information so why would I be defensive about it?

**Mr McKIM** - Mr Hidding, I think Mr Grainger interjected on you then and said it may have happened well presumably because the TT-Line -

**Mr GRAINGER** - I can probably make this easier for you.

**Mr McKIM** - That would be fantastic, Mr Grainger, thank you.

**Mr GRAINGER** - You will have to pay attention.

**Mr McKIM** - Just excuse me for a moment. On a point of order, Chair. If there has been any imputation by Mr Grainger that I am not paying attention that would be incorrect.

**Mr HIDDING** - We have had two or three different goes of explaining this to you.

**Mr GRAINGER** - I am not implying anything, Mr McKim.

**Mr McKIM** - Good.

**Mr GRAINGER** - I am hearing a lot of comments coming from all around the table and it is very hard for me to follow that. I think I can make it easy for you. There is an element of maintenance that is required on any ship that needs to be done on an annual basis and that is why we put the ships into dry dock. That is a safety requirement, general maintenance requirement, repairs and maintenance requirement. The ships are high performance complex vessels that need to be maintained. It is as simple as that. Every year that is done. There will be times where we will replace some carpet and curtains but the ships have not had a refurbishment as such since they were built and they are due for that. That will also tie in with the regular maintenance that needs to be done on the ship. I think that is pretty easy to understand. We are going to enhance the passenger experience on the vessels to attract more tourists to Tasmania. It is no more complex than that. In the view of the company this is a requirement that needs to be done. There is a process in place at the moment and it would be foolish to get into the detail of that.

[9.30 a.m.]

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**Mr McKIM** - I have not asked you to, Mr Grainger, except to provide the split, which you have done. Minister, I think what Mr Grainger has just said - and please correct me if I was not paying attention - is there are a number of things that are done on a regular basis to ensure the ships are of adequate standard. That goes to things such as passenger comfort, safety, routine maintenance et cetera. You have said that approximately 35 per cent of the final figure is characterised as routine maintenance, so how would you characterise that, minister?

**Mr HIDDING** - Necessary upgrades of cabin space.

**Mr McKIM** - So no maintenance?

**Mr HIDDING** - It is a necessary refurbishment. I can see what you are trying to do, you are trying to downgrade our spend. We agree with you completely. It is necessary refurbishment of the vessel, separate from this business case, that could have been done in any case.

**Mr McKIM** - It most likely would have been done, wouldn't it, because the TT-Line presumably would want to offer vessels that are safe and efficient.

**Mr HIDDING** - When you say 'most likely would have', they have not up until now - since the day they were built they have not up until now.

**Mr McKIM** - Have not done routine maintenance?

**Mr HIDDING** - They have done routine maintenance but not refurbishments, so there is a full refurbishment taking place right through the ship.

**Mr McKIM** - Clear as mud, thanks, Mr Hidding.

**Mr GRAINGER** - There are repairs and maintenance done almost daily, there are upgrades that are done annually, and there is refurbishment - which is the plan.

**Mr McKIM** - To use those three categorisations - routine maintenance, refurbishment done annually, and the upgrades.

**Mr GRAINGER** - No, I did not say that.

**Mr HIDDING** - Routine maintenance is done annually in dry dock.

**Mr McKIM** - Mr Grainger, could you repeat your last answer, please?

**Mr GRAINGER** - Repairs and maintenance are done almost daily. There are upgrades, which are done usually whilst the vessel is in dry dock - some carpet may need to be replaced or what could be classed as minor upgrades. Then there is refurbishment, which is a major project.

**Mr McKIM** - Thank you, Mr Grainger. For clarity, the 35 per cent the minister has referred to, that part of the total spend which would cover in your categorisations repair and maintenance and minor upgrades?

**Mr HIDDING** - No, refurbishment.

**Mr GRAINGER** - It would be upgrade and refurbishment, a combination.

**Mr McKIM** - So what is the 65 per cent then, is that refurbishment as well?

**Mr HIDDING** - It is a complete transformation of the vessel.

**Mr BACON** - This is the business transformation you talked about.

**Mr HIDDING** - This business case takes the TT-Line into a full passenger stance while maintaining its 20 per cent market share of the freight business. To do that we have to do a major refurbishment of the vessels, so there is a big project under way which is tens of millions. A percentage of it, around 35 per cent, could be characterised as being necessary to have been done anyway, the rest of it is necessary to deliver this business case.

**Mr BACON** - In this refurbishment, will there be an increase in the vehicle deck capacity?

**Mr HIDDING** - Through extra day sailings, yes.

**Mr BACON** - In terms of the ships, there is no extra capacity for additional vehicles?

**Mr HIDDING** - No.

**Mr BACON** - So in the peak times when these day sailings are taking place, there is no increase in capacity?

**Mr HIDDING** - There are many slots during the summer period where the day sailings do not occur.

**Mr BACON** - And they will occur there?

**Mr HIDDING** - Yes, and we are going to fill those dots in and drive the extra sailings into the shoulders.

**Mr BACON** - So mainly the increase in the day sailings will be at times when it has been difficult to get demand to take day sailings. The refurbishment is going to address those issues? In terms of the price information that you released to the media last night, obviously that is part of the business case.

**Mr HIDDING** - Yes, it is.

**Mr BACON** - Surely you can release that part of the business case so the Parliament and the Tasmanian people can understand how this 15 per cent figure has been reached.

**Mr HIDDING** - The business case that the Government has signed off on is based on a 14.8 per cent reduction in average nominal yield. The only way that can occur is that a large percentage of the fares will need to be way more than 20 per cent off. We have absolutely delivered on our promise here. It is absolutely average nominal yield. The average nominal yield to the company from fares will be a 14.8 per cent reduction. We have approved a business case that takes volume over margin. Why do we do that? Because volume, a greatly increased number of tourists to Tasmania, is great for the entire state. We have chosen volume at the expense of margin. If you

went out there and asked a coffee shop owner or Myer, they will tell you about volume over margin. It is a very good business model. It is not necessary - a lot of others go for margin over volume - but in this case because of how good it is for Tasmania, particularly regional Tasmania, this is the model that we have approved.

**Mr BACON** - For example, if you wanted to take your family to Melbourne for Christmas with your car and your caravan, what would that cost at the moment? Say you wanted to go on 20 December?

**Mr GRAINGER** - It depends when you book it.

**Mr BACON** - Can someone who did it this year and then does it in 10 years' time expect a 14 per cent decrease in their fare?

**Mr HIDDING** - Probably not at a premium time. However, there would be day sailings that they would be able to book as an alternative, much cheaper.

**Mr BACON** - So the day sailings will be cheaper for the whole year?

**Mr HIDDING** - In order to be able to fill the day sailings -

**Mr BACON** - Even on 20 December?

**Mr HIDDING** - Let us just talk about filling day sailings. Now, there is nowhere to sit or even basically stand on this vessel in any great numbers. A day sailing today is not a full ship. These ships are rated to carry up to 1 300 passengers on a day sailing. You could not possibly now.

**Mr BACON** - In the peak season, what would they carry?

**Mr McCALL** - Average over the years is 477 on a sailing, but in peak season you would get up to 1 300 on a day sailing.

**Mr BACON** - It would be full in the peak season at the moment.

**Mr HIDDING** - Nowhere to sit, nowhere to stand.

**Mr GREEN** - If you are travelling peak, the question has been asked, will you get a 14 per cent reduction on the fare?

**Mr HIDDING** - We always said so; let me read what we said: 'The members expect TT-Line to set prices, fees and charges'. We changed the statement of expectations. We have written to the company and changed the statement of expectations to get them to understand that our policy stance is passenger-focused.

**Mr GREEN** - When did you write to them?

**Mr HIDDING** - Earlier this year we moved to alter the members' statement of expectation. I think the formal process is still underway, but we wrote to the company so that they knew precisely. It was not a direction. It was to say this is where we are going.

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**Mr McKIM** - Has that been tabled in the Parliament, Mr Hidding?

**Mr GREEN** - It is not on your website.

**Mr BACON** - So it is request and it is not formalised?

**Mr HIDDING** - The statement of expectations will be changed so that in setting prices, fees and charges, TT-Line should have the objective of increasing the number of visitors to Tasmania carried on the *Spirits*.

**Mr BACON** - So in the peak times, you can't do that effectively? There is no spare space on the ships.

**Mr HIDDING** - On 20 December? No, there is not. The point is that there are many other days when the ships are empty or do not sail. Now we are sailing and we are going to fill them up with people. That delivers up to 64 000 more passengers a year.

**Mr BACON** - In terms of the modelling to reach, I think it was 14.8 per cent you said in the media last night -

**Mr HIDDING** - Average nominal yield.

**Mr BACON** - Can we get the modelling that makes up that 14.8 per cent so the Tasmanian people can understand exactly how that figure was reached?

**Mr HIDDING** - Average nominal yield to the company will be 14.8 per cent less spread over the entire year worth of trading. It has to be. A business case does not work on the month of December, it works on 12 months.

**Mr BACON** - Good idea.

**Mr HIDDING** - Radical idea. The average nominal yield and the business case that we have approved reduces by 14.8 per cent. In order for that to occur, a great number of the offerings to the travelling public will be far more than 20 per cent average. We have nailed our election promise absolutely with this.

**Mr BACON** - What does this do for TT-Line in the long term? If you talk about vessel replacement and things like that, how does this affect their ability to - I think it was a \$10.4 million net profit this year - what does that do as we go forward?

**Mr GREEN** - More specifically, is it in the business case?

**Mr HIDDING** - Absolutely.

**Mr GREEN** - The vessel replacement is part of the business case?

**Mr HIDDING** - A business case contemplates every circumstance. So while we are not tabling a business case, as you could not or would not in government, neither will we. But we are happy to discuss it.

**Mr BACON** - There is provision in that to replace the vessels in 2026?

**Mr GREEN** - We do not take a dividend from TT-Line for a reason. Why is that?

**CHAIR** - Order. We are jumping around from one question to another and that is fine, but we must allow the minister to answer one question before we get into the next.

**Mr GREEN** - Why don't we take a dividend from TT-Line?

**Mr HIDDING** - Because the company makes provisions for certain outcomes. Under the model that you wanted to do, it was going to go into the freight business and risk a lot of state government money. We chose not to do it. We are going a pro-passenger stance for the state of Tasmania.

**Mr BACON** - There is no risk to the state government from this decision?

**Mr HIDDING** - I am going to ask the chairperson to speak to the overall nature of the business case we have adopted. Clearly, if we are going for numbers versus margin, that is the business model we clearly said we would prefer - more passengers rather than yours being only about profit. We would prefer more passengers, if we could.

**Mr GREEN** - The profit was so we could replace the ships. Anyway, go on.

**Mr HIDDING** - I will ask the chairman to explain those elements.

**Mr GRAINGER** - It is very straightforward. We have a statement of expectation from our shareholders that expects us to increase our passenger numbers. To do that we have decided that it was necessary to do the refurbishment. That is what the business case is all about. Based on the numbers that the minister has just quoted, there is a possibility, depending on our yields and our net profit at the end of the year, there is a possibility that the company may have a reduced net profit at the end of the financial year. The shareholders have suggested that that is quite -

**Mr GREEN** - Sorry, can you say that again? Just go back one sentence?

**Mr GRAINGER** - It is possible that there could be a reduction in profit by the end of the financial year. The shareholders, in co-operation with the company management, have said we have a requirement to encourage more passengers and more tourists to come to the state, and this is what we need to do. The company does not have any issues with that, if that is what the owners of the company desire.

As for replacement of the vessels, that will need to be determined by the shareholders. It cannot be determined by the company; it needs to be determined by the shareholders. When it becomes appropriate that those ships need to be replaced, the government of the day will have to make a decision.

**Mr HIDDING** - Just as it did when it acquired these ships. When we acquired those ships, the TT-Line paid for one and the people of Tasmania paid for the other. It is not unusual that a government would support a GBE in a major acquisition such as this. That is what happened back then.

[9.45 a.m.]

**Mrs RYLAH** - In my electorate the expansion of regional tourism is very important. One of the key areas of regional expansion for tourism comes from grey nomads, because they stay longer in the state, they spend more money and there is an overall greater benefit and multiplier for the state. Can you tell me under this model how grey nomads will be affected or benefit?

**Mr HIDDING** - In the greatly enhanced number of day sailings there is generally little freight. There is a capacity for some freight - and there is a separate discussion on freight - that will allow some triaging to take place, but generally there is not a big appetite for daytime freight. The beauty of the TT-Line is that it is last to leave and first to arrive and that is what they want to be on. Without freight on the vessel you have all these lane metres to fill. Right now, of course, many Tasmanians leave their caravans and their things in Melbourne, and many visitors do not come to Tasmania because of the cost of a day sailing on 20 December. It is not cheap. It is supported by the Bass Strait passenger vehicle equalisation scheme, but it is not cheap. It takes up two to two-and-a-half car spaces and it is not cheap.

But on a day sailing, in order to fill the ships the TT-Line is going to have to be aggressive in their marketing and meet the market. With all that space downstairs to fill one can expect, and the business case expects, strong offerings to the market to meet that market, resulting in cheaper fares than they have predicted. The big winners out of that are the grey nomads, that market. Every member sitting around here knows the number of complaints we have had about cost and availability. It is just as much about the availability as it is costs. The extra lane metres that these day sailings will bring will be terrific.

**Mr BROOKS** - We spoke about tourism potential. I would be interested if you could explain to the committee what enhancements the upgrades will have to give a better tourism experience?

**Mr HIDDING** - Basic decks 9 and 10, as I have said, are now utilitarian, to be very fair about that. Our new CEO comes from the hospitality industry and he has been on the board for five years, so we have the best of both worlds in his appointment. He absolutely got it, in working on this business case, that the key to making this business case deliver was a whole new passenger experience. If the committee is happy I will ask the TT-Line now to share the details of the refurbishment so that we all understand the scope of this. It really is a major project.

**Mr DWYER** - As the minister has talked about, decks 9 and 10 are very utilitarian. The market research that we have done with our customer satisfaction over a period of time is that satisfaction on day sailings is a lot less than the satisfaction on the night sailings, so the only real lever we have in this business to increase passenger numbers is increasing day sailings. To do that effectively we have to have the right product for not only attracting visitation and daytime sailings but also getting people to do it more than once.

**Mr BROOKS** - Just to clarify, this is market-research driven?

**Mr DWYER** - Absolutely. We need to attract daytime sailing back. There have been a lot of cases that we have seen where people will come but they do not want to have that experience again. This is all about increasing that. As the minister says, I have actually operated tourism businesses, especially on the west coast, over many years. It is almost a direct link from the success of those businesses in Strahan, in particular, to the number of passengers that come across on the TT-Line. That link is absolutely irrefutable, so the west coast, the north-west, the regional areas of Tasmania need more passengers to be coming across on these vessels. As I said before, the only lever we can

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really pull is to increase the day sailings. That is filling the holes when the demand is there in the current peak season.

**Mr BACON** - In that market research, is price a common issue for people who do not return on the day sailings?

**Mr DWYER** - No, it is more facility and experience, especially south bound. Coming from the mainland to Tasmania, price is not the biggest issue. North-bound Tasmanians do raise that.

**Mr HIDDING** - They are more sensitive about that.

**Mr DWYER** - Absolutely more sensitive. Even for caravans and motor homes, north-bound is more the issue there. So increasing that capacity on the day sailing is absolutely crucial.

For us to have the right experience, decks 9 and 10 are very utilitarian. I do not know how many people have had a look at decks 9 and 10 on the *Spirits*. It is not pleasant for day sailings, and that is what we are hearing. In night sailings, not many people use decks 9 and 10 because they do not need to. But on day sailings, when we are putting upwards of 1 300 passengers on those vessels, you have to have to right spaces for them. You have to have the correct air-conditioning and comfort, and the entertainment and engagement for a very long sailing across Bass Strait. That is what this business case addresses. It is very exciting.

The business case and what we have developed within the company, the management team and our people are really excited about this. This will do a big push, there is no doubt about it, in relation to passenger numbers. Even though we will looking at numbers against yield, the 14.8 per cent, the actual overall economic benefit for Tasmania is huge. Everybody knows that the number of nights people stay, if they travel on the vessels, and the amount of dollars they spend in Tasmania are crucial. They spend it in the regions to start with because that is where we deliver them, into the regions.

**Mr GREEN** - I think we all know that it is the vessels and their ability to sustain into the future. Built into the business case, can you confirm there is a time line for replacement of the vessels?

**Mr GRAINGER** - Yes, there is. It is not prescriptive but there is. In 10 years time we do not know what the condition of the vessels will be.

**Mr GREEN** - So beyond 2022?

**Mr GRAINGER** - Not necessarily.

**Mr HIDDING** - Projections are aimed at 2022-23.

**Mr GREEN** - We are in 2014 now and 10 years takes us beyond that. There is no business case with respect to the amount of money that needs to be available to replace the ships in 10 years time?

**Mr GRAINGER** - No.



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**Mr GREEN** - What expectation do you have? Can you quantify the profit loss that will occur as a result of the Government's decision to go down this path?

**Mr GRAINGER** - We are not expecting a loss. We are expecting our profits to reduce but we are not expecting a loss.

**Mr GREEN** - Can you quantify what that reduction might be?

**Mr GRAINGER** - No, I cannot.

**Mr BACON** - Does the business case do that?

**Mr GRAINGER** - Yes, it does.

**Mr HIDDING** - Nowhere in the business case does it say this is going to lose of a fortune, the volume-over-margin model. We have selected one that goes to -

**Mr GREEN** - So there are options in the business case?

**Mr HIDDING** - We have approved a business case that delivers the most passengers into Tasmania for the best possible outcome. That does not presume a \$20 million profit every year, because we have chosen that over that. We know that is likely going to be less than if business as usual keeps ploughing ahead. However, the threat of that is that your visitation drops off as the ships get more and more tired. We have taken a volume-over-margin business case.

**Mr GREEN** - The business case now provides for potentially one ship being replaced by the TT-Line and the other ship being replaced by the Tasmanian people?

**Mr HIDDING** - No. That is what happened back then. I was pointing out that when you acquired the ships in 2002 -

**Mr GREEN** - If we wanted to buy two new ships today, what would they cost us?

**Mr HIDDING** - It depends what you went for.

**Mr GRAINGER** - It is a difficult question to answer because it would depend on what type of ship you wanted. If you wanted to replace the ships with something of the existing tonnage that would depend where you would want the ships built and who would design them, but you could be looking at something in the order of €250 million each.

**Mr GREEN** - So €500 million in total?

**Mr GRAINGER** - Could be less, could be more.

**Mr HIDDING** - Which is precisely the same number as you guys had been aware of and working towards on the same date and the same schedule.

**Mr GREEN** - The profit is going to go down with no ability to make more money and an expectation you are going to run the ships harder to the tune of at least 294 extra sailings if you take into consideration the number you put forward over the forward Estimates. Are you telling the

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Tasmanian people that the replacement value of the ships - what you might get for selling them after effectively running them into the ground - all makes sense in the business case?

**Mr HIDDING** - Yes, because a business-as-usual case always contemplated that the people of Tasmania would have to assist TT-Line to buy new ships as well as borrowings, and that is still the case.

**Mr GREEN** - So in 2022, based on what you are projecting now, given you are going to take a fair proportion of the money that has already been set aside for vessel replacement, which would be in addition to what we would actually get for them on the second-hand market, you are telling the Tasmanian people effectively that they're going to have to find €500 million?

**Mr HIDDING** - No, that is a nonsense and you're just making it up. The fact is -

**Mr GREEN** - No, I'm not making it up - you're telling me the story.

**Mr HIDDING** - Under your government the people of Tasmania would have had to participate in an acquisition of new vessels. Under this Government the people of Tasmania will have to participate in the acquisition of new vessels. All we are arguing about is the quantum and, under this business case, there is likely to be a little less available because we will have had the benefit of all these extra tourists in Tasmania. That is a decision we have made. Under any model it is likely that TT-Line would need assistance for new acquisitions.

**Mr GREEN** - I put it to you, minister, that under the model you are putting forward you are making the business of the TT-Line vulnerable.

**Mr HIDDING** - That is complete rubbish. The TT-Line will remain a strong company that has put a case to government to run a volume over margin model which is very positive for the state of Tasmania. It is a terrific positive outcome.

**Mr GREEN** - In the peak times, though, you won't be able to get any extra vehicles on.

**Mr HIDDING** - On 20 December it is currently fully booked and under this model it states fully booked. The fact is there will be more day sailings either side of it and opportunities for people to visit in the shoulder seasons when it currently does not sail and there needs to be very aggressive marketing to fill those ships. The price settings there will result in an average nominal yield reduction of 14.8 per cent which clearly delivers on our policy of up to 20 per cent because many of the offerings will be way past a 20 per cent reduction in fares.

**Mr McKIM** - I make the point that a 0.5 per cent reduction in fares would have also delivered on your policy, Mr Hidding, because 'up to' is a very broad form of words. Would you please provide your statement of expectations for this committee today?

**Mr HIDDING** - I am happy to provide for you the letter we wrote to the TT-Line to say that -

**Mr McKIM** - Was it not a statement of expectations?

**Mr HIDDING** - Yes, our intention to change the statement of expectations. That is currently working through the Corporations Law and bits and pieces.

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**Mr McKIM** - So we are clear, there has been no revised statement of expectations issued to TT-Line since the election?

**Mr HIDDING** - We have advised the TT-Line that it is the intention of this Government to change the statement of expectations. I will get some advice as to precisely where that process is because there was the Solicitor-General, Corporations Law and bits and pieces working through that.

**Mr McKIM** - I have just done a bit of checking and I don't believe it has been tabled in Parliament.

**Mr HIDDING** - No. It has to be tabled every year and I suspect you are right, the new one needs to be tabled, but the TT-Line is working on a letter from the Government that clearly laid out what our new statement of expectations will say.

[10 a.m.]

**Mr McKIM** - Could you table that letter, please?

**Mr HIDDING** - I will get the letter and read the relevant bits.

**Mr McKIM** - No, that wasn't my question.

**Mr HIDDING** - It is commercial-in-confidence about a number of matters.

**Mr McKIM** - On what basis are you claiming that it is commercial-in-confidence?

**Mr HIDDING** - I will provide you with the words around that statement of expectations.

**Mr McKIM** - In general terms.

**Mr HIDDING** - The letter, however, because it goes to a range of matters, is commercial-in-confidence. This is a company in a highly competitive environment -

**Mr McKIM** - Is it advice you have received from the TT-Line that the balance of that letter is commercial-in-confidence?

**Mr HIDDING** - The advice would have been on the exchange of letters and is that we should not place the company at risk by publicising certain matters.

**Mr McKIM** - Advice from whom?

**Mr HIDDING** - I am not sure who advised.

**Mr McKIM** - So you're going to say there's advice but you can't tell the committee who advised you?

**Mr HIDDING** - This was six months ago.

**Mr McKIM** - This is very interesting.

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**Mr HIDDING** - I will find the letter for you.

**Mr McKIM** - And the advice, please.

**Mr HIDDING** - I will share with you.

**Mr McKIM** - And will you provide the advice you have just referred to, to the committee, please? The advice that you should not release certain matters in that letter that you have just told us you had.

**Mr HIDDING** - I suspect that advice was as plain as the nose on your face that we should not be exposing the TT-Line to commercial damage by the release of confidential letters between the shareholders and the company.

**Mr McKIM** - Will you provide that advice to the committee, please?

**Mr HIDDING** - I will get that letter this morning and consider what I can release to this committee.

**Mr McKIM** - You are on notice that the committee is asking you to provide not only that part of the letter, but the advice that you have now told the committee you have that says you should not be releasing the balance of that letter. Thank you. I have one more question. Has there been any discussion between you and the company, minister, on whether the TT-Line can afford an equity transfer to Forestry Tasmania, that voracious consumer of public funds?

**Mr HIDDING** - The answer is no.

**Mr McKIM** - No consideration?

**Mr BACON** - You have not been involved in any conversations?

**Mr HIDDING** - No. I am not aware of any such conversations -

**Mr McKIM** - Are you aware of the other shareholder minister?

**Mr HIDDING** - and I would be if it was about the TT-Line.

**Mr McKIM** - So you're saying you are entirely confident that Mr Gutwein has not considered at all whether the TT-Line can afford an equity transfer to that voracious consumer of public funds, Forestry Tasmania?

**Mr HIDDING** - I have no idea when you say whether he has considered it or not. That is a matter you need to raise with him.

**Mr McKIM** - He is your other shareholder minister.

**Mr HIDDING** - No-one has ever raised an equity transfer from TT-Line to anyone with me.

**Mr BACON** - You talked about a range of options in the business case and you selected one in Cabinet on Monday or whenever the decision was made. Were those different options based on

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different levels of price reductions or how the vessels would be refurbished? When you made the decision, what was it based on?

**Mr HIDDING** - I will characterise it like this. The business case proposal to Government allowed Government to consider how hard it wanted TT-Line to go in this issue of volume versus margin. We selected an aggressive stance to go for maximum volume while maintaining a responsible margin.

**Mr BACON** - So it's the most aggressive option in the business case?

**Mr HIDDING** - I am telling you we have selected a very aggressive model.

**Mr BACON** - It is very aggressive?

**Mr HIDDING** - In terms of a do-nothing approach compared to now, this is an aggressive business model in order to deliver on what we wanted, which was a whole lot more tourists to Tasmania. This is what we are going to get and the business stays in good shape, but it is margin versus volume and volume wins out. Margins are somewhat reduced and there are implications for the business in that, but they are acceptable, doable and safe.

**Mr BACON** - The CEO said that it was about the refurbishment to drive demand rather than price to drive demand so the refurbishment decision had a range of options as well or it is just the pricing? I suppose there is range of options in terms of how the refurbishment could be done that was presented in the business case?

**Mr HIDDING** - No. The refurbishment has been designed by experts which was required for one of the better day sailing experiences in the world. It is exciting. It has been worked on by experts. There is an architectural fly-through available that I am happy to show.

**Mr BACON** - We could just take a copy and watch it at a more convenient time, I suppose.

**Mr HIDDING** - It is all of 30 seconds but it does explain the nature of the refurbishment.

**Mr BACON** - It was put forward as one option to do a refurbishment, but a range of different options in terms of the pricing and how aggressive you would be on pricing?

**Mr HIDDING** - It was always up to the Government to choose how aggressive it was going to get in increasing the numbers of tourists to Tasmania. We have taken the very best one for the state of Tasmania, which is aggressive.

**Mr BACON** - And based on price.

**Mr HIDDING** - Aggressive, based on refurbishment and price driven as well. The price changes would come through all those extra day sailings in order to fill them. The effect on the company was a reduction in average nominal yield of 14.8 per cent, which clearly delivers on way over our 20 per cent in a great number of the fares.

**Mr BACON** - But the business case only has one option in terms of refurbishment.

**Mr HIDDING** - Yes.

**Mr GREEN** - Minister, you said that the argument about the replacement of the vessels into the future is just about quantum. That is what you said, the quantum of the money that is going to be required to replace the vessels.

**Mr HIDDING** - Whoever is in government, you would contemplate the TT-Line requiring assistance for new acquisitions. You would contemplate that. There is also commercial debt as well.

**Mr GREEN** - You believe that the way forward here is to put TT-Line in a position where if it is not being able to build up an amount of money. Given that you stripping a significant amount away for what seems to be a relatively short term investment here in terms of passenger numbers, you then expect the money to come from somewhere at some stage in the future for the replacement of the vessels and we are just talking about the quantum.

**Mr HIDDING** - Exactly.

**Mr GREEN** - Where do you think the money will come from?

**Mr HIDDING** - As I said earlier, the acquisition of new vessels for TT-Line, always contemplated under any model, is the state of Tasmania assisting them with that purchase.

**Mr BACON** - This will have to be more assistance than would have been before you made this decision.

**Mr HIDDING** - Assisting with that purchase and under this model unashamedly this company will make less profit than under a business as usual thing, which in our view places the company and the state of Tasmania at great risk. We want to build the state of Tasmania through tourism numbers. We are going to use these vessels to make a major contribution. The investment is wise, the strategy is wise and at the end of it the same question faces the state of Tasmania for acquisitions. It is just how we go about it.

**Mr GREEN** - It is just not right because we do not take a dividend from the TT-Line to allow for a provision to be built up for vessel replacement.

*Members interjecting.*

**CHAIR** - Order.

**Mr GREEN** - Listen, mate, we bought the ships in the first place, you berk. Don't talk to you us about tourists. We bought them in the first place.

**Mr BROOKS** - You lied to the people. Where are the 2014 *Spirit* replacements?

**Mr GREEN** - We decided not to rob the TT-Line so the future burden on the Tasmanian people would not be anywhere near as significant as what it is going to be under you.

**Mr HIDDING** - But you robbed the tourism industry of more passengers and now we are giving the tourism industry the passengers. You robbed the tourism industry, looking for profits.

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**Mr GREEN** - On the basis of what you are saying to us today it seems this magic pudding is not sustainable.

**Mr HIDDING** - Absolutely is sustainable. The TT-Line is a responsible corporate entity that has done a business case which shows it is sustainable.

**Mr GREEN** - You told them to do a business case.

**Mr HIDDING** - No, we asked them to work on a business case that would address our policy stance for more passengers and more visitation to Tasmania. That is precisely what they have come up with. It is a responsible business case that does not rob the tourism industry of its necessary growth. We are going to drive this tourism industry to 1.5 million, and I know you hate it, you are out there bagging it already.

**Mr GREEN** - You have been making this up the whole way. This is about scrutinising whether the business is sustainable. We will ask several questions about that, the options put forward and whether they are the best options for the business.

**Mr HIDDING** - The best option for the business would be to make \$50 million a year, or \$20 million a year, and rob Tasmania of activity.

**Mr GREEN** - I would put it to you that the best interest of the business is also the best interest of Tasmania.

**Mr HIDDING** - We have decided what is best for Tasmania is a greatly enhanced number of visitors and we have the great support of the tourism industry for that policy stance. The way to deliver it is to use the TT-Line in a business transformation with a major growth in passengers into Tasmania. For the record, the opposition does not want us to show this committee the architectural upgrades - the nature and style of them. They do not want to see it because they will be embarrassed.

**Mr BACON** - So it will go into *Hansard*?

**Mr HIDDING** - No, you will be able to ask questions about the refurbishment, but you do not want to know about that because you know this is terrific.

*Members interjecting.*

**CHAIR** - Order. For the benefit of *Hansard*, when the minister is answering a question I would ask members to cease interjections so *Hansard* can record what is going on. I also ask that only one person will ask the question when I give the call.

**Mrs RYLAH** - Minister, in the preparation and background for this business case, could you provide the information on the current trends with passenger numbers on the *Spirits*?

**Mr GRAINGER** - The trend is that passenger numbers are increasing. We have raised our profile and brand recognition in a number of areas. We are seeing an increase in passenger numbers of approximately 8 per cent in the last 12 months. There is a level of awareness we see is increasing.

**Mr McKIM** - To clarify, do you mean in the last months of the financial year we are examining or the last months to now?

**Mr GRAINGER** - Even the last calendar year.

**Mr McKIM** - So the year to 31 December last year?

**Mr GRAINGER** - Yes.

**Mr McKIM** - In other words, there was significant growth in passenger numbers before the new government came in?

**Mr GRAINGER** - I would not call it significant, but it is positive. We would like to see more, but 8 per cent is good.

**Mr HIDDING** - As a springboard for this business case, it gave great confidence that demand is there.

**Mr McKIM** - The point I am making, minister, is that in the latest year for which we have figures the Tasmanian tourism visitation numbers were at about a 12 per cent annual growth rate. Under the previous government the *Spirit* passengers were at an 8 per cent growth rate over the last calendar year, as we have just heard from Mr Grainger.

You have said you are taking advice on the statement of expectations but there is a previous statement of expectations from the previous government so does that automatically lapse on the change of government? Are you ignoring that and turning a blind eye to it? I'm not being critical here, I'm genuinely asking how that works in terms of your legislation.

[10.15 a.m.]

**Mr HIDDING** - The current statement of expectations is fairly [inaudible].

**Mr McKIM** - I have it here because this one was published; it's on the website.

**Mr HIDDING** - Nothing we have advised would cancel out any of that but it is just more specific about where we would see that versus that.

**Mr McKIM** - I wanted to also ask about the decision you have made to prioritise volumes over margins, as you have characterised it. You and Mr Grainger have said various things today but there is certainly either an expectation or a significant possibility that your profits will be lower as a result of that decision. I would like to understand to what extent, if any, that position would compromise the TT-Line's capacity to fund new vessels by 2022 given the fact that TT-Line has been assisted to build up a war chest, if you like, or a reserve in order to provide for refurbishments and funding of new vessels. Under the previous policy settings and the previous projections of profit, how much would the TT-Line have had in its reserve by 2022 and what are your current projections for the quantum of funds in that reserve by 2022?

**Mr HIDDING** - There was never a business case projection for the business-as-usual model which would have said the TT-Line would expect to have at a new vessel acquisition point x amount in the bank. It was always understood that there was never going to be enough. It was never going to have a war chest to buy two new vessels under -

**Mr BACON** - Have you done any modelling?



**Mr HIDDING** - It was never going to be enough so we are now talking about the quantum.

**Mr BACON** - You need \$738 million.

**CHAIR** - Order.

**Mr HIDDING** - We are saying that the business stance we have taken has brought forward a business case which will affect profits -

**Mr McKIM** - I think we're getting there now.

**Mr HIDDING** - Of course it will affect profits because we have taken volume over margin -

**Mr GREEN** - You have been so irresponsible it's amazing. I can't believe it.

**Mr HIDDING** - and as such it is likely that the state of Tasmania, just as likely as it was before, will need to assist the TT-Line in that.

*Members interjecting.*

**CHAIR** - Order. Mr McKim has the call and, as I have suggested before, could people please not interject.

**Mr McKIM** - Thank you, Chair. Mr Hidding, I will try to make this clear for you because, with respect, I thought you were about to but you did not go to the point I was making. Just for clarity, no-one is suggesting that there would not have been a need for a contribution from the Government once it comes time to replace the vessels.

**Mr HIDDING** - Okay.

**Mr GREEN** *interjecting.*

**Mr McKIM** - I am not suggesting that; Mr Green can suggest what he likes. What I am interested in - and I think it is a legitimate question on behalf of the taxpayers of Tasmania - is what is a reasonable estimation of the change of quantum of financial support that the Government would be likely to have to put in around the replacement of the TT-Line vessels. I will just explain why I think that is a reasonable and important question. You have decided to spend more money than was previously allocated for expenditure on the current vessels. Surely you would agree that will compromise the degree to which the TT-Line can contribute to the funding of new vessels? Do you agree that it does actually compromise the degree to which the TT-Line can contribute to the funding of new vessels and, if so, by how much?

**Mr HIDDING** - We don't see that as a compromise at all. It simply does not compromise.

**Mr McKIM** - Let us be clear about this. You are informing the Parliament of Tasmania that the TT-Line, in your view, will have exactly the same reserves under your policy settings with lower profits than it would have previously?

## UNCORRECTED PROOF ISSUE

**Mr HIDDING** - No, it was the centrepiece. We said upfront that this business model will affect the profitability of TT-Line.

**Mr McKIM** - I am asking about the quantum of the reserve, Mr Hidding.

**Mr HIDDING** - On a business-as-usual model there would be more profits and therefore -

**Mr McKIM** - Bigger cash reserves?

**Mr HIDDING** - Could be bigger cash reserves, and that's as plain as the nose on your face.

**Mr McKIM** - That's right, but by how much are you compromising that?

**Mr HIDDING** - That is complete guesswork.

**Mr McKIM** - So you haven't done a business case on it?

**Mr HIDDING** - You wouldn't know what the profits were going to be of the company in eight years' time.

**Mr McKIM** - Chair, I find this extraordinary. The minister is basically he has made a decision to spend tens of millions of dollars without understanding to what extent that will compromise the company's capacity to purchase ships in the future. I find that absolutely extraordinary.

**Mr HIDDING** - No, it is not extraordinary at all because we started this conversation upfront by saying we know this business case will affect the profitability as it currently stands, but the company stays in good shape. The policy stance of this Government is that we would have to assist the TT-Line in the acquisition of new vessels regardless of what we do. We have taken the choice to greatly build the number of tourists in Tasmania in the interim and we will have a stronger Tasmania because of that. We will have an economy that is going gangbusters and we will be in much better shape to assist the state of Tasmania to assist the TT-Line to buy new vessels.

**Mr BROOKS** - I would be very interested in seeing the presentation if it only goes for 30-seconds, just to see the layout and how it looks for the record, as a member of the committee.

**Mr GREEN** - You haven't seen it yet? You sit in Cabinet and they haven't showed you yet? You are on the outer.

**Mr BROOKS** - Given the opportunity of a day sailing and enhancing that experience, I would be interested to know whether there would be anything to support younger people or teenagers who are there all day. Is there anything in the plans for that?

**Mr HIDDING** - That is a very good question. The recognition that the market we are looking for with these day sailings is very much family-based has been strongly planned for and I will ask Mr Dwyer to talk about the features of these upgrades for families.

**Mr DWYER** - I alluded to it earlier that on decks 9 and 10 it is about having experiences and entertainment and activities for that day's sailing. On a day sailing you have a lot more hours to fill for teenagers so we are looking at stored media on the vessels so wirelessly you will be able access video and different facilities -

**Mr McKIM** - Right across Bass Strait?

**Mr DWYER** - You store that materials on servers on the vessel. We are still investigating internet access across Bass Strait.

**Mr McKIM** - It would be beneficial because we have probably all been there, sailing out of Devonport or Melbourne and suddenly off she goes. You are investigating that, Mr Dwyer?

**Mr DWYER** - Yes. We need to have activities and experiences for all the passengers to fill in the nine hours. If they are sailing through the day you have to keep the entertainment and those facilities going. That is a crucial part of the refurbishment of decks 9 and 10.

**Mr BROOKS** - It will be a bit like an adventure for kids?

**Mr DWYER** - We are hoping we can do that, yes.

**Mr HIDDING** - There is a lounge space which is directly aimed at a place for young people to hang.

**Mr BACON** - You have admitted there will be a significant impact on the State Budget by the time we get to replacement of the vessels, given this decision.

**Mr HIDDING** - What do you mean by the word 'significant'?

**Mr BACON** - An aggressive plan, you called it.

**Mr HIDDING** - Under any plan the people of Tasmania would be contributing to new vessels - this plan, your plan and anyone else's plan.

**Mr BACON** - You also said these risks have not been quantified; is that correct?

**Mr HIDDING** - There are complete projections in the business case.

**Mr GREEN** - That we cannot see.

**Mr HIDDING** - We cannot table a business case - you know that; just as you could not table the last one.

**Mr GREEN** - This is about taking the Tasmanian people down a path.

**CHAIR** - Order.

**Mr HIDDING** - We are happy to share with you that we have chosen a model, which is volume over margin. It will affect, to a degree, the profit capacity of this company.

**Mr BACON** - Over 10 years.

**Mr HIDDING** - For the term of this business case, it will affect the profitability of this company having this business stance. We have chosen, deliberately, to greatly boost the number

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of tourists on the ground in Tasmania, particularly in regional Tasmania. That is the choice of this Government. It does not endanger the company in any way because they were always going to require the people of Tasmania to assist them in purchasing new vessels.

**Mr BACON** - But now they will need more. You admit they will need more.

**Mr HIDDING** - As an example, you would not know whether the best vessel options in 2022 would be a total of \$250 million for both ships, because there are versions available of that, or up to \$500 million, and anywhere in the middle - there is a massive difference.

**Mr BACON** - But you admit you will have less money available.

**Mr HIDDING** - This business case will prove that the best business model going forward is to maintain what this Government wants, which is a lot more tourists than under your government.

**Mr BACON** - Do you have Treasury advice on the risk to the Budget from this decision?

**Mr HIDDING** - Treasury always provide advice, as you are aware, of every Cabinet submission. They provide frank and fearless advice and the Government was able to confidently make its decision.

**Mr BACON** - Do you think it would be prudent for the Government to set aside in next year's state budget a provision that can build up over time to fund the vessels? Do you not think that would be prudent as we go forward just to have that reserve set aside - just to give the Tasmanian people the confidence that the right vessels will be selected?

**Mr HIDDING** - Like your provision for superannuation?

**Mr BACON** - Similar, yes.

**Mr HIDDING** - That you completely plundered and drove down to zero.

*Members interjecting.*

**CHAIR** - Order.

**Mr HIDDING** - I will not be lectured on budget management by you who pillaged the entire superannuation provision.

**Mr BACON** - How do they fund the superannuation liability? How do they fund it now? They fund it every year. Will you look at that, minister? Would you look at funding the same as the superannuation liability every year - a provision is set aside?

**Mr HIDDING** - That is what you have done, is it? You felt entitled to spend entirely the superannuation provision. The provisions for the out years are made in the Budget documents. They are always there and the Treasurer will always provide advice to the Government on what it ought to be doing with its provision.

**Mr BACON** - So there will be a provision set aside in the out years?

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**Mr HIDDING** - You did not have a provision. You did not have a line item.

**Mr BACON** - But I did not make a decision that is going to significantly impact the state budget.

**CHAIR** - The minister answered that question and I have moved -

**Mr BACON** - No, he did not.

**Mr HIDDING** - I am not accepting that it is going to significantly impact on the state budget. You are making this stuff up; it is complete guesswork. Under any model of government - yours, ours, Greens, or Labor-Greens, the state of Tasmania would have had to assist the TT-Line. In this model, we have the great benefit of a lot more tourists, particularly in the regional areas of Tasmania and a very buoyant Tasmania. It is a budget position in Tasmania that will be driven back into the black under us and a bouncing economy as a result of these kinds of decisions.

*Members interjecting.*

**CHAIR** - I give the call to Mr McKim.

**Mr GREEN** - If this is going to be the case, we will just interrupt and ask questions in the same way as he does. Give us a break.

**CHAIR** - The reality is that Labor has had significant time.

**Mr BACON** - Rubbish. We have twice as many members.

**CHAIR** - And you get twice as many questions. You have had twice as many questions. Mr McKim wishes to ask another question. After Mr McKim, I will come back to you and allow you to ask another question.

**Mr McKIM** - Thank you, Chair. As for the Budget being back into the black, I can barely believe you would have suggested that to this committee, given your pre-election commitment to have it back into surplus within three years. The Treasurer then had to humiliatingly come out and say under him the Budget will not be back into surplus for six years at the very least and there is no pathway under your Government to bring the Budget back into surplus, Mr Hidding. Please do not talk about bringing the state back into the black because it is a misleading of the Parliament.

[10.30 a.m.]

**Mr HIDDING** - Is that a question?

**Mr McKIM** - No, it wasn't. I think you are being tricky here and avoiding the very serious question that both Mr Green and Mr Bacon have asked on numerous occasions. I have now asked it on numerous occasions and I want to give you an opportunity to address it. I will ask in a slightly different way. Does the business case that you have been referring to contemplate the impact of this decision on TT-Line's capacity to contribute to the purchase of new ships?

**Mr HIDDING** - Of course, it does. It would not be a business case without it.

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**Mr McKIM** - Okay, thank you. I had to ask, Mr Hidding, because you have not actually released it.

**Mr HIDDING** - The business case contemplates all the scenarios. It contemplates cash reserves. It contemplates profit margins. It does all that. That is a business case.

**Mr McKIM** - Congratulations. To what degree does this decision compromise the capacity of the TT-Line?

**Mr HIDDING** - It doesn't compromise it at all. It does not compromise the position of the business at all. It simply is a lower profit model which we have chosen for the state of Tasmania.

**Mr McKIM** - Which will then lead to lower cash reserves. I understand all that, Mr Hidding, and you have repeated it ad nauseam this morning. But it is not the question you are being asked.

**Mr HIDDING** - It doesn't compromise the business at all.

**Mr McKIM** - So reducing profits doesn't compromise the bottom line of the business? Is that what you are saying?

**Mr HIDDING** - It does not compromise the business.

**Mr McKIM** - I am not suggesting the business is at risk of falling over, Mr Hidding. The question is, to what degree, if any, does this decision compromise the capacity of TT-Line to contribute financially to the purchase of new ships?

**Mr HIDDING** - If this business over the next eight to 10 years was on a profit-only model, it would have more money in the bank but we would have fewer tourists. We have chosen a greatly enhanced number of tourists.

**Mr McKIM** - So you accept that it will have less money in the bank -

**Mr HIDDING** - Absolutely.

**Mr McKIM** - and therefore have less capacity to contribute to the purchase of future vessel.

**Mr HIDDING** - What don't you get about a 4.8 per cent reduction in average nominal yield? What don't you get about that?

**Mr McKIM** - No, you are answering again a question that you have not been asked, Mr Hidding. So you have agreed now -

**Mr HIDDING** - We have chosen -

**Mr McKIM** - Point of order, Chair.

**CHAIR** - Mr McKim, you have asked a question; the minister has not finished answering it and you are continuing to badger him while he does.

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**Mr McKIM** - I apologise for that, Chair, and invite the minister to actually respond to the question.

**CHAIR** - The minister is responding. Once he has completed his answer, I will give the call to another member.

**Mr HIDDING** - I know what the member, and the Labor-Greens accord here, is trying to do. It is to somehow cast doubt over this business's ability to fund new ships.

**Mr McKIM** - To contribute to the funding.

**Mr HIDDING** - There was always a requirement for the state of Tasmania to assist the TT - Line to acquire new ships. The fact is, the quantum of the acquisition of those ships is not known. That could be \$200 million a part. In any event, it is quite academic, but the state of Tasmania is still going to have to assist TT-Line for its new vessels.

**Mr McKIM** - Thanks for not answering the question.

**The committee suspended from 10.34 a.m. to 10.42 a.m.**

**Mr GREEN** - You can probably sense the frustration on our side, Chair, particularly with the politics being played about tourists over the sustainability of the business. I was always led to believe by the TT-Line that if the Government chose to refurbish the ships it would expose the TT-Line - and this is to you, Mr Grainger - to considerable risk for small short-term gain. Is that still the case?

**Mr GRAINGER** - No, that is not the case at all. What risk are you referring to?

**Mr GREEN** - The risk of the life of the vessels, the value of the vessels, and the cost weighed against the ability to make money from freight et cetera.

**Mr GRAINGER** - How would it risk the life of the vessels?

**Mr GREEN** - Increased sailings, the vessels being overworked and not being able to fulfil their obligations.

**Mr GRAINGER** - Are you talking about the additional sailings, not the refurbishment?

**Mr GREEN** - Yes, the refurbishment and the additional sailings.

**Mr GRAINGER** - The refurbishment is one part and the additional sailings is the other. Refurbishment will only enhance the resale value of the vessel. The additional sailings will put extra load on the vessels but that means they will need to be maintained heavier than they are at the moment.

**Mr GREEN** - So it does not place the TT-Line under considerable risk as a result of the strategy the Government is taking?

**Mr GRAINGER** - No. As a responsible GBE we would not suggest anything that would place the company at considerable risk.

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**Mr GREEN** - I am not suggesting you suggested this was the best way forward.

**Mr GRAINGER** - You have heard this morning there is an emphasis on attracting more passengers. The business case that was written by the company is written around that. It was designed around ways to attract more passengers, without reducing any freight. We are not going to carry any less freight; we cannot carry any more because we are at capacity, and you know that.

**Mr GREEN** - Yes, I do, and there is an issue with peak times for tourists and freight, and they happen to coincide. It is not going to be helped until 2017 when Chas Kelly brings his new ship.

**Mr GRAINGER** - Possibly.

**Mr GREEN** - Would larger ships, faster crossings, more capacity for freight and passengers, be a better option for the TT-Line?

**Mr GRAINGER** - Possibly, but that will depend on what the competitors are doing with their freight - Chas Kelly and Toll. It will have an impact on what the state-owned company could do. We are better off financially with this business case, without going into the specifics, than we would have been in a business-as-usual scenario.

[10.45 a.m.]

**Mr HIDDING** - Better off - just write that down.

**Mr GREEN** - You just told him to say that before, we heard him tell you.

**Mr HIDDING** - The company was better off.

**CHAIR** - Order.

**Mr HIDDING** - No, I will ask the Chairman to explain as much as he can.

**Mr GRAINGER** - Business as usual shows the profits and cash position of the company going down moving forward. The business case with additional sailings attracting additional passengers is a better financial model than business as usual. That is in the business case.

**Mr HIDDING** - Let us write that down.

**Mr McKIM** - The minister is continuing to interrupt Mr Grainger, but if he is going to address that to me I have some questions I would like to ask Mr Grainger.

**CHAIR** - You can do that, but in keeping it fair I need to stick with Labor for a couple more questions.

**Mr GREEN** - Will the decision of the Government delay the time that the vessels will need to be replaced?

**Mr GRAINGER** - I think we would need to look at that further down the track. The company is still working around the 2022-23 scenario. That will need to be determined at some point in the future.



**Mr GREEN** - If Treasury has anything to do with it, it will have to be delayed, won't it? The provisions that are being set aside through not taking a dividend from the TT-Line to replace vessels, and that was the strategy, has been eroded as a result of the decision the Government has made? Aside from the politics they are playing on the additional tourists, and we are all advocating for additional tourists in Tasmania, it is the methodology.

**Mr HIDDING** - No, you are not.

**Mr GREEN** - I am, but I am also advocating a responsible approach to a Government Business Enterprise and I do not think you are. I do not think you are taking a responsible approach to this business.

**Mr HIDDING** - This business case shows a better outcome than business as usual.

**Mr GREEN** - Between now and 2017, and then probably even beyond, the fresh freight forwarders in Tasmania will have to suffer. Has any consideration been given to leasing a vessel to cover that shortfall in capacity on Bass Strait in that peak time? Is that considered in the business case?

**Mr HIDDING** - The business case demonstrates that is not required.

**Mr GREEN** - It is not required.

**Mr HIDDING** - We have asked the TT-Line to maintain its current freight business.

**Mr GREEN** - What about making extra money? Make money so we take the burden away from taxpayers when it comes to replacing the vessels?

**Mr HIDDING** - We are choosing to make money out of extra passengers. This is a business transformation from you. You wanted to make more money out of more freight and we want to make more profit out of more passengers. It is a different business model. I know it is hard to get your head around, but a lot more tourists in Tasmania is a terrific outcome. It is a better outcome than business as usual projections. It is the wise thing to do, do not worry about that. In every model the state of Tasmania would be assisting this GBE with the acquisition of new ships.

**Mr GREEN** - I cannot believe Treasury and/or Premier and Cabinet or anyone would sign off on this proposal that would jeopardise the future ability of us to replace the ships in a sensible way.

**CHAIR** - That is a statement, Mr Green, you cannot expect an answer to that.

**Mr GREEN** - That is true. Did Premier and Cabinet and Treasury sign off on this as being a viable option for the GBE?

**Mr HIDDING** - I am not telling you about the substance of Cabinet minutes. The Government was able to very confidently take the decision and did so.

**Mr McKIM** - You have given evidence this morning that profits will be reduced, that you are spending more than you had previously considered on the upgrades, so how does reduced profit and increased expenditure lead to an increased bottom line for the company?

**Mr HIDDING** - Let us deal with the expenditure on the refurbishment. In a cash sense the payback from the extra passengers as a result of this refurbishment, of the extra turnover and profitability, is remarkably short. It is a terrific expenditure. The contribution to the final outcome is what it is and it projects to be at a certain position where the Government was confident to accept this business model. The provision of new vessels -

**Mr McKIM** - But you said profits will be reduced.

**Mr HIDDING** - Under this business model, as opposed to the business case that ran last year, it would be harder to make the \$10 million profit they made last year. However, projections for this company of a business-as-usual model shows declining profits and sales. The projections of a business-as-usual product of this company working on their projections for a business-as-usual compared to the business case we have adopted is better than business-as-usual.

**Mr McKIM** - The underlying profit for the TT-Line last year, the year we are assessing, was just over \$11.5 million, so what are you projecting for this year for an underlying profit? Minister, you said you were going to provide advice.

**Mr McCALL** - Around about \$10 million.

**Mr McKIM** - To be clear, that is under the revised decisions that have been made - the letter Mr Hidding and presumably Mr Gutwein sent the company and the decisions you have announced recently about the extra refurbishment and to prioritise volume over profit. We have heard that is going to take the underlying profit from \$11.6 million down to about \$10 million. That is not an improved bottom line for the company, is it, minister?

**Mr HIDDING** - A marginal change in the exchange rate between the euro and the Australian dollar could bring that about overnight. The valuation of the ships is expressed in euros and it is way more volatile.

**Mr McKIM** - That is a complete red herring and not relevant to the question. Minister, have you taken advice over morning tea about what you can release in terms of that letter?

**Mr HIDDING** - I was talking about the statement of expectations being commercial-in-confidence but I was thinking of the corporate plan. The statement of expectations is on the website and able to be downloaded.

**Mr McKIM** - On the TT-Line website? The one on the TT-Line website is the old statement of expectations. I am not asking about that, I am asking about your letter and the new statement.

**Mr HIDDING** - I am going to tell you what is going on in that space. We wrote to the TT-Line and advised formally that we were proposing to amend the statement of expectations in line with our policy positions.

**Mr McKIM** - What date did you send that letter?

**Mr HIDDING** - That is a good question.

**Mr McKIM** - So it is an undated letter? That is very efficient of you, minister - not.

**Mr HIDDING** - It was a number of months ago.

**Mr McKIM** - Can you take advice and let the committee when you sent that letter, please?

**Mr HIDDING** - Of course I will. This letter is signed by both ministers, Mr Gutwein and me, where we advised TT-Line we were going to amend the existing TT-Line statement of expectations to incorporate a new pricing objective, namely to ensure that TT-Line would set prices, fees and charges which 'are aimed at increasing the number of visitors to Tasmania carried on the *Spirit of Tasmania* ferries'. That is the amendment and there is a draft document with the amendment in it.

**Mr McKIM** - By document, you mean the draft statement of expectation?

**Mr HIDDING** - Yes. The final bit of this letter says:

We will undertake a more comprehensive review of the statement of expectations later in the year when we have further clarity following consideration of the TT-Line's proposal to increase tourism patronage.

My guess is that one of the first things we would do next year would be to table the new statement of expectations.

**Mr McKIM** - Is that the only change proposed to the current statement of expectations?

**Mr HIDDING** - Yes.

**Mr McKIM** - You will have been in government for over a year early next year and it will have taken you a year to insert one clause into a ministerial statement of expectations.

**Mr HIDDING** - We are absolutely entitled to wait for this business case to come forward.

**Mr GREEN** - No you're not.

**Mr HIDDING** - It came forward this year.

**Mr GREEN** - You were going to cut fares by 20 per cent.

**Mr McKIM** - Will you table that letter, please, Mr Hidding?

**Mr HIDDING** - I will seek advice as to whether I can and let you know, and I have to get you the date, too.

**Mr McKIM** - Will you inform the committee before noon as to that, please?

**Mr HIDDING** - I will see how I go.

**Mrs RYLAH** - Mr Grainger, this is a question to you. We have had a lot of questions in regard to the TT-Line responsibly managing the company, et cetera. Can you provide information to the committee on the improvements to lost-time injuries and what you are doing in regard to health and safety?

**Mr GRAINGER** - I am very pleased to report that the lost-time injuries with the TT-Line are at the best they have ever been on record. We have recently passed one year without any lost-time injury. Senior management have been working very diligently on this program and it is a very good news story for the company. We presented an award to the ship's captain a few weeks ago and I do not know of too many companies of the complexity and size of the TT-Line that would have such a record and the management need to be absolutely congratulated on that.

**Mrs RYLAH** - I congratulate you on that.

**Mr GREEN** - I want to go to the question of the modelling that was done to allow you to understand that this is the best option forward for the business. Did you provide that modelling in the business case to the Government? In other words, were there options with respect to increasing passengers and/or increasing opportunity for the TT-Line altogether?

**Mr GRAINGER** - There was a myriad of options that the company looked at and not only for this business case but we had already been through the exercise with the previous business case that was presented to you.

**Mr GREEN** - Yes.

**Mr GRAINGER** - So we had a lot of information at our fingertips. We also engaged some internationally renowned experts on this with the ambit of complying with what the shareholders had requested. We did a lot of work and a lot of modelling. We took advice from global experts and the summary of that is that we provided that case to the shareholders.

**Mr GREEN** - Did the modelling that was undertaken include the profit projections and the ability to replace the ships based on the time frame that had been established for 2022-23?

**Mr GRAINGER** - It certainly took into account our profit predictions and our cash position. We had run the model of vessel replacement in the previous business case so we already had that information anyway, but you have already seen that.

**Mr GREEN** - That is why I asked a very specific question because dumb old me had a different impression of what the TT-Line was saying with respect to the sense of refurbishment over a strategy to replace the vessels, but it doesn't seem as though that is the case anymore.

**Mr GRAINGER** - The direction of the company has changed since we provided the initial project of Bass Strait and we obviously had to establish a new business case to cope with that.

**Mr GREEN** - That is a good response. It has changed all right but that doesn't mean that the ability for the business to thrive and replace ships and go from strength to strength has been enhanced. I put it to you that it has gone the other way.

[11.00 a.m.]

**Mr GRAINGER** - What has changed, for example, since the original ships were purchased? TT-Line was the operator of one, old, very inefficient ship. The government of the day purchased three ships at a considerable amount of money. In those days it was an exorbitant amount of money but the government chose to do it and, as it turned out, it was for all the right reasons. The company

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inherited a \$75 million debt that was paid back. It was proven to be an unbelievable decision on the day. It has proven to have worked and it is proven it was the right decision to make.

We had some issues with the Sydney ferry and when I first joined the board that was one of the first decision we had to make - offload that vessel. There was no way the board could consider it would make a profit. People at the time said it is a public relations exercise and the amount of exposure the company is getting by having vessel in Sydney overrules that. The board decided that was not appropriate and the ship was sold.

The decision to purchase those three ships back in those days was the right decision to make. I am not sure what has changed since then or what will change in 10, 12 or 14 years time.

**Mr GREEN** - Minister, on 20 May you announced the TT-Line and you said and I quote, 'Will be vacating the space on freight'.

**Mr HIDDING** - What does it say?

**Mr GREEN** - Mr Hidding announced on 20 May that the TT-Line would be vacating the space on freight.

**Mr HIDDING** - Vacating the space of the commercial sector of freight on Bass Strait, where you were blundering around at huge risk to Tasmania and that sector.

**Mr GREEN** - If the TT-Line had been able to expand its freight capacity, as previously proposed, do you expect the company would have been able to replace the vessels without government support and could it have replaced the vessels earlier?

**Mr HIDDING** - Are you seriously talking about project Bass Strait, your business plan?

**Mr GREEN** - Yes.

**Mr HIDDING** - Are you seriously still standing up for that case?

**Mr GREEN** - I am asking a question.

**Mr HIDDING** - Are you seriously sitting there suggesting we should still be doing that?

**Mr GREEN** - I am asking a question on the TT-Line about whether they would be able to replace the vessels sooner at no, or little, cost to the taxpayer.

**Mr GRAINGER** - Mr Green, are you asking me or the minister?

**Mr HIDDING** - Under which model?

**Mr GREEN** - You were the one who said you vacate space.

**Mr HIDDING** - No, of the commercial freight sector where you were blundering around at great risk to Tasmanian companies and at great risk to -

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**Mr GREEN** - Chair, he might want to say to that me but he is reflecting on the people who are sitting beside him because they put a business case to the previous government in good faith.

**Mr HIDDING** - No, I am not.

**Mr GREEN** - If he want to call them, blundering around like fools, that is up to him.

**Mr HIDDING** - No, that is where you wanted to go.

**Mr GREEN** - We were responsibly looking at case, weighing it against commercial activity on Bass Strait, to see whether the taxpayers of the future did not face the burden of \$500 million or better that you are standing them up to at the moment. That is why we were considering it - for no other reason. Forget all the fluff about tourists, as if you are the icon when it comes to bringing in more people.

**CHAIR** - Mr Green, you have asked a question.

**Mr GREEN** - I think it is important in the consideration of future taxpayer -

**CHAIR** - Can we please get back to asking of the question and the answering it please and not the debate across the table.

**Mr GREEN** - The future likelihood of the cost to taxpayers of Tasmania with the vessel replacement is important because there was a strategy in place. The Tasmanian people have foregone dividends for that very reason in the past. It was a clear strategy. Had there been an opportunity to participate to a greater degree in freight on Bass Strait, what would it be worth to the company?

**Mr GRAINGER** - The policy of the company has always been vessel replacement/refurbishment. Not one or the other. It has always been replacement, refurbishment. That has been our policy when you were in government and you know that. You also know that Project Bass Strait covered off on the freight, passenger aspect. You know that because you read the business case.

**Mr GREEN** - Yes, I have.

**Mr GRAINGER** - You are asking a question that you know the answer to.

**Mr GREEN** - I know the answer to it, based on the amount of money that was going to make the company, which would have taken the burden off future taxpayers. What I am trying to do here is allow Tasmanian people to understand,

**Mr HIDDING** - I cannot believe they are sitting there defending -

**Mr GREEN** - It is alright for you to sit here and smile and laugh about it now but see how you go in four or five years time, or 10 years time.

**Mr McKIM** - Tasmanian people are awake to them. They already are.

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**Mr GREEN** - It all sounds fine and you can play the politics around tourism. I understand that perfectly. Mr Grainger quite rightly pointed out the TT-Line decision, or the Government decision, to buy new ships in the first place was a good idea, but the replacement has always been front and centre in people's minds from that point on. How are we going to get bigger, better, be able to have freight and passenger services? I am suggesting you have taken the option that will take us backwards, not forwards. It is a short term solution with great risk to the business in my view.

**Mr HIDDING** - We have taken the position that we adopted and we have asked the TT-Line to consider a business case. They put a business case in front of us which delivers on the policy stance we took of more passengers. It choose volume of passengers over margin. It will have a material affect on total outcomes at the end of the day. However, the Tasmanian economy will go gang busters as a result of the decision, particularly the regional economies of Tasmania. After so many years of Labor-Greens government they deserve a government that stands up for them. We are doing that. It is a responsible decision. It is an exciting refurbishment of the ships. All passengers, 420 000 passengers in total it is projected it will go to, will be delighted with the experience on the ships as opposed to a declining business model as business as usual.

**Mr BACON** - You just used the word responsible and you should set a provision in the state Budget next year to fund the new ships.

**Mr HIDDING** - Where was yours? You promised. You said by 2014.

**Mr GREEN** - It is about dividends.

**Mr BACON** - So you won't do that?

**Mr HIDDING** - You promised two new ships by 2014. There is not a cent in the Budget. There is not an annual provision in the Budget. None whatsoever.

**Mr BACON** - So there won't be a provision. Is that what you are saying?

**Mr HIDDING** - There is none whatsoever.

**Mr BACON** - There will be no provision. Is that what you are saying?

**Mr HIDDING** - There will be no change to the Budget from you. None whatsoever. Doesn't need to be.

**Mr BACON** - There doesn't need to be a provision and there won't be?

**Mr HIDDING** - There does not need to be any change to the Budget arrangements from you.

**Mr BACON** - From me? What are you doing, minister?

**Mr HIDDING** - From your Budget. You were the Minister for Finance.

**Mr BACON** - And now you are the Minister for Infrastructure.

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**Mr HIDDING** - You were the minister for finance and you are proposing a change to the Budget structure for why? You are making it up as you go.

**Mr BACON** - So you are going to put this off on future taxpayers when it gets to 2022? You are not going to do that?

**Mr HIDDING** - The state of Tasmania was always going to assist an investment in new vessels  
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**Mr BACON** - And now it is going to be a larger investment. You have said yourself it is going to be a larger amount.

**Mr HIDDING** - No matter which business case it was always going to assist.

**Mr BACON** - Now you are saying it is going to be a larger investment.

**Mr BROOKS** - I am bewildered as to why other members do not want to see the presentation on what we are talking about for 30 seconds. It is amazing that you are not interested in even viewing it.

*Members interjecting.*

**CHAIR** - Order.

**Mr BACON** - Have you seen the business case?

**Mr HIDDING** - He has not seen the business case. I was just saying, he has not seen the business case.

**Mr BACON** - You could have shown him the presentation. You have already shown the tourism industry. He is your own most influential member for Braddon. You have got no interest in showing him the video.

**Mr BROOKS** - I might have seen it. You do not know what you are talking about as usual.

**Mr GREEN** - Well I asked the question and you said no.

**Mr BROOKS** - I did not say no.

**Mr GREEN** - So you have seen it.

**Mr HIDDING** - He was talking about the business case.

**Mr GREEN** - Have you seen it?

**Mr HIDDING** - He hasn't the business case. He has seen the presentation on the upgrade.

**Mr BROOKS** - And I think you should see it. You might know what we are talking about. It is a great opportunity because I think you should see it.



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**CHAIR** - Order. Mr Brooks, your question please.

**Mr BROOKS** - I am bewildered at Bryan Green and his Labor mates complete opposition to attracting more tourists to regional areas and unwillingness to watch a 30-second video that outlines what we are talking about. What I would like to know, minister, is you mentioned media files -

**Mr GREEN** - Tell me what the fly-through looks like? What does it look like?

**Mr BROOKS** - You would be able to see it if you were not so arrogant.

**Mr GREEN** - So you are liar.

**CHAIR** - Order. If you wish to ask a question, Mr Green, it will be asked to the minister or the chairman at a later date. Mr Brooks has the call at the moment.

**Mr BROOKS** - If you weren't so arrogant you could watch it.

**Mr GREEN** - What colour are the chairs? Are there people in them?

**CHAIR** - Mr Green, as you are not a permanent member of this committee, if you keep interjecting I will ask you to remove yourself from the table.

**Mr BACON** - He shouldn't also tell lies to the committee. Whether you are on that side or this side.

**Mr HIDDING** - Who is telling lies to the committee?

**Mr BACON** - Mr Brooks.

**Mr HIDDING** - Why?

**Mr BACON** - He just claimed he had seen the video but he said an hour ago he had not seen it.

*Members interjecting.*

**CHAIR** - Order, this time is for scrutinising the TT-Line. Mr Brooks, you have the call so please ask your question now or I will move on to another one.

**Mr BROOKS** - My question is about the opportunities for young people and activities but also whether there would be opportunities to view those media files and what the concept around that would be.

**Mr HIDDING** - We have spoken about this major refurbishment of both vessels. It will be a task to get them done in such a short period of time but there is no change to the sailing schedules projected for 2015. It is a terrific job by TT-Line to have been able to put this up to the Government and of great relief to the freight industry that there is no change to the time of sailing and the number of sailings projected for 2015 except upwards. That is great news. Right now there are a number of companies around the world and Australia, including Tasmania, who are looking at competing for that work. It is a very valuable contract, as you would imagine. It is called a turnkey contract,

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and Michael might want to say a bit more as to how we are going to go about that process. It is a terrific task and these guys are right across it.

**Mr GRAINGER** - The first ship will be completed while it is in dry dock in Sydney. The contract will be a turnkey contract whereby it will be awarded to a company that will then bring in satellite companies to assist them to do this. You can imagine there is a lot going on when the ships are in dry dock, or alongside, for that matter -

**Mr GREEN** - How long is the vessel in dry dock?

**Mr GRAINGER** - Three weeks.

**Mr GREEN** - Is it always in dry dock for three weeks?

**Mr GRAINGER** - Between two and three weeks. Our emphasis has been on Tasmanian companies contributing to this. We have made it very clear to the interested parties that that is our preference. We have also been fortunate enough to have expert companies from Europe have a look at this and they are telling us it can be done in this time frame in this environment. The second ship will be done whilst it is alongside in Station Pier - that is the plan - so it will still do the night-time sailings but during the day the refurbishment will be done. There will be an element of inconvenience I would imagine whilst the ship is sailing through the winter but that is the most efficient way of getting this job before summer 2015.

**Mr HIDDING** - It will be a great exercise.

**Mr GREEN** - There is no refurbishment with respect to the running gear of the vessel at all - this is all cosmetic?

**Mr GRAINGER** - The turnkey project is cosmetic, yes. The refurbishment, the repairs and maintenance is ongoing on the ships every day.

**Mr GREEN** - There is no major refurbishment of the engines or anything of that nature?

**Mr GRAINGER** - No, the engines are maintained on a daily basis.

**Mr GREEN** - Yes, I appreciate that.

**Mr GRAINGER** - In dry dock there will be other things done. We had to replace economisers and there are things that need to be done as normal maintenance.

**Mr GREEN** - In terms of extending the life of the vessel or doing anything like that, this refurbishment does not include any of that?

**Mr GRAINGER** - It will extend the life of the vessels because the interiors of the vessels are at the end of their life now. Whilst the ships are in dry dock there are always extraordinary items. A few years ago we needed to replace things like propellers and these are high-cost items. A lot of people do not understand that if we have an issue it can be a \$10 million issue. We have stabiliser repairs and things like that happening. All that happens on a fairly regular basis because they are high-performance ships that require a high level of maintenance.

**Mr McKIM** - I'm sorry if this appears boring and repetitive, minister, but I am still seeking a response from you as to the impact of the recent decisions on the company's capacity to fund or contribute to the funding of future vessel purchases. You have said the business case contemplates the issue of the company's capacity to contribute so could you please quantify for the committee the impact of these decisions on the company's capacity to contribute to the purchase of new vessels, given it is contemplated by the business case?

[11.15 a.m.]

**Mr HIDDING** - Referring to key numbers in the business case is the same as releasing the business case.

**Mr McKIM** - All right, I will ask it in a different way then. Does it improve the company's capacity to contribute or does it reduce it?

**Mr HIDDING** - Compared to business as usual, it improves the company's capacity to contribute.

**Mr McKIM** - To the purchase of new vessels?

**Mr HIDDING** - To everything - to bottom-line profit -

**Mr McKIM** - Even though we know the profit will be less this year than it was last year?

**Mr HIDDING** - Compared to business as usual, this is a better financial result.

**Mr McKIM** - As a layperson I will ask this because as most Tasmanians are laypeople in this issue and they would expect this to be asked. How does a decision you have admitted will reduce profit and increase expenditure compared to business as usual improve the capacity of the company to purchase new vessels? Could you explain that in general terms, please?

**Mr GRAINGER** - Compared to business as usual the business case places us in a better financial position. If we do nothing our costs will end up outstripping our revenue. If we continue to operate the vessels as is, eventually there will be a crossover period where our costs -

**Mr McKIM** - When would that be, in rough terms? I'm not asking you to put a date on it.

**Mr McCALL** - Halfway through.

**Mr McKIM** - Halfway through the ownership of the vessels?

**Mr McCALL** - Yes.

**Mr McKIM** - So within the next few years in that case, roughly.

**Mr McCALL** - Within the next five or six years.

**Mr GRAINGER** - In order to attract passengers we need to do something. Part of what we are doing will need to be done anyway - and there were some numbers bandied around with that - but we have an opportunity to increase the level of passengers on the vessels and the company believes we need to refurbish the vessels to help achieve that number. It is not going to be an easy

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task to attract this number of passengers, we know that. If we do not do anything, they will not come. With any business - and I am sure you understand about business, Mr McKim - you have to make sure you continue to attract business, and this is what we are doing.

**Mr McKIM** - The reason I ask this is because I believe you said the decision will reduce profits compared to business as usual. Is that correct?

**Mr GRAINGER** - No.

**Mr McKIM** - What did you say about profit reduction then? I'm not trying to be difficult here, I'm genuinely trying to clarify the situation.

**Mr GRAINGER** - If we do nothing, at some point - and I think the CFO said five or six years - our profit will be diminished by revenue. In other words, our profit will be non-existent if we do nothing.

**Mr McKIM** - What did you say about reduction in profits earlier then? What did the minister say? What did you mean by reduction in profits then, compared to what?

**Mr HIDDING** - I am comparing to this year, for instance. This year there is a profit projected and under the new business case it will be less.

**Mr McKIM** - But under the business-as-usual case it would have been less, too.

**Mr HIDDING** - But it is reducing, that's the point. Business as usual is not a pretty outlook for this company so we have taken this new aggressive stance. We could easily have done the upgrade and gone for higher margins and lower numbers of passengers, which would have resulted in more money in the bank.

**Mr McKIM** - So it would result in more money in the bank?

**Mr HIDDING** - Yes, if we didn't carry the extra passengers.

**Mr McKIM** - But you've just said the decisions you make will improve the capacity of the company to contribute to the purchase of new vessels. You're all over the place.

**Mr HIDDING** - We are choosing to bring more passengers.

**Mr McKIM** - But you've just said it will mean you will have less money in the bank compared to business as usual.

**Mr HIDDING** - The projection for this company in business-as-usual is a pretty pessimistic outcome because -

**Mr McKIM** - And you have just said you will have less money in the bank, as a result of the decisions you have made. Let us assume the upgrades are all agreed and done - no contention.

**Mr HIDDING** - Let us say that is done.

**Mr McKIM** - Yes.

**Mr HIDDING** - If we were then to continue in the business case that is currently running -

**Mr McKIM** - Given on fair levels.

**Mr HIDDING** - On fair levels, there is about that 8 per cent projection, which is quite reasonable. But we see it as not enough for the Tasmanian people. So we are going aggressive on price to fill these ships with far more sailings.

**Mr McKIM** - Thank you, but you accept that that will result in less money in the bank at the end of the day, do you not?

**Mr GRAINGER** - Yes.

**Mr McKIM** - Mr Grainger, I think, has just agreed.

**Mr HIDDING** - We are risking some profit for a great increase in passengers.

**Mr McKIM** - This is the last question on this issue for now. How do you reconcile your statements that there will be less money in the bank but the company will be in a better position to contribute to the purchase of new vessels?

**Mr GRAINGER** - Compared to business as usual, we will be.

**Mr McKIM** - No, compared to if you had not made the decision to change the fare structure? Let us just leave aside the refurbishment and all that sort of stuff and just focus on the fare level here. You have said there will be less money in the bank but you are still claiming you have an improved capacity to fund the purchase of new vessels. To me, as a layperson, that does not add up.

**Mr HIDDING** - You are now mixing different models. You are mixing business-as-usual, the model we have gone for, and a third model which is to do the upgrades but not change the fare structure and choose the lower passenger number. We are not doing it. We have chosen the higher passenger number because it is good for the state of Tasmania.

**Mr McKIM** - I do understand the extension arguments around the tourism industry and regional tourism. I get that. In fact, your party laughed at the Greens when we talked about tourism for Tasmania 30 years ago.

**Mr HIDDING** - For goodness' sake, this is the Greens' idea!

**Mr McKIM** - Well, you laughed at us when we did. We said it would become an important industry for Tasmania, and it has. It is still retaining value in large part because of the work the Greens have done to look after the place and protect it from rapacious political parties like the Labor and Liberal parties.

**CHAIR** - A question, Mr McKim?

**Mr McKIM** - Thank you. Just for clarity, I am talking here specifically about the decision to reduce the fare levels. I am not talking about the decision to refurbish. I just want to ask in the

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context of only the decision to reduce fare levels, can you confirm that that decision will result in less money in the bank at the end of the day and therefore a reduced capacity for the company to contribute to the purchase of new vessels?

**Mr HIDDING** - It is axiomatic - all of it.

**Mr McKIM** - Are you agreeing with me?

**Mr HIDDING** - Of course; that is the way we started the discussion. We have chosen a business model which puts passenger numbers over profits. We have chosen the statement of expectations and the same thing.

**Mr McKIM** - Two-and-a-half hours and we have finally got there.

**Mr HIDDING** - I said it up-front. We have answered it in 27 different ways and finally the penny has dropped for you.

**Mrs RYLAH** - Mr Grainger, I am not really big on footy. Could you explain to me the benefits to the TT-Line and to Tasmania of the sponsorship of the North Melbourne games at Blundstone Arena?

**Mr GRAINGER** - Certainly. We saw this as an opportunity to increase our brand awareness. Our biggest market is Victoria. We recognised that the AFL games are televised live around the country and they attract an enormous television audience. The arrangement we have with North Melbourne is quite extraordinary in the sense that the company believes it is very good value for money. Tying in with the refurbishment of Blundstone Arena, it just gives us that brand exposure and the means of advertising that we might not normally have.

**Mr McKIM** - Have you done any work on the value to the company?

**Mr GRAINGER** - Absolutely.

**Mr McKIM** - Are you able to talk about that to the committee?

**Mr GRAINGER** - What specifically?

**Mr McKIM** - Usually there would be a cost-benefit analysis done where you would assess the nominal value of the coverage and the promotion. Are you able to talk about that in terms of dollar figures?

**Mr GRAINGER** - No, we cannot talk about it terms of dollar figures.

**Mr McKIM** - Why is that?

**Mr GRAINGER** - Because it is a commercial contract we have with the North Melbourne Football Club. We have signed a confidentiality agreement on that.

**Mr McKIM** - Does that cover the value in the market of the promotions that you achieve? I am not asking how much the exchange of cash is; I am asking whether you have done any work on the value of the brand benefits - if there are any - and the promotional benefits.

**Mr GRAINGER** - The CEO can take that. He has turned to the North Melbourne page so I am sure he can.

**Mr DWYER** - I do not have that report here, but we can provide that.

**Mr McKIM** - Okay, thanks. I will put that on notice.

**Mr HIDDING** - The AFL is a very powerful market driver and the stuff I have seen it is quite exciting.

**Mr McKIM** - I will just place that on notice in the normal forms.

**CHAIR** - I remind members that anything on notice needs to be in writing.

**Mr BROOKS** - Mr Grainger mentioned that Victoria is the biggest market. I would be interested to know whether there are any plans for the future in changing the marketing strategy, or aligning with anything, or what your options are.

**Mr GRAINGER** - We are in discussions at the moment with North Melbourne as to North Melbourne assisting us to tap into markets in regional areas like the west coast and the north-west, in particular. They are very eager to do that and we are very eager to support them. The business case the shareholders have recently approved also encompasses a marketing exercise whereby we are going to go to the market and make a lot of noise about the new ships. By creating that level of excitement, we also believe that will increase our passenger numbers. We have been just sort of bobbing along for the last few years; we have not done too much, I think. When we did the initial North Melbourne sponsorship deal with the support of the previous government, we saw some opportunities there. We also learnt how we could do it a little bit better. North Melbourne are of the same opinion. They are very eager to help us. I have to say they have been just wonderful to work with. Having said all that, I think there are some great opportunities for us with the refurbishment and with the new sponsorship deal with North Melbourne, to really get this company first and foremost in people's minds.

**Mr GREEN** - Mr Grainger, as Chair of the TT-Line, is the option that the Government has given you regarding the vessel refurbishment, et cetera, the best option for the TT-Line business?

**Mr GRAINGER** - Yes, it is. Today, it is.

**Mr GREEN** - Today it is, okay. Mr Hidding, did you -

**Mr GRAINGER** - Sorry, Mr Green, if I can just elaborate a bit on that. You know that the company had a business case when you were in government and we believed that was the right thing to do. We put a lot of work and effort into that, as you are well aware.

**Mr GREEN** - Yes.

**Mr GRAINGER** - With the change of direction of the company, and with the new Government -

**Mr GREEN** - I just want allow people to understand whether or not the TT-Line is in better shape as a result of this decision, or if other options would have provided TT-Line and the state with more security.

**Mr GRAINGER** - Given the direction of the Government and the shareholders - yes.

**Mr GREEN** - Along business case lines, given the direction you have been given by the Government, the TT-Line is in better shape, but it is possibly not the best option for the TT-Line going forward.

**Mr GRAINGER** - There could be a range of options, Mr Green, that you know could be presented to the company. As I sit here now with the direction of the existing Government, the company has put together this business case. We had minimal input from the shareholders with the business case. It was done by the company and, of course, we are not going to present something to our shareholders that we do not believe is going to be the right thing for the company.

**Mr GREEN** - No, of course not. I would not have expected you to. It is probably the right thing for the company, but probably in the longer term the state of Tasmania will feel the ramifications of the decision.

**Mr HIDDING** - Like thousands more tourists.

**Mr GREEN** - The tourists will be great, without any doubt. We both agree on that. It is just that we are concerned that the vessels might not be able to take it. We are concerned that a better option might have been to look at purchasing or allowing the business to have the necessary flexibility to purchase new, larger, faster vessels for the future. That is your decision.

[11.30 p.m.]

Minister, did you have discussion at all with SeaRoad Holdings before you made the announcement about TT-Line vacating the space in freight transport under your leadership prior to the public announcement on 20 May?

**Mr HIDDING** - No. You asked that in Parliament.

**Mr GREEN** - You had no discussions?

**Mr HIDDING** - None whatsoever.

**Mr GREEN** - When did SeaRoad Holdings first tell you it had made a significant decision relating to the acquiring of the new freight vessel?

**Mr HIDDING** - That is on *Hansard*. You asked me that in Parliament and I told you there was a certain day and I gave you that day and even the time of the phone call. It is all there.

**Mr GREEN** - So you are trying to tell the Parliament of Tasmania once again that you had interaction and had no understanding that SeaRoad was going to make an announcement to replace the ship?



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**Mr HIDDING** - It was in the media, everybody knew. From opposition, I was very aware that SeaRoad wanted to retonnage; it is not even a secret. It has been public knowledge that they want to retonnage and so does Toll. I had no idea how imminent it may have been.

**Mr GREEN** - But you made the decision alone that you would vacate the space.

**Mr HIDDING** - No. The Government of Tasmania decided that the business case you were close to implementing was a really bad idea for a number of reasons. We told the chair and the board that for a number of reasons - no reflection on the TT-Line's work; they were responding to you as a government - it was our judgment that it was a really bad idea. We announced to the TT-Line and the rest of Tasmania that that business case was not going to be proceeded with. I said then in the Parliament, quite correctly, that I signal publicly to the private freight sector market that own 80 per cent of the market, that the state of Tasmania is no longer in their space trying to knock their businesses out of the market.' Within a matter of days, a week - that is what you are talking about and you think it was too close - SeaRoad announced they had placed an order for a vessel. We thought that was terrific news.

**Mr GREEN** - On 24 May.

**Mr HIDDING** - You asked me the questions in Parliament and I have provided precise dates. There is no linkage of any discussions under the table and any suggestions there are is a reflection on the managing director of SeaRoad and you should not be doing it.

**Mr GREEN** - No, I am asking you the question. You tried that last time. I am asking you as the responsible minister whether you vacated the space and had any discussion before that or not?

**Mr HIDDING** - It is the same answer. I was delighted and surprised with the advice.

**CHAIR** - The question has been asked and the answer has been put. We need to move on.

**Mr BACON** - Who did you take advice from in terms of that previous business case? Was it the same government departments you took advice from on this new business case?

**Mr HIDDING** - Yes, and we were absolutely confident to not proceed with yours and absolutely confident to proceed with ours.

**Mr BACON** - You received advice from all the same departments?

**Mr HIDDING** - Absolutely, and we made a confident decision based on all the advice which will result in thousands of more tourists to Tasmania and a better TT-Line.

**Mrs RYLAH** - Mr Grainger, today we have heard a lot about the issues of dramatically increasing the volume of passengers, multiplying that by a decreased margin on tickets and providing a better long-term outcome. I imagine there must have been some other consideration in regard to airfares. Can you give me a comparison of airfares versus boat tickets?

**Mr GRAINGER** - Airfares is a moving feast. We do a comparison at board level which is presented to the board on a monthly basis with regard to our fares compared to low-cost airline fares. We are aware the airlines can be quite aggressive but that is just another thorn in our side, quite frankly. We compete in different markets, however price points can be very competitive. It

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is something the company monitors on a daily basis and the board is presented with an airline fare comparison to our own fares each month.

**Mrs RYLAH** - Are they airfares out of Devonport, Burnie, Launceston and Hobart?

**Mr GRAINGER** - Yes, and Melbourne and Sydney.

**Mrs RYLAH** - Is it over different booking periods?

**Mr GRAINGER** - Yes, absolutely.

**Mrs RYLAH** - Do the new fare arrangements you are envisaging start to take into account that similar comparison?

**Mr GRAINGER** - That is right. We take into account two adults no car, two adults one car, two adults two children and no car - we take all those scenarios into account and that comes in a spreadsheet the board discusses on a monthly basis. We are kept well aware and well up-to-date on what our competitors are charging but we have to understand it is a different model, so to speak. We have to take into account cars, recreational vehicles, trailers and things like that, which obviously the airlines do not, but at the end of the day we compare the prices very carefully.

**Mr GREEN** - I have a couple of question on quarantine. You have changed the configuration with respect to quarantine. What has happened? Does Victoria have the responsibility for quarantine now with officers employed by Victoria, or are they still employed by Tasmania?

**Mr HIDDING** - They are still employed by Tasmania but I will ask the chairman who was involved in that. I must place on the record our thanks to TT-Line staff for their participation in this decision. We are now able to rely on the staff to participate in ways which protect Tasmania's biosecurity and it is terrific they have been able to do that.

**Mr DWYER** - We have a security firm we use for both Devonport and the Port of Melbourne. They have been trained in Melbourne to do the quarantine trials currently underway in Melbourne. That is happening with the staff we have already engaged.

**Mr GREEN** - What about the quarantine officers who were formerly employed here in Tasmania?

**Mr DWYER** - The quarantine officers are in Melbourne at the moment assisting with those -

**Mr GREEN** - Are they training those people?

**Mr DWYER** - Those people have already been trained. We started the trials on 1 December.

**Mr HIDDING** - We used not to do it in Melbourne; the quarantine was done here.

**Mr GREEN** - Yes, so you're using a contract firm in Melbourne to do the job the quarantine officers used to do here, is that what you're saying?

**Mr DWYER** - We use a company called FBIS for our security and they're being trained by quarantine staff.

**Mr GREEN** - You have contracted out the quarantine?

**Mr HIDDING** - Three boarding inspectors.

**Mr DWYER** - Our current security firm is doing those quarantine duties.

**Mr GREEN** - Do they have authority under the statute to cease goods et cetera?

**Mr DWYER** - I believe they seize goods. We are doing that in Melbourne now.

**Mr GREEN** - Under what authority?

**Mr DWYER** - I couldn't answer that off the top of my head, I will have to find out for you. It is under the purvey of Tasmanian Quarantine. As I said, they are over there training and conducting these trials.

**Mr HIDDING** - Mr Rockliff is probably better placed to answer those questions. It was a joint announcement from the minister and me. The manager of biosecurity briefed me on some of those elements but he is probably the better minister to explain that.

**Mr GREEN** - What is your view? What is your understanding?

**Mr HIDDING** - My understanding is that through the facility of pre-boarding checks we do not have to hold passengers up as long in Devonport. There has been strong feedback to me as a long-time spokesman for this policy area and now the minister that the sometimes long waits in Devonport to go through security were, frankly, a pain in the backside. They were necessary but we can now reduce that through pre-boarding checks. However, understand that nobody should expect not to be inspected in Devonport as well.

**Mr GREEN** - Is it still common knowledge that Bass Strait is the 'drug superhighway' in and out of Tasmania and that it is ludicrous that you are more likely to get caught with a bag of bananas than a bag of drugs on the *Spirits*?

**Mr McKIM** - Remember that, Mr Hidding?

**Mr HIDDING** - Vaguely sort of ringing a bell back here somewhere.

To be serious about it, fairly soon after being appointed shareholder minister for this company, I called the Commissioner of Police in and we discussed that at length and the police have been in discussions with TT-Line.

**Mr McKIM** - You asked the Commissioner to come in. You did not call him in because you have no authority over him whatsoever.

**Mr HIDDING** - Exactly. Precisely. Thank you. At my regular weekly meetings with the Commissioner, where he strolled in, not asked or called, I raised this matter and there is a very strong relationship between Tasmania Police and TT-Line to ensure that,

**Mr GREEN** - So they have put extra resources onto the TT-Line have they?

**Mr HIDDING** - No. The TT-Line's security efforts have always been strong and are proven to be strong.

**Mr McKIM** - Except when it was the super highway for drugs, according to you?

**Mr HIDDING** - I am pleased to tell you now that as the minister for TT-Line I am very pleased with the security levels of the TT-Line and the effort -

**Mr McKIM** - Which you have done nothing to change and it has gone from a super highway of drugs to something you are very pleased about. Congratulations minister, you are a magician.

**CHAIR** - Order.

**Mr HIDDING** - and the intelligence work. The understanding of what comes in and out of Tasmania and the strong evidence is it is coming in by mail or airlines.

**Mr McKIM** - Thank you, Chair. Honestly they pay big dollars for this at the Comedy Festival I can assure you.

**Mr GRAINGER** - Mr McKim, I have just sat down and I apologise gentlemen, I just had to take an urgent call.

**Mr McKIM** - Nothing sinking I presume?

**Mr GRAINGER** - We don't even joke about that. That is not even funny. What really worries me as the chairman of this company when I walk back in the room and people are using that term.

**Mr McKIM** - What?

**Mr GRAINER** - Drug superhighway.

**Mr McKIM** - Well that was Mr Hidding that used that.

**Mr GRAINGER** - Just bear with me for a moment. I get really annoyed by that. I am offended by it. We were given terrible exposure on a *Four Corners* program, absolutely disgraceful performance on behalf of the ABC.

**Mr GREEN** - You have him to blame for it.

**Mr GRAINGER** - I am not blaming anyone. I am just telling you what I feel about it because it does annoy me and I am sick of it. I am not going to put up with it. I will tell you that right now and, Mr McKim,

**Mr McKIM** - Point of order, please.

**Mr GRAINGER** - the amount of - let me finish, please.

**Mr McKIM** - No, point of order, Chair.

**CHAIR** - Order. I have to take a point of order.

**Mr McKIM** - With respect it is not for Mr Grainger to lecture the Parliament about the questions we ask or the phrases we use. I do remind Mr Grainger that in fact 'drugs superhighway' is Mr Hidding's phrase. He coined it.

**CHAIR** - It is not a point of order.

**Mr HIDDING** - He is entitled to stand up strongly for his company. He has made the same points to me and I am happy for him to share them with you.

**Mr GRAINGER** - The damage to our brand, just from that ABC television program, is extraordinary. The following week we had a meeting with the assistant commissioner and Commissioner of Police, organised by the minister.

**Mr GREEN** - After the *Four Corners* program?

**Mr HIDDING** - No, no. That was the first time they came together in my office like that, but I had been interacting with Tasmania Police on this since I became minister.

**Mr GRAINGER** - We had a very positive discussion and you know that the day following the ABC program the assistant commissioner came out and said that it was inaccurate. We had a very positive, constructive conversation with the assistant commissioner and commissioner whereby we, as a company, are working a lot more closely with Tasmania Police, as we do with Federal Police and the security agencies in the country.

**Mr GREEN** - You are almost admitting it.

**Mr GRAINGER** - I am not admitting anything.

**Mr GREEN** - You say you are now working with them closely but you weren't before.

**Mr HIDDING** - Preventing it.

**Mr GRAINGER** - We are working closely with state police. I had not met the assistant commissioner in the past, nor the commissioner.

**Mr GREEN** - The minister is giving the impression that he was all over this, spoke to the Commissioner, was right on the job with detector dogs on there.

**Mr McKIM** - Chair, I remind you that you did give the call to me and I graciously allowed Mr Grainger to make his point and I have further questions.

[11.45 a.m.]

**CHAIR** - The point has been made, so I thank Mr Grainger for that.

**Mr McKIM** - What we know now is the minister has done nothing but claims he is now satisfied in relation to a matter he described as a drug superhighway when he was in opposition. My question to the minister is around the policy of TT-Line on carers - that is, people who care for people with high needs, disabled and living with disabilities. My understanding is that TT-Line's

policy is that people with disability can have access to a pensioner fare and that their carer also has access to a pensioner fare. However, pensioner fares are subject to availability on TT-Line. For example, there are no pensioner fares currently available on the 28 December sailing. Qantas offers a straight 50 per cent discount for carers of people with disabilities. In the spirit of your high volume, low margin policy, minister, would you ask the TT-Line to reconsider its position? It is below industry best practice in the way you offer discounts for carers of people with disabilities.

**Mr HIDDING** - I accept the question but I am not in a position to answer it myself. I will ask the company because it has a highly developed policy. Pensioner fares are limited and pensioners get in early.

**Mr McCALL** - At the moment we offer significant discounts to pensioners - over 50 per cent in some cases for pensioners. This year is the highest level of discounted fee we have offered to pensioners, certainly over the last six or so years. I am sure you understand we have to limit it at some point, but we take on board your point about looking at that.

**Mr McKIM** - Thank you for that. Perhaps I might correspond with the chair or the CEO in a few months to ask whether there has been any action there.

My other question is probably a matter for the Chair. What is the percentage of women on the board? I think you have one woman, and please correct me if I am wrong, on the TT-Line board out of seven. That is a fair way below the average for government-owned corporations around Australia. The average is over 30 per cent. Does the company have any strategies to increase the level of female representation on the board?

**Mr HIDDING** - Before the Chair answers, there has been one board change since I became minister and we have a 100 per cent strike rate - it was a woman.

**Mr McKIM** - That is good, but I am wondering whether the company has any policy or strategy around increasing that representation?

**Mr GRAINGER** - I am not going to appoint a board member on their gender. With such a complex, complicated company such as TT-Line we have an extremely talented board of directors. We have some of the best directors in the country sitting on that board and we are very privileged to have that. As directors retire and new directors are required we will look at finding new directors, going through the proper procedures, based on their ability.

**Mr McKIM** - I take from that that the board has no strategy to increase the representation of women on the board? What you have said is you will appoint them on merit, and that is your position. I am not trying to be confrontational here, Mr Grainger, I am simply asking if you have a strategy to increase the number of women on the board. I think the implication of your answer is no, but I am just seeking clarity on it.

**Mr HIDDING** - The Government clearly has an eye on gender balance on its boards, however we do not require our GBEs to put forward a quota for any gender.

**Mr McKIM** - No, but there are other ways to address this that do not rely on quotas, and they are well known in the corporate world.

**Mr HIDDING** - Exactly, and we as shareholders have to agree to the directors' appointments.

**Mr McKIM** - So you do not just note them anymore; you agree to them? That is interesting. The previous process was that Cabinet noted these appointments, but if you are agreeing to them now, that is fine.

**Mr HIDDING** - Of GBEs? I will just take some advice on that.

**Mr McKIM** - It is Cabinet. Mr Grainger would not necessarily know, I suspect.

**Mr HIDDING** - No, but there was a cabinet minute on it.

**Mr McKIM** - Does the company have a strategy to increase the number on the board? I think the answer is no because you make your recommendations for appointments on merit. I think that is your answer.

**Mr GRAINGER** - That is correct.

**Mr BROOKS** - I want to talk about the maintenance and reliability issues. It has been noted that you have an ageing piece of equipment and you can over- and under-service and neither is necessarily the right thing depending on your strategy around reliability and engineering requirements. I was interested in how far forward you look at things such as dry dock maintenance periods and your periodic maintenance requirements but also with the ageing of the equipment and the change in operating circumstances whether that will have an impact on the engineering needs. I note that you have already answered in Mr Green's question concerns around the life expectancy of the asset and indicated you are quite comfortable with that, but I would be interested in whether that has been taken into account with the change in strategy and what impact that would have.

**Mr GRAINGER** - It certainly has been taken into account with management and, as I have said in the past, we maintain these vessels to the highest possible standards. Our first and foremost focus is on safety, that comes before anything else and the vessel performance has an impact on safety so we make sure that the vessels are maintained to the best of our ability. With the new direction of more sailings and increased performance there will be additional maintenance to be done because we want to keep the vessels in tip-top condition, not only for the reliability and safety aspects but also from a resale value perspective.

I can tell you as chairman of an international ferry organisation that these ships are maintained as well, if not better, than any ships of their kind anywhere in the world. I have seen that firsthand. The company needs to be congratulated for having that ethos and it is something we place enormous emphasise on. It is reported to the board every month so all the directors understand the importance of it and the requirements that are there and there is no plan, I can assure you, to diminish that at all.

**Mr GREEN** - What is the top speed of the vessels?

**Mr DWYER** - It is 23 knots

**Mr GREEN** - Why don't you run them flat-out?

**Mr DWYER** - We don't need to run them flat-out?

**Mr GREEN** - Why?

**Mr GRAINGER** - The passengers are asleep.

**Mr DWYER** - We're still getting the right timetables, and the more you run the vessels at a lower speed the more you increase the longevity of those engines.

**Mr GRAINGER** - And use less fuel.

**Mr DWYER** - Fuel cost is very important.

**Mr BROOKS** - You certainly don't hear a lot about reliability issues and significant delays and I think that is an outcome of very good maintenance practices and strategies. What is the availability of the equipment? Do you know the number for that, is it 96 per cent or 98 per cent?

**Mr GRAINGER** - No, I'm not sure of that.

**Mr BROOKS** - Normally most engineering departments will look at the availability of plant or of the asset and I would be interested in the engineering number. Most engineering departments run a KPI on availability and it seems to me that the availability of the asset is normally measured within the lines of -

**Mr GRAINGER** - Ours is 98 per cent.

**Mr GREEN** - Is 2017 when the new vessel comes on to SeaRoad?

**Mr HIDDING** - Yes, or late 2016.

**Mr GREEN** - I put it to you that there is effectively a hiatus period regarding fresh freight. I quote what Howard Hansen said. He described the freight constraints facing Tasmanian exporters as 'urgent and desperate.' Minister, what is the situation? Why does the Government believe it is appropriate effectively to vacate that space here and now, given the urgent need, not only from people like Howard Hansen but the TFGA also echo exactly the same position?

**Mr HIDDING** - Let's get this right again. We vacated the space you moved into to go head to head with the private sector shipping market, the sector of the market they already got. We went out of that space. That was a decision to not proceed with the business case that was in front of us when we came to government. That was how we vacated the space and I laid down my expectations as minister that the two private sector players would be retonnaging as soon as they possibly could. Toll tells us they are and SeaRoad is. It is our projection that with this business case of TT-Line and the operations of SeaRoad and Toll the freight across Bass Strait is manageable until the new ships come on.

**Mr GREEN** - Have you made any consideration, either through the business case that was put to you or in response to the request particularly of those fresh freight forwarders, to lease any vessel through the three-year period?

**Mr HIDDING** - The chairman was right when he said he has had the appropriate level of input from us into the business case, which is very little indeed, other than providing the overall policy



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stance that we wanted a much higher number of passengers coming into Tasmania and to protect the market share of freight that we currently have and look after our customers as they are today.

**Mr GREEN** - What about the Howard Hansens of the world who describe the freight constraints as urgent and desperate? What are you saying to him?

**Mr HIDDING** - He was talking about and hopeful of the previous business case getting up. He was expressing his disappointment with the fact that we did not proceed with that previous business case. We continue to talk to him, his freight colleagues and all the freight companies.

**Mr GREEN** - Let me rephrase it then. Do you accept that there is a constraint for fresh freight on Bass Strait at the moment?

**Mr HIDDING** - No. We believe -

**Mr GREEN** - I can't prosecute the argument when you just completely knock it off like that. You don't believe there is a constraint for fresh freight on Bass Strait at the moment?

**Mr HIDDING** - Right now the market is being covered by the three operators.

**Mr GREEN** - So you don't expect there will be one truck left on the wharf with fresh freight on it this year?

**Mr HIDDING** - No more than there were last year.

*Laughter.*

**Mr GREEN** - I just asked you whether there is any constraint and there was constraint - that is why we were looking at it.

**Mr HIDDING** - The fact is we believe that the market can be served appropriately. There are ongoing discussions with TT-Line as to its freight customers, particularly those with perishable goods such as the cherry and blueberry growers. I will ask Mr Grainger to speak on this freight matter because I know this was a huge part of his business case, the consideration of the current freight market, next year and the year after.

**Mr BACON** - Do you expect any growth before SeaRoad gets their new ship in terms of fresh freight out of Tasmania?

**Mr HIDDING** - We are in constant contact with the market. My department, in fact, has a freight strategy under construction and speaking to all these sectors we believe as a Government we know what the requirements are and we trust that TT-Line in their commercial arrangements with their customers know too.

**Mr GREEN** - You just told them it was a dog of an idea.

**CHAIR** - Order. There has been a question put and the minister was going to go to Mr Grainger. I will allow that to happen and then we can come back to further questions.

**Mr GRAINGER** - What I can tell you is that our freight management people are in daily contact with the freight company and the growers. I have had meetings with Houstons, for example, and the aquaculture people. We need to be aware that a large component of SeaRoad's and Toll's freight is taken by us. We are managing that pretty well at the moment. Our freight is limited at certain times of the year; there is no question about that. We still have the high-end customers, the niche freight people, sailing with us and we look after them. We do not turn them away. If there is a significant growth in those markets, we will have to deal with it.

[12 p.m.]

**Mr GREEN** - It is all about passengers now.

**Mr GRAINGER** - The business case determined we are not going to take any less freight. We cannot take any more but we can do some reorganising and we know that from past experience. We can make sure the niche freight that needs to get to market, gets to market. We have not let anyone down yet and we are not intending to.

**Mr GREEN** - A lease option was never put in this business case?

**Mr GRAINGER** - That is a question you need to ask of the minister. I am not going to comment what is in the business case.

**Mr GREEN** - Was there a lease option put in this business case?

**Mr HIDDING** - No. The business case put to us, we were delighted to see, did not require acquisition of new vessels.

**Mr GREEN** - No, lease.

**Mr HIDDING** - No, lease or buy, same thing.

**Mr GREEN** - You do not accept there is a hiatus here?

**Mr HIDDING** - No. We think it is manageable until the private sector delivers on its retonnaging and we are watching that very closely.

**Mr GREEN** - It seems to me there was a difference. Mr Grainger said you will have to ask the minister. You say there was no option provided in this business case at all?

**Mr HIDDING** - To add another vessel, do you mean?

**Mr GREEN** - For a short term or for a freight component.

**Mr HIDDING** - I thought there would be a requirement to manage freight while the ships came off-line consecutively, for a couple of months, for refurbishing. The great news was, how they managed to deal with that, is miraculous. It is wonderful when you hear how that is going to happen. There will be no fewer sailing in 2015 that were previously booked to sail.

**CHAIR** - Members, I need to inform the committee the time for this deliberation on the TT-Line has now concluded.

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**Mr HIDDING** - Would you mind if I respond.

**Mr McKIM** - The date of the letter perhaps?

**Mr HIDDING** - It is 15 May and it is commercial in confidence because it contains elsewhere in the letter certain material.

Regarding state-owned companies, Cabinet has asked to endorse appointments.

**CHAIR** - Thank you all very much.

**The committee suspended at 12.03 p.m.**