

REVIEW OF THE BASS STRAIT PASSENGER VEHICLE EQUALISATION SCHEME: MONITORING REPORT NO. 1.

INTRODUCTION

In August 1996, the then Commonwealth Minister for Transport and Regional Development announced the introduction of the Bass Strait Passenger Vehicle Equalisation Scheme (the Scheme), effective from 1 September 1996. The Scheme provides a rebate against the fare charged by a ferry operator to transport a driver plus passenger vehicle by sea across Bass Strait, and gives effect to the Government's election commitment to provide a rebate of up to \$300 for a return trip.

The Scheme operates under a set of Ministerial Directions and is administered by the Commonwealth's Tasmanian Assistance Team in Hobart. Although the Scheme was originally overseen by the Department of Transport and Regional Development's (DoTRD) Maritime Division, new administrative arrangements in October 1997 resulted in the maritime functions of DoTRD being taken over by the Department of Workplace Relations and Small Business. Since then a new set of Directions have been approved by the Minister for Workplace Relations and Small Business. This report reflects the administrative arrangements in place during the monitoring period (1 September 1996 to 30 June 1997).

Clause 16 of the Directions (attachment I) provides for the annual monitoring of the effectiveness of the Scheme by the Bureau of Transport and Communications Economics. In considering the Scheme's effectiveness, it is appropriate to take into account the aim of the Scheme, which is simply stated as "to reduce the cost of seagoing travel for an *eligible passenger*"¹ (clause 2.1). However, comments made by the then Minister at the time of the announcement of the Scheme suggest an additional aim of helping the Tasmanian tourism industry in particular, and the Tasmanian economy as a whole (Sharp 1996). Therefore, the effectiveness of the Scheme would depend on:

- the extent eligible passengers benefited from lower net fares;
- changes in eligible passenger demand, and in the demand of those accompanying eligible passengers², as a result of lower net fares;
- changes in unit operating costs to the service operator and the degree any savings are passed onto all passengers through lower gross fares; and
- the resulting change in total demand for passengers travelling across Bass Strait, including travel by air, and the origin of this traffic.

¹ An eligible passenger is defined as a passenger accompanied by an eligible passenger vehicle on a Bass Strait Passenger Service on or after 1 September 1996, being the driver of that passenger vehicle.

² While it is the eligible passenger who receives the rebate, it is possible that the benefit may be distributed amongst all those travelling in the vehicle. For example, in the case of a family travelling with a motor car, it is possible the lower net fare results in more than one additional passenger.

This is the first monitoring report and only covers the first 10 months of the Scheme's operation (1 September 1996 to 30 June 1997). Consequently, this report provides only an initial indication of the overall effectiveness of the Scheme. At this stage it is too early to provide a conclusive analysis of the effectiveness of the Scheme.

OVERVIEW OF THE SCHEME

Calculation of the rebate

The rebate is calculated on the basis of charging a net fare for an eligible passenger vehicle plus driver, travelling in standard share cabin accommodation, that is comparable to the notional cost of driving an equivalent distance on a highway.

The equivalent highway cost is based upon the sea distance of 427 kilometres between the ports of Devonport and Melbourne multiplied by an estimated running cost for an average family saloon (39.87 cents per kilometre³). This provides an equivalent highway cost of \$170 for a one-way trip.

For the purposes of the rebate calculation, the fare for an "inside cabin" on the *Spirit of Tasmania* is used as the passenger fare benchmark. This accommodation represents approximately 50 per cent of the berths available on the *Spirit of Tasmania*. The benchmark passenger vehicle fare has been based upon the fare for a passenger vehicle of no more than five metres in length.

Due to the seasonal nature of demand, both the passenger and vehicle fares vary according to three seasons (high, shoulder and off peak seasons). Consequently, the rebate varies with the largest rebate being applied during the high season and smallest rebate being applied during the off season, to provide an approximation of the equivalent highway cost across all seasons. The rebates applied for the monitoring period are provided in table 1.

TABLE 1 ROUND TRIP REBATE FOR A DRIVER TRAVELLING WITH A MOTOR CAR, BUS, OR MOTOR CYCLE, 1 SEPTEMBER 1996 TO 30 JUNE 1997

<i>Eligible vehicle</i>	<i>Off Peak Season (1 Sep 96 – 27 Sep 96) (13 Apr 97 – 30 Jun 97)</i>	<i>Shoulder Season (28 Sep 96 - 13 Dec 96) (26 Jan 97 - 12 Apr 97)</i>	<i>High Season (14 Dec 96 - 25 Jan 97)</i>
Motor car or bus	\$200	\$240	\$300
Motor cycle	\$100	\$120	\$150

Note: The rebate for a one way trip is 50 per cent of the rebate for a round trip. Where a round trip consists of northbound and southbound legs in different seasons, the booking is, for the purposes of determining a rebate, considered as consisting of two one way trips.

Source DoTRD 1996

³ The "standard vehicle running cost" is based on the NRMA's study *What it Costs to Run Your Car* (NRMA 1995). The rebate for a motor cycle was set at 50 per cent of the rebate for a motor car.

The rebate for a one-way trip is 50 per cent of the rebate for a round trip. The value of the rebate is reviewed each year by the Minister.

Method of payment

The rebate is an 'up front' subsidy. That is, the rebate is provided to the driver of an eligible passenger vehicle as a reduction in the fare charged by the relevant service operator. The onus is on the service operator to determine the eligibility of the passenger for the rebate, apply the rebate to the passenger's gross fare, and claim reimbursement of the rebate from the Commonwealth. Clause 9.3 of the Directions limits the service operator to no more than one claim a month, while clause 9.4 allows the service operator to claim reimbursement:

- (a) for an eligible passenger who has travelled within the previous 12 months; and
- (b) subject to clause 10⁴, where an eligible passenger has not yet travelled, but has booked and paid for travel to be undertaken during the period for which the claim is made, for that passenger.

The Directions made provisions (clause 8) for passengers who had booked and paid for their travel prior to the introduction of the Scheme, for travel after 1 September 1996, to be forwarded a cheque for the appropriate rebate.

Funding for the scheme is demand-driven and changes to match the actual level of eligible passenger vehicle travel undertaken. Funding for 1996-97 was originally estimated at \$7.5m based upon the carriage of an estimated 68,000 passenger vehicles during the first 10 months of the Scheme's operation. A total of nearly \$8.5m in rebates was paid during 1996-97 in respect of the carriage of 73,360 passenger vehicles⁵.

New operators

The Scheme does not discriminate between service operators. Should a new operator enter the Bass Strait passenger trade, the Scheme applies to its passengers on the same basis as those of existing service operators. That is, the rebate applicable to each season, and the dates of the seasons, remain unchanged for any new operator. This arrangement is intended to provide certainty in the market place as to how the Scheme will apply.

⁴ Clause 10 provides the Departmental Secretary with discretion to request provision of a surety from an operator in order for the operator to be reimbursed in advance of travel being undertaken by eligible passengers.

⁵ Funding for 1997-98 was further increased to \$11.2m in the 1997-98 budget in respect of the carriage of some 96,000 passenger vehicles. With TT Line now providing an additional daily service during the peak season using Incat's *Devil Cat*, the required funding for 1997-98 was further increased to \$12.8m in respect of the carriage of some 108,000 passenger vehicles.

PAYMENTS MADE UNDER THE SCHEME

Service operators

During the monitoring period, there were two operators carrying passengers and their vehicles between Tasmania and the mainland: TT Line with the *Spirit of Tasmania*; and Southern Shipping with the much smaller ferry *Matthew Flinders*. The *Spirit of Tasmania* operates between Devonport and Melbourne, while the *Matthew Flinders* operates services between Bridport (Tasmania) and Welshpool (Victoria) via Flinders and Deal Islands. Since eligible passengers using Southern Shipping received rebates totalling only \$1080 over the monitoring period, this report focuses on the operations of TT Line.

Payments made to TT Line

For the period September 1996 to June 1997, \$8.47 million was paid by the Commonwealth to TT Line, for 73360 eligible vehicles. Of these vehicles, the vast majority (95 per cent) were motor cars, 4.5 per cent were motor cycles and less than one per cent were buses (see table 2).

Figure 1 shows the number of eligible motor cars by direction and indicates the seasonal nature of the demand for ferry passage across Bass Strait. In most instances, the split between north and south bound flows is roughly even. However, there was greater demand for southbound voyages in September 1996 (60:40), and for northbound voyages in May to June 1997 (between 60:40 and 55:45).

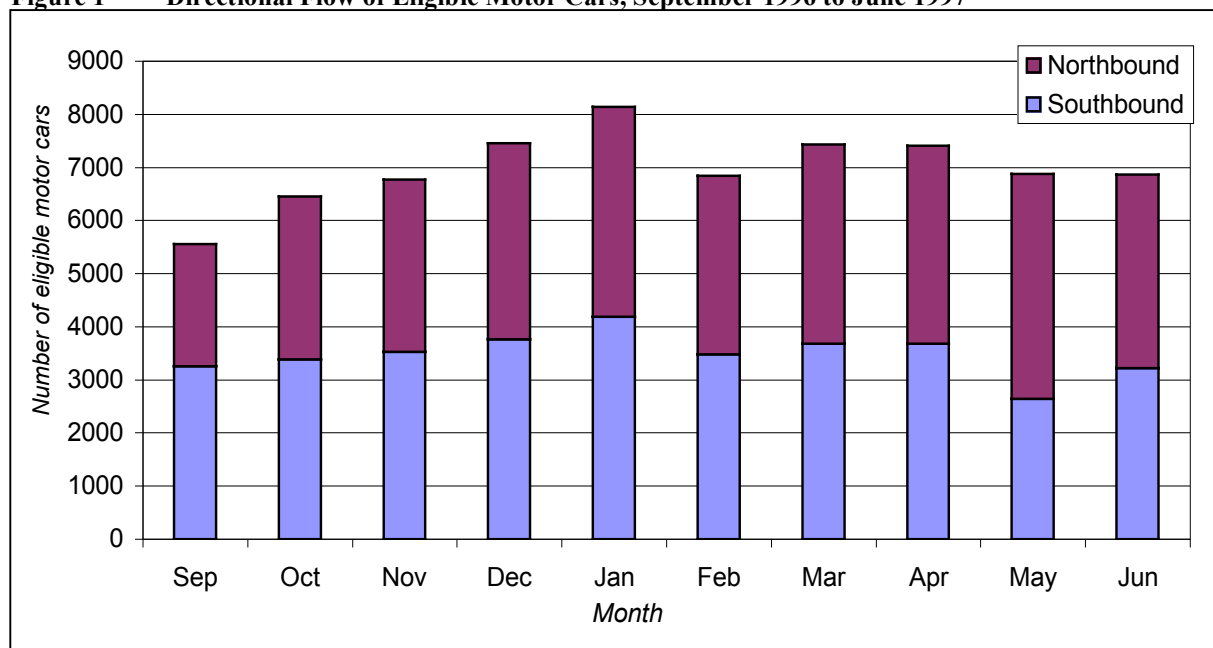
TABLE 2 PAYMENTS MADE UNDER THE SCHEME TO TT LINE, SEPTEMBER 1996 TO JUNE 1997

Month	Motor Cars		Buses		Motor Cycles		Total rebate paid (\$)
	Number	Rebate paid (\$)	Number	Rebate paid (\$)	Number	Rebate paid (\$)	
September	5558	566060	9	900	89	4530	571490
October	6451	774120	27	3240	281	16860	794220
November	6771	812520	26	3120	271	16260	831900
December	7459	1026960	12	1620	249	17250	1045830
January	8144	1177950	15	2160	323	23115	1203225
February	6842	821040	37	4440	501	30060	855540
March	7436	892320	41	4920	810	48600	945840
April	7411	801500	43	4680	584	33640	839820
May	6874	687400	25	2500	116	5800	695700
June	6865	686500	7	700	83	4150	691350
Total	69811	8246370	242	28280	3307	200265	8474915

Note An additional \$1080 in rebates to Southern Shipping were made in the same period.

Source Tasmanian Assistance Team

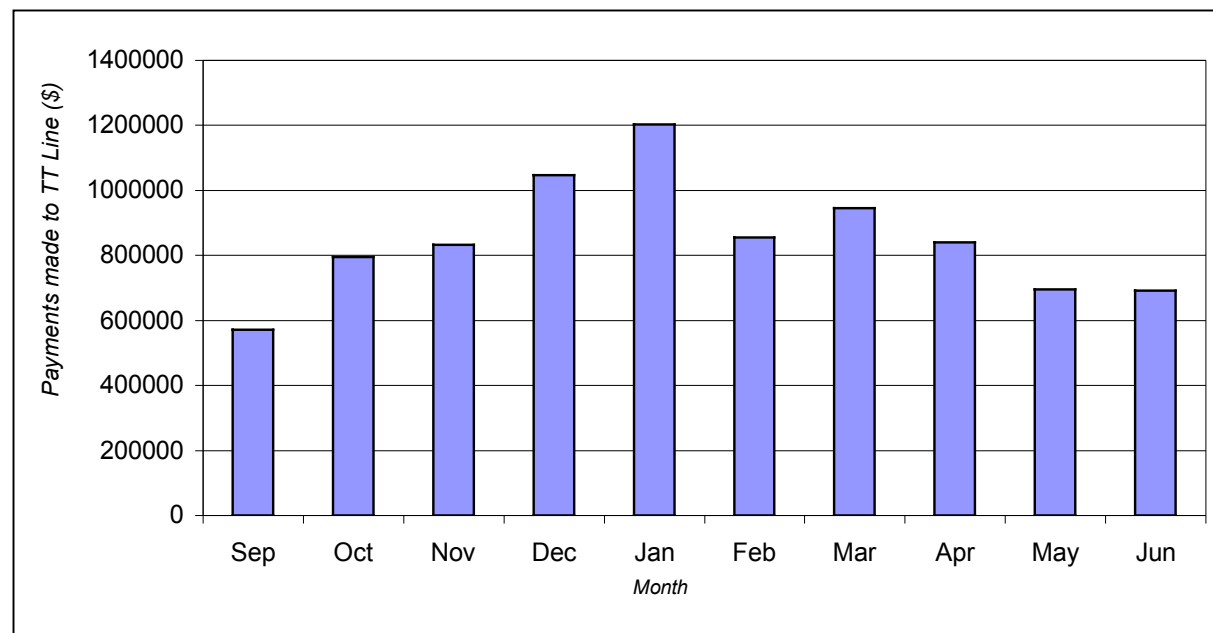
Figure 1 Directional Flow of Eligible Motor Cars, September 1996 to June 1997



Source Tasmanian Assistance Team

The seasonal nature of demand, combined with the higher rebates being provided for peak season travel, results in significant variation in total payments made under the Scheme on a monthly basis (figure 2).

Figure 2 Payments made to TT Line, September 1996 to June 1997



Source Tasmanian Assistance Team

EFFECTIVENESS OF THE SCHEME

To determine the effectiveness of the Scheme this analysis considered the following:

- changes in gross fares;
- changes in the number of eligible passenger vehicles and number of passengers accompanying those vehicles;
- TT Line's operating performance; and
- changes in the total demand for passenger travel across Bass Strait, including by air.

Changes in Gross Fares

Effective from 26 January 1997, TT Line increased fares by an average of 5.3 per cent, representing the first general price increase since 1994 (TT Line 1997). Table 3 indicates that for an adult inside cabin fare (on which the rebate is partly based), the fare increase was slightly above average for the shoulder season, and slightly below average for the off peak and peak season.

Table 3 also indicates that for the standard car fare (on which the rebate is partly based), there were no price increases for any season. The most significant changes in the TT Line fare schedule were for a standard car towing a trailer or caravan where total length is greater than 5 metres and height is under 2.25 metres (table 3). TT Line management informed the BTCE that these changes reflect the company's attempt to receive a more appropriate level of revenue for the additional space that such vehicles occupy. For example, the fare increases are limited in the main to the shoulder and peak seasons, times when space is at a premium.

While there has been an increase in gross fares, eligible passengers still derive a significant fare saving as a result of the rebate.

TABLE 3 SELECTED TT LINE FARES, ONE WAY, AS AT 26 JANUARY 1997

<i>Fare</i>	<i>Length</i>	<i>Shoulder season</i>			<i>Off peak season</i>			<i>Peak season</i>		
		<i>New fare (\$)</i>	<i>increase \$</i>	<i>increase %</i>	<i>New fare (\$)</i>	<i>increase \$</i>	<i>increase %</i>	<i>New fare \$</i>	<i>increase \$</i>	<i>increase %</i>
Adult, inside cabin	na	153	8	5.5	147	7	5.0	168	8	5.0
Standard car under 2.25m in height										
	5m or less	145	0	0	125	0	0	185	0	0
Standard car towing a trailer or caravan, both vehicles under 2.25m in height										
	8m or less	362	30	9.0	257	0	0	422	60	16.6
	9m or less	411	40	10.8	301	0	0	486	80	19.7
	10m or less	400	50	14.3	345	0	0	555	100	22.0
	11m or less	509	60	13.4	389	44	12.8	614	120	24.3

na not applicable

Source TT Line fare schedule, effective 26 January 1997.

Effect on Vehicle Numbers

During the 1996/97 financial year, TT Line carried 80642 vehicles of all types, representing an increase of 28 per cent on the previous 12 months⁶. The change in the number of motor cars in the same period was 31 per cent. This increase in traffic was partly due to an increase in the number of voyages made by the *Spirit of Tasmania* in the 1996/97 financial year (313 compared with 295 in 1995/96). Nevertheless, on a per voyage basis, there was an increase of 20.7 per cent and 23.9 per cent in the number of vehicles (freight excluded) and passenger motor cars, respectively, carried by TT Line.

On a monthly basis, there was a substantial increase in the number of motor cars carried in May and June 1997 compared with the same time in the previous year (table 4). While this is significant, it is too early to tell whether this represents an ongoing trend.

TABLE 4 VEHICLES¹ CARRIED BY TT LINE, 1995/96 – 1996/97

Month	All vehicles			Motor cars		
	1995/96	1996/97	Change (%)	1995/96	1996/97	Change (%)
July	3512	3868	10.1	3441	3797	10.3
August	2786	3773	35.4	2721	3655	34.3
September	4865	5657	16.3	4748	5559	17.1
October	5503	6759	22.8	5234	6451	23.3
November	5277	7066	33.9	4983	6769	35.8
December	5781	7717	33.5	5494	7456	35.7
January	7466	8484	13.6	7052	8146	15.5
February	6449	7377	14.4	5737	6839	19.2
March	7349	8286	12.8	5579	7435	33.3
April	6126	7907	29.1	5922	7280	22.9
May	4209	6872	63.3	4055	6731	66.0
June	3631	6871	89.2	3544	6781	91.3
Total	62954	80637	28.1	58510	76899	31.4
<i>per voyage</i>	213	258	20.7	198	246	23.9

1. Vehicles all types, freight excluded.
2. In addition to the 76899 motor cars carried by TT Line in 1996/97, 353 motor cars were carried by Coastal Express on behalf of TT Line. TT Line received a rebate under the Scheme for these vehicles.
3. Comparing tables 2 and 4 indicates that TT Line received a rebate for 11 motor cars which it appears it did not carry. The reason for this discrepancy is that table 4 is based on TT Line's yield management database which will vary on a month to month basis with the actual number of motor vehicles carried and claimed against as shown in table 2.

Source TT Line yield management database

Two other points should be made:

- the relatively smaller increase in traffic in January is partly to do with that month already representing the peak period of demand, with capacity constraints limiting potential increases in demand; and

⁶ The monthly data in tables 4, 5 and 6 are taken from TT Line's yield management database which provides the best source of disaggregated data. However, the nature of the yield data means that there are minor discrepancies in passenger and vehicle numbers compared with the figures reported in TT Line's Annual Reports and financial reports. These discrepancies are small enough not to affect the nature of the results.

- although August had a large relative increase in traffic (before the Scheme came into effect), it was from the smallest base of all months.

Effect on Passenger Movements

During the 1996/97 financial year, 259169 passengers were carried on the *Spirit of Tasmania*. This was a 20 per cent increase on the previous year. Table 5, provides a break down of passenger numbers based on TT Line's yield management database.

Of all passengers carried by TT Line in 1996/97, 35 per cent were berth only passengers, while 63 per cent were drivers or passengers of a motor car being carried by TT Line. The remaining passengers were those drivers or passengers of vehicles other than motor cars. This compares to a 39:58 split in the previous year.

TABLE 5 PASSENGERS CARRIED BY TT LINE, 1995/96 – 1996/97

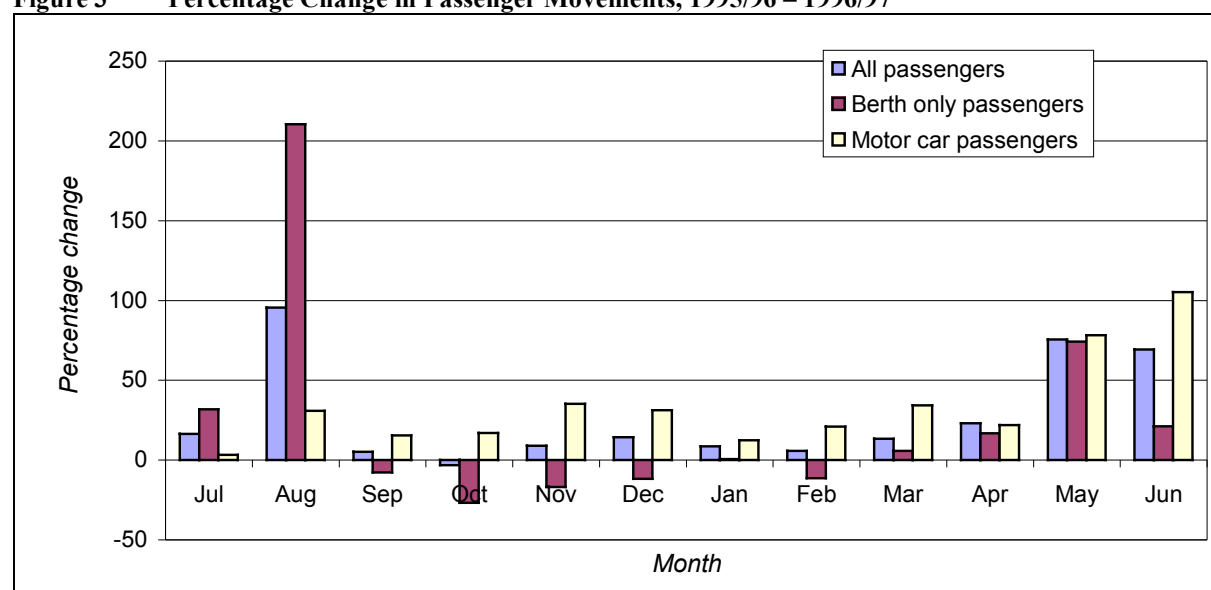
Month	Total passengers			Berth only passengers			Motor car passengers		
	1995/96	1996/97	Change (%)	1995/96	1996/97	Change (%)	1995/96	1996/97	Change (%)
July	13544	15766	16.4	6252	8239	31.8	7199	7440	3.3
August	8260	16150	95.5	2943	9135	210.4	5245	6864	30.9
September	18288	19239	5.2	7713	7109	-7.8	10411	12012	15.4
October	20969	20299	-3.2	9544	6978	-26.9	11038	12901	16.9
November	19748	21530	9.0	9608	7991	-16.8	9739	13166	35.2
December	21214	24262	14.4	8039	7100	-11.7	12833	16835	31.2
January	26235	28504	8.6	7296	7341	0.6	18392	20688	12.5
February	20702	21876	5.7	8222	7279	-11.5	11498	13912	21.0
March	22553	25575	13.4	8580	9065	5.7	11419	15333	34.3
April	20000	24591	23.0	6732	7866	16.8	12997	15833	21.8
May	12235	21478	75.5	4377	7626	74.2	7670	13663	78.1
June	11970	20253	69.2	4957	6006	21.2	6889	14143	105.3
Total	215718	259523	20.3	84263	91735	8.9	125330	162790	29.9
<i>per voyage</i>	731	829	13.4	286	293	2.6	425	520	22.4

Source TT Line yield management database

On a per voyage basis, TT Line carried 13.4 per cent more passengers in 1996/97. However, there was only a 2.6 per cent increase in berth only passengers compared with an increase of 22.4 per cent in motor car passengers. Indeed, much of the growth in berth only passenger traffic was due to an extraordinary increase in traffic during August. Figure 3 indicates that much of the increase in motor car passenger traffic from September (when the Scheme was introduced) to February may represent a transfer of demand from berth only passengers.

It should be noted that, during 1996/97, the Tasmanian Government provided \$350,000 for a \$30 discount in the off-peak APEX fare for both Tasmanian and mainland passengers. All 11,666 tickets were sold, which may help explain some of the growth in passenger numbers in the May to June 1997 period.

Figure 3 Percentage Change in Passenger Movements, 1995/96 – 1996/97



Source TT Line yield management database

Using the vehicle numbers in table 4, table 6 indicates that, although there has been substantial variation in the simple average number of motor car passengers per motor car on a month to month basis, the annual average (based on the average for each voyage) has not changed significantly.

TABLE 6 NUMBER OF CAR PASSENGERS PER CAR, 1995/96 – 1996/97

<i>Month</i>	<i>Car passenger per car</i>		<i>Percentage change</i>
	<i>1995/96</i>	<i>1996/97</i>	
July	2.1	2.0	-6.3
August	1.9	1.9	-2.6
September	2.2	2.2	-1.5
October	2.1	2.0	-5.2
November	2.0	1.9	-0.5
December	2.3	2.3	-3.3
January	2.6	2.5	-2.6
February	2.0	2.0	1.5
March	2.0	2.1	0.8
April	2.2	2.2	-0.9
May	1.9	2.0	7.3
June	1.9	2.1	7.3
Annual average ¹	2.10	2.09	-0.5

1. Average of car passengers per motor car for each voyage. Calculated t-statistic (0.74) indicates no significant difference in the average for the two years.

Source TT Line yield management database

It is too early to determine the full impact of the Scheme on the demand for sea travel across Bass Strait. However, in the first ten months of the Scheme, there have been significant increases in both the number of vehicles, particularly motor cars, and passengers

accompanying motor cars, carried by TT Line. At the same time, the number of berth only passengers carried by TT Line increased by approximately 2.6 per cent. It is reasonable to assume that this increase in demand should be reflected in higher vessel utilisation rates, resulting in lower per unit operating costs for TT Line.

TT Line's Operating Performance

Operating Costs

TT Line's operating costs in 1996/97 amounted to \$51.2 million. This was a 6 per cent increase on the previous financial year (table 7). However, there were 18 more voyages by the *Spirit of Tasmania* in 1996/97 (313 compared with 295 in 1995/96). Consequently, on a per voyage basis, operating costs remained steady. This was due to reductions in hotel and freight services, sales and holiday packages, and head office costs being offset by increases in human resources and reservations costs, and commissions and fees.

TABLE 7 TT LINE OPERATING EXPENDITURE, 1995-1997

	Expenditure (\$'000s)		Change (%)	Expenditure per voyage (\$)		Change (%)
	1995/96	1996/97		1995/96	1996/97	
Expenditure by department						
Operations	21198	22357	5	71858	71428	-1
Hotel services	14565	15296	5	49373	48869	-1
Customer services	4693	4893	4	15908	15633	-2
Administration	5697	6098	7	19312	19482	1
Other expenditure						
Commissions and fees						
<i>Passenger</i>	1579	1904	21	5353	6083	14
<i>Vehicle</i>	521	631	21	1766	2016	14
Total	48253	51179	6	163569	163511	0

Note Operating expenditures are shown by profit centre. In some cases, expenditure on one particular item may be distributed among a number of profit centres.

Source TT Line financial reports

Operating Revenue

Table 8 indicates that TT Line earned \$64.1 million in revenue in 1996/97. This was a 16 per cent increase on the previous financial year. On a per voyage basis, operating revenue increased 9 per cent, reflecting an increase in fares in January 1997, and higher passenger and vehicle occupancy rates. However, some of the increase in vehicle numbers was offset by a reduction in freight capacity and this is reflected in reduced freight revenues.

Table 9 considers TT Line's operating costs and revenues in terms of the output of its three core services: passengers, vehicles and freight⁷. The table shows that TT Line was able to

⁷ The "other" costs category was determined by apportioning total costs, less those costs already noted, by the contribution

increase its per unit return in all three services, principally from reduced passenger and freight unit costs, and increased vehicle unit revenues. The latter reflects a change in company pricing policy towards vehicles towing trailers or caravans, and oversized vehicles.

TABLE 8 TT LINE OPERATING REVENUE

<i>Revenue source</i>	<i>Revenue (\$000)</i>		<i>Change (%)</i>	<i>Revenue per voyage (\$)</i>		<i>Change (%)</i>
	<i>1995/96</i>	<i>1996/97</i>		<i>1995/96</i>	<i>1996/97</i>	
Passenger	19934	29398	47	67571	93925	39
Vehicle	9126	12356	35	30936	39476	28
Freight	17796	17050	-4	60324	54473	-10
On board food & beverage	6847	2891	-58	23210	9238	-60
Franchise	409	497	22	1387	1589	15
Cruise	423	674	60	1432	2154	50
Other	159	660	315	539	2109	291
Holiday packages	552	581	5	1872	1856	-1
Gain (loss) sale fixed assets	-9	-18	106	-30	-58	94
Total operating revenue	55237	64091	16	187242	204762	9

Figures may not add due to rounding.

Source TT Line financial reports

This pricing change (as discussed earlier, see table 3) coincided with an average 5.3 per cent increase in passenger fares. However, table 9 indicates there was only a slight (less than 1 per cent) increase in actual passenger revenues. This discrepancy can be explained by figure 4 which indicates that there was a substantial increase in the proportion of various discounted fares compared with all fares, for the off peak season. Although information on the size of each discount per ticket is not available, it does appear that any increases in revenue obtained from higher published fares have been offset by greater discounting in the off peak season. Whether or not the increased discounting is an indirect result of the Scheme is too difficult to determine at this early stage.

It should also be noted that the apparent 'increase' in passenger fares shown in table 9 is partly the result of an earlier change in pricing policy by TT Line. From 26 August 1996, passengers received a buffet meal and continental breakfast as part of the standard fare. This resulted in an increase in fare revenue but was offset by a reduction in revenue from on-board food and beverage consumption.

each service makes to total revenue.

TABLE 9 TT LINE OPERATING COSTS AND REVENUES BY SERVICE TYPE

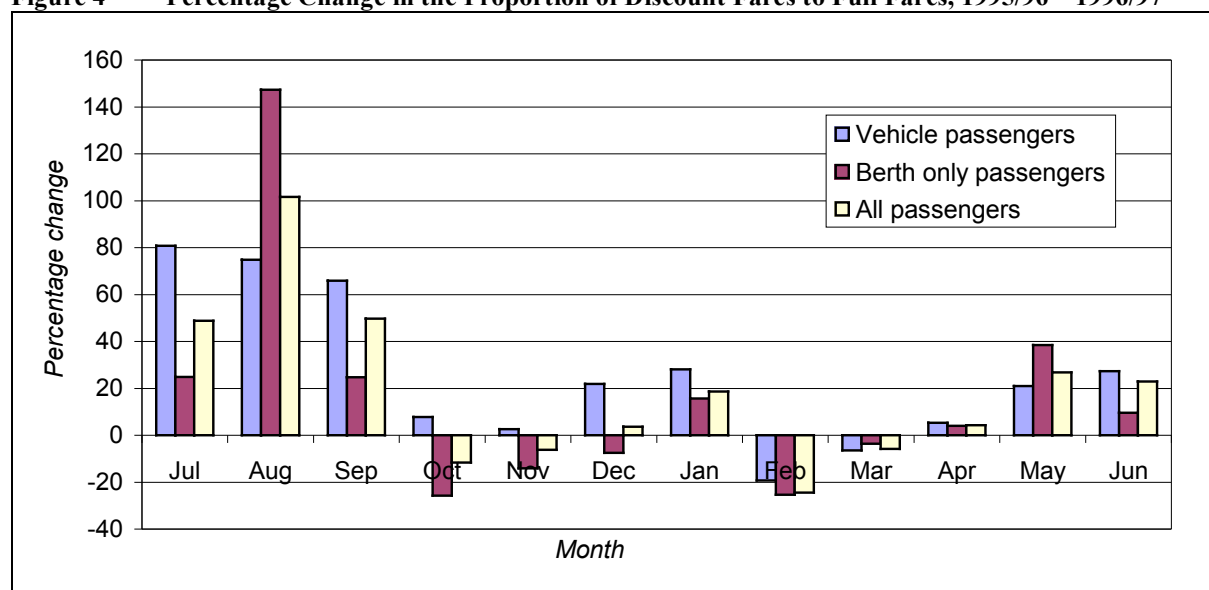
<i>Passengers</i>	<i>1995/96</i>	<i>1996/97</i>	<i>Vehicles</i>	<i>1995/96</i>	<i>1996/97</i>
Passengers carried	215974	259169	Vehicles carried	62933	80642
Revenue (\$000)			Revenue (\$000)	9126	12356
<i>Fares</i>	19934	29398			
<i>On board food & beverage</i>	6847	2891			
Total passenger revenue	26780	32290			
Revenue per passenger (\$)	124	125	Revenue per vehicle (\$)	145	153
Costs (\$000)			Costs (\$000)		
<i>Hotel services</i>	14565	15296	<i>Commissions and fees</i>	521	631
<i>Commissions and fees</i>	1579	1904	<i>Other</i>	4587	5758
<i>Other</i>	10018	13699			
Total passenger costs	26162	30899	Total vehicle costs	5108	6388
Costs per passenger (\$)	121	119	Costs per vehicle (\$)	81	79
Return per passenger (\$)	3	5	Return per vehicle (\$)	64	74
<i>Freight</i>					
Number of TEUs	23200	22112			
Revenue (\$000)	17796	17050			
Revenue per TEU (\$)	767	771			
Costs (\$000)					
<i>Freight services</i>	7160	7201			
<i>Other</i>	8944	7945			
Total freight costs	16103	15146			
Freight costs per TEU (\$)	694	685			
Return per TEU (\$)	73	86			

Note The "other" costs category was determined by apportioning total costs, less those costs already noted, by the contribution each service makes to total revenue.

Source TT Line Financial Report

Since the introduction of the Scheme, TT Line has improved its financial position and TT Line management has acknowledged that the Scheme has made a substantial contribution to the company's positive financial performance (TT Line 1997). It also appears that the increase in demand as a result of the Scheme has led to lower unit operating costs for TT Line, and it is possible that some of the benefits of these lower costs have been passed on to some passengers through discounted fares.

Figure 4 Percentage Change in the Proportion of Discount Fares to Full Fares, 1995/96 – 1996/97



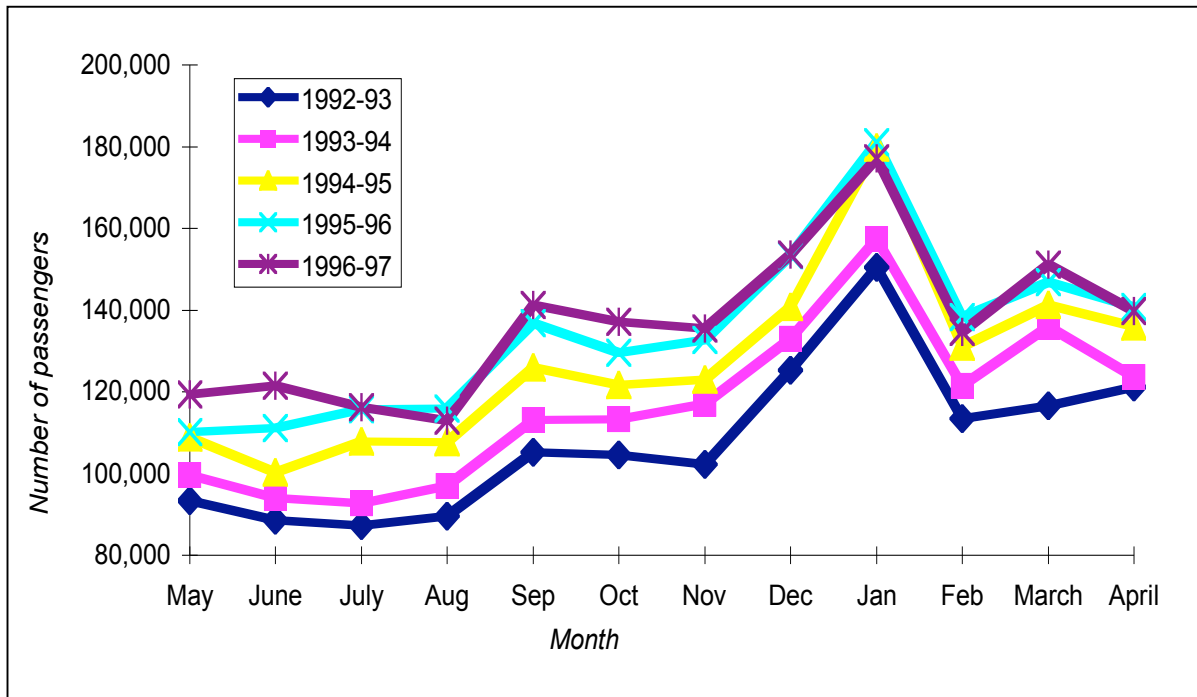
Source TT Line yield management database

Changes in Air Passenger Movements Across the Bass Strait

The reduction in the cost to travel across Bass Strait by sea may have resulted in some consumers switching from air to sea travel. But, at first glance, there has been little effect on total passenger numbers using air services between the mainland and Tasmania, since the Scheme came into effect (AVSTATS, see figure 5). Although much of the May 1996 to April 1997 data (the most recent data available) are provisional or estimates, it seems that traffic flows during this period are roughly in line with passenger movements in the preceding 12 months.

However, this general picture hides changes in passenger movements into and out of Devonport and Burnie for the same period. For example, figure 6 shows how the number of passengers travelling by air between Devonport and Melbourne/Moorabbin for the August to November 1996 period was substantially down on that period in the preceding year. This decline in passenger numbers is particularly so for the period corresponding with the introduction of the Scheme. Although Tourism Tasmania was able to confirm that one airline had commented on a downturn in business since the Scheme's introduction, Tourism Tasmania was unable to provide any additional information to confirm the type of passengers who may have switched from air transport to the ferry.

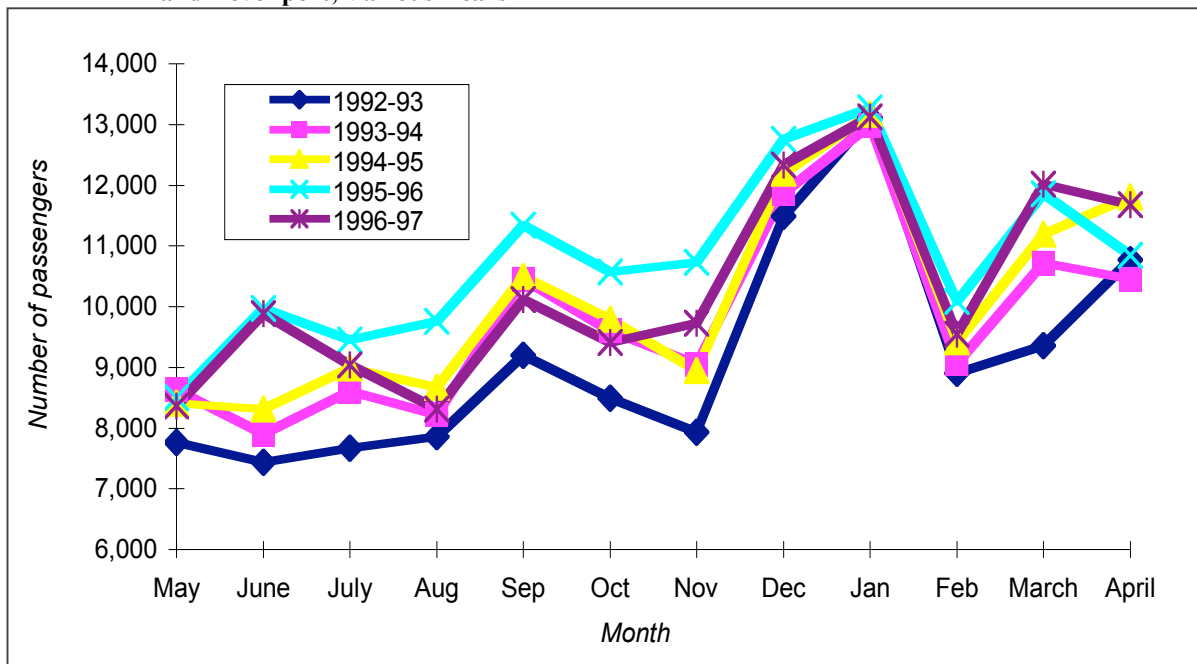
Figure 5 Number of Domestic and Regional Air Service Passenger Between Tasmania and the Mainland, Various Years¹



1. Data for 1996-97 are provisional.

Source AVSTATS

Figure 6 Number of Domestic and Regional Air Service Passenger Between Melbourne/Moorabbin and Devonport, Various Years¹



1. Data for 1996-97 are provisional.

Source AVSTATS

The slight decline in the June to August period (the period immediately preceding the introduction of the Scheme) may have been due to some consumers delaying their travel in anticipation of the introduction of the Scheme, and switching to the *Spirit of Tasmania* when they did travel.

Although some regional airlines may believe they lost passengers to TT-Line, it is possible that little shift in modal demand occurred since total passenger numbers, rather than motor car passenger numbers, on the *Spirit of Tasmania* increased only slightly over the September to November period (see table 5). Additional information about changes in the demand for 'fly-drive' packages would be required if this matter were to be further investigated.

If the introduction of the Scheme did not result in consumers switching modes to cross the Bass Strait, then the matter of what caused the decline in regional air passenger demand would still need to be resolved. This is because it is possible that the factors impacting on the demand for air travel may also have been expected to impact on the demand for sea travel. If this is true, then it is possible that the effectiveness of the Scheme may be understated since sea passenger traffic actually increased.

CONCLUSIONS

Due to the limited period over which the Scheme has operated, this monitoring report finds that it is too early to draw any firm conclusions about the effectiveness of the Scheme. However, the following points are worth mentioning:

- there has been an increase in total traffic on the *Spirit of Tasmania* since the commencement of the Scheme;
- load factors (per voyage) have increased resulting in lower unit costs for TT Line; and
- unit passenger revenues have remained roughly unchanged while unit vehicle revenues have increased by 5.5 per cent.

There is little doubt that the introduction of the Scheme has contributed to the improved financial performance of TT Line. However, it is possible that TT Line has passed on some of the indirect benefits it has derived from the Scheme through increased discounting during the off peak season.

Postscript

It does seem that the increase in demand has been sustained beyond the 1996/97 monitoring period. During the scheduled dry docking of the *Spirit of Tasmania*, the ferry *Incat 045* operated between 13 July and 27 July 1997 (inclusive). This service enabled TT Line to trial the potential use of a high speed catamaran, resulting in TT Line's decision to use such a vessel (*The Devil Cat*) over the peak 1997-98 period.

REFERENCES

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ATTACHMENT I

CLAUSE 16 OF THE MINISTER'S DIRECTIONS FOR THE OPERATION OF THE BASS STRAIT PASSENGER VEHICLE EQUALISATION SCHEME

16.1 A Service Operator who claims reimbursement under the Scheme shall be subject to monitoring by the Bureau.

16.2 The Bureau shall, on an annual basis, monitor the effectiveness of the Scheme, with specific regard to:

- (a) movement in a Service Operator's annual operating costs;
- (b) movement in an Operator's revenue; and
- (c) the number of eligible passengers and eligible passenger vehicles carried per annum by the Operator.

16.3 A Service Operator shall comply with all reasonable requests by the Bureau for information or access to documentation, in relation to the Bureau's monitoring function.