

Spirit of Tasmania Vessel Replacement Task Force Submission

Tourism Industry Council Tasmania

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***Spirit of Tasmania* is the lifeblood of regional tourism in Tasmania.**

One in eight visitors to Tasmania arrive by sea, however these visitors spend more, stay longer, and disperse further throughout regional Tasmania. While arrivals on the *Spirit of Tasmania* account for 12% of all visitors to Tasmania, they contribute 20% of all annual visitor spending and this spending is disproportionately concentrated in regional communities across the State.

Tourism Tasmania's Tasmanian Visitor Survey found that in 2019 the average visitor to Tasmania who arrived by sea stayed 17 nights and spent \$3,200, compared to visitors who arrived by air who stayed an average of 7 nights stayed and spent \$1,700. The value of tourism to the Tasmanian economy is so great, if we considered just visitors to Tasmania who arrive by the *Spirit of Tasmania* as a stand-alone economic sector, it would still place among the most valuable contributors to the Tasmanian economy.

As an island destination, reliable, accessible, and affordable air and sea access to the State has always been a critical priority for the Tasmanian tourism industry.

In 2002 the Tasmanian Government committed to the largest ever expansion of access capacity on Bass Strait with the decision to purchase twin monohull Superfast Ships. *Spirit of Tasmania I & II* have served Tasmania exceptionally well for nearly two decades with a remarkable record of service reliability on one of the most notorious sea-lanes on the planet. For our tourism industry, the *Spirit of Tasmania* service has provided the capacity and certainty of reliable sea access across Bass Strait to facilitate visitor growth that has stimulated investment in new tourism infrastructure across the State.

Since the *Spirits* were introduced, the value of total visitor spending in Tasmania from both air and sea arrivals has grown from \$1 billion per-annum in 2002, to \$2.5 billion in 2019. Annual visitor numbers have steadily grown from just over 500,000 visitors in 2002, to 1.3 million visitors before COVID hit this year. Tasmania's tourism sector has matured, diversified, and developed a reputation for quality and innovation.

While the *Spirits* are not the only reason why Tasmanian tourism has experienced such prolonged success over the past two-decades, they were a catalyst triggering a long run of outstanding growth, investment, and industry success, and the Ships remain at the core of our visitor economy.

For this reason, the Tasmanian tourism industry was looking forward to late 2021 and the expected arrival of the first of two new, much larger, purpose-built *Spirit of Tasmania* ships, heralding another era of opportunity and optimism in our future. This was the timeframe announced by the Tasmanian Government in 2017 for when we could expect the first of two new Ships to arrive in Tasmania as part of TT Line's Vessel Replacement Strategy. It is a timeframe that has been well understood by tourism operators in their forward planning and investment schedule, particularly in regional Tasmania.

Unfortunately rather than planning for the arrival of these new ships and the opportunities they represent, we are today in a state of limbo; Waiting on this Vessel Replacement Task Force to review years of work and millions of dollars of investment by TT Line in determining what vessels they need to grow their service and serve Tasmania well for the next two decades.

This Vessel Replacement Task Force has not called for public or stakeholder submissions. Apart from the Chief Executive of TT Line, the Task Force does not include any tourism industry specialists or expertise.

Replacement of the *Spirit of Tasmania* ships will be the single largest visitor infrastructure investment Tasmania has ever made with profound implications for our industry, and the broader Tasmanian

economy. It is far too important a process for our tourism industry's views and perspectives to not be fully represented and heard.

About Tourism Industry Council Tasmania

Tourism Industry Council Tasmania (TICT) is the peak body that represents and acts for the Tasmanian tourism industry.

The Council is a not-for-profit and non-partisan organisation that promotes the value of tourism in the Tasmanian community. TICT provides a strategic direction and united voice for the sustainable development and growth of the Tasmanian tourism industry and in advocating policy on behalf of the industry.

TICT has a large, representative based board, bringing together various industry sectors. This includes representatives of accommodation and hospitality operators; visitor attractions, experiences, and tour operators; transport operators, ports, and tourism-related industry associations.

It is important to recognise the Chief Executive of TT Line, Bernard Dwyer, is a long-time and much-valued Director of TICT. Over recent years Mr Dwyer has regularly briefed the TICT Board as a key industry stakeholder on TT Line's Vessel Replacement Strategy. He has always declared an interest and excluded himself from any TICT board deliberations about our support for the Strategy, and in forming the positions represented in this submission. Also, in the interests of disclosure, *Spirit of Tasmania* is the major sponsor of the Tasmanian Tourism Awards program delivered each year by TICT for and on behalf of the Tasmanian tourism industry.

Our position:

TICT has been regularly updated by TT Line on the considerable work the company has undertaken over recent years in finalising its Vessel Replacement Strategy.

Our priorities from this critical infrastructure investment are:

- To maintain the reliability and durability of the current overnight sailing schedule.
- To ensure the *Spirit of Tasmania* service has capacity to grow to meet future demand projections particularly over peak travel periods. Specifically, additional capacity on night sailings in the peak visitor season
- To ensure the *Spirit of Tasmania* service remains competitive on price and capacity with the fly-drive visitor market, and other drive holiday destinations across Australia.
- To provide additional low-cost capacity for the domestic Caravans and Campervan market
- To ensure the long-standing and successful overnight freight/passenger service mix prioritises passengers and puts downward pressure on passenger and vehicle fares.
- To provide an outstanding quality, comfortable and reliable sea journey across Bass Strait that enhances Tasmania's reputation as Australia's premier touring and drive-holiday destination.

We are confident TT Line's Vessel Replacement Strategy launched in 2017 achieves our objectives through the following measures:

- Maintains the highly successful nightly crossing service, with capacity for additional day-time sailings as demand grows over coming years.
- Provides significant additional passenger capacity with 43% additional cabins, and 61% additional recliner.
- A 71% increase in Passenger Vehicle Lane Metres (and 39% for freight).

- 50% increase in day longue areas to enhance the day sailing experience.

In information released by the Tasmanian Government in 2017, the Vessel Replacement Strategy is designed to meet passenger and freight capacity demand for the next twenty-years.

Critically, this cited projected growth in sea passenger arrivals to Tasmania from 434,000 in 2016-17, to 558,000 in 2026-27. This growth forecast was clearly central to the decision to expediate the vessel replacement program and have the new Ships in service in the early part of the 2020s.

This growth rate is based on *Spirit of Tasmania* maintaining its market share of forecast visitor growth to the State. In 2018, Tourism Tasmania engaged Deloitte to undertake long-term market forecasting of visitor demand to Tasmania through the 2020s. Deloitte concluded that Tasmania could expect a modest but sustained annual growth rate of 3.9% in domestic visitor demand.

TT Line's Vessel Replacement Strategy is about growing their long-term and successful business model to accommodate this expected growth in visitor and freight demand with newer, larger, and purpose-built ships. We support this strategy because we see no compelling argument why you would depart from what has proven to be such a successful and enduring operating model.

Over nearly two-decades and despite the emergence of low-cost airlines, greater competition and constantly changing travel habits, demand for the *Spirit of Tasmania* service has grown and maintained market share. The *Spirit of Tasmania* service is also at the core of Tasmania's destination brand, as a major investor in destination marketing especially in our largest visitor market, Victoria, where it has very high brand recognition and an overall reputation for reliability and service. The 'Spirits' have also become a critical part of the State's freight network through its high-turnaround overnight service.

TICT has high confidence in the *Spirit of Tasmania* service and believes TT Line are best placed to determine what is ultimately best for their business model and the service they run. For this reason TICT supports TT Line's Vessel Replacement Strategy.

Alternative Vessel Replacement Options:

Over the past few weeks' representatives of three ship builders have reached out to TICT seeking the opportunity to brief us on their respective proposals to the Task Force; They have been RMC, Austal, and INCAT. We are not aware if there are any additional ship builders engaged in this process.

These briefings only really expanded upon information these companies have already made public through their respective public relations campaigns. We have, however, welcomed the opportunity to understand their proposals in more detail, and to share our perspective with them on the importance of Bass Strait passenger transport to the Tasmanian tourism industry. This is an opportunity the Task Force has not provided.

We understand the Tasmanian Government's aspiration is to see a proportion of the procurement contract for the new Spirits awarded to Australian, and ideally, Tasmanian, suppliers.

Two of the Ship Builders advise us they can deliver the Ships sought by TT Line as part of their Vessel Replacement Strategy. It has been well publicised Austal believe they can meet the procurement requirements utilising Australian and Tasmanian labour and suppliers. We assume the Task Force will be fully testing this claim.

The third ship builder, INCAT, are proposing a significantly different model; a purpose-build twin-hull catamaran to complement the existing *Spirit of Tasmania* ships. INCAT Chair, Mr Robert Clifford AO,

outlined INCATs proposal in a Letter to the Editor published in *The Mercury Newspaper* on 10 December 2020.

INCAT are an iconic Tasmanian company and a world leading ship builder. We understand the global market for new commercial passenger ships has been severely undermined by COVID, and INCAT may have a case for some assistance from State and Federal Governments to ensure they can get through these challenging market conditions and continue into the future as a celebrated Tasmanian manufacturer.

Nevertheless, the model INCAT are proposing is radically different to the vessel replacement strategy TT Line developed, that was wholeheartedly endorsed by the Tasmanian Government in 2017. A Vessel Replacement Strategy that has enjoyed our support and confidence for some time.

A third ship, running daytime-only crossings from different purpose-built port infrastructure to the twin Spirits, and with little, or no, freight, is very different to the current *Spirit of Tasmania* service, that underpins the whole business case for the Vessel Replacement Strategy. It is even debatable whether a third Ship could use TT Line's Devonport and Geelong ports, and may need to run from different ports in Tasmania and Victoria.

This raises a whole set of critical questions for us around the substantial costs for TT Line in duplicating crews, establishing, or leasing major new port infrastructure to accommodate a third Ship, and the passenger and freight demand being split across two very different services.

This is a completely different business model for TT Line, and as a key stakeholder in the performance and operations of that company, we have serious concerns about what such a model could do to TT Line's financial performance, and any new risks this could pose to passenger fares and crossing schedules.

INCATs proposed solution does not address the critical issues with the service right now, particularly the current high passenger and freight demand for night-time crossings on the existing *Spirit of Tasmania* ships over summer months. We are not aware of any market research indicating this demand will simply convert over to a daytime catamaran service. To suggest demand will be fluid across two very different Bass Strait services is a critical assumption that needs very careful and credible market testing.

We appreciate modern INCAT vessels are much larger and bare little comparison to the INCAT vessels used on the failed Bass Strait Catamaran services of the 90s. But as an industry we continue to have significant reservations about any serious proposal to again try a twin-hull Ship on Bass Strait.

The 90s Catamaran services were synonymous with poor reliability, schedule delays, and turn-arounds in high-seas, along with sea sickness and the associated brand damage that undermined visitor demand to the State. While accepting the point the ships used then were much different to what INCAT are proposing to build for Bass Strait now, the fact remains to the best of our knowledge there are no applicable sea trail data of a comparable INCAT ship on Bass Strait available to appease our concerns, market testing on demand for such a service, or business case for such a service.

Austral are a competitor to INCAT and clearly have their own commercial agenda. However, they do build both monohull and twin hull ships, and offer that unique perspective as a supplier of both types of vessels. In a letter to TICT in December 2020, Austral CEO, David Singleton, confirmed advice Austral has made to the Task Force that a steel frame monohull ship remains the appropriate solution for the unique sea conditions of Bass Strait. This is also clearly the conclusion reached by TT Line as part of their Vessel Replacement Strategy, supported by the Tasmanian Government.

Surely, the predominant interest of the Tasmanian Government through this process is to ensure we get the best available ships that will service Tasmania well for the next thirty years and will give confidence to our tourism operators and primary producers to invest, grow and create long-term jobs in those sectors of the economy.

Supporting Tasmanian ship builders through short-term challenging market conditions is a very different policy question for Government. If these policy questions converge through this Vessel Replacement process, the State could be left with a very high-risk solution that puts the short-termism interests of protecting ship building jobs in Hobart ahead of the best interests of the tourism and agriculture sectors in regional Tasmania.

Timing of the new Ship Arrivals:

In 2018 the Tasmanian Government announced TT Line had reached agreement with a German Ship Builder, FMC, to deliver the first of two purpose-designed next generation *Spirit of Tasmania* ships in late 2021.

Had that ship builder not fallen into financial trouble, it is highly likely we would be looking forward today to welcoming the first of two new *Spirit of Tasmania* ships in less than 12-months from now. What a boost this would have been to confidence and morale in the tourism industry, and the Tasmanian community more broadly, in looking beyond 2020 and the devastating impacts of COVID.

It is not the Tasmanian Government or TT Line's fault that a ship builder on the other side of the world got itself into financial trouble three years ago. However, there is no denying we are today a long way from seeing new *Spirit of Tasmania* ships in the Mersey River.

Much has been made of the fact that the current *Spirit of Tasmania* ships were designed to serve Tasmania until 2028. This has been a long-standing indicative timeframe for the expected service of the Ships on the current route based on early demand projections and capital replacement programs. This was a fluid indicative schedule, not a benchmark date for the expected life of the Ships.

TT Line's vessel replacement strategy was brought forward in response to passenger and freight demand pressure on the current ships. The vessel replacement strategy was demand-driven to meet strong market conditions and ensure TT Line can meet forecast passenger and freight demand over coming years.

COVID has dramatically disrupted the passenger arm of TT line's business through 2020, but it is our understanding the company's freight business continues to perform strongly. Demand for the *Spirit of Tasmania's* overnight freight service is likely to be choked over the interim period until new Ships are introduced. This has immediate implications for our industry around available deck space over peak travel seasons.

We acknowledge there is uncertainty around any demand projections for passenger travel as domestic tourism recovers from COVID. But there seems to be an argument being made by some that the impact of COVID on tourism is likely to have longer-term ramifications on our industry's growth projections, and accordingly reduces some of the urgency to have these new vessels in place as soon as possible. This is certainly not our industry's view, or the Tasmanian Government's as expressed through our new shared industry plan.

The *T21 Tasmanian Visitor Economy Action Plan 2020-22* is the joint industry-government plan to rebuild visitor demand to Tasmania. The Action Plan was launched in August by the Premier, Peter

Gutwein MP, as Tasmania's destination management strategy to work through the challenges of COVID.

The target of T21 is to restore the value of total visitor spending in Tasmania to pre-COVID levels – or \$2.5 billion per-annum – by FY 2022/23. This is an ambitious but achievable goal, particularly if international travel continues to be compromised. It is a target based on Tourism Tasmania's demand projections corroborated by Deloitte. It also reflects the demand projections of Tasmania's Airports.

If we are genuine in our aspiration to restore the value of tourism spending in Tasmania to pre-COVID levels in two-years, and ensure this growth is shared across regional Tasmania, the decision to delay the New Ships has been a short-sighted one.

It is highly likely a further three-or-four-year delay in the ships arrival in Tasmania will restrain TT Line's capacity to accommodate visitor demand through the first part of the next decade. Stretching the vessel replacement out to 2028 is likely to cause a severe bottleneck on Bass Strait that will severely impede Tasmania's economic growth over the next decade.

Whereas clear timeframes and expectations on the arrival of New Ships was certain to stimulate private investment in new tourism infrastructure across regional Tasmania, any further substantial delay – or an untested 'interim' model for Bass Strait – is only going to undermine investment confidence.

It is our strongly held position this Task Force must finalise its deliberations within the first quarter of 2021 and recommend to the Tasmanian Government that it proceed with an unequivocal strategy and clear timeframe for replacing the Spirit of Tasmania vessels as soon as procurement arrangements can be finalised.

Heralding Our Next Golden Era:

The introduction of *Spirit of Tasmania I & II* in 2002 triggered an unprecedented wave of investment and confidence in the future of Tasmanian tourism, particularly in our regional centres. Long-planned accommodation developments in regional Tasmania were brought forward, towns invested in their streetscapes and visitor amenities, visitor numbers grew, the airlines recognised the untapped market demand to visit Tasmania and responded with their own additional capacity, and ultimately Tasmanian tourism took a giant leap forward.

History has shown every time additional air and capacity is injected into the Tasmanian visitor market this capacity is met with an immediate spike in visitor demand. We have every reason to expect such an opportunity presents with these New *Spirit of Tasmania* ships.

The introduction of such significant additional capacity with the launch of these new ships will put immediate downward pressure on fares, while the additional heightened vehicle deck capacity featured in the new vessel design will make Tasmania far more competitive for a greater slice of the Australian camping and caravanning market. This will directly stimulate investment in visitor infrastructure in commercial accommodation, caravan and tourist parks, and attractions across regional Tasmania, creating immediate construction jobs, and long-term tourism and hospitality jobs.

Maintaining sufficient capacity on Bass Strait to accommodate growing demand is critical for an island destination to ensure we do not become overly reliant upon aviation, which is inevitably going to be experiencing considerable uncertainty over coming years.

As we recover from COVID and the State enters a period of economic uncertainty, confidence in the future of Bass Strait access will be even more critical in facilitating private investment. Beyond COVID,

Tasmania's tourism strategy will return to a sustainable and modest growth trajectory centred on growing visitor spending, reducing seasonality, and prioritising regional visitor dispersal. The New Spirits will be at the core of this strategy, and for this reason we urge the Tasmanian Government to end the uncertainty it has created around TT Line's Vessel Replacement Strategy, and any further unnecessary delay in the commissioning of the New *Spirit of Tasmania* ships.