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**HOUSE OF
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STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

**Reference: Commercial regional aviation services in Australia and alternative
transport links to major populated islands**

TUESDAY, 15 APRIL 2003

KANGAROO ISLAND

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Tuesday, 15 April 2003

Members: Mr Neville (*Chair*), Mr Gibbons (*Deputy Chair*), Mr Andren, Mr Haase, Mrs Ley, Ms Livermore, Mr McArthur, Mr Mossfield, Mr Schultz and Mr Secker

Members in attendance: Mr Gibbons, Mr Haase, Mrs Ley, Mr McArthur, Mr Neville, Mr Schultz and Mr Secker

Terms of reference for the inquiry:

To inquire into and report on:

Commercial regional aviation services in Australia and alternative transport links to major populated islands.

WITNESSES

DHUPELIA, Mr Prakash Himatlal, Managing Director, Kangaroo Island Ferry Services Pty Ltd.... 359
FURNISS, Mr David, Chief Executive Officer, Kangaroo Island Development Board..... 331
KELLY, Mrs Janice (Jacki), Mayor, Kangaroo Island Council 330, 345
LAVERS, Mr John Samuel Anthony, Chairman, Kangaroo Island Development Board..... 331

Committee met at 11.03 a.m.

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Transport and Regional Services in its inquiry into commercial regional aviation services in Australia and transport links to major populated islands. Today's hearing is part of the committee's program of visits to and hearings in various parts of Australia. These visits and hearings allow us to pursue some of the issues raised in the 170 written submissions to the inquiry with the authors of some of these submissions. Some of those present today are part of that process.

We have previously held public hearings in Launceston, Flinders Island and Melbourne. We have had informal discussions in Adelaide and Alice Springs and we have had briefings in Canberra. Yesterday the committee held a public hearing in Adelaide. The committee will be holding another public hearing in Adelaide tomorrow. At today's public hearing we will be hearing evidence in relation to submissions from the Kangaroo Island Development Board and the Kangaroo Island Council. We have also received a late submission which I will refer to later.

[11.05 a.m.]

KELLY, Mrs Janice (Jacki), Mayor, Kangaroo Island Council

CHAIR—We feel very pleased to be here on the island. I call on the mayor to welcome the committee to the island.

Mrs Kelly—Thank you, Mr Neville. It gives me great pleasure to welcome you here today. I have been mayor here for 12 years. I think this is probably an historic occasion for two reasons: one is that I do not think we have had a federal standing committee visit here in my time, although there have been several state committee hearings. The other one is that this is probably the last time this chamber will be used because we will be shifting to new facilities, so that makes things a little historical in that sense.

As you know, Kangaroo Island is a small rural based community of about 4,300 people. As you would have noticed from the flag, it was the first official settlement in South Australia. There were actually other settlements here but they were unofficial and quite colourful. However, we focus back to the first official settlement and this is where South Australian settlement really began. We recognise that government first began in Holdfast Bay six months later when things were not too good here. Kangaroo Island is a wonderful place and I hope that today's visit will not be your last. I know several federal MPs who have, probably with Patrick's urging, been here on more than one occasion. Certainly we have great potential, both in tourism and in the rural sector. These points will be emphasised as the hearing goes along. I do thank you for coming. It is a pleasure for us to have you here and to have the opportunity to be one-on-one in making our points of view.

CHAIR—Thank you, Mayor.

[11.07 a.m.]

FURNISS, Mr David, Chief Executive Officer, Kangaroo Island Development Board

LAVERS, Mr John Samuel Anthony, Chairman, Kangaroo Island Development Board

CHAIR—Welcome. Although the committee does not require you to give evidence under oath, I should advise that these hearings are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Mr Furniss, would you like to make an opening statement of five to seven minutes duration? Mr Lavers can then say something if he wishes. We will then enter into some interaction between you and the committee.

Mr Furniss—Thank you, Mr Chairman. I will give the presentation this morning. It is just a summation of the submission that we sent to you earlier. John Lavers, the chairman, is with me this morning in case there are questions that he can answer. Thank you for the opportunity to speak to you today and welcome to Australia's largest populated island excluding Tasmania, which I believe the federal government regards as a state as opposed to one of the major populated islands.

As the mayor has said, Kangaroo Island was the first settlement in South Australia. Per capita, it is the most recognised international tourism destination outside of the Barrier Reef and Ayers Rock. Twenty per cent of all South Australian international visitors come to Kangaroo Island. The total number of passengers by ferry and airline to Kangaroo Island in the preceding year was 143,500. About 6½ thousand Kangaroo Island residents have used the ferry in the past 12 months and 1,000 have used the airline. The total passenger numbers were 108,500 by ferry and 35,000 by airline. Tourism numbers on Kangaroo Island are in fact 35 times the population. Comparative to Adelaide, this is equivalent to something like 60 million visitors to Adelaide each year. The impacts of that, as you can imagine, are significant, particularly relating to infrastructure, waste services, health services, roads, airports, ports et cetera.

I would like to make a point about a couple of comparisons in our submission relating to the cost per kilometre of ferry services over to Kangaroo Island. The cost per kilometre for the ferry at the time of the submission was \$6.73. In comparison, the cost per kilometre to Fraser Island, Queensland, was \$2, and to Tasmania it was 39c. The cost was 336 per cent more expensive than to Fraser Island and 1,725 per cent more expensive than to Tasmania at the time of the submission. There are no direct international services to Kangaroo Island. With airlines interconnecting with larger airlines at major airports, some difficulties can arise with security arrangements for passengers, baggage and freight handling and the location of the regional airlines at major airports. There is potential, I believe, for interstate flights in future with the significant growth potential of our domestic market, and I will come back to that briefly.

How can the government contribute? The federal contribution is currently limited to supporting Kangaroo Island in an economic sense. There are those who have the view that it should be considered to be a federal highway across the water between Cape Jervis and

Penneshaw. There are opportunities for the federal government to contribute to infrastructure investment funding for ports and the airport. At the moment—council might comment on this—I understand that there is no federal contribution to infrastructure pertaining either to ports or the airport. The government could consider looking at broadening remote tax concessions, health concessions et cetera, because we are a remote, isolated region.

Support to review tax laws that impact on the replacement of aged aircraft could be considered. The government should recognise that there is an obligation to provide air services to remote populated islands. There may be opportunities for capital funding of infrastructure or introducing venture capital opportunities for that to occur. There should be more consideration of matching funds from all levels of government to those infrastructure issues that the island faces. Kangaroo Island's airport is very costly to manage compared with other regional airports. Council would obviously have those figures available for you.

The other thing that currently impacts on the tourism market is the Ansett levy. Because we are a regional destination, quite often passengers pay that levy two or three times because they travel on other aircraft before they get to link with Emu or Rex to Kangaroo Island. That is an impost that we think is untenable for regional airline destinations.

I would like to share with you a couple of statistics in the handouts that I will make available to the committee on the bus tour this afternoon. As for tourism statistics, in 1982-83 there were 56,000 visitors to Kangaroo Island. In 1987-88 the figure went to 70,000. As for the breakdown of that tourism statistic, 41,000 or 58 per cent were South Australian visitors; 19,000 or 27 per cent were interstate visitors; and 10,000 or 14 per cent were international visitors. The interesting statistic is that in 2002-03 we enjoy 143,000 visitors. The recent TOMM data shows that 50 per cent of them are international visitors. So there is a significant shift in the number of international tourists coming to Kangaroo Island as a consequence of it being so well recognised as an international destination. Therefore the contribution that the island makes to the federal economy is significant and growing substantially. So there has been 39 per cent growth in the past 20 years. It is an icon destination, up with the best in Australia. Interestingly, 20 per cent of all international visitors to South Australia come to Kangaroo Island.

From an agribusiness perspective, in 2000-01 the gross food revenue generated from Kangaroo Island was \$50 million. The farm/wharf gate value was \$49 million. The breakdown of that economic figure is that livestock contributed \$31.9 million; seafood, \$10.7 million; field crops, \$5.5 million; and horticulture, dairy and viticulture, \$1.1 million. I would like to point out that those figures substantially increased in the last season. We do not have those figures available at the moment, but right across all those commodity sectors there was a major improvement in commodity values, so the actual value to the economy last year would have been significantly greater than that.

It is also worth noting that there is growth occurring in the aquaculture/seafood industry. We now have opportunities because of our regional quarantining of certain industry sectors—namely, the bee industry and the seed potato industry. There are significant opportunities for growing those industry sectors because of the quarantine capability that we can provide on Kangaroo Island. So I would expect that there would be some substantial growth in some of those industry sectors. The inhibiting factor for growth is clearly the capacity to get

commodities and people on and off the island at a competitive price. That is the summation of the development board's presentation.

CHAIR—Mr Lavers, do you have anything to add?

Mr Lavers—I think David has covered everything. In his last statement he made the most important point of all—the fact that our biggest problem is the cost of doing business on Kangaroo Island.

CHAIR—Thank you for the comprehensive nature of this submission. Although, being the Standing Committee on Transport and Regional Services, we are interested in all aspects of transport—and obviously regional services—our focus today has to be first on passengers and freight and then on three areas. One of those is services to the island. The second is what alternatives are provided by ferry transport. The third is the maintenance aspects of the airport and perhaps the jetties that are associated with that traffic. So that is broadly in our terms of reference. I would be interested to know what your specific ambitions would be for the airport. What level of aircraft can the island take? Can it take a BAe 146?

Mr Furniss—That might be better answered by the Kangaroo Island Council, who have a better knowledge of that. Currently we enjoy the services of Rex airlines, which have taken over the Kendall planes. They certainly do not have any problems flying in.

CHAIR—How many flights a day?

Mr Furniss—Unfortunately the schedule of Rex has changed somewhat since we presented that information in the submission. I understand at the moment we are only seeing two a day with Rex. The main concern with Rex's service is that Rex is very much a point-to-point carrier and does not recognise that this is a tourism destination and, given the information that I provided you with earlier, they are very much about moving corporate business clients. So you will find their current volume of traffic is very low. They are quite often down to three to 10 passengers on some of those flights. Whether that is sustainable is a very concerning question.

CHAIR—What about Emu? What do they fly?

Mr Furniss—Emu is flying a Beechcraft aircraft—a 19-seater—and it also has a second Beechcraft with the capacity to fly regularly as well. It certainly meets the demands of the market and particularly since the issues of September 11 it has maintained a capacity well in excess of what the earlier requirements were. It was flying a lot of smaller aircraft and is obviously keen to replace those with the two 19-seaters. But the level of service from Emu has been excellent for a long time.

CHAIR—What is the return airfare to Adelaide?

Mr Furniss—It depends. Currently, Rex is offering something like \$49 each way, which is fairly interesting, comparatively. I think normally—

CHAIR—That is extraordinarily competitive.

Mr Furniss—You would have to ask for how long that will be sustainable. I think the average airfare is about \$138.

CHAIR—Return or each way?

Mr Furniss—Return.

CHAIR—Even that is pretty good by Australian standards.

Mr Furniss—It is a short haul destination, so the airline tickets are very competitive.

CHAIR—Is it implicit in your statement that you would like to see the airport upgraded?

Mr Furniss—Kangaroo Island Council has a management plan with some proposed upgrading requirements over a period of time, which I think they are currently reconsidering based on the current tourism statistics.

CHAIR—Have you done a study of what type of additional traffic might be available, for example, if you could attract larger aircraft?

Mr Furniss—I do not believe that feasibility has been considered at this point.

CHAIR—You do not just upgrade an airport on a whim and a wisp.

Mr Furniss—No. The upgrades we are talking about were based on a plan that the council can comment on in more detail than I can. It was done some time ago and it is being revisited at the moment. There were a lot of small aircraft requiring apron parking capacity and those sorts of things. Clearly, if Emu is going to two larger aircraft, those sorts of requirements will change.

CHAIR—With this ferry service, is it implicit in your statement that you want a government subsidy on that or do you think it should be opened up to competition to let the market decide what the right cost of a ferry fare is to the island?

Mr Furniss—I guess that is the million dollar question. We clearly want to maintain a quality service across from the mainland to Kangaroo Island. There are those who have concerns about the current costs and who believe that competition would address those issues. Equally, there are other perceptions and positions put that, if you are going to maintain and sustain a quality service, the current arrangements that have been put in place by the state government would deliver those outcomes. So I think there is a consideration that, if you have competition across the water, the obvious requirement is appropriate infrastructure to allow that to happen. Obviously, that is a significant issue that somebody has to address.

Mr SECKER—In your submission, you raise the problem of interconnecting with larger airlines. Obviously, if you book with Qantas to get to Australia, you have to book again and there are no connections for baggage and so on. Do you see that as much of a problem?

Mr Furniss—I think it has probably increased a little bit since Kendell went down. Kendell was a good tourism carrier and was packaging tourism to Kangaroo Island very effectively. It

had a relationship with Qantas for some of those things. We do not have Qantas link connections to Kangaroo Island, so that is one of the disadvantages that we have, given that we are a major tourism destination.

Mr SECKER—I note also that you were talking about health concessions. What sort of health concessions are you looking at?

Mr Furniss—The point I was raising there in particular was that I understand that, in some cases, if people want to get off the island for particular services in Adelaide, they do not get any concession on the boat, but they do get it on the bus on either side. But because it is not recognised as a public transport system, there are some issues there. Perhaps that could be alleviated. I used health, I guess, as a broad comment; other social types of concessions for low income people and other things could perhaps be improved upon.

Mr SECKER—What subsidy do you think would be fair for vehicles coming to Kangaroo Island?

Mr Furniss—I have not put a number on it. Whether a subsidy is the right methodology or whether investment in the infrastructure and in making the service better able to operate competitively and provide appropriate levels of service on either wharf is the right methodology needs further evaluation. At the moment the state government enjoy revenue of about \$0.5 million which they collect as port charges. Interestingly, that goes into general revenue at a state level rather than back into port maintenance or into revenue for council on Kangaroo Island.

Mr McARTHUR—Do they do anything with that revenue in terms of infrastructure improvement?

Mr Furniss—My observation in the three years that I have been here is that there is very limited investment in infrastructure.

Mr McARTHUR—Do you have some plans for them, so they can spend the money here?

Mr Furniss—We have got plenty of plans, but it would be nice to have a federal contribution as well as state.

Mr SECKER—I note that the population is roughly 4,500 and there are about 6,500 ferry trips for KI residents and 1,000 airline trips so you are looking at less than two trips per person off the island. Is the cost of getting on and off the island one of the problems for the residents, even if it is for education?

Mr Furniss—There is a significant social cost. There is an impediment to getting off at a reasonable price; there is no doubt about that. You have to recognise that most people on the mainland would jump in the car and drive from Eyre Peninsula to Adelaide without a second thought. It is very difficult to do that on Kangaroo Island when you want to do it, and it is expensive from a budgetary point of view. If you look at the socioeconomic demographics you will see that the island has a significantly lower income level than some other regional locations. The cost of living on Kangaroo Island is something like 25 to 30 per cent higher than in a comparable rural community on the mainland. That has major implications.

Mr SECKER—Even your clothes and food are more expensive.

Mr Furniss—Absolutely. You also have to appreciate that a lot of our meat products are mainland products coming back to the island. We do not consume local product to the extent that we would like to.

Mr SECKER—Is there any likelihood that the abattoir can get up and running again?

Mr Furniss—There is some uncertainty about that. It is an export abattoir. We were successful in getting it up and running for the last couple of seasons. This season it did not operate. There is a range of issues revolving around that question. It is going to take a concerted effort to make it commercially sustainable. One opportunity would be if it were connected to an export market that was driving the processing. We have something like 60,000 prime lambs going off the island every year but most of those are going through other branded products at Tatiara, in Bordertown Coles or TNR in Murray Bridge.

Mr SCHULTZ—What is the capacity of the abattoir?

Mr Furniss—There are about 70 jobs out there when it is operating. It was only a seasonal abattoir—from about October through to May. I cannot tell you what the total capacity would be, but it is significant. To maintain it at its full production capacity you would have to be bringing livestock from the mainland back here. Obviously, we cannot afford to do that with the current costs of transport. If those costs were down this abattoir could be operating quite happily with mainland livestock coming through.

Mr SCHULTZ—Did it only process lambs—no beef?

Mr Furniss—No, it was purely sheep export—mutton. It wasn't doing prime lamb.

Mr SCHULTZ—Who owns it? Is it privately owned?

Mr Furniss—It has been privately owned by Overland Meat since it went into liquidation three years ago.

Mr SCHULTZ—I am asking these questions because I spent 32 years in the meat processing industry.

Mr Furniss—It was a community owned effort until it went into liquidation.

Mr SCHULTZ—Thank you.

Mr SECKER—The level of tourism has continued to expand, I suppose, despite the costs. Have any estimates been made of what increase you might expect if the tourism costs of getting here were lowered substantially?

Mr Furniss—No. Right now the Kangaroo Island Development Board is in the process of doing an economic analysis report which we hope to have published by the end of May or early June. That is looking at the economic indicators and where the expected growth is going to

come from different industry sectors. We hope that will certainly inform this sort of discussion. I guess it is fair to say that the increase to date has been significant in the international market, as I have indicated, but that is not really inhibited by the current costs. With the current world scenario, there is a huge opportunity to take advantage of the domestic market and we have been struggling to capture our share of that domestic market. As you can see from the figures I have presented, we were enjoying significant domestic tourism some years ago and we have very successfully grown the international component, but I suggest we would have significant growth if we were not such an expensive destination for the domestic market.

Mr SECKER—I think it is probably important for the committee to note that the \$10 Ansett levy which will be removed fairly soon has affected Kangaroo Island because it was always based on \$10 per ticket. If you were going Qantas from Melbourne to Sydney and Perth, you would only pay \$10. However, because you do not have an interconnection with any of the major carriers, it is always a \$10 levy which is a pretty big percentage of the ticket price.

Ms LEY—I am a bit confused about the price of a return fare with Rex. I understand that \$49 is a special offer and I agree that it is probably not likely to last.

Mr Furniss—It is a special offer over Easter, which is even more amazing.

Ms LEY—In determining what level of government assistance might be available for air routes, we need to know how much it is costing people via the different methods of transport. What you described earlier, \$100-odd return, sounded quite reasonable to me.

Mr Furniss—I would have to check that for you. I can give you that information later today, but I suspect it is around \$138 return as a standard. It might be a little behind that by the time you put your taxes and charges on. I would have to double check. Certainly the airline costs comparative to other destinations in regional South Australia are quite competitive from an airline perspective because it is only a short-haul destination.

Ms LEY—So what do you see the federal government doing in terms of support for flying between the mainland and Kangaroo Island?

Mr Furniss—The main issue is the current costs associated with maintaining the airport which the council has to carry on its own.

Ms LEY—What are those costs approximately?

Mr Furniss—The council will be able to give you those details, but the costs are significantly higher as I understand it compared to some other regional airports. However, there is no contribution from the federal government to regional airports and there is an argument that there should be.

Ms LEY—Is there a reluctance by ratepayers to contribute to maintaining the airport?

Mr Furniss—No, I don't believe so. If you look at the proportion of the contribution from rate revenue from 4½ thousand people, I think we have done a pretty good job with such a small rate base.

Ms LEY—I agree that you have. How are the tourists who flock to the island for very good reasons contributing to the maintenance of the airport?

Mr Furniss—By spending their dollars while they are here.

Ms LEY—How can that feed back in?

Mr Furniss—Council does have a small revenue stream from a levy on the airport. As I understand it, they do not have any similar levy on the boat at this point in time. Jacki can give you those details.

Ms LEY—I wonder if that is an opportunity or avenue that might be explored. Is it right that there are over 100,000 visitors annually?

Mr Furniss—Are you talking about through the airport?

Ms LEY—Just visitors to the island.

Mr Furniss—What did I say the figure was?

Mr Lavers—About 160,000.

Mr Furniss—Yes, 143,000.

Ms LEY—What is the best way of getting them to contribute to the regional economy given that you only have 4½ thousand ratepayers?

Mr Furniss—The debate revolves around the fact that the international air traveller probably would not notice if there was an additional \$10 levy collected as a contribution to rate revenue. However, if we are going to grow the domestic market significantly, they are already not coming here, so any additional impost needs to be offset in some other way. You could argue that you could put an additional \$10 on the ferry fare tomorrow and collect that money, but we are finding that growth in the domestic market is not happening to the extent that it could be occurring. It is a matter of getting that balance right.

Ms LEY—Have you noticed a downturn in your visitor numbers over the last year?

Mr Furniss—No, we have not had a downturn.

Ms LEY—Have they gone up, given that people are not perhaps travelling overseas?

Mr Furniss—There have been increases occurring in the domestic market as a result of September 11.

CHAIR—You are very lucky if that is the case, because I think just about every other part of Australia has experienced a downturn.

Mr Furniss—We are certainly not seeing the same impacts that other destinations have seen, although there would be some businesses which have relied heavily on the American or international market which would be suffering quite dramatically. So it does vary.

Mr Lavers—It depends on which way you look at it. I run a tourist business which predominantly—90-odd per cent—involved international visitors. After September 11 that completely collapsed but it was replaced by the domestic market. So we had Australians holidaying on Kangaroo Island in place of overseas visitors.

Mr SCHULTZ—To what extent? What percentage?

Mr Lavers—Quite considerable. Our percentage of international visitors went from about 90 per cent to 50 per cent, and some of that was picked up by the domestic market. But the Japanese, for example, very simply stopped coming. We are very much a micro business. We had \$10,000 worth of cancellations in the first week after the bombing. If you equate that to what was experienced by bigger businesses, you can get some idea of what happened.

Ms LEY—Does the development board see a need to upgrade the airport? That has obviously been canvassed slightly this morning.

Mr Furniss—We are waiting to see the response to reviewing the management plan. There certainly need to be some improvements out there. Some of the proposed improvements may need to be put on hold because of the changing nature of aircraft. There might be some things that can be deferred or not occur quite as early as originally anticipated. Obviously that needs to be considered against the projections that are being looked at at the moment. I am not sure exactly what those proposed improvements might look like but at the moment the problem is that the ongoing costs associated with both capital investment and maintenance of the airport are resting with a council which has a limited revenue base of 4½ thousand ratepayers. So that is a major struggle. In terms of the ports, it is an even bigger issue.

Mr SCHULTZ—I have noticed over the years that where you have two airlines operating into a small tourism destination and small community like Kangaroo Island it is only a matter of time before one of them folds because of the competition. Having said that, do you think that is likely to occur? What do you think the chances are of the remaining operator being able to sustain the airfare that is currently being offered? Given the demand by the community on the ferry system, is there potential for increasing the passenger carrying capacity of the ferries by introducing another service? What would that do?

Mr Furniss—I have to remember all those questions. Regarding the first one, I think there is some real concern about the sustainability of the two airlines. As I suggested earlier, Rex is very much a point-to-point carrier and not fully appreciative that this is a tourism destination and there is a question about their capacity to keep flying just servicing the business corporate market, particularly when they only run two flights a day which are not necessarily convenient. Most of the people who do business on and off the island use Emu because they can get a full day of business in Adelaide and get home at 8 o'clock at night. You cannot do that with Rex, so there are some issues there. When you are at the airport on your return this evening, you will see the history of the turnaround of different airlines over the years on Kangaroo Island, so I do not think that is necessarily going to change.

In answer to the second part to your question, Emu Airlines without a competitor would no doubt be raising their fares significantly to start to make better profitability than perhaps they are presently making. I have no doubt that it is only the competition which is maintaining the sorts of levels we enjoy at the moment.

Mr McARTHUR—What if the competition wipes both airlines out?

Mr Furniss—There is a possibility of that, but at the moment Emu have, particularly with their two Beechcraft, the capacity to meet the demand for the island. But the concern would be, if they do that, to what level the prices might go.

Mr SECKER—Are they both 19-seaters?

Mr Furniss—Yes.

Mr SECKER—So they are not using the small ones any more.

Mr Furniss—They are using them. I am not sure whether the second Beechcraft is on the service all the time. They have got a second one that is being used occasionally.

Mr McARTHUR—Given these smaller airlines in the outlying regions of Australia tend not to be profitable and the statistics indicate a lot of bankruptcies, what would be your attitude to their pricing and ensuring they remain viable?

Mr Furniss—I have no doubt that for Emu to be a sustainable airline and if it were the only airline to deliver to Kangaroo Island, it would need to lift its pricing structure somewhat.

Mr McARTHUR—On behalf of your group, are you anticipating that to keep the airline viable?

Mr Furniss—We do not have any control over private enterprise as to whether we keep them viable or not. That business has not necessarily been making profits or any significant profits for some time and would be no different to most other regional airline services around Australia.

Mr SCHULTZ—Or there could be other relief for the operators by reducing the taxes that are being imposed on them at state and federal level to keep them viable. If I could just go back to the issue of the ferry: what sort of a subsidy in terms of dollars do you think there would need to be in the way of a contribution from the state or federal governments to (a) attract more passengers and (b) keep the ferries viable?

Mr Furniss—I do not know if I could give you a specific figure. We have not done the research to come up with a number which would be appropriate if you were going for a straight subsidy. As indicated earlier, there are significant in costs of port charges currently which do not go back into the revenue here or into maintenance of the current infrastructure.

Mr SCHULTZ—Those port charges are a state charge, are they?

Mr Furniss—They are a state charge of around half a million dollars which goes back into general revenue.

Mr SCHULTZ—What level? What sort of charge are they hitting them with?

Mr Furniss—Half a million dollars annually.

CHAIR—What port authority do you come under?

Mr Furniss—Transport SA is the—

CHAIR—You do not have a regional port authority.

Mr Furniss—No. When the South Australian government sold all their port infrastructure, Kangaroo Island argued to maintain the ownership of Kangaroo Island's wharves and Penneshaw in state ownership. All other ports around South Australia are now privatised under the Ports Corp. Penneshaw, Cape Jervis, American River and Kingscote have been maintained under Transport SA.

Mr SCHULTZ—I am not sure whether you commented on this before but, getting back to the ferry fares and the differences between the fares to Kangaroo Island, Tasmania et cetera, have you done or are you doing any surveys on what needs to be done to adjust them back to somewhere within the price range of other ferry services?

Mr Furniss—This economic analysis study we are currently doing is looking at what the economic impact would be if we had a variety of models in place—in other words, if we reduced the current cost by 50 per cent, or if we removed it or if we reduced it by 25 per cent. That is part of this study that we have commissioned.

Mr SCHULTZ—What impact is the ferry service price and the airline price having on the local community moving backwards and forwards to the mainland?

Mr Furniss—That was the question that was raised earlier by Patrick. There is certainly no doubt that there would be a significant increase in local movements on and off the island if the rate was significantly less. At the moment the average is about two trips per person per year. Clearly there are those at the higher level of income who are probably getting on and off the island quite frequently and then there would be others who probably only get off once, if at all, so it varies depending on the income of the individual families. It is a significant impost, compared to jumping on a ferry across the River Murray, which does not cost you anything.

Ms LEY—You can probably walk across in some parts at the moment!

CHAIR—We have to wind up soon so we have time for just a couple more questions.

Mr GIBBONS—I have just come over on the ferry. Why does the ferry go to Penneshaw and not on to Kingscote? Kingscote is the major regional centre, with all the accommodation.

Mr Furniss—The short answer is that it is the shortest patch of water. From a cost of operation perspective, I suspect that is part of the consideration as to why they run between Penneshaw and Cape Jervis.

Mr GIBBONS—Would you have any idea of the time it would take if it were to go from Cape Jervis direct to—

Mr Furniss—The additional time? It would depend on the type of boat. Prakash, who is here, is as one of the proponents looking at a different service from just up from Cape Jervis to American River and Kingscote, so he could probably give you that information.

Mr GIBBONS—The existing journey is about 45 minutes.

Mr Lavers—The boat only does 10 knots, so you are going to add another hour plus.

Mr SECKER—If you look at the map, it would roughly be two hours versus 45 minutes to go from Cape Jervis to Kingscote with the present boat.

Mr Lavers—David is right: the original developers of the ferry were the March family, and their vision very simply was: the shortest possible crossing was the most economical.

Mr Furniss—On a rough day you would prefer it to be short rather than long!

Mr SECKER—How was it this morning?

Mr GIBBONS—Very enjoyable.

Mr McARTHUR—You talked about the airport. Have you got a view on whether the airport should be upgraded to accommodate your large and increasing number of international tourists? I mean upgraded to take a different type of aircraft.

Mr Furniss—I guess that is something that needs to be considered. Obviously that would need to be off the back of a carrier being interested in providing the service, so it is a chicken and egg thing. It would seem to me that there is scope for direct carriage of internationals from Sydney or Melbourne straight to Kangaroo Island. What type of aircraft would be required to do that I guess is the next question.

Mr McARTHUR—But you have not developed any particular arguments on that?

Mr Furniss—Not at this stage.

Mr McARTHUR—What is the relativity between land values and incomes on Kangaroo Island, with your isolation, and those on the mainland?

Mr Furniss—In terms of the rural landscape, I guess land values have improved significantly over recent times. The other thing that is driving land values on the island is the same as in every other coastal destination around Australia, so there has been a significant investment by

off-island investors in holiday homes and anything coastal. Land values, depending on whether you are talking about unique coastal properties or inland, have increased quite significantly.

Mr McARTHUR—Are you saying there is no real disadvantage to the fact that you are an island?

Mr Furniss—The disadvantage is that if you compare the land value of a 30-inch rainfall property at Parndana to one in the Adelaide Hills, it would probably be half—that is at this stage. In that comparative sense, it is still nowhere near the same per acre as what it would be on the mainland.

Mr McARTHUR—Do the relative real estate values reflect the isolation and the inaccessibility?

Mr Furniss—Absolutely.

Mr SECKER—And the extra cost of getting to the mainland?

Mr Furniss—Yes, the cost of doing business on the mainland obviously is reflected in the land values.

Mr McARTHUR—Is it about the right reflection or is the real estate boom hitting here as well?

Mr Furniss—The real estate boom certainly has been hitting here in recent years. You cannot get rental housing very easily on Kangaroo Island at the moment because of the significant interest in tourism investment properties. We are seeing the same sorts of increases.

Mr McARTHUR—So everything is going pretty well and you probably do not need a subsidy.

Mr Furniss—It depends on what you are talking about subsidising.

CHAIR—I have one final question. You said you have plans and that you are doing this study. Have you made application for funding from schemes like RAP?

Mr Furniss—We managed \$3 million worth of government programs last year and a lot of that is a mixed bag of state and federal grants. We did have a crack at some Regional Solutions Program funds two years ago, and we were not successful. That was rather disappointing when other regions around Australia were enjoying \$3 million or \$4 million Regional Solutions Program funding. We were a bit disappointed about that. I understand those are all being rebadged at the moment, so we are waiting with interest to see what the Regional Solutions Program and RAP might look like come 1 July.

CHAIR—What was the application for?

Mr Furniss—It was to look at some of these bigger infrastructure planning issues across the island, as has been done in some other regions. We were not successful; we got \$10,000 instead of \$250,000.

CHAIR—Thank you very much for your evidence today. You will receive a copy of the *Hansard* draft, which you should check for accuracy. Once again, thank you for attending today and I am sure these island communities will play a significant part in our recommendations.

Mr Furniss—Thank you very much for the opportunity. We will see you on the bus this afternoon.

[11.53 a.m.]

KELLY, Mrs Janice (Jacki), Mayor, Kangaroo Island Council

CHAIR—I welcome to the table the representative from the Kangaroo Island Council. Is your title councillor?

Mrs Kelly—No, I am the mayor.

CHAIR—Do you use the title ‘councillor’?

Mrs Kelly—No.

CHAIR—Okay. As I said to the previous witnesses, you are not required to give evidence on oath, but these are proceedings of the parliament which warrant the same attention that would be given to a proceeding of the House itself. I have to caution you that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Would you like to make a five to seven minute opening statement? We will then break into questions.

Mrs Kelly—Yes. I would like to thank the standing committee again for expanding their original brief to include other transport links besides aviation services. I thank our local member for that, too. I also want to express my appreciation that the hearing is being held today. As has already been pointed out to you in other submissions, Kangaroo Island is the third largest island off the coast of Australia, measuring approximately 155 kilometres in length and 55 kilometres at its widest point. The population of Kangaroo Island is 4,300 and we have a rate revenue base of \$2.7 million. The economy is rurally based, with a strong focus on tourism—that is our growth industry—and we have a significant export contribution from the harvesting of crayfish which I think is worth about \$10 million.

Both the air and sea routes are vitally important to the residents and economy of Kangaroo Island. They are, in fact, our lifelines. Because of their importance, the former Kingscote Council, on assuming ownership of the airport, made sure every step was taken to operate it in a way that made the airport a stand-alone business which did not have to be funded by the ratepayers but was still in a position to provide the best possible service to the public. There is a landing fee, and for the first 12 years it was \$4. This month we have raised it to \$5, which compares fairly well with the rest of Australia as far as landing fees go.

With the airport, council wish to create a sense of arrival for the visitor because of our tourism, including the international tourism. We wish to upgrade the present terminal, where the facilities really are stretched to the limit at peak times. We have plans to do that and we will go down that path in a staged manner to try and implement those plans. You have probably seen some of the plans out at the airport, or you will, but you could have a closer look here at what we propose and the stages that we are going to do it in.

Council's strategic plan identifies this need and it is based on the master plan for the airport. We have got a master plan, which looks at future possibilities and future expansion, and it looks at how we can make use of the facilities out there to generate income other than passenger levies. We cannot see that we can sustain using just passenger levies for continually maintaining and improving the airport. The charges have meant that we have been in a position to properly maintain our facilities and continually make improvements to services. For example, we have been recognised in this state with a risk management award and we have also been recognised in the past as being the best regional airport in Australia. That is because of some of the things that we have been able to introduce to do with risk management.

While we have carefully managed the finance to cope with the present and future requirements of this service, we now find ourselves in a position where it will be difficult to improve infrastructure and services without raising fees. The inability to make these improvements means that there would be an impact on travellers, and it would act as a disincentive to the future of our tourist industry, which comprises more overseas visitors than anywhere else in South Australia. The steps taken by the federal government to impose a \$10 levy on passengers to subsidise the former employees of Ansett has, in my view, been an unjust burden for the people of regional Australia to carry and it must be removed immediately, especially since it is my understanding that the entitlements of the workers have been met. Research has shown that the success of our tourism industry has beneficial results at both state and national levels. For this to continue, income needs to be generated in additional ways to supplement the passenger levies. I believe the responsibility for this does not rest with Kangaroo Island alone.

Our other vital service is the sea service across Backstairs Passage. It is this service which carries almost all the freight and the majority of passengers, both local and visitors. For some time now, the Kangaroo Island community has been lobbying state and federal governments to recognise the crossing from Cape Jervis to Penneshaw as being a continuation of the road network. It is our opinion that the situation is no different to crossing the River Murray on a bridge or punt, which is all free of charge to users. The cost imposed by government—the wharfage, which is approximately \$500,000 per annum—is a cost that flows on to the passengers and the movement of freight.

Penneshaw is the gateway to Kangaroo Island, with 300,000 to 400,000 passenger movements per annum. As with the airport, there is no real sense of arrival. Infrastructure funds are needed to improve all entrance ports—air and sea. Passenger facilities at Penneshaw are appalling, with no shelter and only basic toilet facilities. This is how we introduce overseas visitors to a destination promoted as a nature based experience with an environmentally friendly rural aspect which includes niche products that are peculiar to Kangaroo Island. The emphasis is that tourism is important to the economy nationally, and our limited resources cannot provide the funds necessary to provide those facilities that would make us proud to bring people to Kangaroo Island. The charges with the wharfage are directed into Treasury funds and become part of general revenue. This in fact is an additional tax that is imposed on the users of the SeaLink service and one which does not apply to any other roads, bridges or punts. I believe that everybody who uses that service, wherever they come from, is paying an additional tax that does not apply to anyone else in Australia.

I would also point out that on Kangaroo Island we have 1,300 kilometres of road, of which approximately 112 kilometres belong to Transport SA. The remainder are the responsibility of the Kangaroo Island Council. The taxpayer who resides on Kangaroo Island still contributes to costs on the mainland, even though we have minimal use of those facilities. It does not seem unreasonable that the support of infrastructure requirements should be a responsibility of government without additional money being required from individual users. Further to this, I would like to make you aware that the residents of Kangaroo Island do not have the benefit of pensioner concessions for travel that are available to all other social security recipients on the mainland. Once again, this is an inequitable situation.

As with the airport, the activities of sea transport have benefits that are not solely in the interests of the community of Kangaroo Island. Tourism, which makes up a large component of the passenger numbers, has national implications. The moving of product from the rural sector is likely to continue to increase with the advent of production of more grain. The Kangaroo Island harvest last year was a record result, and that is likely to continue in the future. With commodity prices for meat and wool greatly improved there will be an increase in production which will consequently mean more freight. I might just add here: why do we live on Kangaroo Island? Why do we farm on Kangaroo Island? Because we do not have droughts. We do in fact have dry years. Last year was a dry year, yet we have moved off a record grain harvest. For that reason alone, I think we are worth supporting. We are always going to be producing product here.

New industries, such as viticulture and forestry, will also bring their own demands on sea transport, but to be competitive and to realise their full financial potential there needs to be consideration by governments at all levels to encourage development and to give real support to ensure that this happens. This will be achieved by the removal of levies and charges to give equity for the uses that apply to mainland producers. While we recognise that living on Kangaroo Island is our choice and there are many reasons why we do so, there are also many reasons at both a state and national level why we should receive the same support that is given to mainland communities and industries. There is an economic benefit for us all. Thank you. That is probably all I would like to say.

CHAIR—Thank you, Madam Mayor. You say that about 150 kilometres of your road system is maintained by the state government.

Mrs Kelly—It is less than that—about 112.

CHAIR—As I understand it, there is a principle—we met a similar circumstance on Flinders Island—that, in lieu of the fact that you are not on a state highway, the major artery through the island is supplied by the state government as if it were a state highway. Do they maintain more than the main artery through the centre? Do they maintain a number of roads?

Mrs Kelly—No, they maintain the roads between our major townships only. It is not a road that goes through the centre.

CHAIR—But that would be no different from what occurs on the mainland—in fact, that would probably be slightly better than what occurs on the mainland.

Mrs Kelly—You might be right, but I am really trying to point out that the majority of roads over here have to be maintained by the council, which is our responsibility. We have very limited road making material to do that. It is a very costly exercise, and the maintenance is one of the greatest expenses that the council has.

CHAIR—I see.

Mr McARTHUR—What do you make in revenue—the total income of the council, just to help us?

CHAIR—It is \$2.7 million.

Mrs Kelly—The rate revenue is \$2.7 million.

Mr SCHULTZ—What percentage of that, or what figure, is being spent on maintaining roads on an annual basis? What is your allocation?

Mrs Kelly—I cannot tell you that offhand but I think we would be looking at something like \$200,000 at least just on grading roads—just to maintain a surface to travel on—without talking about the costs of resheeting. Certainly, with resealing roads you are looking at, at least \$100,000 to seal a kilometre of road over here—probably more.

Mr SCHULTZ—I have some sympathy for what you are saying with regard to your road maintenance, and I ask this question in the knowledge that there are difficulties for isolated communities such as yours. Do you believe that, because of the uniqueness of communities such as yours in terms of a lack of road making materials et cetera, there should be in the FAGs, the financial assistance grants, a special component for isolated offshore communities such as Kangaroo Island?

Mrs Kelly—Yes, I do.

Mr SCHULTZ—Did you successfully obtain funds from the Roads to Recovery program?

Mrs Kelly—Yes, we did have money from Roads to Recovery.

Mr SCHULTZ—How much did you get?

Mrs Kelly—It was \$400,000.

Mr SCHULTZ—And that would allow you to—

Mr SECKER—That is extra?

Mrs Kelly—Yes.

Mr SECKER—It was a 118 per cent increase.

Mr SCHULTZ—Yes, but that was over a four-year period.

Mrs Kelly—It was, yes.

Mr SCHULTZ—\$400,000 over a four-year period to do what you wanted to do. What mileage of upgrade or laying down of bitumen would that \$100,000 a year allow you?

Mrs Kelly—One kilometre.

Mr SCHULTZ—I think that says it all. Thank you very much.

Ms LEY—I am getting the sense that Kangaroo Island is doing very well. Your visitor numbers are up, and the regional economy is doing well. The main problem, therefore, does seem to be your infrastructure funding and, in connection with that, the airport. Can you give us a better sense of what is involved in the airport maintenance upgrade? I know you said you wanted it to have quite an entrance, and I understand and appreciate that you want to create a bit of something for when international visitors and others arrive. Without going into great detail, just what does it entail?

Mrs Kelly—We would like to replace the terminal, provide better facilities for passengers on arrival—toilet facilities and so on—and create a better way of shifting baggage from one point to another. We would also like to make it a place that sells niche products and all of those things on which we base our tourism. That is one issue. Certainly, over the years, with our \$4 levy we have until last year had enough money to put away in a fund, which is used, as I said, solely for the airport. That provides us with the basis for going on with that sort of thing.

Mr SECKER—So you have a stand-alone type thing?

Mrs Kelly—We have. It is a stand-alone fund; it is a stand-alone business. But the cost of upgrading the airstrips is considerable, so we really cannot afford to spend all that money that we have—

Ms LEY—On the terminal.

Mrs Kelly—Yes, that is right—and that is really where we need help.

Ms LEY—I am not sure—others might know—but I think the landing fees at my home airport are at least double yours, Mrs Kelly.

Mrs Kelly—Yes, I know that they are. We have tried to keep them at a reasonable level so that we can manage—

Ms LEY—They might be too reasonable.

Mrs Kelly—Yes.

Mr SECKER—It is \$7 at Port Lincoln and \$5.50 at Mount Gambier, so yours is quite reasonable.

Ms LEY—But you should not just be looking at South Australian landing fees but at Australian ones generally regarding visitors coming here.

Mrs Kelly—Can I say something about airfares? I think the committee might have been given the impression that they are very reasonable. In actual fact, they are not. Certainly there are special fares like this \$49 Easter fare. If you travel on Rex, yes, you can get \$130 fares if there are seats available and if you are travelling at a particular time. You can get a cheaper fare if you are coming from the mainland but you are a friend or a relative. There is a range of fares. In actual fact, the fares are usually in excess of \$160-odd. If you went to make a booking with Rex, you would find, without any of those other options being in place, that the fare would be quite considerable. So it is not a cheap place to come to.

Mr McARTHUR—The fact is that most of these regional airlines around Australia have gone broke. If you are not careful, both of these will go broke, too. What do you say about that?

Mrs Kelly—I know it is difficult. We have had airlines that have gone broke. I do understand that. I am not saying they should not be charging that fee. I am saying that it is not cheap to come here. The fares quoted earlier gave a false impression; that is really what I am saying.

Mr McARTHUR—Is it cheap or costly? Are you saying that the fares are too costly or are you saying that—

Mrs Kelly—The fares are costly. It is not for me to say whether they are too costly but they are costly; there is no doubt about that.

Mr McARTHUR—There is a good reason for that, isn't there?

Mrs Kelly—Reasonable? No, I do not think they are, actually, for the distance that we travel.

Mr McARTHUR—If these regional airlines are going broke—and some figures were given in evidence yesterday indicating that there were very few left—from the local community's point of view you would be happy that you have two airlines at the moment. History would tell you that their viability might be questionable.

Mrs Kelly—I cannot argue with the figures that you have.

Mr SCHULTZ—You are saying that the level of fares are a disincentive to attracting people to come to Kangaroo Island.

Mrs Kelly—They certainly are.

Mr SECKER—Also for local residents.

Mrs Kelly—For local residents, too.

Ms LEY—More so for local residents.

CHAIR—Let me get that clear: is it \$130 each way or return?

Mrs Kelly—No, that is return. What I am saying is there is a great variation in ticket prices.

CHAIR—What is the standard fare if you rock up to Adelaide Airport, you are not booking in advance and you are not getting a special deal? What is the standard rack rate?

Mrs Kelly—It would be at least \$170.

Ms LEY—Return?

Mrs Kelly—Yes.

CHAIR—Mr Furniss has indicated from the gallery that the Rex rack rate is \$173 and the Emu rate is over \$200. I can understand that everyone wants the cheapest method of transport to their island. What would you be asking the committee to do? What would you feel we could do to assist you? Would you like to see a recommendation that island airports be given special consideration in terms of upgrades? For example, if you could take 80-seat aircraft connected to the Qantas system, you would probably attract a lot more tourists. Is that what you are looking for? Are you looking for a subsidy on ferry services? I am not quite sure what you want.

Mrs Kelly—I do not like to talk about subsidies, to tell you the truth. I do not believe we should be looking for subsidies on the ferry service or any other service, but I do believe it would be very beneficial for communities such as ours if there was funding that we could access to help to improve the infrastructure at both the airport and the ports. I also believe there needs to be some consideration given to pensioner concessions. Like any rural community, we have an ageing population and there are people who come over here to retire.

CHAIR—That is largely a state matter—not that we are trying to duck the issue.

Mrs Kelly—I understand that as well, but it is still an issue, I think, that needs to be put up there for people to realise.

Ms LEY—And the \$500,000 wharfage fee is, of course, going to the state government?

Mrs Kelly—It is going to the state government.

Ms LEY—In theory, they could return some of that in the form of pensioner concessions.

Mr SCHULTZ—Is that wharfage figure per vessel?

Ms LEY—It is annually, I think.

Mrs Kelly—That is just annually. There is only one vessel using the port, anyway. I agree with what you are saying.

Mr SECKER—That would reduce the \$5 fee.

Mrs Kelly—Yes. Perhaps that money could even be returned to the island for infrastructure maintenance and improvement. Whatever we do, whether it is state or federal, I actually believe in partnership programs. That is really what I am talking about. If there was funding that could be accessed by regional communities to help to improve and maintain those services, I think it would be of great benefit.

Mr McARTHUR—Have you made strong representations about the half a million dollars in port charges that the state government takes from you?

Mrs Kelly—Certainly been there!

Mr McARTHUR—What is the response by the state government?

Mrs Kelly—Fairly silent.

Mr SCHULTZ—What is your state member saying?

Mrs Kelly—He is on holidays at the moment, I think. No, I do not mean to be facetious. He was with us when we made our presentation, and it is just something that we will keep presenting until there is some answer to that problem.

Mr McARTHUR—I want to pursue this airport issue. I wonder whether there would be an argument that the federal government might fund an upgrade of the airport in terms of the landing surface and the facilities in order to attract more international tourists. I gather your international tourist trade is of a high order.

Mrs Kelly—It is of a high order. I think that would have tremendous benefits for everybody.

Mr McARTHUR—Could you mount an argument? What was the position before? Did the Commonwealth own the airport?

Mrs Kelly—The Commonwealth owned the airport.

Mr McARTHUR—Did you argue against the Commonwealth giving the airport back to local government?

Mrs Kelly—Actually, it happened just before I went on council. It was resolved some years ago, but we did assume local ownership in 1991 when I became mayor. Honestly, I believe the federal government was quite generous at that time. They certainly gave us a cushion of money for maintenance, and I think that has to be recognised.

Mr McARTHUR—It was a short-term proposition, though, wasn't it?

Mrs Kelly—It was. I think, really, as far as airports go, we have managed it extremely well. We are probably more fortunate than some other regional areas because of tourism.

Mr McARTHUR—We heard evidence yesterday that the Mount Gambier airport is clearly becoming obsolete in terms of the use of bigger aircraft. Do you see your airport reaching a similar situation?

Mrs Kelly—Becoming obsolete?

Mr McARTHUR—Not developing its capacity. In the case of Mount Gambier, some of the runway needs renewing. Do you see a similar problem here?

Mrs Kelly—Eventually it could happen that way. I think we have the capacity to improve and lengthen runways and so on. But it is a question of whether we have the total finance to do that. That is the question, and that is really where we would be looking for help.

Mr SECKER—What size of planes can come to the island now?

Mrs Kelly—I cannot tell you that. We should really have had our airport manager here, but he is on sick leave. Certainly, there have been some bigger planes than Saabs flying in on the odd occasion. I think that now we can accommodate something bigger than we have got. We have the capacity to lengthen runways and so on, as well.

Mr SECKER—At a considerable cost.

Mrs Kelly—Yes, at a considerable cost.

CHAIR—The member for Kalgoorlie has been trying to put his oar in here a few times.

Mr HAASE—I have been deferring to the local member, Chair. As a consequence, all of my questions have been asked. Nevertheless, there are a few things I would like to flesh out, if I may. You are making a case—in fact, a lot of the evidence we have received this morning is a case for subsidy by government. Amongst other things, you have mentioned the apparent high cost of travel. The issue you have with pensioner travel—the lack of it, for instance—is definitely a state public transport issue. You need to be more vehement in your lobbying. Camp overnight on their doorstep or something, because, if you do not have that facility, it is clearly anomalous. It is not an area the federal government needs to be involved in; it is a state situation.

A lot that you have been speaking about implies that you have not yet done some of the basics. It may not have been specifically your evidence—it may have been evidence given before yours—but there has been talk about the question of international travel and what the future might be for use of the airport if it is upgraded. Is there no system of ongoing scrutiny of tourists' reaction to their experience on Kangaroo Island? The direct question is: what is happening?

Mrs Kelly—Yes, there is—absolutely.

Mr HAASE—What is the impression of their stay and the economics of their stay? What is the satisfaction level with costs et cetera of those international visitors?

Mrs Kelly—It is very high. If you can bear with me a minute, we have a measuring tool, and it is called TOMM, the tourism optimisation management model. We continually run surveys of visitors. We have tourist exit surveys and one survey a year for island people. That is what actually gives us our figures. The through airport figures that we are getting are very accurate. We also ask about their satisfaction and it is very high. I think it puts the case for the benefits that flow to the state, and to the nation as well. There are people who come to Australia especially to come to Kangaroo Island. That has been evidenced and it is the sort of information we are able to pick up through the surveys.

Mr McARTHUR—What percentage of your visitors would be in that category who specially come to Kangaroo Island?

Mrs Kelly—I cannot break it down to that.

Mr McARTHUR—Would it be 10 per cent of your international visitors?

Mrs Kelly—It could easily be that. We do get a lot of people from America and Europe who fly out direct to come here and go on four-wheel drive trips.

Mr McARTHUR—They know about Kangaroo Island?

Mrs Kelly—They know about Kangaroo Island. The master plan for the airport, which we have continually upgraded, predicts how we will manage the airport with the predicted increases in tourism and so on. So, yes, we have that basic work in place.

Mr HAASE—From the evidence that has been given and from the written information in both submissions from the island, my impression is that you are very fortunate to have some of the potentials that you have. Clearly, the impost of an additional \$10 when you are not linked to any of the other major servers is an anomaly that ought to be addressed. I believe that there is some anticipation that that will be addressed by a number of us who have regional responsibilities.

When you speak of the cost of the ferries, it strikes me that the comparative cost of a ferry from the mainland to Kangaroo Island is more per sea mile than any other and the immediate way of reducing that would be to spend a couple of hours at sea, travel more miles and reduce the cost per mile. I see no logic in the fact that it is the dearest per sea mile. Obviously, the cost of the ferry is X—and I am sure we are going to hear more about the cost of ferries today—but given the introduction of the diesel fuel rebate, which was offered federally for marine operators, has there been any reduction in the fare from the mainland to Kangaroo Island? That rebate approximately halved the cost per kilometre of travel. Was there any local appreciation of a reduction in price?

Mrs Kelly—Not that I am aware of. But I would like to make the point that the longer you spend on the sea, the more expensive it is.

Mr HAASE—That seems irregular to me.

Mr SECKER—It has to be more expensive. It might be less expensive per kilometre, but it is still going to be more expensive.

Mr HAASE—That is right; it is less expensive per kilometre. So when one presents evidence that says that the trip from the mainland to Kangaroo Island is very expensive per sea mile, the most expensive parts are the labour and the capital cost et cetera. If we did more miles, it would cost less per mile and you would not be able to make that comparison. Therefore, I suggest it is not very solid evidence.

Mrs Kelly—I think I might come to lunch!

Mr SECKER—Yes, indeed. In fact, we removed the excise on the marine fuel totally so they do not actually pay any excise on marine fuel—

Mr HAASE—That is right.

Mr SECKER—and it only worked out at something like 40c or 50c a passenger.

Mr HAASE—It was about half the cost of a litre of fuel, and if the cost of fuel is important—

CHAIR—Half?

Mr SECKER—Yes, it was about a \$200 saving spread over 300 or 400 passengers per trip.

Mr HAASE—Which, from a logical perspective, begs the question: why is it so expensive to travel here from the mainland? It also puts in question the logic of comparing the cost per sea mile for this trip with others, because one would have expected that—given there was such a high cost per sea mile. I really should not be debating this issue; you are here to answer the questions! But it does put in question the logic, if you analyse it on a cost per sea mile basis.

Mr SCHULTZ—It depends on whether other ferry operators in other states—

Mr HAASE—You and I can talk about this later, comrade.

Mr SCHULTZ—are incurring the port cost of \$5 per head.

Mr HAASE—That is right, and therefore it begs the question: why don't the South Australian state government have some sense of responsibility when it comes to linking their population in this location with the services of the capital city and provide a public transport system?

Mrs Kelly—I absolutely agree.

Mr HAASE—That is the question that ought to be asked of the state government.

Ms LEY—We can do that tomorrow.

Mr HAASE—We need to ask that—and we might even ask for you.

Mrs Kelly—I would love it if you did.

Mr HAASE—Okay. And your federal local member will be right up there asking, I am sure!

Mr SECKER—We have information here that Kangaroo Island and Fraser Island are both 15 kilometres distant from the mainland, yet a one-way fare for an adult and a car is \$101 to Kangaroo Island but \$30 to Fraser Island. Do you know whether the Queensland state government gives them a subsidy?

CHAIR—I do not think so. I live in that area and I am not aware of any subsidy.

Mr SECKER—I wonder why it is so much lower, then.

CHAIR—It is highly competitive, though; there are three services to Fraser Island.

Ms LEY—You might not have the wharfage costs to the government.

Mrs Kelly—I think the wharfage costs are significant.

Ms LEY—They are huge.

Mr HAASE—I am supposed to be asking you questions, Mrs Kelly, but they are more of the nature of observations to endeavour to be helpful to you. As has been mooted already, I am sure that your per passenger airport charge needs to be doubled, especially if you are getting a high satisfaction rate with your international travellers. It is a clear indicator that your nest egg of \$1 million ought to be a nest egg of \$2 million.

Mr SCHULTZ—I suggest that the appropriate time to do that is when the Ansett tax comes off.

Mr HAASE—Yes.

Mr SCHULTZ—It is a further reduction but not a total reduction.

Mrs Kelly—Thank you for that suggestion, but—I think it was pointed out earlier—for the local community here, funding is an issue. Money is an issue. Every time we put the levy up, that impacts on the local people. We do have to be able to use the airline services to get to town on those occasions when time is a factor, when we are ill or whatever it is. With all of those considerations, when we talk about levies we have to look at the impact on our local community.

Mr HAASE—Is there a PAT scheme that operates here?

Mrs Kelly—We do have a PAT scheme, yes, so that helps.

Mr HAASE—What is the local opinion of that PAT scheme—is it something that is highly guarded and issued to only a very few, or is it readily available?

Mrs Kelly—I only know from my own personal experience but I believe it is readily available. Other people might say differently. Certainly, that is very beneficial. But we do not only go to town because we are sick.

CHAIR—What is a PAT scheme?

Mr HAASE—The PAT scheme is the patient assisted travel scheme, a state run system that we provide the funds for and they administer.

Ms LEY—It is not in every state.

CHAIR—Who provides emergency services for patients?

Mrs Kelly—We have air ambulance over here. That would be state government.

CHAIR—Do you have one stationed here?

Mrs Kelly—No.

CHAIR—They come over?

Mrs Kelly—We have an ambulance service here. They bring over a plane when it is required.

Mr HAASE—Do you have the Royal Flying Doctor Service here?

Mrs Kelly—No, they are not stationed here but they do come when it is required.

Mr HAASE—But is their service available here?

Mrs Kelly—Yes.

CHAIR—After listening to my colleagues and to you, I think council would benefit a lot by visiting Norfolk Island because it seems to me your problem is analogous with the situation of Norfolk Island. I do not know what the constitutionality of this suggestion might be, but you get somewhere between 140,000 and 160,000 visitors per year and if you could tap a special levy on them, regardless of whether they come by air or by sea, then you have a huge resource. For example, on Norfolk Island there is a departure tax of \$25. You just imagine \$25 across 160,000 people. People coming from overseas to visit this place are not going to buck at \$25 if that is the going thing. We might have to explore this in our report to see if there is some constitutional way that tourists going to offshore islands could legitimately be charged a visitor tax. Norfolk Island does have a special constitutional arrangement with the Commonwealth which might allow them to do those things more easily than another community might. I forget how many visitors Norfolk Island gets but that \$25 across the hundreds of thousands of visitors per year is a huge boost to their revenue. In fact, I do not think they get as many as that—I think they get about a thousand a week. Anyway, it might be something worth pursuing.

Mr SECKER—They are limited in how many they can take.

CHAIR—That might be the answer. Obviously you do not want to weight up the locals coming backwards and forwards to do business in Adelaide or elsewhere on the mainland; they do not want to be paying a tax to go back and forth, so you would have an exemption for locals. It might be something worth pursuing by the island communities. Do you have a local government association of island communities?

Mrs Kelly—No.

CHAIR—That might be worth pursuing too. We made that suggestion at Flinders Island. If Flinders Island, King Island, Kangaroo Island and all the other islands, especially those that are local authorities, such as Thursday Island, had a local government association of island communities that met biannually and had a uniform approach to the Commonwealth you might find that some special arrangement could be made, perhaps through the treasurers or the tourism ministers, to see if this could be facilitated as a standard charge across Australia.

Mrs Kelly—I think that is an excellent idea. We did get very close to doing that a few years ago, but obviously we did not pursue it enough. I think that idea has a lot of merit.

CHAIR—You would have to get over the constitutional problems. I think any Australian can go anywhere; but there have been some precedents—certain national parks now have a visitor charge, as do certain Aboriginal reserves—so I am sure there would be some way around it. As there are no further questions, thank you for your evidence today; it has been very interesting. We will be seeing a lot more of the island this afternoon, and we thank you for your kind welcome.

Mr SECKER—I move that the presentation notes be accepted as an exhibit.

CHAIR—There being no objection, it is so ordered.

[12.34 p.m.]

DHUPELIA, Mr Prakash Himatlal, Managing Director, Kangaroo Island Ferry Services Pty Ltd

CHAIR—Welcome. We now have the submission from Kangaroo Island Ferry Services Pty Ltd. Will somebody move that it be accepted?

Mr HAASE—I so move.

CHAIR—There being no objection, it is so ordered.

As you would have heard, we are not going to require you to give evidence on oath, but I have to caution you that these hearings are formal proceedings of the Commonwealth parliament and consequently warrant the same respect as would attend to the House itself. It is customary to also caution witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. I invite you now to give a five-minute overview of your submission and then we will have questions.

Mr Dhupelia—I thank the committee for allowing me to make my submission at late notice. I sincerely appreciate it. The background to Kangaroo Island Ferry Services is as follows. In around January 1988, I tabled my first proposal to the local government stakeholders to run a new ferry service in competition with the then current operator. It has taken us four years or so to reach the stage where we received government approval through a tender process, the results of which were announced in September last year. To date, we are awaiting formalisation of that in terms of prerequisite infrastructure, licences, leases and arrangements on the ports to which we have requested access. Without those, we would have a bit of a dilemma in the type of vessel we choose to serve the island, because that is related to the available infrastructure as well.

We will be operating a ferry service from Wirrina to Kingscote and American River. If you refer to the maps in my submission, you will see that Wirrina is about 30 kilometres ahead of Cape Jervis. As to Kingscote, this probably answers the question raised by Mr Schultz earlier: why isn't Kingscote serviced? It certainly is a more attractive port, but the current operator runs a ferry service on the shortest possible distance, which certainly enhances their cost of running the operation.

Visitations to Kangaroo Island are increasing from year to year. In my opinion, Cape Jervis and Wirrina are the only viable ports to serve the island. Previous attempts from Glenelg have failed. To travel to Cape Jervis with the current operator, you need to embark on a coach. There is no public transport. The coach is operated by the current ferry operator, SeaLink, for which they charge a \$32 fare. Then a passenger pays \$64 return to travel across the water. Then, to come to Kingscote, once again there is a SeaLink coach, which costs \$22. The total cost from Adelaide to Kingscote is \$120 at rack rates on a return basis. So it is fairly expensive just to get from point A to point B. This is data that was not produced earlier in the previous submissions.

In addition, Kangaroo Island is served by two airlines—we heard a bit about that earlier. In terms of adequacy, my opinion is that travel to Kangaroo Island is extremely costly in comparison with travel to other islands, especially sea transport. The current return ferry fare, at rack rates with four adults and a car, comes to \$394, compared to the best benchmark I have, which is from Queenscliff to Sorrento. For similar waters, and a similar configuration, you are looking at \$112. So it is fairly pricey. The islanders do enjoy a discount. There is a discounted fare for islanders and for what are known as friends of the islanders. For a 16-kilometre journey, this is one of the most expensive routes travelled per kilometre in the world.

In earlier evidence you heard of the potential impact of the port charge of \$500,000. In my view, despite the payment of those charges, it is an extremely profitable business, failing which I would not be here proposing an alternative ferry service. For the record, the Rex rack rate is \$276 return. If you looked at the Internet late last night for a last-minute fare to come to the island and return on the same flight that we did, you would have seen that it is \$276, which includes around \$48 in other charges, taxes, security et cetera—or the Ansett levy.

The shortest distance is the most profitable, but it is certainly not in the interests of passengers as most of the attractions are on the western side of the island. SeaLink has a virtual monopoly over the ports of Cape Jervis and Penneshaw and, in addition, you will witness this afternoon that the construction of their infrastructure to service their vessel, which is custom built, actually prevents access to the public jetty. For that reason, it is virtually impossible for any other operator to consider operating out of Cape Jervis or Penneshaw. It is also for that reason that we have chosen alternative ports that are more serviceable in providing passengers with what they want, which is a direct route to the key attraction areas.

SeaLink has control of the ports for one hour before and one hour after a scheduled journey—so in the peak periods when it operates 12 trips a day there is no access to these ports. Despite this virtual monopoly over the ports, SeaLink repeatedly seeks government assistance in the form of subsidies. For example, in 1999 it requested a \$3 million subsidy to transport cars to the island. More recently, last year SeaLink requested under a federal government scheme assistance with the construction of its new ferry which, for the record, was declined.

As far as the island is concerned, facilities that provide a sense of arrival are lacking. You will note when you go to Penneshaw this afternoon that there are no terminal facilities. In our proposal we have offered to erect our own terminal facilities, because we know we can afford it. In my personal opinion, if I were the current operator I would provide those facilities out of the profits that I make. Demand is outstripping capacity, hence the introduction of a new service by Kangaroo Island Ferry Services. We could have commenced earlier but it was a four-year process to gain approvals, for which we are still awaiting formalisation.

With due respect, whilst Transport SA is working proactively with us, the internal mechanisms are extremely slow. That is not a criticism; it is an observation. The impact is that, whilst I have a contract for a certain vessel for a certain period of time, I can only keep it off the market for, say, three months. Prior to this current moment we were going to build our own ROPAX in Australia at a significant cost, so it would have benefited the Australian community. Given the time line to get into the next season, there certainly is not the time available to build a ROPAX locally or overseas. We are now faced with the additional cost of acquiring a charter

vessel overseas, and the estimated cost of transport of the selected vessel all the way to Australia is around \$400,000. So that is the impact of the delays.

We have offered cheaper fares, and that has been in my submission since day one. There have been several submissions over a period of time and in every one I have been consistent as far as that is concerned. The distance we will travel from Wirrina to Kingscote is around 50 kilometres, in rounded numbers. SeaLink travels around 16 kilometres, in rounded numbers. We will offer discounted fares without subsidies. We have not requested any assistance from the government to date, and despite this we shall be able to position ourselves to provide a range of fares, including student, hardship and pensioner fares at appropriate levels. For example, if there were ailing people on the island and family members or whatever needed to visit them, there is some way that we could work something out. In other words, we would be utilising a yield management system similar to the airlines where you have a rate of \$100 versus a \$276 rack rate.

Despite that we will still be viable. While our model is predicated on an average of 50 per cent capacity over a three- or four-year period in our business plan, we would still be extremely profitable despite the additional burden of travelling a longer distance and despite the fact that we have received no government assistance to date. Built into our model is an offer to build our infrastructure at American River. You will notice that American River will not have facilities to berth a car ferry. We have budgeted that into our expenditure.

I made detailed recommendations to the three levels of government in my submission but to sum up very broadly, in a consolidated sense, I am requesting expediency and urgency in addressing the transport issues between Kangaroo Island and South Australia—more particularly, in encouraging and promoting competition and ensuring that it enters the waters as soon as possible. Competition should be promoted on all routes, including the airlines.

On an equitable basis, I am requesting that there should be some provision of access to suitable infrastructure. Given that a request for a subsidy was made in earlier submissions, my view is that there should be no subsidy provided until the full impact of competition is felt. It is no different from the Virgin Blue analogy, where you had never heard of discounted fares prior to the new airlines coming in. It is taken for granted today: everyone travels on cheaper fares. If subsidies are warranted for any single party, they should be provided equitably on a per route basis—whether for competitive sea routes or airlines—as a policy issue, as opposed to servicing the needs of a single operator or complying with the request of a single operator. I encourage the federal government to continuously improve and develop its policies in reviewing the access to the islands—testimony to which is your very presence here. Thank you for allowing me to provide that summary.

CHAIR—Thank you. As a matter of interest, you talk about going to American River and to Kingscote. Would you do a round trip or alternate trips?

Mr Dhupelia—Our objective is to service Kingscote as the main port of call because it is the major shopping, business and populated area.

CHAIR—Why do you want to go to the other port as well? What is the rationale behind that?

Mr Dhupelia—I have been asked the same question about visiting American River many a time: ‘Why would you go there? The place is dead.’ If the place is dead, I see an opportunity. There are several resorts there that have been lying idle and vacant. Our philosophy is to work with the island to help develop the communities and the businesses on the island.

Ms LEY—It is not so much that: we do not know whether or not the place is dead. Why wouldn’t you just stick with the one route and then allow access to American River by road from the other ports on land?

Mr Dhupelia—The reason American River is not serviced—my understanding is it is not even by the SeaLink shuttle, and I stand to be corrected—is that you have to drive off the road to get into American River. It is around 11 or 12 kilometres. Quite often, time does not prevail for that. Time is money and distance is money as well.

CHAIR—It would cut out that \$22 charge as well, would it not?

Mr Dhupelia—Yes. So the \$22 charge will probably have to factor in the additional side route as far as the current operator’s charges are concerned.

CHAIR—You have not answered my original question. Would you come from the mainland to Kingscote on one trip and to American River on the other or would you do a triangular route?

Mr Dhupelia—We would do a triangular route at least once a day. The key access would be to Kingscote, so we would do at least three trips a day to Kingscote and a minimum of one per day to American River.

CHAIR—Say it is about 50 kilometres to Kingscote, what speed will your vessel do?

Mr Dhupelia—Given that we have been shooting a moving target, we have been looking at high-speed vessels ranging upward of 25 knots.

CHAIR—Will they be multihulled vessels?

Mr Dhupelia—They will be multihulled vessels that have car-carrying capacities as well.

Mr SCHULTZ—Given the speed of that vessel, what would be the travelling time from Wirrina to Kingscote compared to the current ferry service from Cape Jervis to Penneshaw?

Mr Dhupelia—The current ferry service is claimed to be 45 minutes, but from time to time it varies, depending on weather and the disembarkation of vehicles—it is a function of the number of vehicles on it. Our estimate would be around one hour to one hour and 15 minutes, depending on the vessel that we secure ultimately.

Mr SCHULTZ—To travel over how many additional nautical miles?

Mr SECKER—Three times as much.

Mr Dhupelia—You are looking at roughly three times as much.

Mr GIBBONS—Given that you depart the mainland from Wirrina, what would be the average journey from Adelaide toward via coach or bus? At the moment you come from Adelaide to Cape Jervis and then board a ferry. You are going to cut some time by not having to continue on to Cape Jervis. How much time would you save?

Mr Dhupelia—The model we have in our business plan is predicated on certain vessels. Based on that, from Adelaide to Kingscote—and that includes a coach to Wirrina and a ferry to Kingscote—there is an hour's timesaving. So it is two hours on a return journey.

Mr HAASE—You mentioned in a very early stage of your opening statement that you had spent four-odd years waiting for authority from the state. I believe you mentioned a state tender system. I am amazed to hear that, because it leads me to believe that the existing ferry system must have been granted by the state. I wonder just whom on Kangaroo Island the South Australian government think they are serving if they approve a ferry service that rips people off to that extent. It staggers me. You are telling us you can do three times the distance, charge less and make a handsome profit and pay for infrastructure, and the existing system is being authorised—licensed—by the South Australian state government.

Mr Dhupelia—The existing system is extremely profitable. I am sure you understand that, in commencing a new business of this magnitude, I would have conducted my research and done my homework. I have analysed the current operator's financial statements to the utmost degree since the day that they began this current ferry service. It was based on that analysis that I found that my ferry operation is viable, despite those additional hurdles, barriers or requirements, if I could call them that, as far as we are concerned.

Mr HAASE—How long has the March family been running the existing ferry service?

Mr Dhupelia—The March family does not run the existing service. The history of the current ferry service is that the March family commenced it. The current owners are the third owners. The ferry was subsequently sold to a Malaysian company, MBFI, and SeaLink acquired the current operation in the half year to 30 June 1996. Kangaroo Island SeaLink are a private company, and they have been operating since 1996.

Mr HAASE—Do we know where the current private company owners of SeaLink primarily reside?

Mr Dhupelia—Primarily in South Australia.

Mr HAASE—Nice work if you can get it!

CHAIR—What is the hold-up with the state government? If you have a ferry that is structurally sound and you have a crew that is appropriately trained, where is the big problem?

Mr Dhupelia—I need to provide the time duration of four years in full perspective, just for the record. Whilst it seems to be an unfair statement as far as the government is concerned, it is a matter of fact that it has taken that long. When we first made our proposal there was a fair degree of scepticism, given that there were two previous failed operations from Glenelg, so we had to convince the government that there was not a danger that there was going to be another

ferry that falls flat on its back, together with the damaging impact on places like Kingscote and the island and on South Australian tourism. So there was that degree of conservatism, and I have had to overcome those hurdles.

We reached the stage around the end of year one where a decision was made to sell the ports. So that again caused a time delay. Once that was decided, it took a little while for the government to then assess who would be the ultimate owners of the ports, and Transport SA has inherited that. Tenders were called in January 2002, in my opinion as a result of the hue and cry in terms of the restrictive access to the ports, and there was a fair bit in the media—if you believe what you read. But, as a result of that, the tender results were due to be announced in May and we were aiming to operate last summer.

Given the unique situation of the state government elections, which took a further three or four months to settle, we again experienced delays. Once the government was settled, it certainly expedited the decision. Releasing the results of the tender was one of the first cabs off the rank, if I recall, as far as the transport minister was concerned. So, even the tender was expanded.

As far as our requirements are concerned, we need to provide a vessel that complies with the Harbors and Navigation Act, which is no different from a car that needs to comply with road regulations and certification. So it is a certification process—safety, manning, crewing and those sorts of requirements. The department has worked extremely fast with us as far as the marine and safety operations are concerned. The key delay now is in acquiring the ownership and leases, the permission to implement structural improvements where necessary and, more importantly, the access to the infrastructure. Based on that result, I cannot answer for the government—I understand you are talking to them tomorrow—what the internal delays might be.

Mr GIBBONS—You said 25 knots. That is pretty fast for a large vessel like that. Where would you source the vessel from? There are some companies in Australia that are capable of building such a vessel, but you said that you would probably source it from overseas.

Mr Dhupelia—We have talked to vessel builders in Australia. I already have design specifications drawn up. A fair bit of time and money has been invested in that, and I have received quotations. You are looking at 10 to 14 months to build a vessel of that magnitude. That certainly blows us out of the water as far as entry into this season is concerned. I guess the longer we leave it the more the degree of scepticism and the less the level of support from the islanders and the people we are keen to work with. In addition I have set in place some strategic alliances—for example, a coach company that will run our passengers from Adelaide to Wirrina. They are certainly not going to sit there waiting if they have a more lucrative contract on their hands today. So it is a careful balance that I have had to adopt to date. To gain speed to market I have resorted to conducting a search of suitable vessels overseas.

Mr GIBBONS—Vessels that are already built?

Mr Dhupelia—Already built, ready and available, with only the matter of doing a contract to finalise. I have tentatively announced to a vendor that I will be visiting them overseas during the week after next. It is a matter of going over there, getting the boat out of the water, out of the

market and inspected, and then getting a quotation to bring it down here with a view to being ready as soon as the government is ready. As opposed to following a logical sequence of events, I have had to run them in parallel, which is what I have had to do to date for numerous issues.

Mr GIBBONS—So, wherever you source it from, the vessel would come to Australia under its own steam.

Mr Dhupelia—Yes. If it is capable of travelling that distance then it is a bit of a retirement for that vessel to travel from Wirrina to Kingscote.

Mr HAASE—You have outlined well the support you would appreciate from the three levels of government. That is a good strategy, if I may say so.

Mr Dhupelia—Thank you.

Mr HAASE—In the last dot point under the federal government strategy you say that you would desire exemption from taxes and import duties/other assistance on a vessel purchased overseas 'as a result of having had to resort to alternative measures as opposed to building a vessel in time'. I might take you to task over wanting to lumber the federal government with a cost as a result of the state government's dragging its feet. I think you would see my logic there. Would you be specific please as to what import duties you would pay now on an imported used sea vessel?

Mr Dhupelia—The primary import duty would be, firstly, the quarantine charge, because the vessel needs to be inspected and serviced. Then there is an import duty that is equivalent to the GST, from my understanding. I have not gone into it in the utmost of detail but my understanding is that it is 10 per cent. Over and above that there are the transport costs. Just taking your comment on board, my sincere apologies for lumping it into the federal area. I thought that, given that it was a taxation or duty issue, it would perhaps be at the federal level.

Mr HAASE—I can understand your logic. To be convincing in putting that argument to our Treasurer, I believe I would need substantial justification in addition to what has been shown here.

Mr Dhupelia—Sure.

Mr HAASE—Could you perhaps endeavour to elaborate on the justification, when you consider it would be a federal revenue slippage?

Mr Dhupelia—As you are aware, I prepared this submission at around 9 o'clock last night. I gave it some thought and I said, 'The bottom line is that Kangaroo Island Ferry Services is suffering the impact of government delays, for good reason or whatever reason it be.' Why should we have to pay a penalty for delivering on our promise when there is the other side of delivering on an approval process? That was where I was coming from.

Mr HAASE—So, on reflection, you might have recognised that it was a state government process that was extended and there ought, perhaps more correctly, to be a state government cost at the end of the day.

Mr Dhupelia—Certainly.

Mr HAASE—Logic tells me that.

Mr Dhupelia—You are right in your logic.

Mr McARTHUR—I am familiar with the Queenscliff-Sorrento ferry service. What have you learnt from their operation that could assist you in the establishment of this operation?

Mr Dhupelia—I have had dialogue with the current operator. I have sent one of my people to spend probably the better part of a day riding up and down, including watching the operations et cetera. They have shared their information openly, as have operators that run highly efficient vessels overseas. We are certainly being seen as the infant of the ferry world and we have had a lot of assistance as far as that is concerned. The key learning from the Sorrento to Queenscliff ferry is the mode of embarking and disembarking—the speed with which it is done. I think you will make a first hand comparison with that this afternoon. There are some cumbersome procedures as far as the current operations are concerned.

The other key learning is to deploy highly efficient vessels in the sense that they will operate faster, but they will operate leaner. In the old days, if I can give you a simple example, a V8 in a car was known as a gas guzzler. I currently drive a V8 car that utilises 8.9 litres per 100 kilometres on an open road journey, which is far more economical than the standard six cylinder or even an eight cylinder. So it is the technology in the engines and the fuel efficiency. The third major learning is to keep your running costs down. We will be running lean and mean. I mentioned earlier a Virgin Blue analogy. We have certainly learned a lot from their operations as well, by observing and by directing a few questions to Virgin Blue directly.

Mr McARTHUR—You just raised the issue of purchase and construction of the craft in Australia. I think one of the Queenscliff ones was built here in South Australia. Are you finding you cannot meet the time schedules to have it constructed in Australia?

Mr Dhupelia—It is purely time constraints. I have actually received some very attractive tenders. In comparison to the press announcement by the current operator, our vessel is significantly cheaper than theirs but far more efficient and far more powerful.

Mr McARTHUR—Are you buying one that is already in service? That might be commercial information.

Mr Dhupelia—The one we are buying in service has been carefully sought out, and the economic studies have been conducted. With a faster vessel—and, with due respect, I would prefer not to table the speed of the vessel I have targeted—as opposed to running three return trips from Warrina a day, it allows us to run four return trips. My fixed costs are fairly standard in terms of staff and crewing et cetera, but it gives me the profitability in running an extra trip. So it is certainly a much more attractive vessel every time we look at the numbers.

CHAIR—Even if you do lease this one for a period of time, will you will build a new vessel?

Mr Dhupelia—The objective is to build our own vessel which is custom suited.

CHAIR—Will you do that in Australia or overseas or by tender?

Mr Dhupelia—To date, I have only gone to closed tender on recommendations from the naval architect. We have two local price costings on them, as well as one firm tender from an overseas company.

CHAIR—Does the bounty apply to ferry services?

Mr Dhupelia—I think that lapsed some time ago.

Mr SCHULTZ—I presume the vessel you will build would be of a similar capacity to the one you are leasing?

Mr Dhupelia—Yes.

Mr SCHULTZ—How does the one you a leasing compare to the current ferry service in terms of passenger numbers and vehicles?

Mr Dhupelia—Very similar. The current operators run two vessels: one carries around 250 passengers and about 30 cars; the other one carries just over 300 passengers and 61 cars. By comparison, we are pretty much on an even keel. We would be carrying a minimum of 250 passengers and at least 35 cars. I would prefer not to state the exact numbers because that gives away the design et cetera.

Mr SCHULTZ—Thank you.

CHAIR—On that note, I will bring this part of the hearing to a conclusion. I thank you for your evidence, Mr Dhupelia. I wish you well on your endeavour.

Mr Dhupelia—Thank you.

CHAIR—It is certainly part of our terms of reference. You were the first who exclusively responded to that particular term of reference. You will receive a copy of the *Hansard* draft. Please check it for accuracy. I would like to thank the King Island Council for its hospitality.

Mr SECKER—Kangaroo Island! It might be the king of islands, but it is actually Kangaroo Island.

CHAIR—Sorry, but we do have other islands on our brains, and you all have similar problems! I would like to thank the Kangaroo Island Council for its hospitality today in allowing us to use its council chambers. It makes it a lot easier for us when we can go to places like this with good facilities. It encourages the committee, too, to go out into regional and rural Australia to take evidence.

Mr Furniss—Could I add a couple of those details you asked for earlier in the proceedings regarding airline tickets? I have the information for the committee if you would like hear it.

CHAIR—If you would like to table that information, I will ask one of my colleagues to move that we take it into the record as a supplementary submission.

Mr SECKER—I so move.

CHAIR—There being no objection, it is so ordered. I declare this public hearing at Kangaroo Island officially closed.

Resolved (on motion by **Mr Schultz**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 1.08 p.m.