



# The Coalition's Discussion Paper on Building a Strong, Prosperous Tasmania

May 2013

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We believe that Tasmania needs a plan to restore economic growth and kickstart job generation.

Since the election of the Rudd/Gillard government, not a single net new additional job has been created in Tasmania. Under the Rudd/Gillard Government, one in ten full time jobs have been lost.

The *Coalition's Discussion Paper: Building a Strong, Prosperous Tasmania* is seeking community comment on proposals that could generate real improvements and growth across the Tasmanian economy. These include:

- Better balancing of environmental outcomes and economic costs of the proposed Inter-Governmental Agreement.
- Scope for changes to State or Federal regulatory arrangements to encourage environmentally responsible development, without compromising natural heritage.
- Review of the competitive structure and functioning of the Tasmania-mainland corridor and the Tasmanian intrastate freight network, to include consideration of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme.
- Potential mechanisms to promote further private sector investment, job creation and competitiveness in international shipping to and from Tasmania.
- Inclusion of issues of relevance to Tasmania as part of the comprehensive 'root and branch' review of national competition laws and competition frameworks.
- Adoption of irrigation proposals outlined by Tasmanian Irrigation, including consideration of projects that deliver the most economic return to Tasmania.
- Increasing Tasmania's agricultural output, making the most of the State's potential for high-quality, high value food production.
- Consideration of options for the building of new dams in Tasmania, including potential locations and the impact on local communities, the environment and the broader economy.
- Establishment and funding for a new Centre for Antarctic and Ocean Research in Hobart.
- Promote further private sector investment, job creation and competitiveness in Defence-related Tasmanian industries.

This is a Discussion Paper that seeks to restart growth and confidence in Tasmania.

The Coalition's Discussion Paper is the result of extensive consultation with the Tasmanian community by the four Liberal Senators for Tasmania.



The release of the *Coalition's Discussion Paper: Building a Strong, Prosperous Tasmania* comes on top of existing announcements to provide \$400 million to get the duplication of the Midland Highway between Hobart and Launceston done; a commitment to protect the Tasmanian GST share from any detrimental changes; and our commitment to scrap the carbon tax.

The Coalition will release a comprehensive policy to encourage economic growth in Tasmania before the next election. The policy will be fully costed and funded.

The Coalition's position on the distribution of GST to the States is clear: we will not support any proposal that disadvantages Tasmania.

Ending the economic decline of Tasmania that has occurred under the Labor/Green government is part of our Plan for a strong, prosperous economy and a safe, secure Australia.

The Coalition encourages industry, the community and interested parties to contribute to our discussion paper on *Building a Strong, Prosperous Tasmania*.



# Introduction

The economic course of Tasmania can be reset to one of growth, jobs and rising living standards.

As a State with abundant natural resources, a conducive climate and extraordinary natural attractions, Tasmania ought to boast a vibrant and growing economy. It should be a high-productivity economy making the most of its opportunities in agriculture, tourism and a range of high value-added niche sectors, a leader in innovation, and a drawcard for domestic and foreign direct investment.

The State's geographic separation from the mainland and its small local market size and population need not be hindrances to economic growth nor pre-determinants of lacklustre economic performance. Tasmania's geographic and market conditions should, in fact, have given it an impetus to be more competitive and productive than other States or Territories.

But by any measure, this is not the case.

Tasmania's recent economic performance has been at best lacklustre and at worst going backward.

The State has the lowest gross state product per capita in Australia, the nation's highest unemployment rate, the nation's lowest life expectancy, the highest standardised death rate due to suicide, the lowest proportion of adults in the nation who have attained a year 12 qualification, one of the nation's lowest retention rates to year 12, and the highest proportion of people without superannuation coverage.

Tasmania's socio-economic indicators paint a consistently unsatisfactory picture.

But this is a function of the choices that State and Federal governments have made – and it need not be the case.

The Tasmanian economy has drifted and declined under the policies of Federal and State Labor/Green governments.

The Tasmanian Chamber of Commerce and Industry has described Tasmania's economic performance as “anaemic” and noted that:

Tasmanian business confidence has also been undermined by poor decision-making at all levels of government...deeper reforms, strong commitments to good policy and resource security and tight budget management will be key foundations for longer-term growth.<sup>1</sup>

Labor's economic mismanagement has delivered low growth, the loss of employment and the steady decline of Tasmania's competitiveness.

It does not have to be this way.

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1. *Tasmanian Chamber of Commerce and Industry, media release, 11 February 2013.*



A 2008 study by the Bureau of Infrastructure, Transport and Regional Economics found, for example, some improvement to Tasmania's economic performance during the second half of the Howard Government:

The economic data for the 1990s reveals a slow and poor performing economy. The Tasmanian proportion of the national economy declined from a high of 2.2 per cent in 1991–92 to a low of 1.8 per cent in 2000–01. However, Tasmania has improved its economic performance this decade [the 2000s] by growing at an average annual rate of 3.7 per cent from 2000–01 to 2005–06, exceeding the national rate of 3.3 per cent.<sup>2</sup>

As this period under the Howard Government demonstrates, there is no reason why Tasmania, given the right governance framework and market incentives, cannot be at the forefront of Australia's economic growth.

History demonstrates that island states can be economically vibrant and capable of delivering substantial annual growth in income and living standards, provided that public policy works to harness natural endowments, build on strengths, and promote investment, productivity and job creation.

Tasmania faces a choice – whether to become an economic backwater or to restore prosperity and, with it, opportunities for the future generations of Tasmanians.

The Coalition is confident that Tasmania can thrive given prudent, incentive-driven public policy settings. As the Bureau of Infrastructure, Transport and Regional Economics has argued:

Importantly for regional economies, poor government policy choices can destroy growth, while effective policies are conducive to but do not guarantee economic growth.<sup>3</sup>

Our discussion paper on *'Building a Strong, Prosperous Tasmania'* seeks to encourage investment, restore economic growth and create jobs. Our approach seeks to draw on Tasmania's traditional and natural strengths – forestry, agriculture, mining, tourism and niche research – and remove unnecessary impediments to building a stronger economy in Tasmania.

With the right governance framework, and by removing the anti-business approach of Federal and State Labor/Green governments, the Coalition is confident that Tasmania can have a stronger, more vibrant and more resilient economy, underpinned by robust and sustainable industries – delivering more jobs and a higher standard of living.

2. Bureau of Infrastructure, Transport and Regional Economics, *'A Regional Economy: A Case Study of Tasmania,' Report 116, p.xix.*  
 3. Bureau of Infrastructure, Transport and Regional Economics, *'A Regional Economy: A Case Study of Tasmania,' Report 116, p.xxiii.*



## Background

Tasmania is a small economy with a population of approximately 512,000.

The island State has many natural advantages, despite its geographic isolation from the mainland. It has abundant rainfall, a range of known mineral deposits, rich agricultural land, scenic and historical tourist attractions, large fish stocks and large tracts of forest. Tasmania also manufactures a wide variety of quality products and has the potential to attract high value-added industries. The State has, in other words, resources that the world wants and the potential to use those resources to its advantage.

The State has been an important contributor to Australia's development.

Nevertheless, Tasmania has largely underperformed the broader economy.

As the Bureau of Infrastructure, Transport and Regional Economics notes:

From Federation to the late 1990s, over 75 reports into Tasmania have been conducted with the overwhelming conclusion that Tasmania's economic performance has generally lagged behind the other States...A major feature of Tasmania's economic performance was that it has consistently lagged behind other States and Territories over a long period. The underperformance was clear in a number of economic indicators, such as employment, participation rates, human capital and business investment.<sup>4</sup>

Apparent improvements to Tasmania's economic performance under the Howard Government have been replaced by lacklustre and declining performance under Labor – see Box 1 overleaf.

The Gross State Product per capita in Tasmania is the lowest of any state or territory, having increased by only 2.2 per cent since Labor came to power in 2007. State final demand was stagnant over 2011 and contracted by 4.6 per cent over 2012. Tasmania was the only State or Territory to report a decline in real gross State income per capita in 2011-12.

Under the Rudd/Gillard Government no additional new jobs have been created in Tasmania – in fact, one in ten full time jobs have been lost.

Under Labor, unemployment has steadily risen in Tasmania – see Table 1 overleaf. The number of unemployed has risen by 5,300 in Tasmania since November 2007, compared to a 10,000 decrease in unemployment under the Howard Government.<sup>5</sup>

Moreover, the increase in unemployment under Labor has occurred despite increasing out migration from Tasmania to other States, largely to seek work elsewhere because of poor job prospects in the State; and despite a decline in the participation rate among Tasmanians (reflecting people giving up even looking for work). Even leaving aside the issue of out migration to other states, if the participation rate remained the same as it was under the Howard Government, then the unemployment rate in Tasmania would now be around 9 per cent in trend terms.

4. Bureau of Infrastructure, Transport and Regional Economics, 'A Regional Economy: A Case Study of Tasmania,' Report 116, pp. 3 and 18.

5. The Tasmanian Treasury has noted there can be volatility in data "especially for a small economy such as Tasmania" and that data for Tasmania can "tend to be quite volatile and often subject to substantial revision." Consequently, trend figures are used to abstract from the sharp month to month volatility which can occur in seasonally adjusted figures for a small population state like Tasmania.



## Box 1: Comparative Measures of Tasmania's Recent Performance

Tasmania has the lowest Gross State Product per capita in Australia.

Over 2012, state final demand contracted by 4.6 per cent.

Tasmania has the highest unemployment rate of any State, standing at almost two percentage points higher than the national average (in trend terms).

Tasmania has the lowest workforce participation rate of any state in Australia and the lowest average weekly earnings in Australia.

The State Budget has been in fiscal deficit since 2008-09, with a record deficit currently projected for 2012-13.

Tasmania has the lowest proportion of adults in Australia that have attained a year 12 qualification and the lowest retention rates to year 12 of any state.

The State has the lowest life expectancy and the highest standardised death rate in Australia.

For the past three years retail sales in Tasmania have only increased in one month out of every three. Retail sales in the state fell by almost 3 per cent over 2012, compared with growth of over 3 per cent nationwide.

Over 60 per cent of the State Government's revenue comes from grant funding.

GST distribution is the State Government's largest single source of income.

**Table 1: Unemployment rate (trend figures)**

	Tasmania (%)	Australia (%)
March 1996	10.3	8.4
November 2007	5.4	4.3
August 2010	5.9	5.2
April 2013	7.4	5.5

*Source: ABS 6202.0 - Labour Force, Australia, April 2013. Trend figures used to avoid the sharp month to month volatility in seasonally adjusted figures for a small state such as Tasmania.*

Private sector gross fixed capital formation, an important indicator of business confidence and future productive capacity, almost doubled in Tasmania under the Howard Government, but has gone backwards in recent years under Labor – see Table 2 below.

The State Budget has been in fiscal deficit since 2008-09.

The State Government has increased a range of taxes, including increases to taxes on light vehicles. State level taxation per person increased by 20 per cent between 2006-07 and 2011-12, the second highest rate of increase after Victoria.





**Table 2: Private gross fixed capital formation (\$m, seasonally adjusted)**

	Tasmania
March quarter 1996	556
December quarter 2007	1,152
September quarter 2010	1,020
December quarter 2012	974

Source: ABS 5206.0 Australian National Accounts: National Income, Expenditure and Product.

Over 60 per cent of the State Government's revenue comes from grant funding and GST distribution is the State Government's largest single source of income.

The overall picture for Tasmania is of a State that is failing to encourage growth or build a hopeful future for the generations to come. It is a State that appears to be reducing opportunities for Tasmanians not expanding them.

This needs to change.

Tasmanians deserve a government that has a positive vision for the State and the nation.

### ***Release of a discussion paper***

In response to a growing recognition of Tasmania's lacklustre socio-economic performance under Labor, the Leader of the Opposition, the Hon Tony Abbott MP, established a Working Group to develop proposals to encourage investment, restore economic growth and create jobs in Tasmania.

The Working Group consists of the four Liberal Senators for Tasmania, Senator the Hon Eric Abetz, Senator the Hon Richard Colbeck, Senator Stephen Parry and Senator David Bushby.

The Coalition believes that positive, constructive and effective policies can only be developed through meaningful and genuine public consultation. It is critical that any policy decisions on Tasmania are well thought through, practical, achievable and likely to promote the State's economic development.

The Working Group has consulted with business leaders, investors, community leaders, academics, local government and the community. Many ideas have been put forward to the Working Group – including ideas to develop specific industries: such as equine, lucerne, biofuels and aquaculture; and ideas relating to specific projects: such as those of Irrigation Tasmania and the Sense-T project at the University of Tasmania.

As a result of this consultation, the Working group has developed a discussion paper on *Building a Strong, Prosperous Tasmania*.

Our discussion paper on *Building a Strong, Prosperous Tasmania* is aimed at stimulating debate and attracting constructive input and feedback. Consultation will help shape a formal Coalition blueprint for the economic development of Tasmania.





***Contributing to the discussion paper on Building a Strong, Prosperous Tasmania***

The Coalition encourages industry, the community and interested parties to contribute to our discussion paper on Building a Strong, Prosperous Tasmania.

Written submissions are invited by 28 June 2013 and can be sent electronically to [senator.abetz@aph.gov.au](mailto:senator.abetz@aph.gov.au) or by mail to:

Senator the Hon Eric Abetz  
Growing Tasmania Input  
136 Davey Street  
HOBART TAS 7000

If interested parties have any questions or need any further information, they should not hesitate to contact Senator Abetz at the email address above or any Tasmanian Liberal Senator.

The Coalition's discussion paper on *Building a Strong, Prosperous Tasmania* is only the beginning of an ongoing dialogue on the best way forward to restore hope, reward and opportunity for Tasmania.



## Policy issues

The fundamental task of government is to put in place policies that maximise the economic and social outcomes for individuals, organisations and the broader community.

Government works best when it limits itself to providing and enforcing the right institutional framework or 'rules' to stimulate activity and initiatives that benefit the general population. Government works best when it acknowledges that in most circumstances the private sector and not-for-profit groups can do much better with the limited resources in an economy than the centralised hand of government.

The challenge for government is to implement public policies that create incentives for investment, job creation, innovation, and productivity growth. By doing so, governments will provide the conditions for sustainable real wage growth, higher national income and improved standards of living.

There are, of course, situations where the overall public good, including non economic costs and benefits, mean that a particular investment or development should not proceed. But governments that become too focussed on opposing development and closing off economic opportunities end up, in the long run, damaging not only their economies but also the other key social or non economic indicators they claim to be concerned about.

Stronger economic growth is not an end in itself – but it is the necessary foundation for the better services, cleaner environment and modern infrastructure that everyone wants.

Policies that discourage or distort markets should generally be rejected because they undermine the incentives necessary for individuals to act in ways that optimise economic and social outcomes. Policies that remove market failures should be favoured over short-term political 'solutions' to these market failures, because the latter do not get to the root of the problem and often generate their own unintended side-effects. Policies that provide artificial advantages for one group over another should generally be rejected because they promote perverse, rent-seeking incentives rather than encouraging wealth creation for the community as a whole.

The Coalition does not support unfettered and unregulated markets. Appropriately regulated markets are the best way to ensure limited resources are utilised efficiently and in ways that deliver the best outcomes for consumers, families and the broader community.

Responsible government will, in other words, seek to promote robust growth while curbing the scope for market failures in areas where actions have impacts beyond those taking them. It will focus on delivering real, tangible gains for citizens by creating institutional frameworks and market rules that provide incentives for investment, innovation, and productivity growth, while limiting unintended detriments like environmental degradation or social exclusion.

Unfortunately, the Tasmanian economy is being held back by a wide range of policies from Labor/Green Governments at both the national and State level, that needlessly undermine growth or exacerbate rather than overcome market failures.



### ***Natural Resource Restrictions***

First, Federal and State Labor/Green Governments have put in place excessive restrictions on the use of natural resources that are a source of comparative advantage for Tasmania's economy. Over 44 per cent of Tasmania's land mass is 'locked away' from development or industry use. Large tracts of valuable resources, including mineral and timber, are unusable due to restrictions imposed by Federal and State Labor/Green Governments, often for political reasons rather than on sound scientific or environmental grounds.

The perverse outcomes are apparent. For example, despite a \$2 billion annual deficit in Australia's wood product requirements, Tasmania's forestry industry has contracted. The Australian Bureau of Agricultural and Resource Economics and Science recently noted:

...the last two years has seen a significant drop in the annual plantation establishment rate from an average of around 15,000 hectares a year over the decade to 2008–09, to 4,000 hectares in 2009-10, and 1,500 hectares in 2010–11.<sup>6</sup>

### ***Inefficient Costs***

Second, Federal and State Labor/Green Governments have imposed inefficient costs on Tasmanian industries that are holding these industries back or driving them to relocate elsewhere. The carbon tax, for example, adds to the cost of shipping components and goods to Tasmania and increases electricity and gas costs for business. When considered in concert with unnecessary resource constrictions, the carbon tax is holding back the development of industries where Tasmania has a comparative advantage, thereby denying employment opportunities for Tasmanians.

The mining tax similarly acts as a disincentive for some investment and job creation in Tasmania. Although small by Australian standards, Tasmania does have some iron ore and coal mining – so it is not only Western Australia and Queensland that are potentially affected by the mining tax. More importantly, Tasmania also supplies a range of mining equipment and other support services for mining, with firms having grown up to service the State's own mineral extraction industries in copper, lead, zinc, silver, gold and limestone (for cement), amongst others. By hampering mining development elsewhere in Australia, the mining tax indirectly harms these mining service firms – even leaving aside the fact that a future Labor/Greens government would almost certainly seek to expand the existing mining tax to include many of these other minerals, as the Greens have explicitly called for.

### ***New Development Restrictions***

Third, Federal and State Labor/Green Governments have adopted policies that stifle development of new products or limit incentives for industry aggregation and contestability, particularly at export facilities.

The consequence is that parts of the Tasmanian economy have become increasingly inefficient because they are prevented from realising scale economies or differentiating production into

6. Australian Bureau of Agricultural and Resource Economics and Sciences, 'Commodity Outlook and Financial Performance of Key Agricultural Industries in Tasmania,' September 2012, p.20.



higher value-added niche industries. The development of an industrial hemp industry for fibre and food purposes is, for example, being held back by the State Government's *Poisons Act*, even though the Farmers and Graziers Association believe that Tasmania capitalising on global demand for hemp could bring millions of dollars of much-needed revenue into rural communities. Red tape has also hamstrung investment and industry development, with the Institute of Public Affairs calculating that **Tasmania has the highest proportion of red tape to population in the country** – including more than four and a half times more regulation per person than in Victoria.

### ***Non-Productive Resource Reliance***

Fourth, the State Labor/Green Government has become increasingly reliant on non-productive revenue sources, creating a perverse incentive to retain inefficient elements of government administration and a lack of incentive to bolster the State's productive capacity. Over 60 per cent of the State Government's revenue comes from grant funding. GST distribution is the State Government's largest single source of income.

This reliance on non-productive revenue sources means the State Government has less incentive to pay attention to the concerns of the private sector or to boost the competitiveness of local industries. This is contributing, at least in part, to the adoption of yet more policies that distort investment, hinder innovation, and slow productivity growth – so that bad policies are being layered upon bad policies, reducing the state's capacity for sustainable real wage growth and improved standards of living.

### ***Lack of Certainty***

Finally, Federal and State Labor/Green Governments have failed to provide consistent and certain regulatory settings. Changes to forestry agreements, *ad hoc* decisions in the fisheries sector and repeated changes to the mining and carbon taxes have resulted in lower investor certainty and increased the perceived risk of doing business in Tasmania. The consequence is exacerbated sovereign risk and thus higher investment costs for business.

If we are to see greater investment, job creation, innovation, and productivity growth in Tasmania, then the failures caused by Federal and State Labor/Green Governments need to be corrected.



# Matters for public discussion

The Coalition has already outlined a range of measures that will reduce the cost of doing business in Tasmania and promote investment, innovation and productivity growth. Some of these are Tasmania specific, while others are national measures that will enhance the economic and business climate in Tasmania, supporting jobs growth, investment and demand.

These measures are outlined in Box 2 overleaf. They will provide an immediate and tangible boost to growth in Tasmania.

In addition to these already announced measures, there are a range of State specific steps that could be considered to further unshackle the State's economy and restore hope, reward and opportunity to Tasmania.

## ***1. Striking the right balance between promoting growth and protecting Tasmania's natural endowments***

No one thinks that Tasmania should simply plunder its natural resources in the pursuit of higher standards of living. Sustainable development and a more competitive economy depend on appropriate investment that balances the sustainable use of natural resources, and protection of the environment, with responsible value creation.

The locking up of over 44 per cent of Tasmania's land mass by successive governments has, however, arguably been a step too far in balancing the demands of environmental protection against the need for economic self sufficiency. It has severely hampered the local economy and hamstrung real wage growth, reducing job opportunities and standards of living for all Tasmanians. The threat of locking up a further 8 per cent of Tasmania's landmass under the Inter-Governmental Agreement not only raises issues of sovereign risk and uncertainty, but also the capacity of the State to sustain itself economically, when this would result in the locking up of more than half of Tasmania's already small land mass.

There is no reason why the locking up of 44 per cent or more of the State is either economically or environmentally responsible. The United Nations' Food and Agriculture Organisation has noted, for example, that sustainable forestry practices can deliver both environmental and economic benefits:

A challenge for the forestry profession is to communicate the simple idea that the best way of saving a forest is to manage it sustainably and to benefit from its products and ecosystem services. If the principles of sustainable forest management are applied and forest products and ecosystem services play an increasing role, the global economy will become greener...

...When looking for ways to stimulate economic development, politicians and planners seldom see all the dimensions and potential of the forest sector. Forests are viewed as either a feature of the environment to be preserved or, in stark contrast, a source of land to aid the expansion of agriculture. A balance should be found in which forests contribute to achieving all these goals: sustainable forest management adds value to a forest by using forest products for energy, construction materials, packaging and a wide variety of other consumer products while preserving the pieces and functions of a healthy forest ecosystem. When sustainable forest management is practiced, the value of the natural forest can largely be maintained.<sup>7</sup>

7. United Nation's Food and Agriculture Organisation, 'State of the World's Forests 2012,' pp.vi and 29-30.



## Box 2: Immediate policy measures to grow Tasmania

On the Gillard Government's own estimates, Labor's carbon tax means Tasmanian households are paying around 10 per cent more for electricity and gas. The Coalition will put an end to this by **repealing the carbon tax**.

We will **provide tax cuts and pension increases without a carbon tax** so that families have more spending power and businesses have greater incentive to invest and create jobs.

We will encourage investment and job creation in Tasmania's resources sector by **repealing the mining tax**, a tax that has collected virtually no revenue but done immense harm to our international investment reputation.

To support responsible development of the forestry sector, we will **support properly balanced long-term Regional Forestry Agreements and oppose unnecessary lock-ups**.

We will **cut business costs from red tape by \$1 billion per annum** Australia wide. This will make it easier for businesses to invest, innovate and create jobs, including in Tasmania.

We will conduct a **review of the effectiveness and efficiency of shipping** to and from Tasmania. According to Deloitte Access Economics, Labor's changes to domestic shipping laws will cost the Tasmanian economy \$466 million over the next decade, with freight charges to soar by up to 16 per cent and the loss of 570 full-time Australian jobs.

A productive economy needs economic infrastructure that allows the rapid and efficient movement of goods and people. That is why we will **upgrade the Midland Highway** so that Tasmania's main north-south freight corridor is safer and more efficient.

We will **encourage greater workforce participation** by introducing mandatory work for the dole for all long-term unemployment beneficiaries under 50 and suspending dole payments for people under 30 in areas where unskilled work is readily available.

We will **keep interest rates as low as possible** by ending government waste, balancing the Budget and starting to pay back Labor's record debt.

Tasmanian businesses both small and large should compete on a level playing field, so we will **conduct a 'root and branch' review of competition laws** to ensure fair and effective competition in all sectors of the economy.

To promote more business investment, we will **implement a one-stop-shop for environmental approvals** so that large-scale projects that create jobs can get going sooner while maintaining existing levels of environmental protection.

We will boost investment and productivity growth in the Tasmanian construction sector by **restoring the Australian Building and Construction Commission** and requiring **office holders of registered organisations to be as accountable as company directors**.





Development should also not be hamstrung by excessive red tape and regulation. The Tasmanian Farmers and Graziers Association notes, for example, that:

Tasmania has the most stringent regulatory requirements of any Australian State, and so our farmers are at an even greater disadvantage. Tasmanian farmers therefore face significant challenges in competing in export markets – but particularly in markets such as those in Asia where costs of production are low.<sup>8</sup>

Regulation is important, but it should not inhibit environmentally responsible investment that creates the jobs, productivity and higher real wage growth that Tasmanians could enjoy.

The Coalition will pursue policies that get this balance right. By doing so, we will best ensure Tasmanians and all Australians can experience higher standards of living in the long-term while protecting the State's remarkable natural heritage.

### **The Coalition seeks industry, community and interested party comment on:**

- 1a. The economic costs of the proposed Inter-Governmental Agreement, which would see the proportion of the State locked away from all development rise to over 50 per cent, and whether there are alternative ways in which desired environmental outcomes could be better balanced with the need for Tasmania to promote economic growth and job creation.
- 1b. The scope for changes to State or Federal regulatory arrangements which would encourage environmentally responsible development within Tasmania, without compromising the State's natural heritage.

## **2. Reducing the cost of doing business in Tasmania – shipping reform**

The fact of Tasmania's separation from the mainland is generally accepted to increase Tasmanian business costs. The thrust of this argument is that transport costs to/from the mainland create an additional cost burden on Tasmanian businesses, in getting their goods to market, vis-à-vis businesses on the Australian mainland.

In the absence of sufficient scale economies in production, transshipment and coastal freight there is merit to this argument (although this same cost burden could at least, with the right market incentives in place, drive greater innovation and efficiency by Tasmanian firms).

It is for this reason that successive Coalition Governments introduced measures aimed at offsetting the transport cost disadvantage faced by Tasmanian industries that, unlike their mainland counterparts, do not have the option of moving their goods interstate by road or rail. The Fraser Coalition Government introduced the Tasmanian Freight Equalisation Scheme (TFES) for non bulk goods in 1976 and it was the Howard Coalition Government that introduced the Bass Strait Passenger Vehicle Equalisation Scheme in 1996.

The TFES has successfully encouraged freight movement between Tasmania and the mainland. Claims paid under the Scheme increased steadily between 2004-05 (6,377 claims

8. Tasmanian Farmers and Graziers Association, 'Submission to Tasmania's Place in the Asian Century Issues Paper,' October 2012, p.7.





paid) and 2009-10 (12,929 claims paid), even though the average amount of assistance paid per claim has decreased from approximately \$14,000 in 2004-05 to \$7,735 in 2009-10.

The Government committed around \$100 million in 2012-13 for the TFES.

The Coalition continues to support the TFES and Bass Strait Passenger Vehicle Equalisation Scheme.

There are, however, opportunities to improve the ongoing effectiveness of the schemes as they currently stand. The Australian National Audit Office found, in relation to the TFES:

...operating rules and the parameters used to determine eligibility and assistance payments have become more complex. Multiple reviews have recommended simplification...

...there are shortcomings in several key areas of program administration, which include the absence of a risk-based approach...<sup>9</sup>

There are valid questions as to whether the TFES is overly complex, whether it incorporates a sufficiently broad number of goods, and whether payments under the scheme represent a true measure of the transport cost disadvantage faced by Tasmanian firms.

Fundamental, however, is whether shipping arrangements to and from Tasmania are functioning efficiently and adequately serve the State's importers and exporters. An effective shipping market for bulk and non bulk goods is vital to ensuring Tasmanian businesses have the maximum opportunity to succeed against their mainland and overseas competitors, as well as to minimising the burden on taxpayers from equalisation arrangements.

Fundamental, downward pressure on the cost of doing business in Tasmania will occur if greater competition occurs in the shipping and transport sectors. The introduction and expansion of international shipping services directly to/from Tasmania will, for example, create competitive tension in the freight sector and generate incentives for existing freight operators to be more cost effective and innovative and for international shipping to service Tasmania. The Tasmanian Department of Premier and Cabinet notes, for example, that:

...there is no-longer an international container shipping line berthing at Tasmanian ports, resulting in higher costs for exporters and reducing the competitive position of Tasmanian industry on domestic and international markets.<sup>10</sup>

The Coalition has already announced that we will establish a review into the effectiveness and efficiency of shipping to and from Tasmania. This review will contribute to the promotion of more competitive industries and a stronger economy for Tasmania. It will examine whether Tasmania's sea links with the mainland and the rest of the world are efficient and competitive, and it will incorporate an examination of the TFES (including whether reforms are necessary to ensure the Scheme provides the best possible net benefits for Tasmania and the nation). The review will include the Scheme's effectiveness for Flinders and King Islands as well.

A key consideration is the scope of the shipping review.

9. Australian National Audit Office, 'Tasmanian Freight Equalisation Scheme,' *Audit Report No.13, 2011-12*, pp.20 and 21.

10. Department of Premier and Cabinet, 'Tasmania's Place in the Asian Century,' *Issues Paper*, August 2012, p.23.



Should this review, for example, be limited to the structure, content and functioning of the TFES and the Bass Strait Passenger Vehicle Equalisation Scheme or should it be broadened to incorporate consideration of the competitive structure and functioning of the broader Tasmania-mainland freight corridor? If the latter approach is adopted, should the review consider the competitive structure of Tasmania's intra- and inter-state freight networks? Such an approach would be broadly consistent with the views of the National Infrastructure Co-Ordinator, who has called for "a review of shipping costs and competition policy issues for both sea freight and passenger services"<sup>11</sup> across Bass Strait, but it would significantly widen the scope of inquiry and the timeframe needed for such a review to be completed.

Regardless of its scope, the Coalition believes that a comprehensive review of Tasmanian shipping is a vital element of reducing the cost of doing business in Tasmania.

In saying this, we are mindful of previous reviews into the various Tasmania-mainland transport schemes.

It is our firm view that an additional review will be more productive if stakeholders outline not just their views on the effectiveness of the current subsidy schemes, but present potential improvements to the structure and functioning of the schemes and of Tasmanian shipping arrangements more generally. Stakeholders should also, if possible, detail alternative options that will simultaneously lower the cost of doing business in Tasmania and promote productivity growth.

### **The Coalition seeks industry, community and interested party comment on:**

- 2a. The implementation of a review of the competitive structure and functioning of the Tasmania-mainland freight corridor and the Tasmanian intrastate freight network, to include consideration of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme.
- 2b. Potential mechanisms to promote further private sector investment, job creation and competitiveness in international shipping services to/from Tasmania. The Coalition will not, however, support mechanisms that encourage public sector involvement or rent-seeking behaviour by the private sector.

### **3. Competition reform**

While successive Tasmanian State governments have introduced a range of competition reforms (e.g. in the electricity sector), it is an open question whether further reforms are necessary to ensure stronger and more sustainable economic growth over the long-term.

A matter of concern is the competitiveness of Tasmania's economic infrastructure, especially infrastructure required for export industries.

11. Michael Deegan, Letter to the Hon Anthony Albanese, 24 May 2012.



The National Infrastructure Co-Ordinator has noted that:

There is prima facie evidence of inefficient use of infrastructure in Tasmania including:

- the ports – subscale operations at each port reflecting fragmentation of task and less than adequate returns to Tasports;
- the road network – access for efficient freight vehicles is limited; [and]
- the rail network – poor infrastructure condition and operating subsidies.

Each of these would have a negative impact on the competitiveness of businesses located in Tasmania, and on the Tasmanian economy generally.

...the split between three ports results in Tasmanian industry not enjoying some scale economies available to their mainland counterparts.<sup>12</sup>

There is an apparent efficiency problem stemming from the current structure, utilisation and potentially the contestability of Tasmania's economic infrastructure. It is difficult, for example, to see how Tasmania can restore and develop financially sustainable international shipping services in the absence of more competitive port facilities with greater throughput.

Recent changes to domestic shipping laws by the Gillard Labor Government have only made Tasmania's freight services more uncompetitive. According to Deloitte Access Economics, Labor's changes to domestic shipping laws will inflict a \$466 million burden on the economy over the next decade, with freight charges to soar by up to 16 per cent and the loss of 570 full-time Australian jobs.

The Coalition's comprehensive 'root and branch' review of Australia's competition laws and competition framework, already announced, will provide broad scope to identify areas where further competitive reforms of particular benefit to Tasmania could be introduced. Past experience suggests that the benefits of such competition reform can be significant.

The original National Competition Policy, introduced in the 1990s, resulted in a 19 per cent fall in average real electricity prices nationwide and conservatively increased GDP by 2.5 per cent (currently equivalent to almost \$40 billion a year). This policy worked because it linked financial incentive payments by the Commonwealth to the States and Territories to the implementation of competition reforms and *realised* productivity gains.

The Tasmanian Government has noted that the original National Competition Policy:

...assisted the State in meeting its objectives of attracting investment, generating employment and achieving higher levels of economic growth.<sup>13</sup>

Detailed consideration of Tasmania's industry structure may be a necessary precursor to achieving long-term competitiveness, investment, productivity and higher real wage growth for the State.

In this context, the Coalition believes that a 'root and branch' review of competition laws must incorporate consideration of structural economic issues that determine the long-term competitiveness of Tasmania and the Australian economy.

12. Michael Deegan, *Letter to the Hon Anthony Albanese*, 24 May 2012.

13. Cited in Bureau of Infrastructure, Transport and Regional Economics, 'A Regional Economy: A Case Study of Tasmania,' Report 116, p.xxii.



The Coalition's 'root and branch' review will consider broad competition issues and will not be constrained or limited to consideration of just the functioning and effectiveness of the *Competition and Consumer Act*.

The Coalition will, in other words, implement a competition review akin to the parameters and substance of the Hilmer Review. Such an approach is appropriate if we are to lay the base for a more productive and competitive 21st century economy and a more prosperous Australia.

**The Coalition seeks industry, community and interested party comment on:**

- 3a. Issues of relevance to Tasmania which should be considered in the Coalition's comprehensive 'root and branch' review of the national competition laws and competition frameworks – including consideration of reforms to the structure, utilisation and contestability of Tasmania's economic infrastructure.

***4. Tasmania's agricultural and irrigation potential***

Agriculture has regrettably often been overlooked in Tasmania's future growth prospects.

Tasmania has abundant rainfall.

Bringing that water resource to the more fertile agricultural lands has seen growth in production which can be enhanced even further. The Meander Valley Irrigation Scheme, for example, will increase the gross value of production in that valley by \$27.3 million per year, which is a 23 per cent increase in output compared to before the scheme was developed.

Proposals for irrigation works that would support jobs growth, investment and the further development of Tasmania's agricultural sector have been developed by Tasmanian Irrigation. These include proposals around the Blythe River, Circular Head, Southern Highlands and Scottsdale that could develop and enhance Tasmania's agricultural industries over the next one hundred years.

The Coalition believes that the need for dams for both agricultural and tourism purposes is now well and truly understood. There is the potential to dramatically expand agriculture and dairy production in Tasmania by developing new dams, without compromising the State's outstanding natural heritage.

**The Coalition seeks industry, community and interested party comment on:**

- 4a. The adoption of irrigation proposals outlined by Tasmanian Irrigation, including consideration of projects that deliver the most economic return to the Tasmanian economy.
- 4b. Options for the building of new dams in Tasmania, including consideration of potential locations and the impact on local communities, the environment and the broader economy.
- 4c. Other options for increasing Tasmania's agricultural output, to make the most of the state's tremendous potential for high quality, high value food production.



## 5. Promoting research and innovation

Tasmania should be a centre for research and innovation in fields where it holds comparative advantage.

One of Tasmania's key strategic advantages is its proximity to Antarctica.

The Coalition has a proud history of recognising and capitalising on this advantage.

During a previous Federal Coalition Government, with the support of local Federal representatives especially Michael Hodgman, Bruce Goodluck and Shirley Walters, the Antarctic Division was relocated to Kingston (some 10 kilometres south of Hobart) in Tasmania.

A State Liberal Government appointed the first Minister for Antarctic Affairs, the Hon Peter Hodgman, MHA. A former distinguished Governor, Sir Guy Green, has acted in a variety of roles and successfully enhanced the State's reputation as a gateway to Antarctica.

Since that time, the Convention for the Conservation of Antarctic Marine Living Resources, the Antarctic Climate and Ecosystems Cooperative Research Centre, and the Integrated Marine Observing System have been located to Hobart. Hobart also hosts an important node of the CSIRO specialising in Southern Ocean research.

There is no doubt that with the CSIRO, the Antarctic Division, the Convention for the Conservation of Antarctic Marine Living Resources, the Antarctic Climate and Ecosystems Cooperative Research Centre and the Integrated Marine Observing System, Hobart has established itself as a centre of Antarctic expertise logistically, scientifically and strategically.

There are two limitations to the existing Antarctic research programmes in Tasmania. First, the programmes are administered by numerous Departments and funding sources.

This division potentially limits administrative efficiencies and increases administrative costs (both for taxpayers and for researchers).

Second, funding for some programmes (such as the Antarctic Climate and Ecosystems Cooperative Research Centre) are set to expire shortly and there is limited long-term funding certainty. The Government has provided \$9.5 million in the 2013-14 Budget to support Australia's presence in the Antarctic and \$7.9 million over four years for the *Aurora Australis* icebreaking vessel used to support the Australian Antarctic Programme. But it is an open question as to whether this funding is sufficient, properly targeted or likely to be utilised in ways that best maximise Tasmania's Antarctic-related research potential.

Long-term secure funding could realise the vision of a greater Antarctic role for Hobart.

Whilst Tasmania has an excellent reputation and record in Antarctic research, it faces constant competition from New Zealand and South America.

It appears that Tasmania's Antarctic research capacity could be better utilised through more concerted and concentrated facilities that provide funding certainty and greater scale economies.



The Coalition believes there is scope for appropriate Commonwealth agencies or functions to be relocated in whole or part from Canberra to Tasmania.

Relocation of Commonwealth agencies or functions should only occur where there is an inherent logic, cost advantage and where there is complement between the capabilities of the agency and the comparative advantages of the region.

**The Coalition seeks industry, community and interested party comment on:**

- 5a. The establishment of a new 'Centre for Antarctic and Ocean Research' in Hobart that will incorporate the existing Antarctic research activities, whilst retaining their individual independence.
- 5b. Appropriate funding for a new Centre for Antarctic and Ocean Research, including consideration of increased funding tied explicitly to performance targets such as patent applications, research publications and tangible industry or business linkages.
- 5c. The relocation of Commonwealth agencies and functions to Tasmania and whether any such relocation would be mutually advantageous to both Tasmania and the nation as a whole and would promote the efficient functioning of government and long-term productivity growth.

**6. Boosting defence-related industries**

Tasmania has a number of Defence-related facilities and industries, including the Australian Maritime College and various manufacturing facilities.

While Australia's strategic outlook may not warrant an increase to Defence facilities in Tasmania, there is potential for Tasmania to develop its expertise and capabilities in Defence-related facilities and industries.

The HMAS Jervis Bay was successfully deployed for our East Timor operations in the late 1990s, highlighting the effectiveness of this Tasmanian-built vessel for defence operations.

There is potential for the State to attract further investment in maritime research or manufacturing targeted for Defence procurement, as well as to leverage up existing related Defence-expertise. The food research facility at Scottsdale's Defence Science and Technology Organisation site could, for example, become a major international centre for food research that could deliver real benefits for humanitarian assistance and disaster relief in the Asia-Pacific region.

Removing barriers and costs to business are important mechanisms to improve both the capabilities of Defence-related industries and the attractiveness of investment in such industries.





The Coalition will remove barriers and costs to business (as already outlined above), but consideration should be given to mechanisms (such as structural reforms to the Tasmanian economy) that best promote further private sector investment, job creation and competitiveness in Defence-related Tasmanian industries.

**The Coalition seeks industry, community and interested party comment on:**

- 6a. Potential mechanisms to promote further private sector investment, job creation and competitiveness in Defence-related Tasmanian industries.



Authorised and printed by Brian Loughnane, for the Liberal Party, cnr Blackall and Macquarie Sts, Barton ACT 2600. May 2013.