



COMMERCIAL VESSEL ASSOCIATION
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Private Ferry Fares Submission to IPART 2008



Clarence River Ferries

July 2008



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Helping operators
make more money

Advancing Tourism and the Environment

Introduction

The **CVA** makes this submission in support of a private ferry fare increase based on industry cost movements over the last nine months, to June 30, with a further three months data to be included by IPART in early October, making a total of 12 months' data, ie to the end of September. It does so on behalf of the seven private ferry operators licensed by the Ministry of Transport to operate in New South Wales. Details of the operators are in Attachment I.

IPART has decided to retain the industry index of cost items used in recent years with the make-up this year being as on Page 36 of last year's IPART report, page 8 below. It has further decided to use inflators for each of these five that are from readily available, publicly published information rather than the industry specific inflators used in the past, ie IPART will use global inflators rather than industry ones.

The industry is strongly opposed to the move away from industry inflators. However, IPART has agreed to review the use of global inflators if, in one case or another, the amount differs significantly from the industry ones supplied here.

This report sets out what the **CVA** believes will be the approximate fare increase due for 2008 based on industry inflators for the nine months ended June 30.

Because of the large increase in fuel prices this year and its affect on higher fuel consumption operations, this year's submission is in two parts, ie

- a fare rise for the Ettalong Service of Palm Beach Ferries and
- one for all the remaining operations, ie Palm Beach Ferries Basin run and the runs of all other operators.

The fare rises anticipated to be justified when the last three months data are included are

All runs except the Ettalong one	8.70 percent
The Ettalong run	11.34 percent

These are based on the following rises in the index items

Labour rates	3.01 percent
Fuel expense	39.15 percent
Insurance expense	6.00 percent
Interest expense	11.33 percent
All others expense	4.50 percent



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Discussion of the Inflaters

Labour

Labour costs within the industry have increased by 3.14 percent as a result of applying the Fair Pay Commission's 2007 decision to the Marine Charter Vessels (State) Award as follows.

		Ferry Fares Wage Rate Analysis			
		2008			
		2006	2007	Diff	%
		From Dec 1	From Oct 1		
Master	>35.0m	691.16	709.60	18.44	2.67
Engineer	>35.0m	691.16	709.60	18.44	2.67
Master	>20.0m	621.46	639.90	18.44	2.97
Engineer	>20.0m	621.46	639.90	18.44	2.97
Master	18.5 - 20.0m	609.26	627.70	18.44	3.03
Engineer	18.5 - 20.0m	609.26	627.70	18.44	3.03
Master	<18.5m	605.96	624.40	18.44	3.04
General Purpose Hand		550.06	568.50	18.44	3.35
		Weightings			
		Masters	100.00		3.01
		GPH's	50.00		3.35
		Weghted Incr			3.12

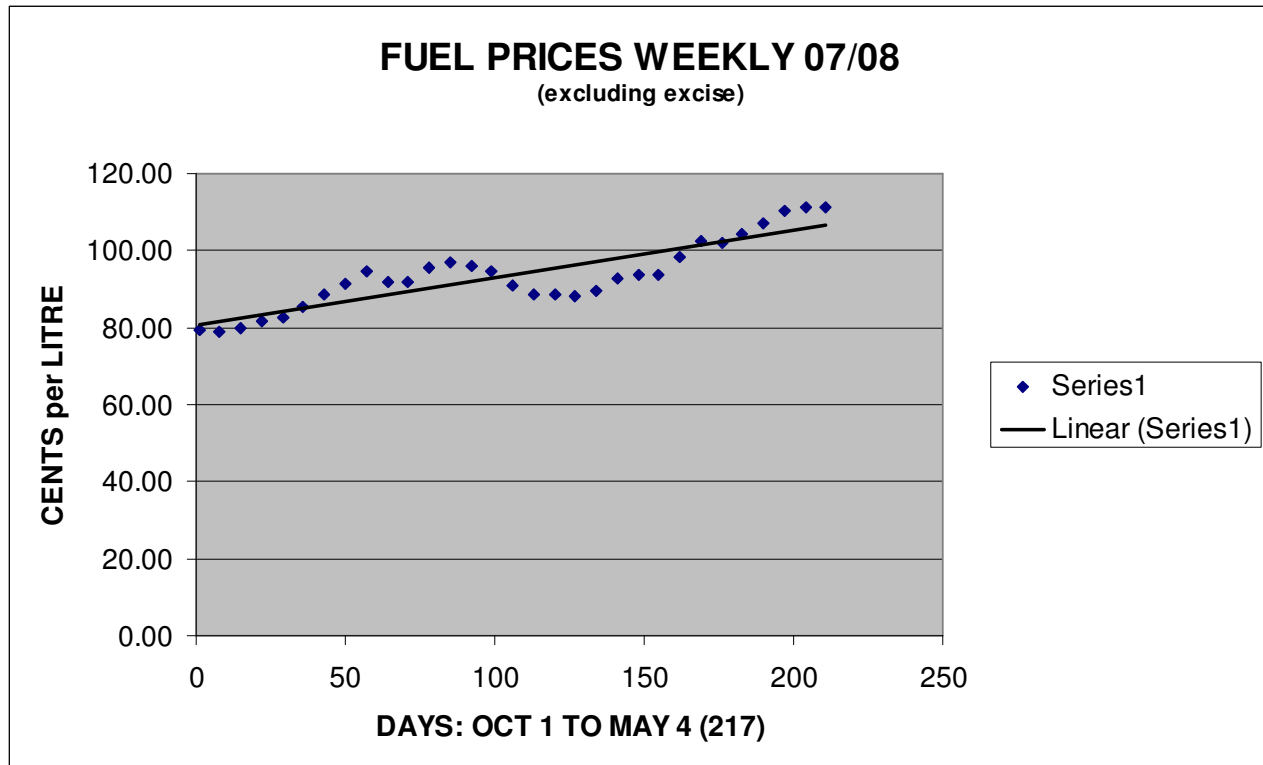
Increase applies for full year, ie from Oct 1

Ferries in the fleet do not exceed 25 m in length, hence the choice of Masters' wages above that are an average of the three lowest rates in the table. In addition, only about half the fleet carry a General Purpose Hand in addition to a Master. Therefore, the weighted increase in Wages in total is in the direction of the Masters.

Fuel

Diesel fuel has risen from 80 c/l net of the Federal Excise (boats do not pay this road cost content of normal retail prices) to 115 c/l at the end of June. If projections are made to September 30, it is anticipated that the average 2008 fuel price, for the year ended September 30, will be 102 c/l compared to that for last year of 73.3 c/l, an increase of 39.15 percent.





Mobil Gate Prices for Sydney Metro, Diesel

It should be noted all private ferry operators, except Matilda on Sydney Harbour, have little choice in where to buy their fuel so have little chance to reduce their costs by shopping around. Many are compelled to re-fuel at the local yacht or other boat club and pay a higher price than they would at a service station.

Insurance

Marine insurance is made up mainly of a hull and machinery component and a protection and indemnity component. The cost of the former has not risen this year but the cost of the latter has risen fifteen percent. The weighted increase is six percent, thus:

“Would suggest an overall average for our clients is between 5-7%”

Oamps Gault Armstrong, Australasia’s largest marine brokers, 7/07/2008.

Interest

Based on the NAB’s rate for small business loans, the one we have always used, the cost of interest has risen by 11.33 percent to the end of June and will stay at this level for the year to September provided there are no other rises between June and September. In fact, since June 30 and at the time of writing, StGeorge Bank and the Commonwealth Bank have notified rate increases to cover their borrowing costs. Others may soon follow.



NAB HISTORICAL RATES FOR BUSINESS LENDING

Effective Date	Base Rate	Business Mortgage Overdraft
	Rate Code B	Rate Code BO
10-Sep-07	10.85%	9.40%
22-Oct-07	10.95%	9.50%
12-Nov-07	11.20%	9.75%
3-Dec-07	11.20%	9.75%
7-Jan-08	11.35%	9.90%
11-Feb-08	11.64%	10.19%
10-Mar-08	11.93%	10.48%
17-Mar-08	12.03%	10.58%
1-Apr-08	12.03%	10.58%
21-Apr-08	12.13%	10.68%
28-Apr-08	12.13%	10.68%

2006/07 Oct-Sep

Period	Days	Int	Exp on \$100,000
Oct/Nov	43	0.10	1133.90
Nov/Aug	273	0.10	7385.96
Aug/Sep	28	0.10	776.71
Sep	21	0.10	582.53
	365		9879.10

2007/08 Oct-Sep

Period	Days	Int	Exp on \$100,000
Oct	21	0.10	582.53
Oct/Nov	21	0.10	588.29
Nov/Dec	21	0.10	602.67
Dec/Jan	35	0.10	1004.45
Jan/Feb	35	0.11	1018.84
Feb/Mar	27	0.11	807.41
Mar	7	0.11	216.81
Mar	15	0.11	464.59
Apr	20	0.11	619.45
Apr	7	0.11	218.73
Apr/Sep*	156	0.11	4874.47
	365		10998.23

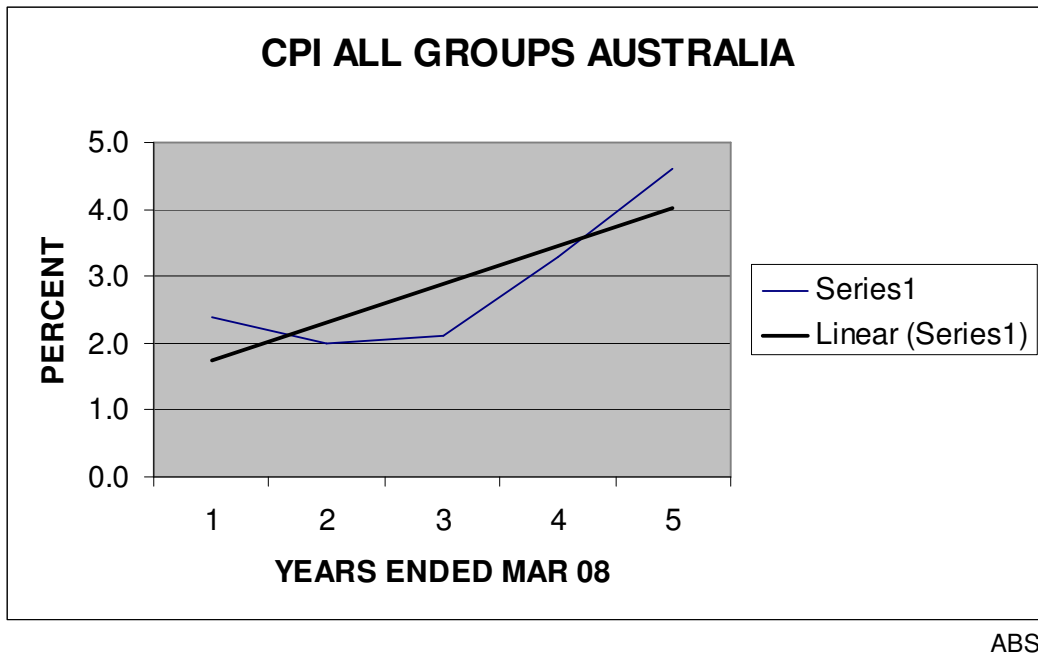


* Assuming no more rises

Interest Expense 2006/07	9879.10
Interest Expense 2007/08	10998.23
% Increase	11.33

All Others

This group of expenses includes maintenance, auditing, advertising, vehicles, light and power, postage, printing and stationery and so on. IPART has used the CPI as the inflator in the past and will do so again this year.



To the end of March, inflation, as measured by the CPI for all of Australia, was at 4.2 percent and rising as can be seen above. The RBA said in June that it expected inflation to keep rising for the balance of this year and slow thereafter in 2009. What then is the likely rate for the year to September to apply to the All Others group? The **CVA** is of the view that this amount is likely to be not less than 4.5 percent as the March quarter itself was 1.3 percent, giving an annual rate of 5.2 percent at that time.

It is also important to point out that that the CPI may not be the appropriate inflator for this group of expenses. For example, it includes maintenance which, in turn, includes lubricants that are petroleum products, the prices of which have increased at the rate of fuel. It is the industry’s responsibility to bring this to IPART’s attention next time in a quantitative way.



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Productivity

In each of the last few years, IPART has discounted the wage rate percent of the fare increase because of assumed increases in labour productivity which were not based on industry data but on a global index for transport.

For the 2007/08 year compared to the year before, labour productivity in the industry has decreased by 4.38 percent. This is based on an analysis of passengers carried in the months of December and May, in each of the last two years, for the six companies out of the seven contributing to this report. May is a typical Winter Month and December a typical Summer month. The two combined are an accurate measure of passengers carried.

It should also be noted that passengers carried are the right measure of “output” to be related to labour “input”. Thus, labour productivity is passengers carried (output) divided by labour (input). The change from one year to the next is the change in labour productivity. It should be noted that other suggestions of output, such as trips made, are not relevant as operators do not undertake trips other than to carry passengers.

Passengers carried

Dec, May 06/07	Dec, May 07/08
136,077	132,871

Staff, full time equivalents

Dec, May 06/07	Dec, May 07/08
46.93	47.83

Productivity; passengers carried per staff person

Dec, May 06/07	Dec, May 07/08
2899.57	2777.98

Decrease in productivity 4.38 percent.



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Two Increases This Time

The Ettalong service of Palm Beach Ferries runs in mostly open water, North across the entrance of Broken Bay. As a consequence, the operation experiences rougher conditions than all other private ferry services in New South Wales. It is also a high speed service.

Rougher conditions and higher speed mean that this service has a higher fuel consumption than do the others. The average for all runs, including Ettalong, in the index, is 12.73 percent of total expenses. Ettalong's alone is 19 percent.

Applying this year's increases to the **CVACI**, on the assumption it represents all other runs more or less accurately, yields this result, ie an increase in the fare of 8.70 percent.

CVACI 2008 WEIGHTINGS (IPART REPORT 2007)

	%	Increase over 2007 %	Weighted increase %
Labour	40.19	3.01	1.21
Fuel	12.73	39.15	4.98
Insurance	5.40	6.00	0.32
Interest	4.49	11.33	0.51
All Other	37.18	4.50	1.67
Total	100.00		8.70

Applying this year's increases to an Ettalong Index, based on their accounts for the full year to June 30 2008, yields a fare increase of 11.39 percent (see next page).



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ETTALONG 2008 WEIGHTINGS (COMPANY ACCOUNTS*)

	%	Increase over 2007 %	Weighted increase %
Labour	35.00	3.01	1.05
Fuel	19.00	39.15	7.44
Insurance	2.00	6.00	0.12
Interest	11.00	11.33	1.25
All Other	33.00	4.50	1.49
Total	100.00		11.34

* Full year to June 30



Issues Paper

The 2008 Issues Paper has not been received at the time of writing.



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Conclusion

The industry's key points in this year's submission are

- the **CVA**, on behalf of the private ferry operators in New South Wales, seeks an increase in fares for the Ettalong service of 11.34 % and for all other services of 8.70 %
- it seeks that these fares to be implemented from December 1 2008 rather January 1 2009
- it protests the use of global inflators rather than industry ones but acknowledges IPART's expressed willingness to check their's with industry's.



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Attachment I

Industry Operators

Central Coast Ferries P/L	Ms	Bets	Conway	4363 1311
Church Point Ferry Service	Ms	Penny	Gleen	0433 038 408
Clarence River Ferries	Mr	Michael	Laibl	0408 664 556
Cronulla and National Park Ferry Service	Ms	Christine	Hack	0417 781 776
Dangar Island Ferry Service	Mr	Andrew	Davey	0418 207 856
Matilda Cruises	Mr	Anthony	Haworth	0425 260 204
Palm Beach Ferry Service	Mr	Matt	Lloyd	0414 714 668

