IPART PUBLIC HEARING

Supplementary Statement

The Commercial Vessel Association presents the following additional submission to IPART to further clarify the immediate cost and viability issues facing the Private Ferry Industry Operators.

Providing specific, detailed, individual Private Ferry operator costs to IPART is difficult due to the small, family owned nature of the businesses. However research conducted by the MOT on the Industry earlier this year provides a sound basis upon which to build a collective understanding of the Industry and the dynamics effecting profitability and viability. This brief paper draws on the research conducted by MOT.

Background

In 2008 the Private Ferry Operators approached government requesting a review of the current contacting model. Government appointed an external consultant to work with Industry to undertake this analysis.

Data collected for the Private Ferry Contract Reform Working Group (PFCRWG) report represented a record of information received from the operators for the period 2007/2008. It must be noted that this information has not been independently audited or verified however the operators involved were committed to ensuring a transparent process. It should also be noted that this information is historical and does not accurately reflect cost changes which have occurred over the past 18 months.

This is one of the principal reasons why the CVA, in its first submission to IPART asked for a reform to the price review process. I.e. The use of a Historical cost review process is inappropriate when used to address current pricing requirements.

The Report

The PFCRWG report divided the Industry and consequent analysis into 2 categories, fast and slow, due to their significantly different cost structures.

Table 1.1 shows the differences between fast and slow ferry operators both in terms of cost and revenues.

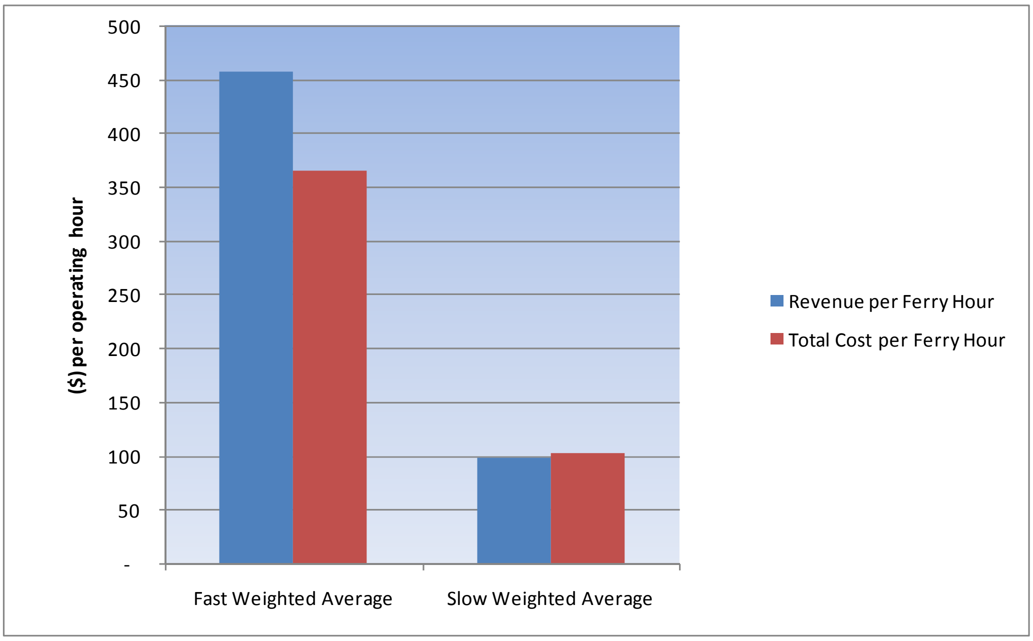

Table 1.1

As can be seen from the table, the average weighted operating cost per ferry hour for slow ferries was found to be greater than the revenue generated per hour. Specifically the report stated;

> *"In 2007/08, slow ferry operators reported a weighted average loss of approximately $143,000 or 4.7% of revenue (Earnings before Tax). Reported 2007/08 weighted average EBITDA and EBIT for slow ferries was 11.0% and 4.9% respectively. However, four slow ferry operators reported EBITDA ranging from 0.0% to 6.0% and EBIT from negative 7.9% to positive 3.7% (see table 1.2)*

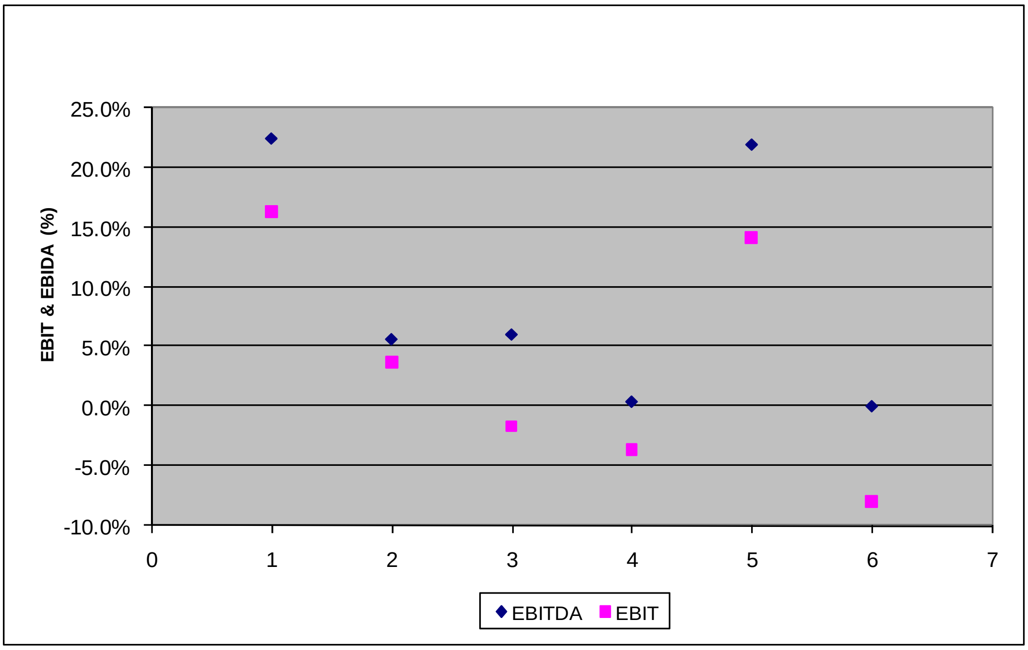

Table 1.2

In addition, the report analysed the hourly operating costs for both fast and slow ferries. These are depicted in table 1.3 below. It is clear that operating costs per hour for fast ferries are significantly higher than those for slow ferries. It is also clear that labour is a far more significant proportion of total costs for slow operators than it is for fast operators, whilst fuel and other overheads are a much more significant proportionate burden for fast operators

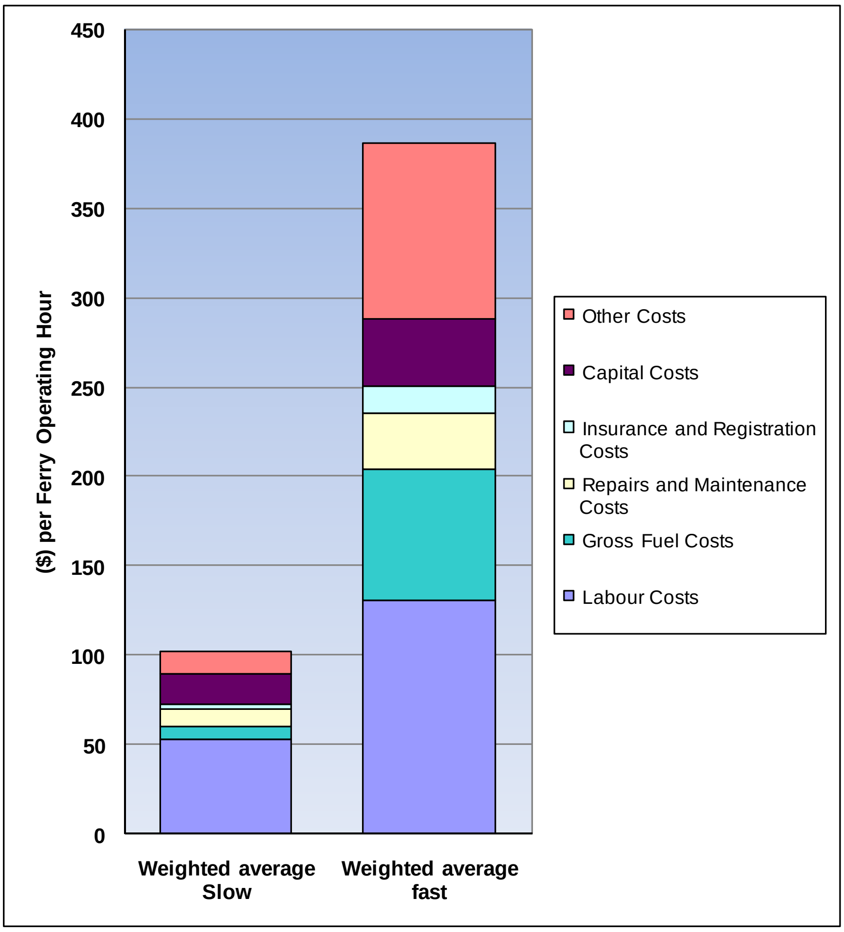

Table 1.3

The report also noted that most of the slow ferry operators had failed to adequately and accurately account for management time; in particular in relation to owner operators who had not charged for their own time. Thus another significant cost factor becomes understated in the cost analysis.

Report Summary

Amongst other things, the report made specific comment on the Industries long term viability.

> *"In order for future funding models to achieve overall financial viability as defined above, modelling has indicated that the slow ferry sector would have required additional revenues of approximately $0.31 million to $0.50 million in 2007/08.*

In that year, this additional revenue would have provided adequate EBIT returns defined above (10% to 15%). However the additional revenue would still have been inadequate to cover vessel replacement."

With regard to the fast ferry operators, the report indicates that they are financially viable with reliance on regular patronage. Some of the fast ferry operators indicated that their operation would not be viable if reliance was only on passenger service with no charter or tourist income to supplement income.

The key result of this shortfall in passenger revenue was summarized in the report as the inability of the operators to replace the fleet as and when required. The report goes onto propose a range of options to address the long term viability of the Industry. These involve a change to the contracting models.

The report provides a clear view that the Private Ferry Operators require further subsidies to improve their viability.

In this regard fare adjustments do not provide any solution to the Industry. In fact amending fares upwards in order to match cost levels will simply force many customers to use other forms of transport which are subsidized by Government.

In summary the report recommends an immediate and complete change to the Private Ferry Contract models in order to ensure operator viability and to place the Private Operators on a level playing field with their Government competitor.