

**Submission No. 14**

Norfolk Island Economy

Date: 17/04/14

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To the Joint Standing Committee on the National and External Territories,
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Dear Committee,

I provide the following information, suggestions and documentation as a summarized response to the JSC's intent to inquire into and report on:

- redressing barriers to tourism, with particular regard to air services, facilities for cruise ships, roads and other infrastructure;
- complements to tourism, such as agriculture, other industry or small-medium enterprises; and
- proposals and opportunities for niche industries.

I would welcome the opportunity to expand on any of this content in person after the 29th April during JSC visit.

This response is provided on the basis of my experiences as Chief Minister for the 12th Legislative Assembly (2007-2010), Minister for Tourism, Industry and Development in the 13th Norfolk Island Legislative Assembly (2010-2013), Experiences (20+ years) from within and external to the tourism and hospitality and service industries and as the Chief Executive Officer for Oceania Economic Development Corporation¹ (an organization dedicated to introducing positive economic development to the island across a myriad of areas).

Although I appreciate the committee's narrow scope and focus, there is a need to recognize the lack of a defined framework and responsibility for both NIG and Australian Governments over the last thirty years, this has negatively impacted on short and long term stability, which is an absolute necessity for large scale investment, industry evolution and improvement.

Ignoring the political/governance landscape in this manner would be akin to insisting that during Fiji's political coups (1987+2000) and resulting instability, when tourism numbers were drastically reduced, the tourism numbers and investor confidence could have been improved by repainting the airport terminal!

The connection between visitor confidence in the destination and inbound tourism numbers is a very sensitive one, often impacted by airlines and related industry sectors (eg pilots strike), travel agent uncertainty, poorly considered government media and more recently journalistic licence creating a negative attitude to the island.

Yours Sincerely

Andre Nobbs
16 April 2014

¹Oceania Economic Development Business Summary (Extract) – Attachment A.

Redressing barriers to tourism, with particular regard to air services, facilities for cruise ships, roads and other infrastructure;

Current barriers to tourism for air services include:

1. Lack of proactive seasonal adjustment of air service seating inventory to grow passenger numbers in high season
2. Constrained capacity to offer competitive air ticket pricing for leisure travel to Norfolk Island
3. Restrictions on Air New Zealand associated with underwriting agreement (current agreement modeled on Christmas Island “Corporate Travel” model)
4. Limited/reduced NIGTB advertising budgets (more visitors expected from budgets that have been reducing over the last 4 years)
5. Minimal Air New Zealand advertising for the NI route (even in flight multimedia lacks NI promo)
6. Almost non existent recognition of Norfolk Island throughout Australian media (negative media being the exception) – Try and spot Norfolk Island on any Australian television weather report.
7. Non alignment or access to Tourism Australia promotional and travel initiatives
8. Little or no access to private or public sector tourism grant funding
9. Branding and signature imagery not given enough profile/budget to resonate with new travelers

A brief overview of the dot points above:

Norfolk Island is subject to seasonal tourism appeal fluctuations, September through to May are the higher performing calendar months, usually creating seat load factors (SLF) in excess of 86% and in some cases no room for additional passengers, dependent on freight requirements. This automatically reduces the potential growth in tourism numbers. Those tickets purchased when the SLF has reached 80% or above will also be subject to higher charges causing a disincentive for the traveler, who will likely shift to a competing destination.

Available seats on flights are a challenge to any event planned or commenced to bring additional travelers to the island. The commercial realities of airborne leisure tourism quickly highlight the losses to be incurred if the plane is not adequately loaded for each sector. Eg both directions of the Aust-NI-Aust travel.

The terms of the underwriting agreement put a deal of constraint upon the Air New Zealand airline and negate some of their competitive “sale” options, these sale and yield management options are available to other carriers and therefore to our competitor destinations. The airline business is a difficult one, in Norfolk Island’s case where insufficient funding is available to raise and maintain the islands profile, appeal and value – and there is virtually no corporate travel market to provide consistency and yield support, the airtservice operation is fraught with risk and cost.

Having identified the above issues, Air New Zealand provide a quality, consistent service in line with the contractual arrangements, unfortunately this has not inspired creative advertising or partnering with NIGTB or Tourism Australia to an adequate level that creates an ongoing demand and growth for tourism numbers flying into Norfolk Island.

Recommendations:

- a) If the underwriting agreement is renewed, install performance bonus criteria to ensure the airtservice operator takes a proactive approach to SLF and yield formulas, rather than merely satisfying the terms of the agreement.
- b) Future airtservice operator agreements need to contract a level of brand, profile and promotional engagement to establish and increase destination awareness and demand.
- c) If Norfolk Island is not to have access to Tourism Australia initiatives, enable the airtservice operator specific access within the terms of the underwriting agreement.
- d) Enable private sector/commercial airline sales initiatives within the contract operation – refer point 1.
- e) Use trend data to maximize full year seat availability to maximize peak season usage.

Current barriers to tourism - facilities for cruise ships include:

1. Safe Harbour/mooring facilities
2. Appropriate passenger movement vessel for ship to shore transportation
3. Essential infrastructures to install, launch, operate and maintain passenger landing equipment
4. "Ship side" tidal and swell movements impacting on safe disembarkation from the cruise ship itself
5. Success ratio to ensure consistent destination programming and ongoing commitment from cruise ship operators
6. Access ramps, safety rails, safety and security lighting, toilet and first aid facilities
7. AMSAR accreditation for local boat operators to utilise local knowledge for safe disembarkation

A brief overview of the dot points above:

Norfolk Island, since 2009 has successfully disembarked a number of cruise ships with passengers coming ashore ranging from 40 pax (smaller boutique cruise liners) to over 1600 visitors from a single vessel, simultaneously landing and being professionally managed through their itineraries and tourism experience preferences throughout the island. In each case Norfolk Island has so impressed the cruise ship passengers with the natural beauty, facilities, professionalism and friendliness, that we feature in the top three preferred destinations on any cruise itinerary survey that is inclusive of Norfolk Island – this is a clear demonstration that NI has the capacity to deliver outstanding and competitive results as a cruise ship destination. Cruise ship tourism does not create an excessive "footprint" that will impact on the environment and natural assets of the island, in fact if mooring and disembarkation were not an issue, the "footprint" and cost benefit analysis for cruise ship tourism versus airborne tourism would demonstrate cruise ship tourism as the more sustainable. Consider international airport establishment and operational costs, runway resealing and lifespan, safety, fire and support equipment. Cascade Pier is more regularly used to disembark passengers. A pontoon is attached to the pier to enable a more stable and safe landing arrangement for passengers, the pontoon was an interim measure to demonstrate the capacity of the island to manage cruise ship tourism. Recently the previous grant funding, successfully applied for by the NIA and NIG to provide essential maintenance for safety and extension of the working area to the pier, which is a Commonwealth asset was converted into conditional funding that required the NIG to commit to land rates implementation. This is an atrocity, not only is the government and community penalized for working to gain funding to repair a Commonwealth asset, the conditions applicable to the funding are completely unrelated to the project! If conditions were to be applicable, surely they would be to ensure training and tourism facilities for the landing area would be to an agreed standard. By making the funding conditional, it is more likely to disconnect the community from the project. With regard to the short pier extension applicable to the approximately \$13M, it will not enable any drastic increase to the existing success rate of disembarkation, a few metres beyond the current pontoon extension will not make that big a difference, as such, containerization will not be brought much closer to reality either. As Minister for Tourism, Industry and Development I was kept informed of engineering analysis and feedback from the cruise ship companies as well as the islands own personnel with engineering and marine expertise, in evaluating that spectrum of advice the current proposed extension, if it is funded, satisfies EIS and is completed, this will be a very small step toward more consistent passenger and sea freight transfer. Having stated the above, I am supportive of the proposed work to bring the pier up to a standard of safety that would be applicable anywhere else in Australia – and as a Commonwealth asset, the Commonwealth may otherwise be liable for a dangerous workplace under it's care, I would think this should be given some priority. The capital works from this upgrade would also be welcomed by the private sector who have been stripped of normal capital works available through the Norfolk Island Government (NIG), through less than subsistence budgeting support over the last four years.

Recommendations:

- f) Encourage engagement with cruise ship tourism by removing funding conditions unrelated to project.
- g) Evaluate the "ship side" and "land side" issues that prevent disembarkation, then resolve those issues.
- h) Evaluate prefabricated pier solutions to reduce cost and environmental implications.

Current barriers to tourism - roads and other infrastructure;

1. Indistinct asset and infrastructure ownership and responsibility arrangements.
2. Necessity to develop/implement “Investment Templates” to enable private sector involvement
3. 4 years of subsistence budgets has removed capacity to maintain & upgrade tourism related infrastructure.
4. OH&S, Asset Replacement and Upgrade “Snowball” resulting from subsistence budgeting
5. Economic Negative Feedback Loop impacting private/public investment.
6. Reduced or lack of training and upskilling opportunities to assist in infrastructure planning & development.
7. ICT, communications & data transmission limitations/costs as a result of remoteness and satellite services.
8. Reduced GST revenues through less than competitive tourism offering, directly impacting infrastructure.
9. No established formulas for private/public partnerships to improve infrastructure and competitiveness.
10. International Airport costs and requirements – limited funding options (attempt to align charges rejected).
11. Tourism Australia’s lack of interest in promoting NI as an external territory of Australia.
12. Devaluation of the island tourism product by desperate and financially challenged local operators with deteriorated infrastructure.
13. Electricity infrastructure, maintenance and operational costs.

A brief overview of the dot points above:

Norfolk Island consistently improved the condition of major infrastructure across the island when self government was to be commenced in 1979. Many reports since that time have identified the poor state of roads and support infrastructure handed over to the Norfolk Island Government in 1979. Many reports now quite rightly criticize the current state of island roads and infrastructure. There is a consistent theme that emerges regarding the claiming of ownership of the asset, pier, cliff, high water mark, land, structure or road by the Commonwealth – however, taking no responsibility for the assets upkeep. The unfortunate outcome of this theme is that where a productive partnership could exist, there isn’t one. The KAVHA World Heritage Listed area comes closest to recognizing the opportunity to collaborate on infrastructure by both Governments and still falls very far short of the mark – I can speak with some experience on this matter as a longstanding member of the KAVHA Board who has many times highlighted better options for collaboration across the KAVHA site. The NIG has lacked the capacity to make any substantial investment in infrastructure since the GFC. Although a portion of budget support has been conditionally supplied by the Commonwealth, this leaves the approved Appropriation Bill well short of repairing, replacing or upgrading the diverse tourism related infrastructure on the island. OH&S and necessary asset replacement therefore accumulate and create a “snowball” that will further challenge the depressed economy and in a worst case scenario result in an accident, possibly impacting on life and limb or impacting visitor confidence in the destination, negatively impacting inbound tourist numbers. Electricity infrastructure is challenged by the oversupply from photovoltaic systems fitted throughout the island that feed power back into the grid. There is an opportunity to turn this infrastructure issue into a tourism attraction by moving NI power generation towards a non fossil fuel dependent operation.¹ Satellite communications on the island impact on tourism by their costs, latency delays and sometimes service outages, the visitors quite often require access to 3G or better connectivity and greater bandwidth/speed. Connection to a fibre optic cable would fulfil this requirement and open the island up to a range of diverse revenue streams such as call centres and business process outsourcing that would not negatively impact on tourism. The opportunity exists to partner private sector in infrastructure development, operation, maintenance and replacement, however an acceptable format for public – private partnerships needs to be developed to harness private sector savvy with public sector community responsibility. (see attachment F)

Recommendations:

- i) Clarify asset ownership and responsibility, eg. Cascade Cliff - Commonwealth Asset – NI pays a loan for cliff repairs.
- j) Ensure budget support covers dilapidated and unsafe infrastructure repairs and replacement.
- k) Recognise potential for infrastructure “Showcasing” such as a renewable electricity¹ generation plant.

¹ **Renewable Energy research and Showcase (OECD document) Attachment B**

Complements to tourism, such as agriculture, other industry or small-medium enterprises;

1. Hemp Industry¹ – Medical and Clothing
2. Milk
3. Casino (single licence)
4. Branded Alcohol and Duty Free online sales platform
5. RTO and training options for Hospitality and Tourism trainees
6. Commercial Fishing outside of the “Box”
7. Education Hub for the region
8. Boarding School arrangements
9. Bee keeping and export
10. Guava pulp export
11. Film industry²
12. New technology evaluation
13. University and research projects – NICHE, Energy, Steady State economy, Waste to Fuel etc

Norfolk Island offers a safe environment for training and small scale industry and is a virtual petrie dish for research and analysis that will not be corrupted by interconnected influences as would be the case on large land mass or continents. This offers an opportunity to link with Universities for study programs, development of renewable energy and related environmentally protective technologies and economic assessments such as Steady State Economy implementation.

OEDC has investigated a range of new industry initiatives with Australian and International small and medium industry operators (and investment capital agencies), in most cases OEDC has provided assistance to private and public sector areas to establish installation, commencement and operational costs (and where possible identify sustainable productive partnerships/infrastructure). In all cases to date the competitive advantage to merit the establishment of new enterprises on this remote island is premised upon the current local taxation and regulatory regime. As a direct result of numerous Australian Government announcements stating an impending, but yet unknown change to Norfolk Island’s fiscal, taxation and governance arrangements, most interested parties have withdrawn their proposals to await detail of the Australian Governments undefined yet imminent changes.

GNI and OEDC have invested considerable time and money into Registered Training organisation access for the island, to increase the upskilling and corporate tourism/training opportunities. There is a recognized need for registered training options, however the challenges of travel and associated costs make this a difficult element to sell. The Norfolk Island Central School (NICS) has shown a positive interest in linking with our RTO arrangements, the school has also worked positively with OEDC to evaluate Boarding School type arrangements for Norfolk Island – The NICS consistently provides quality and high scoring student experiences that facilitate smooth linkage to Australian Universities, Tafes, Apprenticeships and employment. Add to this the family safe environment on Norfolk Island and you have a great combination for boarding/schooling.

Grace Films² utilized NI to film and complete the production of “My Minds Own Melody”, a film production that involved significant equipment repositioning and local support. New Zealand is an example of how high profile filming can reinvigorate the perception of the destination – Lord of the Rings, Last Samurai etc.

Primary production and export industries still pose a potential revenue stream for NI, however AQIS and transportation difficulties have historically impacted on landed quality of export and ongoing viability.

Recommendations:

- l) Evaluate training and curriculum options for NI to provide commercial services to the region (University linkages)
- m) Implement an Economic Development statutory body³ to assist private and public sector in evaluating opportunities, regulatory requirements, AQIS and similar interfacing, infrastructure and business planning.

¹Hemp White Paper - Attachment C

²Grace Films Endorsement documentation - Attachment D

³Mindmap example of Economic Development Statutory arrangements – author Andre Nobbs - Attachment - E

Proposals and opportunities for niche industries.

1. Financial Services
2. Australian 2nd Shipping Register
3. Fibre Optic connectivity Data/Cloud Storage
4. High Security Data Storage
5. Call Centres
6. BPO's (Business Process Outsourcing)
7. Cosmetic/Health Tourism
8. Film, Television and Recording Studios
9. Observatory positioning for Astrology
10. New Technology "live" testing opportunity (4G technology, radio comm's equipment, telemetry etc)
11. High Integrity Gaming specific transactional services
12. Aircraft maintenance facility
13. Consultancy services (online)
14. Cottage industries complimentary to Cruise Ship Tourism

Norfolk Island has the potential to commence a number of new niche industries that are compatible with the culture, community aspirations and existing tourism related industries. However throughout OEDC discussions with potential new industry operators for Norfolk Island, the lack of Fibre Optic connectivity has been identified as a major limiting factor, resulting in higher inbound call costs, latency, reduced bandwidth and upload/download speeds. There can be no doubt that an opportunity exists across financial services, call centres, consultancy and business process outsourcing. Norfolk Island is ideally positioned in timezone, language and connectivity to Australian banking services.

Overarching Australian legislation ensures effective legislation overlays areas of financial services, while offering an opportunity to bring competitive commissioning and duty rate arrangements. Ultimately financial services and a second Australian shipping register on Norfolk Island will capture previously lost revenues back into the Australian system, add revenue and industry to NI and enable more competitive options for Australian offshore investment and financial management, as well as competitive outcomes for Australian shipping internationally.

The Norfolk Island Hospital has the potential to partner with Cosmetic/Health Tourism and intern training to enhance revenue and create new tourism and training opportunities on the island. Once again the overarching regulatory framework for medical and health services/obligations provides a solid operational base for these expanded services.

Film, Television and Recording studios would be a perfect fit for the island and would provide an ideal arrangement for post production and studio recording in the clean, creative and quiet environment. There is a high degree of local expertise in the areas of sound and video musicians and engineering, however the extension of Australian music, multimedia and video related grants may inspire Australian based artists to finalise parts of their (arts/multimedia related) grant funded projects on NI.

Norfolk Island telecommunications and RF based communications utilise a minimum of the available frequency spectrum for this region, the result of this is various mobile and RF based technologies could be tested and researched on the island, without the challenges of frequency spectrum application and allocation applicable to the densely populated frequency spectrum throughout Australia.

Recommendations:

- n) Extend the Australian Investment Visa¹ system to Norfolk Island – Identify appropriate investment areas.
- o) Evaluate fibre optic cabling options to enhance and build industry diversification on NI.
- p) Develop linkages between Norfolk Island Hospital and Health, cosmetic and medical facilities
- q) Create an Arts and Multimedia capacity awareness around Norfolk Island

¹IBDC submission and Australian Investment Visa documentation - Attachment - F

Conclusion:

As identified throughout this document, Norfolk Island has the capacity to not only economically develop, Norfolk Island has the capacity to bring competitiveness and new or previously unavailable revenue into Australian coffers.

Norfolk Island has never evaded “paying it’s own way”, the spectrum of services and utilities provided by the Norfolk Island Government over the last 30+ years is testament to innovation, balancing community size, local taxes, tourism industry and economies of scale in ways that have been the envy of many remote Australian communities. In previous Joint Standing Committee reviews Norfolk Island was visited and consulted, with the objective being to enhance governance and management arrangements for other Australian entities such as the IOT’s by utilizing some of Norfolk Island’s initiatives.

Economies of scale and single industry dependency on Norfolk Island have meant that the capacity to meet 21st century community expectations is beyond the islands reach without a number of changes. Ultimately the island community would seek a productive future, rather than a welfare dependency or contingent liability on the Australian system. Norfolk Island does not have ownership or control of an EEZ type structure to gain revenues from what may otherwise be “territorial revenue areas”, therefore there is little capacity to reduce single industry dependency. Previous attempts to establish high integrity OBU’s, commercial fishery, and 2nd Shipping Registers have been obstructed by the Department and/or Minister responsible for Territories. Recent discussions with other Australian Government personnel have demonstrated the capacity and need for these initiatives – and the ideal legislative and geographic positioning Norfolk Island has to offer.

There have been a number of Norfolk Island Government (NIG) initiatives to empower private sector and identify pathways to encourage economic development and recovery. An example of this was the Economic development Australia and NIG partnership to deliver workshops to private and public sector entities, below is an extract from the report:

“EDA workshops 24-27 Aug 2012

The main topics to emerge from the workshop were:

- The establishment of a united voice;
- The need to understand what the new Governance structures will be;
- The ability to access Australian government grant system;
- Education – particularly as it applies to development of business skills;
- Immigration regulatory regime;
- Engagement of an economic development officer;
- Development of conferences, events and festivals;
- Access to Norfolk Island through Australian domestic gateways;
- Norfolk Island to become totally sustainable;
- Development of the sea access;
- Development of new businesses, business incentives; and
- Support for the rebuild of the business sector. “

Almost two years later, the same themes and aspirations remain. To move forward and explore “**innovative ideas for tourism and opportunities to establish or grow other industries with a promising future**”, there needs to be acknowledgement of the competitive advantage/elements that Norfolk Island has available and how they relate to governance, regulatory and tax arrangements. There also needs to be a recognition that the last 30 years for Norfolk Island have been made more difficult through the loosely defined arrangement that has enabled Australia to negate NI industry diversification and eliminate long term stability for investment and business. The need for this recognition is so we do not “throw good money after bad”, we need to remove the lack of clarity around NIG and Australian Government responsibilities that has previously enabled a “re interpretation” of what Norfolk Island is and how it is to be treated by each new Federal Minister or Departmental Bureaucrat, **then** we will have a solid platform for investment, industry diversification and improved tourism outcomes. We should be making the best of a mutually beneficial partnership between this external territory and the Commonwealth of Australia.