

Executive Summary

The Indian Ocean Territories (IOT) is a unique and valuable part of Australia. However as small, remote islands, the economies of each of the territories are vulnerable. Their small size and isolation limits their resilience and capacity to manage a sustainable economy. Christmas Island (CI) is going through a period of transition resulting from the declining immigration activity. While there are opportunities to diversify the CI economy and put it on a sustainable footing, significant leadership is required.

The Department can play a role in setting the policy framework that enables the community to identify and further develop economic opportunities. The Department provides state-type services to the IOT and directly contributes to the development of infrastructure, release of land and funding for tourism organisations. The Administrator of the IOT, other Australian Government agencies and the West Australian Government also contribute to, and support, the IOT economy.

The Administrator is the Minister's representative in the IOT, and plays a key role in building and maintaining positive and constructive relations, both within the community and between the Commonwealth and the IOT community. The Administrator also plays a key communication role, outlining reasons for decisions and providing informed feedback to the Department on issues of concern. There is scope to enhance the Administrator's role, including by strengthening the decision-making role, providing advice on areas of need to ensure effective service delivery, and providing advice on economic development opportunities and priorities for investment.

Communication underpins the Department's work, and arrangements are in place to facilitate consultation on key issues as they arise. There are differing views on the importance, adequacy and methods of consultation amongst members of the community.

Local governments complement the Department's work in the IOT. The Department works closely with the Shires to deliver services and drive growth. Given the importance of their role in these small communities, local governments must be truly representative of all members of their community.

1. Introduction

The Indian Ocean Territories (IOT) is a unique and pristine environment. Christmas Island and Cocos (Keeling) Islands, while frequently talked about as one, are as distinct from each other as they are from the rest of Australia. Both have natural wonders, large parts of which are protected, and heritage sites of interest to Australians and the rest of the world. The cultural diversity on the islands is unique from that found in other communities in Australia, and provides a rich history and community life. The location of the islands is of strategic importance to Australia, given its proximity to Indonesia.

The unique environment and culture of the IOT presents real opportunities, in economic development, tourism, education and tropical research.

With these opportunities also come challenges. Those challenges facing small, remote communities on the mainland are also present in the IOT. In addition, the cost of living is high (partly attributed to high transport and communication costs), the market for goods and services is small, there is a limited supply of land, and the islands are vulnerable to extreme weather events. Some of these challenges cannot be overcome, and should be viewed as part of the fabric of the IOT.

The Australian Government acts as the Commonwealth and State Government in the IOT. The Department delivers state-type services, such as power and health services. The Department also funds and delivers new infrastructure, as well as upgrades, repairs and maintenance. An on-island team manages the delivery of most services.

- An overview of the 2014-15 Budget Outcomes and the 2015-16 Budget for the IOT will be provided separately to the Committee.

2. Opportunities to Strengthen and Diversify the Economy

2.1 Current economic situation

The IOT, and in particular Christmas Island, has been subject to significant boom-bust economic cycles over the past decade. The fall in economic activity each time a large employer leaves the IOT has a flow-on effect to the local economy, including employment and the viability of businesses. The boom-bust cycle also has a detrimental effect on the social fabric of the community.

There is considerable uncertainty in the IOT at the moment. The decline in immigration activity has resulted in the departure of many workers and a downturn in local business activity. A drop in passenger numbers resulted in the reduction of the number of flights in January 2015, from 4 to 3 flights per week to Christmas Island and from 3 to 2 flights per week to the Cocos (Keeling) Islands. This reduction has exacerbated feelings of isolation within the community and reduced the frequency of access to goods.

There is some argument that activity is returning to the 'normal' levels of the early 2000's, and well before the stimulus provided by the increased immigration activity. Notwithstanding this, the transition to these 'normal' levels of activity is difficult for both residents and local businesses.

The Cocos (Keeling) Islands have experienced the flow on effects of this economic downturn, most notably in terms of reduced access through air travel. The Cocos (Keeling) Islands have consistently experienced lower economic activity and higher rates of unemployment, relative to Christmas Island. The economy of the Cocos (Keeling) Islands has been heavily reliant on employment on the public sector. The Cocos Islands Cooperative Society is the main employer of Cocos Malays who comprise almost 75% of the community.

There remains considerable potential to enhance economic development in the IOT. The Department has been working closely with all stakeholders to encourage economic diversity and manage the boom-bust cycle, creating a more self-sustainable and predictable future for residents.

Christmas Island Market Garden

One of the major contributors to the high cost of living in the IOT has been the high cost of food. Food production is minimal, with several ventures having failed due to the impact of extreme weather events or cultural concerns. Although an increase in Commonwealth Government subsidised air freight to both islands provides some relief, the high cost of food and the availability of fresh meat, fruit and vegetables is consistently raised as a concern by residents.

The IOT Price Index (IOTPI), which was developed in 2012, compares the cost of buying a basket of goods in Perth to the cost of buying the same items on Christmas Island and in the Cocos (Keeling) Islands. In 2012, the index for Christmas Island was 148.9, indicating that the overall the cost of purchasing the basket of goods and services was 48.9% higher on Christmas Island than in Perth. The Cocos (Keeling) Islands index was 145.5, also representing significantly higher costs of living.

The Department has been working with the community to address high food prices in a sustainable manner. A lease for a market garden has been signed with Hidden Garden Sustainable Farm providing 22 hectares of Crown land on CI. Hidden Garden has commenced work on a commercial-scale operation, with a view to supplying lower cost fruit and vegetables to residents. Honey and eggs are expected to be provided in the longer term.

The business model also seeks to engage the community. Hidden Garden's business plan proposes that 45% of ownership will be offered to the local community. Thirty percent of profits will be retained for the benefit of Christmas Island residents. Funding will be managed by a Board and will be allocated to community projects via an application process.

Christmas Island Mine

One of the most significant areas of work recently undertaken by the Commonwealth was to extend the lease of the Phosphate Mine to 2034. Christmas Island Phosphates (CIP) is one of the major employers on Christmas Island. The extended lease provides ongoing employment for 150 workers on Christmas Island, and supports further capital investment by the mine.

The mine is responsible for a \$30 million Gross Regional Product contribution to the Christmas Island economy. The mine also funds the rehabilitation of previously mined sites under the terms of the Mining Lease and supports community projects and events. The Commonwealth received revenue of \$2.23 million in 2013-14 in royalties.

CIP has been mining on Christmas Island for over 100 years and the phosphate mine is entrenched in the economic structure of the Territory. Eventual closure can be expected to have a significant social and economic impact, in particular through changes in ethnic and age profiles in the community when people move away to look for work. The Christmas Island community is not large enough to cope with such a change in the absence of the development of an alternative industry. The impact of any eventual closure of the mine on social cohesion is a concern for the Department.

Regional Development Organisation

The IOT Regional Development Organisation (RDO) was established in September 2012, and incorporated as an association in November 2012 under applied Western Australian law. Founding members, which included community members, shire representatives and the Administrator, envisaged that the RDO would be the peak body for economic development in the IOT. Its role was to work with local businesses, community organisations and individuals on proposals for regional and economic development, and assisting with the development of applications for grant funding.

As an incorporated body, the RDO is able to apply for grant funding and undertake projects to support economic and community development. It was designed to be independent in the long term, supported by grant funding. However, in the absence of independent funding the RDO does not directly employ any staff. It has also struggled to find a role and deliver cogent outcomes.

There is concern amongst a number of parties about the RDO's lack of focus, defined role and outcomes. Many argue that the lack of focus stems from a lack of clarity about the RDO's purpose.

The RDO proposes to review its scope, structure and focus, with a view to improving its effectiveness and enhancing its contribution to the growth of the IOT. The Department supports this work, and notes that the RDO has considerable potential to engage with the community and Department, provide informed advice on economic development opportunities and support the sustainability of the local economy.

Making Change Happen

The Commonwealth has worked steadily with the community to implement reforms to assist in the development of a more sustainable economy in the IOT. The Commonwealth, in managing the governance of the IOT, has focused on ensuring appropriate investments in Commonwealth and state level infrastructure and in ensuring state-type services are of a high quality and meet community need. However, a finite budget and the distance of the IOTs from Western Australia have limited capacity and opportunity to diversify the economy.

Further assessment of economic opportunities is needed, including data to identify opportunities and potential proponents, co-operative arrangements amongst Government and the private sector to inform and deliver change, and analysis of current and pre-immigration levels of activity. The RDO can play a critical role in identifying and analysing opportunities, as Regional Development Australia committees do on the mainland.

Several studies into economic development in the IOT have been conducted in previous years, providing advice on the strategic direction of the local economies and proposing activities designed to boost economic development. These will continue to inform policy development.

2.2 Opportunities

Facilitating Investment

There are several opportunities for the IOT to increase revenue and create a more diversified economy that is potentially less vulnerable to the economic shocks which result from reliance on a small number of large employers. Apart from the mine, significant investment by the private sector in the IOT has been minimal. An immediate focus is to improve the land planning framework and the release of land for economic opportunities.

The Administrator recently met with the Assistant Small Business Commissioner to commence a conversation on ways in which the growth of small business can be supported.

Tourism

Tourism is small, with around 800 visitors travelling to CI each year. However, there is potential to further develop tourism and increase its contribution to the IOT economy. For the Cocos (Keeling) Islands especially, ecotourism could provide significant ongoing income.

As a tourist destination, the IOT has not achieved its potential. This is partly the result of limited infrastructure, including a recent lack of accommodation and quality dining venues. Further, staff associated with immigration activities have absorbed accommodation options and removed some of the incentive for locals to cater to other types of business opportunities.

The Department supports tourism development through funding local tourism associations, including funding for marketing campaigns. In 2014-15, the Department provided \$470,000 to the Christmas Island Tourism Association and \$250,000 to the Cocos (Keeling) Islands Tourism Association. The Department recognises that other avenues also need to be utilised to boost tourism, including by better promoting the IOT, ensuring that the IOT are included in national marketing campaigns and working with wholesale suppliers to develop complete experience packages.

Eco-tourism is an area of potential, particularly in 'glamping', walking and environmental activities. Providers of accommodation and experiences, the airlines and marketers need to work collaboratively to build packages and strengthen marketing. The Department can play a facilitation role, potentially bringing all parties together to explore the nature and scope of the market and barriers.

Land use

The Department has responsibility for Commonwealth Crown Land in the IOT, with the exception of land managed by the National Parks, including planning and land management. While there is a natural limit to the amount of land available for development in the IOT, many argue that the release of land can stimulate economic development.

The 'Report for Crown Land Management Plan for the Indian Ocean Territories' was prepared by GHD for the Attorney-General's Department in September 2009, and provides a framework for land use activities. Some aspects of this Plan have been implemented, such as the Christmas Island Town Planning Scheme No 2 and the establishment of the Market Garden. The Department proposes to update the Plan in 2015-16 to inform policy recommendations on land management.

The Department is undertaking policy work to support the streamlined management of land and to ensure that it supports long-term economic sustainability encourages investment and facilitates entrepreneurship. The Department proposes to prepare a 'Commonwealth Asset Management Plan' that will provide developers with a clear pathway to seek land and provide certainty on process and timelines.

Combined, these two documents will assist potential developers, the wider community and businesses by delivering a clear, strategic and fair avenue for development and land-use in the IOT, as well as a sound policy framework to guide future use of Commonwealth Crown land in the IOT.

Research and Education

Given the unique environment on the IOT, there is potential to host visits from schools and tertiary institutions. Education and research in the environment, flora and fauna, tropical health, tropical climates are all areas of focus. The safe and pristine environment, in particular, makes the IOT attractive to schools and younger students.

The potential for extended visits, particularly for longer term or longitudinal research, warrant further evaluation.

Transport

Some members of the community have indicated that the high cost of freight is negatively impacting on development and ongoing business operations. Transporting building materials to the islands is most effectively achieved by sea freight, however this is expensive and the regularity of the service is strongly influenced by weather.

The Government already subsidises airfreight and funds directed toward subsidising freight are funds which would otherwise be supporting the direct provision of services.

Potential for a Casino on Christmas Island

The JSCNET, in its 2012 report, recommended that the Australian Government commit to reopening the Casino on Christmas Island. The Australian Government's response(2014) '*noted the recommendation and indicated that while the Australian Government supports economic and tourism development for Christmas Island, broader Government and community consultation would be required prior to any consideration of a proposal to establish a casino*'.

The Department has engaged in general discussions around the issues associated with the re-establishment of a casino licence on Christmas Island with advocates for a casino licence from time to time against the backdrop of the Australian Government policy position as outlined above.

During 2012-13, two advocates presented casino concept proposals to the then Minister with responsibility for Territories. One proponent subsequently submitted a business case to the then Minister with responsibilities for Territories in May 2013. These documents were forwarded to the Department for Regional Australia for further consideration. No written comments, feedback or commitments were provided on the business case by the then Department of Regional Australia.

In November 2013, the Department for Infrastructure and Regional Development wrote to one of the advocates noting *the Department is not able to undertake any further work on your proposal at this time*. Similar advice was also provided to the second proponent in November 2013.

The Department notes there are no active proposals before it for consideration. Substantive analysis of any future submissions will only be undertaken if there is a clear policy to proceed to re-establish a casino licence and submissions are set against a regulatory and operational framework against which the Department can assess a proposal, in accordance with open tender processes.

2.3 Exploring Opportunities to the North

Some members of the community consider that there are opportunities to enhance connections and engagement with our Northern neighbours, supporting increased investment, tourism and education. There are strong language and cultural ties with the IOT's near Asian neighbours, such as Singapore, Indonesia and Malaysia. In addition, the pristine wilderness, lack of language barriers and short travelling times offer significant advantages.

The Australian Government's role in encouraging and supporting the development of these relationships needs to be defined and a strategic pathway for engagement should be developed.

The Australian Government does not subsidise flights to the north of the IOT, although it waived landing fees for flights between 2009 and 2012. The assessment of the policy rationale for and benefits of this waiver is needed. Further work is also needed to:

- explore exemptions from cabotage arrangements, thus allowing international airlines to fly via the IOT; and
- source funding to upgrade infrastructure, including through private/public partnerships.

3. Role of the Administrator

The legislation establishing the role of the Administrator¹ states that the Administrator will “administer the Territory on behalf of the Commonwealth”. The Administrator is appointed “at the pleasure of the Governor-General” and is required to take an oath or affirmation of office before commencing duty. The Administrator is also required to “exercise his powers and perform his functions in accordance with any instructions given to him by the Minister”², referencing the Minister with responsibility for the Territories (the Hon Jamie Briggs MP). Candidates for the role of Administrator are nominated by the Government of the day. The Minister has the power to terminate the appointment of the Administrator at will.

While there are two separate pieces of legislation governing the role of the Administrator for each territory, recent practice is to appoint one individual to both roles. The Administrator resides on Christmas Island and travels frequently to Cocos (Keeling) Islands.

The Australian Government considers the Administrator to be its representative on the IOT. The Administrator is responsible for building and maintaining positive and constructive relations between the Commonwealth and the IOT community. The position represents the Commonwealth at ceremonial and commemorative events, explains the rationale for policies and initiatives, and provides advice to inform the Government’s policy analysis and decisions on programmes and initiatives.

The Administrator is therefore a key channel of communication through which residents can inform the Commonwealth of their needs and influence decisions. Residents are also represented in the Commonwealth Parliament by the Federal electorate of Lingiari. The Federal Member for Lingiari and the two Northern Territory senators provide a further avenue for IOT residents to present their views and influence decisions in the Parliament and bureaucracy.

The Administrator is obliged to exercise all powers and functions of the Office as prescribed in any laws in force in the IOT. The most significant of these powers is the position of Chair of the Emergency Management Committee for each Territory. As the capacity of the Minister to deal with time-critical emergency situations can be restricted, practical responsibility for declaring and dealing with emergency situation lies to the Administrator. Given his strong practical knowledge and detailed understanding of the community, the Administrator also makes decisions on a number of administrative matters.

3.1 Current Administrator

The Administrator of the Indian Ocean Territories, Mr Barry Haase, was appointed in October 2014 for a period of three years.

Mr Haase has been very active in the IOT community, and has created strong links to the Australian Government since his appointment. Mr Haase holds regular “Administrator’s Conversations” with residents to discuss a range of matters, share information and solicit views. A new initiative of Mr Haase, the “Administrator’s Conversations” are highly regarded by communities on both Christmas Island and Cocos (Keeling) Islands.

¹ Administration Ordinance 1968 (CI) and Administration Ordinance 1975 (CKI)

² s. 6(3) of the Administration Ordinance 1968 (CI) and s. 5(3) of the Administration Ordinance 1975 (CKI)

To ensure an open and ongoing dialogue, the Department holds weekly telephone meetings with Mr Haase. The Department shares information on key issues and activities, while Mr Haase raises issues of concern. These meetings also provide residents, through the Administrator, with the opportunity to provide feedback to the Commonwealth. Departmental officers also meet with the Administrator in Canberra during his planned visits.

Mr Haase has met with a large number of Commonwealth Ministers and Government agencies to discuss the challenges facing and opportunities in the IOT.

3.2 The Future for the Administrator Role

The Department considers the Administrator to be a key link between the community, the Government and the Department. As someone closely connected to both the community and to Ministers, the Administrator's advice and views inform decisions which impact on local policy, programmes and capital investment.

The Assistant Minister with responsibility for Territories, the Hon Jamie Briggs MP, has asked the Department to re-examine current delegations to inform his assessment of the appropriateness of the allocation of responsibilities between the Minister, the Administrator and the Department. Other options to strengthen the Administrator's role could include bolstering his decision-making role, working with the Department and West Australian Government on the provision of services, bringing parties together to chart a path through areas of conflict and using influence to resolve issues.

There is also a role for the Administrator in identifying and providing advice on economic development opportunities and priorities for investment. There is potential for the Administrator to take a strong role as a spokesman for investment and hosting visits or fact-finding missions from potential investors and tourism operators from the North and mainland.

4. Communication and Engagement

Consultation is a key element of the Department's engagement with the IOT communities, and to ensuring that the delivery of services aligns with need. However, there is an emerging tension between sectors of the community, with some arguing that the Department (and Government) does not consult enough and others complaining of 'consultation fatigue'. Finding the right timing, method and frequency of engagement and consultation is a key challenge.

4.1 Communication with the Community

The Department employs a number of methods to communicate with the community. The Administrator is a critical link, however the Department employs other mechanisms to communicate and engage with individuals and organisations:

- community Bulletins are an essential tool and allow messages to be delivered in a timely manner;
- organised meetings and consultation sessions facilitate informed discussions about nominated issues;
- an online feedback form provides an opportunity to ask questions, express concerns or seek information; and
- the Department's website provides information about initiatives in the Department and Government.

4.2 Service Delivery Arrangements

In addition to its Commonwealth responsibilities, the Australian Government is responsible for the provision of State-type services to the IOT. Many of these services, including in education, regulatory functions and water, community services and wastewater operations management, are delivered through Service Delivery Arrangements (SDAs) with WA Government agencies.

Given that the laws of WA apply as Commonwealth law in the IOT the WA Government is considered to be best placed to provide these services.

The Department engages 40 WA agencies to deliver state-type services at a cost of \$34.97 million in 2014-15. To ensure that the best services are delivered within the limited resources available, an internal evaluation of the SDA arrangement has recently been completed. Recommendations of this evaluation are underpinning the renegotiation of SDAs with WA Government agencies.

- An overview of consultation and communication arrangements will be provided in a separate supplementary submission.

5. Local Government

Complementing the role played by the Australian Government in managing Commonwealth and state matters, is the role played local government. Both Christmas Island and Cocos (Keeling) Islands have their own Shire Council, which were established in 1992 under applied WA laws.

The President of the Shire is elected every two years for a two year term and Councillors are elected for a four year term. Councillors are volunteers who are paid an allowance for attending meetings and attending functions on behalf of the Shire. Each Shire holds council meetings on a monthly basis. Councillors also participate in a range of Council Committees, including a policy committee, audit committee and a community consultative committee.

As the Shire Councils are established under applied WA laws, they hold the same responsibilities as that of a local council in WA. The Commonwealth provides funding to each of the Shires to support their obligations, in a manner similar to the Financial Assistance Grants made to mainland Councils. In 2014-15, the Christmas Island Shire received \$4.074 million and the Cocos (Keeling) Islands Shire received \$2.506 million. In addition, in 2013-14 the Commonwealth provided funding of \$3.2 million for roads maintenance on Christmas Island and \$0.6 million to the Shire of Cocos (Keeling) Islands for roads.

The Shires can bid for grant funding from Commonwealth programmes such as Roads to Recovery and the National Stronger Regions Fund. Funding under Commonwealth programmes has been provided for projects such Cemeteries Management, Dual User Pathways and Soil Erosion on Cocos (Keeling) Islands. The Community Development Grants Programme provided \$450,000 for the construction of a Senior Citizens Centre and Round Three of the Regional Development Australia Fund provided \$69,870 for a Sydney Emden Interpretive Gazebo. Round One of the Department's small grants programme for the IOT provided \$229,500 to the Shire of Christmas Island for 3 projects and \$200,000 to the Shire of Cocos (Keeling) Islands for one project.

The Department works closely with the Shires on a range of matters. Fortnightly teleconferences between Departmental staff and local government representatives ensure open and productive relationships. Strengthening the capacity building of Councils is a priority for the Government.

5.1 Representative Nature of the Councils

The Shires play an important role in representing the views of the community, particularly given that there are two levels of government on the IOT. To this end, it is important that the Shires are truly representative of the community, including those in the minority and those who are not vocal or forceful in expressing their views.

Concern about the structure of the Shires continues to be a concern for some residents, with some arguing that membership does not truly represent the IOT cultural diversity or minority groups. The lack of a ward system has been cited as one reason for this, although others believe that the implementation of such a system would exacerbate these issues.

The Department notes that, in 2009 following a petition by the West Island residents of the Cocos (Keeling) Islands, the Shire Council conducted public consultations on whether a ward system should be introduced. West Island residents are predominantly of European descent and expressed concern that their interests were not properly represented in the Shire.

There is scope to consider alternative models of supporting local governments, including via alternate voting structures.