

Introduction

- 1.1 The remote island communities of Christmas Island and the neighbouring Cocos (Keeling) Islands form Australia's Indian Ocean Territories (IOTs). Christmas Island is located 2650 km from Perth off the north-west coast of Western Australia, and approximately 320 km to the south of Java, Indonesia. The Cocos (Keeling) Islands are located 975 km south-west of Christmas Island and 2950 km north-west of Perth.
- 1.2 For over a century, the main industry underpinning Christmas Island's economy has been phosphate mining. In addition, the Government and tourism sectors also contribute greatly to the economy.¹ In contrast, the economy of the Cocos (Keeling) Islands relies solely on a services industry mainly consisting of the Government sector and a small tourism sector.²
- 1.3 Although independent of one another, the economies of both the islands are faced with similar challenges that are unique to small, isolated populations, which are, those of limited industry and a reliance on the public sector for essential service delivery.

1 Christmas Island Phosphates, *Submission 6*, p. 1.

2 Attorney-General's Department, *Submission 15*, p. 8.

- 1.4 In 2007, the Commonwealth Grants Commission (CGC) undertook an inquiry into the level of funding required to provide the IOTs with 'state-type services which are consistent with those in comparable communities in Western Australia. In addition, the CGC reported on the 'capacity of the Australian Government to raise state-type taxes and charges [in the IOTs] and whether the methods for deriving local government funding [could] produce outcomes comparable to those for comparable local governments in Western Australia.'³
- 1.5 Infrastructure requirements for delivering comparable services were considered in the context of factoring in the depreciation expenses of assets. Future events 'that [could] affect the demography, economic activity or services in the Territory' were not included in the inquiry, although advice was given 'on a way of updating the assessed level of funding for future years.'⁴
- 1.6 Taking into consideration the evidence it has received through this inquiry, the committee has examined the current economic environment in the IOTs. This inquiry also highlights ways in which the economic potential of the IOTs could be harnessed into the longer term and builds on the work of the previous committee in its 2006 report titled *Current and future governance arrangements for the Indian Ocean Territories*.

Background to the inquiry

- 1.7 On 11 February 2009, the Hon Bob Debus MP, then Minister for Home Affairs requested the committee to inquire into and report on the changing economic environment in the IOTs.
- 1.8 The committee subsequently advertised the inquiry, received submissions and held public hearings in Canberra, on Christmas Island and the Cocos (Keeling) Islands.
- 1.9 During its visit to the IOTs, the committee also made time to inspect the islands' infrastructure including the Christmas Island Phosphate mine operations and the construction of the Rumah Baru port facilities on Cocos (Keeling) Islands.

3 Commonwealth Grants Commission 2007, *Report on the Indian Ocean Territories*, CGC, Canberra, p. viii.

4 Commonwealth Grants Commission, 2007, *Report on the Indian Ocean Territories*, CGC, Canberra, p. viii.

Committee objectives, scope and key principles

- 1.10 The terms of reference, as listed, enabled the committee to inquire into and report on the changing economic environment in the Indian Ocean Territories, giving consideration to current arrangements, barriers to business development and future need with regard to:
- a. communication services such as broadband internet, digital television and mobile telephony;
 - b. transport services and costs including passenger and freight transport;
 - c. Commonwealth Government services and programs;
 - d. the operation of businesses in the region;
 - e. cost and availability of housing; and
 - f. the impact of climate change.
- 1.11 Taking into account the terms of reference, the inquiry broadly focused on examining measures for improving economic development for the IOTs by taking into consideration the evolving communication, transport, housing and service delivery needs of residents and business.
- 1.12 While the committee also received information about the possible short term impact that the operation of the Christmas Island Immigration, Reception and Processing Centre is having on the Christmas Island economy, this inquiry has focused on the broader economic impact of Government service delivery on the IOTs.
- 1.13 In focusing on Government service delivery for the IOTs, the committee examined the interconnections between the IOTs economies and the Government service delivery network taking into account: the ability of residents to access Government services, the need and availability of these services, and areas where improvement could be beneficial.
- 1.14 To enable full social and economic participation for Australians residing in the IOTs, the Commonwealth has a responsibility to ensure:**
- **The disadvantage of geographic isolation is minimised through public policy.**
 - **The community is able to determine and pursue (economically and environmentally) sustainable development.**

- **The unique natural environment and its biodiversity is protected and restored.**
- **There is mitigation of the negative impact of the Commonwealth's use of the islands for purposes other than those traditionally established or determined by the local community.**

1.15 The committee's recommendations have sought to provide options for economic change through existing governance structures, taking into consideration how economic stakeholders may be affected and the level of service delivery required to create sustainable economies in the IOTs.

Conduct of the inquiry

1.16 On 12 February 2009, the committee issued a media release announcing the inquiry and called for submissions to be received by 27 March 2009. Submissions were also sought by advertising the inquiry nationally in *The Australian* on 18 February 2009, *The Atoll*⁵ on 26 February 2009 and *The Islander*⁶ on 6 March 2009.

1.17 In addition, throughout the inquiry, the committee wrote to a number of individuals and organisations inviting submissions or seeking information relevant to the terms of reference.

1.18 The committee received 45 submissions and 12 exhibits to the inquiry, which are listed at appendices A and B respectively.

1.19 The committee held 7 public hearings, the details of which follow:

Date	Venue and place
19 August 2009	Parliament House, Canberra
9 September 2009	Parliament House, Canberra
16 September 2009	Parliament House, Canberra
28 September 2009	Christmas Island
29 September 2009	Cocos (Keeling) Islands
28 October 2009	Parliament House, Canberra
29 October 2009	Parliament House, Canberra

5 *The Atoll* is the newspaper of the Cocos (Keeling) Islands.

6 *The Islander* is Christmas Island's newspaper.

- 1.20 Witnesses who provided evidence to the committee at these public hearings are listed at Appendix C. Transcripts of evidence of these public hearings are available on the committee's website at <http://www.aph.gov.au/ncet>
- 1.21 In addition, the committee conducted infrastructure inspections on both Christmas Island and the Cocos (Keeling) Islands.

Role of the committee

- 1.22 The committee was first established by the Parliament in 1956 for the purpose of inquiring into matters relating to the National Capital and was named the Joint Committee on the Australian Capital Territory.
- 1.23 In 1993, the committee's coverage was expanded to include Australia's external territories: the Australian Antarctic Territory, Heard Island and McDonald Islands, Christmas Island, Cocos (Keeling) Islands, the Coral Sea Islands, Ashmore and Cartier Islands and Norfolk Island. The committee's name was then changed to reflect the addition of external territories.
- 1.24 The current committee was established by resolution of both Houses of Parliament on 13 February 2008. The committee's resolution of appointment provides that the committee is empowered to inquire into and report on the following matters referred to it: works within the Parliamentary Zone, amendments to the National Capital Plan (the principle planning document pertaining to Canberra's role as the National Capital) and any matters relating to Australia's external territories.
- 1.25 Through the inquiry process the committee's main role is to highlight topical issues, (relevant to the terms of reference of the inquiry it is conducting) by reporting on its findings and making recommendations on these issues to the Parliament.
- 1.26 Since 1993, the committee has produced 11 reports relating to Australia's external territories. Five of these reports are specific to the Indian Ocean Territories. These are:
- *Delivering the Goods*, February 1995
 - *Island to Islands: Communications with Australia's External Territories*, March 1999

- *Risky Business: Inquiry into the tender process followed in the sale of the Christmas Island Casino and Resort, September 2001*
- *Indian Ocean Territories: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage, August 2004*
- *Current and future governance arrangements in the Indian Ocean Territories, May 2006*

1.27 Excluding this inquiry, the report of the most recent inquiry relating to the IOTs was released in May 2006. This report examined the current and future governance arrangements for the IOTs.

Findings of the 2006 inquiry

1.28 In its 2006 report titled *Current and future governance arrangements for the Indian Ocean Territories*, the committee of the 41st Parliament examined a number of elements affecting governance structures including:

- 'accountability and transparency of decision-making in relation to the IOTs;
- the link between more effective governance and improved economic sustainability for the IOTs;
- the operation of Western Australian applied laws; and
- community service delivery including the effectiveness of service delivery agreements with the Western Australian Government.'⁷

1.29 In regard to the evidence it received on the economic development and sustainability of the IOTs the previous committee was of the view that:

This summary of economic potential and departmental activity provides a limited and flawed perspective. There is no sense of dynamism or direction. Even the strategic plan for the economic development of the Territories prepared by the Administrator has the feel of 'top-down' planning. Addressing development on Christmas Island, there is no response to the impending demise of the phosphate mine and undue emphasis is placed on the

7 Joint Standing Committee on the National Capital and External Territories, May 2006, *Current and Future Governance arrangements in the Indian Ocean Territories*, Parliament of the Commonwealth of Australia, Canberra, pp 3-4.

economic potential of the Immigration Reception and Processing Centre, an institution whose use is wholly dependent on the shifting requirements of government policy, and the Asia Pacific Space Centre, a project which now appears defunct. Much emphasis is also placed on the policy of normalisation. Carried out for its own sake normalisation must inevitably produce a mixture of outcomes, good and bad, and has no intrinsic merit. As part of the process of incorporating the IOTs into Western Australia, normalisation has some value, but the process of incorporation has stalled and there is no proximate danger of a successful outcome. Normalisation, as a stand alone strategy, is not viable, as it fails to take account of the particular circumstances of the IOTs.⁸

- 1.30 In addition, the 2006 report included a number of recommendations specific to improving economic sustainability in the IOTs in relation to the granting of the Christmas Island casino licence; ensuring the value of Commonwealth land; measures to reduce air and sea freight costs; boosting passenger air travel; and law reform, including extending Corporations Law to the IOTs.
- 1.31 In regard to governance arrangements, the previous committee's recommendations focused on providing local IOTs decisions makers with more autonomy and vesting leadership on economic development within the IOTs communities.
- 1.32 With a view to improving governance arrangements within the IOTs, the previous committee made the following recommendations:

Recommendation 10

The committee recommends that the Australian Government cease its policy of market-testing and outsourcing to third parties, services which it currently provides to the Indian Ocean Territories, with a view to promoting the development of community capacity within a framework of enhanced local/regional government.

Recommendation 12

The committee recommends that the Australian Government alter the governance arrangements of the Indian Ocean Territories to provide the Shire of Christmas Island and the Shire of the Cocos

8 Joint Standing Committee on the National Capital and External Territories, May 2006, *Current and Future Governance arrangements in the Indian Ocean Territories*, Parliament of the Commonwealth of Australia, Canberra, p. 34.

(Keeling) Islands with an expanded role. The shires should have: direct representation of the communities with the Minister for Territories; and a formal advisory capacity with regard to applied laws and services delivery arrangements. Moreover, the shires should be: fully funded on the basis of an agreed service delivery framework; given adequate title to all assets required to carry out their functions; and able to jointly enter into a regional local government type cooperation agreement.

Recommendation 13

The committee recommends that the Australian Government undertake to develop options for future governance for the Indian Ocean Territories in conjunction with the communities on Christmas Island and the Cocos (Keeling) Islands, with a view to, where practical, submitting options to a referendum of those communities by the end of June 2009. Possible options could include but should not be limited to: maintaining current governance arrangements with some refinement; incorporation into the State of Western Australia; and a form of limited self government.

- 1.33 The previous Government did not fully support these recommendations and the reasons for this can be found in the Government's response of June 2007, to the report on current and future governance arrangements in the Indian Ocean Territories.⁹
- 1.34 While the focus of the current inquiry has not been to examine governance arrangements, it has aimed to expand its scope of the economic and social challenges facing the IOTs. This includes examination of the effectiveness of service delivery arrangements especially in the areas of communication, transport and housing and related issues of accountability and transparency of decision making, and the committee would encourage a re-examination of the recommendations of the previous committee's report into the Current and future governance arrangements for the Indian Ocean Territories by this Government.

9 Minister for Local Government, Territories and Roads, June 2007, *Australian Government Response to the Report on Current and future governance arrangements in the Indian Ocean Territories by the Joint Standing Committee on the National Capital and External Territories*.

Reader guide and structure of the report

- 1.35 This report outlines the committee's findings and recommendations in relation to the changing economic environment in the IOTs. Recommendations have been listed at the front of the report.
- 1.36 Chapter 1 provides an introduction to the committee's inquiry and outlines the objectives, conduct and scope of the inquiry. The findings and recommendations of the 2006 inquiry are also outlined.
- 1.37 Chapter 2 provides a brief history and background to the legal frameworks and governance arrangements that apply to the IOTs.
- 1.38 Chapter 3 outlines the economic challenges facing business and future business development. Mechanisms for handling administrative complaints are also discussed.
- 1.39 Chapter 4 outlines possible emerging industries identified in the evidence which includes: tourism, education and research partnerships, and housing.
- 1.40 Chapter 5 provides discussion about the information communication technology needs of the IOTs with a focus on the service delivery improvement of internet, mobile and non mobile telephony, digital television and radio.
- 1.41 Chapter 6 outlines the transport challenges that continue to face the IOTs including discussion on the cost of shipping and air freight, passenger air travel and cabotage restrictions.

