

Broader community concerns

- 6.1 During the course of the inquiry a number of broader community issues emerged with respect to the resort, which provided an important context for the outcome of the tender process. These issues included:
- public access to Waterfall Bay;
 - community consultation;
 - the provision of regular air services to the Island; and
 - prospects for further economic development on the Island.

Public access to Waterfall Bay

- 6.2 Waterfall Bay forms a significant part of the land leased for the casino and resort, and is an important asset for the resort.¹ During the course of the inquiry, however, the Committee heard evidence from the Christmas Island Divers' Association (CIDA) regarding difficulties experienced by local residents seeking public access to Waterfall Bay, which is surrounded by land leased for the resort.
- 6.3 Prior to 1990, the only access to the bay terminated at a diesel powered pump station located approximately four metres above the shoreline. The shoreline itself was rocky and littered with boulders and rusted components of a wartime shipwreck. There was no pathway ladder to the shoreline.
- 6.4 In 1990 CIR relocated the pump station, cleared the shoreline, built an access road to the shoreline and constructed two breakwater walls, in

1 See map of the Christmas Island Casino and Resort at p. 12.

accordance with a study by the Public Works Department of Victoria. The work was not fully completed but the breakwater walls functioned as envisaged, resulting in the accumulation of sand and the evolution of a beach and lagoon. The Liquidator reports that at this stage, some local fishermen were given permission to launch dinghies, but that this was withdrawn following oil pollution and concerns about public safety after several boats capsized.²

- 6.5 In 1996 the directors authorised the construction of a concrete platform along the top of the main breakwater and removed the secondary breakwater. This was undertaken without professional advice and without the consent of the Shire. The Liquidator stated that ‘within two weeks of completion the seasonal swell wrecked the concrete platform and the breakwater was breached’.³ Consequently, the beach disappeared overnight and the bay became polluted with rock and debris.

- 6.6 Under the terms of the lease for the casino and resort, public access to the shoreline was specified under sub-clause 3(d). This stated:

That the Lessee shall permit public access to the shoreline of the premises at any reasonable time and in any reasonable manner. For the purpose of this sub-clause the shoreline shall be deemed to include an area not more than five metres in from the high water mark.⁴

- 6.7 Mrs Diane Masters, President of CIDA, advised the Committee that when the resort was operating, members of the Christmas Island community ‘were allowed to have vehicular access down to Waterfall Bay,’ and that many divers used the bay as the basis for a shore dive.⁵

- 6.8 With the closure of the casino and resort, CIDA told the Committee that access has become more restricted:

Basically we have been restricted since the resort closed. There is a chain across the road and we are unable to access Waterfall Bay unless we get permission from [the current Manager of the Resort]. I understand that the answer is sometimes yes and sometimes no, but there has certainly been no vehicular access.⁶

- 6.9 CIDA stated that although they appreciate what limited public access is granted by resort management, the lack of vehicular access creates added difficulties for divers wishing to utilise the bay. CIDA told the Committee:

2 Annexure 14, PPB Ashton Read, Submission No. 7, p. 375.

3 Annexure 14, PPB Ashton Read, Submission No. 7, p. 375.

4 DoTRS, Submission No. 11, p. 1228.

5 CIDA, *Hansard*, p. 133.

6 CIDA, *Hansard*, p. 137.

Since the resort has closed down, there has only been pedestrian access through to Waterfall Bay. That is really quite impractical for a diver. It involves a walk of some 500 metres...It does not sound like a lot, but when you are lugging heavy dive gear and tanks it is a long way. It also becomes a health issue after a dive. After a dive you should not be doing very much physical exertion, because of the nitrogen in your system...To get out of Waterfall Bay you have to walk up a hill, once again carrying heavy dive gear. So it really becomes a health issue as far as pedestrian access is concerned.⁷

- 6.10 The Committee notes further evidence provided by CIDA, highlighting the issue of access to safe diving areas during the swell season on Christmas Island.⁸ Mrs Masters told the Committee that during the swell season the main port on the Island, Flying Fish Cove, becomes inaccessible. Consequently, for three months of the year, diving access to the sea is only available at Waterfall Bay or Ethel Beach. CIDA stated:

On Christmas Island there are very few all year round sports – boating, fishing and diving are probably the main sports that are enjoyed year round. For up to three months of the year, access to the ocean can be denied unless we can access it through Waterfall Bay and via pedestrian access through Ethel Beach.⁹

- 6.11 In addition, the Committee was informed that the road which provides access to Waterfall Bay ‘has not been maintained for a long time’ and that no repair work has been undertaken following recent heavy storms, although the Shire has recently ensured that four-wheel drive access is still available.¹⁰

- 6.12 Following the Committee’s suggestion, CIDA wrote to Soft Star Pty Ltd on 26 April 2001, to clarify arrangements for vehicular access to Waterfall Bay. In correspondence sent the same day Mr Graham Nicholls of Soft Star replied:

Soft Star’s lease provides for public access to the shoreline at any reasonable time and in any reasonable manner. The shoreline is deemed to include an area not more than five metres in from the high water mark. Therefore, and as is the case currently, Soft Star is able to provide pedestrian access to Waterfall Bay, but is not able to provide vehicular access. Additionally, the condition of the road is such that vehicular access would not be safe.¹¹

7 CIDA, *Hansard*, p. 134.

8 The swell season generally runs from November through to February.

9 CIDA, *Hansard*, pp. 133-134.

10 CIDA, *Hansard*, p. 136.

11 CIDA, Exhibit No. 4.

- 6.13 The Committee received evidence that the question of public access to Waterfall Bay was an issue which also emerged during the course of the sale process for the casino and resort.
- 6.14 During the initial stages of the realisation process for the casino and resort, the Liquidator presented a position paper to the Commonwealth regarding proposed amendments to the boundaries of the lease as well as casino gaming tax rates. In this paper, the Liquidator argued that Waterfall Bay should be retained within the lease without public access. The reasons for this were summarised as follows:

Reasons to retain Waterfall Bay without public access

1. Unfettered public access makes it impossible for security staff to monitor the beach effectively.
2. The lagoon is susceptible to strong swells and can be dangerous at times. Unless a full-time guard is on duty, public access will expose the lessee to a public liability risk, which would probably be uninsurable and would certainly be financially untenable.

Reasons to retain Waterfall Bay within the Lease

1. It is a potential asset to the property which may be developed in the future
2. For security reasons it needs to be controlled by the casino.¹²

- 6.15 As discussed earlier, amendments to the leases proposed by the Commonwealth were never finalised. Consequently, the issue of access to Waterfall Bay re-emerged in negotiations with ComsWinfair during the due diligence period of the tender process.
- 6.16 The Committee was informed that during discussions held on the Island in November 1999, between representatives of the Department of Transport and Regional Services (DoTRS) and a ComsWinfair delegation, Mr Hugh Moore from the Department 'advised or implied that the Commonwealth would require the construction of a road to allow public access to Waterfall Bay'.¹³
- 6.17 The Committee was given to understand that the construction of this road related primarily to the provision of access to the water supply facilities

12 Annexure 14, PPB Ashton Read, Submission No. 7, p. 376. A risk analysis conducted by former CIR security staff indicated that in calm conditions the lagoon may expose the Casino to a 'commando style attack'. In late 1993 this fear was confirmed when it was discovered that latches on selected access doors had been filed, allowing easy penetration from the side of the building into the gaming and cash room.

13 PPB Ashton read, Submission No. 7, p. 64.

located in the same area as the bay.¹⁴ In delineating their concerns on this issue, ComsWinfair stated:

Currently the obligation under the lease is to allow the public access to within five metres from the high water mark of the shoreline. The exact nature of that public access is not defined nor is the question of whether this access includes vehicular access.¹⁵

6.18 The Minister replied to ComsWinfair's concerns on 27 January 2000:

The lease provides that the lessee must provide public access to the shoreline up to five metres from the high water mark. As most of the shoreline is cliffs there is no viable public access except at Waterfall Bay. There is an access road through the lease to Waterfall Spring and Waterfall Bay, which is presently in disrepair...The Shire requires access to the water supply infrastructure at Waterfall Spring. The community has expressed an interest that there is access to Waterfall Bay for emergency situations.¹⁶

6.19 As detailed in earlier chapters, negotiations between ComsWinfair and the Commonwealth subsequently stalled following the Liquidator's termination of the tender process. With the transfer of the lease to Soft Star unamended, the issue of vehicular access to Waterfall Bay remains unresolved at the time of the Committee's report.

Summary

6.20 The Committee believes that the question of public access to Waterfall Bay, and in particular vehicular access, is an issue which the Commonwealth will need to clarify with Soft Star during the negotiations which are yet to be initiated, regarding proposed amendments to the leases.

6.21 The Committee supports the continuation of reasonable public access to Waterfall Bay, as detailed within the original lease for the casino and resort. Furthermore, the Committee believes that Soft Star should be encouraged to negotiate further guidelines for public access to the bay, on terms agreeable to both the community and Soft Star management.

14 Annexure 38, PPB Ashton read, Submission No. 7, p. 524.

15 Annexure 42, PPB Ashton read, Submission No. 7, p. 536.

16 Annexure 45, PPB Ashton read, Submission No. 7, p. 550.

Community consultation

- 6.22 The Committee heard evidence that many of the issues which emerged in the realisation of the Christmas Island Casino and Resort highlighted the need for more comprehensive consultation with the Shire of Christmas Island (SOCI) on policy issues affecting the Island.
- 6.23 The Committee was informed that concerns regarding the level of consultation and inclusion in the tender process focused on:
- consultation with the Liquidator, regarding development of the tender process; and
 - consultation with the Commonwealth, regarding the community's concerns about the conduct and outcome of the tender process.

Consultation with the Liquidator

- 6.24 The Committee heard evidence from a number of witnesses on Christmas Island that the sale process for the casino and resort would have benefited from a higher level of consultation between the Liquidator and the Island community.
- 6.25 SOCI stated in its submission that it was concerned that SOCI is the elected representative authority of Christmas Island and yet 'the Liquidator did not formally involve the Shire in the development of the tender process'.¹⁷
- 6.26 The Union of Christmas Island Workers (UCIW) also stated that it believes that the tender process 'could have been improved by reference to and inclusion of the affected parties in the development of the tender process'.

The UCIW is the sole representative industrial organisation on Christmas Island. Members of the UCIW are, collectively, the most significant creditors. Employees are owed more than \$3 million in unpaid entitlements. The Liquidator did not formally involve the UCIW in the development of the tender process.¹⁸

- 6.27 In response to arguments that SOCI and the UCIW should have been formally involved in the tender process on behalf of the Island community, the Liquidator informed the Committee:

At the time when I was appointed Receiver and Manager of CIR and subsequently, I held discussions with the UCIW in relation to my role as Receiver and Manager, the claims of the former

17 SOCI, Submission No. 6, p. 29.

18 UCIW, Submission No. 1, p. 2.

employees of CIR and my objectives for the sale of the casino and resort.

The tender process was based upon my discussions with the Commonwealth and the CSA and on professional advice received by JLW...

The Liquidator is not compelled by law to consult with individual creditors as to his actions, and it is not practicable for a Liquidator to involve individual creditors or groups of creditors in the conduct of his administration, other than through the COI.¹⁹

- 6.28 As discussed in Chapter Three, the Committee of Inspection (COI) was formed at the meeting of creditors held on 27 August 1999, in accordance with Section 548 of the *Corporations Law*. Details of the members and meetings of the COI are attached at Appendix E.
- 6.29 The Committee heard evidence that it was not until the formation of the COI, upon which both SOCI and the UCIW were represented, that the community gained some knowledge of the progress of the tender process for the sale of the casino and resort.
- 6.30 Mr Gordon Thomson of SOCI told the Committee that:
- The tender process was developed in isolation. I have no doubt that it was developed in accordance with the law...But it was only after Shire President Dave McLane initiated the establishment of a Committee of Inspection, which I think first sat in late 1999, that we had any community input or inside knowledge of what the Liquidator was doing.²⁰
- 6.31 The Committee notes that two representatives of the DoTRS Territories Office in Perth attended the creditors meeting held on 27 August 1999.²¹ The Committee was surprised that the Commonwealth did not nominate a representative for the COI. DoTRS informed the Committee that 'the Commonwealth was not represented on this Committee and was given no information about its meetings or affairs'.²²
- 6.32 The Committee was concerned that the Commonwealth chose not to attend the COI meetings, especially as there was only one creditors' meeting held in late 1999. The Committee believes that representation at the COI as a creditor would have allowed the Commonwealth to maintain direct contact with progress of the realisation process. In addition, it

19 PPB Ashton read, Submission No. 7, pp. 86-87.

20 SOCI, *Hansard*, pp. 110-111.

21 Annexure 74, PPB Ashton Read, Submission No. 7, p. 858.

22 DoTRS, Submission No. 11, p. 1216.

would have allowed Departmental officers to apprise COI members of the Commonwealth's position on the conduct of negotiations with potential purchasers and the Liquidator.

Consultation with the Commonwealth

6.33 The Committee believes that the Commonwealth should have undertaken some formal consultations with the Community and provided some substantive information on the progress of the realisation process for the casino and resort, through established channels on Christmas Island.

6.34 In evidence to the Committee, SOCI argued that both isolation and the governance and administrative structure of the Island militated against more effective lobbying of the Liquidator, and may have limited the community's ability to communicate its concerns on the progress of the tender process to the Island's political representatives, where it was appropriate.

Direct access to [the Liquidator] was not easy...and I am not sure what the law on liquidations is specifically about consultation with the affected community, but we are a unique community. We do not have the proper operation of State type services, we do not have easy access to legal advisers, and we do not have easy access to political representation. Our elected members from the Northern Territory find it almost impossible to get to Christmas Island with the way the air services operate. Our remote location has militated against an effective communication with the community.²³

6.35 In 1999 the Commonwealth Grants Commission (CGC) also reported on the need to strengthen the consultation process:

A comprehensive approach to consultation is needed, and it must provide for both formal and informal processes. High level formal consultation, for example between the Administration, the Shires and other broadly representative groups, is needed to address major policy, service delivery or infrastructure issues. More informal consultation among those involved at the coalface of service delivery or infrastructure provision is also essential.

As well as establishing a framework for consultation, thought needs to be given to the style and timing of consultation. Existing efforts at consultation may be failing to generate appropriate outcomes because there is inadequate real communication.

23 SOCI, *Hansard*, p. 111.

Appropriate outcomes are frustrated by a lack of dialogue sufficiently early in the process.²⁴

- 6.36 In its 1999-2000 Annual Report, DoTRS advised that there are a number of mechanisms in place to ensure that the Christmas Island community is consulted on decisions that will affect services provided to the Island. These include more formal review mechanisms, such as recourse to the Commonwealth Ombudsman and the Administrative Appeals Tribunal, as well as community consultative committees. The 1999-2000 Annual Report states:

The Administrator for the Indian Ocean Territories [IOTs], Bill Taylor, has placed a high priority on enhancing community consultation. Mr Taylor established an Administrator's Advisory Committee for each Territory in late 1999 to consider the broader public policy issues affecting the social and economic well being of residents of the Christmas and Cocos (Keeling) Islands.²⁵

- 6.37 The Administrator's Advisory Committee meets at least quarterly and in response to pressing issues. The 1999-2000 Annual Report further states that the Advisory Committee discusses issues and prepares recommendations, where appropriate, for on-Island and external authorities.
- 6.38 The Committee heard evidence from SOCI that 'every now and then there is a meeting of the Administrator's Advisory Committee' but that 'we do not see too many results'.²⁶
- 6.39 The Committee believes that initiatives promoting enhanced community consultation, such as the Administrator's Advisory Committee, are to be commended. However, the issue of community input and consultation on policy could be considered in the wider governance framework of political representation.
- 6.40 The UCIW told the Committee:

We do not have decision making structures on this island which require the community to be formally consulted or for the community to make formal agreement with the great decision maker in Canberra – the Minister for Territories. He has all of the powers. He is totally remote, and we do not blame him. He is a very decent human being, as are most of the bureaucrats, but the structure and the decision making processes are the problem. If

24 Commonwealth Grants Commission, *Report on Indian Ocean Territories 1999*, Canberra, pp. 37-38.

25 www.dotrs.gov.au/dept/anrep/9900

26 SOCI, *Hansard*, p. 119.

you put the decision making power in the hands of the community, you would get much better results. All over Australia, except Christmas Island, you have elected representatives making decisions for their communities. For Christmas Island you have the Minister making decisions, and sometimes he doesn't reply to your letters for six months.²⁷

6.41 In 1999 the CGC also stated:

Consultation between the government authority and the communities is of greater importance for the IOTs than for other comparable remote communities because there is no equivalent elected State representative.²⁸

Responsibility of the Commonwealth to provide State level services

6.42 Under the current political and administrative system, the Commonwealth Minister for Regional Services, Territories and Local Government exercises ministerial powers and responsibilities with respect to Christmas Island, including the provision of State level services. Neither of the Indian Ocean Territories has State level representation.

6.43 The Committee considered that in the context of the commercial framework of the liquidation and realisation of the Christmas Island Casino and Resort, the lack of an 'equivalent State representative' created a gap between the local government of the Shire of Christmas Island and the Commonwealth.

6.44 The Committee heard evidence from the Christmas Island Chamber of Commerce (CICC) that inadequate representation at the State level hindered the conduct and outcome of the tender process. Mr Oakley from the CICC told the Committee:

In other parts of remote Australia, State and local government incentives are made available to investors willing to create employment, reduce unemployment, attract foreign income and contribute to the payment of taxes. These mainland benefits should be available to investors in the Indian Ocean Territories.²⁹

6.45 The CICC added that:

If this were a remote part of northern Queensland, I imagine the Queensland Government would be down on bended knees and

27 UCIW, *Hansard*, p. 127.

28 Commonwealth Grants Commission, *Report on Indian Ocean Territories 1999*, p. 39.

29 CICC, *Hansard*, p. 179.

have wooed an investor to come to that remote area to establish or purchase an asset such as we have at the resort.³⁰

6.46 The CICC suggested that ‘taxation incentives, allocation of land at no cost for the establishment of new businesses and industries’ or ‘further taxation zone allowances to compensate for the remoteness of the Island’ would be appropriate measures.³¹

6.47 Mr Rodger Mortleman of ComsWinfair told the Committee that many States have designated personnel to assist in their casino and resort development processes.

Certain State governments have developed quite a professionalism at doing it, particularly Queensland because they have done the most. There are people from those organisations who can very adequately advise other organisations – and do so – on how to go about that process. I think the Liquidator had a responsibility to get that sort of advice. I know he did not. I think the Commonwealth, assuming they wanted the casino and wanted employment and wanted the economic activity, also had a responsibility, and did not do so.³²

6.48 Mr Mortleman also emphasised that, in general, the bid process is almost entirely State run.³³

6.49 In 1999 the Commonwealth Grants Commission noted:

In general, assistance in this area is less than the assistance available for business development in the States. State governments offer incentives, including tax breaks, gifts of land and assistance with infrastructure costs, to encourage economic development in their States. Standard levels of industry assistance, on comparable terms, should be available to the IOTs.³⁴

6.50 The Committee notes that the Commonwealth has recently committed up to \$100 million to assist the development of the APSC satellite launching facility. This funding has been provided through the Strategic Investment Incentive program and will be ‘used for upgrading Christmas Island Infrastructure, with construction scheduled for completion in time for the commencement of space centre operations’. Projects for the improvement of Island infrastructure include:

30 CICC, *Hansard*, p. 180.

31 CICC, *Hansard*, p. 181.

32 ComsWinfair, *Hansard*, p. 199.

33 ComsWinfair, *Hansard*, pp. 201 and 205.

34 Commonwealth Grants Commission, *Report on Indian Ocean Territories 1999*, Canberra, p. 39.

- an extension to the airport runway;
- a new swell season port facility on the south east coast; and
- a new access road from the south east coast port.³⁵

Summary

- 6.51 The Committee acknowledges that the Liquidator was under no legal obligation to consult or advise the Christmas Island community on the conduct of the sale process for the Christmas Island Casino and Resort. The Committee believes that the formation of the Committee of Inspection provided the Shire of Christmas Island with a valuable insight into the development and outcome of the tender process.
- 6.52 The Committee considers it unfortunate that the Commonwealth chose not to become involved, or to remain informed, on the progress of the tender process through the Committee of Inspection.
- 6.53 Furthermore, the Committee believes that the Commonwealth had an obligation to exercise the existing consultation and advisory processes established on the Island, to provide the Christmas Island community with detailed information on the progress of the sale and to acknowledge any concerns and issues arising from the realisation process within the community.
- 6.54 The Committee concurs with the 1999 CGC report, which stated:
- There are, on the face of it, well-established frameworks which should allow effective consultation. That dissatisfaction over consultation remains widespread suggests to us that the consultation mechanisms are not sufficiently effective.³⁶
- 6.55 In addition, the Committee believes that the Commonwealth had a responsibility to undertake a more active State-type role during the tender process, through the provision of every encouragement and incentive to potential investors in the casino and resort.
- 6.56 The Committee believes that the tender process for the sale of the casino and resort would have benefited from the application of a similar approach to that applied to the facilitation of the APSC satellite launching facility.

35 Media Release: Minister for Regional Services, Territories and Local Government, *Christmas Island has a Future*, 23 June 2001, Exhibit No. 8.

36 Commonwealth Grants Commission, *Report on Indian Ocean Territories 1999*, Canberra, p. 37.

Air services to Christmas Island

- 6.57 Throughout the inquiry, the Committee received evidence on the vital importance of regular air services to the economic and social development of the Island.
- 6.58 In particular, the Committee was advised that regular air services from Jakarta and Singapore are considered essential to the future development and viability of both the casino and resort, and the tourism industry as a whole.
- 6.59 Since 1997, when Ansett announced that it would cease operating services to the Indian Ocean Territories, Christmas Island has suffered from a decline in the number of air services to the Island.
- 6.60 As discussed in Chapter One, from late 1997 to early 2001, the only air service to the Island was a weekly flight between Perth, the Cocos (Keeling) Islands and Christmas Island, operated by National Jet Systems (NJS) with a heavy subsidy from the Commonwealth.
- 6.61 In March 2001 the Commonwealth announced that a new three-year contract had been negotiated with NJS. Since April 2001 NJS have operated a 56-seat Avro RJ70 aircraft, linking Christmas Island, the Cocos (Keeling) Islands and Perth twice a week. The new agreement involves an increase in government subsidies and an increase in passenger fares and the cost of freight.
- 6.62 The Committee was advised that many members of the Island community are unhappy with Commonwealth policy with respect to the provision of air services to the Indian Ocean Territories. Mr Thomson from SOCI told the Committee:

We now have a new air service agreement, the airfares are going up...another \$200, so it will cost you \$1,680 economy to Perth. They are increasing the fares, so with inter-Island tourism...It is going to cost you \$2,000. So we have been hit very hard with this new agreement – economy airfare gone up to \$1,680 and you have to pay a much more significant payment for the inter-Island route...And, as I understand it, they have increased the subsidy to the airline. ..We think the Commonwealth moneys that are going to subsidise the NJS service would be better spent on working with the community to establish an air service based on the Island which would facilitate the tourist traffic through Jakarta-Singapore from the north.³⁷

37 SOCI, *Hansard*, pp. 112-113.

- 6.63 The Shire of Christmas Island also argued that the Commonwealth policy of providing a ‘safety net’ service to the Indian Ocean Territories (IOTs), while providing for the minimum necessary services required to link the territories with the mainland, ‘precludes the “safety net” service also continuing to a non-mainland port’ such as Singapore or Jakarta. SOCI stated that:

In the years the Commonwealth has operated a safety net service from the IOTs to the mainland only, it has been costly in terms of taxpayer subsidy, a generally inadequate services in respect of connections for airfreight and passenger movement to the north of the Island and extremely expensive for the consumer.

Additionally, it has not added to the economic development of the islands. This is primarily because the tourism market identified by the Christmas Island Tourism Association and travel companies is that of European and Japanese visitors who come to the Island via the Asian ports of Jakarta and Singapore.³⁸

- 6.64 The Committee was advised that tourism opportunities for the Island derive predominantly from Singapore and Jakarta. The Christmas Island Tourism Association (CITA) told the Committee that:

We are only an hour and a quarter flight from Jakarta, which in relative terms of flying anywhere is pretty good. So there is definitely more of an opportunity coming from the north for us than from mainland Australia.³⁹

- 6.65 Mr Gordon Thomson of SOCI also stated that the Island has ‘an enormous market in Europe, Japan and Singapore for tourism, but we cannot get them’ to the Island.⁴⁰

- 6.66 In April 1998 the Christmas Island community founded Christmas Island Community Air (CICA). From early 1998 to July 2001 CICA operated limited air services between Jakarta, Singapore and Christmas Island. CITA informed the Committee that the cost of a return fare to Jakarta from the Island was \$505 with taxes.⁴¹

- 6.67 CICA operated its last flight on 22 July 2001, and has subsequently entered into liquidation. A charter service has been established by Christmas Island Travel to fill the gap left by the closure of CICA. A 100-seat aircraft has been leased, which carries both passengers and cargo, and which operates a once-weekly service between Christmas Island and Jakarta.

38 SOCI, Exhibit 2.

39 CITA, *Hansard*, p. 173.

40 SOCI, *Hansard*, p. 113.

41 CITA, *Hansard*, p. 173.

- 6.68 For the purpose of promoting tourism on the Island, air services from the Indian Ocean Territories to Singapore and Jakarta remain limited.
- 6.69 CITA told the Committee:
- there is a lack of flights and a lack of a bigger plane coming from the north. The cost of flights has been a problem. They were marginally cheaper when the resort was open because of the increased number of flights.⁴²
- 6.70 The Committee heard evidence that the casino and resort had been highly dependent on regular air services from north of the Island, particularly from Singapore and Jakarta, for its ongoing profitability.
- 6.71 Mr Woodmore, a former Director of CIR, told the Committee that one of the contributing factors to the closure of the casino and resort in 1998 was the cessation of regular air services from Singapore and Jakarta.
- The casino depended for its survival on regular air services from Asia. Two airline operators provided a total of 7 flights a week, mainly from Jakarta, but by May 1996 both operators had pulled out...In an effort to keep the business going, CAI chartered executive jets from Jakarta and organised a weekly B727 flight from Singapore. The strategy was successful but shortlived.⁴³
- 6.72 The Committee was advised that a similar level of aviation services to Singapore and Jakarta would be crucial for the future viability of the casino and resort.
- 6.73 The Liquidator told the Committee that 'lack of flights to the Island' meant that many potential purchasers considered that the casino and resort was, commercially, 'an extremely risky proposition to invest on'.⁴⁴
- 6.74 Mr Woodmore told the Committee:
- It is difficult to get airlines to fly in. What is required is that the Casino must be prepared to underwrite the total cost of the operation and hope that it can recoup it from its customers.⁴⁵
- 6.75 Mr Ed Turner also stated that he believed that with the current level of services to the Island, any future operator of the casino and resort would need to increase the number of flights from Singapore and Jakarta. Mr Turner stated that recognition was needed by all parties:

42 CITA, *Hansard*, p. 172.

43 Mercator Property Consultants, Submission No. 8, p. 1188.

44 PPB Ashton Read, *Hansard*, p. 78.

45 Mr Frank Woodmore, *Hansard*, p. 102.

that this casino resort is not currently viable and that it will take significant moneys to upgrade and substantial funds to underwrite aviation flights to Asia to develop a profitable business.⁴⁶

6.76 Mr Woodmore further stated:

In my view, it is not viable at the moment to market the casino in Asia if you also have to underwrite the cost of air services...The volume is sporadic. That is the big problem. It tends to be focused on the weekends and there is very little during the middle of the week. So, if you were bringing your flights in for gamblers only, they would be coming in one way full and going home empty. It is very much a vexed question at the moment.⁴⁷

6.77 In formulating its business proposal for the casino and resort, ComsWinfair recognised that aviation services to the Island were crucial to the successful operation of the facility. ComsWinfair advised the Committee:

Indonesia provides substantial business for Australian casinos and Christmas Island is well positioned to capture additional 'impulse' business. Other markets in South East Asia augment the base business load available from Indonesia. Under appropriate management and with necessary financial resources this advantage could provide the commercial core for expansion into a broader tourist offering accessing a wider market. An imperative to capturing this business is the provision of adequate air services to the Island.⁴⁸

6.78 Soft Star Pty Ltd has also advised the Committee that the lack of regular air services has limited its ability to rehabilitate the facility at this stage.

The operation of the casino and resort from Christmas Island faces the obstacle of the unsatisfactory nature of the airline services to the Island from both Australia and Indonesia, having regard both to price and regularity. I am very mindful of this problem and have conducted numerous commercial discussions with airport transport providers in order to organise a more viable air-transport solution.⁴⁹

6.79 During the course of the inquiry, however, the Committee heard evidence of speculation that the APSC satellite launching facility will serve to

46 Mr Ed Turner, Submission No. 10, p. 1207.

47 Mr Frank Woodmore, *Hansard*, p. 103.

48 ComsWinfair, Submission No. 9, p. 1200.

49 Soft Star, Submission No. 13, p. 1422.

generate more flight services to the Island than are currently provided. Ms Theresa Hendren from CITA told the Committee:

I am aware of speculation among many of the members and the people involved that there would be an increase in the number of flights from Australia and from the north which means that airfares would be reduced and there would be the potential to increase tourism from the north.⁵⁰

6.80 This would involve more flights to the Island in ‘a combination of scheduled flights and charters’ as well as ‘bigger planes from Singapore’.⁵¹

6.81 Mr Woodmore told the Committee that he believes that the APSC project will provide the impetus for many of the flight services required to underwrite the viable operation of the casino and resort:

I think Mr Kwon will have bought himself a very good deal because, as part of his project, he will be able to deliver air services which will generate traffic for the hotel and, on the back of that, it would then be economically feasible to bring in gaming customers from other parts of Asia. The volume from other parts of Asia is not sufficient to support a dedicated air service, but they certainly could be brought in on an ad hoc basis if there were a regular schedule from, say, Singapore or somewhere like that.⁵²

6.82 In 1999 the Bureau of Transport Economics argued that:

Major projects such as a re-opening of the resort/casino or construction of a satellite launching facility would involve a substantial increase in the demand for air transport. Additional or upgraded services may be provided by, or at least facilitated by, interests involved in these projects. Such a development would potentially lead to a greater capacity, more frequent services, larger aircraft and lower airfares with flow-on benefits for other sectors of the tourist industry.⁵³

6.83 CITA commented further that the re-opening of the casino and resort with additional flight services would subsequently stimulate growth in the entire tourism sector on Christmas Island:

The reopening of the resort and casino would mean an increase in tourism, which would give us additional improvements. Existing air service providers would be able to increase services and put on

50 CITA, *Hansard*, p. 175.

51 CITA, *Hansard*, p. 175.

52 Mr Frank Woodmore, *Hansard*, p. 89.

53 Bureau of Transport Economics, *Christmas Island Regional Analysis*, Report prepared for the Indian Ocean Territories Review, Canberra, December 1998, p. 64.

larger planes, there would be more tourism based training on the Island for Islanders and new tourism businesses would be explored and opened, adding to the attractions and the overall quality of the services on offer on Christmas Island.⁵⁴

Summary

- 6.84 The Committee recognises that the provision of regular air services between the Indian Ocean Territories and both the mainland of Australia and Singapore and Jakarta, is crucial to the economic development of the Island. In particular, the tourism sector on Christmas Island is highly dependent upon air services to the north for further development.
- 6.85 The Committee notes that the ‘safety net’ arrangement, whereby services are provided by National Jet Systems and subsidised by the Commonwealth, whilst meeting the essential needs of the territories, does not provide for air services to Singapore and Jakarta.
- 6.86 The Committee was disappointed to note the recent closure of Christmas Island Community Air, although the Committee notes the immediate establishment of a replacement charter service providing air services between Christmas Island and Jakarta. The Committee has been advised, however, that this type of arrangement is not sustainable in the long term.
- 6.87 The Committee also recognises that for the casino and resort to operate successfully, supplementary flight services and larger aircraft are required for the air link between Christmas Island and Jakarta and Singapore. The Committee believes that any increase in the availability of air services to these areas would also provide a strong boost for Christmas Island tourism and small business enterprises.
- 6.88 Should both the APSC satellite launching facility and the casino and resort remain undeveloped, the Committee believes that the provision of air services would have to be more closely examined in the context of negotiating some form of subsidy agreement for the provision of air services between Christmas Island and Singapore and Jakarta.
- 6.89 Nevertheless, the Committee believes that with the commencement of construction for the APSC satellite launching facility, flight services to the Island will increase, as the dual operation of the space facility with the casino and resort would make the provision of aviation services more viable.

54 CITA, *Hansard*, p. 171.

Future economic development

- 6.90 Through the course of the inquiry the Committee heard evidence from a number of witnesses highlighting the role of the casino and resort within the context of the Island's overall prospects for future economic development.
- 6.91 As discussed in Chapter One, the economy of Christmas Island is dependent upon large-scale projects for investment and future employment. Prospects, therefore, for economic development on the Island can subsequently be seen as being dependent upon phosphate mining, the APSC satellite launching facility and the tourism sector through the re-opening of the casino and resort.
- 6.92 The Committee remains concerned, however, that both the mine and the satellite launching facility have a finite lifespan. The Committee therefore concluded that other long-term strategies for the development of the Island should be considered.

Phosphate mining

- 6.93 Phosphate mining has historically been the backbone of the Christmas Island economy. The mine is currently under the management of Phosphate Resources Limited (PRL), and at May 2001 PRL employed 180 people.
- 6.94 However, the BTE reported in 1999 that A-grade and B-grade phosphate currently available for mining on the Island is only sufficient for approximately twelve years of production. Recent data further suggests that there are only enough resources in existing leases to last another five years.⁵⁵
- 6.95 The Shire of Christmas Island informed the Committee that PRL has applied for a further exploration licence. The licence is for the purpose of examining the future viability of remaining phosphate resources. A response had been expected by February 2001.⁵⁶
- 6.96 At May 2001 the application had completed all processes for the Western Australian Department of Minerals and Energy, and was subject to environmental assessment under the *Environment Protection and Biodiversity Conservation Act 1999*. PRL has been provided with guidelines

55 *Christmas Island Phosphates: A Community Owned Company*, PRL promotional brochure.

56 SOCI, *Hansard*, p. 126.

by Environment Australia and was preparing a Public Environment Report.⁵⁷

- 6.97 The Committee believes that while there are continuing opportunities for the operation of the mine on the Island, it can no longer be relied upon to provide the sole economic basis for all commercial activity.

APSC satellite launching facility

- 6.98 As discussed in Chapter One, the APSC facility is expected to provide a substantial boost to the Island's economy, through the generation of employment as well as a significant indirect injection of funds into infrastructure and small business.
- 6.99 The APSC facility is expected to generate 300-400 jobs in the construction phase and up to 550 jobs when fully operational. This will include the employment of 300 Russian workers on a temporary basis for launch operations in the first three to five years.⁵⁸
- 6.100 A \$100 million incentive package, announced on 22 June 2001 by the Commonwealth Government, is intended to 'assist with the development of a space launch facility on Christmas Island'. This will include funds of \$68.6 million for common use infrastructure, the allocation of which will be overseen by the Department of Transport and Regional Services. Common use infrastructure projects to be undertaken will include:
- an extension of the airport runway to 2.6km to enable the use of wide bodied and other heavy aircraft;
 - an alternate port facility on the Island's south east coast to allow freight transport during the swell season; and
 - a new road between the proposed alternate port, the airport and the APSC space facility at South Point.⁵⁹
- 6.101 In a media release issued on 23 June 2001, the Minister stated that the project facilities will have a capital value of approximately \$800 million, and that the Allen Consulting Group has estimated that 'the APSC project would increase Gross Regional Income to Christmas Island by \$33 million per annum, with a net gain to Australia of \$1.3 billion' over the anticipated lifespan of the project.⁶⁰

57 Northern Australia: Forum for Growth into the New Century, *Christmas Island Local Consultations: Formal Response by the Federal Government*, 2 May 2001, p. 10 (hereafter referred to as *Formal Response by Federal Government*).

58 DoTRS, Exhibit No. 9.

59 DoTRS, Exhibit No. 9.

60 DoTRS, Exhibit No. 8.

6.102 The project is expected to take 1.5 to two years to construct and to have an operational life-span of fifteen to twenty years, depending upon market forces governing the industry.

6.103 DoTRS informed the Committee:

The project is expected to benefit all Christmas Island residents, whose current economy is almost totally dependent on the existing phosphate mine, as it offers the potential for economic development and employment for the Island and Australia.⁶¹

6.104 However, the Committee heard evidence during the inquiry that many members of the Christmas Island community believe that other economic opportunities on the Island, such as the mine and the casino and resort, are not being maximised, because all of the Government's attention has been focused on development of the satellite launching facility. Mr Gordon Thomson of the Union of Christmas Island Workers (UCIW) told the Committee:

There is no confidence on our part that [the satellite launching facility] will happen, but we see that everything is predicated on it happening. So we are not going to do anything about airlines, we are not going to do anything about anything, because we are waiting for the space station...if it were to happen, sure, economic benefits would be enormous – but it is the case of if it happens not when it happens.⁶²

6.105 The Christmas Island Chamber of Commerce also stated that although it was very supportive of the project, and optimistic that it will proceed, it was concerned that if the APSC facility does not develop as planned the Island's economy should still be able to develop independently.

There are currently approximately 67 small businesses on Christmas Island, all trying to make a living out of an estimated 340 pay packets...more than half of these businesses have lost money over the last three years and have only remained on the Island because of the hope that the resort will reopen and / or the APSC satellite project will proceed, if the resort does not re-open and / or the APSC project does not proceed, the chamber forecasts a further decline in population of 400 people within the next 18 months and the near collapse of much of the small business sector built up over the last 10 years.⁶³

61 DoTRS, Exhibit No. 9.

62 UCIW, *Hansard*, p. 125.

63 CICC, *Hansard*, p. 178.

- 6.106 This view was reinforced by comments made by the Bureau of Transport Economics in 1999, which reported that:

The recent history of Christmas Island suggests that economic activity remains at a reasonable level when there are at least two major sources of external funds in addition to Commonwealth activities. However, closure or a significant reduction in one sector leads to a substantial downturn in the economy.⁶⁴

- 6.107 The Committee acknowledges that the commencement of the APSC project will, in all likelihood, generate an increase in air services to the Island and the re-opening of the casino and resort. The Committee consequently supports all undertakings by the Commonwealth to secure continued APSC investment in the Indian Ocean Territory.

Tourism

- 6.108 Despite positive projections for investment in Christmas Island, resulting from the satellite launching facility, the Committee heard evidence that sustainable long-term economic growth of the Island is much more likely to develop out of the tourism sector.
- 6.109 The BTE argued in 1999 that ‘economic development and employment growth will only continue if there is further strengthening and diversification of the economy’.⁶⁵ The Committee heard evidence during the course of the inquiry that further strengthening and diversification of the Island’s economy would be most effective in the Island’s tourism sector. Mr Oakley of the CICC further argued that:

The Chamber of Commerce believes that the future of this Island is ultimately in tourism. The phosphate resource on this Island has a finite life, and the Chamber believes that the Island’s economy must be able to develop irrespective of whether the APSC project proceeds or not. The Chamber is a strong supporter of both PRL Ltd and the APSC project concept. However, sustainable long-term growth will not occur without tourism. We believe that every effort must be provided at all levels to enable the quick re-opening of the resort, and the enable the Island to return to its pattern of sustainable economic growth, as was occurring some four to five years ago.⁶⁶

64 Bureau of Transport Economics (BTE), *Christmas Island Regional Analysis*, Report prepared for the Indian Ocean Territories Review, Canberra, December 1998, p. xvi.

65 Bureau of Transport Economics (BTE), *Christmas Island Regional Analysis*, Report prepared for the Indian Ocean Territories Review, Canberra, December 1998, p. 63.

66 CICC, *Hansard*, p. 178.

6.110 Opportunities for tourism in Christmas Island centre predominantly on capitalising upon the Island's unique environment. Activities such as the spectacular annual red crab migration, diving, fishing, bird-watching and bushwalking provide opportunities for the Island to develop a strong eco-tourism industry.

6.111 The Commonwealth Grants Commission, in its 1999 report on the Indian Ocean Territories, stated:

Tourism has been identified as an industry that could make a significant contribution to the increased social and economic wellbeing of Christmas Island. Despite the fact that the industry has suffered since the closure of the Christmas Island Resort, revenue flowing from tourism still provides an important source of income for Christmas Island. The Island's unique flora and fauna and its world famous land crabs, together with diving and fishing, continue to make it an attractive destination, if marketed properly.⁶⁷

6.112 The Chamber of Commerce told the Committee:

We are ranked as one of the top five diving sites in the world. World records for deep-sea fishing catches are being set around the Island. We have tropical rainforest of a type that is not found anywhere in the world. We are ranked second only to the Galapagos Islands in terms of the uniqueness of our flora and fauna. We have phenomenal bird life. We have bird watching groups coming from all parts of the world. There is an enormous potential...There is a lot that we could do.⁶⁸

6.113 The Committee believes that both the development of satellite launching, and the anticipated refurbishment and reopening of the Christmas Island Casino and Resort, will provide the tourism sector on the Island with the financial impetus required to develop expanded air, marketing and tourism services.

6.114 In particular, the re-opening of the casino and resort will augment the Island's tourism sector. Care must be taken, however, to ensure that the Christmas Island tourism sector retains its financial and practical independence in order to secure its continuing development and growth.

6.115 To this end, the Committee notes recent negotiations to develop a Service Delivery Agreement (SDA) with the Western Australian Tourist Commission. It is anticipated that the SDA will deliver:

67 Commonwealth Grants Commission, *Report on Indian Ocean Territories 1999*, Canberra, p. 15.

68 CICC, *Hansard*, p. 182.

- an inclusion in the Western Australian tourism network;
 - advice in relation to infrastructure development;
 - advice on strategies for the promotion of tourism on the Island; and
 - training for tourist operators.
- 6.116 The Committee supports all moves by the Commonwealth and the Christmas Island community to further develop the tourism sector on the Island, as part of a long-term economic development strategy.

Summary

- 6.117 The Committee acknowledges that the Christmas Island economy is heavily reliant upon substantial Commonwealth subsidies and other financial support. The Committee believes that the significant investment in the Island expected to flow from the APSC project will serve to alleviate some of the existing pressures on infrastructure and services to the Territory.
- 6.118 The construction and operation of the APSC facility is also expected to generate a substantial level of development in the small business and tourism industries.
- 6.119 The Committee believes that a positive balance should be maintained between existing projects, such as the phosphate mine, and future projects such as the satellite launching facility and the casino and resort, in order to ensure the continuing long-term sustainability of the Christmas Island economy.
- 6.120 The Committee consequently supports the Commonwealth's stated objective of broadening the economic base of both Indian Ocean Territories by investigating new strategies for enhancing economic development.

Economic Development Committee

- 6.121 In July 2000 the Minister for Regional Services, Territories and Local Government, the Hon Senator Ian Macdonald, announced the establishment of an Economic Development Committee (EDC) for Christmas Island. The EDC was the outcome of a series of consultative meetings, held as part of the *Northern Australia: Forum for Growth into the New Century*, which was coordinated by DoTRS.
- 6.122 The *Northern Australia* forum was initiated to examine opportunities for the economic development of northern Australia, including emerging industry opportunities. Two consultative meetings were held on

Christmas Island, on 15 May and 18 July 2000. The first meeting was convened to establish local priority issues, and to nominate a representative group to present these priorities to the Minister at the second meeting.

- 6.123 The *Formal Response by the Federal Government* to the Christmas Island Local Consultations was released on 2 May 2001. The response stated:

The Federal Government recognises this process is only a catalyst for a longer-term relationship between the various Commonwealth agencies and the Christmas Island community. That being said, this whole-of-government response provides an excellent base for further interaction between Commonwealth agencies, the Department of Transport and Regional Services' Territories office, Western Australian State agencies, the Christmas Island Shire and the private sector in assisting the sustainable development of Christmas Island.⁶⁹

- 6.124 During an inspection of the Island in May 2001, the Minister announced that nominations for the EDC had been received from those organisations invited to nominate representatives. DoTRS told the Committee in June 2001 that it was 'hopeful that there will be an announcement by the Minister very shortly' in relation to the people who will comprise the EDC.⁷⁰

- 6.125 The EDC will comprise Commonwealth, local government and community representation. The primary aim of the EDC is the formulation of a strategic plan for the economic development of the Island. The *Formal Response by the Federal Government* stated:

Such a plan would encompass economic and social issues such as identifying future industries for the Island, land usage and service planning, to provide a solid foundation for sustainable, progressive development for the Island's future.⁷¹

- 6.126 The Committee supports the establishment of the EDC, particularly in light of recent economic developments on the Island.

69 *Northern Australia: Forum for Growth into the New Century*, Formal Response by the Federal Government to the Christmas Island local consultations, 2 May 2001, p. 7.

70 DoTRS, *Hansard*, p. 227.

71 *Northern Australia: Forum for Growth into the New Century*, Formal Response by the Federal Government to the Christmas Island local consultations, 2 May 2001, p. 13.

Summary

- 6.127 The Committee considers that the Christmas Island community has the right to be kept comprehensively informed on processes which affect the economic future of the Island.
- 6.128 The Committee believes that the formulation of a Committee of Inspection by the Liquidator fulfilled all commercial responsibilities to keep the community informed on the progress of the tender process. However, the Committee believes that the Commonwealth did not fully exercise its capacity to inform advisory bodies on the Island with respect to the conduct and outcome of the tender process.
- 6.129 The Committee notes that public access to Waterfall Bay for recreational purposes, particularly during the swell season, is still unresolved.
- 6.130 In addition, the Committee considers that air services between Christmas Island and Singapore and Jakarta are vital to both the economic viability of any future operations at the casino and resort, and the economic development of the Indian Ocean Territories.
- 6.131 Therefore, the Committee concludes that, should the development of the APSC satellite launching facility and / or the reopening of the casino and resort fail to eventuate, the Commonwealth has a responsibility to facilitate the provision of 'safety net' air services to include Singapore and Jakarta.
- 6.132 The Committee believes that this issue should be examined in further detail by the Economic Development Committee, as part of a broader strategy to promote long-term sustainable economic development in the Indian Ocean Territories.

Recommendation 6

The Committee recommends that the Commonwealth negotiate terms and conditions for the provision of vehicular access to Waterfall Bay for members of the Christmas Island community.