

## Introduction

### The inquiry process

- 1.1 On 8 November 2000 the Senate referred matters relating to the tender process for the sale of the Christmas Island Casino and Resort to the Joint Standing Committee on the National Capital and External Territories, for inquiry and report by 5 April 2001. The reporting date was subsequently extended to 27 September 2001. The full terms of reference are set out at the beginning of this report.
- 1.2 The inquiry was advertised in the *Territories' Tattler* on 1 December 2000 and nationally in *The Australian* on 6 December 2000. The Committee also wrote to relevant Commonwealth Departments and to a number of organisations, inviting submissions.
- 1.3 The Committee received fifteen submissions, which are listed at Appendix A, and eleven exhibits, listed at Appendix B. Submissions are available from the Committee's web site at:  
[www.aph.gov.au/house/committee/ncet](http://www.aph.gov.au/house/committee/ncet)
- 1.4 The Committee held public hearings in Canberra in February and June 2001, and in Perth and Christmas Island in April 2001. Details are listed at Appendix C.

### Structure of the report

- 1.5 This report is divided into six chapters.
  - Chapter One provides a background to the inquiry and details on the social, political and economic framework of the Island;

- Chapter Two details the history and operation of the Christmas Island Casino and Resort, from its opening in 1993 to its closure in 1998;
- Chapter Three details the tender and sale process of the casino and resort;
- Chapter Four examines the conduct of the tender process;
- Chapter Five examines the outcome of the sale of the casino and resort; and
- Chapter Six details a number of broader community concerns which formed the context of the inquiry.

## Background

- 1.6 Christmas Island is the summit of an extinct submarine volcano, located in the Indian Ocean 2 650 kms north west of Perth, 2 800 kms west of Darwin, approximately 380 kms south of Java and approximately 1 350 kms from Singapore. The nearest point on the Australian mainland is North West Cape, approximately 1 565 kms to the south east of the Island.
- 1.7 The Island has an area of 135 square kilometres and is encircled by a coral reef. Within 200 metres of the shore the sea plummets to a depth of 500 metres.
- 1.8 As a result of its relative isolation, Christmas Island has a unique natural topography and ecology. The Christmas Island National Park, established in 1980, now covers 63 per cent of the Island, as well as much of the fringing reef. The Park houses a large number of endemic animal species, most notably the Abbott's Booby, a rare seabird, and the Christmas Island Red Crab, of which there are approximately 100 million.
- 1.9 The Island was uninhabited at the time of European discovery in 1643. It was annexed by Britain in 1888, following the discovery of phosphate deposits. Labour for the mining of phosphate was recruited predominantly from Asia.
- 1.10 For administrative purposes the Island was incorporated into the Straits Settlement in 1889 and later the Settlement of Singapore in 1900. The Island was occupied by the Japanese during World War II and subsequently became part of the Colony of Singapore in 1946. In October 1958 Christmas Island became an Australian Territory.

## The people of Christmas Island

- 1.11 Population figures for Christmas Island fluctuate with the level of economic activity. The Christmas Island Chamber of Commerce (CICC) told the Committee that the population had fallen from an estimated 2 600 people in the late 1990s to a figure of approximately 1 300 people, following the closure of the Christmas Island Casino and Resort.<sup>1</sup>
- 1.12 The population is multicultural, reflecting both the Island's geographical position and its unique cultural heritage. In the 1996 census, 70 per cent of the population were ethnic Chinese, 20 per cent European settlers and approximately 10 per cent were Malay.
- 1.13 English is the official language on Christmas Island, although approximately 80 per cent of the population have a first language other than English. Many residents communicate in a Chinese dialect or in Bahasa Malay.
- 1.14 The majority of the population, as well as most of the facilities on the Island, are concentrated at the northern end of the Island. There are six urban areas on Christmas Island – the Settlement, Flying Fish Cove (including the Kampong), Poon Saan, Silver City, Drumsite and Taman Sweetland.<sup>2</sup>

## Governance

- 1.15 Christmas Island is an Australian Territory, administered directly by the Commonwealth of Australia. Sovereignty was transferred from Britain to the Commonwealth on 1 October 1958 under the *Christmas Island Act 1958*.
- 1.16 In 1991 the Commonwealth Government and the Christmas Island Assembly<sup>3</sup> endorsed a *Proposed Package of Changes Extending to the Residents of Christmas Island Rights, Opportunities and Obligations Equivalent to Those of Their Fellow Australians in Comparable Communities*.<sup>4</sup> This was part of an Australian Government decision to engage in a program of 'normalisation' for the Island.<sup>5</sup>

---

1 CICC, *Hansard*, p. 178.

2 Bureau of Transport Economics (BTE), *Christmas Island Regional Analysis*, Report Prepared for the Indian Ocean Territories Review, Canberra, December 1998, p. 5.

3 A forerunner to the current Shire of Christmas Island.

4 Commonwealth Grants Commission, *Report on Christmas Island Inquiry 1995*, AGPS, Canberra, 1995, p 10.

5 The 'normalisation' process set out steps needed to ensure that residents of Christmas Island have access to the same services and conditions as residents in comparable communities on the mainland.

- 1.17 The current system of administration was subsequently introduced in 1992, when the *Territories Law Reform Act 1992* replaced the existing laws of the Territory with a body of Commonwealth and Western Australian law, modelled on that of the mainland but developed to suit the particular circumstances of Christmas Island.<sup>6</sup>
- 1.18 The Commonwealth delivers Federal and State level services to the residents of the Island. The Minister for Regional Services, Territories and Local Government exercises ministerial powers and responsibilities. The Administrator, appointed by the Governor General, is responsible for the law, order and good governance of the Territory.
- 1.19 The Administrator administers the Territory on behalf of the Commonwealth and exercises all powers and functions in accordance with instructions from the Minister. The Department of Transport and Regional Services (DoTRS) provides administrative support.
- 1.20 On 1 July 1992 the *Local Government (Transition) Ordinance 1992* was established under the *Christmas Island Act 1958*. The first Christmas Island Shire Council was elected in December 1992, superseding the Christmas Island Assembly and the Christmas Island Services Corporation.
- 1.21 The Shire Council, made up of a President and eight councillors, has powers similar to Western Australian shire councils and is responsible for local government services. However, the Shire of Christmas Island also performs additional functions which go beyond customary local government duties on the mainland.<sup>7</sup> Island residents have no State level representation.
- 1.22 Christmas Island is an Electoral District of the Commonwealth Division of the Northern Territory, for the purposes of enrolment and voting in federal elections. At the 2001 federal election Christmas Island will form part of the new electorate of Lingiari, which comprises most of the Northern Territory.

## Economic structure

- 1.23 The Christmas Island economy is highly dependent on large-scale projects for injections of funding and the employment of local residents. In this context, the Island's economy is based predominantly on:
- phosphate mining;

---

6 Those circumstances may include particular cultural or religious beliefs of the Island, or address inconsistencies between Western Australian and Commonwealth laws.

7 For example, SOCI provides Centrelink services on a contract basis, and provides water and sewerage services for the Administration. Commonwealth Grants Commission, *Report on Christmas Island Inquiry 1995*, AGPS, Canberra, 1995, p 32.

- tourism; and
  - the proposed satellite launching facility.
- 1.24 The Committee was told that an estimated 25 per cent of the Christmas Island labour force was unemployed at the time of the inquiry.<sup>8</sup> The 1996 census indicated that the median personal weekly income for people aged fifteen years and over on Christmas Island was \$521. In April 2001 there were 67 small businesses operating on the Island.<sup>9</sup>
- 1.25 The Christmas Island Casino and Resort has played a pivotal role in the development of the tourism and small business sectors on Christmas Island, and in the Island's overall economic and social development. The closure of the resort had a devastating effect, economically, on the local community. This was not alleviated by the long and complex tendering process which followed, or the continuing closure of the casino and resort.

### Phosphate mining

- 1.26 Phosphate mining has a long history on Christmas Island and continues to provide the backbone of the economy. During the 1980s, as deposits of preferred quality phosphate neared exhaustion, the mining operation faced severe economic constraints. The effects of drought and low phosphate prices finally led to a government decision to close the mine in December 1987.
- 1.27 In 1990 the mine recommenced operations as *Christmas Island Phosphates*, with a ten-year mining lease. This followed a buy-out of the company by Island residents, organised by the Union of Christmas Island Workers (UCIW).<sup>10</sup>
- 1.28 In August 1997 the company, reconstituted as *Phosphate Resources Limited* (PRL), was awarded a new 21-year mining lease under conditions determined by Western Australian mining legislation. Revenue from the sale of Christmas Island phosphate totalled \$43.8 million in 1997-98.
- 1.29 The Bureau of Transport Economics (BTE) reported in 1999 that the amount of A-grade and B-grade phosphate currently available for mining on Christmas Island was sufficient for at least twelve years of production. However, recent data from PRL indicates that there are only enough phosphate resources to last another five years.<sup>11</sup>

---

8 UCIW, *Hansard*, p. 122.

9 CICC, *Hansard*, p. 178.

10 The Union was formed by mine workers in 1975 to agitate for labour and compensation laws in line with industrial laws on mainland Australia, and was the first union on the Island. Waters, *The Union of Christmas Island Workers*, Allen & Unwin, 1983, pp. 30-31.

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

- 1.30 The BTE also stated that there are prospects for the identification of additional resources in the areas covered by the mining lease, and that 'successful development of a market for the large amounts of C-grade phosphate on Christmas Island would result in a substantial increase in mine life'.<sup>12</sup>
- 1.31 The Committee was told that the PRL had applied for a further exploration licence in 2000. A response was expected in February 2001 but has not eventuated as yet.<sup>13</sup>
- 1.32 Since the mid to late 1990s, PRL have also been involved in negotiations with Asia Pacific Space Corporation (APSC) regarding the use of land at South Point for the proposed satellite launching facility.

## Tourism

- 1.33 Following the opening of the casino and resort in 1993, there was a major expansion of tourism on Christmas Island. Although this was dominated by the casino, diving, eco-tourism and fishing activities also grew in subsequent years. Tourism was the largest source of employment on the Island for several years until the closure of the casino and resort in April 1998.<sup>14</sup>
- 1.34 The CICC told the Committee that until the construction of the casino and resort, there was no private accommodation on the Island at all.
- Until the late 1980s it was basically a mining town. There was no private accommodation on the Island. To even come to the Island you had to get the permission of the mine, because there would not have been anywhere to stay. There was the government representation, but there was no private business at all, as such. This private business sector has built up – entirely as a result of the opening of the resort in 1993 – into something that is quite substantial.<sup>15</sup>
- 1.35 Although numbers have dropped considerably since the closure of the casino and resort, future opportunities for tourism, focusing predominantly on diving and eco-tourism, are still being vigorously explored by the local tourism sector.
- 1.36 Christmas Island has been experiencing a small number of regular bookings each week from Austrian and other European tourists, who

---

12 BTE, *Christmas Island Regional Analysis*, p. 44.

13 UCIW, *Hansard*, p. 126.

14 BTE, *Christmas Island Regional Analysis*, p. 45.

15 CICC, *Hansard*, p. 185.

travelled to Christmas Island via Jakarta, using the Christmas Island Community Air service for the flight to Christmas Island.

- 1.37 Accommodation on the Island has been limited since the closure of the Christmas Island Casino and Resort and the Christmas Island Lodge. A tourism audit of accommodation available on the Island in May 2000 revealed that there were approximately 140 beds on the Island, excluding the potential 250 beds at the resort.<sup>16</sup> This was comprised mainly of units and backpacker and lodge accommodation.
- 1.38 Any future prospects for the tourism sector on Christmas Island are highly dependent upon the affordability and regularity of air services to the Island.

#### Air services to Christmas Island

- 1.39 The airport at Christmas Island is located on the north-eastern part of the Island and has full international capability, including security, customs, quarantine and immigration facilities. The largest passenger aircraft that can be handled under normal conditions are Boeing 737s and Boeing 767s or equivalent (restricted).<sup>17</sup>
- 1.40 In September 1993 Ansett began a regular service to Christmas Island, operating a BAE 146 with a capacity of 70 seats and freight. This service replaced air charter services operated by the then Department of the Environment, Sport and Territories.
- 1.41 In 1996 the following scheduled return services to Christmas Island were available:
- from Perth, including regular services to the Cocos (Keeling) Islands on Saturday, Wednesday and occasionally on Sunday, with Ansett;
  - from Broome, via Denpasar and Surabaya on Thursday, with National Jet Systems;
  - from Singapore on Friday and Monday, with National Jet Systems; and
  - from Jakarta on Monday, Thursday, Friday, Saturday and Sunday, using an F28 jet through Sempati Air, connecting with the Perth-Jakarta flight.<sup>18</sup>

---

16 Christmas Island Tourism Association (CITA), Exhibit No. 5.

17 BTE, *Christmas Island Regional Analysis*, p. 12.

18 Annexure 61, PPB Ashton Read, Submission No. 7, pp. 608-609. (Submission page numbers refer to the consolidated volumes of submissions.)

- 1.42 Ansett ceased operating services to the Indian Ocean Territories in October 1997 because of poor profitability and a general restructuring of its Australian operations.
- 1.43 Since then, regular air services to Perth, for both passengers and freight, have been provided by the National Jet Systems (NJS) Group under a subsidy arrangement with the Commonwealth. The cost of the subsidy was approximately \$2 million in 1998-99.<sup>19</sup>

Table 1 Passenger Arrivals at Christmas Island Airport 1993-94 to 1997-98<sup>20</sup>

Passengers	1993-94	1994-95	1995-96	1996-97	1997-98
Domestic	4 236	5 883	5 720	6 443	4 272
International	5 557	13 494	11 816	3 326	2 463
Total	9 793	19 377	17 536	9 769	6 735

- 1.44 Until April 2001 NJS operated a weekly service on Saturday between Perth and the Indian Ocean Territories. The service flew Perth-Cocos Island-Christmas Island-Perth and Perth-Christmas Island-Cocos Island-Perth on alternate Saturdays. Additional flights were scheduled in periods of high demand.<sup>21</sup>
- 1.45 On 31 May 2000 a Request for Tender to provide a commercial or, if necessary, subsidised air service was issued by the Commonwealth Government. On 14 September 2000 the Minister announced that none of the tenders submitted had complied. Through late 2000 and early 2001 there were a series of short-term extensions to the existing contract with NJS.<sup>22</sup>
- 1.46 On 29 March 2001 the Minister announced that negotiations for a new three-year contract with NJS, beginning on 1 April 2001, had been completed. Under the new arrangements NJS will use a 56-seat Avro RJ70 aircraft to operate a service linking Christmas Island, the Cocos (Keeling) Islands and Perth twice a week.

19 Commonwealth Grants Commissions, *Report on Indian Ocean Territories 1999*, Canberra, pp. 52-53.

20 *Airport Traffic Data, 1987-88 to 1999-2000*, Aviation Statistics Unit, Department of Transport & Regional Services [www.dotrs.gov.au/aviation](http://www.dotrs.gov.au/aviation)

21 Commonwealth Grants Commissions, *Report on Indian Ocean Territories 1999*, Canberra, pp 52-54.

22 Media Release: *Extension of Arrangements for Indian Ocean Territories Air Services*, Senator the Hon Ian Macdonald, Minister for Regional Services, Territories and Local Government, 25 January 2001.



- 1.47 Under the new contract the Government's subsidy of the air service increased, as did passenger fares and the cost of freight, beginning on 1 May 2001.<sup>23</sup>
- 1.48 From April 1998 to July 2001 a community owned commercial air service, Christmas Island Community Air (CICA), operated, carrying passengers, mail and freight. Approximately \$150 000-\$160 000 was raised on-Island through the sale of \$1000 share packages within the community. This enabled CICA to enter into a lease agreement for an eighteen-seat aircraft.<sup>24</sup>
- 1.49 CICA operated flight services between Jakarta and Christmas Island, which connected with the QANTAS Jakarta-Perth service, as well as flights between Singapore and Christmas Island.<sup>25</sup>
- 1.50 CICA ran its last flight service on 22 July 2001, before entering into liquidation. A charter service has subsequently been established to fill the gap, with a 100-seat aircraft servicing a flight between Christmas Island and Jakarta once a week. This service also connects with the QANTAS service between Jakarta and Perth.
- 1.51 The Bureau of Transport Economics reports, however, that small-scale air services of this kind 'have significant limitations for tourist traffic in areas such as travel time, frequency, on-board facilities and capacity'.<sup>26</sup> Consequently, passenger arrivals remain well below the numbers experienced in the early to mid-1990s.
- 1.52 Continuing uncertainty surrounding air services, as well as limited availability and high fares, act as major disincentives against further development of the Christmas Island tourism industry. In particular, it has created difficulties for international tourism operators attempting to make advance bookings.
- 1.53 Over the last eighteen months, however, there has been some speculation that once the APSC satellite launching facility begins construction there will be an increase in the number of flights from Australia and from countries to the north of Christmas Island, particularly from Singapore.<sup>27</sup>

---

23 Media Release: Senator the Hon Ian Macdonald, Minister for Regional Services, Territories and Local Government, *Indian Ocean Territories Air Services*, 29 March 2001.

24 CICC, *Hansard*, p. 184.

25 [www.christmas.net.au/flights](http://www.christmas.net.au/flights)

26 BTE, *Christmas Island Regional Analysis*, p. 37.

27 CITA, *Hansard*, p. 175.

## Asia Pacific Space Centre

- 1.54 APSC is an international commercial space launch services company, which is planning to develop a commercial space launch centre on Christmas Island. APSC is an Australian company which was incorporated in 1997. It has attracted investors from Australia, the United States and South Korea.<sup>28</sup> Mr David Kwon is the Managing Director and major shareholder of both APSC and Soft Star Pty Ltd.
- 1.55 The company proposes to launch satellites for a wide range of commercial customers. It is intended that the space centre will capitalise on commercial opportunities arising from the growing demand for telecommunications, positioning and remote sensing services offered by satellites. APSC does not intend to launch military satellites.
- 1.56 The space centre will be constructed on existing mining leases on South Point, which had previously been mined for phosphate.<sup>29</sup> From this site, launches will travel over the surrounding ocean in easterly and southerly directions.<sup>30</sup> The \$800 million project will be the first fully commercial, land based space launch facility in the world.
- 1.57 Construction of the facility is due to start in 2001 and operations are scheduled to commence in late 2003. APSC expects to be launching ten rockets a year by about 2006. The expected lifespan of the facility is fifteen to twenty years, depending upon future commercial opportunities.
- 1.58 On 24 June 2001 the Minister for Industry, Science and Resources, Senator Nick Minchin, and the Minister for Regional Services, Territories and Local Government, Senator Ian Macdonald, announced that the Commonwealth Government had agreed to provide up to \$100 million to support the project, through the Strategic Investment Incentives program.<sup>31</sup>
- 1.59 These funds will be used for the provision of common use infrastructure, including an upgrade of airport facilities, a new port and road and

---

28 [www.apsc2orbit.com](http://www.apsc2orbit.com)

29 An in-principle agreement between APSC and PRL was made on 6 February 2001. Soft Star, *Hansard*, p. 42.

30 *Launching Rockets from Christmas Island: Some Frequently Asked Questions*, APSC promotional brochure.

31 \$68.6 million will go to DoTRS for construction of common use infrastructure on the Island, \$17.4 million will go to APSC through a taxable cash grant for expenditure on spaceport infrastructure, and an additional \$14 million will go to APSC for spaceport infrastructure, on the basis that APSC has committed to contribute funds to a Space Research Centre. DoTRS, Exhibit No. 9.

'assistance with spaceport infrastructure such as ground station facilities for telemetry and tracking'.<sup>32</sup>

- 1.60 Each satellite launch will require the approval of the Commonwealth Government in accordance with the *Space Activities Act 1998*. Further launch safety regulations are being established under the Act.
- 1.61 APSC states that the establishment of the satellite launching facility will provide benefits to both the Island community and to Australia as a whole. These benefits include:
- generation of export income from satellite launch operations, leading to significant returns for Christmas Island and Australia throughout the life of the project;
  - direct generation of employment opportunities in both the construction and operational stages, many of which will be available to Christmas Islanders and other Australian workers; and
  - improvements in Island infrastructure, particularly in sea and air transport facilities and communications.
- 1.62 APSC has estimated that it could employ up to 400 people during construction of the facility and up to 550 people during operation.<sup>33</sup> This would bring a substantial investment of revenue, and associated services, to the Island community.

---

32 [www.minister.industry.gov.au/minchin/releases/2001/june](http://www.minister.industry.gov.au/minchin/releases/2001/june)

33 [www.apsc2orbit.com](http://www.apsc2orbit.com)