

SUBMISSION 27



Australian Government

Attorney-General's Department

**SUBMISSION TO THE
INQUIRY INTO COASTAL SHIPPING POLICY AND REGULATION
HOUSE STANDING COMMITTEE ON INFRASTRUCTURE, TRANSPORT, REGIONAL
DEVELOPMENT AND LOCAL GOVERNMENT**

**Territories and Native Title Division
Attorney-General's Department
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Indian Ocean Territories

Background

The Indian Ocean Territories (IOT) of Christmas Island and the Cocos (Keeling) Islands are non-self governing territories of Australia. Christmas Island is located approximately 2,600 kilometres north-west of Perth and 360 kilometres south of Java and has a population of approximately 1350. The Cocos (Keeling) Islands are located approximately 2,770 kilometres north-west of Perth and 900 kilometres south-west of Christmas Island and have a population of approximately 570.

2. Shipping is the major goods link to the IOT, with food, consumer goods, some fuel and plant equipment all transported to the IOT by ship. The IOT are exempt from the coasting trade requirements in the *Navigation Act 1912* (Cth). This allows ships to engage in trade between the mainland and the IOT and within the IOT without a licence or permit for coastal shipping.
3. Cargo shipped to the IOT is unloaded at Commonwealth-owned ports at Flying Fish Cove on Christmas Island and Home Island in the Cocos (Keeling) Islands. Both ports are managed under contract by Toll Ports and are regulated through Commonwealth and applied Western Australian legislation. The current port management contract expires on 30 June 2008 and an open approach to market for port management services will be undertaken soon. In 2007, 5,147 tonnes of containerised cargo was unloaded at Christmas Island and 2,061 tonnes of containerised cargo was unloaded at Cocos (Keeling) Islands.
4. Christmas Island port experiences significantly higher traffic than the Cocos (Keeling) Islands port, as it is used to load phosphate onto ships for export. During 2007, 86 phosphate ships were loaded at Christmas Island port. Major construction projects on Christmas Island, such as the Immigration Detention Centre, have temporarily increased the amount of cargo being loaded and unloaded at this port. Much of this cargo arrived from South-East Asia and did not constitute coastal shipping.
5. In 2007 the Australian Government approved the construction of a new passenger and freight handling facility at Rumah Baru in Cocos (Keeling) Islands. The project is scheduled for completion by the end of 2009 and will significantly improve freight and passenger handling.

6. The Commonwealth aims to keep the port fees low to keep the costs of shipping down. At Christmas Island Port there are additional costs for stevedoring, pilotage, demurrage and hiring which are currently \$560 for a full container and \$240 for an empty container. At Cocos (Keeling) Islands Port there is an additional cost for equipment hire.

7. The only regular cargo service to the IOT is operated by Zentner Shipping Pty Ltd. The Zentner-operated "Island Express" sails from Fremantle to Christmas Island and the Cocos (Keeling) Islands every four to six weeks. The current cost to ship a 20 foot general purpose container to Christmas Island is \$6,475 and to the Cocos (Keeling) Islands is \$9,880. These costs include packing, delivery, port and wharf charges and stevedoring. Zentner also imposes a service charge for Christmas Island. This has recently been increased to \$810 and takes into account costs associated with additional vessel hire, fuel usage and other operating costs caused by weather delays affecting vessel operations at Christmas Island.

8. Although it is an open market, Zentner Shipping Pty Ltd is the only operator providing shipping services to the IOT. The Government encourages competition in this market; however its small size and value make it unattractive to many shipping operators.

Previous reviews of the Indian Ocean Territories' shipping services and infrastructure

9. In 1995, the Joint Standing Committee on the National Capital and External Territories produced a report entitled "Delivering the Goods", which inquired into the current and future freight options for Christmas Island, the Cocos (Keeling) Islands and Norfolk Island. The report contains a detailed history of the shipping practices in these locations.

10. In its 2006 report "Inquiry into current and future governance arrangements in the Indian Ocean Territories", the Joint Standing Committee on the National Capital and External Territories recommended that the Government investigate the cost of sea freight to the IOT with a view to reducing costs and streamlining operations. The previous Government did not agree with this recommendation.

Discussion

11. Regular commercial shipping is a vital transport link for the IOT and essential to the viability of the IOT communities.

- a. Commercial shipping is the major carrier of essential supplies including food and consumer goods. The existence of the IOT communities is heavily reliant on regular and reliable supply of these goods via ship. Any decrease in service is likely to have an adverse effect on the communities and may lead to shortages of essential supplies.
- b. Shipping has been identified as a major underlying cost of almost all economic activity in the IOT. The IOT economies are small and particularly vulnerable to cost increases. Economic growth is closely linked to the affordability of shipping services as many inputs for local businesses are shipped from the mainland. A decrease in service and/or an increase in shipping costs is likely to have a substantial, adverse effect on the IOT economies.
- c. The IOT are of considerable strategic interest to the Australian Government due to their locations, populations and available infrastructure. Commercial shipping is used by the Government to move assets to and from the IOT. Supplies and plant for minor construction work and asset maintenance are transported via the regular shipping service. A reduction in this service would make it more difficult for the Government to execute essential functions in the IOT.

12. For the reasons identified in paragraph 10, it is necessary that the IOT continue to be serviced by a regular, reliable and affordable shipping service. It is also important for the IOT to have access to ad hoc shipping arrangements where there is an urgent and critical need for shipping capacity which cannot be met by the regular shipping service. For example, in the aftermath of a natural disaster, large quantities of supplies, machinery and other equipment may need to be shipped to the IOT. Any reform of coastal shipping regulation should consider these needs.

Norfolk Island

Background

13. Norfolk Island has been an integral part of Australia since 1914 when the Norfolk Island Act 1913 effected the acceptance of the Territory under section 122 of the Australian Constitution. Norfolk Island is one of Australia's most geographically isolated territories.

14. All external Territories are integral to Australia, although successive Australian Governments have endorsed particular legislative or administrative arrangements which differ from those applying elsewhere in Australia. In Norfolk Island's case, the current self government arrangements are the result of a decision by the Federal Parliament and given effect by the *Norfolk Island Act 1979* (Cth). The Parliament's plenary powers in relation to Norfolk Island were confirmed in April 2007 by the High Court decision of *Bennett v Commonwealth of Australia*.

15. Under Norfolk Island's self-government arrangements, the Norfolk Island Government is responsible for transport infrastructure including freight and passenger services to and from the Island. As with other Australian State or Territory Governments, the Norfolk Island Government is eligible to apply to the Australian Government for specific purpose loans or grants to fund infrastructure-related developments on Norfolk Island. For example, in 2005 the Australian Government provided Norfolk Island with an interest free loan of \$12 million to assist with the upgrading of the Norfolk Island Airport.

16. Tourism forms the basis of the Island's economy and is heavily dependent on the economic situation on the Australian mainland and in New Zealand. Norfolk Island received 34,358 tourists in 2006-07 and is working to increase visitor numbers to 41,000 during 2007-08.

17. Similar to the IOT, Norfolk Island is exempt from the coasting trade requirements in the *Navigation Act 1912* (Cth). This allows ships to engage in trade between the mainland and Norfolk Island without a licence or permit for coastal shipping.

Previous reviews of Norfolk Island's shipping services and infrastructure

18. Norfolk Island's shipping services and infrastructure needs have been addressed in a number of reports, including:

- *Delivering the Goods*, the February 1995 report by the Joint Standing Committee on the National Capital and External Territories (JSC),
- the Commonwealth Grants Commission's 1997 *Report on Norfolk Island*,
- *Making Ends Meet: Inquiry into commercial regional aviation services in Australia and alternative transport links to major populated islands*, the November 2003 report by the House of Representatives Standing Committee on Transport and Regional Services (the predecessor of the current Committee), and
- *Norfolk Island Financial Sustainability: The Challenge – Sink or Swim*, the JSC's November 2005 report.

19. All of those reports have acknowledged that Norfolk Island is largely dependent on shipping services for the delivery of goods. Continued access to sea transport is therefore crucial to maintaining the viability of the Island's community and its tourism industry.

20. The 2003 report, *Making Ends Meet*, by the predecessor of the current Committee included two Norfolk Island shipping-related recommendations.

- The Committee recommends that, as per the findings of the Commonwealth Grants Commission, Norfolk Island receive Commonwealth assistance in upgrading or renewing its shipping infrastructure facilities (recommendation 12).
- The Committee recommends that the Commonwealth Government accept the recommendations outlined in the *Delivering the Goods* report by the Joint Standing Committee on the National Capital and External Territories, especially in respect of the an appropriate subsidised vessel for heavy freight (recommendation 13).

21. The previous Government's May 2007 response to the recommendations was as follows:

Recommendation 12

The Government notes this recommendation

The Australian Government provided \$6.36 million to the Norfolk Island Government over the 2005-06 and 2006-07 financial years to refurbish the Kingston Pier in keeping with the pier's heritage qualities and position as a key loading and unloading point for the Norfolk Island community.

The Australian Government investigated alternative governance models for Norfolk Island in 2006. It decided not to change governance arrangements on Norfolk Island as it considered that changes could impose significant disruption to the fragile economy and also took into account the efforts of the Norfolk Island Government increase revenue and promote tourism growth. Shipping and the delivery of goods to Norfolk Island remain matters for the Norfolk Island Government.

Recommendation 13

The Government does not accept this recommendation.

In the absence of a port facility on Norfolk Island this recommendation is not considered practical at this time.

22. These issues have not been revisited by the Australian Government since that response.

