

**THE JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL TERRITORIES**

**SOFT STAR PTY LTD – Christmas Island Casino Resort submission**

**Christmas Island – Friday 10<sup>th</sup> April 2015 – 09.30 AM**

Thank you for the invitation to speak to you today.

I would like to take this opportunity to welcome all of you to this very special part of Australia.

I represent the owning company of the Christmas Island Casino Resort - Soft Star Pty Ltd.

I would also like to convey to you greetings from Mr. David Kwon the owner and Managing Director of our company. Mr. Kwon is currently overseas and regretfully unable to be here today.

I would like to start by bringing to the committee's attention the ongoing matter of the reissuing by the federal government of a casino licence to Soft Star Pty Ltd, the owning company of the Christmas Island Casino Resort.

Soft Star purchased the Christmas Island Hotel and Resort (which included the previous casino facility) in May 2000. The decision to purchase the property was underpinned on representations made by Commonwealth Government ministers, that subject to Soft Star complying with certain regulatory requirements it would be granted a casino licence if it purchased the Resort. At the time no other conditions were put forward by the Commonwealth that raised any concerns regarding the purchase of the property and we felt confident that the commonwealth would at some stage reissue a casino licence to Soft Star. Based on these representations we rightfully anticipated that the Commonwealth would grant our company a casino licence subject only to Soft Star complying with the original conditions imposed by the government.

**This Committees report on the visit to the Indian Ocean Territories, 21-25 October 2012 – released June 2013 made the following recommendation**

**Recommendation 8**

***The Committee recommends that the Australian Government commit to the reopening of the casino on Christmas Island and that it facilitates the approval process to allow this to happen if a proposal comes forward.***

I'm pleased to inform the committee that in **May 2013** the company formally submitted to the Commonwealth a 625 page full and detailed proposal and business plan for the proposed casino operation. (I would like to present the committee with a full copy of the proposal as presented to the Commonwealth in May 2013) The proposal addressed in detail all the key areas as well as financial forecasts and benefits to the Christmas Island Community. Additionally since this committee last visited the Island our company has invested **millions of dollars** and has made extensive refurbishments to the

property in preparation for casino operations. We are confident the casino can commence operations within weeks of being issued a licence.

Previously other reports have recommended the reopening of the Christmas Island Casino. Despite the strong and clear recommendation made by these reports to the Commonwealth there has been no result. There has been little communication from the Commonwealth, and little communication from the responsible minister or the relevant department.

One would expect that when an investor appears and is willing to make a substantial investment which has the potential to provide substantial employment and other opportunities particularly for a small and remote part of Australia the government would be enthusiastically rolling out the red carpet so to speak, sadly this has not been our experience thus far.

Nevertheless we are greatly encouraged by the overwhelming support our proposal has received from the Christmas Island Shire Council, the Christmas Island Businesses sector and most importantly the Christmas Island Community in general. In excess of ***ninety per cent*** of the Christmas Island population supports the reopening of the casino. It is important to note that the great majority of the people who will be gambling at the casino will not be local Islanders but rather offshore visitors.

At this point I would like to acknowledge and thank our local member of parliament and a member of this committee the ***Honorable Warren Snowdon MP*** for his strong and consistent support. Warren is part of the history of the casino he was the minister who issued the first licence for the casino in late 1993. He understands and is a witness to the significant contributions the casino made during its operation to the Christmas Island economy and the community through the ***Community benefit fund***.

***The Joint Select Committee on Northern Australia in the PIVOT NORTH Inquiry into the Development of Northern Australia: Final Report released in September 2014 made the following recommendation***

#### **Recommendation 13**

***The Committee recommends that the Australian Government commit to facilitating the approval process to enable the reopening of the Christmas Island casino.***

#### **The report continues –**

***The Committee believes that the reopening of the Christmas Island Casino is vital to the economic future of the Island. Neither mining nor Immigration related activities will sustain the Island's economy indefinitely, and the casino has the potential to play a major role in transitioning the Christmas Island economy away from its traditional mainstays towards a future centered on tourism. In addition, it has the potential to be a major source of employment for the local community.***

**The Pivot North report concludes its recommendation in relation to the Christmas Island casino with this observation**

***The Committee notes that a similar recommendation was made by the Joint Standing Committee on the National Capital and External Territories in its report on the Indian Ocean Territories in June 2013.***

The Pivot North report correctly points out that “neither mining nor immigration related activities will sustain the Islands economy indefinitely. The only industry which can provide a sustainable long term economic foundation for Christmas Island is the casino and tourism. The report highlights that the casino has the potential to play a major role. There is no doubt that a successful long term casino/tourism industry is the only way we can avoid the boom and bust cycle that seems to afflict this island.

In granting a casino licence to Soft Star the Commonwealth faces no risk whatsoever, the risk is a commercial one and falls entirely on the company. The company has thoroughly researched the gaming market in the region and conducted a feasibility study of a casino operation on the Island and feels confident of success should approvals be granted and the casino project proceeds. If this occurs the economy stands to benefit and the tourism sector will develop quickly and meaningfully.

The Commonwealth needs to consider and decide what will underpin and what will drive tourism. Christmas Island is known as the “***Galapagos of the Indian Ocean***” and it is truly a beautiful part of the world and yet tourism on Christmas Island is and has been for many years underdeveloped. There are many, many destinations of great beauty in the Indian Ocean and Christmas Island is a standout however despite its natural beauty and its close proximity to Asia it remains one of the most unsuccessful tourism destinations in the region.

In September 2009 when appearing before this committee I stated – “***The Indian Ocean comprises several prominent island communities, the largest of which are the Andaman Islands, the Maldives, the Seychelles, Mauritius, Reunion Island, the Cocos (Keeling) Islands and Christmas Island. After nearly two decades of talking about tourism (we can now say two and a half decades), the only two island communities lagging behind in this context are the two Australian territories***”. I regret to advise the committee nothing, not a single thing has changed, and not a single thing has improved.

Inbound tourist numbers on Christmas Island are not significant. The key tourism event is the annual red crab migration and the annual “bird week” event, the bird week event attracts small numbers of low yield participants and provides minimal occupancy at low prices and for only a few days a year to the accommodation providers on Christmas Island. The accommodation sector cannot and does not rely on the Christmas Island Tourism Association to provide the occupancy levels it needs on a consistent basis.

The key market segment which provides business to the accommodation providers - and this too in small numbers is the corporate and government sectors. This is a sector which comes to the Island for commercial and government business. It is not a sector which visits the Island as a result of the tourism

associations marketing activities. In other words if not a single dollar was spent of marketing this sector would not be affected.

The Christmas Island Tourism Association Marketing Strategy report 2010 – 2015 prepared by a private company (Icon Tourism) and paid by the Commonwealth through CITA, provides few meaningful or realistic solutions. (I would like to table a copy of this report) This report contains pages of template structure, generic information that can be applied to many destinations and a full page with a breakdown of tourist arrivals for Bali. A few of the recommendations are valid but five years into the life of the report, to my knowledge have not been implemented.

The report also states on page five - ***“At the time of writing this report a review was being conducted by the Administrator, Mr. Brian Lacey, into the structure and operations of CITA. The Administrator’s report and consequent funding arrangements that may come out of it could and will have a direct impact on this plan”.***

I contacted Mr. Brian Lacey about this review as I had not seen it and this was his reply to me via email;

***“The report was completed back in 2010. It was commissioned by CITA and I reported to its committee with a number of recommendations. I understand the committee did not like the report or my recommendations and never released it. I no longer have a copy of the report in my records”.***

So the report was completed in 2010 nearly five years ago and not released. I would have thought that such a report written by a respected, objective person and by someone who has a thorough knowledge of all the key issues would have been released to the tourism industry stakeholders, to the people and companies that have made substantial investments on the Island. In any event this review never saw the light of day. I will let you draw your own conclusions, nevertheless I ask that this committee seeks the release of this review and takes its contents into consideration when finalizing its recommendations following the completion of these hearings.

Despite a substantial annual budget provided by the commonwealth to Christmas Island Tourism Association (CITA) the results remain poor. Beyond providing the annual budget to the association there appears to be little or no further government oversight guidance or marketing direction to the association. In failing to provide oversight and more meaningful guidance and links and synergies with Tourism WA or Tourism Australia the commonwealth is failing the tourism sector and the community of the Island. Importantly procrastinating in relation to issuing a casino licence to Soft Star the government is preventing tourism from developing and from reaching its full potential.

We heard yesterday from Ms. Karen Singer a senior officer of the Christmas Island Tourism Association that the Commonwealth funds her organization to the tune of approximately \$420K per annum of which \$300K is used for marketing purposes. Ms. Singer advised that the gift shop also raises around \$200K per annum, and yet we heard from Ms. Nora Koh from the Woman’s Association that tourism marketing is “ad hoc” and from senator Back who said he has friends who think they cannot come here as tourists.

So if people in WA don't know they can come here as tourists what is the likelihood that people on the east coast or anywhere else for this matter are aware they can visit our Island. This raises legitimate questions, how are marketing funds used and who authorises the expenditure. Who ensures that public funds are used in a proper and accountable manner?

Frankly it would be far more effective if the marketing funds were distributed amongst the tourism operators with some control mechanism in place of course, to enable them to build and market their own product. And just so there is No misunderstanding should this occur our company would not be putting up its hand for a share.

During Ms. Singer's presentation to the committee I noted that she did not mention the casino once! It was only after the chair Mr. Simpkins asked her directly that she replied with something like this:

***"The casino could be part of nature based tourism" and "the casino could be part of tourism but not at the expense of tourism in general"*** The exact words she used will no doubt be recorded in the official Hansard.

For clarity let me quickly list a number of facts regarding the previous casino operation and the benefits it delivered to this community.

Throughout the five years of operation staffing levels were between 350 and 396 full time equivalent Employees, the payroll at time exceeded \$850K per fortnight.

For a number of years the casino provided all flights in and out of the Island including Perth and Asia, under a wet lease agreement with various airlines including National Jet Systems. Return airfares to Perth at the time were \$755 return, substantially below cost and subsidized for the community courtesy of the Christmas Island Casino. The wet lease costs for the casino were approximately \$900K per month.

The casino conducted destination marketing for Christmas Island at no expense to the commonwealth through its satellite offices in Jakarta, Kuala Lumpur, Bangkok, Taiwan and Hong Kong.

Millions of dollars per year made available to the community via the community benefit fund.

The casino provided 12 minibuses, in effect providing free public transport throughout the island linking the Settlement, Poon Saan, Drumsite, Silver City and the Kampong. This was a free service for the benefit of all even for tourists staying at other accommodation establishments and who flew here on resort aircraft at subsidized prices.

And so on .... And so on.

If this is not the key driver of a successful tourism industry I have no idea what is. Ms. Singer was not on the Island during this period so perhaps she's not across all the facts.

At this point I would like to mention that the marketing manager for the Christmas Island Tourism Association has for at least the last four years been based on the East Coast, this is a full time position and is a key position for marketing the Island, again I will leave it to the committee to consider if this is proper and if this is beneficial for our tourism industry, but we are entitled to ask who from the commonwealth is monitoring these things and are we getting our money's worth.

Please do not be misled and let me say that it is a casino operation that will put all the building blocks in place and provide a firm foundation for a successful tourism sector. It is my view and firm belief that without a casino, future committees visiting the Island years from now will still be taking evidence from people talking about eco-tourism and complaining about its unrealized potential.

For many years tourism has stalled at the very beginning of its development cycle, for a variety of reasons it seems it just cannot go beyond this. The main reason however as I said earlier can be attributed to a reluctance to reissue a casino licence and an overall lack of commonwealth driven, strategic planning, consultation, leadership and a well-researched policy for tourism within the Indian Ocean Territories.

Now why is it these other Indian Ocean destinations I listed earlier enjoy a strong and vibrant tourism sector, an industry that in many cases is the main economic driver of these communities? The main reason for their success is the opposite of what makes tourism on Christmas Island unsuccessful it is government leadership, strategic planning, proper policy for tourism, and proper policy for land release and so on. The governments of these countries take a keen interest and provide leadership and resources beyond an annual budget, because they recognize the value of the tourism sector. They consult with local communities they listen to local tourism associations, they communicate and they provide leadership and resources. They do not make decisions that can adversely affect tourism from distant faraway places without taking into consideration the issues that are important to the local communities. They do not simply handball the responsibility for such an important sector to a small and under resourced local committee with little or no accountability for poor results and for year after year. Importantly most of the destinations I mentioned earlier have casinos which also serve to underpin a successful tourism sector, so one can legitimately ask the question, if the governments of these countries recognize the importance of casinos as the driving force of tourism and approve casino operations, why can't the same happen on Christmas Island.

As things stand tourism contributes little to the economy of the Island and it is unlikely this will change unless it can be underpinned by a casino operation. A casino operation will result in a major expansion of tourism on Christmas Island in the same way it did following the opening of the casino and resort in 1993.

Going back to the Casino, to date there has been no meaningful progress towards the reissuing of the casino licence. In early January this year we were advised that the minister of Infrastructure and Regional Development who is the responsible minister for the Indian Ocean Territories has been

provided with advise from his department that it is not appropriate for Soft Star to be issued with a casino licence in the absence of a competitive tender and that the commonwealth will now proceed with any new casino licence on Christmas Island on a tender basis. If this is so the Commonwealth risks engaging in misleading and deceptive conduct. Soft Star of course strongly objects to this course of action as it is not in the spirit of the original agreement and puts our company at a disadvantage in having to compete with others for something we were assured would be granted to us if we purchased the property and with the only condition specified at the time being the compliance with regulatory requirements.

We are also greatly concerned why the tender option was not made known to us before we purchased the property, had the commonwealth made this known to us prior to the sale it would have certainly made a difference to our decision. We feel let down and to put it bluntly we feel we have been deceived, nevertheless we desire and value a positive relationship with the Commonwealth government and we are confident that the commonwealth will reconsider its position on this matter and good relations will continue. Despite our concerns that this matter has dragged out far too long we hope that the issue of the casino licence will be progressed and resolved quickly.

Earlier this year we wrote to the new Commonwealth Administrator of Christmas Island Mr. Barry Haase, the secretary of the Department of Infrastructure and Regional Development Mr. Mike Mrdak, the responsible minister the Hon Jamie Briggs MP, and to the Prime Minister the Hon Tony Abbott MP, with our concerns, somewhat surprisingly we have not received any meaningful response to any of our correspondence.

To assist the committee further and to enable you to have full clarity regarding these matters I would like to table a number of letters and documents.

Following the termination of the accommodation contract between our company and the Department of Immigration and Border Protection in early February of this year we continued to operate the restaurant facility at the resort. The operation has proven to be unprofitable due to lack of tourists and we are now forced to make further difficult commercial decisions, It is with regret that I now advise the committee the company plans to cease all operations at the Resort imminently, and until such time as business conditions improve and we are able to commence operations as a Casino

Finally, I apologise if my submission was rather lengthy and perhaps somewhat longwinded I thought it important to highlight to you in the short time available some of the important issues which need to be resolved quickly so that the economy of this Island can develop in a sustainable and positive manner and for the great benefit of the community.

I hope your recommendations following your visit here will continue to support the reopening of the Christmas Island Casino and importantly recommend the Commonwealth fast track the approval process.

Thank you for listening.