



Submission No. 3
Norfolk Island Economy
Date: 14/04/2014

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The Secretary
Joint Standing Committee on the National Capital
and External Territories
Parliament House
Canberra ACT 2600

Dear Sir or Madam

INQUIRY INTO ECONOMIC DEVELOPMENT ON NORFOLK ISLAND

As someone with an interest in and some knowledge of Norfolk Island, I would like to make a short submission to the Committee's timely inquiry into economic development on Norfolk Island.

As one of the public servants (albeit now retired from the Service) involved in preparing the Road Map referred to in the Inquiry's terms of reference, I was very pleased to see Norfolk Island remaining on the policy agenda for the Committee.

Norfolk Island is, as those who have visited it know, a beautiful and unique part of Australia, but one with significant impediments to economic development, as well as the potential to do much better than it currently does.

The Island has a number of natural impediments to economic development that include its relatively remote location, the lack of natural harbours and the absence of significant natural resources such as fisheries or minerals (at least those that are easily accessible). These natural impediments are also part of what makes the Island unique. As these natural impediments cannot be removed, they must be worked with in ways that retain the Island's unique nature. Substantial innovation will be essential, particularly around the port infrastructure, for further economic development.

Other impediments stem from the Island's colourful historic and cultural origins. There are many sources that describe the Island's history and how it has reached its current situation, so I will not attempt to cover that ground. My observations, made over several years in positions with some responsibilities for the Australian Government's interests in Norfolk Island, identified the following issues that constrain economic development (in addition to the natural impediments discussed above):

- **Governance.** Norfolk Island has a resident population of around 2200 or so (noting it can vary with economic conditions, falling in the hard times and rising in the good), yet as a self-governing external Territory of Australia, is expected to have governance arrangements comparable to those of far larger mainland states (and territories), together with all local government capabilities and some federal responsibilities. The brutal truth is that the self-government experiment has not been a success. The Norfolk Island Government has, as the recent ANAO report shows, no prospect of being financially viable in the foreseeable future. Indeed, if not for substantial Commonwealth investment in recent years, the NI Government would have been

unable to pay for essential services to continue nor have an airline service. It seems quite unreasonable to expect a tiny island population to be able to fully fund the services expected of government; certainly no comparable mainland community is expected to fund federal, state and local government services solely from its own revenue raising capability. It is likely that the NI Government has never been truly financially viable in both operational and capital funding since self-government in 1974.

- **Taxation.** The Island's taxation arrangements are a major impediment. Firstly, the reliance on a GST as the primary revenue stream makes the Government's finances highly vulnerable to any economic downturn. Secondly, it distorts behaviour in that it does not tax property owners for the many services received from Government. A specific example has been the absence of land rates similar to those charged by local governments across Australia; this directly impacts Government revenues and preferences those with significant land holdings who essentially pay less for services than those without. The situation is exacerbated by the Island's exclusion from the Australian tax and social security arrangements: as residents don't pay Australian taxes, they don't receive Commonwealth benefits, notably Medicare and the social security payments such as the Age Pension. They are also ineligible for many grants administered by the Australian Government.
- **Infrastructure.** Most of the Island's public infrastructure is in parlous condition: the roads are generally poor, footpaths virtually non-existent, the sewerage system (which only serves part of the Island) is old, waste disposal is appalling despite their best efforts, the airport is only in operation thanks to largely unrepaid Commonwealth loans, the hospital is old and port infrastructure essentially non-existent and unable to handle containers. Other issues include the electricity system, information technology and so on. The key reason for this is the lack of capital funding for replacement of existing assets and the development of new assets. There is no reasonable prospect of the Island's community ever raising the capital funds required: adequate port facilities that allow containerisation will probably require investment in the order of \$100 million, to give but one example.
- **Tourism – Adapt or Die.** Many years ago, Norfolk Island (I am told) invented the slogan that the Island was for the 'Newly Wed or the Nearly Dead'. Whether this tale is true or not, a contemporary visitor is left with the impression that Norfolk Island's tourism industry has not moved beyond a cottage industry focussed on honeymooners and retired couples. Unfortunately, too many of the retired couples appear to have passed on and no longer visit, whilst the newly wed market has moved to cheaper and more exotic venues in Asia and beyond. Little effort has been made to access the growing experience seeker market: this is a substantially more selective market of people seeking 'bragging rights', to be blunt, of their experiences in unique locations. It is a market that has remained resilient during economic downturns, but the market demands value for money and quality in the accommodation and experiences. Norfolk Island has enormous potential here, but a major change is needed in the offer made to the market. To date, despite some talk, little action has resulted and the tourism industry on the Island is failing.

- **Restrictions on Residency and Business Initiation.** For many years, Norfolk Island had significant restrictions on residency making it difficult for Australian citizens to reside on the Island and to invest in innovative industries. The residency and tax systems also resulted in behaviour distortions: high worth people in Australia seeking to reduce their tax liability could buy a business on Norfolk Island and so gain residency and go outside the Australian tax system, but had no particular incentive to make the business viable. Once residency was obtained, the business could be sold to the next applicant or just allowed to wither on the vine. The key factor was the requirement to buy an existing business, with new businesses being discouraged or prevented (an example was the restriction on new tourist accommodation). The effect was to stymie innovation and competition. It must be acknowledged that the Island has or is removing many of these restrictions and is to be commended for so doing.

So what is to be done? It is all too hard, as successive Australian governments have found, and we just have to accept a 'failed state' half-way between Australia and New Zealand? In my view, this is unacceptable and must change!

The Road Map provides a good starting point. It was negotiated with the NI Government of the time with local consultation and input. While it was not uniformly accepted on the Island (nor in Canberra!), it outlines a reasonable series of steps, although the timeline was optimistic and some of the governance reforms probably don't go far enough.

My suggestions for the Committee relate directly to the impediments that people control, as discussed above.

Governance reform is vital. Limited progress has been made, but much more needs to be done. Norfolk Island should not continue as a self-governing territory: the experience has not worked. The government on Norfolk Island should become a local government, perhaps with some enhanced responsibilities given its remote location, but it ought not to attempt to provide services beyond its financial and technical competence. Most state-level services ought to be provided from a competent state government, most probably NSW or possibly Queensland, on a contracted fee for service basis funded by the Commonwealth, but with local participation in determining the service level and performance. This model has delivered appropriate state-level government services to the Indian Ocean Territories at an affordable cost to residents. Tax reform, discussed below, is essential for this to occur. In response to comments by Norfolk Islanders that this would result in the loss of their unique culture, I recommend they visit Christmas Island or Cocos (Keeling) Islands to see how those two communities have strong, viable and unique cultures despite being non-self-governing territories. Yes, this change would mean loss of direct control of some functions, but if these functions are failing now and there is no local means to fix it, then change is essential.

Tax reform goes hand in hand with governance reform. Norfolk Island's tax arrangements should be normalised to be the same as any other Australian community in a remote location: they should pay Australian GST and income tax (plus any other relevant Commonwealth taxes), pay state-equivalent taxes and charges for services received, and pay normal land rates as they would in a comparable community. In return, they would receive the full range of Commonwealth benefits and grants. On the modelling I saw, now some years out of date, Norfolk Island would receive far more than it paid, but the impact on the Commonwealth's social security budget would not be able to be detected. Far more people, for example, move

on and off the Commonwealth's social security system in any week than if the whole population of the Island received full benefits. Norfolk's existing GST would need to be cancelled. Careful management of the transition will be required, as the Road Map identifies.

Infrastructure, but where to start? In the first instance, simply normalising the Island's tax arrangements will give the community access to significant funding streams, either through the obligation on the Australian Government to maintain capital assets to mainland standards (consider the funding provided to the Indian Ocean Territories for this purpose as an indicator), or to being able to asset the many grants run by the Australian Government. The poor state of much of the infrastructure would enable a good probably of success for well written grant proposals. These steps will assist deal with maintaining much of the infrastructure, but will be inadequate to fund the major new investments needed to promote development: the port and in the near future the airport. The Committee may wish to consider making strong representations to the Australian Government on the need to undertake long-term planning and funding for the development of a modern containerised port facility on the Island and for the long-term improvement of the airport. Without these two facilities, there will be little economic development.

Tourism is the sustainable bedrock of economic prosperity on Norfolk Island. Other niche industries including agriculture may assist and contribute, but tourism is the industry. The community on Norfolk Island must accept and embrace tourism as the way of protecting the Island's unique culture whilst providing employment for their children so that they too remain on the Island. The community needs to embrace innovation and change: the tourism offer must be constantly updated to meet market demands, far more emphasis on the experience seeker market must be given (including mundane matters like good linked footpaths and bike paths, appropriate opening hours, reliable service [‘Sorry, Fred's gone fishing, drinking, so you can't do X today' is just not acceptable anymore; nor is leaving visitors stranded at the airport because the flight was late & the bus driver's gone home], value for money accommodation, high quality tours with accurate information, and the like. The Island must make it as easy as possible for new entrants to bring innovation to the tourism (and other) industries – yes, some will fail and some existing business may also fail, but it is vital for growth and renewal.

The present progress towards removing all restrictions on residency and business ownership (apart from those found in all Australian jurisdictions) needs to continue until Norfolk Island is no different from any other comparable community, where everyone is welcome and all are subject to laws common to the whole of Australia.

Thank you for the opportunity to make this submission and I wish you well in your deliberations.

Yours sincerely