

Transportation

Introduction

- 6.1 As a consequence of the Indian Ocean Territories' (IOTs) geographic distance from the mainland, its residents and businesses rely heavily on the importation of fresh food and other essential goods via air or sea freight. Any adverse impact on these services creates shortages within the IOTs communities and temporarily increases the cost of freighted goods.
- 6.2 In addition, regular air passenger services allow IOTs residents and businesses to access and maintain economic and social ties with the mainland. Adequate air passenger services also encourage travel to the IOTs providing economic benefits for the IOTs tourism industry.
- 6.3 The committee's 1995, 2004 and 2006 IOTs reports highlighted concerns about issues surrounding the operation of freight and passenger services. In particular, issues raised included the negative economic impact of the high cost, unreliability and inefficiency of sea freight services coupled with the high cost, irregularity and low capacity of passenger air transport.
- 6.4 Since those reports were released, issues surrounding the high cost and unreliability of freight and passenger services have remained major areas of concern for the IOTs. This chapter discusses the current challenges for IOTs residents and businesses in relation to the impact of the high cost and irregularity of air and sea freight and passenger transportation. Options to address the continuing transportation issues are also discussed.

Sea freight and shipping services

6.5 Shipping provides the major freight link for the IOTs with food, consumer goods, fuel, plant and machinery all shipped to the IOTs from Perth. The Attorney-General's Department (AGD) stated:

... shipping is a vital supply and transport link for the Territories and regular shipping is essential to the viability of the Territories' communities.¹

6.6 The IOTs are currently exempt from the coastal trade requirements in the *Navigation Act 1912* (Cwlth). These requirements provide that ships may trade between the mainland and the IOTs, and between Christmas Island and Cocos (Keeling) Islands, without a licence or permit for coastal shipping.²

6.7 Although the Government encourages competition for sea freight, the only regular sea freight cargo service to the IOTs is operated by Zentner Shipping Pty Ltd. AGD advised the IOTs sea freight industry is too small to support more than one shipping company and stated:

Although it is an open market, Zentner Shipping Pty Ltd is the only operator providing shipping services to the IOTs. The Government encourages competition in this market; however its small size and value make it unattractive to many shipping operators.³

6.8 Zentner Shipping provides a service which sails a loop between Fremantle, the Cocos (Keeling) Islands, Christmas Island and Singapore. Cargo vessels visit the IOTs approximately every four to six weeks. The current cost of shipping a 20 foot container to Christmas Island is \$6,670. The cost of shipping a 20 foot container to Home Island in the Cocos (Keeling) Islands is \$9,880. An additional charge of \$1,200 per container is applied to containers shipped to West Island in the Cocos (Keeling) Islands. Otherwise, containerised freight is charged at \$305 per cubic metre for Christmas Island and \$445 per cubic metre for the Cocos (Keeling) Islands.⁴

6.9 Mr John Sorensen raised concerns about the high cost of freight services and stated:

1 Attorney-General's Department, *Submission 15*, p. 13.

2 Attorney-General's Department, *Submission 15*, p. 13.

3 Attorney-General's Department, *Submission 15.3, Attachment A*, p. 3.

4 Attorney-General's Department, *Submission 15*, p. 12.

...shipping to Christmas Island is far too expensive. Each new Minister responsible for the Territories in our time (near 20 years) has recognised this and promised to “fix it”. None have been able to - why?⁵

- 6.10 The Christmas Island Chamber of Commerce (CICC) also drew attention to the high cost of sea freight and raised concerns about the contributing factors to these costs and stated:

No effort has been expended in attempting to resolve heavy freight (Sea Freight) services to both Islands, and in fact the pricing for these services is still spiralling beyond the financial capacities of most Island businesses. Levies applied for such service interruptions like the crane breakdown are never rescinded despite the crane being brought back into service, and prices still continue to hike beyond the belief of all Islanders.⁶

- 6.11 In its 2006 report the committee recommended the Government investigate the cost of sea freight to the IOTs, with a view to streamlining operations and thereby reducing costs. Such a review would investigate the possibility of importing foreign goods to the IOTs using international operators for the transshipment of goods.⁷

- 6.12 In its response to the committee’s report, the then Government did not support the recommendation, stating:

Charges for port and airport services are maintained at comparable levels to communities on the mainland. An open market exists for sea freight between the IOTs and mainland Australia. Freight costs are subject to competition and reflect the costs associated with shipping relatively low volumes to a remote destination.⁸

- 6.13 The Shire of Christmas Island noted Tasmania receives a sea freight subsidy and advocated a similar arrangement could be applied to the IOTs. The Shire of Christmas Island stated:

5 Mr John Sorensen, *Submission 2*, p. 4.

6 Christmas Island Chamber of Commerce, *Submission 19*, p. 2.

7 Joint Standing Committee on the National Capital and External Territories, May 2006, *Current and future governance arrangements for the Indian Ocean Territories*, Parliament of the Commonwealth of Australia, Canberra, p. 51.

8 Minister for Local Government, Territories and Roads, June 2007, *Australian Government Response to the Report on Current and Future Governance Arrangements in the Indian Ocean Territories by the Joint Standing Committee on the National Capital and External Territories*, Canberra, p. 6.

The Commonwealth may have the resources to throw at this and say, 'We'll subsidise the freight service to Christmas and Cocos to make the place more liveable.' Certainly we have asked for that. We look at Tasmania. Part of Federation arrangements was that Tasmania came to the Federation on the basis that there was this imaginary highway across the Bass Strait so that shipping a kilo of tomatoes to Hobart would cost the same as distributing that kilo of tomatoes in Melbourne. So there is a fairly high subsidy for Tasmania. We do not have a great deal of bargaining power and we do appreciate that the Commonwealth does subsidise services on Christmas Island – but not this one.⁹

6.14 AGD advised the Tasmanian Freight Equalisation Scheme which is applied to sea freight across Bass Strait and:

... is designed to offset the high cost of short distance sea freight where there is no road or rail infrastructure. Road and rail infrastructure is more cost effective over short distances, while sea freight is more cost effective over longer distances.¹⁰

6.15 AGD noted that as the IOTs are situated more than 900 km from the nearest mainland port, sea freight is the more cost effective option. Furthermore, AGD advised 'to offset the increased cost of shipping any freight to the IOTs, goods and services in the IOTs are exempt from the Goods and Services Tax imposed on the mainland.'¹¹

6.16 AGD added, the Government indirectly supports sea freight movement for the IOTs through:

- subsidised port charges on the use of Christmas Island port facilities, and
- a port upgrade at Rumah Baru on the Cocos (Keeling) Islands.¹²

Christmas Island

6.17 The port at Flying Fish Cove on Christmas Island is owned by the Commonwealth with port services provided under contract by Patricks. The Harbourmaster is a Patricks employee who is responsible for all port operations. Pilotage, stevedoring and mooring services are provided by other private companies under non exclusive licences issued by the

9 Shire Council of Christmas Island, Mr Gordon Thomson, *Transcript T4*, p. 11.

10 Attorney-General's Department, *Submission 15.4*, p. 1.

11 Attorney-General's Department, *Submission 15.4*, p. 1.

12 Attorney-General's Department, *Submission 15.4*, p. 1.

Government.¹³ Port traffic consists of shipments of consumer goods and shipments relating to the operation of the phosphate mine.

- 6.18 Private stevedoring services for Christmas Island are provided under three non exclusive licences with the Government which includes a hire agreement for the use of publicly owned port equipment.
- 6.19 AGD regulates port services through the application of Western Australian legislation. Services are funded by the Government and charges are collected for port usage.
- 6.20 Apart from port charges, additional costs are also imposed for stevedoring services. The current charges levied for stevedoring are \$560 for a full container and \$240 for an empty container. These charges include pilotage, demurrage and hiring fees. Stevedoring costs on Christmas Island have not increased since 1995.¹⁴
- 6.21 The port at Flying Fish Cove is physically unusual, difficult and potentially dangerous. Vessels are moored to specialised 'deep sea' mooring buoys which have the holding power and flexibility to allow vessels of up to 190 metres to berth. Due to bad weather and the unique physical characteristics of the port, there are times between October and March when it is difficult to moor shipping vessels. According to AGD:
- The port cannot be classified as a 'safe port' in all weather conditions.... it can be closed when weather conditions are moderately bad to severe. The port's northerly aspect exacerbates these problems. About 30 days a year are lost due to bad weather – mostly during the October to March monsoon period – when the wind blows from the north.¹⁵
- 6.22 The Shire of Christmas Island noted that as the freight shipping service to Christmas Island is a commercial, unsubsidised operation, if a shipping company's costs increase because of unforeseen delays, these costs will be directly passed onto the consumer. The Shire of Christmas Island stated:
- There was an \$845 per container surcharge in 2006 because there were two problems. The swell season delays the ships getting into port and unloading for up to three or four weeks, so the ship can either go and do other business or hang out there hoping for the swell to go down. The complicating factor in 2006 was the failure of the new crane, which meant that there was no crane to unload

13 Attorney-General's Department, *Submission 15*, p. 13.

14 Attorney-General's Department, *Submission 15*, p. 13.

15 Attorney-General's Department, *Submission 15*, p. 14.

the ships. The getting of spare parts took some time and getting the work done to repair the crane took some months. So the shipping company recovered their losses by applying a surcharge of \$845 per container to ship to Christmas Island, for many months. I cannot recall exactly when the surcharge was lifted, but it took some pressure to get it lifted.¹⁶

6.23 In addition to receiving freight, the Christmas Island Port also services the shipping needs of Christmas Island Phosphates (CIP). AGD noted that if the mine were to close, there would be an accompanying contraction to the volume of cargo being shipped, with the effect on overall port services indeterminable.¹⁷

6.24 In regard to the feasibility of taking advantage of the capacity of incoming empty phosphate ships to provide cargo services, the Shire of Christmas Island stated:

The mining company now refuses to accept the constraints and costs imposed on its business by its ships carrying and unloading inbound freight.¹⁸

6.25 The Shire of Christmas Island noted that the high cost of goods and services including fresh food is directly attributable to the high cost of freight. Further, the Shire of Christmas Island stated 'the lack of healthy affordable fresh food is an oft quoted reason for people leaving Christmas Island.'¹⁹

Cocos (Keeling) Islands

6.26 Cocos (Keeling) Islands residents rely on the ferry service which crosses the lagoon between West and Home Islands, and on marine services for freight handling between islands. Some fresh produce arrives on the Cocos (Keeling) Islands by air, but a significant amount arrives by ship in refrigerated or freezer containers.

6.27 The Cocos (Keeling) Islands' port facilities are managed in the same way as those on Christmas Island with infrastructure owned by the Commonwealth and services contracted to Patricks.

6.28 The port infrastructure on Home Island comprises the wharf, the slipway and the crane. On West Island, a jetty is used for the passenger ferry

16 Shire Council of Christmas Island, Mr Gordon Thomson, *Transcript T4*, p. 10.

17 Attorney-General's Department, *Submission 15*, p. 16.

18 Shire of Christmas Island, *Submission 24*, p. 3.

19 Shire of Christmas Island, *Submission 24*, p. 3.

service only, while freight is transported to the Island directly over a beach. A landing barge owned by the Cocos Islands Co-Operative Society (CICS) and a publicly owned 'dumb' barge are used to transfer containers from ships and between West and Home Islands.

- 6.29 Shallow water prevents arriving ships to directly unload cargo to the wharf, instead, a ship unloads its cargo onto a dumb barge, located in a deep part of the lagoon. Up to 30 containers can be carried at once in this way, but the usual consignment to the Cocos (Keeling) Islands is about eight containers each time a ship arrives. The landing barge then moves the dumb barge back to the Home Island wharf where the containers unloaded.
- 6.30 Freight containers for West Island are first unloaded at Home Island, and then reloaded (with a weight limit of 17 tonnes) so that they can be transported by the landing barge to the other side of the lagoon. Mounted on a trailer on the deck, each container is transferred one at a time by the landing barge to a point just south of the West Island jetty. From there a bulldozer drags the trailer with the container across the beach, from where it is towed to West Island.
- 6.31 Diesel and airline fuel is freighted to the Cocos (Keeling) Islands biannually. Fuel is transferred from the ship to the tanks on West Island via a pipeline on the lagoon floor and then along the West Island Jetty. Fuel for Home Island, including that needed for the power station, is transported in isotainers²⁰ from West Island back across the beach to the landing barge to the Home Island Wharf.
- 6.32 In December 2008 in an effort to improve port facilities for the Cocos (Keeling) Islands, the Government awarded a contract to construct new passenger and freight handling facilities at Rumah Baru on West Island. Construction of the project started in April 2009 with completion expected in March 2010.²¹
- 6.33 The Shire of Cocos (Keeling) Islands commented about the negative impact of the high cost and irregularity of sea freight services and the resulting adverse effects on industry development. The Shire of Cocos (Keeling) Islands stated:

... freight costs for shipping are prohibitive for industry for importing materials and exporting goods from the islands. The

20 An isotainer is a tank in a standard ISO 20 ft. x 8 ft. x 8ft 6in. (about 6 m x 2.4 m x 2.5 m) frame, designed to be carried on board container ships.

21 Attorney-General's Department, Mr Julian Yates, *Transcript T1*, p. 2.

current cost for shipping is up to four times that for shipping a similar distance anywhere in the world. The regularity of the service has been questionable, with the monthly cycle rarely met.²²

Prior to the last couple of months, the ship was very irregular and a six-weekly ship run would end up being stretched out by quite a lot. Between the cost and the actual reliability of the service, it does impact quite a lot on anyone having to order goods. That does make it hard for retailing and catering. To continue a business, they might have to pay extra to get goods on the plane, and then it is a huge cost.²³

- 6.34 Mr Clunies-Ross stated that the optimal timeframe for movement of cargo from the mainland to the Cocos (Keeling) Islands is five weeks but noted there were occasions in the previous year where this timeframe almost doubled, negatively impacting small business operators. In particular, Mr John Clunies-Ross highlighted the cash flow and stock management problems experienced by small businesses as a result of shipping delays and stated:

When shipping was more frequent and reliable, there was a requirement to hold only six weeks stock of basic goods. This is as true for the shop, pub and any small business. Once the frequency drops away, then stock levels must rise. This causes cash flow problems for business. Holding stock is expensive, and does not add to profit margins. This is then exacerbated by the lack of reliability, a 6 weekly service that comes in after 10 weeks will require businesses to hold 12 or 13 weeks worth of stock. Where the business must deal in produce or product which ages, then stock value deteriorates. Stock value starts to disappear on consignment to the consolidator's yard, and after two months delay is hardly worth shipping. The overall situation has steadily got worse, and the publication of shipping schedules is regarded as an ongoing joke.²⁴

- 6.35 To improve shipping services for the Cocos (Keeling) Islands, Mr Clunies-Ross advocated the Government stimulate competition by contracting out shipping services. Mr Clunies-Ross stated:

There is no downside to the Commonwealth entering into a service delivery arrangement or contract with a shipping company

22 Shire of Cocos (Keeling) Islands, Mrs Melinda Lymon, *Transcript T5*, p. 3.

23 Shire of Cocos (Keeling) Islands, Mrs Melinda Lymon, *Transcript T5*, p. 12.

24 Mr John Clunies-Ross, *Submission 7*, p. 2.

as they have with an airline. It will allow the service to be framed in an acceptable frequency and cost. A three to four yearly contract renegotiation or renewal will allow market influence to enter in a non destructive, but competitive manner.²⁵

- 6.36 CICS advocated that, in regard to shipping services, the Government should ensure:
- 'value for money – maximising taxpayer's dollars
 - a consistent and reliable service
 - accountability in regard to prices.'²⁶

Conclusions

- 6.37 The geographic isolation of the Indian Ocean Territories (IOTs) means it relies on air and sea freight for fresh food and other essential goods such as fuel, plant and machinery.
- 6.38 While the Government encourages competition for shipping services to the IOTs, the IOTs shipping industry is only large enough to support one company. As demand for sea freight services for the IOTs is relatively stable, the high price of sea freight is unlikely to be reduced through market forces. As a result, the high cost of sea freight directly contributes to the price of consumer goods for the IOTs.
- 6.39 The committee's 1995, 2004 and 2006 IOTs reports highlighted the negative impact of high sea freight costs on the standard of living for IOTs residents and the sustainability of business. The high cost of sea freight contributing to the high price of consumer goods has continued to present a major challenge for the IOTs.
- 6.40 The Government has sought to offset the high cost of sea freight through indirect means such as charging low port fees on Christmas Island and through investment of port infrastructure with the construction of the Rumah Baru port for the Cocos (Keeling) Islands.
- 6.41 Sea freight costs for Christmas Island are more likely to be volatile from October to March as a result of shipping delays caused by inclement weather and the subsequent inability of ships to moor at Flying Fish Cove. As shipping and freight services are provided by a private sector company, costs associated with delays are directly passed onto consumers.

25 Mr John Clunies-Ross, *Submission 7*, p. 3.

26 Cocos Islands Co-Operative Society Limited, *Submission 26*, p. 3.

- 6.42 On the Cocos (Keeling) Islands, unloading cargo is an onerous task, which is expected to improve once the port facilities at Rumah Baru are completed in March 2010.
- 6.43 The committee acknowledges the high cost of sea freight is continuing to erode the standard of living on the IOTs and act as a disincentive for business development and so should be addressed.
- 6.44 Suggestions to improve the frequency, cost and reliability of sea freight and shipping services for the IOTs includes Government subsidisation of sea freight and entering into a contractual agreement with shipping service providers, stipulating frequency and cost of service.
- 6.45 In addition, the Attorney-General's Department advised goods and services in the IOTs are exempt from the Goods and Services Tax as a measure to offset the increased cost of shipping any freight to the IOTs. Notwithstanding this measure, the price of goods and services in the IOTs are still high.
- 6.46 The committee believes that as market forces are unable to bring down the cost of sea freight and shipping services for the IOTs and reliance on these services is essential to living and conducting business in the IOTs, the Government should provide a subsidy for this service.

Recommendation 24

- 6.47 **The committee recommends the Government provide a subsidy aimed at reducing the cost of sea freight and shipping services for the Indian Ocean Territories.**

Air freight and passenger travel

- 6.48 Air services are the sole method of passenger travel to the IOTs. In addition, air freight delivers mail, perishable and other time-sensitive goods to the IOTs.
- 6.49 The provision of airline services is a critical component to the long term economic development of the IOTs. Since 1997, the Government has underwritten the domestic air service between the IOTs and Perth²⁷ and

27 Attorney-General's Department, *Submission 15*, p. 15.

supported air freight and passenger movement for the IOTs indirectly through:

- underwriting air freight services from the mainland, allowing for the timely transportation of fresh food and consumer goods
- waiving of landing fees for air services from the North, which supply both passenger and freight services.²⁸

6.50 In its 2006 report, the committee made several recommendations regarding air freight and passenger travel for the IOTs. The committee found that access by air to the IOTs required improvement and recommended that increasing the number of flights underwritten by Government would be a simple and cost effective means of improving accessibility.²⁹

6.51 The committee's recommendation involved increasing the number of flights between the mainland and the IOTs under the existing contract, and inviting international carriers to extend their services.³⁰

6.52 In its response to the committee's report, the then Government did not support this recommendation and stated:

The Australian Government currently assists the operation of two flights per week between Perth, Christmas Island and the Cocos (Keeling) Islands by National Jet Systems (NJS). The flights are currently made using a British Aerospace BAE Avro RJ70, which is fitted to carry both passengers and air freight. The Department of Transport and Regional Services (the Department) administers a contract with NJS under which the Government provides funding to NJS if its revenue from these flights does not reach an agreed level. NJS is able to apply to the Department to include additional flights in the scheme if there is sufficient demand. Over the six months to December 2006, the Department approved 13 additional flights, subject to demand for those flights.³¹

28 Attorney-General's Department, *Submission 15.4*, p. 1.

29 Joint Standing Committee on the National Capital and External Territories, May 2006, *Current and future governance arrangements for the Indian Ocean Territories*, Parliament of the Commonwealth of Australia, Canberra, p. 53.

30 Joint Standing Committee on the National Capital and External Territories, May 2006, *Current and future governance arrangements for the Indian Ocean Territories*, Parliament of the Commonwealth of Australia, Canberra, p. 53.

31 Minister for Local Government, Territories and Roads, June 2007, *Australian Government Response to the Report on Current and Future Governance Arrangements in the Indian Ocean Territories by the Joint Standing Committee on the National Capital and External Territories*, Canberra, p. 8.

- 6.53 Currently, the IOTs are serviced by a domestic air service operated by Cobham Aviation (formerly National Jet Systems) flying to Perth and an international service operated by the Australian Indian Ocean Territories Airlines (AIOTA) using a chartered Malaysian Airlines aircraft flying to Kuala Lumpur.³²
- 6.54 Until August 2009, the domestic air service was operating twice weekly between Perth, Christmas Island and the Cocos (Keeling) Islands, after which time due to an increase in the demand for flights, services were increased to four flights per week. The increase in flights, not only allowed more flexibility for travellers, but provided the benefit of increased capacity and frequency of air freight services. In addition, AGD advised that a new fare structure had made air services more affordable. AGD stated:
- In response to heightened demand for air services consequential to ... increased activity, the department has recently increased the number of flights between Perth and the Territories to four services per week. Four services go to Christmas Island and three of those also include the Cocos (Keeling) Islands. This provides additional capacity for both passengers and airfreight. We have also introduced a new airfare structure that has made these services more affordable.³³
- 6.55 In addition, more flights are often provided during peak demand periods such as school holidays and at Christmas time.³⁴
- 6.56 AGD advised the air service contract was put to tender in 2008, but that 'the process was interrupted by the selected operator going into administration. The existing contract has been extended for a year to allow the service to be put to tender again in 2009.'³⁵
- 6.57 At the end of 2009, AGD was in the process of preparing a new tender for air services and advised it anticipated the new tender would be released early in 2010.³⁶
- 6.58 The contract was subsequently awarded to Virgin Blue and from April 2010, Virgin Blue 'will fly to the Cocos (Keeling) Islands on Tuesdays, Saturdays and to Christmas Island on Tuesdays, Thursdays and Saturdays.' AGD 'will review the continuation of three flights per week to
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32 Attorney-General's Department, *Submission 15*, p. 15.

33 Attorney-General's Department, Mr Julian Yates, *Transcript T1*, p. 1.

34 Attorney-General's Department, *Submission 15*, p. 16.

35 Attorney-General's Department, *Submission 15*, p. 16.

36 Attorney-General's Department, Mr Julian Yates, *Transcript T1*, p. 2.

Christmas Island based on future demand. The third flight may also be extended to the Cocos (Keeling) Islands if there is sufficient demand.³⁷ Flights will be on an Embraer E190 aircraft and will provide both passenger and freight services.

- 6.59 Airfares for **one way** flights from Perth to the Cocos (Keeling) Islands and Christmas Island will range in price from \$484 (Blue Saver) to \$899 (Premium Economy) with additional discounted fares to be offered. Freight prices are expected to remain unchanged with 'general freight charged at \$6.50 per kilogram and priority freight charged at \$9.75 per kilogram.'³⁸

Christmas Island

- 6.60 CIP drew attention to the high cost of airfares to and from the IOTs and stated:

While there are some discount fares available at \$998 and \$1398, the ordinary economy fare is \$1798 – that is from Perth to the island. If you add about \$400 or \$500 onto that fare, you can get a return trip from Perth to Paris. We also understand that the Australian government provides a form of subsidy for the airline services.³⁹

- 6.61 The Christmas Island family-owned airline, AIOTA operates a weekly, international service from Kuala Lumpur to Christmas Island using a chartered Malaysian Airlines aircraft. Regarding Government support of the local air service, AGD stated:

We support their [AIOTA] current operations from the north, using the Malaysia Airlines service, through a waiver of the landing fees at Christmas Island airport. While that is not a huge cost, it is nevertheless a cost that the Australian Government agreed to waive because of the value we saw in their efforts to promote tourism from the north. More broadly, the Australian Government provides a substantial indirect subsidy of the other charges, such as the security clearance process and all the charges to do with the operation of the airport, and we do not come close to recovering the costs of the operation of the airport.⁴⁰

37 Attorney-General's Department, *Submission 15.5*, p. 6.

38 Attorney-General's Department, *Submission 15.5*, p. 6.

39 Phosphate Resources Ltd., Mr Clive Brown, *Transcript T4*, p. 30.

40 Attorney-General's Department, Mr Julian Yates, *Transcript T1*, p. 9.

Cocos (Keeling) Islands

- 6.62 Similar to sea freight and shipping services for the Cocos (Keeling) Islands, the main concerns of residents regarding air freight and travel are cost and frequency of service. The Shire of the Cocos (Keeling) Islands stated that the recent additional flights have been:

... very beneficial for travellers to do business within the working week, offering the option of visiting both Cocos and Christmas Island in that period. It would be good to see this structure continue with the possibility of greater options and other links, and this would be through the current tender process.⁴¹

- 6.63 CICS also welcomed the additional weekly flight but was measured in its response to the impact of the additional flight on visitor numbers. CICS stated that the extra flight:

... has done little to the expected flow of increased tourism numbers. The IOTs are going through an unusual phenomenon with high contractor numbers on the Rumah Baru project and increase of service personnel to Christmas Island. ...It is difficult to quantify the 'lost business' because when a potential tourist enquires about seat availability at the travel agent, only to be told nothing is available, obviously they will travel elsewhere. These 'burn offs' are not recorded or counted in any sort of statistic.⁴²

- 6.64 Residents of Cocos (Keeling) Islands are concerned that air freight and passenger flight costs are continuing to rise. The Shire of Cocos (Keeling) Islands commented:

... the cost of getting freight on the plane has especially increased in the last few months. I think it jumped by \$2 a kilogram. It is a significant increase on what was already an expensive freight rate.⁴³

- 6.65 CICS also noted the high cost of fresh produce resulting from the high cost of air freight, which is passed on to the consumer. CICS stated:

... the freight rate of \$4.60 for fresh fruit and vegetables was increased without any notice to the community – in fact we were notified 10 days after the increase was effected. For the Co-Operative, this increase created an additional financial impost of

41 Shire of Cocos (Keeling) Islands, Mrs Melinda Lymon, *Transcript T5*, p. 3.

42 Cocos Islands Co-Operative Society Limited, *Submission 7*, p. 2.

43 Shire of Cocos (Keeling) Islands, Mrs Melinda Lymon, *Transcript T5*, p. 11.

\$70 000 per annum, which of course has been passed on to the consumer.⁴⁴

- 6.66 The Cocos (Keeling) Islands District High School commented on the negative social impact of a poorly scheduled and expensive air service, in regard to maintaining professional ties with Christmas Island. The Cocos (Keeling) District High School stated:

[L]ittle or no regard seems to be given to island interests in terms of air flights, specifically with reference to flights moving from a Thursday to a Friday. Despite ongoing feedback flights have steadfastly remained on Fridays (and largely it seems from a business point of view rather than serving the needs of the client). From a professional point of view this has now resulted in no professional contact with Christmas Island DHS [district high school], our closest neighbour, leaving staff here even further professionally isolated. Further, individuals now have to go to [Christmas Island] for 10 days rather than previously for four days for medical reasons, necessitating greater time off work and cover as well as having significant personal family issues. ...Flying off the island for professional reasons, and more importantly private reasons is prohibitively expensive and adds considerable stress to health and wellbeing.⁴⁵

Conclusions

- 6.67 Air freight and passenger services are a critical component of the long term economic development of the Indian Ocean Territories (IOTs). Since 1997, the Government has underwritten domestic air services between the IOTs and Perth.
- 6.68 The IOTs are currently serviced by four flights per week operating between Perth, Christmas Island and the Cocos (Keeling) Islands. The recent doubling of flight services reflects increased demand and a new fare structure which has made air travel to the IOTs more affordable. However, it is uncertain from where the additional demand has been derived and whether it can be maintained.
- 6.69 The cost and frequency of air freight and air travel was raised as an area of concern by IOTs residents. In particular, there was concern about the

44 Cocos Islands Co-Operative Society Limited, *Submission 7*, p. 2.

45 Cocos (Keeling) Islands District High School, *Submission 3*, p. 1.

continuing increase in the price of air freight contributing to the high price of fresh produce and perishable goods.

- 6.70 The Cocos (Keeling) Island High School drew attention to the difficulties encountered in maintaining professional ties with the high cost and infrequency of flights between the Cocos (Keeling) Islands and Christmas Island a contributing factor.
- 6.71 In its 2006 report, the committee recommended increasing the number of flights between the mainland and the IOTs under the existing air services contract, and inviting international carriers to extend their services. This would increase accessibility to air services and provide a method of assisting the local tourist industries through increased visitor numbers.
- 6.72 Following finalisation of the new IOTs air services contract, Virgin Blue will commence flying to the IOTs in April 2010. Virgin Blue also has the capacity to provide air freight services. The newly contracted air carrier has indicated that it will provide cheaper airfares to the IOTs than are currently available with the possibility of further discounts for consumers.
- 6.73 In addition to offering cheaper flights, the committee believes increasing the number of flights to the IOTs in response to demand will assist in achieving more affordable airfares. This in turn will provide the benefit of increasing the frequency of freight services to the IOTs.
- 6.74 Increasing the affordability and frequency of flights to the IOTs also provides the impetus to increase visitor numbers to the IOTs and economically assist the IOTs tourism industry. However, without demand for an increased number of flights to the IOTs, increasing the number of flights per week would have the negative impact of increasing the cost of air services. The committee believes the Government should continue to underwrite domestic air services to the IOTs taking into consideration demand levels and adjusting the number of flights available, accordingly.

Recommendation 25

- 6.75 **The committee recommends the Government continue to underwrite domestic air services to the Indian Ocean Territories in response to demand for services.**

Removal of cabotage restrictions

- 6.76 Cabotage refers to the right of a foreign airline to transport domestic passengers in another country on any domestic legs of international routes. There are few countries that allow cabotage 'except in the context of broader economic integration, such as in the case of Australia and New Zealand under the Single Aviation Market arrangements, and between Member States of the European Union.'⁴⁶
- 6.77 The Department of Infrastructure, Transport, Regional Development and Local Government (DITRL) advised:
- Within Australia, with the exception of New Zealand carriers, foreign airlines are generally not permitted to serve the domestic market. Limited exceptions apply in exceptional circumstances where Australian carriers are not able to meet the pressing need (e.g. emergency relief or the movement of oversized cargo).⁴⁷
- 6.78 Cabotage restrictions serve the purpose of supporting the 'safety and security of Australian domestic passengers' by ensuring 'airlines carrying domestic passengers [are] subject to the full regulatory oversight of Australia's aviation safety regulator, through a requirement to hold an Australian Air Operator's Certificate.'⁴⁸
- 6.79 The removal of cabotage was suggested as a way to increase visitor numbers to the IOTs, thereby stimulating the IOTs tourism industry and more broadly supporting economic development.
- 6.80 CITA favoured the removal of cabotage restrictions and noted that cabotage restrictions are administrative and can be changed. CITA stated:
- Cabotage is largely an administrative issue. Nothing stops the Commonwealth from changing that. That would certainly open up the market to international players. At the moment the issue of cabotage is an obstacle for international airlines to look at coming to Christmas Island because they simply cannot go beyond here to the mainland. If that were to change – and again it is an administrative issue – from my experience there would be a

46 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 31*, p. 1.

47 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 31*, p. 1.

48 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 31*, p. 1.

number of airline operators who would be willing to look at the whole package rather than a flight to the north.⁴⁹

- 6.81 The Shire of Cocos (Keeling) Islands stated that extending cabotage to the IOTs would assist in increasing the number of visitors from Kuala Lumpur and Singapore to Perth with obvious economic benefit. The Shire of Cocos (Keeling) Islands stated:

It would benefit us [IOTs] because on Cocos at the moment we do not have any direct flights to the northern link. If people are going to use that then they need to go to Christmas Island and stay for any number of nights to get the link up there. ... I think [removing cabotage restrictions] would benefit Cocos quite a lot.⁵⁰

- 6.82 CIP advocated for the removal of cabotage restrictions on Christmas Island which could reduce the cost of airfares. CIP stated:

We have advocated the removal of cabotage restrictions on the island. As I said, this could allow international carriers to provide services to the island, perhaps from Perth to the island and onto Singapore or Kuala Lumpur. This could reduce the enormously high airfares and remove or reduce subsidies paid by the Australian Government. The Attorney-General's Department has formally argued for the removal of cabotage arrangements, although not as broadly as the way we propose. Additionally, the national aviation policy green paper opines that there may be an economic case for considering requests by foreign airlines to carry domestic passengers on routes which require a Government subsidy.⁵¹

- 6.83 Further, CIP commented that the removal of cabotage could benefit the IOTs tourism industry by increasing its potential to compete and stated:

Certainly what we are advocating, in terms of removal of cabotage [restrictions], would take that one step further and allow services from Singapore or [Kuala Lumpur] to [Christmas] Island and to Perth. The reason for that is that the cost of airfares to the island is horrendously expensive and if the future of the island is to have a tourism potential then obviously island tourism here has to compete with island tourism elsewhere.⁵²

49 Christmas Island Tourism Association, Mr Michael Asims, *Transcript T4*, p. 85.

50 Shire of Cocos (Keeling) Islands, Mrs Melinda Lymon, *Transcript T5*, p. 6.

51 Phosphate Resources Ltd, Mr Clive Brown, *Transcript T4*, p.30.

52 Phosphate Resources Ltd, Mr Clive Brown, *Transcript T4*, p.38.

- 6.84 CICC also highlighted the positive economic impact for the IOTs tourism industry of removing cabotage restrictions and stated:

As far as the medium to long term is concerned for the airline industry, having cabotage [restrictions] removed would give foreign operators a chance to operate into Christmas Island and on to Perth or Darwin – wherever they want to – without any problems. That would be a natural growth factor for tourism on the island and we would be able to demonstrate what we have to offer on the island as far as ecotourism is concerned.⁵³

- 6.85 In December 2009, the Government released an Aviation White Paper to guide the aviation industry's growth over the next decade and beyond. The White Paper set out the Government's approach to issues such as cabotage. The White Paper states:

As a general rule, the Australian Government does not intend to permit cabotage. ... [However] the Government may consider unilateral cabotage in some exceptional circumstances: for example ... when a foreign carrier may seek to operate on a route which is not currently served by scheduled domestic airlines or which requires a Government subsidy (such as routes between some of Australia's external territories and the mainland).⁵⁴

- 6.86 DITRL advised that cabotage serves a security purpose by 'minimising the mixing of domestic and international passengers on the same flight [lessening] the risk and implications for Australia's border control and security agencies.'⁵⁵

Infrastructure requirements

- 6.87 Removing cabotage restrictions and allowing larger foreign aircraft to land in the IOTs would require the upgrade of existing runways.
- 6.88 The runway on Christmas Island is not adequate to allow planes larger than an Airbus A320 to land and CICC noted the runway would need to be upgraded and extended if larger planes were to make a stopover on Christmas Island. CICC stated:

53 Christmas Island Chamber of Commerce, Mr John Richardson, *Transcript T4*, p. 49.

54 Department of Infrastructure, Transport, Regional Development and Local Government, December 2009, *Flight Path to the Future, National Aviation Policy White Paper*, Canberra, p. 44.

55 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 31*, p. 1.

Certainly the airstrip is a bit short at the moment. There was some talk about increasing its length. The airstrip can handle an Airbus A320 quite comfortably but with anything bigger than that it starts having problems, particularly given the condition of the strip – which I guess you could call ‘humpbacked’. That makes it fairly dangerous to land for any aircraft.⁵⁶

Conclusions

- 6.89 Cabotage refers, in the aviation context, to the right of a foreign airline to transport domestic passengers in another country on any domestic legs of international routes. Cabotage restrictions are in place in Australia.
- 6.90 There is strong support from the residents and businesses of the Indian Ocean Territories (IOTs) to remove cabotage restrictions for the IOTs. The desired outcome of removing cabotage restrictions is to reduce the price of airfares to the IOTs and encourage an increase in the number of visitors, thereby providing an economic benefit for the IOTs economies.
- 6.91 The Government recently issued a White Paper in which it states that while cabotage is not permitted in Australia, it may consider unilateral cabotage in some exceptional circumstances, such as routes between some of Australia’s external territories and the mainland.
- 6.92 The committee welcomes the Government’s recently stated position on cabotage and believes there is a strong case for removing cabotage restrictions to allow currently restricted flights to stop over in the IOTs.
- 6.93 If cabotage restrictions were removed and foreign airlines could transport domestic passengers to the IOTs, this would mean that larger aircraft would be required to use existing IOTs air services and related infrastructure.
- 6.94 Current supporting air services infrastructure on the IOTs such as runways would need to be upgraded and expanded to accommodate larger aircraft. Administratively, the requirements for processing an increased number of visitors would also have to be considered.
- 6.95 The committee acknowledges that while removing cabotage restrictions could provide an economic benefit for the IOTs, there would need to be an upgrade to existing infrastructure and possible revision of administrative protocols for processing an increased number of visitors.
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56 Christmas Island Chamber of Commerce, Mr John Richardson, *Transcript T4*, p. 47.

Recommendation 26

- 6.96 The committee recommends that cabotage restrictions should be removed for the Indian Ocean Territories (IOTs) and that prior to this the Government undertake an assessment of the infrastructure and administrative requirements for the IOTs, taking into consideration asset and funding needs, and time frames for upgrades and restructures particularly in regard to the runway and immigration facility upgrades.

Senator Kate Lundy
Chair

26 March 2010