

Submission to Hon Minister Fletcher MP

Minister for Territories, Local Government and Major Projects

10 February 2016

Norfolk Island Economic Collapse

The sudden and ongoing uncertainty created by the Federal Government is reckless and irresponsible.

This letter is a follow up to the Norfolk Island Accommodation and Tourism Association (ATA) letter of 1 August 2015 which was sent to the previous Minister with responsibility for Norfolk Island, Jamie Briggs. Virtually all the issues raised in that letter remain to be addressed, and the Minister and the Department have not responded to those earlier enquiries by the ATA. The letter was also sent to the Norfolk Island Administrator without receiving any response.

Unfortunately, the Minister did not avail himself of the opportunity to meet with the elected representatives of the peak industry bodies of the ATA and Norfolk Island Chamber of Commerce during his 28 January 2016 visit to Norfolk Island, instead choosing to meet with a few handpicked business people.

With less than 5 months before implementation of Commonwealth and NSW Laws, there are too many issues that remain unresolved, and which cannot just be determined "on the fly" at the last minute, reducing any planning horizon for businesses.

A 2015 Commonwealth Government newsletter stated that due to the small number of businesses on Norfolk Island, it would not examine the impact of the reforms on business. It is vital that the private sector is stimulated to improve the quality of life on Norfolk Island, and create value in the community.

When global tourism was suffering after the 2008 Global Financial Crisis, the UN World Tourism Organization (WTO) reviewed policies adopted by virtually each country. In almost every case, Governments reduced taxation within their tourism industries to increase economic output.

However, the Commonwealth Government is doing just the opposite – increasing taxation, superannuation contributions by business, capital gains tax and business compliance costs are not the means to stimulate a depressed economy, increase employment or encourage investment.

The Commonwealth Government contends that goods on Norfolk Island will become cheaper after 1 July 2016 because the 12% GST and customs duty will no longer apply. This is false. Just the opposite will occur - prices will increase to cover the increased cost burden on businesses. In addition, many businesses will lay off workers to reduce costs, and hold off any capital spending. The Commonwealth Government is also trying to convey the message that increased social security

payments and reduced medical payments on Norfolk Island alone will stimulate the economy. This has been proven to be false. Economies do not grow through welfare and increased taxation.

Independent analysts have discredited the Commonwealth-commissioned Centre for International Economics (CIE) reports of 2006 and 2014. The 2006 CIE Report warned of Detrimental effects on the Norfolk Island economy. The report identified a range of detrimental effects of the proposed governance changes on the Norfolk Island economy, notwithstanding that it took a view that in the long term the changes would be beneficial – that is, provided that the economy survived long enough to experience these optimistically assessed advantages. In summary, some of the short to medium term costs to Norfolk Island included:

- A fall in GDP for at least five years;
- Substantial falls in household incomes for up to 8 years;
- Heavy regulatory and compliance costs for small businesses and individuals;
- Higher input costs for employers, especially in wages and superannuation contributions;
- Rises in unemployment and loss of on-island jobs;
- Much higher taxes on Norfolk Island residents than their mainland counterparts;
- The need for NIG to impose substantial new taxes such as a much higher consumption tax or a payroll tax.
- The CIE 2014 report overstates the quantum and effects of possible welfare payments, meaning that its assessment of the eventual positive effect on GTP and household consumption is seriously flawed. But even within its overly optimistic forecasts, it predicts a smaller Norfolk Island economy with higher unemployment and heavy dependence on welfare payments and ongoing Commonwealth fiscal input to cover service delivery.

Business Issues

Below are some of examples of areas where the ATA has been trying unsuccessfully for over seven months to obtain clarity from DIRD, the Minister, Executive Director of Norfolk Island, Administrator of Norfolk Island, Norfolk Island Advisory Council and Norfolk Island Transition Manager.

Uncertain future economic operating environment

The reform process has created uncertainty regarding the future economic operating environment on Norfolk Island, in terms of what legislation will apply on Norfolk Island and when this legislation will come into effect. The issue of concern is not only the imposition of new business costs, but the uncertainty of exactly what legislation will be extended to Norfolk Island and the timeline for the extension of that legislation. As the average firm size on Norfolk Island is relatively small, the effect of uncertainty on business investment is relatively strong. What is the timetable for extension of Federal Employment Law, Company Law, Corporation Law, Occupational Health and Welfare, etc.?

Uncertain Tourism Promotion Funding

The Federal Minister responsible for Norfolk Island, Paul Fletcher, indicated at a Norfolk Island public meeting held on 28 January 2016 that the Commonwealth Government was not prepared to commit to funding for tourism promotion, although he appeared to acknowledge that since tourism promotion is typically a state-type function, it follows that the Commonwealth would be responsible

for Tourism. This responsibility is consistent with the Commonwealth Government's announcement that it would be responsible for all state functions. The Federal Minister responsible for Territories had no coherent answer when asked where he expected the funding would come from, as the proposed regional council would clearly lack the financial capacity to fund tourism promotion even at its current level of \$1.3 million annum. Without tourism promotion funding of at least double the existing budget, the economy will contract rapidly, leading to business failure, massive unemployment and population exodus as residents depart to seek work elsewhere, further reducing the tax base. In short, the island will rapidly become reliant on state welfare.

What exactly is current Commonwealth Policy with respect to Tourism Industry support in the form of Marketing Funding, and the Economic Development Bureau, of which tourism would be the major component?

Uncertain Impact of Federal Income Tax

The Commonwealth agreed in the Roadmap to implement two years of dry runs during 2011-12 and 2012-3 to enable businesses to assess and plan for any major impact to their businesses. The Commonwealth Government reneged on its written agreement, leaving businesses in the lurch with regard to impact and strategy. The Commonwealth needs to re-instate its agreement to allow two years of dry run tax returns, and then phase Income tax in to reduce the negative impact on the economy and mitigate risks. The Commonwealth commissioned Acil Tasman Economic Development Report of March 2012, recommended that income tax not be introduced for a period of 5 years and then gradually phased in, and then only in the event that the economy is growing.

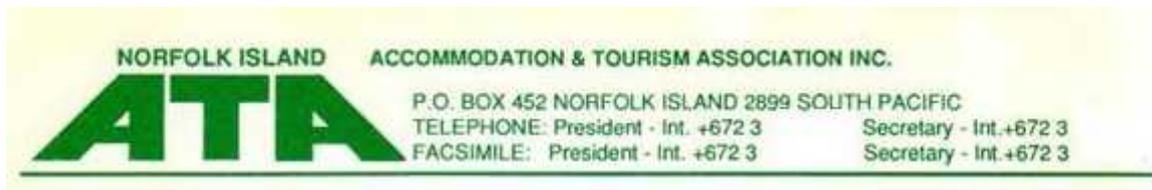
Lack of Econometric Modeling.

Modeling should have been performed, and shared on the impact of Federal Taxes and Municipal taxes on the economy. The previous Administrator, Mr. Neil Pope, promised to share the tax models that were to be developed by Treasury, with the community and then reneged on his promise. Surely the Commonwealth is not implementing these changes based on a wing and a prayer. Either the detailed models do not exist, or the Commonwealth will not share this with the business community due the demonstrated negative economic impact. This lack of transparency is similar to what occurred with the CIE Report 2006 where the Commonwealth was determined to stop its release because as the Commonwealth stated in its fierce opposition to a Freedom of Information request, that "it will alarm the community".

Lack of Economic Stimulus Policy

Since July 2015 when the Commonwealth assumed total control of Norfolk Island Governance, it has not implemented a single new policy to stimulate the Norfolk Island economy, nor has it articulated any future Commonwealth Policy to stimulate the Norfolk Island economy in the short term. Even the small business \$20,000 Asset Write-off provision does not apply to Norfolk Island until 1 July 2016, which means assets purchased and used before that date do not qualify for the accelerated depreciation provision.

Massive Negative Impact of Extension of Award Rates



Fair Work Australia have confirmed that if Federal Employment Law extends to Norfolk Island, minimum employment rates will dramatically increase, resulting in devastating impact on the fragile Norfolk Island tourism industry. Much of the tourism work is performed on Saturdays, Sundays and public holidays.

For instance, Sunday minimum Federal rates start at a minimum \$31.13 per hour for any hospitality worker (Level 1: full time, part time and casual). Level 6 employees need to be paid a minimum of \$38.43. On Public Holidays, minimum rates range from \$44.48 to \$60.39 per hour.

The adverse consequences, especially on Sundays and public holidays, will be experienced throughout the tourism sector, and particularly with cafes and restaurants being closed, and accommodation properties unable to afford the housekeeping and other hospitality wages to clean units and make meals. This will have a detrimental impact of the visitor experience and tourism to Norfolk Island.

Other aspects of Federal Employment Law will also have serious consequences on employment levels, and viability of Norfolk Island businesses. The Commonwealth Government has not announced any timetable for aspects of Federal Employment Law to be extended to Norfolk Island. This could impact the validity of Employment Contracts that extend beyond 1 July 2016.

Impact of Municipal Rates

With just a few months before implementation, businesses still do not know how to prepare for this cost as no rates regime has been published. Parcels of land may need to be combined to reduce excessive taxes where a single accommodation property is located on several parcels of land. This process will cost thousands of dollars in application fees and professional surveyor fees, and taking several months. Will licensed tourism accommodation houses be singled out for special rates, raising the cost of doing business for one sector of the economy?

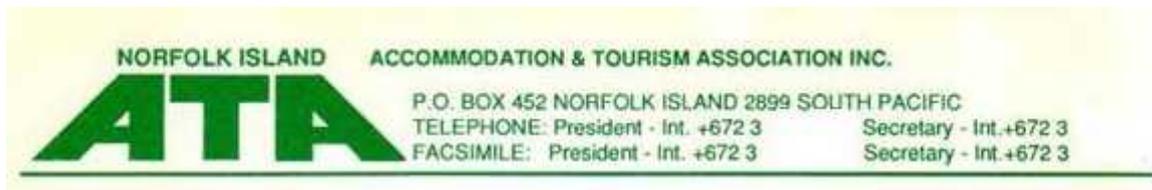
Lack of Industry Involvement

The tourism industry was previously actively involved in Tourism Bureau decisions through the Tourism Advisory Board. The Executive Director of Norfolk Island chose not to pursue legal avenues to ensure this involvement continued until some alternative framework could be developed. As a result, there has been no industry involvement in Norfolk Island's major industry since July 2015.

The ATA, Chamber and business community have been kept mostly in the dark with regard to demographic visitor data, upcoming marketing campaigns, sales, event funding, the work of the Bureau's paid representatives both in NZ and Australia, and the work of the newly hired Destination Marketing Manager based in Brisbane.

The Executive Director of Norfolk Island engaged the consulting firm of Morrison Low. The ATA Executive met with a Morrison Low director several months ago to discuss tourism from an industry standpoint, as part of a Commonwealth review, but has never been provided with a report or seen any recommendations.

First the Executive Director, then the Transition Manager, assumed responsibility for Tourism. The ATA reached out to the Executive Director many times, and more recently to the new Transition



Manager. However, the only feedback the ATA receives is something like “we’re working a plan to address this” or “yes, we think industry should be involved, and will makes sure this occurs” That is where it ends. Nothing ever happens.

According to the Norfolk Island Transition Manager, the focus has rather been on “getting the machinery of government right, preparing for elections”, etc. It is almost as if the private sector is just a nuisance that can be ignored, as there are more important Government things to focus on. The Transition Manager stated to the ATA on 4 February 2016 that there is no plan to formally involve the industry in Tourism Bureau decisions before 1 July 2016.

The Government has ignored the issues raised by peak bodies representing the tourism and business industry. This seriously puts the economy and community at great risk.

Lack of Tourism Manager

There has been no qualified tourism manager dedicated to driving Norfolk Island tourism since the Executive Director made the decision to not renew the previous tourism manager contract.

Lack of Immigration options for unskilled workers

Lack of Immigration policy and visa type for hiring foreign nationals from countries such as Fiji to perform housekeeping and other relevant work. This will impact the tourism industry which depends on these permanent unskilled workers to perform certain tourism jobs.

These are just some of the business issues that have been raised. We urge the Minister to please address these issues urgently by seriously engaging with the representatives of the business community. **The economy is at serious risk of total collapse. The sudden and ongoing uncertainty created by the Federal Government is reckless and irresponsible.**

ATA Executive