POLICY PAPER

Policies to Promote Competition and Investment in Norfolk Island

April 2012

This Policy Paper is prepared by the Norfolk Island Government consistent with the Specified Improvement required under Clause 12 (c) of the Funding Agreement signed on the 22nd of September 2011.
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BACKGROUND

Under the funding agreement signed with the Commonwealth Government last year the Norfolk Island Government (NIG) has agreed to support and/or implement local policies to promote competition and investment in Norfolk Island. These policies are to take effect from the 30th of March 2012. The NIG released a discussion paper on the 23rd of February which outlined the areas of existing legislative restriction on competition on the island and sought the community’s view on these. Submissions were received up to the 19th of March 2012.

On the 17th of March the NIG was provided with the Final Report of the Norfolk Island Economic Development Report which includes a program of microeconomic reform built around the implementation of the Competition Principles Agreement 1995 the core element being privatisation of Norfolk Island Government GBE’s. The report suggests that the government play a much smaller role in the economy and remove any existing impediments to competition on the island.

In particular the report recommended that the Norfolk Island government implement reforms around the Competition Principles Agreement 1995. The government accepts the need to adopt these principles associated with its operations and for policy guidance.

The feedback on the competition discussion paper from the community contained a range of views. In respect to the proposed options associated with changes to accommodation it was clear that most existing accommodation proprietors supported the retention of the existing protections (registration and a quota on licenses), however they were in favor of removing the restriction to non-resident ownership. Some existing operators and persons wishing to enter the industry believed the existing restrictions should be removed as they were a disincentive to innovation and investment. There was general support for the continuation of a grading system.

Submissions regarding the importation of liquor in the main supported changes to the existing arrangements, but acknowledge the main reason for the government retaining any interest in the area was on the basis of raising revenue. There was general support for legislative change either to allow wholesale distribution of alcohol by the Bond to an increased range of retail outlets through to deregulation to allow alternative importers or privatisation.

With regard to the loading and unloading of cargo some submissions regarded that it should be retained in government operation as it was seen to be an essential service. Concerns were also expressed that the unique nature of the operation was a tourist attraction and as such it should be retained. There was support for
moving to motorized barges and containerization. Privatisation is a means to ensure a viable workforce to staff the operation. With respect to the carriage of mail some submissions wished it retained by government as an essential service and also to maintain the unique production of local stamps. Since the local post office was viewed as a sorting service some believed this could be undertaken by a private operator.

This policy paper follows the same format as the recent discussion paper and states what the government’s policy is in relation to each enterprise and the actions it intends to undertake to implement changes.

As outlined in the discussion paper the area of telecommunications on the island is also under review and changes to policy in respect to this area will be covered in a separate policy statement. It is anticipated that this will be available early in the 2012/13 financial year.

**TOURIST ACCOMMODATION**

Government policy is that it should not restrict competition unless it can be demonstrated that:

(a) the benefits of the restriction to the community as a whole outweigh the costs; and

(b) the objectives of the legislation can only be achieved by restricting competition.

In the case of the restrictions placed on the ownership and operation of tourist accommodation on the island it believes the existing restrictions do not demonstrate the greater benefit to the whole community. In particular it does not believe the existing restrictions on bed or unit licences benefits anyone other than existing licence holders. It does believe that there is a benefit to the community from the requirement for tourist accommodation to be registered on the island; it will therefore continue to maintain a register that provides information on the sector.

The objective of the Tourist Accommodation Act was to ensure that the island was not spoilt by inappropriate tourist accommodation development and that accommodation on the island was of a competitive quality standard. These objectives have not been met by the current system. It is believed that these objectives can be more appropriately achieved through policy that does not restrict entry and exit from tourist accommodation ownership.

To encourage investment in the improvement of tourist accommodation on the island the government will pursue the recommendation made in the EDR to introduce a capital works temporary tax credit. Since this will have an impact on local revenues the Government will need to seek approval from the Commonwealth to undertake this action. If approved it is intended to introduce the tax credit from July 1st of this year. The credit will apply to all capital investment in building and construction until 31 December 2013.

The government believes that the existing Development Control Plan (DCP No. 3) covering the construction of tourist accommodation units provides sufficient control to protect the environment from inappropriate new accommodation development.

The government has acknowledged the desire for the industry to maintain the grading of accommodation on the island and it will continue to support the grading of tourist accommodation through continued subsidisation of a recognised grading organisation such as the current AAA system. It will not require grading to be mandatory.

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1EDR Table 21. P.83 –Issues underlying economic constraints, quality of tourism product
**ACTIONS**

1. The Government will move immediately to remove the restriction on non-resident ownership of Norfolk Island tourist accommodation by repealing the *Tourist Accommodation (Ownership) Act 1989*.
2. The Government will move immediately to amend the *Tourist Accommodation Act 1984* to remove the requirement for managers to be registered, remove the quota and the requirement for unit licences and mandatory grading. It will simplify the remainder of the Act and accompanying Regulations to provide for registration and basic information on each accommodation property.
3. The Government will amend the relevant sections of the *Planning Act (2002)* to allow development applications to be processed without the need for a unit licence.
4. The Government will seek to introduce a temporary tax rebate for capital works, which will include tourist accommodation from the 1st of July 2012.
5. The Government will support the continued grading of island tourist accommodation through subsidisation of the existing AAA grading system. It will maintain the penalties for misrepresentation of the prescribed grading system supported by the Government.

**IMPORTATION OF LIQUOR**

Both the Public Service Review and the EDR have recommended that the government privatise the liquor bond and remove existing restrictions on the importation of liquor to the island. Public responses were also in favour of the government changing the existing system; however some expressed the opinion that the government should stay in the importation and wholesale distribution business but increase the options for retail distribution on the island. The government shares the community concern associated with on-going revenue loss resulting from divestment of the Liquor Bond and will require expert assistance to participate in a divestment process. The majority of any proceeds from the divestment should be retained (as recommended in the EDR) for community investment in capital infrastructure and not be consumed in recurrent outlays.

On this basis the Norfolk Island Government is open to proceeding with the reform and possible privatisation of the Liquor Bond and will work co-operatively to ensure:-

- That expertise is engaged by the Commonwealth to assist in the process by:-
  - Recommending a model that includes the consideration of community benefit from privatisation and balances the maximum financial return to the government with improving the quality and cost of liquor distribution services on the island;
  - And if privatisation is recommended provision of assistance in the marketing, contracting and divestment of the operation.
- A financing mechanism is negotiated that provides transitional financing to the Norfolk Island Government during any divestment process.
- The Commonwealth and the NIG engage in a process to provide an on-island social safety net to provide support and training for employees affected by any divestment.
- That an enduring fiscal framework of transfer payments to the Norfolk Island Government is negotiated and provides an adequate revenue stream that is reliable and is predictable with reasonable surety into the future.


**ACTIONS**

1. The Government will move immediately to support the inclusion in the Capacity Building Team proposed under the *Public Service Review* and *Economic Development Report* of expertise in the divestment and corporatisation of GBE’s.

2. Include in discussions with the Commonwealth on the 2012/13 budget financial resourcing to allow an approved privatisation process to be undertaken.

3. In the 2012/13 year reform of the *Liquor Act 2005* to reflect the requirements of an appropriate model for reforming liquor importation on the island.

4. Work with the Commonwealth to provide by 1 January 2013 a social safety net for employees affected by the microeconomic reforms.

5. Starting immediately, to enable on-island training for individuals and businesses
   - increase the capacity of the Norfolk Island Central school to provide adult education through possibly becoming a Registered Training Organisation
   - commence negotiation of a service delivery agreement with existing business enterprise centres to provide services on the island.

6. Starting immediately, commence negotiations with the Commonwealth to agree on a fiscal framework of transfer payments and a transition plan for this to commence in the 2013/14 financial year.

**LOADING OR UNLOADING CARGO (LIGHTERAGE ACT 1961 S.11)**

At the current time improving the ability to handle cruise ship visitation and the movement towards containerisation is the government’s highest economic development priority. This is an interim objective in moving to provide a suitable harbour to service the island. In general both those wanting the government to privatise the service and those wanting the government to retain the operation were in agreement that the government should move towards the provision of motorised barges and the containerisation of cargo. The government believes the existing legislative restrictions, preventing private sector involvement in the activity is in conflict with its interim and long term objectives.

Government policy seeks to reduce impediments to both public or private sector investment and operations in the handling of sea freight and passengers. Regardless of the final operation of the service the policy objective is to create an environment to facilitate improvements in loading and unloading of cargo and ensures that passengers are not hindered by legislative barriers. The question of whether the service should be retained in public or private operation will be determined as a separate exercise examining possible GBE divestment.

**ACTIONS**

1. The Government will move immediately to remove the restriction on non-Administration employees being involved in the loading and unloading of cargo by amending the *Lighterage Act 1961*.

2. As part of considering the divestment of the Lighterage GBE, the government will examine a range of possible models which may include public ownership – private operation and other mechanisms, including private sector investment to ensure the maintenance of the essential service.
CARRYING LETTERS (POSTAL SERVICES ACT 1983 s. 17)

The government believes that Norfolk Island postage stamps are a unique aspect of the island’s cultural heritage and will ensure that local stamp production continues. It also agrees that the carriage of mail is an essential service however it is not clear that the public is best served in both these areas by existing operations or legislative restrictions. The government has taken into account the issues of uncompetitive pricing by the Post Office with respect to competition with the private sector. Its policy is to ensure that any public sector GBE’s are operated consistently with the Commonwealth Competition Principles Agreement 1995

ACTIONS

1. The government will include the operation of the Philatelic Service and the Post Office in the review of GBE’s.
2. Based on the review findings the Government will consider legislative revision that facilitates those findings.
3. In the interim it will ensure that the pricing of products sold by the Post Office reflects the full range of market costs faced by the private sector.