

## CHAPTER 4

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### THE NORFOLK ISLAND ECONOMY

#### *Norfolk Island's Economic History*

1. The Norfolk Island Government's initial submission noted the Island's chequered economic history. It said that the economy had been focussed on primary production for much of this century, with exports of bananas, passionfruit pulp, whale products, lemon based products, fish, oranges and guava jelly supporting the economy at various times.

2. Treadgold<sup>1</sup> and Hoare<sup>2</sup> provide an historical perspective of the Island's economic performance, in particular its export performance, over this century. They show that the Island has been plagued by export instability. Some examples include:

- the agricultural boom of the mid-1910s based on the lemon industry and fish exports (both industries had collapsed by the early 1920s, partly because of a reduction in shipping services);
- the agricultural boom of the mid-1920s based on the banana industry (it had collapsed by the mid-1930s);
- a minor tourist boom in the early 1930s;
- the agricultural boom of the late 1930s based on oranges, bean seed, passionfruit pulp and, to a lesser extent, the tung oil nuts and guava jelly industries (most of these industries had collapsed by the mid-1940s, although the bean seed industry continued until the end of the 1960s);
- the commencement of commercial butter production, an import replacement activity, in the late 1930s;
- a decline in the civilian population in the war years, which led to labour shortages and a reduction in exports, and big changes in external transport and communication links — including the construction of the airfield;

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<sup>1</sup> M.L. Treadgold, *op cit.*

<sup>2</sup> M. Hoare, *The Winds of Change, Norfolk Island, 1950-1982*, Fiji, 1983.

- the early post war tourist boom, generated by those who had been garrisoned on the Island during the war, peaking in the early 1950s and then declining because of a reduction in airline services;
- the whale oil industry boom of the late 1950s (which had collapsed by the mid-1960s);
- the philatelic boom of the early 1960s;
- the emergence of the tax avoidance industry (which had diminished by the late 1970s);
- a second period of strong tourist growth, commencing in the early 1960s and continuing to the present;
- hopes of an oil industry in the early 1980s (so far unfulfilled); and
- the instability of airline services (the 1989 pilots dispute, the implementation of the 'open skies' policy in 1991 and the withdrawal of Ansett Airlines services in June 1997).

3. The boom/bust circumstances that dominate Norfolk's economic history highlight the vulnerability of such a small economic entity. Its economy can generate external (or export) income from elsewhere (for example, through tourism) but the Norfolk Island Government has little control over externally originating booms and busts.

4. A recurring theme for the Island has been its reliance on transport services and the effects on its export industries when transport becomes unreliable. This problem has resurfaced recently with a number of submissions commenting on the exposure of the Island's tourism to unreliable air services. Some have argued for the Norfolk Island Government to be given greater control over air services to and from Norfolk.

5. Another theme has been the importance of the Island's export oriented industries to its economy. This is especially so today. The Island has a strong tourism industry and there are strong trade flows with the mainland and New Zealand.

6. The Norfolk Island Government's initial submission talked about the Island's reliance on the tourism industry since the 1960s and the limits to which it can be further developed. It noted that little progress has been achieved in economic diversification. This has led the government to initiate a number of investigations (covering an offshore financing centre, the use of Norfolk's telecommunications network, food production for local consumption and export), as well as commissioning Access Economics to undertake an analysis of the Island's economic viability. Although that report has been completed, it has been neither adopted nor endorsed by the Norfolk Island Government elected in April 1997.

### ***The Norfolk Island Economy Today***

7. Any discussion of Norfolk Island's economic capacity requires some consideration of the present size of its economy. The problem in trying to measure this is the scant information on the level of private sector activity on the Island. For the most part, the Norfolk Island Government does not apply taxes to business sector inputs or output (there is no company tax or sales tax) — though the accommodation, petroleum and liquor sectors are exceptions. Thus, most businesses do not provide information on their financial activities to the Norfolk Island Government. Provided their accounts have been audited, there is no obligation on companies to provide financial information to the companies registrar.

8. Data on public sector activities are available and most of them are of good quality. The Norfolk Island Administration's Budget Statements suggest that the government contributed \$11.5 million to the Norfolk Island economy in 1995-96, \$5.7 million from general government activities and \$5.8 million from government business enterprises (GBEs). It also raised \$7.6 million in indirect taxes and charges. This is shown in Table 4-1. It is estimated that the Commonwealth government contributed about \$3.8 million across a range of portfolios.

9. In the absence of comparable private sector data, we have made an estimate of that sector's level of output, using numbers of employees in each of the two sectors of the Island's economy and assumptions about their relative performance. We estimate that, for 1995-96, the private sector contributed almost \$57 million to the Norfolk Island economy. The assumptions made to arrive at this figure were that:

- average wages for each employee in the private sector were 90 per cent of the public sector figure; and
- gross profit for each employee in the private sector was 80 per cent of the figure for the profitable GBEs<sup>3</sup>.

10. The estimate of the private sector contribution may understate the actual level.<sup>4</sup>

11. Some estimates put the size of the economy<sup>5</sup> at over \$90 million (implying a private sector contribution of \$70 million). For the purposes of this report, we prefer to use a more conservative \$80 million. Table 4-1 shows how we have arrived at this figure.

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<sup>3</sup> A low percentage was used because, being statutory monopolies, these enterprises should be able to raise above average profits. The figures for the three subsidised enterprises (KAVHA, Bicentennial Integrated Museums and the Healthcare Fund) were not included.

<sup>4</sup> It is however consistent with the Access Economics estimate that the tourist sector contributed \$41.4 million to the Norfolk Island economy in 1995-96 (p21) and the 1996 Norfolk Island Census figure that 53 per cent of the resident working population had a job directly related to tourism. The same productivity in the non-tourist sector would imply a total economy of \$78 million.

<sup>5</sup> That is, Norfolk's gross product (a term used later in this chapter).

**Table 4-1** ESTIMATED SIZE OF THE NORFOLK ISLAND ECONOMY, 1995-96

Sector	Contribution to output	
	\$'000	\$ pc
General Government	5 727	3 232
- wages, salaries and supplements	5 111	2 884
- capital expenditure	616	348
Government Business Enterprises	5 775	3 259
- wages, salaries and supplements	1 741	983
- gross profit	4 033	2 276
Private sector	57 449	32 420
- wages, salaries and supplements (a)	17 486	9 868
- gross profit (b)	39 963	22 553
Commonwealth government	3 804	2 146
Indirect taxes less subsidies	7 593	4 285
Estimated size of the Norfolk Island economy	80 347	45 343

(a) Assuming that wages for each employee in the private sector are, on average, 90 per cent of those in the public sector.

(b) Assuming that the gross profit for each employee in the private sector is 80 per cent of that for the profitable GBEs.

Note: This table is constructed using the income approach to the calculation of gross product.

12. In what follows, Norfolk Island's economic capacity is discussed in terms of broad categories of economic activity. These are:

- (i) externally oriented industry;
- (ii) the Commonwealth's contribution to the Island economy;
- (iii) production for the community; and
- (iv) infusion of capital.

13. One aspect of the economy impossible to estimate is the non-official or barter and cash economy that has existed on Norfolk since 1856. Evidence presented at the July Conference suggested that the cash economy was large and that it had grown since the fourfold increase in the Financial Institutions Levy in 1991. But it has not been possible to estimate its size, and we do not know how far it is captured within our estimate of gross product of \$80 million.

**Externally Oriented Industry**

14. Norfolk Island’s economic capacity extends beyond the Island. It has established trade flows with both the Australian mainland and New Zealand and is extending its trade links to other countries.

15. Tourism is much more important to the Norfolk Island economy than it is to the mainland economy. It remains the largest industry on the Island. Table 4-2 presents tourism statistics showing that, on average, tourists are 26 per cent of the total Island population but little more than one per cent of the total mainland population.

**Table 4-2** TOURISM STATISTICS, 1995-96

	Norfolk Island	Mainland
Number of tourist arrivals	29 787	3 725 800
Average duration of stay (days)	7.74	23.4
Average daily tourist population	632	238 860
Ordinarily resident population	1 772	18 169 516
Average daily tourist proportion of total population (%)	26.3	1.3

Note: Average daily tourist population is calculated as [number of tourist arrivals]\*[average duration of stay]/365.  
The total population is the sum of tourist population and resident population.

Sources: Norfolk Island Government Tourist Bureau, *Marketing Strategy Progress Report, September 1996*, pages 9 and 11; Bureau of Tourism Research, *International Visitor Survey, 1995*, pages 2 and 8.

16. The relative importance of the tourism sector can be gauged by comparing the relative size of employment in the Restaurants, Hotels, Accommodation and Clubs sector, which employed 18 per cent of the Island’s labour force but seven per cent of the mainland’s workforce. A large proportion of employees in the two sectors Wholesale and Retail Trade and Other Recreational, Personal and Other also cater for tourists. Table 4-3 shows that 527 (49 per cent) of the Island’s workforce had a job in one of the three sectors.

17. A slightly different estimate came from a question on the 1996 Norfolk Island Census about whether residents worked in the tourist industry. In response, 569 (53 per cent) of the Island’s workforce said that they had a job related mainly to the tourist industry<sup>6</sup>.

<sup>6</sup> Administration of Norfolk Island, *Norfolk Island, Census of Population and Housing, 6 August 1996*, Table J4.

**Table 4-3** INDUSTRY COMPOSITION, NUMBER OF EMPLOYEES

Sector	Norfolk Island		Mainland	
	Persons	%	Millions	%
Wholesale and Retail Trade	251	23.2	0.499	6.0
Restaurants, Hotels, Accommodation and Clubs	195	18.1	0.585	7.1
Other Recreation, Personal and Other	81	7.5	0.757	9.1
Agriculture, Forestry and Fishing	70	6.5	0.422	5.1
Mining and Quarrying	4	0.4	0.085	1.0
Manufacturing	27	2.5	1.111	13.4
Electricity, Gas and Water	21	1.9	0.081	1.0
Construction	78	7.2	0.600	7.2
Transport and Storage	72	6.7	1.227	14.8
Communication	29	2.7	0.381	4.6
Finance, Property and Business Services	47	4.4	0.388	4.7
Government	196	18.1	1.649	19.9
Other	9	0.8	0.503	6.1
<b>Total</b>	<b>1 080</b>	<b>100.0</b>	<b>8.287</b>	<b>100.0</b>

Sources: Administration of Norfolk Island, *Census of Population and Housing, 6 August 1996*, Table J1. Australian Economic Indicators, ABS Cat No 1350.0, Table 6.6, May 1997.

18. It is difficult to estimate the financial size of the tourist sector with any precision. Tourists contribute to government revenue so this might be a useful starting point. We have assumed that:

- 97.6 per cent of the 29 787 tourist arrivals in 1995-96 paid the \$25 Departure Tax<sup>7</sup>;
- all arrivals paid the \$36.60 Landing Fee charge; and
- only tourists paid the Accommodation Levy.

On these assumptions, in 1995-96, the Norfolk Island Government would have raised from tourists through these three taxes alone about \$2 million of the \$7.6 million shown as Indirect Taxes less Subsidies in Table 4-1. Tourists also contribute to the range of indirect taxes levied on the Island (for example, Fuel Tax, Liquor Licence Fees, Customs Duty etc) — but it is much more difficult to estimate their share of these taxes.

<sup>7</sup> People under 16 do not pay the Departure tax and both the 1991 and 1996 Censuses indicated that 2.4 per cent of tourists were aged 15 and under.

19. Tourists also contribute indirectly by their activities in the local economy. A modest estimate of \$100 for each Norfolk Island tourist each day would imply that tourists contribute at least \$23.0 million to the local economy<sup>8</sup>. The Access Economics report estimated that tourism contributed \$41.4 million to the Norfolk economy in 1995-96. This equates to \$1 380 a tourist or \$178 a tourist a day. For the present purposes, we have used a conservative estimate rather than the Access Economics figure.

20. Norfolk Island's externally oriented industry is not restricted to tourism, although that is by far its largest component. The Island has a limited agricultural and manufacturing export industry. The main exports in 1995-96 were tobacco re-exports (\$2.2 million) and palm seeds/sprouts (\$0.5 million)<sup>9</sup>.

21. During 1995-96, external sources of income, other than tourism, included:

- exports, including tobacco re-exports, (\$3.1 million<sup>10</sup>);
- mail order services operated by retail outlets (est. \$1.0 million);
- philatelic sales (\$500 000<sup>11</sup>);
- mail imbalance (\$100 000);
- Tattersalls Lotteries and Absentee Landowners Levy (\$100 000<sup>12</sup>);
- outward telephone calls (est \$100 000); and
- inward calls handled (\$500 000<sup>13</sup>).

22. While the Norfolk Island Government faces costs associated with some of these activities, they are less than the revenues generated.

23. Thus, more than 40 per cent of the \$80 million estimate of the Island's gross product is generated by export oriented industries.

### ***The Commonwealth's Contributions to the Island Economy***

24. The Commonwealth Government contributes to the Norfolk Island economy through the provision of staff, services and grants. There are some people on Temporary Entry Permits who are financed in part or full by the Australian Government. These include Police, staff from Parks Australia and the mainland based staff working in the Administrator's Office.

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<sup>8</sup> From Table 4-2, there were 29 787 tourist arrivals with an average stay of 7.74 days or a total of 230 551 days (29 787 \* 7.74). If they spent \$100 on average per day, then they would have spent \$23 million (230 551\*100).

<sup>9</sup> Access Economics, op cit p36.

<sup>10</sup> Access Economics, p36.

<sup>11</sup> The Administration of Norfolk Island, *Financial Statements, Year Ended 30 June 1996*, p30.

<sup>12</sup> *ibid*, p11.

<sup>13</sup> *ibid*, p39.

25. For 1995-96, the Commonwealth Government's direct financial contribution to the Island economy, including salary costs, was about \$3.8 million. The derivation of this estimate is given in Chapter 5.

26. The absence of income tax or sales tax on Norfolk has implications for the profitability of the Island's retail sector. It is impossible to estimate how much of Norfolk's retail trade should be attributed to its low tax status, but undoubtedly tourist spending on the Island is influenced by it.

### ***Production for the Community***

27. The submission by the Norfolk Island Chamber of Commerce estimated that there are over 250 business enterprises on the Island. Table 4-4 provides a breakdown of that figure. While a large proportion of the enterprises provide services for tourists (particularly the accommodation and hire car industries), some also cater for the local community (retail shops, restaurants/cafes, and licensed clubs and sporting bodies).

28. Table 4-3 shows that 18 per cent of the workforce is employed by general government and almost 50 per cent by the industries benefiting most from tourism (wholesale and retail trade; restaurants, hotels, accommodation and clubs; and other recreational personal and other). The remaining industries seem to be largely oriented to those living on the Island. This suggests that there is a strong local (non-government, non-tourist) economy. We estimate the locally oriented economy to be at least 40 per cent of the whole — or, in round figures \$30 to \$35 million.

29. Import replacement industries have developed fairly slowly on the Island. The latest such industries are the hydroponic growing of vegetables and the growing of 'low chill' fruit. The Island imports about \$24 million in goods a year. Table 4-5 shows imports by type for the last five years.

**Table 4-4** NUMBER OF BUSINESS ENTERPRISES BY TYPE

Type of establishment	Number	Per cent
Accommodation:		
hotels	4	1.6
guest houses	3	1.2
apartment properties	39	15.2
Retail shops	73	28.4
Service providers/hire car and tour operators	107	41.6
Cottage industries	5	2.0
Licensed clubs/sporting bodies	6	2.3
Restaurants/cafes (excluding hotels)	20	7.8
<b>Total</b>	<b>257</b>	<b>100.0</b>

Source: Submission of the Norfolk Island Chamber of Commerce Inc.

**Table 4-5** COMPOSITION OF IMPORTS OF GOODS, 1991-92 TO 1995-96

Good	1991-92	1992-93	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000	\$'000	\$'000
Building materials and supplies	2 400	1 874	2 122	2 883	2 341
Household appliances and furnishing	1 870	1 661	1 822	1 275	1 289
Consumer durables	3 551	3 113	2 428	4 468	4 709
Food and household supplies	4 209	4 107	4 526	5 412	5 572
Tobacco and alcohol	1 252	914	852	1 078	1 279
Clothing and footwear	3 503	2 895	3 570	4 364	4 051
Motor vehicles	1 742	1 395	973	1 598	1 257
Rural and farming	593	557	998	825	620
Fuel	1 792	1 644	2 022	1 380	1 663
Miscellaneous	3 467	2 885	1 623	1 496	1 868
<b>Total</b>	<b>24 379</b>	<b>21 045</b>	<b>20 937</b>	<b>24 779</b>	<b>24 649</b>

Source: Access Economics Report, p36.

### *Infusion of Capital*

30. A number of submissions commented favourably on Norfolk's ability to attract business. The hydroponic system for providing vegetables and the rock crushing plant were two examples. Treadgold's history provides many examples of businesses being attracted to the Island, although the export oriented industries have usually been short lived. It is possible that this ability to attract capital is related to the Norfolk Island Government's immigration policies, discussed in Chapter 3.

31. The Norfolk Island Government is again actively considering how it might diversify the Island's narrow economic focus on tourism. The availability of capital might be a limiting factor. Many of the transient 'boom' industries discussed earlier were fostered by an infusion of capital.

32. Most new industries require a lot of capital and, although there is a number of wealthy entrepreneurs on the Island, the Norfolk Island Government has played a role in nurturing industry. It has done so by providing infrastructure itself (the new telephone exchange is an example) or other forms of assistance to help industries move to the Island.

33. The Norfolk Island Government submission mentioned a number of infrastructure projects that are under consideration. Some are designed to maintain the

Island's economic capacity (for example, the airport runway reconstruction), others to increase the potential for economic development (for example, harbour facilities).

***Comparison with the Australian Mainland***

34. Table 4-6 provides some selected statistics for the Norfolk Island and mainland economies. It shows that Norfolk Island's estimated gross product per capita is 70 per cent above that of mainland Australia. The relatively better performed Norfolk Island economy is consistent with an export oriented economy where income is generated from a wider population base (particularly tourists) than the local community. Compared with mainland Australia, the estimates show that Norfolk has both a higher average per capita profit (142 per cent higher) and higher average per capita wages (5 per cent higher). This is consistent with its:

- higher workforce participation rate (76.5 compared to 63.7 per cent);
- higher proportion of the relevant population in full time employment (87.2 compared to 69.1 per cent);
- negligible unemployment; and
- possibly, longer working hours (many people seem to have more than one job).

**Table 4-6** SELECTED STATISTICS, NORFOLK ISLAND AND THE MAINLAND, 1995-96

Selected statistics	Norfolk Island	Mainland
<b>Economic statistics</b>		
Gross product (\$ per capita)	45 343	26 735
Wages and Salaries (\$ per capita)	13 735	13 131
Gross Profit (\$ per capita)	24 829	10 274
<b>Population statistics</b>		
Percentage aged 65 and above	13.5	11.3
Percentage aged 15 to 65	66.0	66.3
Percentage in the workforce	76.5	63.7
<b>Labour force statistics</b>		
Percentage in full time work	87.2	69.1
Percentage in part time work	12.8	22.5
Percentage unemployed	0.0	8.5

Notes: Norfolk Island economic statistics were estimated. Its population and labour force statistics were compiled from *Norfolk Island Census of Population and Housing, 6 August 1996*. The assumptions used to calculate Norfolk Island's gross product, wages and salaries and gross profit figures are given in the footnotes to Table 4-1.

Sources: Figures for Australia were compiled from *Australian Economic Indicators, May 1996*, ABS Cat No 1350.0, Tables 1.4, 6.1 and 9.2 and Table L-7 from the Commission's *Report on Revenue Grant Relativities, 1997 Update*.

35. One of the objectives of the Norfolk Island Government's Immigration Act is to prevent entry to persons who may not get employment on the Island. The absence of unemployment on the Island is an indication of the Government's success in this area.

36. The Immigration Act is also responsible, at least in part, for the skewed distribution of the Island's workforce. Table 4-7 compares the distribution of the Island's 15 to 64 age group with that of the mainland. It shows that the Island's population and therefore its workforce is skewed towards the older age groups. Some submissions mentioned that people often leave the Island to pursue their education or to seek employment. This is consistent with the population structure shown in Table 4-7.

**Table 4-7** POPULATION DISTRIBUTION OF THE WORKFORCE

Age group	Norfolk Island		Mainland	
	Persons	%	Millions	%
15 to 24	163	13.9	2 715	22.6
25 to 34	234	20.0	2 839	23.6
35 to 44	278	23.8	2 742	22.8
45 to 54	287	24.5	2 229	18.5
55 to 64	208	17.8	1 506	12.5
Total	1 170	100.0	12 032	100.0

Sources: Administration of Norfolk Island, *Census of Population and Housing, 6 August 1996*, Table H1. Australian Economic Indicators, ABS Cat No 1350.0, Table 6.6, May 1997.

### ***Future Prospects***

37. The prospects for developing Norfolk Island's economic capacity depend on many factors. During our conferences, a number of suggestions were made. These included:

- increased and more diverse tourism;
- control of the sea — including fishing and oil and gas;
- better harbour facilities; and
- an offshore finance centre.

These and other areas of prospective economic activity are discussed below.

38. ***Growth in tourism.*** Tourism is the vital part of Norfolk Island's economy. The Island has some advantages in this activity: its natural beauty, exotic location, low crime rates, low tax status and relative ease of access.

39. Some residents believe that Norfolk is a quality destination and, as such, price is not as important as it is for most other destinations. We do not agree with them. In recent years, Norfolk has attracted an older age group of package tourists that is not the most free spending sector of the tourist market. The challenge will be to retain this market and also expand into more affluent sectors where there is greater competition from Asian and South Pacific destinations. The Norfolk Tourist Bureau's *Marketing Strategy Progress Report, September 1996*, indicates that the NRMA rate only two of the 430 units on the Island above four stars, and none at five stars. This could be an impediment to expansion into the more affluent sectors of the market.

40. The potential for increased tourism is in any case not unlimited. There are physical limits to the number of people the Island can sustain — limits imposed by

environmental constraints, including its water resources and the difficulties of waste disposal. The Norfolk Island Conservation Society has noted the need for the development of a conservation and population control strategy which would ensure the long term economic sustainability of the Island for residents and the tourist industry. These limits should be expressly reviewed as part of the development of a strategic plan for the Island.

41. Some have argued that the greatest risk facing the Island's tourist industry is the 'open skies' airline policy. Under this policy, two new airlines have commenced flying between the mainland and Norfolk Island since the withdrawal of Ansett and there are indications that as many as four others may join them. There are concerns about how many airlines the industry can support. If one or more were to fail, that could affect all operators by increasing uncertainty over air services, reducing tourist numbers and thereby affecting the profitability of all companies.

42. On balance, we think that growth in tourism still remains one of the Island's best prospects for economic development.

43. **Control of the sea.** One of the resources open to further development by the Norfolk Island Government is the sea, including any fishing and off-shore oil and gas resources. At the May conference, there was much comment by the Norfolk Island Government about the prospect of it controlling the sea and resources in and under it, out to the international limit of 200 nautical miles. The options for Norfolk Island's control of the sea appear to be:

- (i) out to the three nautical miles mark, similar to the authority held by the States and the Northern Territory;
- (ii) within the area of the unofficial 'box' of 35 by 50 nautical miles that is currently set aside informally by the Commonwealth as an exclusive fishing zone for the people of Norfolk Island; or
- (iii) the whole area within the 200 nautical mile limit.

44. The last two options could require considerable expense by the Norfolk Island Government, but it would probably not be necessary to have a sea going craft permanently at Norfolk because of this responsibility alone. There would need to be frequent charters of such a vessel or an aircraft to show a presence and enforce the conditions of any fishing licences given to international companies. One suggestion made at the July Conference was that fishing licensees could be asked to police their own areas.

45. Control to the three nautical mile limit, on the other hand, could be exercised from land by regulating shore fishing and the licensing of small craft that wished to go off-shore for recreational and small scale commercial fishing.

46. **Fishing.** Hoare<sup>14</sup> notes that, despite Norfolk Islanders being keen fishermen, the lack of a harbour has always acted against a successful fishing industry. Although there is a reasonably sized domestic industry worth perhaps \$500 000 a year, Parks Australia has concerns about the potential for overfishing and estimated that the consequential cost to the

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<sup>14</sup> M. Hoare, *op cit.*

local economy of a collapse in this industry could range from \$0.9 to \$1.5 million. Parks Australia believes that the opportunities for commercial fishing in Norfolk Island waters are limited.

47. During both the May and July Conferences, the Norfolk Island Government voiced concerns about the Commonwealth issuing fishing rights for the seas around Norfolk. Commercial fishing practices suggest that the waters around the Island do not offer big yields. As evidence of this, the Commonwealth's revenues from fishing licensees exploiting this area are small. While the fishing rights in Australian waters are leased 'as a whole', the Australian Fisheries Management Authority said that a rough estimate of the annual value of the fishing rights around Norfolk Island over the last three years was around \$35 000. Estimated revenue for 1996-97 declined to less than \$7 000.

48. Even if the Norfolk Island Government were assigned the commercial fishing rights, it is not evident that any revenue accruing from fishing licenses would cover costs.

49. **Oil and gas.** The second possible source of revenue that could be derived from control of the seas around Norfolk is royalties from oil and gas production. There is debate over both the size and grade of any deposits within the 200 nautical mile territorial limit, and whether they could be profitably extracted. We find it difficult to comment on this matter as no company has taken out exploration rights over the area and no drilling has been done to ascertain whether oil and gas reserves exist. In the early 1980s, a former president of the American Association of Geologists said that it was 90 per cent certain that if exploration were carried out in Norfolk waters, oil would be found. A more recent report<sup>15</sup> on offshore petroleum resources now rates the potential for petroleum recovery from the West Norfolk Ridge as fair to poor. It gives a 'best' estimate of the reserves at 110 million barrels, much less than the 500 million barrels that it said would be required to justify commercial exploitation. We were surprised at the certainty with which the reserves were mentioned during the Norfolk elections in April 1997 and, unless there is information on this subject that we are unaware of, believe the existence of oil or gas in commercial quantities under the seabed around Norfolk Island to be only a matter of speculation.

50. In 1975, the High Court ruled in the *Seas and Submerged Lands* case that the Commonwealth has constitutional jurisdiction over offshore areas<sup>16</sup> and this extends to the exploration for and exploitation of any natural resources. While the Commonwealth retains the revenue rights in respect of any such resources found in its territorial waters for the whole of Australia, it does sometimes share revenues with the adjacent State. At present, both Western Australia and the Northern Territory share offshore oil and gas revenues with the Commonwealth. Similar arrangements could be negotiated between the Commonwealth and Norfolk Island if oil and gas were to be found and exploited, but this would depend on the good will of the Commonwealth.

51. **Harbour facilities.** A fully functional harbour would support a fishing industry, assist any maritime patrols of the territorial waters and reduce the costs of freight handling, especially the number of days lost due to bad weather. Among many other

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<sup>15</sup> J.B. Wilcox and P.A. Symonds, 'Deepwater prospectivity for petroleum in the Australia region', in ABARE, *Outlook 97*, Canberra, 1997, pp 210-212.

<sup>16</sup> That is, waters beyond the three nautical mile sea base line boundary.

aspects of this issue, the Norfolk Island Government would have to consider the extent to which any increase in economic activity associated with a harbour (for example, passing trade from visiting vessels and environmental tourism such as whale spotting) plus the freight cost savings and safety improvements would offset the recurrent and capital costs involved.

52. **Import replacement.** We believe that there is more capacity for import replacement industries on Norfolk Island and note that there is no cold store that offers a commercial service to residents. This would reduce the Island's dependence on and exposure to the vagaries of external markets. The most promising areas for import replacement seem to be Food and Household Supplies, and Rural and Farming, which account for about \$6 million of imports each year.

53. The Norfolk Island Government has recently employed a part time agricultural officer to examine the potential to increase food production for local consumption and export. Submissions argued that there is great scope for increasing the production of fruit and vegetables for local consumption and use in simple processing industries such as the production of fruit juices and dried fruits.

54. **Offshore finance centre.** There have been suggestions made for some years that an offshore finance centre (OFC) be established on the Island and that it could offer benefits to both the Commonwealth and Norfolk Island Governments. It could increase the Commonwealth's access to foreign capital and provide economic diversification and increased career and employment prospects to the Norfolk Island community. The proponents envisage that initially the OFC would offer limited services (for example, a shipping register service) before extending operations to banking in the longer term.

55. Many issues would need to be resolved before any OFC could be established on Norfolk Island. Among them would be:

- whether the Commonwealth would have any contingent liability (the UK government made ex-gratia payments to residents who lost deposits due to a bank scandal on the Isle of Man) — the attractiveness to clients of an OFC on Norfolk would be increased if the Commonwealth were to bear some part of the risk of the venture;
- whether the OFC would facilitate financial trade or attract business by offering inducements and specialist services (if it aimed too low, it could attract illegitimate or undesirable activities);
- ensuring that the promotion and regulation aspects of the OFC were kept separate;
- whether the OFC would attract money and business at the mainland's expense;
- how to prevent mainland Australians, or others, using the OFC to minimise their tax at the expense of mainland governments;

- whether Norfolk Island residents would have the necessary expertise to operate an OFC, at least in the short term, and, if not, the implications of importing qualified labour off Island,;
- the costs associated with developing a skilled local workforce; and
- the availability of a reliable and sophisticated communications network.

56. The Norfolk Island Government is considering making a formal proposal to the Commonwealth based on the two governments working together on the venture. It seems to us that an OFC might be worthy of further investigation as a prospect for economic diversification. But it will not offer any 'quick fix' and should be approached cautiously.

57. **General industrial development.** Export industries on the Island have to overcome the freight costs of transporting their products to the marketplace. Some industries have been unable to absorb these costs and have collapsed.

58. Another issue is the physical limitations (for example, water capacity and the availability of power) on the number of people the Island can sustain. These are also likely to impose future limits on the range of industries that can be attracted to the Island. They might mean that future increases in economic capacity would best lie in capital intensive industries. In this regard, the Norfolk Island Government has recently received approaches to use its telecommunications network for interactive home gambling, home shopping and other services and, while negotiations are at an early stage, the government is actively considering proposals.

59. Capital intensive industries normally require both capital and a highly trained labour force. We are unaware of the extent to which the Island community has readily available capital reserves but, in any case, there is most unlikely to be an adequate pool of labour (either employed or unemployed) that could provide the skills required. The lack of post-secondary training on the Island means that highly trained labour would probably have to be imported.

60. Falling communication costs can only work to Norfolk Island's advantage. Its low labour costs and low tax status remain attractions for any industry.

## SUMMARY

61. Our estimate of the size of the Norfolk Island economy is \$80 million. It is this economy that gives the Norfolk Island Government a capacity to raise revenue — the financial capacity discussed in Chapter 7. We have been conservative in our estimation and it is likely that the economy is larger than \$80 million.

62. The main prospect for developing Norfolk Island's economic capacity would seem to be to further develop and diversify the tourist industry. However, this comes with

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all the usual dangers of relying on a narrow industry base. Greater reliance on tourism could be catastrophic if, at some time in the future, the Island were to lose its relative advantages. Further growth in tourism would also raise environmental concerns.

63. A number of options exist for modest steps in import replacement which would reduce the Island's reliance on overseas markets.

64. Development of an OFC may be a longer term prospect for economic diversification, but there are many issues that would need to be resolved by both governments.

65. There are natural limitations to possible economic activity on Norfolk and there are important issues of infrastructure that will also affect development efforts. They include the Island's lack of a water supply system, limited sewerage and electrical power capacities, waste disposal deficiencies, inadequate harbour and lighterage facilities, and the present high cost of communications. It would appear that there is limited room for any general economic expansion until these issues are addressed.