



Indian Ocean Territories Price Index October 2012

Comparison of commodity prices
on Christmas Island and
Cocos (Keeling) Islands

A report provided by the Western Australian
Government, Department of Regional Development
and Lands for the Australian Government,
Department of Regional Australia,
Local Government, Arts and Sport.



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Introduction

This is a report on the Indian Ocean Territories Price Index (IOTPI) prepared by the Western Australia Department of Regional Development and Lands (RDL). In early 2012, the Australian Government's Department of Regional Australia, Local Government, Arts and Sport approached RDL to develop a price index for the Indian Ocean Territories (IOT).

The IOT comprises Christmas Island and the Cocos Keeling Islands (Cocos Islands). The Department of Regional Australia, Local Government, Arts and Sport has overall responsibility for the IOT including the provision of government services. Many of these services are provided by Western Australian State Government agencies under service delivery arrangements with the Department of Regional Australia, Local Government, Arts and Sport.

Christmas Island

Christmas Island is situated in the Indian Ocean, 380km south of Java and 2650km north west of Perth. Many unique species of plants and animals are found on Christmas Island and two-thirds of the island has been declared a National Park.

Christmas Island covers just 135km² and has a population of 2072. The ethnic composition is approximately 60 per cent Chinese, 25 per cent Malay and 15 per cent Western. Until 2007, the primary economic activities of the island were phosphate mining and a small tourism industry. In 2008, the Christmas Island Immigration Detention Centre (IDC) was opened. The IDC had over 2000 detainees in July 2012 and this facility has had a significant impact on the local economy.

Cocos Islands

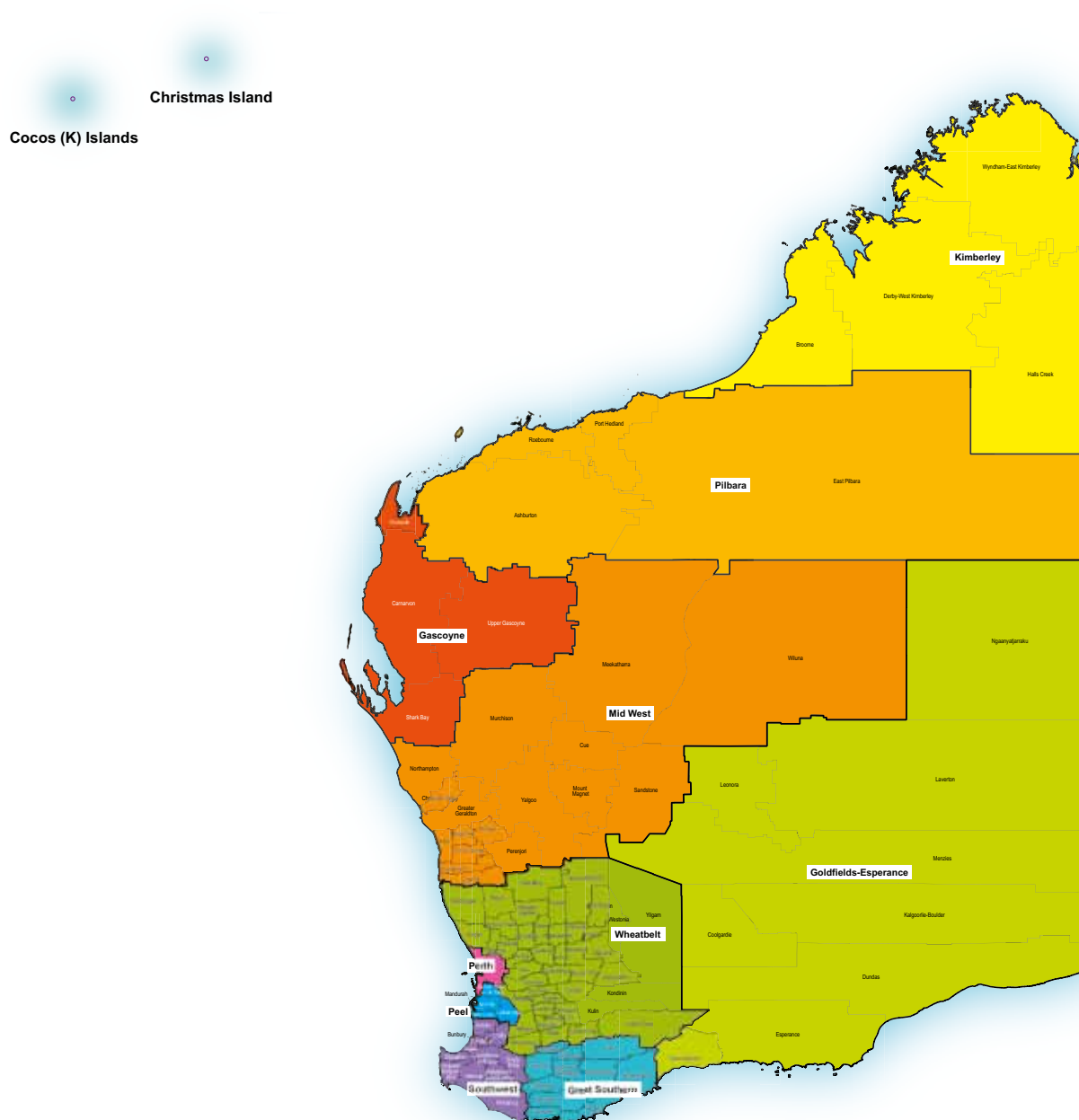
The Cocos Islands consist of two flat, low-lying coral atolls divided into 27 coral islands with an area of 14.2km². This remote island community is located 985km southeast of Christmas Island and 2950km north west of Perth. There are no rivers or lakes on either island, and fresh water is obtained from water lenses. The population of 550 people reside on Home Island and West Island.

The population of Home Island, 418 people, is predominantly Malay. Residents principally speak the Cocos Malay language and follow the Islamic faith. Residents of West Island, 132 people, are primarily State and Commonwealth government workers and their families, with a small resident population.

The Indian Ocean Territories Price Index

A price index is a way to compare the price of a basket of goods and services between two places. The IOTPI provides a comparison between the cost of buying a basket of goods in Perth to the cost of buying the same items on Christmas Island and Cocos Islands.

To calculate the IOTPI a basket of goods and services was priced on Christmas Island, Cocos Islands and Perth. An index was used to make the comparisons with Perth as the base (index value of 100), and the Christmas Island and Cocos Islands indices rating above or below that base. The IOTPI uses a similar methodology to that used by RDL for the 2011 Western Australia Regional Price Index (RPI).



Basket of goods and services

The basket of goods and services is made up of 517 items from the following eight categories:

- Food (169 items)
Dairy products; cereal products; meat and seafood; fruit and vegetables; drinks, snacks and confectionary; other foods; and restaurant and takeaway meals.
- Cigarettes, tobacco and alcoholic drinks (25 items)
Cigarettes and tobacco, beer, wines and spirits.
- Clothing (47 items)
Men, women and children's basic clothing items such as briefs, T-shirts, socks, jeans, dresses and plain shirts.
- Housing (22 items)
Mortgage interest rates; local government charges; goods and services for house maintenance and repairs; private rents; utilities expenditure; financial and insurance services.
- Household equipment and operations (131 items)
Bedding furniture and linen; major household appliances; small electronic appliances; kitchen and household utensils and tools; household cleaning agents; toiletries and personal products; hairdressing services; and postal, telephone and internet services.
- Transportation (31 items)
Purchase price of an automobile; fuel; tyres; basic maintenance supplies and service costs; personal and vehicle license fees and comprehensive care insurance.
- Health and personal care (29 items)
Hospital and medical insurance; optical; dental; and pharmaceuticals including prescription and over-the-counter drugs.
- Recreation and education (63 items)
Books, newspapers and magazines; electronic appliances; sporting equipment, activities and participation; toys, games and hobbies; veterinary services; Video / DVD hire; and child care and out-of-school care.

Price collection and community consultation

Prices for the basket of goods and services were collected from retail shops and service providers over one week periods in May, June and July 2012. During these visits residents from various community organisations provided information about expenditure patterns and how goods and services were purchased when not available through on-island retail outlets.

Food

The high cost of food, especially fresh fruit and vegetables, was an issue raised consistently throughout the consultation process. Concerns over food costs were highest among pensioners on Christmas Island and Cocos Islands. This appears to reflect the relatively higher percentage of pensioner income devoted to essentials such as food.

Although recognised as having improved following a recent increase in Commonwealth Government subsidised air freight to both islands, the availability of meat, fresh fruit and vegetables was an issue raised by some residents during the consultation process. In relation to the availability of perishable goods, it was noted that there was an increasing tendency - among government employees in particular - to arrange their own airfreight of meat, fruit and vegetables. This appears to be an attempt to improve the quality and range of produce available, rather than driven by cost.

Cigarettes, tobacco and alcoholic drinks

Cigarettes, tobacco and alcoholic drinks are duty free on both Christmas Island and Cocos Islands and therefore the cost of these goods is significantly lower than Perth. Based predominantly on religious and cultural norms, there appeared to be considerable within-community variation in consumption of alcohol and tobacco products. For example, on the Cocos Home Island (with a significant Cocos/Malay population) there was no consumption of alcohol products and minimal consumption of tobacco.

Clothing

There were very few outlets for clothing on either Christmas Island or Cocos Islands. From focus group consultation it was evident that most people purchased clothing items while off island or through internet or postal order. The pricing applied to clothing items therefore reflects this. On Home Island the consultation process revealed that many clothing items were home made from fabric purchased during off-island trips.

Housing

When comparing rental prices it was not possible to compare like-quality as the type of housing available on the islands was quite different to Perth dwellings. The houses on-island were typically older than Perth houses and were constructed of concrete block or wood. Many residents on Christmas Island live in apartments. Therefore the comparison for houses was made only on the number of bedrooms, regardless of other aspects of housing structure. Information on the cost of rentals was provided by Real Estate agencies and the Shire Councils of Christmas Island and Cocos Islands.

Household equipment and operation

On Christmas Island and Cocos Islands there was a limited range of household appliances, utensils, tools and furniture in on-island stores. Items were not subject to the GST tax and this somewhat compensated for the high cost of freight. Shops tended to order such items on an as-needs basis. Some residents, independent of the local shops, purchased items such as small appliances through online orders.

Health and personal care

High quality health care is provided free of charge and dental services are subsidised on both Christmas Island and Cocos Islands. Prescription drugs were equal to or less than Perth prices, while over-the-counter medications were more expensive.

Transportation

For private transport there were very different patterns of usage on Christmas Island and on Home Island and West Island. The residential communities on Christmas Island were spread out around a central plateau and cars were used extensively to travel around the island. Residents on West Island had motor vehicles but travel small distances around the island, and on Home Island there were no cars so residents used electric powered buggies to travel. The price of a vehicle was calculated by adding the cost of freight to Perth prices.

Recreation and education

There were very few formal sporting and recreation amenities on Cocos Island and somewhat limited facilities on Christmas Island. Where sporting facilities were not provided on the islands then the cost of that activity was attributed to be zero. For toys, board games and hobbies, Perth prices were used as there was a tendency to purchase these goods while off-island. Veterinary services given were not included in the index due to the restrictions of pet ownership throughout the islands.

Commodity weights

Commodity weights were used to reflect the relative importance of each basket item in the average household budget. The decision to purchase an item is dependent on both the price of that item and its importance to the consumer.

For example, fresh food including meat, fruit and vegetables are diet staples that will frequently be given a high priority in the family budget regardless of price. This is reflected in the calculation of the IOTPI by applying a higher weighting for these products.

The weights assist in determining the degree that the individual items in the basket of goods and services influence the calculation of the index. Due to distinct differences in population they are calculated separately for each location.

Analysis of Index for each Island

Christmas Island

The index for Christmas Island was 148.9, reflecting that overall the cost of purchasing the basket of goods and services was 48.9 per cent higher than Perth. For pensioners, the index was 155.9, reflecting the greater weighting of expenditure on essentials such as food and housing, with a high cost relative to Perth.

Food was the highest sub-index (182.1) and other relatively high sub-indices included housing (150.2), transport (129.3), and household equipment and operation (144.4). Sub-indices that were close to parity with Perth prices included clothing (101.7), recreation and education (101.2), and health and personal care (100.0). The tobacco and alcohol sub-index (61.7) was lower than Perth, reflecting the lower cost of purchasing these items on Christmas Island.

Cocos Island

The Cocos Island index was 145.5, meaning the cost of goods and services on Cocos Islands was 45.5 per cent higher than Perth. The Cocos Islands Index reflected the cost of living on West Island and Home Island.

Of the sub-indices, food was the highest (181.1), and other indices significantly higher than Perth were household equipment and operation (150.6), housing (147.2) and transport (148.0). Health and personal care (100.9) was almost equal to Perth. Categories lower than Perth included tobacco and alcohol (85.2), and recreation and education (84.7).

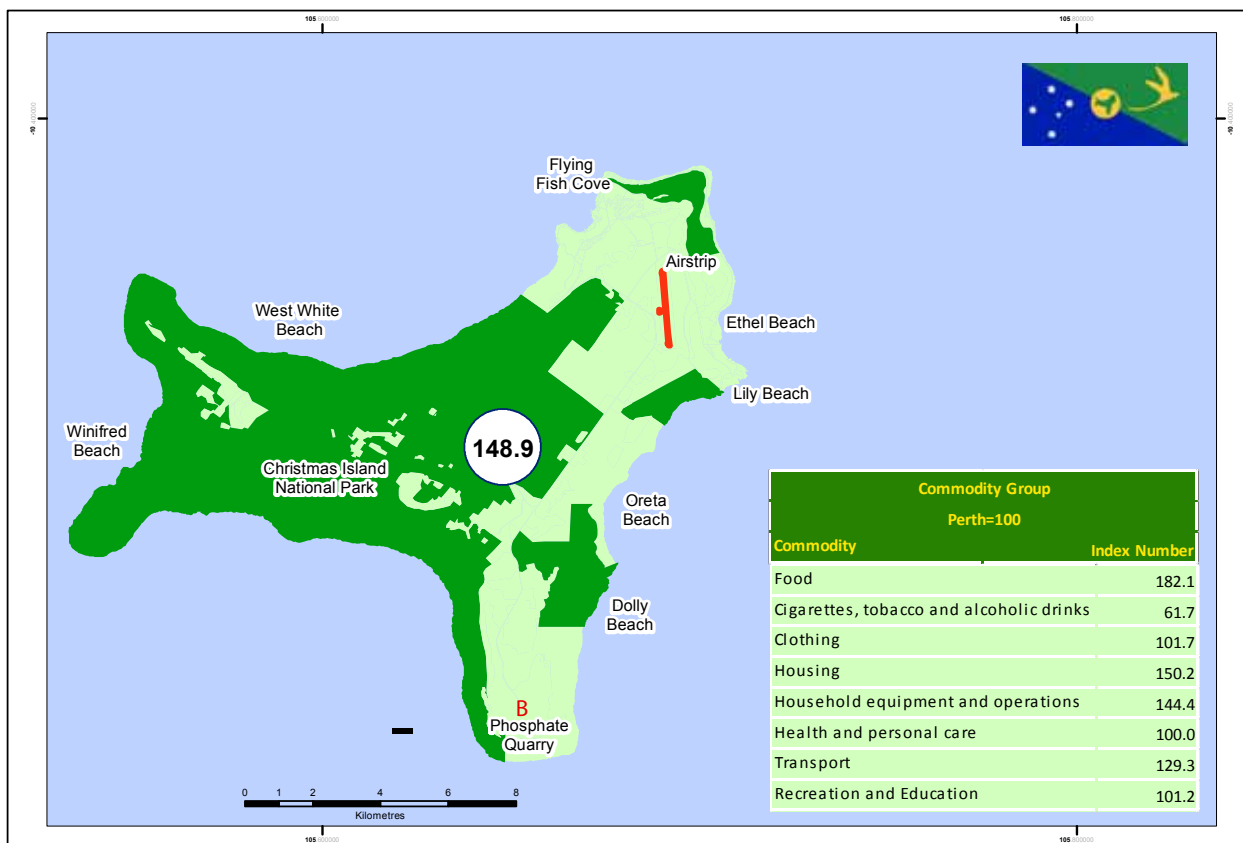
Home Island and West Island

On the Cocos Islands, significant variation was observed in the expenditure patterns between West Island and Home Island. Separate indices were constructed to reflect these differences.

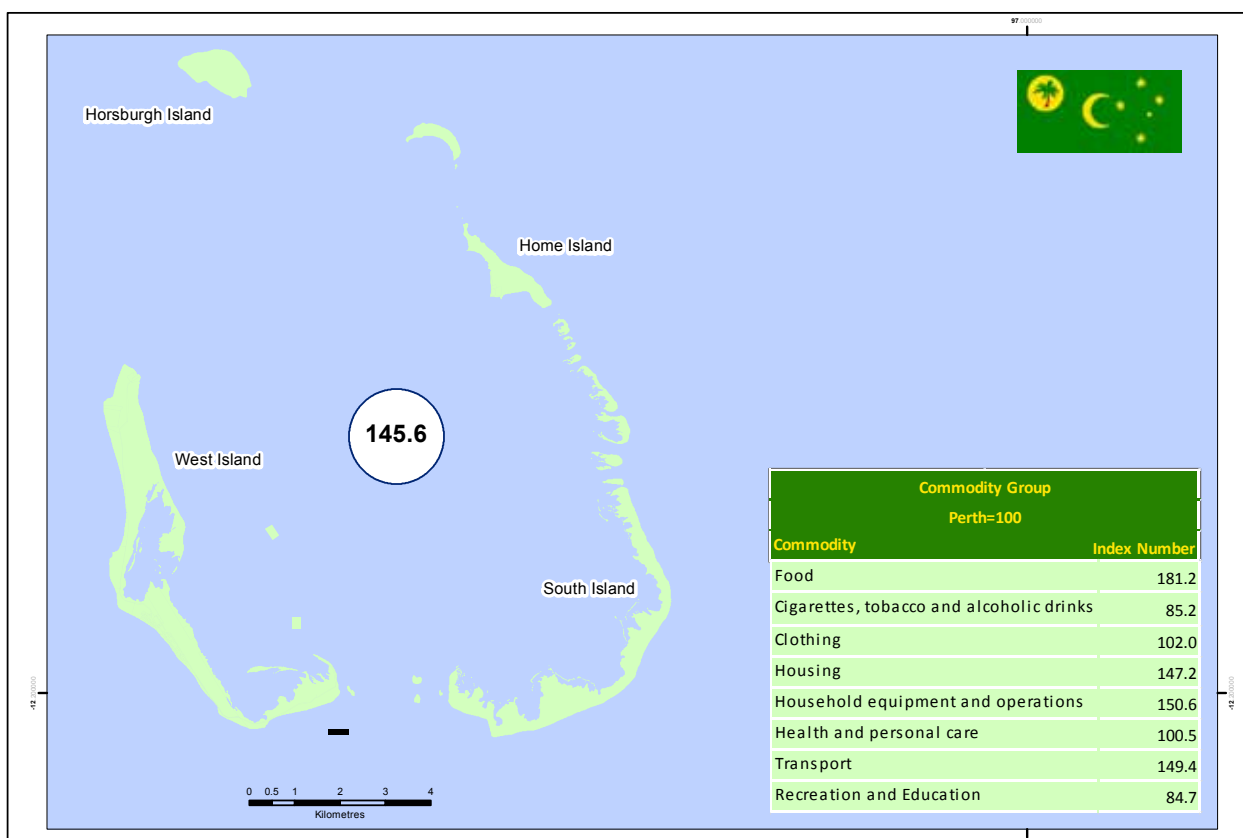
The overall index for the West Island was 144.3, and 128.3 for Home Island. The main factors contributing to the difference between the two islands appeared to have been housing and transport costs. On Home Island, where the Shire owns almost all houses, the tenancy structure for leases and rents resulted in lower housing costs. In addition, the use of electric powered golf buggies on Home Island resulted in a much lower transport sub-index than West Island.

Of the sub-indices, food had the highest index (182.5 West Island; 183.3 Home Island) followed by household equipment and operation (150.9 West Island; 150.6 Home Island).

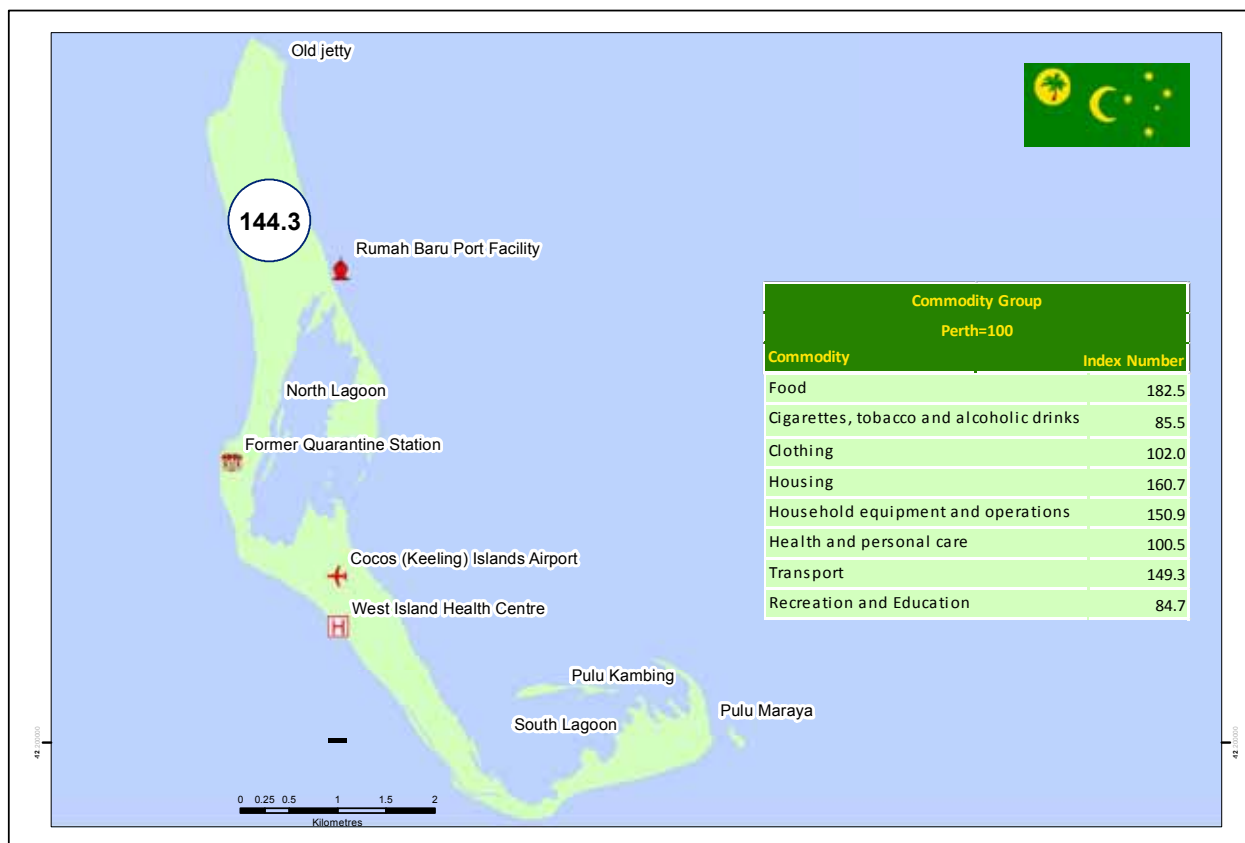
MAP 1: CHRISTMAS ISLAND PRICE INDEX 2012



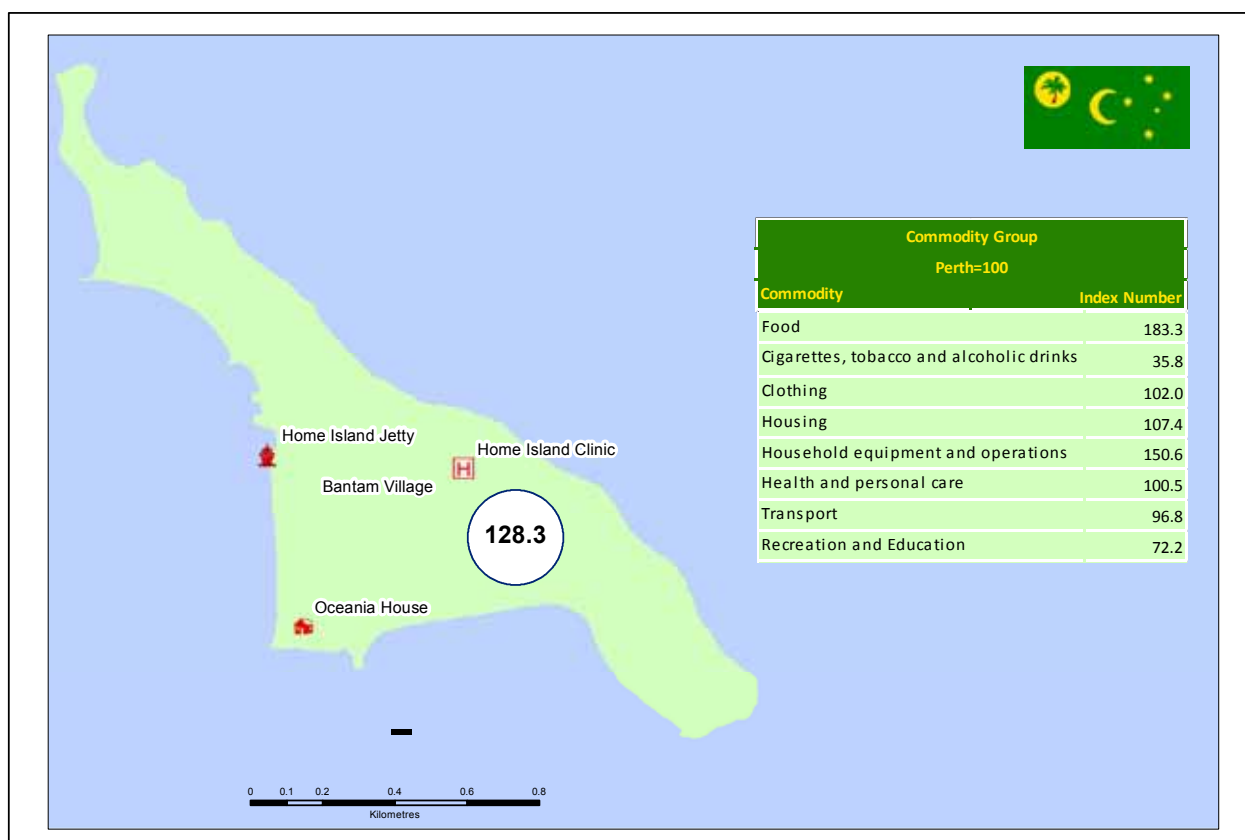
MAP 2: COCOS KEELING ISLAND PRICE INDEX 2012




MAP 3: COCOS WEST ISLAND PRICE INDEX 2012



MAP 4: COCOS HOME ISLAND PRICE INDEX 2012





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