

TONGA

1. Economic Statistics

Population: 100,300 (2000)

Land Area: 800 square kilometers

Exclusive Economic Zone: 700,000 square kilometers

Political Status: an independent monarchy since 1970

GNP: US\$172 million (1999)

Major Industries: fisheries, agriculture, manufacturing and tourism

Merchandise Exports (FOB): US\$9 million (2000)

Major Exports: squash, fish, root crops and vanilla

Merchandise Imports (CIF): US\$70 million (2000)

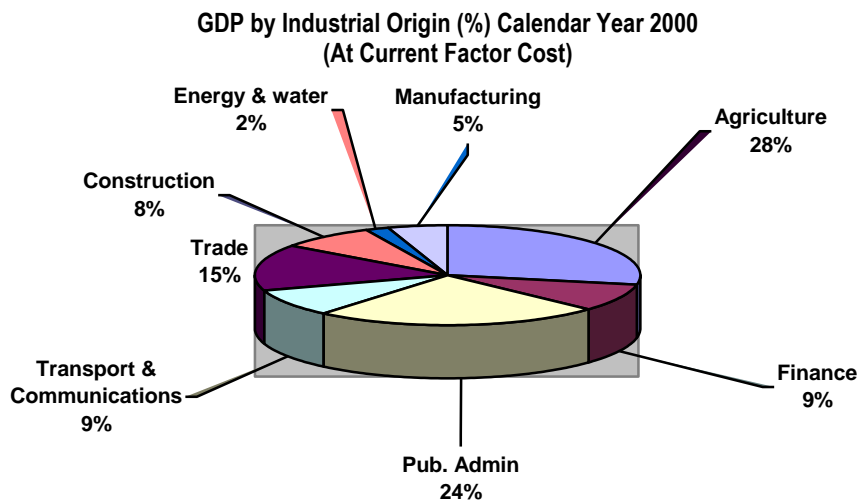
Major Imports: food and live animals; machines, transport equipment; manufactured goods; and mineral fuels, etc.

Currency: Tongan Dollar – Pa'anga

Average Foreign Exchange: US\$1 = T 1.7585 (2000)

2. Economic Profile and Performance

The economy of Tonga has traditionally been dominated by the agricultural sector, with manufacturing contributing to a relatively small percentage of GDP. Over recent years, the fishing industry and the service sector, including tourism, have become more important. The economy recorded robust growth of 5.3% in 2000. This was led by a large increase in the trade and services sector (tourism) related to millennium celebrations, together with the income effect from increased workers' remittances. Growth was also supported by a recovery in agricultural production, which had declined significantly in 1999 as a result of cyclone Cora in December 1998.



Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

The economy is expected to grow at quite modest rates of around 2% in 2001 and 2002. Growth will be supported by continued recovery in agriculture and further expansion of fishing operations. In line with government policy, the budget is expected to remain in balance over the next two years, with small surpluses of around US\$0.2 million to US\$0.5 million. Inflation is expected to remain at around 5% in 2001, mainly as a result of increasing world prices and some further devaluation of the pa'anga.

Remittances will continue to make an important contribution to the economy. The public-enterprise sector is both large and diverse, with more than 35 enterprises. However, only four pay dividends to the government. No timetable has been set for their privatisation or corporatisation, although the government has signaled its intention to sell some of them.

3. Agriculture

- Domestic food production and sale in Tonga is focused on traditional root crops and vegetables. The domestic farming of some commodities such as bananas and coconut have decreased in recent years, largely due to falling world prices and a reluctance to invest in agriculture within the local community. As an example, the slump in world prices for copra has resulted in it no longer being exported. Exports of agricultural crops in 2000/2001 were valued at T\$ 9.4 million, of which 60% came from the sale of squash to Japan.

Taro, kumara, cassava, watermelon and yams are exported to New Zealand and Australia. The most successful export crops are squash pumpkin, sold exclusively to Japan and vanilla purchased by France, Japan and the United States. Vanilla is another important export crop, while increasing quantities of kava, watermelons and eggplants are sold to world markets. These have been successful predominantly due to establishing niche export markets. Although other crops are produced, they are not competitive with other countries.

There is very little food processing that occurs in Tonga. A meat processing plant has recently been established through a Fiji company and is producing tinned corned beef competitively. All the primary ingredients are imported.

The Ministry of Agriculture plays an active facilitation role in agricultural development in the provision of advice and technical support through extension services to the rural farmers.

One of the problems identified is the limited access of population to agricultural land. Because of the falling prices of copra, farmers had diversified into other high valued produce such as squash and vanilla. Very few coconuts are exported and there is a surplus supply of coconuts available in the country.

There are currently no subsidies given to the farmers and access to finance is through the Tonga Development Bank and through commercial banks.

The Tongan Friendly Islander Marketing Cooperative with 3000 members is a cooperative society in which 80% are farmers, 15% engaged in fisheries and 5% handicrafts. The Marketing cooperative has been exporting squash, vanilla, root crops, and handicrafts for the past twenty years. The cooperative provides a supply store for farm equipment, fertilizers, pesticides and seeds to its members as well as providing technical advice and training on productivity. The cooperative has managed to supply its markets efficiently except in cases of natural disasters and droughts. The long term success of the cooperative relies on the development of infrastructure support and modern facilities for the storage and transportation of produce. A cooling facility is needed on the wharf for storage and sorting of squash prior to exports. The set up of the marketing cooperative provides a successful case of small farmers coming together to improve production for exports and at the same time sustaining income for the farmers.

Exports and Re-exports by Value – FOB (Millions pa'anga)

Year	Total	Fish	Root crops	Squash	Vanilla	Others**
1996	14.6	2.6 (18%)	1.1	6.6	0.9	3.4
1997	12.9	3.1 (24%)	0.7	6.2	0.1	2.5
1998	11.6	2.4 (21%)	0.4	4.3	0.2	4.3
1999	20.0	5.9 (29%)	0.7	8.9	1.0	3.3
2000	16.0	6.4 (40%)	1.5	5.3	0.5	2.0
2001	14.6	3.8 (26%)	2.1	7.1	0.6	2.3
2002*	5.6	4.6	0.5	0.1	0	0.4

() = percentage of total exports and re-exports

* values for first two quarters of 2002

** others = other agricultural products, manufactured goods and other exports and re-exports

Source: Compiled using the Budget Statement 2002/03

4. Forestry

Tonga has limited resources of timber because large proportions of the natural forests have been cleared for agricultural purposes. The scarce resources of tropical hardwoods are sold in the local market and imported timber construction materials supplement these. Some coconut timber was exported to Hawaii in 2000. The government forestry plantations in the island of Eua would provide hardwood for high value added products and timber for exports.

5. Fisheries

The fishing industry has continued to expand with increased investment in the sector and expansion of the export sector. The sector provides direct employment to nearly 500 persons. Tuna is the main variety of fish exported followed by snapper, grouper and seaweed. During 2001 the value of tuna and snapper exported by the fleet of 29 vessels which operated during 2001 amounted to over T\$ 15 million. The average unit value of fish exported was almost four times the value of the fish sold to the local market. Nearly 25-30% of fish caught by the fleet of long line vessels are released to the local market.

Fish landed by vessel fleet during 2001 for export and domestic marketing

Locally marketed

	Quantity (kg)	Value (\$T)	Unit value (\$T/kg)
Tuna	405,241	1,085,575	2.68
Snapper	115,454	384,988	3.33
Sub-total	520,695	1,470,563	

Exported

	Quantity (kg)	Value (\$T)	Unit value (\$T/kg)
Tuna	1,242,331	13,262,606	10.68
Snapper	137,141	1,814,379	13.23
Sub-total	1,379,472	15,076,985	

Source: Budget Statement for Year ending June 2003

At present six companies are engaged in export-processing of fish. Seafood exports from Tonga mainly target Japan and US. Even though there is interest in exports to EU, Tonga is unable to do so due to the lack of an EU approved competent authority. Currently there are 34 tuna long-line vessels licensed in Tonga.

Of the total of 34 Tuna Fishing Vessels Licensed, 18 are below 100 gross registered tonnage (GRT) while 14 are between 100-200grt. There are two vessels which exceed 200grt. The tuna catch mainly consists of albacore (50-60%) and smaller amounts of yellow-fin and big-eye tuna. Tuna fishery is supervised and monitored by the Tuna Management Committee with representation from industry and several related governmental bodies.

Government has extended several concessions to 30 long liners including liberal duty concessions on fuel including duty rebate, bringing down the price to about 60% of the retail price. An annual licensing fee of US\$ 10,000 is applicable to the long-liners. Under the two year "Development License Period" taxes applicable to import capital goods (20% port and services and 15% duty) are waived.

Relatively high freight costs are an impediment for export of sashimi grade tuna. Airfreight to Honolulu/ Hawaii is around US\$ 2- 3.00/kg, Los Angeles US\$ 5/kg while for Japan it is around US\$ 6.00/kg. Sea freight to major destinations range from US\$ 250- 350/ cu mt. Export license fee of T\$10-30 is applicable for seafood exports on a consignment basis.

A fleet of 25 local deep sea, bottom fishing vessels operate in near shore and reef areas, 15 off the capital Tongatapu (8 vessels < 10grt/, 6 < 10-20 grt and 1 > 20grt) and 10 in Vava'u (6 vessels < 10grt and 1 < 20grt). The high valued species are air flown to Honolulu, Fiji or Japan by 11 exporters. There are 5 exporters of ornamental fish.

In 1995 three companies Capricorn/ KM Fishing and Tonga Seafood were exporting tuna with by-catch going to Australia and New Zealand Monofilament long-lines. Seastar Fishing exports Albacore to Pago Pago in American Samoa.

Government has embarked on a reform program encompassing economic reform (private sector involvement) as well as public sector reform, the latter through a Public Sector Reform Act of March 2003.

Government has identified the importance of fisheries production from a nutritional and food security angle and has decided to realign the National Nutrition Committee under a separate Food Division to be set up under Ministry of Agriculture, Forestry and Food in July 2003. There is concern on the growing incidence of life-style health problems such as diabetes, estimated at 13-15% of the population, and believed to be largely due to unhealthy food habits.

Quality assurance of fish and fishery products comes under the Fisheries act No.18 of (1989) which supercedes the Public Health Act of 1992. Section 21(1) of the Fisheries act states that "any person engaged in fishing, processing, marketing or export shall provide to the Registrar such information relating to such fishing, processing, marketing or export activities and in such forms as may be prescribed. Section.59 states "Minister responsible for Fisheries may make regulations for regulating the landing, marketing and distribution of fish". The Strategic Development Plan 7 (SDP7 / 2001-2004) identifies agriculture, fisheries and tourism as priority sectors for policy development. Policy guidelines identified for the fisheries sector in SDP7 includes:

- ensure enforcement and successful implementation of fishery management plans.
- invest and adopt a plan in administering and promoting tuna development.
- review and abolish, where appropriate, existing fiscal disincentives to the development of tuna fisheries.
- encourage and enhance private sector participation especially in commercially viable fishery like tuna and pearl farming.
- consider privatizing governmental fisheries operations.
- establish a strategy for foreign involvement in commercial fishing interests for tuna and pearl farming.
- establish an efficient, effective marketing strategy, with special focus on high value fishery.
- strengthen fisheries institution and stakeholder input in the Ministry's institutional reform as well as fisheries.

6. Food

6.1 Current Status of Development

Tonga is a member of the Codex Alimentarius Commission (CAC) and is in the process of accession to the WTO. The Kingdom of Tonga has a National Codex Committee that has been established to advise the Government on the development of food control systems and the use and implementation of Codex standards. Tonga has also established a SPS enquiry point. Both this and the Codex committee are coordinated within the Ministry of Agriculture. While this is a positive move, the following issues were identified:

- In general, the application of good manufacturing practices within food industries in Tonga focus on pest control and general sanitation programs and few industries would meet international standard requirements in terms of process control and risk-based preventive food safety programs such as HACCP.
- Resource capacity within Government to develop risk based food standards and a comprehensive understanding and knowledge around the requirements for their enforcement is limited.
- There is uncertainty over roles and responsibilities of the various agencies with respect to the establishment and enforcement of food standards, as well as little coordination between Ministries.
- There is insufficient understanding and knowledge of the SPS and TBT agreements within government and the private sector.
- There are limited resources and technical capacity to implement the requirements of the agreements.
- There are only a few qualified and trained personnel in the food safety and quality area working across different Ministries within Tonga and better coordination of efforts is needed to harness these skills and expertise.

With respect to SPS and quarantine (animal and plant health):

- Personnel within the Ministry of Agriculture have some understanding of technical requirements to undertake import risk analyses for animal and plant health, but have little capacity to undertake independent import risk analyses.
- Quarantine policies largely reflect those of Australia and New Zealand, both of whom have provided technical assistance and aid in this area.
- There are no veterinarians working within the Tongan Civil Service.

With respect to demonstrating freedom from specific diseases to facilitate export of animal based products:

- Current infrastructure and resources are not adequate to establish and maintain procedures and systems that demonstrate freedom from diseases.
- Tonga is not a member of the OIE and in general has to seek assistance from countries with greater expertise.

Successes in meeting quality requirements of export markets have been seen with some agricultural commodities:

- The pumpkin squash and vanilla industries have developed niche export markets in Japan and Europe through complying with quality requirements.
- The Tongan fish processing industry has accessed the USA market by adopting HACCP for process control.

There are a number of other crops that have the potential to grow and produce further export earnings but growth is constrained by numerous factors including:

- Climatic effects on the volumes produced.
- Supply and demand factors.
- The lack of integrated quality management in production and processing systems that optimize the comparative advantages of Tonga.
- Insufficient expertise within Government and industry in the areas of agronomy and entomology.

- Insufficient Government agricultural extension programs advising farmers on the strategic control of disease and pests of agricultural crops.

Within the fisheries sector, a major barrier is seen in the lack of a competent certification authority or body for the certification and audit of HACCP and quality assurance systems. The EU has raised this as an issue that needs to be addressed in order to gain access to their markets. There is currently a lack of resources and expertise within Government agencies to undertake this function.

6.2 Food legislation, regulations and standards

There are no domestic food safety or quality standards and minimal and outdated food safety regulations in force within Tonga. Under the Public Health Act 1992 health inspectors undertake the following:

- Approve and inspect all premises involved with preparing and/or selling food.
- Enforce sanitation and food hygiene requirements.
- Rely on visual inspection to judge whether food is fit to eat as no routine microbiological or chemical testing of foods is undertaken.

The Consumer Protection Act 2000 creates an opportunity to put a system for food standards in place because it creates the offence of selling, trading or distributing goods that do not comply with a standard. The appropriate standards and regulations need to be developed.

The Ministry of Agriculture and Forestry has responsibility for:

- The quality of fresh crops for export.
- Implementing the Plant Quarantine Regulations, the Fruit Export Act (Vanilla) Regulations of 1993 and Fruit Export Act (Buttercup Squash) Regulations of 1993, and the Law on Pesticides that controls their importation and use.

6.3 Institutional framework

General

There has been a recent cabinet decision to relocate most of the food functions into the Ministry of Agriculture. These functions will include the development of food standards and regulations, based on those of Codex, and the National Food and Nutrition Committee functions that were previously vested in the Department of Central Planning. The responsibility for food safety is currently within the Ministry of Health and it is envisaged that only those functions relating to the inspection of slaughterhouses will move into MAF under the new structure.

There is currently some uncertainty over which agency will be practically responsible for updating food legislation and standards. In addition, the decision to restructure has been made in the absence of any overarching policy and strategy on food and nutrition. Tonga is aware that it will need technical assistance to develop food standards and update legislation.

Health

Officers within the Food Control Unit of the MOH have the responsibility of:

- Approving building plans of food premises, inspecting new food premises prior to approval for operation, providing health certificates to food employees, issuing food certificates of registration for food premises (permit), and routinely inspecting food premises and their products.

Issues identified by MOH were the following:

- There is little manpower and expertise to focus on food safety beyond that of basic food hygiene and sanitation inspections.
- Although there is a basic understanding of HACCP and process control, environmental health officers lack the training and expertise to provide advice to industry on the establishment of HACCP-based food safety systems and their audit and enforcement.
- Although there are health promotion activities within the community and in schools that focus on nutrition and food hygiene, there are no established food safety training programs within the food industry and the knowledge of safety and hygiene is poor.

Agriculture

The Ministry of Agriculture identified the following issues:

- There are insufficient well-trained agricultural officers able to advise farmers and the agricultural industry on technical standards and good agricultural practice systems.
- There is a need for further expertise in disease and pest control (including the appropriate use of agricultural chemicals) of crops within Agriculture.
- Information on and knowledge of good agricultural production systems needs to be transferred to farmers and agricultural industry and export associations so that systems to ensure quality and safety can be jointly developed and implemented.

There are several new development programs being implemented that will train additional agricultural field extension officers to assist farmers in sustainable management and on how to better utilize appropriate farming technologies and other varieties of crops.

Codex activities

Tonga has a national codex committee that is chaired by the Ministry of Agriculture. Although high-level officials represent the Committee, it has been relatively inactive and ineffective in terms of establishing Codex-based standards for food. There is a need to establish technically based working groups that amongst other areas focus on the needs for and development of food standards.

Competent authorities

There is no competent authority currently established within Tonga to certify and audit HACCP and quality assurance systems for export of goods. This is a particular issue and requirement to enable fisheries products to gain access to the EU market.

Although Tonga has established a national Organic Coordination and Development Committee for the promotion and certification of organic foods, it does not have the capacity and expertise to certify organic foods. Tonga would like to be able to certify exports such as squash and vanilla as being organically produced to secure further niche export markets.

6.4 Harmonization of national standards and regulations

In general, internationally harmonized food safety and quality regulations and standards do not exist in Tonga. This results in:

- A lack of assurance against quality and safety of food on the domestic market potentially resulting in reduced consumer protection. This is particularly important, as the confidence in the domestic food supply is a vital ingredient also necessary to attract tourism.
- A failure to comply with the safety and quality requirements of food for export, leading to loss of an importing country's confidence in Vanuatu's food supply and a potential loss of market.

Internationally, there is a requirement that food businesses and the processing industry should apply process controls at all steps of the food production and handling process (e.g. receipt, storage, processing, packaging, display and distribution) to ensure food quality and safety. Generally, this does not occur in Tonga. This means that:

- There is a greater risk that food will become unsafe or unsuitable.
- The local food industry is vulnerable to low quality and potentially unsafe imported ingredients due to their high dependency on imported ingredients.

6.5 Adequacy of national food analytical and inspection services

Tonga has a public health hospital-based laboratory that has the capacity to perform microbiological analysis of foods. Analyses of foods are rarely undertaken as the priority of the laboratory is on clinical analysis and diagnostic work. Only water samples from the industry are being tested for microbiology.

An absence of routine testing of foods results in:

- An inability to objectively assess compliance against food standards.
- The food industry having a difficult task to develop added value products.
- A failure to facilitate the development of plant and product certification systems, which would help in export promotion.

There is currently no inspection or analysis at the border for imported processed and packaged foods and ingredients.

Trained officers using official protocols and checklists carry out quarantine inspection at the border. The system is based on that of Australia's import risk analyses. There is little capacity to assess the risk posed by animal and plant products that have not been previously assessed for quarantine risk.

7. Trade Policies

Tonga applied for WTO membership in 1995 and is now in the process of accession. Tonga is a member of PICTA and PACER.

Tariff rates range from 0% - 40% plus 20% Ports and Services Tax. A 5% tax is imposed on imports only and on restaurants and hotels and a 5% Wharfage fee. These tariff rates are quite high and Tonga would soon be undertaken a trade liberalization reform. The Chamber of Commerce strongly supports protection through high tariffs however this would affect those industries relying on imported raw materials and capital equipment. Tonga has yet to introduce a broad based value added tax.

A Government committee has been set up to look after Tonga's accession process however the limited contribution by the private sector in policy formulation has led to increasing complaints from groups such as the Chamber of Commerce and other private exporters.

Benefits of WTO membership

- Gain protection from any trade discrimination
- Improve market access to markets imposing non tariff barriers on exports - squash is exported to Japan and there is potential to target other markets, WTO provides the legal framework to look after any market access problems that could be encountered by Tonga. Vanilla is also another example of a Tonga export to the WTO member markets.
- The need to protect intellectual property rights especially in trying to protect folklore and traditional knowledge
- Promote Tonga as a foreign investment destination with a more liberal and transparent investment environment
- Improved legislation and regulations – particularly raising the standards of the local products to the international level where export market opportunities are available. This would also assist the Government in restricting any imports that do not meet the local standards
- Improved trade facilitation policies and implementation strategies

Challenges of WTO membership

- Reduction of tariffs on finished products implicates the survival of the local industries especially in agricultural food processing
- Implications on any further subsidies or grants given to the agricultural sector
- The challenges to Government of the process of accession and the need to build capacity within the agencies involved in the WTO process. The Government also cannot afford being represented in Geneva.

8. Recommendations

- (i) Coordinated efforts to be improved – all stakeholders involved in the agricultural sector such as the farmers, exporters, the non-governmental organizations and the government must coordinate efforts in developing products which have greater potential in the export markets. For instance the growth of noni exports has picked up the negative impact of kava and for noni to survive in the international markets, all stakeholders must be involved in looking at research into the noni and noni by-products, market information, potential health risks and the trends in demand. Being proactive in maintaining success for an export product would greatly facilitate any potential risks of problems.
- (ii) Improving marketing information – market prices on products and market trends provide useful information for farmers and exporters. There are already agencies established internationally which provide such information on a regular basis for farmers.
- (iii) Promoting organic certified products – with the falling international prices, the promotion of organically certified products aiming for niche markets is the way to go for farmers to obtain high margins. Support for the organic certification organizations would facilitate the development of such products.
- (iv) Improved partnership with the private sector – for Tonga to gain the support of the private sector in the development of new policies strengthening the partnership with the private sector is very important. Private sector awareness workshops and consultations on WTO issues, taking advantage of the opportunities arising out of the PICTA would allow the private sector to assess the benefits and costs of the proposed tariff reforms.
- (v) Enhance direct or foreign collaborated private sector participation in commercial tuna fishery and removal of any existing fiscal disincentives for such development.
- (vi) Explore possibility of increased use of by-catch from domestic-based foreign fleets for domestic marketing / processing operations.

- (vii) Establishment of a modern domestic fish processing/ marketing network with increased focus on production of value added seafood for domestic market as well as specialty products for the tourist market. This would also help import substitution and increase earnings through exports.
- (viii) At present most of albacore is used raw material for canning. Encourage improved handling of such fish on-board, to facilitate landings of quality tuna suitable for value added processing. Encourage land-based export-processing of value-added tuna products including fresh/ frozen loins.
- (ix) Strengthening of the seafood inspection system including quality assurance of exports through capacity building and implementation of appropriate HACCP-based process control measures in association with industry including special focus on addressing EU requirement of having a equivalent system in place and identification of a Competent Authority .
- (x) Further development of sustainable, carefully managed utilization of deep-water fishes and snapper resources including exploratory marketing in non-traditional markets in Asia.
- (xi) Improved vocational/ technical training in fishery related activities including fishing, fish handling, processing and marketing.
- (xii) Needs for training and capacity building - Training of Agricultural Officials on the provisions of the Agreement on Agriculture, the SPS and TBT Agreements. Setting up an enquiry point for SPS within the Ministry would build the capacity and knowledge on WTO issues.
- (xiii) Control of imported foods - The implementation of a system for the inspection and testing of imported foods and ingredients would be beneficial for Tonga in preventing mislabeled, low quality and potentially unsafe foods from entering and/or being dumped onto the domestic market and therefore would better protect the consumer. It would also give assurances to food processors, most of who rely heavily on imported ingredients for their food manufacturing. In order to implement a system that is compatible with WTO/ SPS and TBT requirements, domestic food standards must first be established and a greater capacity developed for their enforcement.
- (xiv) Quality management systems - Very little of the food industry within Tonga currently operates under quality assurance and/or HACCP systems. The major exception to this is the export seafood industry. Government in partnership with the Chamber of Commerce, processed food associations and the agricultural industry needs to take a proactive approach to facilitate the development of integrated quality management systems in food and agricultural production.
- (xv) Knowledge and evaluation of quality assurance and preventative food safety systems needs to be enhanced within health and agriculture sectors along with expertise in food technology.
- (xvi) Food hygiene training - The Public Health Act 1992 takes an inspectorial approach to the control of food premises such that the hygiene standards observed in premises preparing and selling food depends on the vigilance of the inspector. There is currently little onus on the operator to have skills or experience or any obligations to develop and maintain a safe process. The Government needs to develop proactive training programs in food hygiene for food operators so that food is produced safely and the consumer is protected.