

VANUATU

1. Economic Statistics

Population: 187,700 (2000)

Land Area: 12,190 square kilometers

Exclusive Economic Zone: 680,000 square kilometers

Political Status: independent democratic government since 1980

GNP: US\$227 million (1999)

Major Industries: plantations, fishing and tourism

Merchandise Exports (FOB): US\$26 million (2000)

Major Exports: copra; beef; timber; cocoa

Merchandise Imports (CIF): US\$89 million (2000)

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

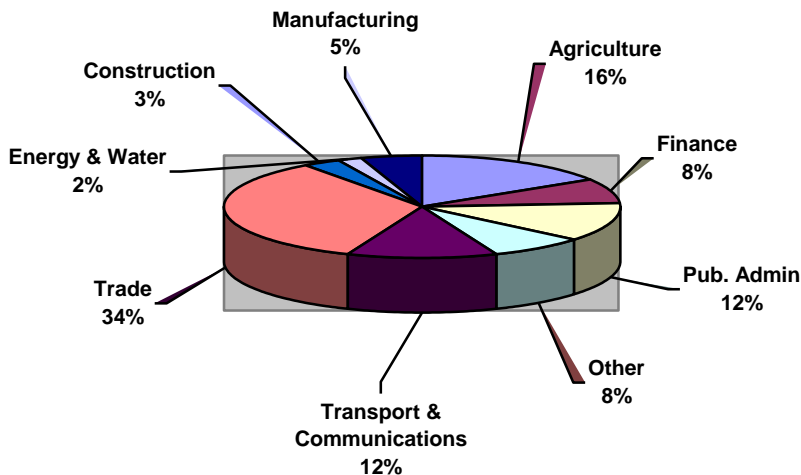
Currency: Vatu

Average Exchange Rate: US\$1 = Vatu 137.64 (2000)

2. Economic Profile and Performance

The economy recovered in 2000 with 2.8% growth in real GDP, led by tourism and construction. Growth is likely to continue at about this level in the medium term. Following a contraction of 3% in 1999, the economy recovered in 2000 with estimated growth of 2.8% in real GDP. Sustained marketing campaigns in Australia by the National Tourism Office and political instability in neighbouring countries boosted the number of visitors to Vanuatu. Major construction projects included the Efate ring road, the expansion of the main airports on Efate and Santo, rehabilitation works from cyclone Dani, and an urban infrastructure project. The agriculture sector continued to experience weaknesses. Copra and beef exports weakened but kava exports strengthened significantly in 2000; imports stayed at around the previous year's level. Despite a trade deficit, a small surplus on the current account is estimated in 2000, compared with a deficit in 1999. However, a sizeable deficit of at least 4% of GDP is estimated on the capital account in 2000, largely due to outflows from commercial banks.

**GDP by Industrial Origin (%) Calendar Year 1999
(At Current Market Prices)**



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

3. Agriculture

The agricultural sector comprises approximately 16% of GDP and the key sub-sectors include beef production, fishing, copra, cocoa and kava. All of these products are exported to world markets and Vanuatu beef is well regarded for its quality in the Japanese market. Nearly 80% of the population in Vanuatu lives in rural areas while only 12% has access to land.

The most important export commodities in 2001 were kava, beef, copra, coconut oil and cocoa. The domestic farming of some commodities such as coconut and cocoa has decreased in recent years. This has been attributed to falling world prices and a subsequent reluctance to invest in agriculture within the local community. For example, in 1999 copra comprised 48% of the total export earnings. The slump in world prices for copra in recent years resulted in this value decreasing to 14% in 2001. Copra remains the main source of rural income for farmers and the world price instability leaves the economy extremely vulnerable. Hence the Government had committed to provide price stabilization subsidies to provide income for the farmers and to encourage the steady supply of copra for the coconut oil mill and to maintain the export markets.

Vanuatu has identified agriculture, forestry, livestock and fisheries as thrust areas for economic development. The population is mainly involved in casual, subsistence farming, with little or no downstream processing. In spite of the vast potential for production of root crops and root crop based products, rice imports have shown a steady growth.

The focus has shifted from cash crops to small-holder income generation and food security. Activities of the Department of Agriculture, with a total staff of 40 and 8 provincial centers, are supported by a reduced budget of VT 89 million in 2003, and through several donor funded projects in Livestock, Farming systems development (FAO), Root crop research (EU), Small-holder producer organization (EU) etc.

4. Forestry

Vanuatu's timber reserves have been depleted over recent years and there is considerable potential for new-forest plantations, including sandalwood. An associated project would be the supply of seedlings for the plantations. Some of the constraints faced by the forestry industry in Vanuatu include:

- National codes for logging not fully adhered to by traditional communities – for instance cutting down trees before a certain size for domestic purposes
- Impacts and high occurrence of land disputes limit level of harvesting
- Limited expertise to meet international requirements – as in the case of Vanuatu where they are finding it difficult to meet the sustainable forests certification principles due to limited knowledge and expertise
- Commitment of landowners to plant trees unpredictable especially those landowners being paid licensing fees by milling companies in Vanuatu
- Off-cuts of wood not utilized for value added products and are wasted
- Environmental pressure on logging and sustainable forests – in the case of Vanuatu the Forestry Department and Environment must work together but with limited personnel this has not been fruitful
- Local industries facing competition from cheap imported woods – Vanuatu facing major competition with cheap pines from Fiji

5. Fisheries

Under the off shore licensing program, there are around 110 tuna long liners operating in Vanuatu waters in 2003. The fleet includes Taiwanese, Chinese, Korean, Fijian and Cambodian vessels. The fish are off loaded mainly in Fiji or Pago Pago for cannery use or for transshipment to other markets. Licensing of Taiwanese vessels comes under a bilateral fisheries agreement whereby boats pay an annual fee of US\$ 5000/ annum while the fee for other boats depends on the tonnage; < 100grt US\$ 11,000 and an additional US\$ 9,000 for those over. As per the fisheries officials, the present rate of extraction by the fleet is sustainable as only 1/3 the Maximum Sustainable Yield (MSY) is presently extracted. The country's tuna fishery comes under the supervision of Vanuatu Tuna Management Committee. In 2002 vessel licensing revenue stood at VT 116 million. Vessel Monitoring is carried out by FFA.

In addition to subsistence fishing, domestic fishing activity also encompasses deep water and reef fishery, mainly focusing on high valued species for export such as "poulet" (Pacific Snapper) for New Zealand and Australia markets at V 700/kg, gilled and gutted (G/G). Exports are mainly from Port Villa and Santo. There are also several (3) fish aggregation devices (FADs) setup and managed by the department of fisheries in Santo, for mainly targeting tuna for export to New Zealand/ Australia at VT 250/kg. Among other things, high fuel cost (VT 100-120/liter) is an impediment to expansion of the domestic fishing effort. The department of fisheries under the Global Coral Reef Management Program does management and monitoring of the coastal and reef resources.

Two fish inspectors, who also examine exports of live fish, mainly ornamental fish, from four exporters, carry out monitoring and quality control of fish exports. Live fish exports have to be carried out under a license issued by the Department of Fisheries and a health certificate and an export permit issued by the Animal Quarantine Unit.

Fish imports mainly constitute canned fish from Solomon Islands, Fiji, Japan and New Zealand which account for nearly 25% of total fish imports by value and imports of frozen fish from New Zealand (20%). Canned fish in oil is the main export while small quantities of value-added canned fish products are also imported.

Canned Fish Imports

Canned Mackerel in vegetable oil	450 gm	Fiji	VT 150
Sardines in tomato sauce	125 gm	Thailand	VT 120
Tuna flakes in vegetable oil	180 gm	Solomon Islands	VT 110
Light meat tuna, solid chunk	200 gm	Solomon Islands	VT 180
Chili tuna	200 gm	Solomon Islands	VT 185

Source: Prices collected from mission from retail store

Fresh fish caught by the artisanal sector is mainly marketed locally in the fresh form at village or urban market places. High cost of fuel/transport limits intra-island marketing, the surplus fish being mainly targeted to buyers from inland/ highland areas who at the same time bring their produce to these centers. Small quantities are made into cassava/ smoke dried fish based product known as "lab-lab", which is consumed as a whole meal after cooking. The product is marketed at VT 200/portion at the Port Villa Central Market.

The supermarkets catering for the higher income bracket sell a wide variety of imported and local fish/ fish fillets such as Deep Sea Cod (VT 1150-1300/kg fillet), Poulet or Pacific Snapper (VT1300-1700/kg of fillet), Red Snapper (VT 860/kg whole fish) etc.

Fisheries development needs to be in coordination with other government services to facilitate marketing of reef fish in conjunction with the private sector by developing appropriate fish marketing centers in provincial locations and by improving marketing information between buyers and sellers.

The Fisheries Sector of the Business Forum 2002 organized by the Chamber of Commerce, chaired by the Minister of Agriculture and attended by the private sector and senior officers of Department of Fisheries and line Ministries has proposed a strategy to assure sustained growth of the fishery sector and to address urgent issues of importance to the stakeholders. The recommendations of the forum could be summed up as follows:

- The present target of 10,000mt of fish production to be increased to 20,000mt within a time frame of 5-10 years through:

Technical assistance and capacity building in long-line fishing, packaging and labeling, export marketing, promotion and exhibitions, business/financial management in the sector:

- Poulet (Pacific snapper) fishing to be regulated and restricted to certain locations.
- Develop a clear Marine Export Policy for both local and foreign investment.
- Urgent exemption of duty and VAT on fishing equipment, fuel and aquaculture material as well as establishment of an affordable credit line and expansion of the role of NBV (National Bank of Vanuatu) to undertake lending for development purposes.
- 50% of the surplus revenue generated by the Fisheries Department over its annual budget be reallocated back to the sector.
- Seek donor assistance to setup cold storage/ ice plants in all 6 provinces for multiple usage including cold storages at central markets in Port Villa and Luganville.
- Approval of the Tuna Management Plan and ratification of the Western and Central Pacific Tuna Convention and United Nations Fish Stock Agreement.

6. Food

6.1. Current Status of Development

The food industry within Vanuatu mostly comprises subsistence agricultural farming and small cottage industries. Food and agricultural exports have traditionally played a strong role in the country's gross domestic product and in 2001 contributed approximately 50% of the total export earnings, valued at approximately Vatu 1,100 million. The main food production sectors within Vanuatu are bakery, meat, tree nuts, spices, coffee, beverage, and dairy and poultry and fishery products.

The food industry in Vanuatu is heavily dependent on the importation of foods. Imported foods contribute approximately 43% of the food volume, and of these, processed and canned foods (fish and beef), frozen poultry, rice and flour are major imports. Most of the processed food and ingredients used in the domestic industry are imported from Australia and New Zealand. There is an increasing trend to import from Asian countries.

Most of the food processing that occurs in Vanuatu is on a small scale and without integrated quality assurance or HACCP systems. The food industry is lead by the red meat sector that has implemented HACCP procedures, largely a result of overseas market requirements.

6.2. National capabilities to meet importing country food safety requirements

Within Vanuatu, there are limited resources and technical capacity to implement the requirements of the SPS and TBT agreements with respect to food safety and quality and the application of technical standards to food production and agricultural commodities:

- Little awareness of and training in the requirements of non-tariff technical barriers to trade exists within the agricultural sector. The exception here is the beef industry and the quarantine area. This sector has developed a strong export market, has established HACCP systems and built up expertise and infrastructure to satisfy technical market requirements.
- In general, the application of good manufacturing practices within food industries in Vanuatu 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.

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

- Personnel within the Ministry of Agriculture have excellent understanding of the technical requirements to undertake import risk analyses for animal and plant health, and have capacity to undertake independent import risk analyses. Quarantine policies largely reflect those of Australia and/or NZ.
- There is good capability and infrastructure to establish and maintain procedures and systems that demonstrate freedom from pests and diseases. The livestock industry within Vanuatu is fortunate to be free of many animal diseases and this is a particular advantage for market access. Vanuatu is a member of the OIE.

6.3. Deficiencies in legislative frameworks

There are no domestic food safety or quality standards currently within Vanuatu. Under the Food Control Act 1993:

- Health inspectors can examine premises that prepare and sell food and take samples as required.
- The focus of the regulations is on visual inspection of food, sanitation and food hygiene requirements.
- The lack of safety (e.g. microbiological), labeling or quality (compositional) standards for foods and the lack of a food-testing laboratory make it difficult to ensure the safety and quality of food as inspection findings cannot be objectively supported.
- There are powers to seize and destroy food unfit for human consumption and for inspectors to examine and test imported foods. The latter is not currently practiced.

The beef industry complies with the meat Industry Act and Regulations and conforms to OIE standards.

6.4 Institutional framework

Health

The Environmental Health Unit within the Ministry of Health (MOH), together with Municipal environmental health officers, performs hygiene inspections on all food premises within urban areas. Within provincial areas, there are additional environmental health officers. The MOH identified the following issues:

- Insufficient properly trained health inspectors within the food area.
- Insufficient resources and expertise to extend inspection activities beyond that of basic food hygiene inspections.
- Only a basic understanding of HACCP and process control and insufficient training and expertise to provide advice to industry on the establishment of HACCP-based food safety systems and their audit and enforcement.

MOH is currently examining options for an inspection program on imported foods.

Agriculture

Currently the Ministry of Agriculture has insufficient well-trained agricultural officers that are able to advise farmers and the agricultural industry on technical standards and good agricultural practice systems. There are several new development programs being implemented that will train additional agricultural field officers to assist farmers in sustainable management and on how to better utilize appropriate farming technologies and other varieties of crops. Vanuatu has recently passed an Agricultural Research and Technical Centre Bill. The Bill will establish funds and research programs to generate better yielding crops and varieties with greater pest resistance. In the long term this will assist in boosting production of important crops, and also improve their quality.

Codex activities

Vanuatu has a national codex committee that is chaired by the Ministry of Agriculture. The Committee has not been effective in terms of establishing Codex-based standards for food.

There is currently no competent authority within Vanuatu to approve the export of quality assured food products.

6.5. Harmonization of national standards and regulations

With the exception of Vanuatu's beef industry, internationally harmonized food safety and quality regulations and standards do not exist. 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 Vanuatu. 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.

6.6. Adequacy of national food analytical and inspection services

There is currently no capacity to perform chemical or microbiological analysis of food within Vanuatu. This 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 of animal and plant-based products at the border:

- The system is based on that of Australian and New Zealand quarantine import risk analyses.
- There is good technical capacity within Vanuatu to assess the quarantine risk posed by animal and plant products and they are assisted by SPC.

6.7 Lessons from experiences and barriers to expanding export markets

- Experience with developing systems to meet quarantine requirements for beef exports from Vanuatu is seen as a model on which further export trade could be based. The industry is now seeking access to the EU market and there are some technical obstacles that have been raised here. One obstacle identified is the lack of a national residue program to assure that levels of chemical residues in beef products satisfy market requirements. The Quarantine area is actively investigating the establishment of such a program.
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- One abattoir within Vanuatu is now certified as organic under the New Zealand 'Certenz' organic certification scheme. Two veterinarians within the quarantine service are certified to approve meat as organically produced under this system.
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- Other products such as Noni juice may also be certified as organic in the future. This may improve the acquisition of niche export markets.

There are a number of agricultural crops including taro, cassava and sweet potato (including value-added derived products) that have the potential to grow and produce export earnings but growth is constrained by numerous factors including:

- Poor farming practices and crop yields and the difficulties associated with encouraging farmers to change from subsistence to commercial farming
- Poor stability of government and its policies and extension services

- High set up and maintenance prices (energy, utilities) for small businesses
- Lack of storage and processing facilities for downstream production and value adding of agricultural crops
- The lack of integrated quality management in production and processing systems that could potentially facilitate and optimize the comparative advantages of Vanuatu
- Lack of food technology expertise both within Government and industry to develop value added food processing.

Within the fisheries sector, small to subsistence fishing operates with no centralized marketing activities. The fragmentation of operations and problems with transportation throughout the islands is a major barrier to integrating the fisheries sector. Most fish is sold domestically, although two companies have geared up their quality management systems and now export small quantities of reef fish to Australia and New Zealand.

There is currently no competent authority within Vanuatu that approves export establishments and verifies that they meet HACCP and/or quality assurance systems requirements. This, combined with the need to improve production efficiency, is seen as major barriers to accessing EU markets for beef and fisheries products.

With respect to cocoa, coffee and kava, problems have been encountered occasionally in meeting quality standards for access to international markets.

7. Trade Policies and the WTO

Vanuatu has experienced a long tedious accession process to become a member of the WTO which has ended in the Vanuatu government putting the accession on hold until such a time a revised accession package is developed and renegotiated with WTO members.

Vanuatu had undergone a major tariff reform, which included the reduction of duties and the introduction of a broad-based tax namely the Value Added Tax of 12.5%. Tariffs now range from 10%-40%.

Vanuatu is a member of the Melanesian Spearhead Group (MSG) a trade arrangement with Fiji, Solomon Islands and Papua New Guinea. It has yet to ratify the PICTA and PACER Agreement.

Benefits of the WTO membership

- Market access opportunities – Vanuatu beef has reached international standards and there shouldn't be any reasons why a country must restrict entry for Vanuatu beef. Other agricultural products, which have the potential to be marketed internationally, would gain access and protection under the WTO umbrella.
- Improve local standards – having domestic legislation that are in compliance with the WTO Agreements would allow locally produced products to enter the export markets. This would also allow Vanuatu to apply these standards to imported products, which may restrict inferior products entering the market thus allowing local industries to cater for the domestic market.
- Reduced duties would allow farmers and local industries to import equipment, fertilizers, raw materials at reduced costs. Access by many farmers to such products would enhance their production capacities.
- The modalities currently being negotiated at the WTO would highlight the importance of granting special and differential treatment to least developed and developing countries
- Transparency of procedures required by WTO provides a clear and fairer system which could benefit society in the whole

Challenges of WTO Membership

- Pressure by WTO members for Vanuatu to eliminate subsidies granted to copra farmers would greatly affect the farmers;
- Reduction of subsidies by developed markets to their farms would increase the price of imported products such as rice which has become an important staple food for Vanuatu people
- Reduction of tariffs would greatly impact the revenue of government derived from customs tariffs
- High costs involved in the accession process and negotiations
- Forestry – not yet covered under the WTO however restrictions could be imposed by markets which may impact on the exports of timber particularly markets posing behind standards and new requirements for timber products.

8. Recommendations

- (i) Ongoing support to the agricultural sector - The need for ongoing support in the agricultural sector is very important for Vanuatu to be address food security problems and to be able to support the improved export markets. The matrix of programs developed with the Chamber of Commerce provides a model of developing strategies linking subsistence farming

and fishing to commercial farming and processing industries. Given the strong linkages of the Chamber of Commerce to all sectors, any grants or direct support could be channeled through here using transparent criterion and procedures.

- (ii) Attracting foreign investment - Vanuatu's rich agricultural base provides good opportunities for a wide range of related processing and exports operations, particularly where the output can be certified as organic. Projects with identified prospects include processed coffee and cocoa; green and processed ginger exporting; spice processing and export; honey production; processing of pineapples for export; floriculture; and a heat-treatment plant for the export of suitable fruits and vegetables.
- (iii) There is also potential for seafood-processing operations (canning, smoking, etc.) to supply both the local and export markets. Aquaculture projects such as trochus, pearls and pearl shells, giant clams, milk and mullet fish, oysters and prawns also have good prospects. Other promising projects include bêche-de-mer, rock lobsters and the aquarium fish trade.
- (iv) By utilising the skills of the local workers in the forestry sectors and the quality tropical hardwoods that can be grown in Vanuatu, there is good potential for projects producing a wide range of timber products for the local market, other Pacific Islands and international markets, including quality, solid timber furniture; construction timbers and mouldings; plywood and veneers; flooring and parquetry; outdoor furniture components; and processing and export of coconut-based products and coconut timber and products
- (v) Considering the good potential for expansion of the fisheries sector, provide support facilities/ incentives including establishment of improved infrastructure facilities for handling/ storage of fish (and other perishable if required) including land-based processing operations where necessary including Port Villa and Luganville.
- (vi) FAD associated tuna fishing in Santo and other locations should explore market/ product diversification, through improved on-board handling and air-transport logistics.
- (vii) Further development of sustainable, carefully managed utilization of deep-water snapper resources and reef fishery resources including exploratory marketing in non-traditional markets in Asia.
- (viii) 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.
- (ix) Establishment of a modern domestic fish processing/ marketing network with increased focus on production of value added seafood for domestic market to help import substitution as well.
- (x) Coordinated effort by governmental institutions to facilitate marketing of fish in conjunction with the private sector by developing appropriate fish marketing centers in provincial locations and by improving marketing information between buyers and sellers.
- (xi) Improved vocational/ technical training in fishery related activities including fishing, fish handling, processing and marketing.
- (xii) Capacity building is needed for agricultural officials to gain more knowledge of the international trade in agriculture as well as the WTO rules on Agriculture. This would enhance their capacity in advising farmers and agricultural exporters on trade policy matters and the impact this would have on their products. Furthermore, the private sector needs awareness training on the impact of international trade especially with all the perceptions on globalization and how the private sector could take advantage of the opportunities arising out of globalization.
- (xiii) The implementation of a system for the inspection and testing of imported foods and ingredients would be beneficial for Vanuatu in:
- (xiv) Preventing mislabeled, low quality and potentially unsafe foods from entering and/or being dumped onto the domestic market and therefore better protecting the consumer.
- (xv) Giving assurances to food processors, most of who rely heavily on imported ingredients for their food manufacturing.
- (xvi) 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.
- (xvii) Quality management systems - Very little of the food industry within Vanuatu currently operates under quality assurance and/or HACCP systems. The exception to this is the beef industry. Government in partnership with the Chamber of

Commerce, export 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.

- (xviii) Food safety training - The Food Control Act 1993 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. 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. A good reputation for safe food and water is also an important element in attracting tourists to the country.
- (xix) Knowledge of and training in the evaluation of quality assurance HACCP food safety systems is required within the health sector.