

CASE STUDY

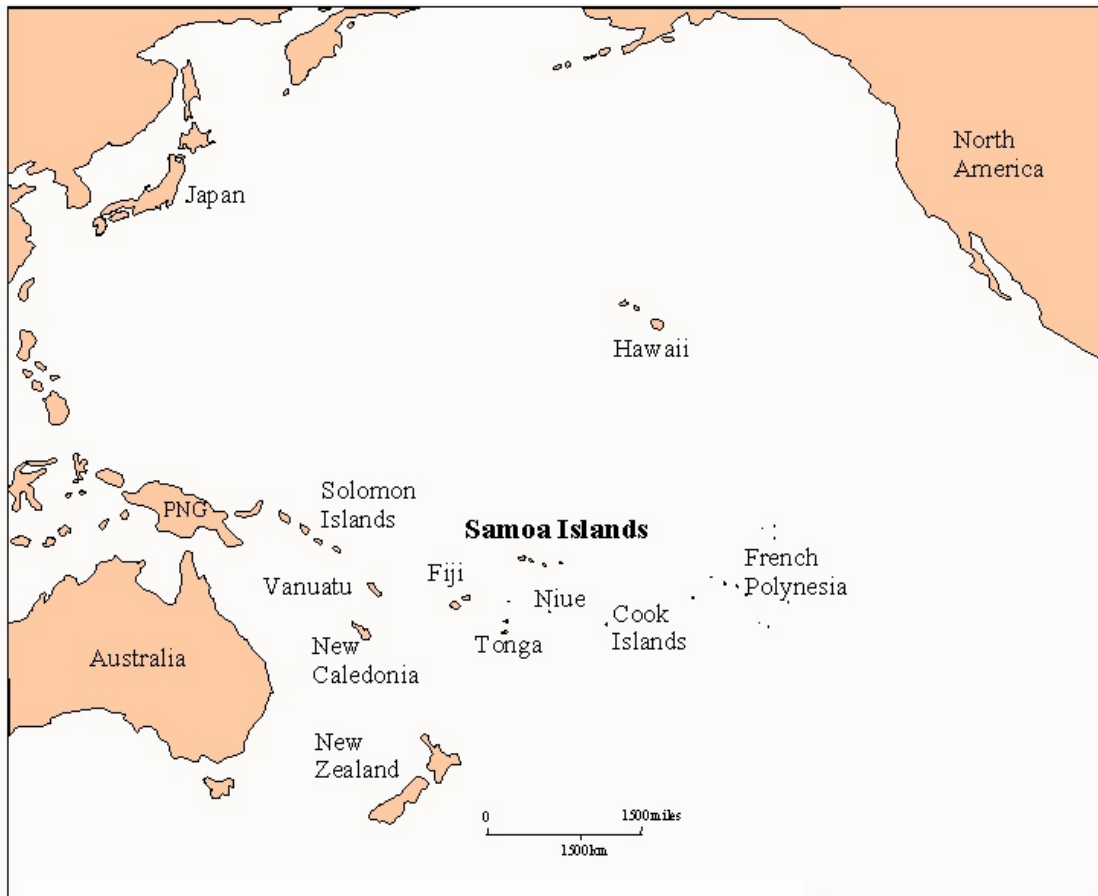
THE PACIFIC ISLANDS

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MAP OF THE PACIFIC REGION

EXECUTIVE SUMMARY

Agriculture remains the backbone of the Pacific Island economies: it is the main source of livelihood for the population as well as a major export earner. The “islandness”, smallness and remoteness of the Pacific Island countries has hindered their economic development in the world economy. Their smallness constitutes a major constraint in that the limited land available for agricultural activities produces little for local consumption and sale to the domestic and export markets. Access to finance for agricultural development is also very limited and traditional production methods are still being used. The remote location of the Pacific Island countries from the international markets results in high transportation costs for exports, and high distribution and marketing costs. This results in Pacific Island exporters becoming mainly price takers in the international markets.

Vulnerability to external shocks in the world markets greatly affects agriculture exports and the worst hit are people in the rural areas, where most of the agricultural activities take place. High vulnerability to natural disasters such as cyclones, droughts and rising sea level complemented by increasing pests and diseases have significantly slowed down economic growth of most of these economies, cutting their level of development back by 10 years.

Market access is a common problem for small island economies; these countries strain to meet the many requirements (especially the non-tariff requirements) of the international markets, and in most cases supply capacity constraints clearly limit access to these markets. Furthermore, existing preferential market access arrangements have been substantially reduced, leading Pacific Island exports to lose their competitiveness and market shares in the international markets. Institutional capacity to strengthen agricultural development is also very limited, as are the financial resources available in most Pacific island economies.

The commitments by Pacific Island economies to integration into the multilateral trading system has implications for the future of these economies, given their susceptibility to natural and economic catastrophes.

Samoa is one example of a Pacific Island economy that has experienced problems relating to the development of its agricultural sector and the policies its Government needs to adopt to address ongoing problems ranging from natural catastrophes to external shocks in the world markets. Samoa is currently negotiating its accession to the World Trade Organization (WTO), and, as part of its economic reforms, the Government has developed policies which are in line with WTO objectives and requirements. However, further tariff liberalization and reductions in domestic support have serious implications for the future of the Pacific Island economies. Problems relating to food security and increasing poverty, mainly at the grassroots level, will increase if Pacific Island economies totally commit to the requirements of the WTO Agreement on Agriculture. Given the vulnerability of these small island economies, recognition of these constraints within the context of the Doha Round of negotiations is vital to the sustainable development of these countries.

Small islands economies should receive special and differential treatment (S&DT) for tariff reductions and the level of domestic support permitted in order to alleviate any major impact on the agricultural sector. They also need technical assistance for development of the appropriate institutional and infrastructural capacity to meet market requirements and to administer the WTO work and obligations.

The Pacific Island economies rely on a small number of agricultural exports as a source of foreign exchange and for the welfare of their people. Any domestic support for their products would not have any significant impact on the world market. They should be allowed to introduce measures that could address such constraints from time to time with the ultimate aim of alleviating poverty and maintaining the livelihoods and prosperity of their populations.

I. INTRODUCTION

The Pacific islands are made up of a group of islands, the inhabited ones of which have relatively small populations. This means that the difficulties associated with sea transport are compounded by the small quantities of produce that the islands have to sell and the small quantities of goods they can buy. While export markets offer greater potential than the limited domestic markets, supplying these markets is not without its problems. Prices can fluctuate considerably, and in the past decade have been largely disappointing. For main commodities, accumulating sufficient quantities at individual export ports can be difficult, as international vessels are only prepared to visit a limited number of ports and require reasonable quantities for shipment.

In general there is no discernible upward trend in the level of agricultural exports. Poor prices in recent years have been a constraint to expanding production of traditional commodities, while the small markets have presented problems for roots and tubers and non-traditional crops. Production constraints include such factors as land availability and tenure, lack of knowledge about appropriate technologies, and insufficient availability of labour. The traditional export commodities of copra, coconut oil and cocoa continue to play an important role in most of the South Pacific, however price fluctuations and natural disasters continue to hamper sustainable growth of these commodities.

The worldwide trend away from government marketing services is also evident in the South Pacific with the closure of government operated marketing boards in most countries including Samoa and Tonga.

Agriculture plays an important role in the Samoan economy; at least two thirds of households rely on a mixture of subsistence and cash income. In 1989, more than 70 per cent of the economically active population of 55,967 were employed in the agriculture, fishery and forestry sectors. An estimated 72 per cent of 15,474 rural households were active to some degree in agriculture, with 19 per cent producing only for home consumption and 47 per cent producing mainly for home consumption. About 90 per cent of village households maintain mixed livestock enterprises comprising mainly pigs and chickens, but some also have cattle, horses and goats. Commercial agricultural production, including coconut products, cocoa and taro was estimated to account for 14 per cent of GDP in 1994, and 17 per cent (including fisheries) of total GDP in 1998.

Tonga's natural resources are its land, its people and the sea. The economy depends heavily on agriculture, which accounts for about 60 per cent of the GDP. Crops are grown for subsistence, sale on the local market and, increasingly, for export. The most successful export crops are squash pumpkin, sold exclusively to Japan, and vanilla, purchased by France, Japan and the United States. Traditional root crops and vegetables such as taro, kumara, cassava, watermelon and yams are exported to New Zealand and Australia.

II. 'ISLANDNESS' AND VULNERABILITY

II.1 Smallness

Samoa is geographically mountainous and about 98 per cent of the population is spread along the narrow coastal plains which are becoming increasingly vulnerable to rising sea levels, tidal waves and *tsunami*. About 43 per cent of the land is classified as arable and three quarters of the population still depends on the land and the sea as a main or supplementary source of income. Samoa is ecologically fragile and vulnerable to environmental degradation and to the impact of cyclones. It is estimated that over 30 per cent of agricultural production is carried out in areas where the soil is severely depleted, and steeper slopes are being cleared, increasing the vulnerability to erosion. With only limited land area available for agriculture, planting and farming are restricted to very small plots with low yields,

thus leading to supply constraints for both the domestic and export markets.

The limited resources available for agricultural production means that all equipment, fertilizers and chemicals for agriculture have to be imported, and only those with sufficient income can invest in these. Access to financial support is also limited. Hence most farmers use traditional methods which are susceptible to diseases and pests and harvest low quality produce. One example is the development of the livestock industry where everything (including the cattle) is imported. For poultry, “day-old” chicks, feed and the packaging materials for eggs are all imported so that investment in this industry is very expensive.

II.2 Price disadvantage

Samoa and other Pacific island countries have relied on copra production for export. The supply and demand of coconut oil in the open market is the determining factor in calculating copra prices in the world market. In the year 2000, the decline in world prices for copra was linked to an increase in the supply of coconut oil from the Philippines and Indonesia; the Philippines increased its coconut oil exports by 85 per cent from the previous year. The small area of the islands is a constraint to increasing the volumes of copra produced, which makes Samoa and Fiji price takers rather than price setters. Hence, regardless of the world price, both islands have to sell at the price buyers offer them. Even between Samoa and Fiji, the Samoan copra price cannot compete with the Fijian price owing to the small volume it exports. Furthermore, Samoan farmers have to give priority to growing crops that earn the highest income with the least labour and production input. Given the downturn in world copra prices, farmers have shifted from copra to other crops. The same situation has occurred with Tongan vanilla: when world prices fell, farmers shifted their concentration to other crops such as kava.

II.3 Remoteness

The Pacific islands are remotely located from the world markets, a remoteness reflected in the small number of airlines serving the Pacific. In the case of Samoa, only three airline services are available through the government-owned Polynesian Airlines, Air Pacific and Air New Zealand. The number of flights are determined by the level of travellers using these airlines. By way of comparison, it is more expensive to travel from New Zealand to Samoa than from New Zealand to Singapore. This is also reflected in agricultural exports from Samoa to the outside world. The freight costs are very high compared to exports from Asia to the world markets. For perishable produce such as bananas, which have to be airfreighted to reach the New Zealand market on time, the airfreight rates range from US\$0.30 cents/kg to US\$0.50 cents/kg. Since cargo space is also limited, the exporter is required to book a space 3 to 4 days prior to a flight.

Freight costs for a 20-foot container from Samoa (dry goods)

Country	Cost in US\$	Shipping period
New Zealand	\$1 500.00	1–2 weeks
Australia	\$2 000.00	1–2 weeks
United States (Los Angeles market)	\$2 200.00	2–3 weeks
Europe	\$3 500.00	6–10 weeks

Source: Willex Marketing International

In terms of distribution and marketing costs, the main disadvantage for Samoa is that all packaging materials are imported, and given the low value of the Samoan tala, marketing and distribution costs in the overseas market are very high. For a product to enter the market at a competitive price, the exporters have to reduce their selling price so that all other costs can be included in the final price.

II.4 Natural Disasters

Samoa's vulnerability to natural disasters, which affects its economic performance, was highlighted when it was struck by two devastating cyclones in the early 1990s. These caused considerable damage to both agriculture and infrastructure, exacerbated by the taro leaf blight disease (TLB) which wiped out the country's major food and export crop from late 1993 onwards. Other possible sources of natural disasters identified for Samoa include drought, floods, fluctuations in ocean temperature, a rise in sea level, plant disease and pests, human diseases, earthquakes and volcanic activity.

The damage to agricultural and fisheries production by two consecutive cyclones in 1990 and 1991 resulted in a cumulative decline in real GDP of almost 12 per cent during 1990–1992. The agro-processing industries, particularly coconut oil, have yet to fully recover, reflecting both the depletion of coconut trees and also depressed world market prices for copra and coconut oil. Similarly, timber production and coconut cream post-production levels have not yet recovered to the levels achieved prior to the onset of the two cyclones. Consequently the composition of traditional Samoan exports has been affected, with production of coconut oil and cream, as well as taro, being surpassed by recent successes in commercial fishing. The effects of the cyclones also revealed the difficulty of maintaining food security in the face of major disasters, since they destroyed about 90 per cent of all food crops and food imports had to be drastically increased.

This experience also highlighted the need for strengthening the institutional and support framework for disaster preparedness. As a result, the capacity and capability of the Samoan meteorological office to access critical weather information on a timely basis and to receive and disseminate advance warning on any natural disaster such as cyclones, *tsunamis* and earthquakes, has been considerably upgraded and improved.

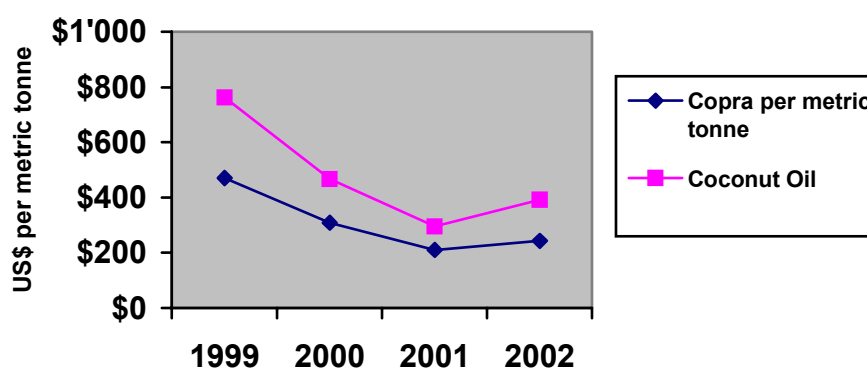
Tonga's agricultural sector has also experienced damaging effects, and, more recently, in January 2002 that island's main export crop, squash, was destroyed by a cyclone. Occasional drought also hampers production of the island's main agricultural crops.

In Fiji's case, sugar was severely affected by drought in 1998, which also contributed to a decline in Fiji's sugar exports.

II.5 Economic and political vulnerability

The Pacific islands' agriculture and the economy are also very vulnerable to destabilizing impacts of external shocks, such as fluctuating commodity prices, exchange rate movements and changes in the economic policies of trading partners. Low world market prices for coconut greatly affected the agricultural sector in Samoa, the worst affected being the rural communities. The price of copra paid to the farmers in Samoa dropped from a high of US\$ 220 to a low of less than US\$ 100 per metric tonne. This was the result of a plunge in international prices as indicated in the chart below.

Average International Prices Copra



Source: Coconut Market FOCUS International Bulletin, 2002

The Tongan vanilla industry, which had flourished for some years with an annual output of 40 tonnes, faded when global competition brought prices down. In recent years, the value of vanilla exports has been less than 1 million pa'anga (T\$) (US\$0.5 million), and in some years very much below.

Fiji's growth slowed down in 1997 when the sugar industry suffered from low world prices and rent disputes between farmers and landowners. Fiji Sugar Corporation had to revise its forecast further downwards with sugarcane production falling to 3.16 million tonnes (from 3.20 million tonnes in 1996) and sugar production to 328,500 tonnes (from 336,400 tonnes in 1996). Factors contributing to the downward revision included adverse weather conditions, transportation problems, mill stoppages due to insufficient cane supply, industrial disputes and expiring land leases. Political instability in Fiji also affected the agricultural industry and the economy as a whole.

III. AGRICULTURAL PERFORMANCE

III.1 Economic performance of the agricultural sector

Indicators of Samoa's agricultural production (volume indices 1982 = 100) have fluctuated over the period 1991–1996, declining from a peak of 77.7 in 1993 to a low of 41.0 in 1994, and then increasing to 71.5 in 1996.¹ Agriculture and fisheries have been the backbone of the Samoan economy during the past decade, but their share decreased from 21 per cent of the total GDP in 1997 to 14 per cent in 2001. In 2000, agricultural exports of approximately US\$ 10.4 million represented 63 per cent of the country's export earnings. However, the allocation of public sector investment to the agriculture sector in 2000/01 was only 4.48 per cent. Similarly, agricultural exports of approximately US\$ 12.7 million represented 79 per cent of the country's export earnings in 2001, but allocation of public sector investment to the sector in 2001/02 was only 4.8 per cent.

III.1.1 Overview for 2001/02

At current prices, agriculture accounted for 5.9 per cent of total GDP in 2001, down from 7.6 per cent in 2000 and 12.3 per cent in 1997. The decline reflects the residual impact of the taro leaf blight and African snail on the main export crop, taro, as well as damage by other pests that caused extensive damage to fruits and vegetables. The lower world price for copra and the closing down of overseas markets for kava and other agricultural produce also had a discouraging effect on farmers. Both monetary and non-monetary agriculture showed declines in 2001. Non-monetary agriculture however recorded an increase in the share of total agricultural output, from 73.9 per cent to 76.3 per cent.

¹ Central Bank of Samoa (CBS) Bulletin, March 2002.

The fishing industry accounted for 8.3 per cent of total GDP in 2001 and contributed 0.5 percentage points to real GDP growth for the year. Statistics provided by the Ministry indicate that the industry increased production in real terms by 7.0 per cent following no growth in 2000. Fish continues to be the main export commodity for Samoa.

III.2 Products of interest to the domestic market

III.2.1 List of main products for Samoa

Key staples	Taro, bananas, and other root crops (<i>taamu</i> and <i>taro palagi</i>)
Basic food items	Meat, fish, pork, chicken, tropical fruits and vegetables
Processed food	Cocoa, coconut oil, copra, coconut cream

- **Taro** has been Samoa's main staple food, which could be compared to potato for European countries or rice for Asian countries. It has been the main source of income for all farmers, particularly farmers in the rural areas. Taro was also Samoa's major export after the failure of the coconut oil and cocoa markets until 1993, when all taro plantations were wiped out by the effect of the taro leaf blight. Continuous research into new taro varieties has led to an increase in the domestic supply of taro, however production costs have also increased leading to an increase in prices for taro.
- **Banana** is also Samoa's main staple food. The taro leaf blight caused farmers to diversify rapidly into the production of bananas, which then took over as the major food staple for Samoans. However, when production was affected by disease and nematode build-up, high management requirements to maintain export quality escalated the production costs.
- **Coconut** is a basic food item in Samoa, used for both human and animal consumption. Used in the production of copra and coconut oil, it is regarded as a major source of income for farmers and rural communities.
- **Cocoa** is highly demanded in Samoa as a beverage which competes with tea and coffee. However the devastating effects of the cyclones in the early 1990s wiped out most of the cocoa plantations, which in turn led to an increase in the domestic price of cocoa.
- **Taro Palagi and Taamu** (giant taro), which were not commonly consumed, became important substitutes for taro and banana during the time of the taro leaf blight.
- The basic food items for Samoans are fish, beef, pork and chicken. Fish is now the main source of income; about 36 per cent of fish caught are consumed and 64 per cent are sold in the domestic and export market.
- The local supply of beef does not meet local demand as it is commonly used for cultural feasts and ceremonies, as is pork. Fifty per cent of pigs are supplied for cultural ceremonies, 40 per cent for consumption and only 6 per cent are sold in the domestic market.
- Fruits and vegetables are also grown in very small patches for domestic consumption and for sale in the domestic market. The supply of these fruits, vegetables is seasonal, and is very limited during the wet or rainy season.

Samoa: Indicators of agricultural production
(Volume indices 1982 = 100)

Description	Weights	1991	1992	1993	1994	1995	1996
Copra	0.40	0.2	4.2	0.0	0.2	36.2	39.2
Taro	0.29	191.3	179.8	190.2	61.3	70.5	63.5
Fish	0.12	17.6	44.2	51.3	55.1	60.9	172.1
Bananas	0.06	21.0	11.4	42.1	64.1	71.9	67.3
Cocoa	0.05	0.0	0.0	0.0	0.0	0.9	1.8
Beef	0.04	169.5	171.2	174.6	142.4	111.9	115.3
Pork	0.02	343.8	343.8	331.3	337.5	350.0	387.5
Passion fruit	0.01	51.1	0.0	0.0	0.0	0.0	0.0
Poultry	0.01	26.7	26.7	26.7	26.7	26.7	26.7
Total	1.00	73.4	73.8	77.7	41.0	58.3	71.5
Percentage change over the previous year		-13.7	0.6	5.3	-47.2	42.2	22.6
Memorandum items		-	-	-	-	-	-
Production value (in million ala)		43.7	50.2	41.5	47.2	60.3	96.1
Percentage change over the previous year		-3.8	14.9	-17.4	13.8	27.8	59.4

Source: Central Bank of Samoa, based on Agricultural Survey results.

III.2.2. Imports

The impact of the cyclones and the taro leaf blight resulted in the lowering of duties for food items such as rice and flour. These provided an alternative for starch foods and substituted for the limited supply of taro. Although rice and flour are imported duty free, they have not changed the tastes of Samoans who prefer taro or bananas; however they provide a cheaper alternative, especially for families in the urban areas with no plantations.

Samoa currently produces about 700 to 900 tonnes of beef, based on the 1999 agricultural census, which is not, however, sufficient to meet local demand. Hence beef imports range from 900 to 1,000 tonnes annually for canning, and approximately 8,000 tonnes of other, generally poor quality, meat cuts for food consumption. Current figures for meat imports (including poor quality meat cuts) are not available, but are estimated to have increased by 0.5 to 1.5 per cent per annum.

The cattle industry is largely constrained by the absence of vertical integration (abattoir, processing, marketing infrastructure) associated with steady improvements in productivity (animal nutrition and husbandry practices). This is currently being addressed by the Government.

Imported agricultural food products, particularly meat, chicken and eggs, are cheaper than the local products, and meat imports are generally of poor quality. The locally produced products are generally of a higher quality (freshly produced), which enables them to fetch a higher price. Beef and lamb off-cuts are imported mainly from New Zealand and Australia, while the United States is the main source for imported chicken, eggs and turkey parts.

**Chicken prices on the Samoan market
(Landed c.i.f. price plus 12.5% VAGST)***

Source	Price per kg (W\$)**	Price per kg (US\$)
Australia	\$4.32	\$1.30
New Zealand	\$5.00	\$1.51
United States	\$3.30	\$1.00
Note: No duty for imported chicken		

Source: Customs Department

*VAGST = value added goods and services tax

**W\$= tala

Prices of imported and local eggs

Source	Price per dozen (W\$)	Price per dozen (US\$)
United States	\$3.73 (incl. 20% duty + 12.5% VAGST)	\$1.13
Local eggs	\$5.00	\$1.51

Source: Customs Department

Chicken is imported from Australia, New Zealand and the United States and the chicken from the United States does not enter the Samoan market through a food aid programme. Given the lower prices of chicken from the United States and the transportation distance to freight chicken to Samoa, it would appear that the United States is giving subsidies to its poultry farmers.

The setting up of a chocolate manufacturing company has led to the importation of cocoa from other Pacific island countries, as the domestic supply is inadequate to meet the production capacity of the factory. Imported cocoa comes mainly from Fiji and Papua New Guinea. However it accounts for less than 1 per cent of the local market and it is imported mainly for the chocolate factory.

Import duties for agricultural food items

Product	Duty c.i.f (<i>ad valorem</i>) (%)	Source
Rice	0	Australia, United States
Potatoes	20	New Zealand
Chicken	0	United States
Lamb flaps	8	New Zealand, Australia
Flour	0	New Zealand, Fiji, Australia
Eggs	20	United States
Meat	8	New Zealand and Australia
Cocoa	20	Papua New Guinea, Fiji

Source: Customs Department

III.3 Exports

III.3.1. Main exports and performance

Samoa

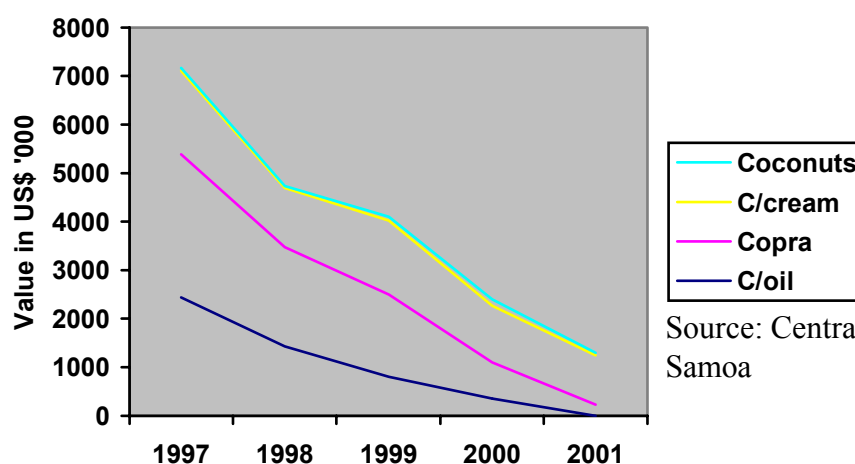
Samoa's main agricultural exports include taro, coconut and coconut products (coconut oil, copra, coconut cream and desiccated coconut), kava, bananas, *noni* (a herbal medicine) and fish. In 1997, the share of agricultural exports amounted to 57 per cent of total exports (excluding fish). However in 2001, this share dropped to 10 per cent of total exports (excluding fish, which constituted 67 per cent of the total exports). The main markets for Samoan agricultural exports are American Samoa (United States Territory), the United States, Europe (mainly Germany and the United Kingdom), Australia and New Zealand. Very little is exported to Japan and other Pacific island countries.

The taro industry, which was one of the leading export earners for Samoa in the 1980s and which suffered badly from the taro leaf blight in the 1990s, has now recovered its position as the predominant staple food crop in Samoa. The new resistant varieties of taro have started to enter the export market, but further research and breeding trials are planned to fully address the quality aspect for export. Taro exports are now on the rise, with an export value of 814,000 tala in 2001, and estimated to rise further.

Today, the most important primary product comes from fisheries, notably the lucrative tuna industry. The design of the local *alia* type fishing vessel and modifications to accommodate long line commercial fishing, as well as private sector participation in marketing and processing has spearheaded the development of the tuna fishery industry. This has taken fisheries from being the third largest export earner (3 per cent) in 1994 (contributing \$0.257 million tala) to the leading export earner in 1998, at about \$25.5 million tala, with a share of 8.1 per cent (\$54.7 million tala, at current GDP prices).² Fisheries remains the leading export earner in 2001 at 36.0 million tala, and a share of 8.3 per cent (\$70.9 million tala at current GDP prices). Projects for 2002 show a slowdown of export earning growth for Samoa, as environmental and external marketing factors (e.g. the events of 11 September 2000) have affected the industry.

The second most important primary products are coconut-derived (copra, oil, meal, cream and desiccated coconut). Coconut was the most important primary product before world prices plunged and cyclones in the late 1980s and 1990s caused considerable damage to the crop. Recovery has been slow, but present acreage figures suggest coconut production will reach previous levels; the infrastructure for diverse products derived from it is now in place. In 2000, coconut products for export earned \$7,465 tala, most of which was from copra. Export values for 2002 are expected to increase with rising world prices and the reopening of the coconut oil mill.

Samoa: Exports of coconut products, 1997-2001



Source: Central Bank of Samoa

² 2001 National Accounts Report – Treasury Department, July 2002

Cocoa has been another important crop but exports have declined to zero from a peak of over 5,000 tonnes in 1962. Samoa produces a fine flavoured, high quality cocoa; however production declined as a result of a fall in world market prices, segmentation of the government estates and large private plantations, inefficiencies in the industry and natural disasters. Cocoa production is now recovering and is geared mainly to local processing. Some cocoa products such as chocolate and Samoan processed cocoa (*koko Samoa*) are also exported in small amounts.

Banana and kava are also important export crops. However these have had their fair share of export problems, such as the recent ban by the European pharmaceutical industry on kava imports. Banana exports continue to face the challenge of trying to meet the sanitary and phytosanitary requirements of the New Zealand market.

Banana exports to New Zealand – a market access issue

Samoan green bananas enter the New Zealand market under strict quarantine rules aimed at protecting New Zealand against the possible spread of fruit fly. Samoan bananas were required to be shipped green and were not allowed into New Zealand if they arrived there already ripened. The shipment of bananas takes 14 days, or longer if there are delays, which means that bananas often become ripe by the time they arrive in a New Zealand port. Samoan exporters had argued that the bananas were shipped green without any fruit flies, but this was not accepted by the New Zealand authorities. Nevertheless, a Bilateral Quarantine Agreement between New Zealand Quarantine and Samoa Agriculture was signed specifying new procedures and requirements for shipping bananas to New Zealand. However this led to another problem where new packaging materials and specifications were required for the bananas. The exporters complained that they had invested a considerable amount in importing the existing packaging materials and that with the new specifications more money was required. Another problem which has yet to be resolved is the exporting of organically grown bananas to New Zealand where fumigation is still required for any millibugs that may be present on the bananas. Once fumigation takes place, it takes away the organic nature of the product. The exporters have refused to allow fumigation and are still lobbying with New Zealand Quarantine.

Noni is now a successful export product being sold to the United States, EU and Japanese markets. However the possibility of these markets raising health-related issues threatens to cut off these exports as happened with kava. Other main export crops, which are becoming strong candidates for export to the New Zealand market, are heat treatment forced air (HTFA) crops such as papaya, breadfruit, and other possible fruits and vegetables currently under HTFA research trial runs.

Samoan exports, 1997-2001 (tala '000 and US\$'000)

	1997 tala	US\$	1998 tala	US\$	1999 tala	US\$	2000 tala	US\$	2001 tala	US\$
Coconut Oil	6 761	2 444	4 134	1 433	2 388	803	1 095	352	6	2
Fish	12 327	4 456	25 507	8 843	32 605	10 959	24 741	7 855	36 002	10 736
Coconut cream	4 772	1 725	3 517	1 219	4 550	1 529	3 618	1 161	3 384	1 009
Kava	1 485	537	4 964	1 721	2 139	719	1 049	337	490	146
Copra meal	542	196	210	73	118	40	44	14	-	
Copra	7 882	2 849	5 684	1 971	4 909	1 650	2 294	736	780	233

Taro	99	36	113	40	432	145	716	230	814	243
Garments	-	-	-	-	-	-	4 273	1 372	5 486	1 636
Bananas (Value)	474	171	163	57	408	137	420	134	150	45
Timber (Value)	124	45	4	1	20	7	26	8	-	-
Beer	1 603	579	2 124	736	2 838	954	2 715	872	2 929	873
Cigarettes					851	286	555	178	274	82
Soft Drinks	222	80	421	146	386	130	631	203	429	128
Coconuts	136	49	126	44	224	75	414	133	167	50
Other	897	322	1 104	383	1 187	399	1 947	625	1 457	434
Re-exports	131	47	7 450	2,583	1 680	565	270	87	294	88
T O T A L	37 455	13 540	55 521	19 249	54 735	18 275	44 808	14 383	52 662	15 704

Source: Central Bank of Samoa

Fiji

Traditionally, sugar has been the largest export product for Fiji, accounting for a quarter of the country's foreign exchange and providing income to over 20,000 farmers and their families. However, with land leases already expiring and the four sugar mills and supply services in desperate need of cash to make them more economical, the sugar industry is on the verge of collapse; some have even suggested that by the year 2003 sugar will no longer be a cash crop. Little has been done to find a replacement industry to utilize the land. Fiji sugar is exported to the EU, the United States (main markets) and neighbouring Pacific markets.

Fiji's fish exports amount to about 10 per cent of the country's foreign sales with a total value of about 100 million Fiji dollars. About half of this is sold as canned tuna and over a quarter as premium fresh fish to the Japanese gourmet market. Fiji has about a million hectares of forest, almost half of which is untouched hardwood forests, and around 100,000 hectares of pine forest under cultivation. Wood chip exports amount to almost 50 million Fiji dollars. A government scheme to harvest the hardwood mahogany trees for over 500 million Fiji dollars was one of the reasons behind the mutiny in Parliament in 2000.

Other agricultural exports from Fiji include copra, taro, kava, ginger and small quantities of papaya, mangoes and spices.

Tonga

The most successful export crops for Tonga are squash pumpkin, sold exclusively to Japan, and vanilla, purchased by France, Japan and the United States. Traditional root crops and vegetables such as taro, kumara, cassava, watermelon and yam are exported to New Zealand and Australia.

Squash pumpkin (*cucurbita maxima*) became one of the main cash crops introduced to Tonga in the past decade to meet the high demands from the Japanese market, which also enabled it to command a high price. Squash has replaced bananas and copra since the late 1980s as the major agricultural export; in some years this vegetable accounts for more than half of all Tonga's export earnings and never less than one third. In 1993/94 squash exports accounted for 13 million pa'anga out of total exports of 23.2 million pa'anga (approximately US\$ 12 million).

Tonga's vanilla industry had also flourished for some years with an annual output of more than 40 tonnes, representing a fair share of world production. However, it faded when global competition brought prices down. In recent years, the value of vanilla exports has been below 1 million pa'anga (US\$ 0.5 million), and in some years much lower.

Kava exports from the Pacific islands have been greatly affected by the European pharmaceutical industry's ban on the use of kava, following claims that it affects the liver. There have been numerous debates, even amongst some European pharmaceutical associations, regarding the scientific evidence to this claim. Meanwhile, Pacific island farmers and exporters are seeking international assistance for proving that kava is safe for human consumption. Kava industry representatives from around the Pacific issued the following statement at a forum in Vanuatu on the kava ban.

**PUBLIC STATEMENT BY KAVA INDUSTRY REPRESENTATIVES AT THE
PACIFIC HERBS BUSINESS FORUM**

The Pacific Island Countries are growers and exporters of kava, and more importantly come from a tradition where kava has been consumed for many hundreds of years. Kava is very important to our tradition, to our ceremonies and to our economies. The amount of kava consumed in the Pacific Island Countries greatly exceeds the dose in herbal medicine, yet no pattern of liver disease has been linked over all those years to kava consumption.

We believe that the medical authorities in some European countries have acted in haste without an adequate scientific basis for their decisions. We call upon these authorities to immediately conduct a scientific review of the alleged medical cases that led to this situation. This examination should include due reference to patients of taking several prescription and herbal products at the same time.

We bring to your attention the fact that consumption in the Pacific Islands is many times the recommended dose in an herbal preparation, but this dose is taken in the form of the natural plant. The actions in Europe will not influence the kava drinkers of the Pacific Islands but our small vulnerable economies need all the export income that we can earn. The loss of export sales will impact on our economies and on the subsistence farmers for whom kava offers one of the few opportunities to generate a cash income.

We therefore ask the European health authorities to reconsider the current actions against kava-based products.

In addition, a study was undertaken by the Fiji School of Medicine on the effects of kava, one of the main conclusions of which was that,

“There is no convincing evidence so far to indicate a direct link of liver toxicity when kava is consumed using traditional methods....There is concern regarding liver toxicity when using herbal kava extract as reported to the German and Swiss health authorities.”

However, the study also stated that the problem was unlikely to be dose-related, but that it was impossible to arrive at any conclusion from the cases reported in Germany until more information was made available about those cases. It mentioned the urgent need to examine the gastrointestinal effects of kava using a properly designed study.³

III.3.2 Preferential market access

Australian and New Zealand markets

Agricultural exports from Samoa and other Pacific island countries (within the Pacific Island Forum) have preferential access to the Australian and New Zealand markets under the South Pacific Regional

³ See paper by Dr. Joji Malani senior lecturer, Fiji School of Medicine, Evaluation of the Effects of Kava on the Liver.

Trade and Economic Cooperation Agreement (SPARTECA). The main exports to these markets are taro, bananas, coconut and coconut products, targeting the Polynesian communities, and they have duty free access to these markets. However, the following are some of the main constraints facing agricultural exports to these markets under the Agreement:

- Stringent quarantine requirements and standards that Samoa exporters lack the resources and capacity to meet;
- Supply constraints to efficiently supply the market;
- The multilateral commitments made by Australia and New Zealand under the WTO have meant a reduction in duties imposed on most products, including coconut products. This has led to a surge in cheaper coconut cream imports from Asia. As a result, the Samoan coconut cream has lost most of its market share in these markets, leading to the closure of two factories as they could not compete with the Asian products.

European markets

Exports from the African, Caribbean and Pacific (ACP) countries, including Samoa, had been entering the EU under the then Lomé IV Agreement. The Samoan exports to the EU were limited to kava and copra, while Fiji's sugar exports entered the EU market under the Sugar Protocol of the Lomé IV Convention. The phasing out of this preferential access through the Lomé IV Convention would have an enormous negative impact on Pacific island exports. The EU's Everything-But-Arms (EBA) commitment has given more market access to other LDCs, particularly those Asian countries that have a competitive advantage in the production of such items as coconut cream and coconut oil. Thus exports from the Pacific region to the EU market have been marginalized as other developing countries have successfully competed for the EU market under the EBA initiative.

Furthermore, despite an improvement in preferential market access conditions under EBA, Pacific island LDCs have not been able to take full advantage of this due to their lack of supply capacity, and particularly their inability to meet the standards and requirements of the market. Inadequate trade facilitation support measures have also adversely affected agricultural exporters. For example, the documentation requirements for exports to the EU are so stringent, even the specifications concerning the text and thickness of the paper, that a Samoan consignment of produce sent to the EU market was rejected at the port of entry as it was accompanied by the wrong export forms. Given the distance from Samoa to the EU market, the costs to the exporter were very high. Other obstacles to access to the EU market are the requirements and standards set for that market which vary for each produce. For instance, in the case of fish exports to the EU, Samoa is required to have all the legislation in place for fish management and an internationally certified authority to test the quality of the fish. Many Pacific island countries have neither the resources nor the capacity to meet these requirements.

United States market

Samoa has preferential market access to the United States under the Generalized Systems of Preferences (GSP). Samoa's main exports to this market under the scheme are fish, *noni* and very small quantities of taro and cocoa. The main obstacle is supply constraints, as orders far exceed the supply capacity. Efforts to export coconut cream and coconut oil were unsuccessful due to the very low prices of these products in the United States market. Also, meeting product standards and United States Department of Agriculture requirements has always constituted an obstacle to agricultural exports, even to the United States' Territorial Government of American Samoa.

Regional opportunities

The Pacific Island Countries Trade Agreement (PICTA) affords opportunities for members' exports. It provides a stepping stone for exporters to build their capacity in meeting quality and supply requirements from a smaller market to a larger international market. The PICTA would come into force once six

members ratify the Agreement, and the Agreement also provides regional collaboration in addressing multilateral trade facilitation issues.

III.4 Policy measures in the agricultural sector

III.4.1 Measures concerning agricultural imports

The surge in imported products after the tariff liberalization programme in 1998 had little impact on the basic staple food crops such as taro and bananas. The main impact was on the processing and manufacturing industries. The poultry industry was significantly affected, while egg imports surged and the price of eggs fell. However, the high quality of locally produced eggs provided a competitive advantage for this product in the domestic market.

The dairy industry in Samoa is still in its embryonic stage, with only a few small fresh milk producers. Hence the reduction in duties provided vulnerable groups with greater access to cheaper dairy products.

The main effect on the agricultural sector was the removal of the government subsidy on agricultural equipment and pesticides sold through the government-owned Agriculture Store. The consequent increase in prices for agriculture equipment, fertilizers and pesticides, meant that they became less accessible for low-income farmers; this in turn led to a decline in the level and value of agricultural production.

Domestic support to the agricultural sector is mainly through technical support and advice by the Ministry of Agriculture. Furthermore, primary industries are exempted from the value added goods and services tax (VAGST), a broad-based tax applied to all goods and services sold in the Samoan market.

In meeting the challenges relating to agricultural development in Samoa, the Government, in its Statement of Development Strategy, outlined the areas of priority focus for the sector for the 2002–2004 period. These include:

- Commercial agriculture diversification;
- Village and subsistence agriculture;
- Commercial fisheries management;
- Village and subsistence fisheries development; and
- Livestock production.

The main strategy focuses on diversification and continuous research on cash crops to address the constraints relating to vulnerability to natural disasters, pests and diseases and market conditions.

The Government of Samoa has also designed policies and strategies to develop the agricultural sector, particularly the village economy, to address the challenges relating to income support and access to basic food. Some of these strategies include:

- Maintaining the share of subsistence agriculture and levels of, and cash income from, agriculture;
- Pushing for diversification of cash crops so that the country does not become too dependent on a few crops for subsistence needs and for export earnings;
- Furthering the development of subsistence and commercial fisheries;
- Devising effective strategies to revive the rural economy;
- Promoting sustainable development of the agricultural sub-sector, which requires consideration of economic, social and environmental systems;

- Drawing a distinction between the servicing needs of the commercial and subsistence sectors and, concomitantly, between economic and social objectives in providing extension and other services to farmers;
- An approach to economic development of the agricultural sub-sector that focuses on the private sector and on those already successful in commercial agriculture. Private sector entrepreneurs will provide leadership and become the “engine for growth” in agriculture;
- Recognizing that the Government, through the Ministry of Agriculture has an important role to play in extension, research, regulation and policy development;
- Making land available for commercial agricultural development through divestment of the Samoa Trust Estates Corporation and Samoa Land Corporation;
- Conducting regular surveys on pests and diseases and continuous research, training and market development.

Village and subsistence agriculture strategies include:

- (i) Strengthening extension services;
- (ii) Identifying more farmer groups;
- (iii) Organizing regular village competitions;
- (iv) Encouraging community-based stalls; and
- (v) Facilitating credit access.

The Government, through a programme of the Asian Development Bank (ADB), has also introduced a Loan Guarantee Scheme that provides access to credit for small businesses. The main target group for this scheme is the farming rural communities who are given the opportunity to obtain financing for their plantations or plots.

III.4.2 Measures concerning agricultural exports

Samoa has developed a number of strategies to improve its exports, including,

- Strengthening and diversifying its agricultural products, both for export and for domestic consumption and processing;
- Targeting export growth and diversification at the commercial level;
- Developing marketing information and identifying marketing opportunities to provide a more focused and farmer-oriented service;
- Providing support to export production through the identification of other crops and products with a higher value-added potential;
- Promoting organic production for niche markets;
- Providing market information on access to domestic and export markets; and
- Improving the infrastructure to help agricultural exports meet the requirements and specifications of the overseas markets.

The Government of Samoa also introduced the Government Export Guarantee Scheme (GEGS) to address issues relating to risk in export orders and to provide exporters with access to financing for such orders (see annex 3 for details of the Scheme). The GEGS aims to boost exports by issuing Export Finance Guarantees (EFGs) as collateral to enable eligible exporters to obtain short-term finance (working capital) from the local commercial banks and the Development Bank of Samoa for confirmed export orders. In addition, the insurance policy requirement of the Scheme should strengthen the confidence of existing as well as new companies to produce new products for export and to export existing products to new lucrative markets overseas. Initially, the Scheme will apply to exports of

goods only. Eventually, it is envisaged that as the GEGS Fund and Systems develop, the Scheme will be expanded to cover exports of services as well.

In Fiji, the restructuring of the sugar industry is a major focus that requires addressing issues relating to low quality and low supply. For the copra industry, the issues to be addressed include improving the supply capacity and cooperating in efforts to stabilize world copra prices, which have been low in recent years. Strategies similar to those adopted by Samoa are being used with the aim of improving agricultural exports and meeting export market requirements and quality standards.

Tonga is also focusing on programmes for greater diversification, and is seeking to improve the quality of its exports in order to access more overseas markets. Improving the infrastructure for trade is also seen as important for Tonga as it prepares for entry into the multilateral trading system.

During the 1980s and the 1990s, two significant trends occurred in the structure of marketing, namely (a) a decline in the export of traditional commodities, and (b) the development of more specialized products for niche markets overseas. This latter trend is both an extension of the domestic market among overseas Samoans and a modern extension of the system of social and family exchanges.

The development of new lucrative markets such as for tuna fish and kava has elicited a dramatic response from the agriculture sector. However, since the turn of the century, kava exports, in particular, have been greatly marred by damaging health reports from Germany, without any proper scientific evidence. It is significant that nearly all the innovations in marketing, such as the development of high-value coconut products, the export of traditional ethnic foods and the exploration of high-value cocoa markets, have been spearheaded by the private sector, limited only by the lack of access to credible capital financing. In some instances, government intervention through financing marketing infrastructure such as the Heat Treatment Forced Air (HTFA) facility which is currently being put in place, will boost private sector exploration of marketing avenues for export of agricultural commodities.

Close collaboration between the Agricultural and Trade Ministries is being set up to strengthen the marketing of agriculture exports to overseas markets. International and regional organizations (such as FAO and the Forum Secretariat) continue to assist the Pacific Island economies in developing marketing strategies and providing support for agricultural exports.

III.5 Non-trade concerns

Most Pacific island countries (as reported by the FAO) have reported anecdotal evidence of poverty and food insecurity among certain sectors of society, particularly in urban areas. Malnutrition has been growing along with increasing incidences of non-communicable diseases. Employment in the rural sector has been declining, exacerbated by growing migration and, in the case of the larger Pacific island countries, mounting law and order problems.

Pacific island countries have significantly changed their dietary habits; there is a growing demand for and consumption of imported, highly processed foods of poor nutritional quality. Moreover the accrued dependency on imported foods has led to increased vulnerability of the traditional food systems. The agriculture balance is negative, and the value and quantity of imported foods are higher than those of exports. Limited land area, the paucity of soils suitable for agriculture, crop diseases and contamination, expansion of tourism, increasing urbanization, and availability of convenience foods at comparatively low costs have adversely affected the production of traditional foods and have led to an increase in food imports.

Food quality and safety remain a crucial issue in the Pacific. Although national food laws are at different levels of development in the region, food standards and regulations are, in general, non-existent. This lack of standards/regulations opens the door to unfair competition from imported products with some local products, and the potential risk of dumping of sub-standard foods.

In addressing rural poverty and household food security in Samoa, the Government considers agriculture and the agribusiness sectors as strategic areas for the creation of remunerative employment and livelihood options. Nutrition education and information campaigns are integral components of the new nutrition policy. Vigorous efforts have been made to promote access to, and consumption of, adequate quantities of a variety of nutritious foods, including better supplies of oils and fats, and of micronutrient-rich foods such as fruits, vegetables and good quality proteins. Other government strategies focus on health and education, which are considered key to addressing nutritional problems, as well as the provision of improved sanitation and safe and adequate supplies of drinking water.

IV. MODALITIES – INPUTS TO THE ONGOING WTO NEGOTIATIONS ON AGRICULTURE

Samoa and Pacific Island exports will continue to face many challenges as multilateral liberalization takes place. Owing to supply-side constraints, the islands are already price takers in nearly all commodities sold in the world market. Continuous liberalization by international markets provides a huge challenge for Pacific island exports in terms of competitiveness, and, as most Pacific island countries still rely on agriculture as the backbone for economic development their governments are obliged to provide support to agricultural producers.

The Uruguay Round Agreement on Agriculture and the requirements for member countries to improve their legislative framework, as well as WTO administrative requirements, have yet to be fully met by the Pacific islands. Most of them lack the awareness and human resource capacity to develop the appropriate institutions and systems. In Samoa, the Agriculture Department has very little knowledge of what it is expected to do under its WTO obligations, and the same goes for Tonga.

The Pacific islands, mainly consisting of small developing and least developed States, certainly require special and differential treatment in light of commitments required under the WTO Agreements. Least developed countries (LDCs) are currently exempted from all reduction commitments. However this does not apply to newly acceding LDCs; the reduction commitments required of them will further disadvantage their economies as their small agricultural industries will have to struggle on their own, without government assistance, to develop their produce. Discussions at international forums, such as the recent World Summit on Sustainable Development, about increasing poverty have highlighted the needs of the LDCs for development assistance from their respective governments and international donors.

The special and differential treatment (S&DT) under the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) calls for WTO members to take account of the special needs of developing country members and, in particular, the LDCs. It also allows longer time frames for compliance with the new SPS measures on products of interest to developing country members so as to maintain opportunities for exports. Since the Pacific islands currently face market access restrictions due to their inability to meet SPS requirements, WTO members should allow S&DT to facilitate export access opportunities for small developing and least developed member countries. Furthermore, technical assistance in meeting the SPS requirements would not only promote compliance but also, more importantly, continuous market access.

IV.1 Market access

(a) *Tariff cuts*

- Some developing countries suggest that they should be allowed exemption from reduction commitments, or be permitted to renegotiate the bound tariff levels, on some tariff lines for food security and rural development purposes.

Samoa is one of the first Pacific island countries to have undertaken substantial tariff reforms in 1998 as part of its economic reform programmes. However due to the recent cyclones, duties for most food items were drastically reduced. Tariffs were reduced from a maximum of 60 per cent to a maximum of 20 per cent; tariffs now range between 0 and 20 per cent. The main impact on the agricultural sector from these reforms has been an increase in the importation of food products, particularly those products that are also domestically produced. For instance, the duty on imported eggs was reduced from 60 per cent to 20 per cent. Since the poultry industry in Samoa is very small, and farmers have to import all the raw materials, such as day-old chicks, chicken feed and packaging materials for eggs, the industry could not compete with the imported eggs. The Government then addressed this anomaly by reducing the duties on the raw materials. However the generally low duties on imported products are seen as a threat to a domestic industry trying to establish itself in the domestic market.

As Samoa is currently negotiating its accession to the WTO, industry consultations and analyses are seen as important mechanisms to provide justification for negotiations for a higher bound rate, particularly for domestically produced agricultural and manufactured products. Samoa is committed to becoming a member of the WTO and has already put in place policies that are in line with the WTO commitments, particularly those relating to tariff reductions. However, flexibility must be given to the country to impose higher bound rates for those industries on which the economy relies heavily for employment, food security and sustainable development.

(b) *Special safeguard measures*

- Some developing countries suggest that there should be a modality which allows a developing country to adopt safeguard measures if a surge in food imports threatens that country's long-term food security concerns.

Samoa has never imposed a safeguard measure, neither does it currently have a safeguard measures in place, on any imports. However the Government introduced a broad-based tax, the VAGST, for all goods and services sold, except for the subsistence agricultural sector. Even for introducing a safeguard measure, Samoa currently does not have the appropriate legislative mechanism in place, nor the human resources and financial capacity to fully analyse any concerns which may warrant the introduction of a safeguard measure.

IV.2 Domestic support

- Some developing countries suggest that there should be greater flexibility in the level or the use of domestic support measures that aim to achieving food security and rural development.

Under its reform programme, the Government of Samoa has taken steps to liberalize all sectors of the economy; agriculture is no exception. It has eliminated all price-support policies for agricultural products, and now has only a limited number of policies specifically aimed at improving agriculture. These are aimed, for instance, at helping farmers to adjust to open-market conditions and at helping to improve the nutritional status of disadvantaged groups by improving subsistence farming practices. Environmental considerations are integrated into each programme. For example, specific programmes are designed to restructure the extension service, to strengthen sustainability through quarantine and disease/pest control systems and to introduce new crop varieties and reforestation. Since Samoa is an LDC, its financial outlays are modest by international standards. STABEX funds from the European Union are not used to subsidize exports, but for programmes related to the establishment of plantation access roads, the facilitation of village production, and the building of an abattoir and a heat treatment plant for exported fruit.

With respect to the "green box" provision for payments for natural disaster relief (Annex II, paragraph 8), the Government operated a bonus scheme which provided support to the agricultural sector after the

cyclones in 1990 and 1991. Under this scheme farmers received direct payments to assist in the planting of their crops. However this was abolished in 1999 when agricultural production reached a sustainable level. Paragraph 8 (a), however, states that

“eligibility for such payments shall be determined by a production loss which exceeds 30 per cent of the average of production in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest entry.”

This may reduce the usefulness of this provision to the Pacific islands, where the majority of farmer holdings are very small in size, with only a few commercialized farms that produce most of the total agricultural production. Calculating the 30 per cent of the average may only benefit those few farmers — not all. Furthermore, resource constraints of farmers may require governments to assist even in amounts less than the 30 per cent average. A more complicated issue is calculating 30 per cent of the average income, particularly of subsistence farmers who also earn some form of income.

Paragraph 8 (b) further restricts such payment, which can be made “only in respect of losses of income, livestock (including payments in connection with the veterinary treatment of animals), land or other production factors due to the natural disaster in question.” Damages following a natural disaster, such as the cyclones in Samoa, range from the loss of production/income (from crops to livestock) to destruction of houses/homes, roads and loss of basic utilities such as water and power. In such a situation, the Government of Samoa had to start rebuilding everything from scratch, the most important being the provision of utility supplies, rebuilding roads (including plantation access roads) and providing assistance for rebuilding houses, school and churches. In redeveloping agriculture, the Government had to provide planting materials and financial assistance (including soft loans from the Development Bank of Samoa) to revitalize the village economy. Given the experience of the Pacific islands with natural disasters, payment assistance in support of reconstruction after disasters should be included.

Concerning food security and rural development, a modality that would provide developing countries with flexibility to introduce domestic support measures aimed at these important socioeconomic objectives is very important, particularly for vulnerable small island economies such as Samoa. Two recent cases which affected the rural communities, especially in the agricultural sector, has led the Government to provide domestic support measures to address these concerns with the main objective of alleviating any negative impacts on the rural communities.

In 2001 the Samoan Government reintroduced a price stabilization scheme for copra, with a view to compensating for the plunge in the world prices for copra from 1999-2000, and to encouraging farmers to produce copra. The Government allocated 1.5 million tala (approximately US\$ 450,000) to stabilize the local price of copra. A minimum producer price has been set by the Government, and should the price offered be less than this minimum price the Government will top it up. For instance the current price for a metric tonne of copra is 600 tala, of which 10 per cent is the stabilizer.

In the 2002/03 Budget, the Government noted with concern the adverse impact on kava exporters of the kava ban imposed by the European and United markets. Furthermore, the Government, in recognition of the importance of expanding exports from Samoa, as well as the limited access of exporters to finance from financial institutions, introduced a Government Export Guarantee Scheme, to be used by eligible exporters as collateral for obtaining export financing from the local financial institutions. An amount of 1 million tala (approximately US\$ 295,000) has been allocated for this new scheme.

- Some developing countries suggest that the *de minimis* limit of 10 per cent should be increased for developing countries. As part of its accession process to the WTO, Samoa has submitted Agriculture Support Tables (see annex 2 of this paper). Given recent cases where the Government has had to provide support to the agricultural sector, the total amount of assistance given may be more than the *de minimis* limit; hence the suggestion to raise the *de minimis* limit is relevant.

IV.3 Export subsidies

- Some developing countries suggest a targeted approach to eliminating export subsidies (e.g. immediate elimination of subsidies on products exported by developing countries).

A constraint facing many small Pacific island countries is their very limited resource base, and most countries traditionally have relied on commodities such as coconut and coconut products, cocoa and coffee. The high subsidies that developed countries provide to their soybean or corn producers has shifted the demand from coconut oil to a more competitive price (price distortion) for soybean oil and vegetable oil. The consequent reduction in coconut oil prices has adversely affected the Samoan industry, resulting in the closure of the only coconut oil mill in the country.

Pacific island economies would therefore like to see developed countries eliminate export subsidies first, prior to a targeted commitment from small island States or developing countries to reduce their subsidies, even though this may increase their bills for imported food, given that the Pacific islands are mostly net food importing developing countries (NFIDCs).

V. FUTURE OUTLOOK

In the course of ongoing WTO negotiations on agriculture, it is evident that allocation of benefits from multilateral liberalization of the agricultural sector has been uneven among WTO members countries, particularly the small island economies. Benefits for the Pacific islands lag far behind. Their biggest problems arise from their smallness, remoteness, and vulnerability, which have made it more difficult for them to access international markets successfully. The future of the Pacific islands depends upon substantial attention concessions? from the developed world, particularly for the development of the agricultural sector which is the backbone of many Pacific island economies.

In order for the small island economies to benefit from multilateral liberalization, the following modalities and assistance are needed:

- i) Enhance supply capacity constraints, such as facilitating access to land and finance to improve productive systems and providing access to free or subsidized planting materials.
- ii) Strengthen infrastructure for the agricultural sector. Government support is needed in the areas of research, marketing information, ongoing advisory services on opportunities available, as well as infrastructure to test the quality of the produce (such as heat treatment and abattoir services).
- iii) Reduce duties on raw materials. The narrow resource base of the island economies means that most raw materials, pesticides, fertilizers and packaging materials are imported. Lower duties on these materials would enable them to set competitive prices for their agricultural products.
- iv) Domestic support. Small, vulnerable economies should be allowed flexibility to provide domestic support to specific sectors. Governments at this stage of the negotiations cannot foresee any future effects of catastrophes that may not be covered by any committed safeguard measures under the Agreement.
- v) Increase knowledge and capacity concerning the multilateral trading system and, in particular, the Agreement on Agriculture. Most officials do not have a clear idea of their role and responsibilities under the WTO Agreement on Agriculture, or the requirements for SPS and technical barriers to trade (TBT) under the WTO. Improved knowledge of the WTO framework and how these officials could link it to national policies and strategies is a high priority.
- vi) Trade facilitation measures. Small island economies need the necessary facilities to assist their agricultural exports to meet the requirements of the international markets, and the resources to set up such facilities.

- vii) Market information. Improved access to information on markets, prices and market requirements would assist in the preparation of products for export.
- viii) Participation in the multilateral negotiations. The Pacific island economies have little knowledge of the current negotiations on the Agreement on Agriculture, nor do they have the resources and capacity to attend these negotiations. A mechanism that would help them to participate is needed to enable them to contribute their comments or ideas on the negotiations;
- ix) Market access. Regional free trade arrangements such as the PICTA would provide opportunities for the smaller export quantities to enter the smaller markets;
- x) Non-trade concerns. Most island economies have yet to fully analyse their non-trade concerns, and building such awareness would assist the Governments in developing the right policies; these would not have any implications on non-trade concerns.

VI. CONCLUSIONS

The Pacific island economies are prepared and committed to integration into the multilateral trading system. However the many constraints associated with smallness, remoteness and vulnerability of these economies present a stumbling block to their success in world trade. Agriculture is the backbone of their economies, providing livelihood and welfare to the majority of their people. It is important for the multilateral trading system to benefit all WTO members countries, from the developed to the least developed countries, taking into consideration the special needs of these economies.

ANNEX

Annex1
Real GDP, 1996-2001 (Tala million)

At constant 1994 prices	1996	1997	1998	1999	2000	2001
Agriculture	89.56	77.34	75.81	74.91	75.34	66.12
Fishing	44.00	47.50	53.26	49.66	49.65	53.14
Food and beverage manufacturing	29.67	29.48	24.16	24.32	23.33	22.81
Other manufacturing	70.62	64.75	58.16	59.11	66.22	78.71
Construction	36.96	39.48	37.62	38.86	47.20	49.17
Electricity and water	16.31	16.89	16.75	16.34	17.64	20.68
Commerce	72.75	79.41	85.50	92.35	100.80	109.29
Hotels and restaurants	13.24	12.66	12.67	12.98	13.78	15.33
Transport and communication	57.38	59.65	66.53	70.72	78.40	88.13
Public administration	50.07	54.71	59.49	63.55	67.54	71.36
Finance and Business Services	32.74	34.94	38.82	40.15	42.24	46.18
Less enterprise share of FISIM*	-2.83	-2.86	-3.15	-3.41	-3.73	-4.17
Ownership of dwellings	20.81	21.23	21.65	22.09	22.53	22.99
Personal and other services	39.57	40.25	41.92	42.72	45.38	48.65
Value added at 1994 market prices	570.85	575.43	589.21	604.36	646.33	688.39
Implicit price deflator	97.3	108.7	111.8	115.6	119.9	123.7
Selected measures of production at constant 1994 prices:						
Non-monetary	109.41	122.93	120.62	119.12	119.81	114.06
Monetary – total	446.11	452.50	468.59	485.24	526.52	574.34
Monetary – restricted scope	391.74	406.12	428.48	443.81	479.33	515.23

*FISIM - Financial Intermediary Services Indirectly Mission

Annex 2

Domestic support, period reporting: 1996/1997 – 1998/99
(Supporting Table DS:1)

Measures exempt from the reduction commitment - "green box"				
Measure Type	Name and description of measure	Monetary value of measure (tala)	Data Source	
1	2	3	4	
Research	General research including research Programmes relating to particular products			
	Ministry of Agriculture, Forestry, Fisheries and	NIL		
	1996/1997			
	Meteorology;	SAT 511 204		
	1997/1998			
	Treasury Department	SAT 717 626		
	1998/1999			
	Average 96/97 - 98/99	SAT 409 610		
Pest and Disease Control	Quarantine and eradication, pest and disease control measures.			
	1996/1997	SAT 346 453		
	1997/1998	SAT 525 039		
	1998/1999	SAT 708 563		
	Average 96/97 - 98/99	SAT 526 685		

Extension and Advisory Services	Includes training services	
	1996/1997	SAT 742 103
	1997/1998	SAT 2 095 041
	1998/1999	SAT 1 829 083
	Average 96/97 - 98/99	SAT 1 555 409
Inspection Services	Includes forest monitoring, Services and other Control measures	
	1996/1997	SAT 234 940
	1997/1998	SAT 551 037
	1998/1999	SAT 584 432
	Average 96/97	SAT 456 803
<hr/>		
Total Value of Agricultural Production		
1996	SAT 59.93 million	National Accounts
1997	SAT 77.01 million	Report
1998	SAT 67.34 million	Treasury Dept.
Average 1996 - 1998	SAT 68.08 million	

Note: SAT= tala

Annex 3

Samoa Export Guarantee Scheme

Objectives

The Government Export Guarantee Scheme (GEGS) aims to boost exports by issuing Export Finance Guarantees (EFGs) as collateral to enable eligible exporters to obtain short-term finance (working capital) from the local commercial banks and the Development Bank of Samoa for preparing confirmed export orders. In addition, the insurance policy requirement of the Scheme should strengthen the confidence of existing as well as new companies to produce new products for export and to export existing products to new lucrative markets overseas.

As a start, the Scheme shall apply to the exports of goods only. Eventually, it is envisaged that as the GEGS Fund and Systems develop, the Scheme will be expanded to cover the exports of services as well.

GEGS Committee & GEGS Unit

A special GEGS Committee has been appointed by the Government to oversee the implementation of the Scheme. Also, a special GEGS Unit has been established within the Department of Trade, Commerce and Industry to handle the day-to-day operations of the Scheme. The Unit has authority to approve EFGs of up to \$10,000, and those in excess of \$10,000 that the Unit considers worthy of support shall be referred to the GEGS Committee for approval. The Committee shall meet to consider these applications once a week.

Registration of eligible exporters

All individuals and companies who wish to benefit from the Scheme need to be registered with the GEGS Committee – through the GEGS Unit.

However, only local individuals and companies that are predominately locally owned (i.e. with a local shareholding of more than 50 per cent) are eligible to register under the GEGS. To give the Unit sufficient time to process and verify the authenticity and credibility of potential users of the Scheme, all applications for registration should be lodged with the GEGS Unit at least 14 days prior to lodging an application for an EFG. For registration, the applicants need to provide authentic documentation to confirm their legal status and existence in Samoa. The quality of management staff will also need to be considered, since that staff will be responsible for the daily operations of a company. In addition to the above requirements, the Committee shall take into account the applicant's trading record and history of cooperation with the Government on other related issues.

A one-off non-refundable fee of \$50 is required to process applications for registration. Revenues from these fees shall be deposited in the GEGS Fund Account.

The GEGS Committee reserves the right to accept or reject any application for registration. The Committee also reserves the right to de-register any company for breach of any of the terms and conditions of the GEGS.

Once an application for registration is approved, a certified copy of the original registration form shall be provided to the exporter while the Unit keeps the original.

Criteria for acceptance and sum guaranteed

Export Finance Guarantees (EFGs) can only be issued to registered GEGS companies and individuals. In addition, the issuances of EFGs also need to take into account whether the exporter adhered to the

conditions of any previously issued EFG.

To minimize the risk exposure of the Government, the EFGs can only be issued for confirmed export orders, backed by a comprehensive trade credit and marine insurance policy to cover at least the value of the EFG to be issued. Documentary evidence of a comprehensive buyer/seller contract is required to verify the existence of a confirmed export order.

The trade credit and marine insurance policy should designate the Government of Samoa as the sole beneficiary. The trade credit part of the insurance policy should at least cover commercial risks (buyer insolvency, protracted default by a solvent buyer, contract repudiation) and political risks. In assessing this requirement of the Scheme, the reputation and track record of the insurance companies involved should also be taken into account.

Sum guaranteed

Based on discussions with exporters, it is estimated that 20 per cent of the value of an export order represents the profit margin for the exporter and the rest (80 per cent) represents the full cost price of the order. Given that the purpose of GEGS is to provide working capital to exporters, an Export Finance Guarantee should only be issued up to a maximum of 80 per cent of the total confirmed value of the export order.

Since the values of the export orders are likely to be denominated in foreign currency, the sum guaranteed shall be calculated and specified in Samoan Tala at the exchange rate prevailing at the EFG'S date of issue.

Terms of an Export Finance Guarantee (EFG)

An EFG may not be issued earlier than 30 days prior to the expected date of shipment of the export order. The EFG shall become void once the bank receives the export proceeds. However, if the export proceeds are not received within five months from the date of issue, the lender may proceed to call up the EFG. To allow sufficient time for the GEGS Unit and the lender to execute an EFG that has become callable, the EFG shall remain valid for no more than two weeks after the stated five-month period has lapsed.

Once the export proceeds have been received, the bank should certify the original EFG form / certificate to that effect and return it to the GEGS Unit for closure.

On the other hand, if the EFG loan repayment is not received by the relevant bank after the five-month period stated above, that bank may proceed to certify the original EFG form to that effect and submit it to the GEGS Unit to recover the funds to repay the EFG loan.

Issuance of Export Finance Guarantees

The Application Form for EFG shall be completed in quadruplicates. Once an application for EFG is approved, the original form (for the relevant bank), the first copy (for the relevant insurance company) and the second copy (for the exporter) shall be provided to the exporter for appropriate action while the GEGS Unit shall keep the remaining copy. The exporters are required to submit the shipping documents to the GEGS Unit once the export shipments leave the country. The name of the lending institution to which the EFG is payable should be specified on the EFG Application Form. The only lenders that are allowed to participate in the Scheme are the commercial banks and the Development Bank of Samoa.

Interest rates on GEGS loans

The principle role of the Scheme is to provide collateral to secure working capital from the local financial institutions. Given that Samoa aspires to become a member of the World Trade Organization, it is necessary to ensure that the Scheme is not seen as providing a direct interest rate subsidy to

exporters. Exporters are, therefore, required to pay the normal market rate of interest (i.e. the base lending rate plus the normal risk margin) that is charged on these types of borrowing by the banks.

However, since the Government will absorb virtually all the risks, the commercial banks shall retain only the base lending interest rate and pay the rest to the GEGS Fund.

Transfer of ownership

EFGs may not be transferred to other parties.

Confidentiality of information

The GEGS Committee and Unit shall maintain the confidentiality of all commercially sensitive information that is collected in the course of administering the GEGS.

Review of the Scheme

The Scheme shall be reviewed every six months. The reviews shall be prepared by the GEGS Unit for endorsement and submission to the Cabinet by the GEGS Committee. The reviews shall incorporate the views of all stakeholders in the Scheme.

For further information, contact the Industry Development Unit of the Department of Trade, Commerce and Industry on:

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