

Submission by Austrade to the  
Senate Foreign Affairs, Defence and Trade  
References Committee



Inquiry into  
Australia's relationship with Papua New Guinea  
and other Pacific Island countries

Prepared by  
Pacific Markets  
Austrade

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## **TERMS OF REFERENCE**

To inquire into and report on Australia's relations with Papua New Guinea and other Pacific Island countries, with reference to:

- (a) the current state of political relations between regional states and Australia and New Zealand;
- (b) economic relations, including trade, tourism and investment;
- (c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- (d) the implications for Australia of political, economic and security developments in the region.

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## AUSTRALIA'S TRADE RELATIONS WITH THE PACIFIC MARKETS

### INTRODUCTION

The Australian Trade Commission (Austrade) is the federal government's principal trade and international business facilitation agency. Our mission is to contribute to community wealth by helping more Australians succeed in export and international business.

Operating as a statutory authority within the Foreign Affairs and Trade portfolio and working closely with other Federal, State and Territory government agencies, Austrade helps Australian business reduce the time, cost and risk involved in entering and expanding overseas markets.

Austrade provides a wide range of international market development and investment services to Australian companies, as well as to international buyers and investors, throughout our network of over 1 000 staff in more than 90 locations in the cities and regions of Australia and throughout the world.

Austrade's services to Australian companies include:

- practical export information and advice;
- identification of overseas opportunities;
- on-the-ground exporting and investment support overseas and in Australia
- a comprehensive trade exhibition program;
- services to identify potential overseas business partners and to research and access high -potential markets for Australian companies;
- strategic export planning and network formation services; and
- general information is provided at no charge to our clients and is available either through our website or the export advisory service. Specific tailored advice is provided to Australian companies based on an hourly rate, quoted in advance.

Austrade also has an important role in providing advice, guidance and coordination to the Government and its agencies on export matters. Austrade also provides financial assistance to Australian exporters through the Export Market Development Grants scheme, which encourages companies to seek out and develop overseas markets. Under the scheme, eligible Australian businesses are reimbursed for part of the export marketing costs they incur.

This submission focuses on Term of Reference (b) to the extent that it addresses Australia's trade relationship with Papua New Guinea and the Pacific Islands. Although this submission may touch on political relationships and development co-operation, Austrade's charter is to help Australian companies win export business and generate outwards investment, thus the limitation on the comments provided herein.

## 1 REGIONAL OVERVIEW

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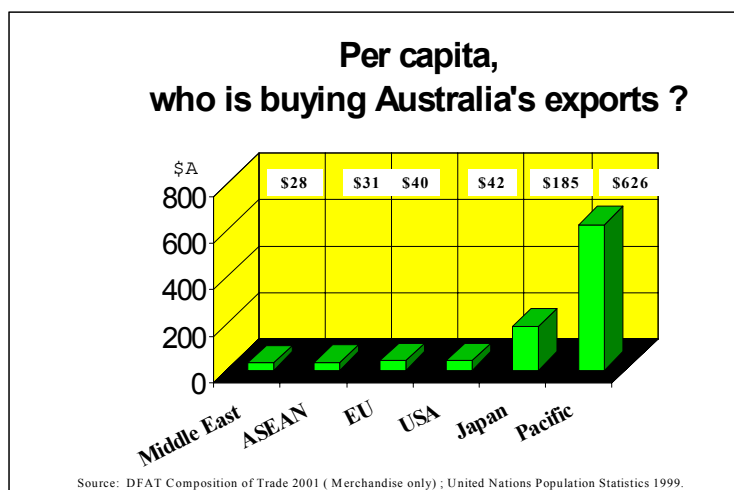
The Pacific region, comprising fifteen countries and territories, is an area where Australia has a uniquely strong presence both politically and commercially. The region is a microcosm of the world, with markets ranging from the highly affluent and quality conscious, to developing markets with wide-ranging import needs and strong price sensitivity. This variety of markets, all in close proximity to Australia, offers Australian companies tremendous opportunities to grow their business internationally, particularly those new to exporting.

Some important facts about the Pacific region, which for Austrade includes New Zealand:

- the Pacific is one of the world's largest markets for Australia's manufactured products
- Australian service providers are widespread in the Pacific
- Australia earned \$12 billion in 2001 in exports and services
- 8 cents in every export dollar earned by Australia comes from the Pacific
- Tourism is big business

Australia's share of the import markets in the Pacific is strong – ranging from 16% in New Caledonia and 24% in New Zealand, to 45% in Fiji and 52% in Papua New Guinea. While Australia is in this strong position, an erosion of its market share is likely if exporters become complacent to the opportunities in the region, in the face of growing competition, particularly from Asia, Europe, North America and New Zealand.

The following graph shows the penetration of Australia's merchandise exports to the Pacific (including NZ) in terms of per-capita purchases. Clearly, the people of the Pacific buy more from Australia, per-capita, than do those from other key countries/regions.



### 1.1 Austrade in the Pacific Region

Austrade  
has four  
offices  
across the

Pacific to provide a range of assistance to exporters seeking to sell goods and services in the fifteen countries and territories that comprise the South Pacific region, including New Zealand - These offices are:

- Port Moresby – covering PNG and the Solomon Islands.
- Suva – covering Fiji and the Pacific Islands.
- Noumea – covering New Caledonia, Vanuatu and French Polynesia.
- Auckland – covering New Zealand (and managing the Region).

(The focus of this submission will be on three of these main markets, ie PNG, Fiji, New Caledonia, as well as Samoa and Tonga.)

Austrade has a total of 29 staff in the Pacific Markets Region (including NZ) and support 11 DIMIA staff. Austrade’s budget for this region in 2001/02 is \$4.6m. The allocation of staff, and industry sector priorities for each country, are shown below:

<b>Offices</b>	<b>Priority Industry Sectors</b>
<b>Auckland, NZ</b> <ul style="list-style-type: none"> <li>• Austrade: 1 A-based, 9 locally engaged (including Post admin)</li> <li>• 3 Passports/Consular</li> <li>• DIMIA: 2 A-based, 9 locally engaged</li> </ul>	<ul style="list-style-type: none"> <li>➤ Food and Beverages</li> <li>➤ Information, Communications &amp; Technology (ICT) &amp; Biotech</li> <li>➤ Services</li> <li>➤ Infrastructure</li> <li>➤ Agribusiness</li> </ul>
<b>Port Moresby, PNG</b> <ul style="list-style-type: none"> <li>• 2 A-based</li> <li>• 4 locally engaged</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mining equipment &amp; services</li> <li>➤ Education and training</li> <li>➤ ICT</li> <li>➤ Infrastructure</li> <li>➤ Food and beverages</li> </ul>
<b>Suva, Fiji</b> <ul style="list-style-type: none"> <li>• 1 A-based</li> <li>• 3 locally engaged</li> </ul>	<ul style="list-style-type: none"> <li>➤ Tourism and hospitality</li> <li>➤ Education and training</li> <li>➤ Rural telecommunications (including ICT)</li> <li>➤ Building materials</li> <li>➤ Food and Beverages</li> <li>➤ Infrastructure</li> </ul>
<b>Noumea, New Caledonia</b> <ul style="list-style-type: none"> <li>• 3.5 locally engaged</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mining equipment &amp; services</li> <li>➤ Education and training</li> <li>➤ Food &amp; Beverages</li> <li>➤ Infrastructure</li> </ul>
<b>Canberra</b> <ul style="list-style-type: none"> <li>• 2.3 A-based</li> </ul>	<ul style="list-style-type: none"> <li>➤ Supports the region’s activities in Australia</li> </ul>

In 2001/2002, Austrade’s focus for the region has been to build stronger and more sustainable relationships between Australian companies and potential customers in the Pacific by:

- facilitating business missions into the region, in collaboration with State Governments and business councils; and

- marketing the Pacific Region to new small to medium exporters, particularly those based in regional Australia. (Of all the Austrade regions, the Pacific clearly has advantages of cost, proximity, familiarity and range of opportunities to make exporting attractive to new starters.)

### **2.1 Economic Overview**

The PNG economy in 2002 remains weak, due largely to depressed demand. Consumer and business sentiment has been sombre throughout 2001-2002. Nonetheless, over the past three years the Morauta Government has achieved considerable stability. Despite recent loosening, inflation has been kept below 10%, international reserves have increased to over six months cover of non-mining imports, and privatisation and structural reform programs continue to move forward, albeit slowly.

Management of the PNG economy requires vision, resilience, patience and accord. Perceptions of PNG as politically unstable, with issues around security and corruption, significantly affect its ability to attract new foreign investment and retain existing investments, despite having abundant natural resources.

The mainstay of the PNG economy, the resources sector (oil and mining), is facing a looming crisis as existing mines continue to age and fiscal disincentives propel potential investors to more attractive environments in other parts of the world. Four of PNG's five operating mines are scheduled to close down within 10 years. It is generally estimated that 10 years are needed to bring a new mining project online. Yet only one major new project, the US\$850 million Ramu cobalt/nickel prospect, has been identified in the last five years and the project developers have been searching two years for an equity partner. Although no new significant discoveries of oil have been made, there have been some encouraging indications with recent exploration.

Both the PNG Department of Mining and the major industry body, the PNG Chamber of Mines & Petroleum, have spoken out strongly against continued government apathy towards the effect of the country's taxation regime on future mining developments in the face of low commodity prices, weak demand and declining world economic growth. They have also cautioned that while PNG is resource-rich, the complex geology and challenging extraction processes required are further deterrents to resource developments.

The success or otherwise of the PNG-Australia Gas Project could be the key to PNG's medium-term economic survival. If this project proceeds, it has the potential to broadcast renewed investor confidence in PNG.

### **2.2 Australia-PNG Ministerial Forum and Trade Ministerial visits**

The Annual Ministerial Forum remains the key platform for bilateral trade relations although trade and investment matters are occasionally raised during bilateral meetings of other Ministers, notably the Minister for Foreign Affairs. The last Forum was in Canberra in February 2001.

More consistent and progressive trade relations, including regular and broad ranging Ministerial contact, is to be encouraged. So, too, are measures to help PNG create a deeper export-oriented economy.



### 2.3 Australia-PNG Trade

PNG is a \$1 billion export market for Australian companies. Australia has the predominant share (around 52%) of total imports into PNG, but imports and investment from other supplier nations, especially China and ASEAN, are challenging Australia's position.

Australia's Trade with PNG:

<b>\$A,000</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Total Exports</b>	<b>1,207,455</b>	<b>1,041,792</b>	<b>974,675</b>	<b>984,129</b>	<b>1,031,063</b>
<b>Total Imports</b>	<b>959,080</b>	<b>697,874</b>	<b>1,128,559</b>	<b>1,431,501</b>	<b>1,244,256</b>
<b>Balance of trade</b>	<b>248,374</b>	<b>343,918</b>	<b>-153,884</b>	<b>-447,372</b>	<b>-213,193</b>

Australia's trade position with PNG over the five years 1997-2001 has gone from a \$248m surplus to a \$213m deficit, due to increased petroleum imports from PNG and declining exports.

Major Australian exports in 2001 were food & beverages (\$109m), refined petroleum (\$90m), specialised machinery (\$62m), civil engineering equipment (\$41m) and computer parts & office machines (\$29m).

In 2000, Australia's services trade with PNG was worth approximately \$562 million, with service exports of \$380 million, and service imports of \$182 million.

### 2.4 Trade and Investment Environment

Although difficult to measure, it is estimated Australian investment in PNG is approximately \$4 billion. It is concentrated in the resource sector and in professional services. Approximately 40% of all new investment inquiries are from Australia. Very few if any of these are taken up. Companies wanting to trade and invest in PNG must negotiate major obstacles, including restrictions on foreign investment in some sectors, poor transport infrastructure and the high cost of utilities. Nevertheless, Australia has many advantages, including a long political association with PNG, geographic proximity, regular and reliable (if relatively costly) transport links, and broad people-to-people links.

#### 2.4.1 Business Environment for Australian Companies

Australia has a substantial and dominant business presence in PNG. In addition to geographical proximity, which is of particular relevance to Queensland, the business environment works to Australian advantage. The legal system and commercial law is framed around Australian practice. Trade administration in customs, quarantine and health is based on Australian policy. Industrial and safety standards are essentially Australian, though not as rigorously enforced. Some costs of investment and doing business, especially security precautions to combat the continuing crime problems, high utilities costs and bureaucratic delays in gaining work permits or other regulatory requirements, remain a negative influence on business growth. That said, the narrowness of the economy, that often sees only one major supplier per sector, allows efficient companies to achieve excellent returns.

## 2.4.2 Services

Australian services investment into PNG is currently valued at \$380 million. The PNG professional business service sector is dominated by Australian companies or global companies or partnerships with regional headquarters in Australia. Much of PNG's legal, accounting, consulting, auditing, insurance, banking and real estate businesses follow Australian practice.

## 2.5 Austrade's Activities and Opportunities for Australian Business

### 2.5.1 Mining equipment and systems

Mining presently contributes 25% of PNG's exports and (together with petroleum) 15% of GDP. Around 70 cents in every mining procurement dollar is spent in Australia. Production from existing mines (principally gold and copper) is strong and the mines are expected to continue to perform above planned levels over the next 18 months.

Australia with its mining strengths, proximity and subsequent ability to supply mining equipment, supplies and services quickly and competitively, is often the preferred supplier.

Austrade will continue to maintain and consolidate close relationships with supply and purchasing offices in Australia and PNG so that Australian companies can benefit from these relationships. It will promote Australian capability in the supply of equipment and services to the mining sector through exhibitions and site visit programs.

As emerging opportunities are identified, market entry strategies will be developed to ensure that Australian companies are able to position themselves effectively as potential suppliers. Business establishment costs in PNG are high in terms of time, risk and cost, so Austrade will continue to offer new exporters and companies new to PNG an effective and valuable source of advice on market entry and contacts in the mining sector.

With around 40% of Australian exports into PNG related to Australian-based resource investments, Austrade is reinforcing this competitive advantage by engaging a wide range of allies to help Australian companies win a share of business with the PNG mining sector.

### 2.5.2 Education and training

Historical links, common language, proximity and a familiarity with the Australian culture provide an easily accessible market for Australian institutions. Those that offer tailored courses in PNG, or have twinning arrangements with local institutions, are likely to increase their chances of success in the market.

Companies offering courses on-shore need to consider appointing a local representative. Austrade can assist in identifying PNG companies and organisations, which are interested in representing Australian institutions. A visit to Papua New

Guinea is essential prior to appointing an agent/representative, or offering courses, in order to gain an appreciation of the market's uniqueness and potential.

### 2.5.3 Infrastructure

While business is tight, and new developments are not yet forthcoming, there are increasingly positive expectations that the PNG to Queensland gas pipeline may finally receive approval later this year. If this occurs, it will provide a much needed boost in confidence in PNG. The project remains a very significant infrastructure project, at an estimated USD \$3.2 billion.

Austrade aims to assist Australian exporters by:

- helping second and third tier companies win work into the PNG side of the project, especially through identification of partners;
- maintaining contact with allies such as the PNG Department of Petroleum, potential local bidders (some Australian), Federal and Queensland State Governments (including DFAT and Treasury) and with non-operator proponents, especially Oil Search; and
- saving proponents time and resources by helping them identify qualified, competitive Australian suppliers who are linked into PNG.

### 2.5.4 Food and beverage

PNG imports some \$158 million worth of food and beverages of which \$132 million comes from Australia. This represents 83 per cent of all food and beverage imports. Other major supplier countries include New Zealand, Hong Kong and China.

Major items from Australia include rice \$80 million, meat fresh and frozen (beef and lamb) \$11 million, dairy products \$8 million, cereal preparations \$8 million, edible products and preparations \$7 million, fruit and vegetable \$7 million and beverages \$5 million.

There are three clear market segments within Papua New Guinea:

1. **Supermarket groups** with seven major players -Andersons Foodland, Stop N Shop, Papindo, TST, Seeto Kui, Rainbow and Boroko Foodworld – these outlets account for 60 per cent of food retail sales.
2. **Local trade stores** and **'tucker box' stores** in the many smaller outlying communities. They stock lower cost items that are likely to be locally produced or sourced from Asia, Malaysia and China.
3. **Direct** sourcing by organizations with large purchasing power. For example, catering companies servicing the mine sites and hotel chains. These organizations often consolidate their purchases in Australia.

Another supermarket, Tesco (UK) plus some lines from companies from the USA, have eroded some of the Australian market share. A number of Australian based international companies operate joint ventures repackaging and manufacturing under licence operations. These include companies such as Nestle, Arnotts and Coca Cola. Although this results in a reduction in export revenue, many raw materials are still

imported from Australia. Tastes in PNG are generally Western, and imported products fall into four major categories:

- **Fresh Produce** – fresh whole seafood, pasta varieties and sauces, and fruit and vegetables
- **Ethnic Food** – Asian, Indian, Italian and Mexican
- **Convenience Foods** – frozen foods, fresh ready pastas, sauces, salad greens and salads
- **Gourmet Snack foods** – fine wines, salamis, flavoured cheese, dips and pate

## 2.6 Impediments to Trade

The direct impediments to trade into PNG include:

- At times, unnecessary or bureaucratic delays in customs or quarantine clearance
- Insufficient cold storage at points of entry
- Threat of direct or contrived theft of goods in transit
- Need for expensive or difficult terms of payment to cover buyer risk
- Although adhering to WTO schedules, reluctance to advance tariff reduction

Indirect or market conditions that could impede trade include:

- Buyer reluctance to engage new suppliers
- Near monopoly supply positions in several sectors
- Poor infrastructure and transportation
- Insurance overheads, including export insurance costs, due to the market grading or political and social risk of the market.

## 2.7 PNG's Trade Relationships

PNG has a relatively limited but sizeable range of exports, notably crude oil, copper, gold and coffee. PNG imports the widest range of manufactured goods.

### 2.7.1 Main Trading Partners 2000

The main sources of imports into PNG are Australia, Singapore and Japan. The main export destinations of its products are Australia, Japan and China.

### **3.3 Economic Overview**

Since late-2000 the Fiji economy has been improving, led by a recovery in tourism, Fiji's main foreign exchange earner. While tourist numbers have dropped off from the USA and Japan, numbers from Australia and New Zealand have increased. Apart from sugar, tourism, mining and, since its establishment in the late 1980s, garment manufacturing have all made significant contributions to GDP.

Fiji experienced a severe economic downturn as result of the May 2000 political crisis. Economic growth declined by 2.8% in 2000 with poor economic performance in most sectors. Tourism and the garment and construction industries were severely affected. The contraction of the economy was accompanied by substantial job losses and migration of skilled and professional workers.

The economy has a high reliance on sugar, most of which is exported to the European Union (EU) under the Lomé Convention and Sugar Protocol (now replaced by the Cotonou Agreement) which typically supports prices for sugar imports from African-Caribbean-Pacific (ACP) countries 2-3 times that of the global commercial rate. The industry has been in decline for several years and needs to be reformed if it is to survive.

The Fiji Budget for 2002, announced in November 2001, adopted three broad strategies to encourage growth in the economy and combat poverty. The first strategy is for a greater capital works program and government funding of equity investments; the second, public and private sector reform, and the third strategy is assistance to rural development, affirmative action programs, education and health.

### **3.4 Ministerial visits**

The Trade Minister, the Hon Mark Vaile MP, visited Fiji in March 2002. This was the first visit by a Trade Minister in 11 years and the second by an Australian Minister since the restoration of democracy in Fiji and normalisation of relations. The Minister noted the wide range of Australian investments in Fiji, which include tourism, banking, manufacturing, insurance, food processing, consultancy and education services. The Minister received a first-hand appreciation of Australia's involvement in the Fiji economy from briefings from the business community, including a visit to an Australian-owned tourist resort and an Australian-owned clothing factory.

### **3.3 Australia-Fiji Trade**

In 2001, Fiji imported over A\$590 m worth of merchandise from Australia. In addition, Australia sells over \$220m in services to Fiji each year. In terms of services exports to Fiji, there are opportunities for Australian companies in almost all the services sector.

Australia is Fiji's major market for manufactured goods with Fiji serving as a very important market for Australian value added products and for small to medium

enterprises. Australia's share of the Fiji import market was around 45% in 2001, making Fiji Australia's 29<sup>th</sup> largest export market.

Australia's trade with Fiji:

AS'000	1997	1998	1999	2000	2001
<b>Total Exports</b>	<b>532,761</b>	<b>533,315</b>	<b>609,925</b>	<b>591,513</b>	<b>590,234</b>
<b>Total Imports</b>	<b>283,504</b>	<b>337,391</b>	<b>362,115</b>	<b>297,425</b>	<b>239,910</b>
<b>Balance of trade</b>	<b>249,257</b>	<b>195,924</b>	<b>247,810</b>	<b>294,088</b>	<b>350,324</b>

Major Australian exports in 2001 were refined petroleum (\$241m), textiles, clothing and footwear (\$62m), food and beverages (\$44m), machinery (\$24m) and computer parts (\$14m).

### **3.4 Trade and Investment Environment**

Fiji is strong in tourism, garment manufacturing and agriculture, but has a huge need for imports across a broad range of product categories. Areas of opportunity for Australian exporters include: building materials, energy and environment systems, waste-water management, food and beverages (including fresh produce), hardware and general merchandise, products and services for the hospitality/tourism industry, leisure and sports equipment and information, communications and technology equipment.

Tourism is Fiji's main foreign exchange earner and an important basis for Fiji's economic development. The 2002 budget provided a \$FJ11 million marketing grant to the Fiji Visitors Bureau (introduced in the 2001 budget) and announced two measures to assist the tourism industry: an exemption on tax for developer profits and an extension of the Short Life Investment Package (a package to promote investment in new facilities), both to apply until 31 December 2005.

Australia has historically been the biggest source of tourists for Fiji, followed by New Zealand, the United States and Japan. Several new tourist developments planned for Fiji over the next few years, as well as upgrading and refurbishment of several others, have been put on hold following the events of May 2000. Indications are that these investment projects are now set to commence following the return to stable democratic Government late in 2001.

#### **3.4.1 Business Environment for Australian Companies**

Since the attempted coup of May 2000 and the political upheaval that followed this period, Fiji has received much adverse publicity. Unfortunately, this created a negative image of the whole country, its people and the economy, rather than being limited to just the perpetrators of the attempted coup. Fiji continues to be a substantial market for Australian goods and services, and Australian business people have quickly realised that Fiji business people are keen to work with those Australian companies that show confidence in building business together.

Generally, the business environment is very good for Australian companies, the legal and financial structures are much the same, the business language is English and the

market is close to Australia. Australian Banks (ANZ, Westpac and Colonial (CBA)) dominate the financial sector.

Our main competition comes from New Zealand as it is closer geographically to Fiji and has very favourable shipping and air services. However, Australia is able to supply a greater range of goods and should focus on the higher priced products where freight rate differences can be absorbed more easily in the higher valued products.

China, the USA and other Asian countries are making a considerable effort to penetrate the market and will compete against Australian products. Australian companies may need to revise their marketing strategies to capitalise on our strong market position.

### 3.4.2 Services and Investment

Australian investment in Fiji stands at around \$2 billion. There are opportunities to invest in many sectors in Fiji, and a range of support and incentives is offered by the Government of Fiji. (Their web site is at [www.ftib.org.fj](http://www.ftib.org.fj) for details.) One sector with substantial prospects is tourism, where Fiji has established an attractive international image as a safe, affordable and different holiday destination, with an increasingly prosperous family holiday niche. Fiji's advantages are that it is relatively inexpensive, has good air services with connections from all major source markets. Its pristine environment, favourable climate and reputation as a holiday destination, are all highly marketable and lasting competitive advantages.

The Fiji government has recently passed legislation to provide substantial incentives for investment in the production and distribution of film and television programs, computer software and for e-commerce and related IT activities. Fiji's position on the Cable and Wireless Southern Cross fibre-optic communications cable across the Pacific positions it perfectly as a base for these industries. (Full details of the strategy for the development of these industries can be found at [www.fijiaudiovisual.com](http://www.fijiaudiovisual.com).) There will be substantial opportunities for Australian companies to invest and trade in these industries in Fiji.

Australian companies have either established operations or are sourcing product from the Textile Clothing and Footwear Industry (TCF) in Fiji over the past 14 years. This industry still has substantial Australian investment and receives incentives under the SPARTECA TCF program to continue favourable trading conditions with Australia. Since the political upheaval of 2000, however, a substantial number of factories have closed in favour of sourcing from China and other markets. Textiles still maintain a substantial proportion of export from Australia to Fiji for the Cut Make and Trim industry and Australia remains the main market for Fiji products.

## 3.5 Austrade Activities and Opportunities for Australian Business

Fiji offers opportunities for most sectors of industry. It is a matter of determining which sector has best opportunities and consequently, least competition, for Australian suppliers. The following sectors provide the best opportunities, however,

this should not exclude other products or services not mentioned. Austrade provides market assessments for companies wanting to assess their prospects in the Fiji (or any other) market.

#### 3.5.1 Education and Training

Australian institutions are active in Fiji, including the Central Queensland University, which has established a campus in Suva. Other Fiji institutions and other organisations have joint venture arrangements with Australian institutions in Fiji to provide specialist training. Opportunities still exist for specialised programs and for students to train in Australia

#### 3.5.2 Building Materials

After the political problems of 2000, building and construction activity dropped dramatically. However, in recent times there have been signs of a number of new projects, especially in the tourism sector, which will begin soon. Fiji has access to basic building materials, however, opportunities exist for new technologies e.g. power saving devices, waste treatment technologies, etc.

#### 3.5.3 Food and beverage

Australian processed foods dominate the shelf space in supermarkets in Fiji. In the hospitality sector, tourists demand good quality products and Australia is and will continue to supply this sector. Australia wines are sought after for the tourism sector and Australian suppliers are prominent on wine lists in resorts.

#### 3.5.4 Infrastructure

Fiji's infrastructure is run down and inefficient. Presently, major projects are underway in road and bridge construction, water and sewerage and telecommunications and power generation upgrading. Opportunities exist in port development, major bridge development, transport infrastructure, water supply and power generation sectors. The sugar industry is about to undergo major redevelopment and will require substantial services and equipment support from offshore.

#### 3.5.5 Information and Communications Technology

This sector holds great potential for development depending on whether the Fiji Government unties the monopoly held by the only supplier of services - Amalgamated Telecom Holdings Ltd. With access to the Southern Cross Cable, Fiji has an opportunity to develop as a hub of the region delivering services, such as back office processes, in a time zone which is at the beginning and end of respective days. The Studio City Development mentioned above could potentially provide the catalyst for substantial development in this area. Australian companies can look to providing IT solutions to the needs of the region.

#### 3.5.6 Hospitality and Tourism



This sector has developed into the major driver for the Fiji economy, and supply opportunities range from food and beverage to smart solutions to power and environmental solutions. Tourists demand good quality food and beverages and good quality amenities, and Australia companies can supply these needs.

### 3.5.7 Other sectors

A number of other sectors of the Fiji economy offer opportunities for Australian companies including forestry and processing (mahogany), consumer goods, agribusiness (new methods of production and new crops), the mining sector (although small, its purchases are mostly from overseas), fishing industry, shipbuilding and repairs, etc.

## 3.6 Impediments to Trade

There are only a few impediments to trade with Fiji. Most of the legal and financial services are similar to Australia.

Fiji has recently restricted access to the market for certain products such as poultry and honey from Australia. These restrictions have been imposed basically to protect a small local industry from disease or competition.

Fiji is a member of the WTO and any restrictions have to be tested through this organisation before being implemented.

Some high tariffs have also been placed on goods, which are included in categories where there is local production eg cables. However, representations to Government have resulted in products being given preferential entry where there is no local production.

Favourable treatment is given to products purchased for the tourism industry especially in new projects.

## 3.7 Fiji's Trade Relationships

### 3.7.1 Main Trading Partners 1999

The main sources of imports into Fiji are Australia, the United States and New Zealand. The main destinations for Fiji's exports are Australia, the United States and Britain.

Fiji is a member of the United Nations, the Pacific Community (SPC), and the Pacific Islands Forum. It also has trade and political links with Papua New Guinea, Solomon Islands and Vanuatu through the Melanesian Spearhead Group (MSG), and is a member of the African-Caribbean-Pacific Group associated with the EU. Fiji became a member of the General Agreement on Tariffs and Trade (GATT) in 1993 and is an active member of its successor organisation, the World Trade Organisation (WTO).

## **4 NEW CALEDONIA**

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### **4.2 Economic Overview**

New Caledonia was an Overseas Territory of France until 1999. A referendum held in November 1998 approved the Noumea Accords which are progressively transferring responsibility for most areas of government to New Caledonia. However, New Caledonia is not “independent” – it is now classified as a type of territory with special political status.

New Caledonia is located approximately 1,500 kilometres east of Australia. It is the third largest island in the South Pacific after Papua New Guinea and New Zealand. The population, approximately 200,000 inhabitants, is made up of various ethnic groups: Melanesians (44%); Europeans (33%), Polynesians (12%) and Asians (7%). The official language is French.

New Caledonia has 25% of the world’s nickel reserves. The local economy is driven by the nickel industry, which makes up 11% of GDP and employs 3,200 workers. Nickel ore and semi-finished products such as ferro-nickel and mattes represent around 90% of exports.

Whilst mining is the main sector of industry and development, there are also manufacturing/transformation industries (paper products, pasta, solar water heaters, car batteries, ice cream and yoghurt, work clothing, detergents, etc). There may be import restrictions on imported products which compete with local production. These may take the form of quotas or bans, or an additional import duty may be applied to the imports. Any imports from EU are automatically exempt from Customs Duty (but are subject to all others) as New Caledonia is still considered an associate member of the EU through its links with France.

### **4.3 Ministerial visits**

The Trade Minister, the Hon Mark Vaile MP, visited New Caledonia in March 2002, the first ever by an Australian Trade Minister. During the visit the Minister signed a Trade and Economic relations Arrangement with the New Caledonian Government. The Arrangement provides a framework for discussion on trade issues, including market access, and is the first such bilateral instrument entered into by the New Caledonian government since acquiring responsibility for trade in 1999 from the French Government.

### **4.4 Australia-New Caledonia Trade**

In 2001 New Caledonia imported A\$230m worth of products from Australia. As a result of the Noumea Accords the territory is increasingly looking to become more integrated into the South Pacific region.

Australia's trade with New Caledonia :

AS'000	1997	1998	1999	2000	2001
<b>Total Exports</b>	<b>195,535</b>	<b>179,348</b>	<b>198,735</b>	<b>211,874</b>	<b>230,773</b>
<b>Total Imports</b>	<b>41,789</b>	<b>44,306</b>	<b>45,858</b>	<b>45,302</b>	<b>55,194</b>
<b>Balance of trade</b>	<b>153,746</b>	<b>135,042</b>	<b>152,877</b>	<b>166,572</b>	<b>175,579</b>

Major Australian exports to New Caledonia in 2001 were refined petroleum (A\$57m), food and beverages (A\$35m), coal (A\$15m), civil engineering equipment (A\$13m) and computer parts (A\$4m).

New Caledonia's exports to Australia were mostly nickel ore (around 98%), but there are also small quantities of frozen prawns.

#### **4.4 Trade and Investment Environment**

New Caledonia is a very sophisticated market, providing a diverse range of opportunities for Australian companies. Due to historical influence, tastes tend to suit the French palate and French labelling is required on all retail products.

Since the signing of the 1998 Noumea Accords, between the French Government and local authorities, a dynamic business and commercial relationship has developed between Australia and New Caledonia, with considerable prospects for further growth. A number of Australian companies are already active in the goods and services market.

The nickel mining sector is set for a bright future. SLN (an existing nickel smelter in Noumea) is refurbishing/increasing capacity; Inco are going ahead with construction of a processing plant at Goro (estimated \$US1.5 billion); Falconbridge/SMSP are doing a feasibility study for further smelter in the north of the mainland.

##### **4.4.1 Business Environment for Australian Companies**

There is potential for Australia to expand its market share if New Caledonia's import restriction system continues to liberalise. Australia's proximity to New Caledonia, frequent sea and air freight services, Australian industry capability and more competitive seafreight rates from Australia than from Europe, represent competitive advantages for Australian suppliers.

Australia is perceived as a reliable supplier, with a good reputation.

Although the level of infrastructure, services and service providers in New Caledonia is high, the sheer size of opportunities generated by (initially) the SLN refurbishment and Inco's Goro project leads New Caledonian service providers to seek strategic alliances with foreign partners (ie. Australia) to give them the capacity to bid for these contracts. Australian companies are now showing more interest in setting up their own operations in New Caledonia, but it is also very valuable to develop alliances with local partners without necessarily setting up an office.

#### 4.4.2 Services and Investment

The level of services available is high. European (French) standards are in force. Foreign investment is actively sought, preferably through joint ventures. Employment for locals is a high priority. To date Australian investment has not been as significant as in some other markets, mainly due to factors such as: unwieldy administrative procedures, French control of industries such as mining; cost of operations (due to the high standard of living and installations). However, as New Caledonia looks closer in the region for business partners, there is more interest and openness to Australian investors.

#### 4.5 Austrade Activities and Opportunities for Australian Business

Even though the major value opportunities are in the mining sector, there are opportunities across the board for Australia: food and beverages, chemicals, boats, building materials, machinery and equipment, technology, and services. The market is quite sophisticated and demanding, delivery time is often a key factor, and payment is not usually an issue.

As an example, Austrade recently facilitated contacts between an Australian company and a New Caledonian service provider to supply services for asbestos removal in a building. The only other option was to bring in equipment and skilled staff from France (a most costly and complicated process).

##### 4.5.1 Mining equipment and systems

New nickel deposits are being developed in New Caledonia, which offer broader opportunities for new and existing suppliers from Australia for mining equipment, systems and services e.g. crushers, spare parts, chemicals, material handling software, training and services, conveyor belts, steel products, explosives, environmental services and pipes and fittings.

Recently Goro Nickel signed a \$US1.3 billion contract with Bechtel, Technip, Hatch (BTH) for mine construction. BTH is an international consortium based in Brisbane employing several hundred Australians. It will sub-contract much of the work. Austrade Noumea assisted Thiess set up their strategic alliance with New Caledonian company, Colas. As a result Thiess is one of the first sub-contractors, with a \$A10 million contract in a local partnership for earthworks. Another Australian company ATCO, has signed a \$A600,000 contract to construct a prefabricated camp to house 2500 workers. Twenty Australians currently work at Goro. BTH expects to employ 200 Australians in New Caledonia within the next year.

Twelve companies participated in Austrade's mining mission to New Caledonia from 27-31 May 2002. During the mission companies visited the Goro project site and had meetings with Inco and BTH officials; met with a range of contacts with SLN (engineers, project managers, and purchasing department); met with Falconbridge project managers carrying out feasibility study; and met a wide range of industry contacts such as electricity providers, mining companies and consultants, and service providers to the mining sector.

#### 4.5.2 Education and training

From a New Caledonian perspective, the main advantage of sending students to Australia is that they are likely to become proficient in English. The quality of education and lifestyle in Australia are seen as secondary advantages. As New Caledonia becomes more regionally oriented, students will look towards Australia, particularly for training in areas such as tourism, hotel management, aquaculture and agriculture, all areas of climatic, geographic or professional similarities with Australia. However, there does remain an issue with recognition of Australian professional qualifications in some sectors e.g. architects and teachers.

#### 4.5.3 Marine Vessels & Equipment

New Caledonia has a high population of pleasure craft (including from Australia), both motor boats and yachts. Australia has also sold a 250 passenger ferry. Opportunities are not unlimited, however, as there is not the same degree of sea passenger transportation as in other Pacific islands. There are nevertheless some further opportunities linked to individual projects (e.g. small hotel resort on an island, possibility that the Goro project may use ferry to move workers from Noumea to the minesite on a daily basis).

#### 4.5.4 Food and beverage

Australia supplies a range of fresh fruit and vegetables to complement what is grown locally. Australian processed foods are also sold. However, the two main retail chains are franchises of European retail chains, and consequently the Noumea stores also have access to very price-competitive product which is purchased in bulk in Europe. Australia sells a range of product such as UHT milk, cheese, smoked ham, tinned fruit and vegetables, biscuits, fruit juice, sauces etc. Australian wine, which has only been allowed to be imported since 1992 (previously a restricted import) is quite popular, but French wines have retained the major market share.

#### 4.5.5 Infrastructure

Infrastructure is very good, even on the islands. Works such as bridges, roads, telecommunications, power generation, water supply etc are usually subsidised by the French Government. Opportunities for Australian companies are through forming a local strategic alliance, where the local service provider requires outside input/technology/expertise to carry out a job.

### 4.6 Impediments to Trade

- Competition from local manufacturers/service providers (i.e. import restrictions or seasonal quotas).
- French standards / labelling on consumer goods (not insurmountable but Australian companies need to be aware of it and cater for it).
- Customs duty, which does not apply to EU products (usually 10 or 15%).

## **4.7 New Caledonia's Trade Relationships**

### 4.7.1 Main Trading Partners

The main sources for New Caledonia's imports in 2000 were France, Australia and Singapore. The main export destinations for New Caledonian products were Japan, France and Taiwan.

## 5 SAMOA

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### 5.1 Economic Overview

Samoa is a small, agriculturally-based, developing, oil importing economy. Estimated population in 2001 was 170,000. The economy continues to strengthen and grew by 7-10 per cent in 2001. (This growth figure is subject to revision as statistics are not reliable for Samoa.)

Tourism and construction have been the major driving forces behind this growth. Two new hotel developments are planned to start soon, providing further stimulus to the economy. Remittances from overseas Samoans in New Zealand, Australia, and the United States are a significant element of the economy.

Australian exports amounted to \$52.2m in 2001 which represents around 27% of the market. New Zealand is Australia's major competitor.

Samoa has a positive balance of merchandise trade with Australia, which results from their export to Australia of automotive wire harnesses from a Japanese company manufacturing in Samoa.

Australian banks including the ANZ, Westpac and Colonial (CBA) dominate this sector.

### 5.2 Australia-Samoa Trade

Australia's trade with Samoa :

AS'000	1997	1998	1999	2000	2001
<b>Total Exports</b>	<b>35,639</b>	<b>32,194</b>	<b>35,841</b>	<b>51,799</b>	<b>52,269</b>
<b>Total Imports</b>	<b>58,055</b>	<b>55,841</b>	<b>58,262</b>	<b>66,308</b>	<b>91,901</b>
<b>Balance of trade</b>	<b>-22,416</b>	<b>-23,646</b>	<b>-22,420</b>	<b>-14,509</b>	<b>-39,632</b>

Major Australian exports in 2001 were refined petroleum (\$18m), electrical equipment & machinery (\$8m), food and beverages (\$6m) and aircraft and parts (\$2m).

### 5.3 Opportunities for Australian Business

Substantial opportunities exist for Australia suppliers, however, Australian organisations need to include Samoa in their marketing strategies in a proactive way rather than relying completely on island traders to undertake the promotion. However, island traders have been providing a valuable service to these small markets, as it is expensive for small and medium companies to service this region.

Opportunities are present across the whole spectrum of industries including tourism and hospitality, building and construction, services including education and consultancy, food and beverage. However, competition exists from New Zealand, the USA and Asia.

Samoa is to host the South Pacific games in 2006 and will be upgrading and building new facilities leading up to these games. Opportunities exist for sports related infrastructure products and services.

Aid projects are very prominent and Australian companies should look for opportunities through the major aid organisations such as the Asian Development Bank, World Bank and AusAid.

#### **5.4 Impediments to Trade**

There are few impediments to trade with Samoa. The Samoan Government has taken progressive measures to open up the economy and tariff rates have fallen in the past few years. Nevertheless, tariff levels need to be checked before entering the market.

The main impediment to trade is the cost of freight from Australia compared to New Zealand. Cost for shipping a container from Australia is roughly twice that from New Zealand. To be successful, Australian companies need to concentrate on higher value goods to defray the cost of freight.

Samoa has potential for tourism, although air services are limited, and flight times are often at hours not conducive to visitor comfort.

The recently signed Pacific Island Countries Trade Agreement (PICTA) between Pacific Island Nations may impact on access to these markets in the future for Australian companies.

Importation of fresh fruit and vegetables from certain places such as Brisbane and the Northern Territory are prohibited. Importation of the following goods are also subject to import licence – motor vehicles, arms and ammunition and liquor.

Foreign exchange is controlled by the Central Bank of Samoa. Allocation is made upon submission of import documents.



## 6 TONGA

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### 6.1 Economic Overview

Tonga has a small, open economy, with a population of about 100,000, and a narrow export base. The economy grew by around 3% in 2001.

Agriculture, forestry and fisheries are the leading productive sectors. The export of squash and fish to Japan dominates their export sector.

The tourist industry is modest, but represents the second largest single generator of foreign exchange after remittances from Tongan communities overseas.

Tonga is growing as a place for eco-tourism, with whale watching and diving popular activities. Tourism is a potentially large industry, but is presently limited by inadequate and unsophisticated infrastructure, including irregular/unreliable air services to the region.

Australia's share of the market is small at around 12%. New Zealand dominates with around 27%. New Zealand has advantages in freight and proximity and has been servicing the market well for many years.

Australian banks including ANZ and Westpac dominate this sector.

### 6.2 Australia-Tonga Trade

Australia's trade with Tonga:

AS'000	1997	1998	1999	2000	2001
Total Exports	17,462	16,328	17,042	15,244	15,747
Total Imports	809	971	629	606	723
Balance of trade	16,653	15,357	16,413	14,638	15,024

Major Australian exports in 2001 were food and beverages (\$3m), tobacco manufactured (\$1m), paper manufactures (\$0.650m), household type equipment (\$0.439m) and structures of iron, steel or aluminium (\$0.339).

### 6.3 Opportunities for Australian Business

Tonga is a small market and is dominated by supply from New Zealand. There are however, niche market areas where Australian companies can be competitive. Supply of products and services to the **agribusiness and fishing sectors** has potential. The **tourism and hospitality sector** is developing and requires good quality products. Currently the main hotel in Tonga is undergoing a major upgrading, however, Chinese interests are supplying the bulk of the requirements.

The Church of the Latter Day Saints has been expanding their presence in Tonga and building substantial facilities around the country. This continues to be a major area for supply of **building products**.

Supermarket shelves are stocked with Australian **processed foods** and continue to provide substantial export revenue for Australian suppliers.

**Aid projects** are very prominent and Australian companies should look for opportunities through the major aid organisations such as the Asian Development Bank, World Bank and AusAid.

#### **6.4 Impediments to Trade**

Tonga relies on high tariff levels to gain much needed revenue, however, there are moves to change this regime so that the country can attract much needed investment, and a freer tariff regime would assist.

Quarantine restrictions are similar to all countries where items such as poultry from Australia is restricted when reports of disease (eg Newcastle Disease) are received. The Tongan quarantine authorities rely heavily on Australia (AQIS) for advice in setting rules.

The cost of shipping is also a major impediment to trading with Australia, where a container can cost twice as much to ship from Australia as from New Zealand. Australia needs to concentrate on higher valued exports to defray the shipping charges.

Access to the market is also a problem with limited air services and out of normal hours travel times.

The market is small with approximately 100,000 people and strong competition comes from New Zealand and, increasingly, from Fiji.

The recently signed Pacific Island Countries Trade Agreement (PICTA) between Pacific Island Nations may impact on access to these markets in the future for Australian products.

Restricted Imports include:

- Brandy and whisky, unless certified to the satisfaction of the Collector that it has been matured in wood for three years.
- Eggs, except with a licence issued by the Minister of Finance.
- Fertilisers and other agricultural chemicals must be accompanied by an import permit by the Ministry of Agricultural and Forestry.

A Ports and Services Tax of 20%, assessed on the CIF value, is levied on all imports.

