

Chapter 7

Opportunities for commercial development

7.1 For many Pacific island countries increased and sustainable production from the land and sea offers not only the hope of improved self-sufficiency and food security but also the potential to boost economic development through new and expanded markets. In this chapter, the committee moves beyond sustainable development and self-sufficiency to consider opportunities for greater commercial activity.

Cash crops

7.2 For Pacific islanders engaged in subsistence agriculture, cash cropping on the side is important because it provides the smaller sums of money needed to purchase a range of goods and services, including education. Dr Vladimir Pacheco, Foundation for Development Cooperation, noted that people in the country or remote areas can survive without money but sometimes need cash to pay for things outside their economy such as visits to the doctor, medical treatment, medicine, school fees or travel.¹ He explained that people in remote areas do not require cash as much but, 'when they do, it is because they actually need it'.² The Australian High Commissioner to PNG also mentioned the importance of cash crops to subsistence farmers. He noted it is one thing to grow your own food so that no-one goes hungry, but there is nothing to generate cash to send children to school.³

7.3 The development of cash crops is also an important catalyst for economic growth. Professor Helen Hughes argued that economic development in Pacific island countries will come from local investment and agricultural development. She suggested that farmers who develop cash crops will save, which then triggers a chain reaction of further economic activity:

Houses will improve so people will start to go into building; bus routes will develop, truck routes will develop; markets will develop. They will invest in all sorts of little businesses.⁴

7.4 A number of key factors, however, influence the capacity of Pacific island countries to boost production for cash income or for more ambitious commercial purposes.

1 *Committee Hansard*, 26 March 2009, p. 68.

2 *Committee Hansard*, 26 March 2009, p. 68.

3 *Committee Hansard*, 19 March 2009, p. 6.

4 *Committee Hansard*, 24 March 2009, p. 32.

Impediments to commercial production

7.5 Mr Andrew McGregor, Managing Director of the Trade and Development Office, Fiji, stated that a revolution was 'occurring in the export of horticultural and other high value agricultural products from developing countries'.⁵ He was concerned that Pacific island countries were not part of this export revolution.

7.6 While the atoll countries, with their poor agronomic conditions, offer little prospect for developing a notable export market for food produce, some of the larger islands have potential. The Australia Fiji Business Council was of the view that Fiji has great opportunities 'to diversify its agricultural sector and become a regional agricultural powerhouse by growing agricultural exports and becoming more self-sufficient in agricultural production, especially for its voracious tourism industry'.⁶ Its continuing reliance on sugar as its main agricultural product and falling receipts for sugar exports to the European Union hampers its economic development.⁷ According to Dr Hearn, ACIAR, Fiji, with its fertile land and good rainfall, could produce alternative crops that suit the Fijian conditions.⁸

7.7 Tonga also has a 'good growing climate' and the scope to improve its agriculture and boost income in rural areas.⁹ It is 'well-placed geographically to serve winter markets in both southern and northern hemispheres'. Tonga's earlier success in exporting squash to Japan demonstrates the opportunities for Pacific island countries to develop an overseas market for their agricultural products.¹⁰ Recently, Tongan farmers began to export baby squash to Korea and butter nut to the United Kingdom. Producers are working with the private sector to develop further export diversification, including the production of maize for stock feed and conducting trials with sweet

5 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 81.

6 *Submission 58*, p. 2.

7 Australia Fiji Business Council, *Submission 58*, p. 2. See also Statement by the Hon. Mahendra Pal Chaudhry, Governor of the Bank of Fiji at the Joint Annual Discussion, IMF, Press Release No. 44, 22 October 2007.

8 *Committee Hansard*, 20 November 2008, p. 46.

9 Asian Development Bank, *Transforming Tonga*, 2008, p. 6; and Office of the Prime Minister, Nuku'alofa, Economic Update, July 2008, <http://www.pmo.gov.to/releases-mainmenu-29/231-economic-update-july-2008.html> (accessed 20 February 2009).

10 The export of squash, which became a major foreign exchange earner for Tonga, peaked in the early 1990s but unfortunately has since declined. According to a 2008 country report, the near collapse of the squash sector was due to 'heavy competition in overseas markets and rising input costs, resulting in the government imposing levies to discourage new entrants.' *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

potato in the hope of securing markets in Japan.¹¹ PNG and Solomon Islands are also well suited to develop their agricultural export industries.

Quality of produce and reliability of supply

7.8 The prospect of profitable and sustainable markets will encourage new or expanded business activities. Even so, producers in Pacific island countries are in competition with businesses throughout the world and securing markets is no easy task. If producers from Pacific island countries are to take advantage of opportunities to develop a successful export industry, they need to satisfy the tastes and requirements of overseas markets—they have to ensure consistent quality of produce and reliability of supply.¹² For example, in building up its squash export industry, Tonga had to satisfy the requirements of the overseas market. To be considered of exportable quality, squash had to 'be between 1.2–2.7 kg per fruit, free from blemishes and skin distortions and at the right stage of maturity'.¹³

7.9 But a number of commentators and witnesses were of the view that Pacific island countries lack the necessary capacity at the individual and institutional level in key areas of production, including value adding to their agricultural products and in marketing.¹⁴ At the recent meeting of the Heads of Agriculture and Forestry Services in September 2008, Kiribati recognised that capacity building was needed in areas such as food processing, and business and marketing. Vanuatu also noted that the potential benefits of local food production were not being realised due, in part, to the lack of technical skills required for value-added production.¹⁵ Dr Hearn, ACIAR, stated that one way to help farmers get their produce to market was 'to try to enhance the quality and the marketability of produce'.¹⁶ Mr Jim Redden, Institute for

11 Office of the Prime Minister, Nuku'alofa, Economic Update, July 2008, <http://www.pmo.gov.to/releases-mainmenu-29/231-economic-update-july-2008.html> (accessed 20 February 2009).

12 Mr Paul Ross, DAFF, *Committee Hansard*, 20 November, p. 54 and *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 25.

13 This information is taken from a Paper prepared by the Ministry of Agriculture and Fisheries, Kingdom of Tonga, for the Regional Workshop on the Constraints, Challenges and Prospects for Commodity-based Development, Diversification, and Trade in the Pacific Islands Economies, Nadi, Fiji, 18–20 September 2001, p. 9.

14 Australian Centre for International Agricultural Research, *ACIAR Country Profiles 2008–09, Papua New Guinea*, p. 9.

15 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, pp. 25 and 29. See also Mr McGregor who argued that improved market access offers Pacific island countries the prospect of being part of the revolution in the export of agricultural products. Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 87.

16 *Committee Hansard*, 20 November 2008, p. 45.

International Trade, also cited the importance of improved marketing as a means of securing export markets.¹⁷

Quarantine restrictions

7.10 Producers in Pacific island countries must also meet international sanitary and phytosanitary standards.¹⁸ Quarantine restrictions, however, appear to be one of the major barriers to trade for Pacific island countries. Mr McGregor stated that quarantine is 'the weak link' in their horticultural export marketing chain. He gave the example of improving quarantine procedures for taro, an important Pacific island country fresh export, which could increase export earnings by 'some A\$15 million annually and benefit at least 25,000 small farmers in at least three Pacific island countries'.¹⁹ As another example, he noted that 'a most unfavourable fruit fly status for exporting fruit and vegetables' hampers progress in PNG and Solomon Islands.²⁰ He argued that it is possible to 'ameliorate a significant number of the phytosanitary constraints that adversely affect' the export trade from the region.²¹ Professor Ron Duncan also noted that quarantine and other restrictions by importing countries on agricultural products that raise the costs of exporting are an important issue for developing Pacific agriculture.²² He supported the findings of Mr McGregor that Pacific countries have not been able to participate in the virtual revolution in exports of high-value agricultural products that has occurred in recent years. He also noted the need for them to:

...overcome the quarantine and quality barriers to their development of niche agricultural export markets in Australia, New Zealand, and the United States. Potential also exists elsewhere for these exports as in Japan and the EU.²³

17 *Committee Hansard*, 25 March 2009, p. 31.

18 See for example, Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, p. 24.

19 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, pp. 87 and 97.

20 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, pp. 85 and 87.

21 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 92.

22 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, pp. x–xi.

23 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, p. xi.

7.11 In Mr McGregor's view, Pacific island countries require 'timely export protocol development'. But he cited Fiji, the most successful exporter of horticultural products in the region, which, in his view, 'is making agonisingly slow progress in meeting quarantine requirements'.²⁴ Mr Paul Ross, DAFF, similarly noted that a major challenge for Pacific island countries was being able to meet the requirements of importing countries, including compliance with 'any conditions for import that might be imposed on their products'.²⁵



An ACIAR officer testing fruit fly methods as part of the South Pacific Regional Fruit Fly Program in Tonga (image courtesy of ACIAR).

Research and development for export

7.12 Research and development is important not only for boosting agricultural productivity in Pacific island countries, but also for helping them to secure export markets for their agricultural products. It could be directed at enhancing the quality, marketability and reliability of supply and ensuring that produce satisfies international sanitary and phytosanitary standards. It follows that any research and development project should take account of the export potential of agricultural products. Again, the importance of ensuring that the results of this research reach a wide audience is critical.

24 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 92.

25 *Committee Hansard*, 20 November 2008, p. 54.

7.13 Evidence suggested that Pacific island countries require assistance to help them build a solid reputation for the quality and safety of their products and to market their produce effectively. In this regard, the SPC was of the view that national and international support for research and development in the agriculture and forestry sectors in the Pacific had been inadequate for a number of decades. It argued that this lack of attention needed to be addressed if countries were 'to capitalise on the opportunities represented by high global food prices'.²⁶

Business management skills

7.14 The fishing industry in the region also highlights the potential for Pacific island countries to obtain greater economic advantage from their resources from value-adding. According to a study published by the Australian Centre for Ocean Resources and Security, fisheries 'have long been viewed as the primary development opportunity for many of the region's developing island states'.²⁷ A report on fisheries published by the Pacific Islands Forum Secretariat observed that almost without exception, the Pacific Islanders consulted during the project 'indicated a strong motivation towards capturing more of the wealth generated by regional tuna resources in the domestic economies of Pacific island countries'.²⁸ But, while the region is home to the largest tuna fishery in the world, evidence shows that DWFNs are the major beneficiaries of the resources in the EEZs of Pacific island countries. Mr Theofanes Isamu, Chair of the Forum Fisheries Committee, noted recently that Pacific island countries and territories catch just \$200 million worth of tuna from their fisheries 'while foreign nations fishing in the same waters catch over \$1 billion'.²⁹ Along similar lines, a recent study by the Australian Centre for Ocean Resources and Security found that fishing vessels from distant water fishing nations continue to catch approximately 90 per cent of tuna from FFA members' EEZs.³⁰

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- 26 Secretariat of the Pacific Community, Statement by the Secretariat of the Pacific Community on behalf of Pacific island countries and Territories at the UN-sponsored World Food Summit 08, Rome, 4 June 2008, http://www.spc.int/corp/index.php?option=com_contentandtask=viewandid=236andItemid=1 (accessed 16 January 2009).
- 27 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 23.
- 28 Kate Barclay with Ian Cartright, *Capturing Wealth from Tuna: case studies from the Pacific*, Asia Pacific Press, ANU, Canberra 2007, p. 22.
- 29 Pacific Islands Forum Fisheries Agency, 'Pacific Islands push for action on Bigeye and Yellowfin Tuna at WCPFC this week', 8 December 2008, <http://www.ffa.int/node/101> (accessed 22 December 2008).
- 30 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 24.

7.15 The extent to which Pacific island countries use their marine resources for their own commercial purposes varies greatly. Many Pacific island countries are not engaged directly in commercial fishing. On the other hand, PNG has successfully used its rich tuna resources to its advantage. Mr Kalish noted that PNG has dramatically increased its catch of tuna species within its zone by vessels flying its flag. Since 1996, when the catch was about 20,000 tonnes, it has risen tenfold to more than 200,000 tonnes. In addition, the catch of tuna and tuna-like species, including billfish, in their zone is in excess of 400,000 tonnes.³¹ He said:

They have also increased the capacity of their processing sector, so they have canneries, loining facilities and adequate facilities for shipping the product to other ports. They have been very effective in taking advantage of their resources in the ocean, but also using the capacity they have on land to further value add to the product.³²

7.16 PNG's potential to develop its fisheries industry contrasts with that of many of the smaller Pacific island countries which face 'very basic impediments' to developing the sector, for example access to water.³³ Mr Kalish explained further that it would be difficult for a small operation in a Pacific island country to compete with some established canneries:

The biggest canneries in the world used to be...in Bangkok. Now the cannery in Ecuador at Guayaquil is destined to become the world's largest cannery, and there are vessels from Latin America that are now fishing in the western and central Pacific Ocean and carrying product back to those canneries.³⁴

7.17 While most Pacific island countries may not have the economic infrastructure and, in the case of water, the natural resources to establish processing plants for fish, there are opportunities to extract greater benefit from commercial fishing. ACIAR suggested that Pacific island countries could expand their involvement in the industry by even fairly rudimentary value adding by the owners of the fish stocks before they are exported.³⁵

7.18 The lack of skills and experience in the management and ownership of businesses, however, constrains development in the fisheries sector in Pacific island countries. A recent report concluded that it was a mistake to assume that, because small-scale fishers are skilled at fishing, they can 'upscale to medium and larger scale fishing enterprises'. It cited the findings of another study that 'fishing was different to

31 *Committee Hansard*, 20 November 2008, p. 63.

32 *Committee Hansard*, 20 November 2008, p. 63.

33 *Committee Hansard*, 20 November 2008, p. 63.

34 *Committee Hansard*, 20 November 2008, p. 64.

35 *Committee Hansard*, 20 November 2008, p. 51.

managing fishing and medium and larger-scale fisheries businesses, and small-scale fishers were unlikely to have management skills'.³⁶

Marketing and negotiation skills

7.19 The ability of Pacific island countries to promote and protect their trading interests through qualified personnel, including skilled trade negotiators, is particularly important. Many commentators, however, refer to a lack of capacity among Pacific island countries to negotiate market access and to resolve access issues.³⁷ They point to countries that are chronically under resourced and without the necessary human and physical capabilities to conduct bilateral and multilateral negotiations that are commonplace for most nations.³⁸ For example, the cost of maintaining overseas diplomatic and trade missions on a per capita basis for Pacific island countries is greater than that of more populous countries. Thus, without the resources and skilled personnel, Pacific island countries have a weak voice in international trade negotiations and may find themselves marginalised in a fiercely competitive world market.³⁹ A number of unions argued that it 'is essential that regional negotiating capacity be built alongside the negotiating capacity of individual states and the key stakeholders at all levels of involvement'.⁴⁰

7.20 The returns obtained from DWFNs operating in the EEZ of Pacific island countries illustrate this weakness. To operate in the EEZ of Pacific island countries, DWFNs pay a licence fee to the relevant country. These access and licence fees are a major source of revenue for some Pacific island governments. For example, they contribute between 40 to 60 per cent of government revenues in Kiribati and Tuvalu which rely heavily on this income to deliver basic services for their people.⁴¹ The

36 Kate Barclay with Ian Cartwright, *Capturing Wealth from Tuna: case studies from the Pacific*, Asia Pacific Press, ANU, Canberra 2007, p. 57.

37 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 86.

38 See also *Submission 1*, p. 6; *Submission 10*, p. 8.

39 See for example, Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008). See also P.P. Wong, E. Marone, P. Lana, M. Fortes, D. Moro, J. Agard and L. Vicente, 'Island systems' in R. Hassan, R. Scholes and N. Ash, editors, *Ecosystems and Human Well-Being: Current State and Trends: Findings of the Condition and Trends Group* (The Millennium Ecosystem Assessment, vol. 1). Washington, D.C., Island Press, 2005, p. 675. See also Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, *ADB Pacific Studies Series*, 2008, p. 24.

40 *Submission 10*, p. 8.

41 DAFF *Submission*, p. 11; OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 2 and Kiribati—Opening Statement, Fifth Regular Session, 8–12 December 2008, WCPFC5-2008/DP21, 8 December 2008.

findings of a number of studies, however, indicate that access fees are well below the 'true resource rents'.⁴² A recent study by the Australian Centre for Ocean Resources and Security noted that despite their critical dependence on the region's fisheries, 'island FFA members struggle to earn a reasonable return' from the fisheries resources within their EEZs. It argued that historically, the access agreements and other arrangements allowing DWFNs to operate in the region have 'returned more economic benefits to the DWFNs and their vessels than to the island States which own the rights to the fisheries in question'.⁴³ DFAT noted that licence fees paid by the DWFNs amount to a modest US\$60 million per annum, or 4–6 per cent of the total landed value of the fish catch.⁴⁴ Mr Smith, ACIAR, informed the committee:

There is a push by the coastal states to get a greater proportion of that margin, and equally a pushback from the distant water fishing countries to actually hold the line. That tension is really being managed through the Western and Central Pacific Fisheries Commission.⁴⁵

7.21 In some cases, the payment for the rights to fish in a country's EEZ takes the form of development aid or funding for projects. A recent study by the Australian Centre for Ocean Resources and Security stated:

Fisheries resources have also, to a degree, motivated some distant water fishing States to build and maintain relationships throughout the region that include significant aid budgets. These complicated relationships can bring a Pandora's box of development, governance and foreign policy ramifications.⁴⁶

7.22 DAFF's submission also noted that DWFNs 'often tie their access arrangements with contributions to other activities such as building and road

42 OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 4. The Brief noted that countries in the Pacific region receive on average only between 3–6 per cent of the value of the catch. It suggested that fisheries access agreements 'may be inconsistent with efforts to promote the sustainable development of coastal states'. See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

43 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 24.

44 *Submission 68*, p. 10. See also OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 4. As noted previously the Brief stated that countries in the Pacific region receive only 3–6 per cent of the value of the catch. See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

45 *Committee Hansard*, 20 November 2008, p. 49.

46 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

infrastructure and are proactive about protecting their interests in their continued access to the waters of Pacific island countries'.⁴⁷ Mr Kalish explained:

In many cases the payment is not necessarily in the form of cash. It could be the building of a hospital, the development of freezer facilities or ice production facilities and the like. Some of these activities do not necessarily contribute to the development of the fishing industry in those countries and they also limit the way in which the money can be used.⁴⁸

7.23 If Pacific island countries are to bargain effectively in reaching fishing agreements with DWFNs, they need skilled advocates. As noted by Dr Ben Saul, 'If you have two or three international lawyers in the relevant department in PNG then you simply cannot match the level of analysis of and the amount of resources that you can contribute to international treaty negotiations or free trade deals or whatever'.⁴⁹ The lack of capacity to negotiate means that Pacific island countries are at a disadvantage, compared to the larger DWFNs, when seeking agreement on licensing arrangements.

7.24 Clearly, to ensure that Pacific island countries are able to represent their economic interests effectively in trade negotiations, they need qualified and skilled personnel who can match those they are dealing with. This lack of skilled and trained personnel, mentioned in chapter 2 and again here, is also raised in different contexts throughout later chapters and is one of the dominant themes in this report.

7.25 As the Pacific islands' major trading partner, Australia is in an ideal position to assist these countries to participate more fully and effectively in the region and, more broadly, in world markets.

Mining—expanding export earnings

7.26 A 2007 Pacific Islands Forum paper also recognised the potential for expanding the mining sector in some Pacific island countries. It cited the major mining and energy discoveries and developments in PNG over the recent past and suggested that 'geologically, this potential exists throughout Melanesia, in Solomon Islands, Vanuatu and Fiji'.⁵⁰ Along similar lines, evidence before the committee drew attention to the prospects for expanding mining operations in some Pacific island countries. The Australia Papua New Guinea Business Council noted the potential developments in the commercialisation of Papua New Guinea's energy reserves. In its view, they 'offer export earnings and the opportunity to develop in-country value

47 *Submission 42*, p. 11.

48 *Committee Hansard*, 20 November 2008, p. 66.

49 *Committee Hansard*, 24 March 2009, p. 42.

50 Pacific Islands Forum Secretariat, 'Forum Outlines Key Challenges to Mining', Press Statement, 28 February 2007, <http://www.forumsec.org/pages.cfm/newsroom/press-statements/2007/forum-outlines> (accessed 21 January 2009).

adding industries'. Furthermore, it argued that 'the need to develop PNG's oil and gas is urgent'.⁵¹

7.27 Solomon Islands is another Pacific island country that has much scope to build a mining industry, thereby boosting local employment and associated economic activity and adding to government revenue.⁵²

7.28 Many international companies from Australia, South Africa and Canada are engaged in mining and exploration activities in the region.⁵³ There is also increasing interest in mineral prospecting from companies with origins in China and India.⁵⁴ These large mining and petroleum companies are well equipped to market their products and to negotiate business deals. Apart from environmental concerns, one of the main challenges for Pacific island countries is, therefore, not necessarily generating demand for, or securing access to, markets for their mineral and energy resources. Their main task is to attract foreign investors to help develop their mining sector and to ensure that government revenue derived from mining activities is well managed. In this regard, the mining industry presents another set of problems for countries endeavouring to develop their export markets. These difficulties relate closely to the business and investment environment in Pacific island countries, including economic infrastructure, the skills base, quality and delivery of essential services, the regulatory environment and issues such as law and order and political stability. These challenges in attracting private investors are not confined to the mining sector and are considered in relevant sections in following chapters.

Tourism

7.29 The natural beauty of the region is one of its strongest assets and offers great prospects for economic growth through the tourist industry. Tourism is already an important industry in the region and makes a major contribution to the economies of the Pacific islands. It appears that this niche market offers considerable promise as a way to boost economic development.⁵⁵ For example, the expanding tourism industry in Fiji and Samoa now accounts for about 25 per cent of GDP and some 50 per cent of GDP for the Cook Islands and Palau.⁵⁶ According to DFAT, Tonga's tourist industry is 'modest but with potential for expansion', while 'continuing growth in Vanuatu's

51 *Submission 70*, p. 6.

52 The University of Queensland's Consortium on Community Building and Responsible Resource Development, *Submission 6*, p. 3.

53 New Guinea Gold Corporation, http://www.newguineagold.ca/PNG/papua_new_guinea.html (accessed 24 June 2009).

54 *Minerals for Life*, Quarterly Bulletin, April–June 2008, p. 4.

55 See for example, Pacific Islands Forum Secretariat, *Submission 69*, p. 2.

56 *Submission 31*, p. 5.

tourism sector will be crucial to providing employment opportunities for its young and rapidly growing population'.⁵⁷

7.30 According to Mr Steven Noakes, Pacific Asia Tourism Pty Ltd, tourism can generate 'the biggest multiplier impact from export dollars'.⁵⁸ Among other things, tourism:

- is consumed at the point of production;
- has the potential to support other economic activities;
- is labour intensive and provides a wide range of different employment opportunities for both skilled and unskilled workers;
- creates opportunities for many small and micro entrepreneurs;
- is a source of community pride, promotes local culture and creates a greater awareness of the natural environment and its economic value.⁵⁹

7.31 Tourism provides government with a source of revenue that can be used to promote further economic development.⁶⁰ It also operates as a powerful incentive for countries to create an attractive business environment by investing in infrastructure such as electricity, water reticulation, sewerage and surface transport.⁶¹

7.32 There are, however, some key impediments to developing this industry, including a lack of appropriate skills and training, such as in hospitality (considered in chapter 10). According to an ESCAP study, if the skills shortage does not improve in the near future, 'this could be the major bottleneck for development of the industry'.⁶² Poor economic infrastructure, an unwelcoming investment environment, political instability and uncertain access to land also adversely affect the development of tourism and are discussed in greater detail in later chapters.

Conclusion

7.33 The committee notes the commercial opportunities that exist for Pacific island countries to develop and expand their agricultural and fisheries sectors. In some cases, donor countries such as Australia could assist Pacific island countries to become more internationally competitive. They would benefit from research and development

57 DFAT website, country information, <http://www.dfat.gov.au/geo/tonga/index.html> (accessed 15 October 2008).

58 *Committee Hansard*, 26 March 2009, p. 60.

59 *Submission 31*, p. 2.

60 For example, Qantas noted that for many Pacific island countries 'the potential to increase receipts from tourism is seen as a better long-term prospect', *Submission 41*, p. 2.

61 *Submission 41*, p. 2.

62 ESCAP, *Improving Employment opportunities in Pacific Island Developing Countries*, 2007, p. 19.

designed to improve the quality and reliability of products suitable for export. The committee also notes that Pacific island countries face difficulties meeting the import requirements of overseas markets. There is potential for Australia to assist these countries in this regard through helping them to understand the requirements of importing countries and to build the technical capacity needed to be able to satisfy international standards. Pacific Island countries would also benefit from capacity building in the areas of business management, marketing, trade negotiation and industry specific skills such as hospitality.

