



GOVERNMENT OF VANUATU
TRADE POLICY FRAMEWORK UPDATE 2019-2025



Port Vila, 6 December 2019

TABLE OF CONTENTS

ACKNOWLEDGMENTS	11
FOREWORD	12
LIST OF ACRONYMS	14
LIST OF TABLES	22
LIST OF FIGURES	25
EXECUTIVE SUMMARY.....	26
CHAPTER 1: INTRODUCTION	57
1.1 Country Overview.....	57
1.1.1 Geography and population.....	57
1.1.2 Institutions.....	57
1.1.3 Economy.....	58
1.1.4 International relations.....	58
1.2 Policy Landscape	58
1.3 Rational for a Trade Policy.....	59
1.4 Vision and Goals	60
1.5 Consultation Process	61
CHAPTER 2: THE MACROECONOMIC ENVIRONMENT	62
2.1 GDP Composition and Trends.....	62
2.1.1 Recommendations.....	64
2.2 Macroeconomic Determinants of Growth	64
2.2.1 Short-term determinants	64
2.2.2 Medium-term determinants.....	65
2.2.3 Long-term determinants	65
2.2.4 Recommendations.....	68
2.3 Measures to Ensure Sustainability of Vanuatu’s Economic Growth	68
2.3.1 Recommendations.....	70
2.4 Vanuatu’s Graduation from LDC Status.....	70
2.4.1 Trade-related measures	70
2.4.2 Official development assistance	71
2.4.3 General support.....	72
2.4.4 Recommendations.....	73
2.5 Poverty Issues.....	73
2.5.1 Recommendations.....	74
CHAPTER 3: TRADE COMPOSITION AND TRENDS.....	75
3.1 Balance of Trade in Goods and Services	75
3.1.1 Recommendations.....	75

3.2 Trade in Goods - Export.....	75
3.2.1 Products	75
3.2.2 Destinations.....	77
3.2.3 Recommendations.....	79
3.3 Trade in Services – Export	79
3.3.1 Categories.....	79
3.3.2 Destinations.....	80
3.3.3 Recommendations.....	81
3.4 Trade in Goods – Imports	81
3.4.1 Products	81
3.4.2 Origins	83
3.4.3 Recommendations.....	84
3.5 Trade in Services – Imports	85
3.5.1 Categories.....	85
3.5.2 Recommendations.....	85
CHAPTER 4: EXTERNAL TRADE POLICIES AND TRADE AGREEMENTS.....	86
4.1 Multilateral External Trade Policies.....	86
4.1.1 External trade policies directly affecting imports of goods	86
4.1.2 External trade polices directly affecting exports of goods.....	88
4.1.3 Polices affecting production and trade.....	89
4.1.4 External trade policies related to foreign direct investments	89
4.1.5 Statistical analysis of Foreign Direct Investments.....	92
4.1.6 External trade policies related to movement of natural persons	94
4.1.7 Recommendations.....	94
4.2 Free and Preferential Trade Agreements	94
4.2.1 Existing Free Trade Agreements.....	95
4.2.2. Free Trade Agreements under negotiations or still to enter into force.....	97
4.2.3 Free and Preferential Trade Agreements under consideration	106
4.3 LDC Graduation – Implications on Free Trade Agreements that Vanuatu is Party to.....	107
CHAPTER 5: BACKBONE SERVICES AND RELATED INFRASTRUCTURE	108
5.1 Energy.....	108
5.1.1 Overarching framework.....	108
5.1.2 Petroleum products and LPG markets.....	109
5.1.3 Electricity	111
5.1.4 Recommendations.....	115
5.2 Telecommunications and Information and Communications Technology Sector	116
5.2.1 Introduction.....	116
5.2.2 Existing telecommunications and ICT-related policies	116

5.2.3 Legal and Regulatory Framework	118
5.2.4 Market structure and the impact on consumer price and reliability	119
5.2.5 Quality of service	120
5.2.6 Market pricing	121
5.2.7 Quality of physical infrastructure	122
5.2.8 Recommendations.....	123
CHAPTER 6: TRADE FACILITATION AND RELATED INFRASTRUCTURE	124
6.1 Time and Costs of Trading Across Borders	124
6.1.1 Vanuatu’s performance	124
6.1.2 Port handling charges.....	125
6.1.3 World Trade Organization Trade Facilitation Agreement.....	126
6.1.4 Recommendations.....	131
6.2 Trade Facilitation Infrastructure.....	131
6.2.1 Institutional and legislative arrangements in transport sector.....	131
6.2.2 Air transport	132
6.2.3 Sea transport.....	134
6.2.4 Road transport.....	136
6.2.5 Urban waterfronts.....	138
6.3 Sanitary and Phytosanitary Measures	138
6.3.1 International Regulatory Framework.....	138
6.3.2 SPS Legislation.....	138
6.3.3 Documentation for trading in SPS-sensitive products	139
6.3.4 SPS-related institutional arrangements.....	140
6.3.5 SPS requirements for exporting sectors	141
6.3.6 SPS-related risks to exporting sectors	143
6.3.7 Recommendations.....	144
6.4 Quality Infrastructure	144
6.4.1 Introduction.....	144
6.4.2 Why is a National Quality Infrastructure necessary?.....	145
6.4.3 Vanuatu Bureau of Standards and the WTO Agreement on Technical Barriers to Trade...	145
6.4.4 Vanuatu Bureau of Standards – general constraints	146
6.4.5 National Quality Policy.....	146
6.4.6 Standardisation	146
6.4.7 Metrology	147
6.4.8 Accreditation	147
6.4.9 Conformity assessment services.....	148
6.4.10 Recommendations.....	148
CHAPTER 7: DOING BUSINESS - REFORMS FOR PRIVATE SECTOR DEVELOPMENT.....	149

7.1 Business Policies, Laws and Regulations.....	149
7.1.1 Company structures	149
7.1.2 Legislative framework for foreign investment.....	149
7.1.3 Foreign investment entry	150
7.1.4 Licensing requirements	150
7.1.5 Industry Development Act.....	151
7.1.6 Competition.....	151
7.1.7 Consumer protection	151
7.1.8 Contract enforcement	152
7.1.9 Arbitration	152
7.1.10 Alternative dispute resolution centre.....	152
7.1.11 Access to information.....	153
7.1.12 Recommendations.....	153
7.2 Labour	154
7.2.1 Introduction.....	154
7.2.2 Overview of legal framework	154
7.2.3 Information in relation to foreign workers.....	154
7.2.4 National labour policy.....	154
7.2.5 Social welfare	155
7.2.6 Process issues relating to foreign workers	155
7.2.7 Information dissemination	156
7.2.8 Recent reform	156
7.2.9 Recommendations.....	156
7.3 Land.....	156
7.3.1 Land ownership	156
7.3.2 Types of land interests available for economic use	156
7.3.3 The 2013 reform.....	157
7.3.4 The Process for obtaining a lease	157
7.3.5 State land	158
7.3.6 Custom land	158
7.3.7 Assessment of access to customary land	159
7.3.8 Economic Development Zone.....	159
7.3.9 Standard lease documents	159
7.3.10 Land advisory service.....	160
7.3.11 Recommendations.....	160
7.4 Financial Sector	160
7.4.1 Overview of financial sector	160
7.4.2 Overview of access to finance	161

7.4.3 Taking security.....	161
7.4.4 Credit bureau	162
7.4.5 Consumer credit legislation	163
7.4.6 Vanuatu Agricultural Development Bank	163
7.4.7 Personal bankruptcy framework	163
7.4.8 The Financial Inclusion Strategy 2018-2023	163
7.4.9 Legislation relating to the payment system.....	164
7.4.10 Interchange fees.....	164
7.4.11 Anti-Money Laundering/Combating Financing of Terrorism	165
7.4.12 Recommendations.....	165
7.5 Intellectual property rights.....	165
7.5.1 Introduction.....	165
7.5.2 Legal and regulatory framework in Vanuatu	166
7.5.3 International organisations	166
7.5.4 Registration and enforcement in Vanuatu	166
7.5.5 Reform relating to VanIPO.....	167
7.5.6 Protection of traditional knowledge and expressions of culture	167
7.5.7 Implementation of electronic registration systems.....	167
7.5.8 Legislative reform	167
7.5.9 Recommendations.....	167
7.6 Public Sector Entities	168
7.6.1 Overview of public sector entities in Vanuatu	168
7.6.2 Recent reform	168
7.6.3 The Commercial Government Business Enterprises Bill	168
7.6.4 Remaining gaps in State-Owned Enterprises policy and proposed legislation	169
7.6.5 Government procurement	170
7.6.6 Recommendations.....	171
7.7 Private Sector Entities	171
7.7.1 Overview	171
7.7.2 Vanuatu Chamber of Commerce and Industry	171
7.7.3 Funding relating to the Vanuatu Chamber of Commerce and Industry.....	172
7.7.4 Governance structure of the Vanuatu Chamber of Commerce and Industry.....	172
7.7.5 Services to the provinces.....	173
7.7.6 Communication of VCCI’s mandate and membership.....	173
7.7.7 Consultations between VCCI and the public sector.....	173
7.7.8 Awareness of the NTDC role and private sector membership.....	173
7.7.9 Recommendations.....	173
CHAPTER 8: EDUCATION AND SKILLS	175

8.1 Introduction.....	175
8.2 Unmet Skill Demand.....	175
8.2.1 Skill profiles in priority export sectors	175
8.2.2 Skill shortages and skill gaps in priority export sectors.....	176
8.2.3 Unmet skill demand summary.....	182
8.3 Key Constraints in the School System.....	183
8.4 Key Constraints in the PSET System.....	184
8.4.1 Reforms since 2012	184
8.4.2 Key constraints	185
8.4.3 Summary	190
8.5 Recommendations	190
CHAPTER 9: TRADE AND SUSTAINABLE DEVELOPMENT.....	193
9.1 Introduction.....	193
9.2 Environmental Impacts.....	193
9.2.1 Environmental impact assessment.....	193
9.2.2 Deep sea mining	195
9.2.3 Recommendations.....	195
9.3 Resource Over-Exploitation	195
9.3.1 Forestry products	195
9.3.2 Fishery products	196
9.3.3 Recommendations.....	198
9.4 Climate Change Mitigation, Adaptation and Disaster Risk Reduction	198
9.4.1 Mitigation	198
9.4.2 Adaptation and Disaster Risk Reduction.....	201
9.5 Women’s Economic Empowerment.....	202
9.5.1 Access to school education	203
9.5.2 Access to Post-School Education and Training (PSET)	204
9.5.3 Access to credit	204
9.5.4 Recommendations.....	204
9.6 Kastom.....	205
9.6.1 Recommendations.....	206
CHAPTER 10: TRADE MAINSTREAMING AND ITS PILLARS	207
10.1 Progress So Far	207
10.1.1 CoM decision 20/2012	207
10.1.2 Achievements.....	207
10.2 Challenges and Opportunities	209
10.2.1 Policy level.....	209
10.2.2 Institutional level.....	211

10.2.3 Development cooperation level	212
10.2.4 Recommendations.....	212
10.3 Aid-for-Trade	213
10.3.1 Recommendations.....	215
CHAPTER 11: GOODS.....	216
11.1 Introduction.....	216
11.2 Coconut	216
11.2.1 Export performance	216
11.2.2 World market conditions.....	217
11.2.3 Domestic supply conditions.....	218
11.2.4 Domestic policy and regulatory environment	221
11.2.5 SWOT analysis coconut	222
11.2.6 Recommendations.....	222
11.3 Cattle	223
11.3.1 Export performance	223
11.3.2 World market conditions.....	224
11.3.3 Domestic supply conditions.....	225
11.3.4 Domestic policy and regulatory environment	227
11.3.5 SWOT analysis beef	228
11.3.6 Recommendations.....	229
11.4. Fruits and vegetables	229
11.4.1 Export performance	229
11.4.2 World market conditions.....	230
11.4.3 Domestic supply conditions.....	231
11.4.4 Domestic policy and regulatory environment	234
11.4.5 SWOT analysis fruits and vegetables	234
11.4.6 Recommendations.....	235
11.5. Kava	235
11.5.1 Export performance	235
11.5.2 World market conditions.....	236
11.5.3 Domestic supply conditions.....	238
11.5.4 Domestic policy and regulatory environment	240
11.5.5 SWOT analysis kava	241
11.5.6 Recommendations.....	241
11.6 Forestry Products	242
11.6.1 Recommendations.....	244
11.7 Cocoa.....	244
11.7.1 Recommendations.....	245

11.8 Fisheries	246
11.8.1 Recommendations.....	247
CHAPTER 12: TOURISM SERVICES	248
12.1 Export Performance	248
12.1.1 Export value and volume.....	248
12.1.2 Types of products exported.....	249
12.1.3 Export destinations.....	250
12.2 World Market Conditions	250
12.2.1 World market prospects.....	250
12.2.2 Major competitors.....	251
12.3 Domestic Supply Conditions.....	252
12.3.1. Current producers and production capacity.....	252
12.3.2 Quality of products and services	252
12.3.3 Capital and technology.....	253
12.3.4 Labour force mobility, skills and skill gaps	253
12.3.5 Availability and conditions of support industries.....	254
12.4 Domestic Policy and Regulatory Environment.....	254
12.4.1 Specific policies and regulations to promote the sector	254
12.5 Future Directions.....	255
12.5.1 Export products	255
12.5.2 Export destinations.....	256
12.6 SWOT analysis tourism	256
12.7 Recommendations	257
CHAPTER 13: OTHER SERVICES (OFFSHORE AND ICT)	258
13.1 Offshore services.....	258
13.1.1 Export performance	258
13.1.2 World market conditions.....	259
13.1.3 Domestic supply conditions.....	260
13.1.4 Domestic policy and regulatory environment	260
13.1.5 Future directions	261
13.1.6 SWOT analysis offshore	262
13.1.7 Recommendations.....	262
13.2 ICT services.....	262
13.2.1 Export performance	262
13.2.2 World market conditions.....	264
13.2.3 Domestic supply conditions.....	265
13.2.4 Domestic policy and regulatory environment	266
13.2.5 Future directions	267

13.2.6 SWOT analysis ICT	268
13.2.7 Recommendations.....	269
REFERENCES	270
IMPLEMENTATION MATRIX.....	294
ANNEX 1: LESSON LEARNT FROM OFF-TRACK RECOMMENDATIONS IN THE TPF 2012	344

ACKNOWLEDGMENTS

This National Policy, the Trade Policy Framework Update 2019-2025 (TPFU), is the overarching policy of the Minister of Tourism, Trade, Commerce and Ni-Vanuatu Business. Our gratitude goes to the funders of the policy. The TPFU would not exist without the generous contribution of the two donors that co-financed it: the Enhanced Integrated Framework and the Australia's Governance for Growth Program. The TPFU also received significant technical support from DLA Piper and the Government of Vanuatu, which greatly assisted with the compilation of this policy document.

The Target audience of this policy document is the policymaker, the private sectors, the donor community, trade analysts and other development stakeholders.

The drafting of the TPFU was possible thanks to the work, efforts and experience of the Team Leader, Dr Andrea Giacomelli. His perseverance in coordinating and joining together the various parts of the long process of the TPFU, made it the strong policy paper that it is now.

The TPFU 2019-2025-2025 was drafted by:

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- Mr Andrea Ibba and Mr Peter Judge (Chapter 11);
- Mr Ross Hopkins (Chapter 12);
- Mr Sven Callebaut, Mr Fred Samuel and Mr John Stevens (Chapter 13);

The TPFU 2019-2025 could not have been completed without the support of the following people.

The Director General Ambassador Roy Mickey Joy for his support and guidance; former Acting Director General Mr George Borugu for his leadership during the initial stages of the policy; Trade Advisor Mr Peter Judge for his hard work in the drafting of the chapters and his skills in coordinating the people involved in the making of the policy; Mr James Tatangis, Mr Elio Luen, Mr Briscosley Kauh, Mr Brill Palmer, Mr Yuen Lawi, Ms Rose Liu, Ms Maimona Luke, Mr Andrea Ibba, Mr John Willie, all members of the Trade Development Division led by the Principal Trade Development Officer, Mrs Luisa Letlet, for their substantial involvement and assistance throughout each stage of the formulation of the TPFU; the government line agencies and statutory bodies involved in the trade policy update for their participation, feedback, and assistance provided to the consultants for the drafting of the policy; the Utilities Regulatory Authority Vanuatu, and the Telecommunications Radiocommunications and Broadcasting Regulator for the technical support provided; the GIZ technical assistance for their contribution to the content of the policy; the National Trade Development Committee for the contribution to the formulation of the policy and for their endorsement.

The Pandanus Consulting for the design and graphics; the Vanuatu Tourism Office, the Department of Industry and the Vanuatu Daily Post for providing the pictures for the cover page and the Sun Productions for printing this booklet.

The existence of this policy document would not have been made possible without your contributions and assistance and for this, the Government of Vanuatu would like to show appreciation for your efforts and recognise your inputs.

FOREWORD



I am honoured to introduce the Trade Policy Framework Update 2019-2025 (TPFU) on behalf of the Government and the people of Vanuatu.

The TPFU's predecessor, the Trade Policy Framework 2012, has been a success story in setting the stage for trade and economic oriented approaches to inform and guide Vanuatu's political discourse, shaping our political agenda. The combination of the previous policy, along with the formation of the National Trade Development Committee, mean that trade governance in Vanuatu is now frequently cited as an example of good practice. This has laid a strong foundation, which this new policy will build on.

The TPFU replaces its predecessor and continues its mission. Mirroring the National Sustainable Development Plan's Goal ECO 1, the TPFU's vision is to achieve '*a prosperous economy encouraging trade and investment to provide economic opportunities for all members of society throughout Vanuatu*'. This statement clearly defines the inclusivity at the core of the policy: its mission is not only to improve the trade and business environment in Vanuatu, but to do so while creating job opportunities for all, and ensuring that wealth is more evenly distributed.

The TPFU also clearly redefines the rationale for having a trade policy. As a small island nation with limited natural resources, there will never be sufficient domestic demand for Vanuatu to be able to produce everything it needs. Therefore, the country must seek to trade – importing where necessary, and exporting products to the global economy to raise revenue and incomes. In order to achieve this, all of Government must work together with the private sector and other partners to improve the business environment. This is not a task that the Ministry can achieve by itself. The TPFU clearly lays out the role of numerous Government Departments and Agencies, all of whom must come together to help support development.

As of 2019, Vanuatu is moving towards becoming a modern country, immersing in the global economy. It has strong economic ties with the neighbouring MSG countries, Kiribati, New Caledonia, Australia, and New Zealand, increasing economic exchanges with the United States, the Philippines, and Malaysia, and it is establishing new relationships with China and Bangladesh. Our country is also the proud world leader in kava production, is among the top producers of coconuts, and exports high quality beef, cacao, and sandalwood. It is also a renowned tourism destination, counting more than 332,000 visitors in 2017 – figures that are expected to increase thanks to the blend of natural beauty and tradition that our country can offer.

Vanuatu's economy relies on own-account and semi-commercial agriculture and services sector (mostly tourism), which account respectively for about 20% and 70% of the Gross Domestic Product. Being an archipelago in the South Pacific, domestic and external trade play an important role in everyone's life. As examples, copra is shipped to Sanma from numerous provinces, such as Malampa and Torba, and it finds its way towards many overseas destinations; coffee is produced in Tafea, processed in Shefa and finally exported overseas; kava is produced in almost all the provinces, most notably Penama, and traded and processed for domestic consumption or international trade. Similarly, we also rely on many services and products that we do not and cannot produce, such as cars, mobile phones, and machineries, to connect with the world and to improve our infrastructure. The TPFU identifies gaps and failures in the present systems and proposes way forwards to improve our domestic and international linkages.

The future looks bright and exciting for Vanuatu. Among other things, in 2020, Vanuatu will celebrate 40 years since independence and will graduate from the United Nation's group of the least developed

countries. LDC Graduation in particular is a great testament to the hard work of the people of Vanuatu in the four decades since independence, and something we should view with pride. However, this is just the end of one step on our path to development. We must build upon this progress. The following years will also pose some challenges to our country, in particular ensuring there are sufficient quality employment opportunities for our very young and rapidly growing population.

While looking towards the future, we should not forget the past. Vanuatu is and has been an island country where the traditional or kastom economy still coexists with the global economy. Aware of this, the TPFU critically questions the impact that each proposed recommendation may generate on the kastom economy. This unique approach will help to ensure that economic growth is sustainable and inclusive.

I would like to end by commending the hard work of the team who have pulled together such a high-quality product, and in particular the leadership and expertise of the team leader, Dr. Andrea Giacomelli. I would also like to thank Australia, the Enhanced Integrated Framework, and DLA Piper, for their support in compiling this policy.

I hope that the TPFU will be used by politicians, government officials, not for profit organisations, donor partners, and all the members of the civil society to build a stronger and fairer society. This policy will provide a framework to address any trade related issue for the next five years at least, and I strongly urge all parties to work together to help make it a success.



Honourable Jotham Napat
Deputy Prime Minister
Minister of Tourism, Trade, Commerce and Ni-Vanuatu Business

6th December 2019

LIST OF ACRONYMS

AB	Accreditation Body
ABM	Au Bon Marche
ACP	African Caribbean Pacific
ADB	Asian Development Bank
AfT	Aid-for-Trade
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
AMU	Asset Management Unit
ANZ	Australia and New Zealand Bank
APG	Asia-Pacific Group on Money Laundering
APTC	Australian Pacific Training Coalition
ASBAE	Asia South Pacific Association for Basic and Adult Education
ASEAN	Association of South East Asian Countries
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
ATM	Automated Teller Machine
AUD	Australian Dollars
AVL	Airports Vanuatu Limited
AVOL	Air Vanuatu Operations Limited
B2B	Business to Business
B2C	Business to Consumer
BAU	Business As Usual
BIHE	Bilingual Institute of Higher Education
BOP	Balance of Payments
BRANTV	Barrier Removal for Achieving the National Energy Road Map Targets of Vanuatu
BSE	Bovine Spongiform Encephalopathy
BSP	Bank of South Pacific
BV	Biosecurity Vanuatu
BVD	Bovine Virus Diarrhoea
CA	Current Account
CAAV	Civil Aviation Authority of Vanuatu
CAB	Conformity Assessment Body
CAC	Codex Alimentarius Commission
CCNASWP	Codex Committee for North America and South West Pacific
CDP	Committee for Development Policy
CEO	Chief Executive Officer
CERT VU	Computer Emergency Response Team Vanuatu
CGBEs	Commercial Government Business Enterprises
CIWG	Coconut Industry Working Group
CNO	Crude Coconut Oil
CoM	Council of Ministers
COP	Conferences Of the Parties
COPSL	Coconut Oil Production Espiritu Santo Limited
CPM	Commission on Phytosanitary Measures

CRB	Coconut Rhinoceros Beetle
CSN	Commonwealth Standards Network
CTSP	Company and Trust Service Providers
DAC	Development Assistance Committee
DARD	Department of Agriculture and Rural Development
DB	Ease of Doing Business
DCIR	Department of Customs and Inland Revenue
DCO	Development Committee of Officials
DEPC	Department of Environmental Protection and Conservation
DFAT	Australian Department of Foreign Affairs and Trade
DFS	Department of Fisheries
DGM	Department of Geology and Mines
DLV	Department of Livestock
DoE	Department of Energy
DoET	Department of External Trade
DoF	Department of Forestry
DoI	Department of Industry
DoL	Department of Labour
DoT	Department of Tourism
DPH	Department of Ports and Harbours
DSM	Deep Sea Mining
DSP	Director Service Providers
DSPPAC	Department of Strategic Policy Planning and Aid Coordination
EAP	East Asia Pacific
EDF	European Development Fund
EDF 11	11 th European Development Fund
EDZ	Economic Development Zone
EE	Energy Efficiency
EEZ	Exclusive Economic Zone
EFTPOS	Electronic Funds Transfer at Point Of Sale
EIA	Environmental Impact Assessment
EIF	Enhanced Integrated Framework
EMMP	Environmental Management and Monitoring Plan
EPA	Economic Partnership Agreement
EPC	Environmental Protection and Conservation Act
ER	Employment Relations
ESTA	Espiritu Santo Tourism Association
ESWS	Electronic Single Window System
EU	European Union
F&V	Fruits and Vegetables
FAD	Fish Aggregating Device
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force
FCA	Financial Centre Association
FCC	Fidelity Communication Corporation
FDI	Foreign Direct Investment
FFA	Forum Fisheries Agency

FFA	Free Fatty Acid
FIC	Forum Islands Country
FIPA	Foreign Investment Promotion Act
FIS	Financial Inclusion Strategy
FIU	Financial Intelligence Unit
FTA	Free Trade Agreement
FTDCAU	Food Technology Development Centre and Analytical Unit
GAP	Good Agricultural Practices
GATS	General Agreement on Trade in Services
GBE	Government Business Enterprise
GBEAP	Grid Based Electricity Access Project
GCF	Green Climate Fund
GCSP	General Company Service Providers
GCTA	Government Contracts and Tenders Act
GDP	Gross Domestic Product
GEF	Global Environment Facility
GeNS	Generic ePhyto National System
GGGI	Global Green Growth Institute
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GNI	Gross National Income
GOS	Global Outsourcing Services
GPA	Government Procurement Agreement
GPI	Gender Parity Index
GRT	Gross Registered Tonnage
HACCP	Hazard Analysis and Critical Control Points
HIES	Household Income and Expenditure Survey
HS	Harmonized Commodity Description and Coding System
HTLTC	Hospitality Tourism Leisure Training Centre
ICAO	International Civil Aviation Organisation
ICCO	International Cocoa Organization
ICL	Interchange Limited
ICN	Interchange Cable Network
ICT	Information and Communications Technology
IDA	Industrial Development Act
IEC	International Electrotechnical Commission
IFC	International Finance Corporation
IHS	Import Health Standard
ILO	International Labour Organisation
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
IoT	Internet of Things
IP	Intellectual Property
IPAS	Industrial Property Automation System
IPDS	Ifira Port Development Services
IPP	Independent Power Producers
IPPC	International Plant Protection Convention
IPR	Intellectual Property Right

IRR	Internal Rate of Return
IRU	Indefeasible Rights of Use
ISCO	International Standard Classification of Occupations
ISM	International Support Measure
ISO	International Organization for Standardization
ISPM	International Standard for Phytosanitary Measure
ITU	International Telecommunication Union
IVS	International Visitor Survey
LCL	Less than Container Loads
LCSP	Limited Company Service Providers
LDC	Least Developed Country
LILO	Liner In/Liner Out
LLN	Language, Literacy and Numeracy
LMIS	Labour Market Information System
LMPC	Land Management Planning Committee
MALFFB	Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity
MBIE	New Zealand Ministry of Business, Innovation and Employment
MCCE	Ministry of Climate Change and Energy
MEC	Macroeconomic Committee
MFEM	Ministry of Finance and Economic Management
MFN	Most Favoured Nation
MFTA	Melanesian Free Trade Agreement
MIA	Ministry of Internal Affairs
MIPU	Ministry of Infrastructure and Public Utilities
MLNR	Ministry of Lands and Natural Resources
MoE	Ministry of Education
MoET	Ministry of Education and Training
MoFAICET	Ministry of Foreign Affairs, International Cooperation, and External Trade
MoH	Ministry of Health
MPA	Marine Protection Area
MPI	Ministry for Primary Industries
MPs	Members of Parliament
MSG	Melanesian Spearhead Group
MSGTA	Melanesian Spearhead Group Trade Agreement
MSMEs	Micro, Small, and Medium Enterprises
MTTCNVB	Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business
MYDST	Ministry of Youth Development, Sports and Training
NAB	National Advisory Board on Climate Change and Disaster Risk Reduction
NALLNF	National Adult Language, Literacy and Numeracy Framework
NAMA	Non-Agriculture Market Access
NBP	National Biosecurity Policy
NBV	National Bank of Vanuatu
NER	Net Enrolment Rates
NERM	National Energy Roadmap
NFI	National Forest Inventory
NGO	Non-Government Organisation
NHRDP	National Human Resource Development Plan

NIP	National Indicative Program
NISCOL	Northern Islands Stevedoring Company Limited
NPP	New Policy Proposals
NQI	National Quality Infrastructure
NQP	National Quality Policy
NSB	National Standards Body
NSDP	National Sustainable Development Plan
NTDC	National Trade Development Committee
NTFSC	National Trade Facilitation Steering Committee
NTPC	National Trade and Production Committee
NZD	New Zealand Dollar
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
OFC	Offshore Financial Centre
OFCWG	Offshore Financial Centre Working Group
OGCIO	Office of the Government Chief Information Officer
OIE	Office International des Epizooties (World Organization for Animal Health)
OIML	Intentional Organisation of Legal Metrology
OJT	On-the-Job Training
OMR	Office of the Maritime Regulator
OO	Online Outsourcing
OPSP	Overarching Productive Sector Policy
ORCBDS	Office of the Registrar of Cooperatives & Business Development Services
OTT	Over The Top (OTT)
PAA	Priority Action Agenda
PACER Plus	Pacific Agreement on Closer Economic Relations Plus
PaclII	Pacific Islands Legal Information Institute
PACPS	Pacific States of the Africa Caribbean Pacific group
PADI	Professional Association of Diving Instructors
PBO	Principal Biosecurity Officer
PEA	Preliminary Environmental Assessment
PFEM	Public Finance and Economic Management
PHAMA	Pacific Horticultural and Agricultural Market Access
PICs	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PIF	Pacific Islands Forum
PLMAM	Pacific Labour Mobility Annual Meeting
PMO	Prime Minister's Office
PNG	Papua New Guinea
PPA	Power Purchase Agreements
PPG	Public and Publicly Guaranteed
PPS	The Personal Property Securities
PSET	Post-School Education and Training
PTI	Pacific Trade and Invest
PVO	Principal Veterinary Officer
PWD	Public Works Department

RBV	Reserve Bank of Vanuatu
RE	Renewable Energy
REDD	Reduce Emissions from Deforestation and Forest Degradation
RIMS	Road Inventory Management System
ROO	Rules of Origin
RRAP	Rural Road Access Policy
RRAS	Rural Road Access Strategy
SAD	Single Administrative Document
SAR	Special Administrative Region
SCHS	Sea Container Hygiene Systems
SDT	Special and Differential Treatment
SEA	Strategic Environmental Assessment
SIDS	Small Islands Developing States
SIS	Small Islands States
SMP	Espiritu Santo Meat Packers Limited
SOE	State-Owned Enterprise
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
SPC	Secretariat of the Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
SPS	Sanitary and Phytosanitary
SPTO	South Pacific Tourism Organization
SSS	Shipping Subsidy Scheme
STSP	Special Trust Service Providers
SWOT	Strengths Weaknesses Opportunities and Threats
TAB	Trading Across Borders
TAC	Total Allowable Catch
TAFE	Technical and Further Education
TBT	Technical Barriers to Trade
TC	Tropical Cyclone
TDD	Trade Development Division
TEC	Traditional Economy Criteria
TEI	Traditional Economy Impact
TFA	Trade Facilitation Agreement
TFSC	Trade Facilitation Steering Committee
TIFA	Trade and Investment Framework Agreement
TIS	Trade in Services
TLAC	Tripartite Labour Advisory Council
TMDF	Tourism Marketing Development Fund
TMNP	Temporary Movement of Natural Persons
TPF	Trade Policy Framework
TPFIM	Trade Policy Framework Implementation Matrix
TPFU	Trade Policy Framework Update
TPR	Trade Policy Review
TRBR	Telecommunications, Radiocommunications, and Broadcasting Regulator
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRP	Trade Ready Programme
TRR	Telecommunication and Radiocommunication Regulator

TSC	Teaching Service Commission
TVET	Technical and Vocational Education and Training
TVL	Telecom Vanuatu Limited
UAP	Universal Access Policy
UHT	Ultra-High Temperature
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference for Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNELCO	Union Electrique du Vanuatu Limited
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFCCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
UNICEF	United Nations Children's Fund
UNWTO	United Nations World Tourism Organization
URA	Utility Regulatory Authority
US	United States
USD	United States Dollar
USP	University of the South Pacific
VAC	Vanuatu Agriculture College
VADB	Vanuatu Agricultural Development Bank
VAL	Vanuatu Abattoirs Limited
VanIPO	Vanuatu Intellectual Property Office
VANSTA	Vanuatu Standardised Test of Achievement
VAPA	Vanuatu Agritourism Plan of Action
VARTC	Vanuatu Agricultural Research and Technical Centre
VASP	Vanuatu Agricultural Sector Policy
VAT	Value Added Tax
VaVaC	Vanuatu Value Chain
VBS	Vanuatu Bureau of Standards
VCBN	Vanuatu Cooperative Business Network
VCCI	Vanuatu Chamber of Commerce and Industry
VCMB	Vanuatu Commodities Marketing Board
VCNE	Vanuatu College of Nursing Education
VCO	Virgin Coconut Oil
VFSC	Vanuatu Financial Services Commission
VHRA	Vanuatu Hotels and Resorts Association
VIBTA	Vanuatu Islands Bungalow and Tourism Association
VIPA	Vanuatu Investment Promotion Authority
VISIP	Vanuatu Infrastructure Strategic Investment Plan
VISSP	Vanuatu Interisland Shipping Support Project
VIT	Vanuatu Institute of Technology
VITE	Vanuatu Institute of Teacher Education
VKIA	Vanuatu Kava Industry Association
VLDC	Vanuatu Livestock Development Corporation
VMC	Vanuatu Maritime College

VNCS	Vanuatu National Coconut Strategy
VNER	Vanuatu National Energy Roadmap
VNFVS	Vanuatu National Fruits and Vegetables Strategy
VNKS	Vanuatu National Kava Strategy
VNPF	Vanuatu National Provident Fund
VNSO	Vanuatu National Statistics Office
VNSO	Vanuatu National Statistic Office
VNTC	Vanuatu National Training Council
VPC	Vanuatu Police College
VPMU	Vanuatu Project Management Unit
VPPA	Vanuatu Primary Producers Authority
VQA	Vanuatu Qualifications Authority
VQAF	Vanuatu Quality Assurance Framework
VQF	Vanuatu Qualifications Framework
VQIS	Vanuatu Quarantine and Inspection Services
VS	Veterinary Section
VSAT	Very Small Aperture Terminal
VSOA	Vanuatu Scuba Operators Association
VSTAP	Vanuatu Strategic Tourism Action Plan
VTMDP	Vanuatu Tourism Marketing Development Plan
VTO	Vanuatu Tourism Office
VTOA	Vanuatu Tour Operators Association
VTS	Vanuatu Terminal Services Limited
VUI	Vanuatu Utility Infrastructure
VUV	Vanuatu Vatu
VWC	Vanuatu Women's Centre
WAHIS	World Animal Health Information System
WB	World Bank
WBG	World Bank Group
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WSS	Wong Sze Sing
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

LIST OF TABLES

TABLE 1.1:	THE NSDP, A SNAPSHOT
TABLE 1.2:	TPFU GOALS AND CHAPTERS, AND NSDP OBJECTIVES
TABLE 2.1:	PRIMARY AND SECONDARY EDUCATION, GOVERNMENT EXPENDITURE
TABLE 2.2:	SUSTAINABILITY PARAMETERS
TABLE 3.1:	BALANCE OF PAYMENTS, GOODS AND SERVICES BALANCE, VUV MILLION
TABLE 3.2:	MERCHANDISE EXPORTS, MAIN PRODUCTS
TABLE 3.3:	MERCHANDISE EXPORTS, HIGH GROWTH SECTORS
TABLE 3.4:	MERCHANDISE EXPORTS, MAIN DESTINATIONS
TABLE 3.5:	SERVICES EXPORTS, MAIN SERVICES, MILLION VATU
TABLE 3.6:	SERVICES EXPORTS, DESTINATIONS (APPROXIMATED BY TOURISTS' ORGIN)
TABLE 3.7:	MERCHANDISE IMPORTS, MAIN PRODUCTS IN 2008
TABLE 3.8:	MERCHANDISE IMPORTS, MAIN PRODUCTS IN 2016
TABLE 3.9:	MERCHANDISE IMPORTS, ORIGINS
TABLE 3.10:	SERVICES IMPORTS, MAIN SERVICES, MILLION VATU
TABLE 4.1:	FOREIGN INVESTMENTS, RESERVED SECTORS
TABLE 4.2:	FOREIGN INVESTMENTS, RESERVED ACTIVITIES BELOW A MINIMUM THRESHOLD
TABLE 4.3:	VANUATU TRADE WITH EXISTING AND POTENTIAL PARTNERS TO TRADE AGREEMENTS
TABLE 4.4:	MFTA TRADE IN SERVICES, SECTORS WITH SPECIFIC COMMITMENTS
TABLE 4.5:	PICTA TRADE IN SERVICES, SECTORS WITH SPECIFIC COMMITMENTS
TABLE 4.6:	SKILL LEVEL OF PACIFIC ISLAND COUNTRIES
TABLE 4.7:	PACER PLUS, TARIFF LIBERALISATION OF FORUM ISLAND COUNTRIES SIGNATORIES
TABLE 4.8:	PACER PLUS, POLICY SPACE FOR IMPORT SUBSTITUTION
TABLE 4.9:	PACER PLUS TRADE IN SERVICES, SECTORS WITH SPECIFIC COMMITMENTS
TABLE 5.1:	CONCESSION AGREEMENTS FOR ELECTRICITY GENERATION AND SUPPLY
TABLE 5.2:	UNLEADED PETROL PRICES IN VANUATU, PACIFIC, AND FIJI, 2017
TABLE 5.3:	ELECTRICITY PRICES FOR DIFFERENT CONSUMER GROUPS
TABLE 5.4:	MAIN TELECOMMUNICATIONS MAIN PLAYERS
TABLE 5.5:	QUALITY OF SERVICE ISSUES AND MITIGATING ACTIONS
TABLE 5.6:	PRICES, SPEED, DATA ALLOWANCE FOR COMPUTER-BASED BROADBAND
TABLE 6.1:	DOING BUSINESS AND TRADING ACROSS BORDERS IN PICS, 2017
TABLE 6.2:	COMPONENTS OF BORDER COMPLIANCE IN VANUATU, 2017
TABLE 6.3:	STEVEDORING REGIONAL COMPARATIVE TARIFF CHARGES, 2017, USD
TABLE 6.4:	LINKAGES BETWEEN DOING BUSINESS REFORMS AND TFA ARTICLES
TABLE 6.5:	TFA IMPLEMENTATION, KEY ACHIEVEMENTS AND WAY FORWARD
TABLE 6.6:	VANUATU'S ROAD NETWORK, RIMS
TABLE 6.7:	VANUATU'S ROAD NETWORK, 2030 TRANSPORT PLAN
TABLE 6.8:	MAINTENANCE AND REHABILITATION OF THE ROAD NETWORK
TABLE 7.1:	PRIVATE CREDIT BUREAU COVERAGE (PERCENTAGE OF ADULTS)
TABLE 8.1:	ISCO OCCUPATIONAL CATEGORIES RELATED TO TOURISM
TABLE 8.2:	PROPORTION OF INDUSTRY TYPE REPRESENTED IN SURVEY RESPONSES
TABLE 8.3:	MOST IMPORTANT ISSUES FACING BUSINESS
TABLE 8.4:	EASE OF RECRUITMENT OF NI-VANUATU WITH REQUIRED SKILLS

TABLE 8.5:	RECRUITMENT DIFFICULTY BY QUALIFICATION
TABLE 8.6:	POST-SCHOOL QUALIFICATIONS, PER CENT OF EACH OCCUPATION GROUP
TABLE 8.7:	LEVEL OF AGREEMENT TO STATEMENTS ABOUT NI-VANUATU WORKERS
TABLE 8.8:	FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY
TABLE 8.9:	FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY – TOURISM SECTOR MAJOR CATEGORIES TO 3-DIGIT LEVEL
TABLE 8.10:	TOP TEN MOST DIFFICULT OCCUPATIONS TO RECRUIT – TOURISM SECTOR PERCENTAGE OF ALL RESPONSES – N=80
TABLE 8.11:	GENERAL/BASIC SKILLS LACKING IN NI-VANUATU TOURISM SECTOR WORKFORCE PERCENTAGE OF ALL RESPONSES – N=69
TABLE 8.12:	FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY – MANUFACTURING AND AGRICULTURE SECTORS - MAJOR CATEGORIES TO 3-DIGIT LEVEL
TABLE 8.13:	TOP TEN MOST DIFFICULT OCCUPATIONS TO RECRUIT – MANUFACTURING AND AGRICULTURE SECTOR - PERCENTAGE OF ALL RESPONSES – N=43
TABLE 8.14:	GENERAL/BASIC SKILLS LACKING IN NI-VANUATU MANUFACTURING/AGRICULTURE WORKFORCE - PERCENTAGE OF ALL RESPONSES – N=37
TABLE 8.15:	PSET INVESTMENT 2016 AND 2018
TABLE 8.16:	SHARE OF PSET INVESTMENT 2016 AND 2018
TABLE 8.17:	MOST SIGNIFICANT ISSUE AFFECTING QUALITY OF PSET QUALIFICATIONS (TOP 5)
TABLE 8.18:	PERCEIVED TEACHING AND MANAGEMENT STAFF SKILL LEVELS
TABLE 8.19:	ACCREDITED QUALIFICATIONS (JULY 2018)
TABLE 8.20:	INDUSTRY INVESTMENT IS SKILLS TRAINING
TABLE 8.21:	INDUSTRY PREFERRED TRAINING MODALITY
TABLE 8.22:	PRIVATE PROVIDER ACCREDITED QUALIFICATIONS (JULY 2018)
TABLE 9.1:	TOTAL ALLOWABLE CATCH FOR EACH TUNA SPECIES
TABLE 10.1:	TRADE POLICY MAINSTREAMING, RAPID ASSESSMENT
TABLE 10.2:	TOTAL ODA DISBURSEMENTS TO VANUATU BY DONOR, MILLION USD AT 2017 PRICES
TABLE 10.3:	AID-FOR-TRADE DISBURSEMENTS TO VANUATU BY DONOR, MILLION USD AT 2017 PRICES
TABLE 10.4:	AID-FOR-TRADE DISBURSEMENTS TO VANUATU BY PURPOSE, MILLION USD AT 2017 PRICES
TABLE 10.5:	TOTAL ODA DISBURSEMENTS TO VANUATU INCLUDING CHINA, MILLION USD AT 2017 PRICES *
TABLE 11.1:	CATTLE PRODUCTION FIGURES
TABLE 11.2:	EXPORT OF F&V PRODUCTS, VATU MILLION
TABLE 11.3:	KAVA GROWERS BY PROVINCE
TABLE 11.4:	PRODUCERS AND MANUFACTURERS' CHALLENGES IN VANUATU
TABLE 12.1:	VANUATU OUTER ISLANDS - TOURIST ARRIVALS BY AIR
TABLE 12.2:	VANUATU CRUISE SHIP CALLS – 2009 -2018
TABLE 12.3:	VANUATU AIR ARRIVALS BY COUNTRY OF ORIGIN
TABLE 13.1:	SERVICES PROVIDED BY THE VANUATU OFC, 2017
TABLE 13.2:	SWOT ANALYSIS, OFFSHORE FINANCIAL SERVICES
TABLE 13.3:	THE ICT SECTOR IN VANUATU, A SNAPSHOT

TABLE 13.4: SWOT ANALYSIS, ICT AND ICT-RELATED SERVICES

LIST OF FIGURES

- FIGURE 2.1 GDP AND GDP PER CAPITA (2006 PRICES)
FIGURE 2.2 SECTORAL CONTRIBUTION TO GDP
FIGURE 2.3 GDP REAL ANNUAL GROWTH RATES
FIGURE 2.4 EXPENDITURE SHARES OF GDP
FIGURE 2.5 CONTRIBUTION OF DEMAND COMPONENTS TO GDP GROWTH
FIGURE 2.6 PRIMARY AND SECONDARY EDUCATION, OUTPUTS
FIGURE 3.1 MERCHANDISE EXPORTS, VALUE BY GROUP OF TOP DESTINATIONS
FIGURE 3.2 TRENDS IN TOURISM ARRIVALS AND EXPORT OF TRANSPORT SERVICES, INDEX NUMBER
FIGURE 4.1 FOREIGN DIRECT INVESTMENTS, PERCENTAGE OF GDP
FIGURE 4.2 COMPARISON OF VIPA AND RBV FDI SERIES, INDEX NUMBER
FIGURE 4.3: VNPF MEMBERS, ESTIMATED FDI CONTRIBUTION
FIGURE 4.4: MERCHANDISE TRADE WITH MSG COUNTRIES, INDEX NUMBER
FIGURE 4.5: MERCHANDISE TRADE WITH PICTA NON-MSG PARTIES, INDEX NUMBER
FIGURE 5.1: CONSUMPTION OF PETROLEUM FUEL, 2014
FIGURE 5.2: ENERGY MIX FOR ELECTRICITY GENERATION, FEBRUARY 2019
FIGURE 5.3: GDP PER CAPITA AND ACCESS TO ELECTRICITY (% POPULATION), PACIFIC SMALL ISLANDS DEVELOPING STATES, 2016
FIGURE 5.4: RURAL ELECTRICITY ACCESS, PERCENTAGE
FIGURE 9.1: ANNUAL CATCH VOLUMES OF TUNA SPECIES FOUND IN VANUATU'S EEZ AGAINST TAC, METRIC TONS
FIGURE 9.2: ELECTRICITY PRICES ON EFATE AND ESPIRITU SANTO, JANUARY 2017 – JULY 2018
FIGURE 10.1: AID-FOR-TRADE PROJECTS MANAGED BY THE MTTNCVB, VUV MILLION, COMMITTED
FIGURE 11.1: COPRA AND COCONUT OIL EXPORTS, VATU MILLION
FIGURE 11.2: COPRA AND COCONUT OIL PRICES OVER THE LAST DECADE, USD PER METRIC TONNE
FIGURE 12.1: EXPORT OF TOURISM SERVICES, VUV MILLION
FIGURE 12.2: TOURISM ARRIVALS, AIR AND CRUISE PASSENGERS
FIGURE 13.1: EXPORT OF FINANCIAL AND INSURANCE SERVICES, PERCENTAGE OF SERVICES EXPORT
FIGURE 13.2: EXPORT OF ICT SERVICES, VANUATU
FIGURE 13.3: EXPORT OF ICT SERVICES, PERCENTAGE OF SERVICES EXPORT, PACIFIC ISLAND SMALL

EXECUTIVE SUMMARY

CHAPTER 1: INTRODUCTION

Vanuatu is the fourth biggest Forum Islands Country in terms of population (273,000 in 2016), the fifth biggest country in terms of land mass, and the twelfth biggest country in terms of Exclusive Economic Zone. It is a young country, with 66% of its population being less than 30 years old.

Most of Vanuatu's population still engages in own-account production, mostly vegetables (97%), but also livestock (86%), and fish (58%). Overall, the weight of the Agriculture, Fishing and Forestry sector (own-account plus commercial) is still significant, at around 20% of the Gross Domestic Product. Most of the remaining Gross Domestic Product (70%) is generated by the services sector.

Vanuatu has bilateral diplomatic relations with around 70 countries. At regional level, the country is a founding member of the Melanesian Spearhead Group (MSG) and the Pacific Islands Forum (PIF).

The Vanuatu Trade Policy Framework Update (TFPU) 2019 is the country's trade policy. It assesses the factors constraining Vanuatu's trade competitiveness and proposes recommendations to address those constraints.

The TPFU 2019-2025 reaffirms the rationale of its predecessor, the Trade Policy Framework 2012. For a small country like Vanuatu, domestic demand is not enough to stimulate competitive production processes and generate employment opportunities for all. As such, targeting foreign markets remains the most viable option to promote economic development. Despite its focus on export promotion, the TPFU does not take a negative stance on attempts to increase the share of domestic demand satisfied by local production.

The TPFU 2019-2025 is a multi-sectoral policy which is aligned with the Vanuatu's National Sustainable Development Plan (NSDP) 2016-2030, and which consolidates in a single document the main trade-related directions of the Government's sectoral and sub-sectoral policies.

The NSDP 2016-2030 proposes a vision of a "stable, sustainable, and prosperous Vanuatu". This is to be achieved through the pursuance of 15 goals. One of these goals, ECO 1, is particularly important as it recognises that without trade and investment, "economic opportunities for all members of society throughout Vanuatu" may not be achieved. Given this, the TPFU adopts a vision which simply mirrors ECO1.

The vision of the TPFU 2019-2025 is to achieve "*a prosperous economy encouraging trade and investment to provide economic opportunities for all members of society throughout Vanuatu*".

Encouraging trade and investment requires coordinated action in a number of areas. By drawing extensively on the NSDP 2016-2030, the TPFU 2019-2025 identifies 12 Goals which articulate its vision in as many dimensions. These are:

- Goal 1: an economy that pursues sound macroeconomic policies
- Goal 2: an economy that promotes exports in areas of comparative advantage and that, where feasible, reduces reliance on imported goods and services
- Goal 3: an economy that engages in and benefits from trade agreements
- Goal 4: an economy where energy and telecommunication services are modern, reliable, and affordable
- Goal 5: an economy that facilitates trade through state-of-the-art customs, biosecurity, and quality infrastructure systems, and through better transport infrastructure
- Goal 6: a business-friendly economy
- Goal 7: an economy with an adequate supply of skills to encourage trade

- Goal 8: an economy where trade and investment are sustainable
- Goal 9: an economy where trade is mainstreamed
- Goal 10: an economy that supports primary sectors and agro-processing with high export performance or potential, and strong tourism linkages
- Goal 11: an economy that supports accelerated export of tourism services and increased retention of tourism earnings
- Goal 12: an economy that supports emerging service sectors with high export potential or with the potential to increase the country's export competitiveness

The extensive breadth of the TPFU 2019-2025 means that its implementation will provide an important contribution towards achieving the NDSP's goals, over and above goal ECO 1. Notably, it is estimated that implementation of the TPFU 2019-2025's recommendations will contribute to achieve 61% of the NSDP's 33 economic objectives, 55% of its 29 environmental objectives, and 36% of its 36 society objectives.

CHAPTER 2: THE MACROECONOMIC ENVIRONMENT

Real Gross Domestic Product (GDP) increased at a rate of 2.7% between 2006 and 2016. With population growing at a rate of 2.2% over the same period, the increase in per-capita GDP was limited. Vanuatu's real per-capita GDP in 2017 was VUV 238,382, broadly the same level as 2010.

The period 2006-2016 saw a relative decline in the importance of Agriculture, Fishing, and Forestry (22.7% to 19.9% of GDP), an increase of Industry (8.7% to 10.8%), and an Increase in Services (68.6% to 69.3%). The decline in Agriculture, Fishing and Forestry was linked to cyclone PAM, but also to the crisis of the beef industry. The increase in Industry was triggered by the recent boost on infrastructure spending. As to Services, tourism, urbanisation, and the digital revolution were the driving forces between the observed trends. The Construction and Services sectors are expected to continue driving the economy in the next few years – growth forecasts for 2019 and 2020 are 3.4% and 4.0%.

A tangible increase in per-capita GDP can be achieved if productivity increases in rural areas, which are currently operating below potential. The TPFU 2019-2025 recommends to target these areas. In this respect, there is scope for:

- agriculture and agro-processing to capture an increased share of domestic demand and increase exports in areas of comparative advantage (see Chapter 11)
- tourism to diversify its supply towards rural areas (see Chapter 12)
- services to increase competitiveness of other sectors, including through the application of new technologies (see Chapter 13)

Whilst targeting rural areas, other options should be pursued to promote economic development. In the short-term, public investment in infrastructure will continue to be the key driver of growth. Communicating the Government's decision on whether income taxation will be introduced could also be beneficial, as it would reduce investor and consumer uncertainty.

In the longer term, the additional working age population (20,000 units in the next five years) should produce a positive impact on growth, although not necessarily on per-capita income. The latter is more likely to benefit from the following options, which the TPFU 2019-2025 recommends:

- sustain the increased levels of capital formation generated by the current public investment program (see Chapter 6)
- continue to invest in human capital accumulation to improve outcomes of school and post-school education and training (see Chapter 8); and
- improve the business enabling environment to promote innovation (see Chapter 7).

To make a difference, growth must not only be strong, but also sustainable. Whilst there are no

imminent threats to Vanuatu's economic performance, some recent trends should be kept under control. Up to 2013 public debt was fluctuating at around 22% of GDP. The year 2014 saw a shift in policy, with the government embarking on major investment projects funded by increasing non-tax revenues, grants, and by some foreign loans. The fiscal expansion pursued since 2014 has increased public debt, from 19.7% in 2013 to 43.5% in 2018. The Government is mindful of the risks of an excessively high debt, and is committed to a debt ceiling of 60% of GDP. The strategic use of non-tax revenues reflects this commitment. The share of non-tax revenues, mostly coming from the Honorary Citizenship Programs, increased from 2% of GDP in 2014 to 12% in 2018. The Government is conscious of the fact that this source of revenue may not be sustainable. This awareness has triggered a responsible use of non-tax revenue with the view of underpinning sustainability (including through prepayment of public debt), and promoting long-term growth (including through investment in infrastructure development and the purchase of strategic assets).

Vanuatu's graduation from Least Developed Country (LDCs) status in December 2020 will not produce significant macro-economic effects. However, some negative impacts will be felt. Market access will sometimes be affected, especially to countries that are granting duty-free and quota-free treatment to LDCs. In the short term, Vanuatu should seek to obtain 'zero duty transition periods' from those countries, however, in the longer-term the country may need to establish trade arrangements to preserve its competitiveness. In China, an emerging market for Vanuatu's merchandise exports, duty rates on noni juice and kava will increase after graduation. This is true also for Japan, the main destination of Vanuatu's beef, where duties on the latter will increase to 38.5%. Following graduation Vanuatu will also face additional obligations at the World Trade Organization in terms of reduced exemptions from existing disciplines (e.g. protection intellectual property and prohibition of export subsidies) and future obligations (e.g. obligation of undertaking commitments during trade negotiations). Strengthening entities such as the Vanuatu Intellectual Property Office and the Department of External Trade will be useful to face the new environment. The development cooperation landscape might also change after graduation, with a higher percentage of tied Overseas Development Assistance (ODA) and of loans. As to the level of ODA, this should not be significantly impacted noting that bilateral aid is allocated on criteria that do not focus on LDC status. Access to some multilateral facilities and to dedicated support to attend multilateral meetings will, however, be lost. Membership fees to multilateral organisations are expected to increase, thus requiring some prioritisation of Government resources.

Data on poverty are scarce, but anecdotal evidence suggest that this is not a major issue in Vanuatu. Between 2006 and 2010 economic growth contributed to reduce food poverty from 7.4% to 3.2%, however basic needs poverty remained stable at 13%. New poverty estimates should be produced to assess the impact of the latest macroeconomic trends.

CHAPTER 3: TRADE COMPOSITION AND TRENDS

Vanuatu's deficit in the Balance of Trade in Goods and Services is the result of a negative Balance of Trade in Goods and a positive Balance of Trade in Services. This deficit declined from VUV 10.2bn in 2008 to VUV 1.7bn in 2014, before increasing significantly in the aftermath of cyclone PAM. Boosting exports in areas of comparative advantage and competitively substituting some imports is needed to bring the deficit back to its pre-2015 level.

Vanuatu exported around VUV 5bn of merchandise in 2018. Merchandise exports are concentrated in a limited range of products, with the share of the first five commodities fluctuating between 70% and 80% during the past decade. A number of significant changes have been observed since 2008, including a halving of the export of coconut products, a four-time increase in the value of kava exports, a collapse of beef exports, and an emergence of value addition activities of a certain significance (noni juice, essential oils).

TABLE 3.2: MERCHANDISE EXPORTS, MAIN PRODUCTS

Product	2008		Product	2018	
	Value (VUV)	Share		Value (VUV)	Share
Copra	1,194,016,373	26%	Kava	2,531,391,618	52%
Coconut Oil	827,763,098	18%	Copra	549,919,572	11%
Kava	615,669,547	13%	Coconut Oil	403,768,954	8%
Beef	474,997,845	12%	Cocoa	189,802,924	4%
Cocoa	242,889,212	5%	Sandalwood	126,286,398	3%
Tahitian Limes	212,615,454	5%	Noni Juice	83,149,019	2%
Timber	96,492,403	2%	Essential Oils	82,875,631	2%
Ornamental Fish	74,507,721	2%	Beef	81,926,188	2%
Hides & Skins	44,158,247	1%	Timber	50,842,350	1%
Essential Oils	43,088,585	1%	Copra Meal	39,636,570	1%
Total	4,665,003,579	100%	Total	4,871,165,728	100%
Share of total Exports	82%		Share of total Exports	85%	

Source: calculations on Department of Customs and Inland Revenues (DCIR)

The ten major destinations absorbed between 80% and 90% of Vanuatu's merchandise exports during the past ten years. Back in 2008 most of Vanuatu's goods were exported to Europe, Asia, Forum Island Countries, and Australia/New Zealand. Ten years down the line Europe, once a major importer of coconut oil and cocoa, has lost significance in favour of developing Asian countries; the share of Japan, once a major importer of beef, had significantly declined; China had emerged as a major destination; and booming kava exports had played a primary role in increasing the share of the United States and of Forum Islands Countries (especially Kiribati). Export re-orientation increases the potential benefits of trade agreements with Asia, especially China and the ASEAN group.

TABLE 3.4: MERCHANDISE EXPORTS, MAIN DESTINATIONS

Country	2008		Country	2018	
	Value (VUV)	Share		Value (VUV)	Share
Philippines	990,698,732	21%	USA	827,661,267	17%
Netherlands	571,795,294	12%	Fiji	645,074,177	13%
New Zealand	556,722,280	12%	Kiribati	589,275,504	12%
New Caledonia	399,200,243	9%	Malaysia	525,027,563	11%
Malaysia	322,520,860	7%	New Caledonia	444,521,530	9%
Fiji	306,497,114	7%	Australia	388,637,429	8%
Japan	265,943,974	6%	Philippines	365,151,291	7%
Australia	193,886,224	4%	China	292,819,756	6%
Germany	151,854,538	3%	Bangladesh	196,037,091	4%
PNG	142,606,750	3%	New Zealand	116,447,387	2%
Total	4,665,003,579	100%	Total	4,871,165,728	100%
Share of total Exports	84%		Share of total Exports	90%	

Source: calculation on DCIR

Vanuatu exported VUV 36bn of services in 2017. Travel and transport have consistently dominated the export landscape and still present ample margins to grow, even beyond past rates of 5% a year from 2008 to 2017. Export of financial services declined significantly during the past ten years due to the crisis of the offshore industry. In terms of destinations (proxied by tourists' origin), Australia, New Zealand, and New Caledonia absorbed most of Vanuatu's service exports (around 80%), although an increase was observed in the share of Pacific Islands Countries (4% in 2008 to 7% in 2017) and China (0% to 3%).

The TPFU 2019-2025 recommends to continue targeting increased exports of travel services to leisure tourists, whilst also giving attention to other segments. For example, education-oriented tourism is becoming an important phenomenon that can be nurtured by a strategic approach to the country's post-secondary education and training sector (see Chapter 8). During the past decade, the share of

travellers using Air Vanuatu to visit the country has probably increased.ⁱ Strengthening the ability of the national carrier to serve existing and new routes will be important to not only increase export of travel services, but also transport services. From this point of view, the TPFU 2019-2025 welcomes the recent expansion of Air Vanuatu's fleet.

TABLE 3.5: SERVICES EXPORTS, MAIN SERVICES, MILLION VATU

	2008	2010	2012	2014	2016	2017
Transport	2,700	3,053	3,002	4,365	4,983	4,244
Travel	17,286	20,980	22,347	24,979	26,345	27,108
Business	1,905	2,040	2,365	1,604	2,005	1,771
Personal	15,381	18,940	19,982	23,375	24,340	25,337
Health related	0	0	0	0	0	0
Education related	271	388	239	1,568	1,945	2,589
Other	15,110	18,552	19,743	21,807	22,395	24,177
Telecommunications, computer, and information services	424	593	150	507	1,071	1,031
Construction	0	16	16	20	16	41
Insurance and pension services	99	22	692	328	0	0
Financial services	1,800	975	652	431	351	337
Charges for the use of intellectual property	24	n.a.	n.a.	n.a.	n.a.	n.a.
Other business services	519	514	433	392	431	338
Personal, cultural, and recreational services	5	12	16	18	16	44
Government goods and services	737	541	617	1,334	2,717	2,884
Total Exports	23,594	26,732	27,942	32,396	35,945	36,144

Source: RBV

Vanuatu imported VUV 35bn of merchandise in 2016. Given the limited productive capacity of the country, imports cover a broad range of products. To promote a more balanced growth the TPFU 2019-2025 identifies some areas where imports can be reduced or substituted. For example:

- Rice (VUV 1.5 bn in 2016). Support could be provided to production and consumption of locally grown sources of carbohydrates - cassava, sweet potatoes, and other root crops
- Fossil fuels (VUV 5.2bn of imports in 2016). Can be replaced with renewable energy when this does not undermine trade competitiveness (see Chapters 5 and 9)
- Cigarettes and tobacco (VUV 0.6bn of imports in 2016)
- Un-healthy food preparations (e.g. imported snacks, biscuits). These could be discouraged in favour of healthier local alternatives (fruits and vegetables)

In 2016, about 35% of imports came from Australia and New Zealand. Another 36% came from Asia, mainly Singapore (12%, mostly fossil fuels), China (12%), and Japan (6%, mostly vehicles). If trade from major origins is liberalised, the Government should pay attention to protect policy space in sectors where it may intend to limit imports and promote consumption of domestic goods.

Vanuatu imported VUV 17bn of services in 2017, of which about 60% was transport – mainly sea transport of freight. Import of business services increased from 0.6bn in 2008 to VUV 1.6bn in 2017. This is probably a reflection of the 'servification' of modern economies, as well as of possible skill gaps in the local labour market. Improving the quality of schools and of the Post-Secondary Education and Training (PSET) system can help by substituting imports of some business services (see Chapter 8).

ⁱ Export of transport services (mainly foreign visitors using Air Vanuatu) grew faster than tourism arrivals during the past decade, thus suggesting that there was an increase in the share of visitors travelling with Air Vanuatu

CHAPTER 4: EXTERNAL TRADE POLICIES AND TRADE AGREEMENTS

Multilateral trade policies affecting imports, exports, production, and foreign investments

Customs procedures in Vanuatu are modern, relatively fast,ⁱⁱ and compliant with trade facilitation principles. At the 2018 Trade Policy Review (TPR) of the World Trade Organization (WTO) “members praised Vanuatu for its considerable reduction in customs clearance time.”

Vanuatu applies preferential rules of origin (ROO) in the context of the Melanesian Spearhead Group Trade Agreement (MSGTA), and the Pacific Island Country Trade Agreement (PICTA). The TPFU 2019-2025 recommends the establishment of non-preferential rules of origin to support policy measures like anti-dumping and countervailing duties, safeguard and retaliation.

The country’s applied Most-Favoured-Nation (MFN) average tariff decreased from 16.7% in 2008 to 9.3% in 2018, and is in line with the global average - 8.7% in 2016. Vanuatu applies higher tariffs on goods which are produced locally, and for revenue generation. Tariff concessions to promote development exist for the manufacturing, tourism, and fisheries sectors, among others. Tariff rates for chicken wings (HS code 0207.1410) and alkaloids (HS codes 2939.7100 and 2939.7900) are above multilateral bound rates and should either be reduced or renegotiated.

Amongst prohibited imports, Vanuatu should consider repealing the ban on European beef, which was put in place in late 1990s as a control for Bovine Spongiform Encephalopathy (BSE), a disease which is no longer prevalent.

The Import Duties (Consolidation) (Amendment) Act of 2013 No. 29 is the legal basis to conduct investigations for the application of anti-dumping, countervailing, and safeguard measures. The framework is incomplete, and would benefit from the adoption of more detailed disciplines, for example on how to calculate dumping margins.

Vanuatu does not provide export subsidies. A domestic support program has been introduced to prop-up copra prices. The value of the subsidy is relatively small (VUV 150 million annually) and should be permitted under the WTO Agreement on Agriculture, even after Vanuatu’s graduation from LDC status.

The 2018 TPR report by the WTO Secretariat notes that notifications are outstanding for policies affecting imports (customs valuation, import licensing, contingency measures), production, and trade (Sanitary and Phytosanitary measures (SPS), Technical Barriers to Trade (TBT), and state trading enterprises). Technical assistance from the WTO Secretariat should be sought to fulfil WTO notification obligations.

The key market access limitation to Foreign Direct Investments (FDIs) is found in the Foreign Investment Promotion Act (CAP 248) – FIPA. The FIPA reserves selected activities to Ni-Vanuatu and restricts other activities below certain thresholds. The business regulatory environment would benefit from the written statement of a criteria to guide decisions on reservation – this could be included in the Bill for the Investment Promotion and Facilitation Act, the FIPA’s successor. One possible criterion is whether the development of a sector requires a level of physical or human capital which exceeds what is locally available.

Notwithstanding reservation, FDIs are performing well in Vanuatu. During the period 2007-2017, Vanuatu’s FDIs averaged 5.6% of GDP, compared to 2.9% in developing East Asia Pacific (EAP), and 2.3% in lower-middle income countries. FDIs emerge are a decisive contributor to Vanuatu’s capital accumulation, and are probably the main contributor to the economy’s formal employment. The great majority of FDI inflows come from Australia (37% on average). During the last decade, however, China has significantly increased its share, from 3% in 2007 to 21% in 2017. Promoting FDIs in the TPFU’s priority sectors is important to align foreign investments with the country’s trade strategy.

ⁱⁱ Three days and seven hours required for customs clearance in 2017

Free and preferential trade agreements

Free and preferential trade agreements reduce tariff and non-tariff barriers, thus promoting a country's export in areas of comparative advantage, and reducing costs of consumer goods and production inputs. They may also facilitate flow of capital and labour, which further promotes economic growth. Generally speaking, for an agreement to generate a positive impact it is important that trade is liberalised with countries that are already trading with each other, as this will create trade with the most efficient partners instead of diverting it towards less efficient ones. The table below estimates the shares of Vanuatu's trade with its partners.

TABLE 4.3: VANUATU TRADE WITH EXISTING AND POTENTIAL PARTNERS TO TRADE AGREEMENTS

Agreement/Partner	Trade in Goods (share)		Trade in Services (share)		Foreign Investment (share)		Labour (share)	
	Export	Import	Export	Import	Inflows	Outflows	Export	Import
MSG	10%	9%	..	..	..	..	2%	18%
New Caledonia	5%	1%	12%	..	..	..	33%	11%
PICTA [trading partners]	12%	8%	..	..	..	..	2%	15%
PICTA [signatories]	15%	9%	≈6%	..	..	..	2%	19%
PACER Plus [signatories]	28%	35%	≥64%	> 24%	≥ 45%	..	54%	48%
PACER Plus [potential]	37%	43%	71%	> 24%	≥ 45%	..	55%	61%
Japan	3%	5%	1%	..	..	..	..	..
China	6%	10%	3%	..	≥ 12%	..	..	..
India	0%	1%	..	..	..	..	..	..
ASEAN	38%	26%	..	..	..	..	..	..
US	4%	2%	..	..	..	..	..	..
EU	2%	6%	8%	..	≥ 6%	..	6%	24%
UK	0%	0%	..	..	..	..	1%	5%

Source: Calculations on DCIR, VNSO (Vanuatu National Statistic Office), Department of Forum Affairs and Trade (DFAT), United Nations Department of Economic and Social Affairs (UNDESA), New Zealand Ministry of Business, Innovation and Employment (MBIE), and Howes

The original Trade Agreement among the Melanesian Spearhead Group of Countries (MSGTA) covers goods only. It came into force in 2006, and has liberalised all trade, with the exception of alcohol, tobacco, fuel, and sugar cane. The impact of the agreement has so far been limited, probably because of the limited production, diversification, and import capacity of MSG members. In Vanuatu, preferential import and export values in 2016 were pretty much the same as in 2008. In 2016 the MSGTA was revised, expanded to new areas (trade in services, labour mobility, investment), and renamed Melanesian Free Trade Agreement (MFTA), but has yet to be ratified. The MFTA presents opportunities to reduce the cost of exporting merchandise to and importing merchandise from MSG countries, gain access to employment opportunities in the semi-skilled sector (especially in PNG), fill critical labour shortages, and attract FDIs from the biggest MSG countries. It is possible that, by virtue of improved ROO, local manufacturers will find it easier to get duty-free access to the MSG market. Similarly, thanks to service commitments going beyond WTO obligations, ni-Vanuatu businesses will find it easier to export their services. Should Fiji and PNG decide not to join the Pacific Agreement on Closer Cooperation Plus (PACER Plus), the MFTA would also protect against the possibility of trade diversion. Given the above, the TPFU 2019-2025 recommends that Vanuatu signs and ratifies the MFTA.

The Pacific Island Countries Trade Agreement (PICTA) is a trade agreement among Forum Island Countries (FICs) which fully liberalises trade in goods, with the exclusion of alcohol and tobacco. It entered into force in 2003 but Vanuatu ratified it in 2005. To date, eight FICsⁱⁱⁱ have announced their readiness to trade under PICTA. During the past ten years merchandise imports from non-MSG PICTA parties were negligible (averaging VUV 6 million), including due to their limited productive capacity and economic diversification. On the other hand, exports to non-MSG PICTA parties increased dramatically thanks to the ability of Vanuatu's exporters to satisfy Kiribati's demand for kava. Kiribati imposes no

ⁱⁱⁱ Cook Islands, Fiji, Niue, Samoa, Solomon Islands, Tuvalu, Vanuatu, and Kiribati

import duty on kava, and, thanks to PICTA preferences, this will continue to be the case for the foreseeable future. Discussion is ongoing on options to strengthen PICTA, including by promoting ratification by more FICs, simplifying rules of origin,^{iv} modernising its trade in goods disciplines, promoting the entry in force of the Trade in Services Protocol concluded in 2012, and re-activating negotiations on a labour mobility scheme for semi-skilled and skilled workers. Modern PICTA disciplines for trade in goods and a protocol on trade in services may produce some benefits compared to the status-quo, however these disciplines will become redundant if PACER Plus is ratified by its signatories. On the other hand, the potential benefits from a PICTA labour mobility scheme would remain, noting that such a scheme is not envisaged under PACER Plus, and the different skill levels between FICs can trigger beneficial mobility. The TPFU 2019-2025 recommends that Vanuatu monitors developments on PICTA disciplines in goods and services, and that it supports re-opening of negotiations on a PICTA labour mobility scheme.

The Pacific Agreement on Closer Economic Relations Plus (PACER Plus) is an agreement between FICs, Australia, and New Zealand. It is a comprehensive treaty covering trade in goods, services, investment, development cooperation, plus an arrangement on labour mobility. The agreement has been signed by 11 countries and ratified by Australia, New Zealand, and Samoa. It will enter into force after eight countries ratify. The chapter of trade in goods includes disciplines on customs procedures, SPS measures, and TBT that have the potential to speed-up clearance and facilitate market access for Vanuatu's products. On the import side, Vanuatu has protected sectors with a potential for substitution, and has agreed to only liberalise 85% of its tariff lines within 35 years from the entry into force. On the services side, PACER Plus can promote a better regulatory environment; it can also improve access to Forum markets for ni-Vanuatu service providers, noting that commitments under PACER Plus are deeper than those made under the WTO General Agreement on Trade in Services (GATS) and PICTA. The chapter on investment introduces protections that can stimulate FDIs from Australia and New Zealand. The PACER Plus can also benefit ni-Vanuatu workers via better cooperation on Australia and New Zealand's initiatives; and increase productive capacity and quality of Vanuatu goods, services, and labourers via targeted development assistance programs. The TPFU 2019-2025 recommends that Vanuatu ratifies PACER Plus.

As the global balance of power shift towards Asia, Vanuatu will need to consider how to engage with its new partners. China is already satisfying about 12% of Vanuatu's import needs,^v it has become the second biggest source of FDIs, and a prime source of Overseas Development Assistance. Vanuatu is already exporting a significant share of its merchandise to China, as well as increasing levels of tourism services. The substantial and growing trade relations between China and Vanuatu justify the establishment of a free trade agreement furthering trade integration, and complementing the Trade and Investment Framework Agreement (TIFA) signed by the Government as part of its accession to the Belt and Road Initiative. Graduation from LDC status creates additional incentives to move in the direction of a free trade agreement with China (see Chapter 2). Similar considerations apply to ASEAN countries. Like China, ASEAN members are closer to Vanuatu than some of its traditional commercial partners, prompting very significant trade flows. These are mainly concentrated in merchandise, with ASEAN members absorbing 36% of Vanuatu exports, and with Vanuatu importing 26% of its merchandise from ASEAN members. To be of interest to China and ASEAN, a free trade agreement should probably be regional in scope. Regional negotiations would benefit from support by dedicated teams of professionals, which would supplement national capacity to address contentious issues and ensure mutually beneficial deals. The TPFU 2019-2025 recommends that Vanuatu promotes regional consensus on the option of negotiating regional trade agreements with China and ASEAN countries.

The TPFU 2019-2025 also recommends to ratify the recently concluded trade agreement with New Caledonia, to seek to establish TIFAs with Japan and the United States, to join the European Union

^{iv} Currently based on the 40% local value content rule

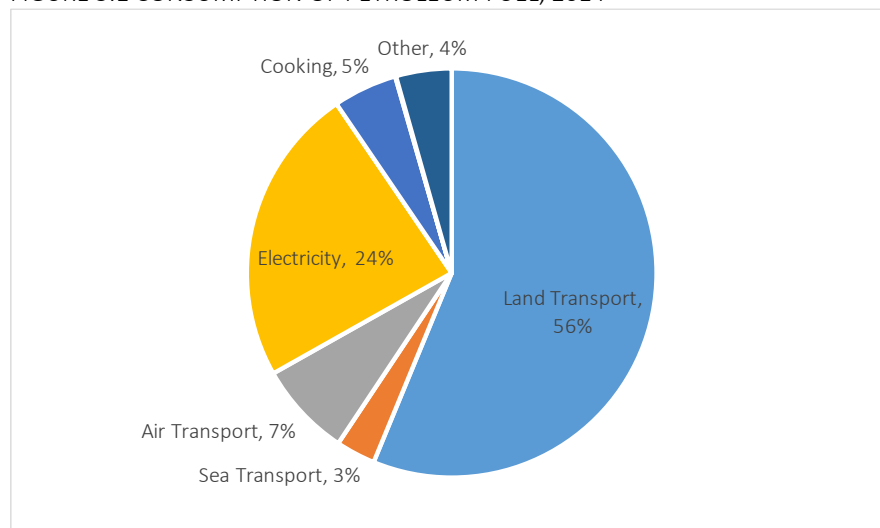
^v Based on 2016 data. The actual figure maybe higher if goods originating from China are recorded as coming from another ports – for example, Hong Kong

(EU)'s Generalized System of Preferences Plus (GSP+), and to continue monitoring developments with regard to the Economic Partnership Agreement (EPA) with the EU.

CHAPTER 5: BACKBONE SERVICES AND RELATED INFRASTRUCTURE

Vanuatu relies heavily on imported fossil fuels. The import bill for fossil fuels was VUV 5.2bn in 2017, or 6% of GDP. About 90% of imported petroleum fuel is used for electricity generation (24%) and transport (66%).

FIGURE 5.1 CONSUMPTION OF PETROLEUM FUEL, 2014



Source: Global Green Growth Institute (GGGI)

Pacific Energy is currently the sole importer of bulk petroleum products for public supply. It operates its own petrol sales network and sells fuel to the Au Bon Marche (ABM) petrol stations, and to the two electricity concessionaires - Union Electrique du Vanuatu Limited (UNELCO) and Utilities and Infrastructure Limited (VUI). At the request of the Government, Pacific Energy calculates a national price, which generates cross-subsidisation from Port Vila to the islands.

Vanuatu's pre-tax prices of diesel and petrol are 15-20% lower than the Pacific average. There may be scope to further reduce prices by increasing competition. In Fiji, where pre-tax prices are substantially lower, there are three international companies importing petroleum products, whilst Tonga, which also has lower prices, has two international companies. The Government is developing provisions for URA to impose 'light-handed' regulation on the petrol market. The competition legislation recommended by the TPFU 2019-2025 can also help in this area.

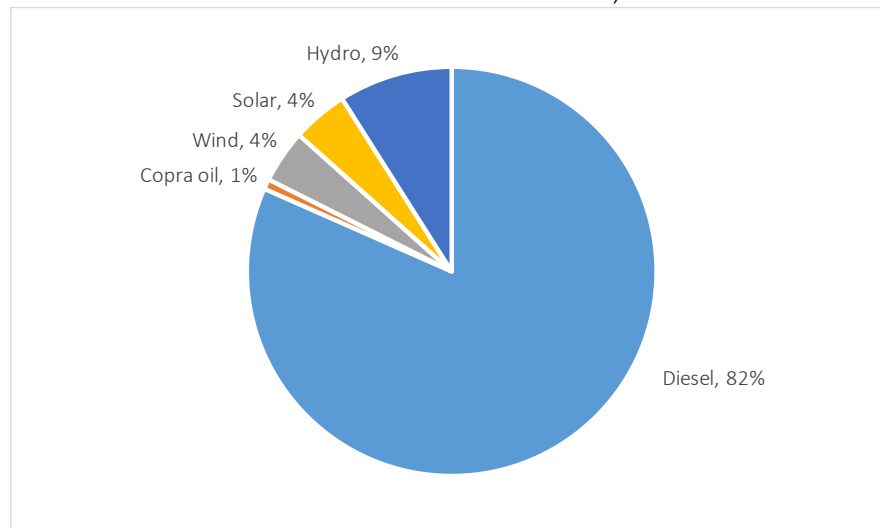
For Liquefied Petroleum Gas (LPG), Origin is the sole major wholesaler. It distributes through its own retail shops and other retailers. There are a few small LPG importers. Use of LPG is still very low in Vanuatu. Prices for LPG are roughly the same as the Pacific average, but significantly higher than in Fiji. The Government is examining options for price monitoring of LPG. The TPFU 2019-2025 recommends that the Office of the Price Controller undertakes a study on the LPG market, to see whether there is any scope for price regulation.

Improving access to and reducing costs of electricity is key for trade competitiveness. The Micro, Small and Medium Enterprises (MSMEs) survey conducted by Reserve Bank Vanuatu in 2016 found that access to electricity and high electricity costs is one of the main impediments for MSMEs, with 64% of formal MSMEs and 72% of informal MSMEs considering electricity costs as the main problem.

The Vanuatu National Energy Roadmap 2016-2030 set a target of 100% access and 100% renewable generation by 2030. However, as of 2019 electricity is mainly (82%) generated through diesel. Also, in 2016 only 60% of the population had access to electricity. Access outside the concession areas is very limited (9%), and mostly based on solar lamps and systems. This means that, to meet its own targets,

the Government must upscale efforts on renewables and access. The TPFU 2019-2025 recommends to support the use of coconut oil as an alternative to diesel, including through the 11th European Development Fund (EDF) funding. It also recommends to develop an electrification plan for renewable energy in remote islands, and supports implementation of the Barrier Removal for Achieving the National Energy Road Map Targets of Vanuatu (BRANTV) project.

FIGURE 5.2: ENERGY MIX FOR ELECTRICITY GENERATION, FEBRUARY 2019



Source: URA

In Vanuatu, two utility companies hold concession contracts for generation and sale of electricity: UNELCO in Efate and parts of Malekula and Tanna, and VUI in Luganville. Both are vertically integrated. The concession agreements, especially those for UNELCO, have limited the power of the regulator to facilitate access to new entrants in the concession areas, including through Power Purchase Agreements (PPA). It also appears that the provisions of the agreements have failed to provide incentives to reduce costs or increase efficiency, noting that Vanuatu's tariffs are higher than the Pacific average, fuel efficiency is lower, and outages are more frequent. The TPFU 2019-2025 recommends the development of a handbook on concession contracts outlining procedures for contract award and roles and rights of the Government and the concessionaires.

Telecommunication services are essential for trade competitiveness: they contribute to economic growth in their own right, and they have become an essential input for many export-oriented activities. Vanuatu has witnessed significant progress in the spread of telecommunication technology. Between 2000 and 2016 mobile subscriptions per 100 population increased from 2.1 to 80.8, and the percentage of population using the internet increased from close to zero to 24%. Between 2014 and 2017 the amount of data downloaded increased from 15.5TB to 632.4TB. The opening of the telecommunications market to competition in 2008 and the construction of the undersea cable in 2014 were the two main domestic forces behind this trend.

The Vanuatu National Information and Communications Technology (ICT) Policy was launched in 2013. Its priorities include access to ICT in education, access to ICT infrastructure and devices, e-Government, integration of ICT in sectoral policies, building trust, development of local content, and ICT capacity building. Implementation has been good but room for improvement exists, especially on the Government side. Whilst priorities are still relevant, the policy should be updated to consider new developments in this fast-changing sector.

The Telecommunications, Radiocommunications, & Broadcasting Regulator (TRBR) is responsible for implementing the Universal Access Policy (UAP), which was approved in 2013. The objective of having 98% of the population covered by voice, narrowband, and broadband services by 2018 has been achieved, and the policy should now be updated.

The year 2013 also saw the launching of the cybersecurity policy. Progress has been made with the development of draft cybersecurity legislation and the establishment of a Computer Emergency Response Team (CERT VU) supporting businesses, organizations and individuals affected by cybersecurity incidents. The cybersecurity legislation should now be finalised and approved.

In 2018 the International Telecommunication Union (ITU) listed Vanuatu's regulatory regime as the best in the Pacific and the 11th best in the Asia Pacific region. To repeat these successes, it is critical that the Government continues to protect the regulator's independence, and facilitates its modernization. A first step in the right direction was taken in 2018, when an amendment to the Telecommunications and Radiocommunications Regulations Act transferred regulatory powers over broadcasting services to the telecommunications regulator. This transformed the TRBR into a 'convergence regulator' – i.e. the regulator of an industry whose sub-sectors are converging by virtue of technological trends. It will now be important to introduce 'Generation 5 regulations'^{vi} harmonising the regulatory regimes of different sub-sectors and helping TRBR face emerging challenges – for example, Over the Top Services.

As of 2018, there were ten service providers in Vanuatu, including three wholesale operators, two main mobile voice and broadband operators, and four small scale internet service providers. The limited market size and Vanuatu's topography make it unlikely that a third main mobile voice and broadband operator will enter the market.

The quality of services in Port Vila and Luganville (4G+ broadband) is definitively better than in more remote areas (mostly 3G broadband). Specific information on service quality is being collected through a Quality of Services (QoS) audit, which should provide data to producers and the regulator about which areas they need to improve, as well as empower consumers to make informed decisions about which product is most suited to their needs. The QoS audit should be finalised.

With regard to prices, evidence is mixed. Vanuatu has the second-highest price in the Pacific for voice and SMS mobile-cellular services, the lowest price in the Pacific for a prepaid handset-based package of 500MB, and very high prices for computer-based broadband, both fixed and mobile.

The high price for computer-based broadband is linked to the low level of usage, both in terms of the proportion of population using internet, and in terms of usage-type, with a large proportion of users being engaged in low-capacity activities such as social media. This means that a relatively small customer base has to pay back the high investment costs incurred to increase the country's data capacity. The Government should seek ways to encourage increased usage of the existing capacity to reduce prices for the entire country – for example by promoting e-Government and supporting establishment of a data centre (see Chapter 13).

For the telecommunications industry, high quality physical infrastructure is exceptionally important, and the cost to build and maintain it is very high in Vanuatu. Critical infrastructures include the power supply, telecommunications base stations (towers), submarine cable, and Very Small Aperture Terminals (VSATs). Options recommended by the TPFU 2019-2025 to improve infrastructure quality include finalising the Infrastructure Sharing Policy for towers, and deploying of a second international submarine cable. Infrastructure sharing has the potential to promote competition and improve coverage, especially in rural areas. A second cable can create the much-needed redundancy, which would be important to attract investments, given Vanuatu's high level of vulnerability to natural disasters. Any additional undersea cable should also extend capacity to the outer islands – in particular prioritising Tanna and Espiritu Santo - in order to more equitably spread economic opportunities and growth across the country.

CHAPTER 6: TRADE FACILITATION AND RELATED INFRASTRUCTURE

Vanuatu's trade competitiveness will greatly benefit from the country's ability to reduce the time and

^{vi} According to the ITU, key features of Generation 5 regulation are: collaborative regulation, inclusive dialogue, and harmonized approach across sectors

cost of trading across borders, and to provide convincing evidence that its goods and services meet safety and quality requirements of importing countries.

Time and cost of trading across borders

Vanuatu lags behind other Pacific Island Countries (PICs) with regard to ‘Trading Across Borders’, the World Bank indicator measuring time and cost to export and import. Evidence reveals that port handling (stevedoring) charges are the main cause of Vanuatu’s high costs.

TABLE 6.3: STEVEDORING REGIONAL COMPARATIVE TARIFF CHARGES, 2017, USD

	Vanuatu Port Vila	Samoa Apia	Fiji Suva	Tonga Nuku'alofa
Stevedoring import 20'	403.25	50.93	71.91	178.14
Stevedoring export 20'	403.25	50.93	71.91	178.14
Stevedoring import Revenue Ton (RT)	23.62	4.24	7.79	3.27
Stevedoring export Revenue Ton (RT)	23.62	4.24	7.79	3.27

Source: ADB

Ninety percent of Vanuatu’s traded goods are transported by sea via Port Vila and Luganville wharves. Stevedoring services at the two wharves are provided by Ifira Port Development Services (IPDS) and the Northern Islands Stevedoring Company Limited (NISCOL), two private concessionaires. IPDS and NISCOL have 50-year concession agreements, expiring respectively in 2068 and November 2065, and envisaging exclusive rights. The Maritime Sector Regulatory Act no. 26 of 2016 gives the Office of the Maritime Regulator (OMR) the power to “monitor and regulate tariffs, prices and charges imposed at ports and on port users”. However, the OMR lacks capacity to effectively regulate stevedores. The TPFU 2019-2025 recommends that assistance is provided to the OMR to undertake its duties. Assistance could be modelled on previous programs which were successful in building capacity of the telecommunications and utility regulators.

The Vanuatu’s Trade Facilitation Steering Committee (TFSC) was established in 2017 to support implementation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA). The latter includes provisions that can reduce time and cost of trading across borders by streamlining border procedures. In 2018 Vanuatu notified its commitment to implement the TFA. Of the agreement’s 36 applicable provisions, Vanuatu is already complying with 12 (Category A), is committed to comply other 12 after a transitional period (Category B), and is targeting compliance with the remaining 12, subject to receiving assistance (Category C). As of October 2018, Vanuatu was on-track to implement most of its Category B commitments, and had already ratified the Revised Kyoto Convention, whose provisions mirror disciplines of the TFA. However, it still has to ratify the TFA. Ratification would come at no cost, but would be important to secure assistance to implement the agreement’s provisions. The TPFU 2019-2025 recommends that Vanuatu ratifies the TFA and continues implementing the priority projects agreed by the TFSC, including extending automation beyond customs through the Electronic Single Window System (ESWS) project.

Transport infrastructure

Transport infrastructure (airports, ports, and roads) is also crucial to facilitate trade. In fact, strategic infrastructure can unleash an economy’s structural transformation - as happened with the Efate ring road and the Espiritu Santo east road. Vanuatu’s trade facilitation infrastructure includes two main international seaports (Port Vila and Luganville); three international airports (Port Vila, Luganville, and Lenakel); 3,000 km of roads; 26 domestic airports; and 36 domestic wharves, landings, and jetties.

The Vanuatu Infrastructure Strategic Investment Plan (VISIP) 2015-2024 is the main document providing direction for investment in infrastructure. The Vanuatu Transport Plan 2030, not yet in place, provides situation analysis and high-level guidance to the transport sector.

The country’s aviation infrastructure has recently undergone major rehabilitation and improvement, which has allowed the three international airports to meet and maintain International Civil Aviation

Organization (ICAO) standards and, for Bauerfield, to serve larger aircrafts (code E). Thanks to these works Vanuatu can now target increasing tourism flows (see Chapter 12), and providing better support services to time-sensitive, high-value, low-volume export sectors.^{vii} To further support the tourism industry, the TPFU 2019-2025 recommends to upgrade the Bauerfield international passenger terminal. It also supports the recommendation of the Vanuatu Master Plan 2017 to increase airport passenger charges to USD 33 at Bauerfield to fund the USD 212 mn aviation investment program for the next 20 years. Domestic airports are small and basic, but essential to further tourism development. Amongst the airports recommended for upgrade by the Vanuatu Tourism Marketing Development Plan (VTMDP), Norsup should probably be prioritised and upgraded to Code C turboprop (ATR-72) noting its size, significance for agriculture, tourism potential, and the complementary road improvements which are taking place in Malekula.

As an island country, Vanuatu depends on maritime transport for merchandise trade but also for tourism, yet for a long time there has been a mismatch between the increased traffic and the capacity of international ports. This issue has been solved with the recent construction of a 200-metre international wharf in Port Vila (Lapetasi wharf), and the upgrade of the international wharf in Luganville – now a 361-metre wharf. Statistical data on international shipping can support market access; it should be collected in collaboration with shipping operators and made available to the public. Domestic shipping terminals are still in a poor state, yet they are essential to improve trade competitiveness by reducing time and cost of inter-island shipping. The TPFU 2019-2025 recommends to re-activate works under the Vanuatu Interisland Shipping Support Project (VISSP). Modernising the domestic fleet can also have an impact. The TPFU 2019-2025 recommends to consider eliminating reservation on inter-island shipping services with vessels below 80 tonnes, as these are far older than vessels in the non-reserved category.

Strengthening the road network is pivotal to promote rural development, a key target of the TPFU 2019-2025. As part of its fiscal expansion, the Government has increased investment in rural roads, including with support from donor partners for maintenance/rehabilitation (especially Australia) and improvement (especially China in Tanna and Malekula). The TPFU 2019-2025 supports current investments in the road network, but notes that the current budget for maintenance/rehabilitation, at VUV 1bn per year, only provides 30 to 40% of the required resources. This will reduce the level of service provided by the road network over time, which may hamper its potential to support structural transformation. The TPFU 2019-2025 recommends that the budget for maintenance and rehabilitation for roads is increased to at least VUV 2.5 bn per year. It also recommends to restrict improvements (earth-gravel to seal) during the next five years to Tanna and Malekula.

The upgraded waterfront in Port Vila has represented an innovative trade-related infrastructure project. The impact of this project should now be evaluated. The impact of a possible upgrade of the Luganville waterfront should be assessed before making a final decision on whether to beautify – the rural nature of the Espiritu Santo tourism product may imply smaller benefits from urban beautification.

Sanitary and Phytosanitary (SPS) measures

Overseas SPS measures can, by their very nature, restrict Vanuatu's exports unless the country can demonstrate that systems are in place to protect animal, plant, and human health and to guarantee food safety.

Vanuatu is a member of the main international SPS standard-setting bodies, namely the International Plant Protection Convention (IPPC), the World Organization for Animal Health (OIE), and the Codex Alimentarius Commission (CAC). Attendance at the meetings of these organizations, and compliance with their notification obligations, could improve. Biosecurity Vanuatu (BV) is the department responsible for implementing SPS provisions on animals and plants, whereas the Department of Health

^{vii} Merchandise trade should also benefit by the new cargo terminal at Bauerfield airport, which was completed in 2017

is responsible for food safety.

All the main pieces of SPS-related legislation pre-date Vanuatu's accession to WTO. Not surprisingly, legislation is in need of amendment. A Biosecurity Bill combining and streamlining the existing SPS legislation is reported to have been drafted and consulted on, but not yet enacted. The TPFU 2019-2025 recommends the review and enactment of the Biosecurity Bill.

Although the National Biosecurity Policy (NBP) is a relatively new development, due to recent 'game-changing' issues coming to the fore (e.g. the arrival of new pests and diseases affecting priority value chains, and significant changes in senior BV staff), a review of the NBP is recommended.

Almost invariably, there is SPS-related documentation associated with the export and import of animal and plant products. Vanuatu's system(s) for the associated data collection, record keeping, document preparation, and transmission is paper-based and manual. There is considerable scope for automation. Implementation of the BV module of the Electronic Single Window System (ESWS) project should allow permits and the likes of phytosanitary certificates to be processed electronically. The TPFU 2019-2025 recommends that Vanuatu considers integrating the ESWS project with the IPPC system of for creation of electronic phytosanitary certificates (ePhytos) – known as GeNS. It also recommends to consider other dimensions of BV work where automation can improve performance.

Capacity of BV staff offices at certified ports of entry (especially in Port Vila and Luganville) appear structurally inadequate, and should be increased. Moreover, the absence of key staff for prolonged periods has contributed to BV being short-staffed to manage the additional workload associated with the incursion of a new pest (coconut rhinoceros beetle, (CRB)) and with implementation of the NBP's priorities.

SPS-related tests on cocoa, virgin coconut oil, and kava for export are undertaken by the Vanuatu Bureau of Standards (VBS). The VBS is also active in quality testing – for example organic fertilizers, nutrient content of locally processed food, etc. Its capacity to increase the number of samples tested and to extend the range of tests performed is severely constrained. For some tests with limited throughput sub-contracting is the best option, and in these instances the TPFU 2019-2025 recommends to strengthen arrangements with overseas ISO-accredited (e.g. AsureQuality) or OIE-recognised diagnostic and testing laboratories. In terms of domestic capacity, the TPFU 2019-2025 recommends the acquisition of a commercial blender to reduce the time taken to complete a test, and the recruitment of permanent laboratory assistants – currently on temporary contracts. Work towards laboratory accreditation is also recommended.

Priority pests and diseases to be fought, contained, and possibility eradicated remain those with a potential to severely affect Vanuatu's top commodities, including coconut (CRB), and beef (vibriosis and invasive pasture weeds).

In terms of SPS standards, priority should continue to be given to the establishment of a Codex standard for kava, as a guarantee of unabated market access.

Some countries, including important trade partners to Vanuatu (Australia, New Zealand, US) are becoming increasingly concerned about the risks posed by pests and diseases carried by sea containers. This has led to cooperative arrangements between NISCOL/IPDS and New Zealand for the application of SPS measures (e.g. inspection, cleaning) to exported containers. However, similar measures do not exist for imported containers. The TPFU 2019-2025 recommends that BV start applying measures to imported sea containers similar to those applied to exported containers.

Quality Infrastructure (QI)

While SPS systems give assurance that a country's products are healthy and safe, QI systems aim at providing evidence that these products are of good quality, thus promoting access to more numerous and more profitable markets. The key components of a QI system include: QI policy, legislation and regulations; QI institutions with responsibility for standardization, metrology, and accreditation; and QI

services assessing conformance with standards - testing, inspection, and certification. It is important to note that the World Trade Organization (WTO)'s Agreement on Technical Barriers to Trade (TBT) normally relies upon national QI institutions for its implementation.

In Vanuatu, the QI system is in its infancy. The country lacks a National Quality Policy (NQP) specifying vision, objectives, expected outcomes and required measures with respect to the development of a national QI system. The TPFU 2019-2025 recommends that a NQP is drafted and approved.

The VBS was established in 2016 as a body corporate of the Ministry of Tourism, Trade, Commerce and Ni-Vanuatu Business (MTTCNVB), with the mission of leading the development of the national QI system. As previously illustrated, the VBS also supports the SPS system. The TPFU 2019-2025 recommends that Vanuatu notifies to the WTO that the VBS is the new TBT enquiry point.

The VBS Act has given the bureau functions in most of the core QI areas including standardization, conformity assessment, and metrology. The VBS Act also gives the bureau a semi-autonomous status, although this provision has yet to be implemented. The TPFU 2019-2025 recommends that this provision is implemented to make sure that the bureau can impartially perform its functions.

Standards of imported products are likely to differ based on the origin of the trading partner. The same applies to goods and services which are locally produced and sold. Lack of declared national standards may represent an obstacle for investors, and undermine the development of a quality culture among national producers. The TPFU 2019-2025 recommends to establish a catalogue of priority national standards for produced, exported, and imported goods and services.

Metrology is a barrier against fraud and a promoter of international trade. Metrology laboratories are the depositories of national measurement standards and provide calibration services that can reduce trading costs and generate revenues. The TPFU 2019-2025 recommends to establish a metrology laboratory for basic measurement standards, and to work towards its international recognition.

Besides providing testing services, the VBS supports companies to obtain certification against certain standards. The TPFU 2019-2025 welcomes these services. It also recommends that in the medium-term the VBS considers starting to provide certification services against priority standards such as HACCP and ISO 22000.

Accreditation of conformity assessment bodies gives the ultimate guarantee that conformity assessment services undertaken in a country will be internationally recognised, thus facilitating trade – assessed once, accepted everywhere. The TPFU 2019-2025 recommends that the VBS works towards accreditation for its own services, and supports other conformity assessment bodies wishing to be accredited by promoting arrangements able to reduce costs.

Given the economic and demographic situation of FICs, regional cooperation represents a viable and sustainable option for FICs to address some of the challenges faced by their national QI systems. A regional QI initiative is ongoing and the TPFU 2019-2025 recommends Vanuatu takes active part in this initiative.

CHAPTER 7: DOING BUSINESS - REFORMS FOR PRIVATE SECTOR DEVELOPMENT

A business enabling environment promotes private investment in areas of comparative advantage, which can in turn boost innovation and increase economic growth. This chapter proposes a series of recommendations to improve the business enabling environment.

Business policies, laws and regulations

The Vanuatu Investment Promotion Authority (VIPA) is mandated to regulate and promote foreign investment. A Bill for the Investment Promotion and Facilitation Act has been consulted for many years, but its approval has been delayed by the lack of a policy providing direction for foreign investment. Now that a National Investment Policy has been finalised, it should be submitted to the Council of Ministers

and, soon after its approval, the Bill for the Investment Promotion and Facilitation Act should be presented to Parliament.

The country's investment promotion strategy is still nascent; the National Investment Policy identifies priority sectors and related investment opportunities, while the TPFU 2019-2025 includes recommendations for the development of these sectors. VIPA should now prepare practical investment promotion strategies for each of the priority sectors included in the National Investment Policy, and use the recommendations of the TPFU's sectoral chapters to inform these strategies.

The process to obtain and renew a business license is time-consuming. Vanuatu could consider simplifying this by moving onto the electronic platform developed by the Vanuatu Financial Service Commission (VFSC) for company registration.

The Industry Development Act introduces the possibility to impose export taxes on primary products to encourage value-addition. There is scope to increase investor confidence by amending the Act to introduce clearer criteria for considering the imposition of an export tax, for example the conduct of an independent economic analysis, and an annual monitoring and evaluation exercise.

A competition framework discourages anticompetitive business and Government practices, thus fostering innovation, productivity, and trade competitiveness. Consumer protection is also conducive to healthier competition, as it empowers consumers with rights creating a level playing field for businesses. In 2019 the Government passed its first competition and consumer protection policy. This policy sets out a number of important principles, but will not by itself generate more competition unless legislation informed by those principles is developed and approved by Parliament.

An excessive backlog of court cases generates court delays, which may discourage potential investors. Alternative dispute resolution mechanisms reduce the number of cases channelled through the court system, thereby reducing delays. Arbitration is a type of alternative dispute resolution. In arbitration, the parties present arguments and evidence to an independent third party, the arbitrator, who makes a determination. Setting up a system of domestic arbitration may take years, but Vanuatu can ratify the New York Convention on the Enforcement of Arbitral Awards, which would give stakeholders the option of using international arbitrators whose awards are domestically enforceable.

Mediation is another form of alternative dispute resolution. It requires participation of a third party (a mediator), whose role is to assist the parties to reach agreement on the resolution of the dispute. In Vanuatu, a court may refer a matter to mediation, but it would be beneficial to encourage the use of mediation prior to the lodging of a formal dispute via court proceedings. Establishment of an alternative dispute resolution centre would serve this purpose.

Vanuatu has not produced regular consolidated legislation since 2006. This reduces the ease of doing business. The TPFU 2019-2025 recommends that Vanuatu publishes consolidated versions of national legislation at shorter intervals, ideally in real-time.

Labour

Regulations concerning the labour market identify the minimum requirements that employers and employees must comply with. They must balance two competing interests, namely protecting the employees' rights, and giving employers flexibility to create jobs.

The Vanuatu's legal framework for the labour market is complex, with five main pieces of legislation for domestic workers, and three additional laws for international workers. In 2012, the Tripartite Labour Advisory Council attempted to modernise this framework through a Bill for the Employment Relations Act seeking to combine all the relevant labour legislation. However, the absence of a labour policy expressing the national consensus on matters such as social welfare, minimum wage, foreign workers, etc., led the Bill to be eventually abandoned. The TPFU 2019-2025 recommends the development and approval of a national labour policy, followed by a review of all legislation in accordance with the agreed

directions.

To help its members navigating the complexities of the labour market, the Vanuatu Chamber of Commerce and Industry (VCCI) has released an Employer's Guidebook giving business owners a simple overview of the different statutory requirements. The TPFU 2019-2025 recommends that the Department of Labour develops a plain-language guidebook for employees to clarify their rights and obligations.

Land

Only ni-Vanuatu customary land owners and the Government may own the land. A person who does not own land may acquire a leasehold interest. Government land is mainly located in urban areas, allows for certainty of ownership, and is subject to a relatively streamlined process to acquire a leasehold interest. Acquiring an interest on customary land is lengthier and more burdensome.

The Government is currently considering establishing an Economic Development Zone (EDZ) in Espiritu Santo. In Vanuatu, the most significant constraint that an EDZ could help resolving is access to land. The TPFU 2019-2025 recommends to produce a final feasibility study on the establishment of the Espiritu Santo EDZ.

One of the key issues raised at the 2006 National Land Summit, i.e. many leases were poorly drafted, has yet to be addressed. The TPFU 2019-2025 proposes the development of a tri-lingual, plain language template for land lease agreements, with different options for key legal clauses - rent review, right of way, transfer of fixtures and improvements, etc.

The 2013 land reform program created many new Government entities; however, no entity was established to provide independent advice to landowners on matters such as lease agreement negotiations, and distribution of benefits between custom owners. The TPFU 2019-2025 recommends to consider establishing such an entity, with the view of reducing the risk of disputes which undermine the business enabling environment.

Financial Sector

When MSMEs access finance for starting a business, they mostly use informal savings (own savings) – this is the case for 81% of rural businesses and 68% of urban businesses. Improving access to finance is essential to help entrepreneurs to start and expand businesses.

Accessing finance requires a collateral. Land issues (ownership and reform) reduce the importance of land as a collateral. As a result, movable collateral becomes important. Vanuatu has a good system to register security interests on moveable property, however, the complexity of security agreements discourages debtors from creating a security interest in first instance. The TPFU 2019-2025 recommends to introduce tri-lingual, plain language templates for security agreements backed by movable property and leasehold interests.

Helping lenders to accurately assess a borrower's risk increases their willingness to supply finance. Credit bureaus facilitate this task by collecting information about borrowers' repayment history, unpaid debts, or credit outstanding. Data Bureau Vanuatu, the country's private credit bureau, collects information on about 12% of ni-Vanuatu adults, but operates in a legislative vacuum, which may undermine privacy and accuracy of the collected statistics. The TPFU 2019-2025 recommends to introduce a regulatory framework for private credit bureaus.

Increasing borrower's confidence in the fairness of the lending system is also important to promote access to finance. Consumer credit legislation to protect potential borrowers against unfair lending practices is absent in Vanuatu. The TPFU 2019-2025 recommends to develop a consumer credit policy and related legislation.

A good bankruptcy framework facilitates access to finance by promoting the orderly recovery of credit. The Companies Act 2013 provides for a sound bankruptcy regime for business. Consideration can be given to introduce a bankruptcy regime also for individuals.

The Vanuatu's Financial Inclusion Strategy (FIS) 2018-2023 aims at increasing access to financial services for ni-Vanuatu and access to financing products for their MSMEs. Its action plan envisages, *inter-alia*, working with the MTTCNVB to introduce a MSMEs Act, which is currently in draft form with the name of Small Businesses Development Bill. The TPFU 2019-2025 supports this recommendation, together with an update of the 2011 MSMEs Policy.

Lack of interoperability across the electronic payment platforms of Vanuatu banks increases the cost of doing business. In other words, the customer of a bank cannot use his debit card at any other bank's ATM and EFTPOS machine. As part of the FIS action plan to ensure interoperability, the Government is required to implement a Payment Systems Act, which the TPFU 2019-2025 supports.

Interchange fees are paid between banks for the acceptance of card-based transactions. It is a fee that the merchant's bank pays to the customer's bank and that therefore reduces the amount received by merchants. Fees in Vanuatu are not regulated and range between 1.5% and 5% of the transaction value. Evidence shows that regulation has led to lower interchange fees in other countries, and Vanuatu may consider pursuing this avenue.

Intellectual property rights

Intellectual Property Rights (IPRs) legislation was adopted in anticipation of the country's accession to the WTO. Vanuatu protects trademarks, copyright, patents, designs, geographical indications for wine, trade secrets and circuit layouts. There are about 9,000 registered trademarks, and 130 granted patents.

The Vanuatu's Intellectual Property Office (VanIPO), the country's registrar of IPRs and administrator of related legislation, is a unit under the MTTCNVB. The TPFU 2019-2025 supports establishing VanIPO as statutory body, protecting traditional knowledge and expressions of culture, and extending protection of geographical indications beyond wines. It also recommends to consider joining the treaties which give international protection to the IPRs protected domestically, and to embrace automation for registering IPRs.

Public Sector Entities

Vanuatu has eleven Commercial Government Business Enterprises (CGBEs) which are majority Government-owned and operate under a commercial mandate. In addition, the Government has minority interests in IPDS, NISCOL, and Interchange Limited. CGBEs are monitored by the Government Business Enterprise Unit within the Ministry of Finance and Economic Management.

Poor performance of many CGBEs led to the development of a GBE policy and a CGBE Bill. The latter addresses critical aspects, for example it requires profitability, limits the number of directors who are public servants, mandates the production of audited financial statements, and formalises community services obligations. The TPFU 2019-2025 recommends finalization and approval of the CGBE Bill.

Whilst the CGBE regulates the provision of public guarantees, it does not cover on-lending - Government loans whose proceeds are lent to CGBEs. Moreover, the CGBE does not apply to companies where the Government has a minority interest. The development of a clear policy on these matters can help transparency and business confidence.

Closure of some poorly performing CGBEs, notably the Vanuatu Agriculture Development Bank and the Vanuatu Commodity Marketing Board (VCMB), would assist in rationalising the Government portfolio and, in the case of VCMB, improving the performance of the agriculture sector.

Streamlining the Government procurement process could improve the ease of doing business. In

particular the TPFU 2019-2025 recommends that the VUV 5 million threshold for open tendering is increased. It also recommends to consider amending the Tender Regulations to clarify the criteria for the Central Tender Board to opt out of open tendering.

Private Sector Entities

The VCCI is the premier entity representing the private sector. The VCCI is legally entitled to an annual contribution equal to 10% of all the business license fees. The Ministry of Finance and Economic Management has capped the VCCI grant to VUV 20 million, though this is probably below the organisation’s entitlement. Funding arrangements of the VCCI should comply with the VCCI Act.

Composition of the VCCI Council is diverse; however, this hasn’t always been the case. To future-proof diversity, the Government could consider amending the VCCI Act to encourage youth and Ni-Vanuatu participation in the Council and restrict the number of consecutive mandates for councillors.

Many businesses are not aware that VCCI membership status is obtained upon payment of the business license fees, nor are they aware about of the VCCI’s objectives and services. To improve visibility, the Government should provide an informational brochure on the VCCI to all companies when the business license fee is paid. Other options recommended by the TPFU 2019-2025 to improve representativeness include formalising VCCI consultation arrangements with the Government, and confirming VCCI’s membership to the National Trade Development Committee (NTDC).

CHAPTER 8: EDUCATION AND SKILLS

Skills gaps and shortages hinder productivity and competitiveness, and are particularly damaging in sectors open to international competition, such as those prioritised by the TPFU 2019-2025.

This chapter draws on ad-hoc surveys undertaken as part of the National Human Resource Development Plan (NHRDP) drafting process, noting that Vanuatu lacks a routine approach to collect and disseminate labour market data. The TPFU 2019-2025 recommends that the Department of Labour establishes a web-based Labour Market Information System (LMIS) facilitating routine data input from industry; that the LMIS is complemented by detailed triennial labour market surveys; and that the data so collected is released to relevant agencies to inform career counselling and course development.

According to the Industry Survey 2018, finding skilled workers is the top issue affecting businesses.

TABLE 8.3: MOST IMPORTANT ISSUES FACING BUSINESS

Issue	All Other Responses Rank ^{viii}	Tourism Rank	Manufacturing & Agriculture Rank
Finding skilled workers	1	1	2
Energy costs	2	6	1
The duties and tax system	3	4	3
Government regulations	4	3	3
The state of the roads	5	2	5
Access to credit or finance	6	8	7
Business permits	7	4	9
Lack of good work habits among your workers	8	7	6
Problems with suppliers	9	9	8
The cost of foreign workers	10	10	10

Source: Vanuatu Industry Survey 2018

There is a preference to employ skilled ni-Vanuatu workers when these are available, but availability decreases at higher levels of qualification. The tourism sector has identified chefs, managers (general, food and beverage, finance etc.), and finance and accounting staff as occupations that are most difficult

^{viii} Relative proportion of responses in relation to each issue

to recruit. In the agriculture and manufacturing sectors scarcity is the highest for engineers, managers (again various forms), sales and marketing staff, and tradespeople.

Improving the quality of primary and secondary education is crucial to lay the foundations of a skilled workforce. The TPFU 2019 does not include specific recommendations on this issue, but acknowledges key challenges (a large number of widely dispersed schools, limited supply of qualified teachers and principals, low numbers of children enrolled at the right age, high repetition rates, large numbers of out-of-school children, weak infrastructure, and linguistic diversity), and recommends to continue monitoring and improving results in areas such as net enrolment, completion rates, certified teachers, and educational attainment.

Recent years have seen significant reforms in the Post-School Education and Training (PSET) system, including establishment of a Vanuatu Qualification Authority (VQA) responsible for quality-assuring post-school qualifications, and creation of a Tertiary Education Directorate at the Ministry of Education and Training taking over responsibility for scholarships, teacher education, higher education, and Technical and Vocational Education and Training (TVET).

PSET reforms have played a role in increasing government budget to the sector, including for the purpose of establishing an Institute of Higher Education. The TPFU 2019-2025 supports establishment of an Institute of Higher Education merging existing PSET providers, with a budget allocation including a performance-based component, and with courses suitable to capture an increasing share of the scholarships budget.

The budget allocation to scholarships has increased significantly in recent years, up to VUV 800m in 2018. Anecdotal evidence suggests that scholarships are supply-driven; that there may be an oversupply of degree and post-graduate degree holders who are unable to find employment in their chosen profession; and that not enough scholarships are awarded to develop skills which are in high-demand by the industry, including middle-level technical skills. The TPFU 2019-2025 recommends that the award of international and national scholarships be demand driven – i.e. directly linked to the NHRDP and any emerging areas of skill shortages and gaps. It also recommends that triennial impact evaluations of the scholarship program are undertaken to measure performance and to inform adjustments to award criteria.

Awarding more scholarships to attend the courses offered by domestic PSET providers can improve value-for-money, subject to the providers' ability to deliver qualifications which are in high-demand, and at the required standard. Some challenges exist to meet these conditions, which need to be addressed. According to the 2018 PSET Providers Survey, the low technical and teaching capacity of local PSET teachers is the second most significant factor undermining the quality of PSET qualifications. Moreover, despite an increasing number of VQA-accredited qualifications, most (70%) are still delivered at the two lowest levels of the Vanuatu Qualification Framework – Certificates I and II.

Introducing performance-based criteria from PSET providers can help improving their quality and sustainability. The TPFU 2019-2025 recommends that PSET investments by the Government include performance-based funding approaches, and that performance-based criteria include: ability to meet the level required for scholarship award; ability to meet access and inclusion targets; and ability to meet accreditation targets (Certificate level III accreditation and above).

Other recommendations to strengthen PSET providers include: development and accreditation of courses suitable address priority areas of skill shortages and gaps; MoET's provision of professional development programs for current PSET instructors in priority areas of skill shortages and gaps; placement of PSET instructors on work experience in private businesses to gain a better understanding of industry requirements; and enhanced provision of on-the-job training by PSET providers (noting that this modality ranks highly amongst respondents to the 2018 Industry Survey).

CHAPTER 9: TRADE AND SUSTAINABLE DEVELOPMENT

This chapter assesses the sustainability of Vanuatu's export sectors, recommends options to promote sustainable development, and evaluate the trade impact of some sustainability-oriented policies.

Development of Vanuatu's export sectors can adversely affect the surrounding environment. The Environmental Protection and Conservation (EPC) Act 2011 requires a Preliminary Environmental Assessment (PEA) for all projects, followed when necessary by a detailed Environmental Impact Assessment (EIA). These assessments may impose conditions on projects, which if violated can lead to penalties and 'stop work' notices. This is a good regulatory framework, but challenges remain with regard to implementation. First, according to the Department of Environmental Protection and Conservation (DEPC), several projects, especially foreign investments, have started without environmental permits. The TPFU 2019-2025 recommends to establish an obligation for VIPA to forward each foreign investment application to the DEPC, and to update the application form to clearly mention the legal obligation to undertake environmental assessments. The Prime Minister Office should also be mandated to forward approved donor project proposals to DEPC to ensure their environmental compliance. Second, capacity within DEPC is limited, and should be increased. Notably, there are only three officers assigned to PEA studies, and one officer assigned to compliance monitoring. Human resources from other Departments could be leveraged to support DEPC, for example the Department of Tourism is already mandated to assess compliance of tourism operators with the EPC Act before engrafting accreditation. Moreover, Vanuatu could explore the option of using Strategic Environmental Assessments (SEAs) for key sectors. SEAs aim at identifying systemic environmental risks for sensitive sectors, and as such may ease the burden of undertaking project-specific PEAs and EIAs.

Deep Sea Mining (DSM) is an export sector with the potential to damage the environment, although given the nascent stage of its technology, no consequences are expected during the period covered by the TPFU 2019-2025. To prepare for the future, the Department of Geology and Mines has drafted a national DSM policy recommending to use Vanuatu's existing environmental regulatory framework to assess risks from issuing prospecting licenses. The TPFU 2019-2025 recommends to approve the DSM policy after consultations, and amend the regulatory framework in line with its recommendations.

For Vanuatu's export-led development to be sustainable, the country should not over-exploit its stock of exhaustible natural resources, including forests and fisheries. Vanuatu has already experienced over-exploitation with timber, whose production and exports grew in the late 1990s and early 2000s, and eventually declined by mid-2000s. Assessing the sustainability of current harvesting practices (10,000 cubic meters per annum) is challenging, noting the latest National Forest Inventory (NFI) was carried out in 1989-90, i.e. before over-exploitation took place. The TPFU 2019-2025 recommends that a new NFI is undertaken as soon as possible to determine sustainable yields, and agree on reforestation targets.

As to fisheries, the most important commercial species found in Vanuatu's Exclusive Economic Zone (EEZ)^{ix} is tuna. For each of the four main tuna species found in Vanuatu (albacore, bigeye, skipjack, and yellowfin), the country's annual catch is significantly lower than the volume that can be caught without threatening the regional tuna stocks. Vanuatu should continue monitoring catch and ensure it remains below sustainable yield limits.

In terms of coastal fisheries (up to 12 nautical miles from the coast), the main species are snapper, aquarium fish, and sea cucumber. The latter was over-exploited, but the 10-year moratorium introduced in 2008 promoted recovery, and possibilities now exist for new trade development. As to reef and lagoon fisheries (up to three nautical miles from the coast), anecdotal evidence points to over-exploitation, but data are scarce. Donor assistance to upscale initiatives such as the Tails project - self-

^{ix} Up to 200 nautical miles from the coast

monitoring by fishermen with the help of tablet computers – can help promoting sustainability.

The Vanuatu National Energy Roadmap (VNER) commits the Government to use 65% of renewable energy to produce electricity by 2020, and 100% by 2030. Transitioning to renewable energy will be challenging, noting that in February 2019 only 18% of electricity was produced using renewables (wind, solar, hydropower and biofuel). From a trade perspective, what is important to assess is the impact of transitioning on electricity access, price, and reliability. In off-grid (rural) areas, the VNER's commits the government to transition to renewables while increasing electricity access up to 100% by 2030. The Government is complying with the VNER by promoting construction of 'solar micro-grids' in areas of concentrated demand, and purchase of solar products (lamps, home systems, etc.) in areas of dispersed demand. This strategy increases access, and is therefore consistent with trade development objectives. Transitioning to renewables in grid areas, mainly Efate, poses some challenges. Transitioning to wind or solar power requires substantial capital investment for generators and stabilizers that would increase unit prices of electricity by 10-30% and damage trade competitiveness. As to other sources: transitioning to hydro power is not feasible due to the lack of major rivers in Efate; transitioning to coconut oil would require schemes to increase its production and stabilise its price at below one-third of the diesel price; and transitioning to geothermal would require further assessment of the real potential at the Takara area. The TPFU 2019-2025 recommends to avoid transitioning to solar and wind unless donors fund capital expenditure for generators and stabilizers; to explore options to expand use of coconut oil; and to further assess geothermal potential in Vanuatu to see if a new concession can be considered.

As documented by recent studies, climate-related natural disasters impact economic growth through identifiable trade channels. At the same time, trade-related laws have the potential to facilitate disaster risk reduction and recovery. To climate-proof trade development it is important for these aspects to be better understood and addressed at national level. The TPFU 2019-2025 recommends that the linkages between trade and natural disasters are regularly discussed at the meetings of the NTDC and of the National Advisory Board.

Reducing gender discrimination has the potential to increase women's participation to the labour market, including in Vanuatu's export sectors, and boost economic growth. In Vanuatu, gender disparities persist in areas such as access to PSET institutions, access to credit and other financial services, and access to land. Given these disparities, it is perhaps not surprising that even though women constitute 49% of Vanuatu's population, they are only 39% of the formal workforce. The National Gender Equality Policy and the National Financial Inclusion Strategy have developed a number of recommendations and indicators to track women's economic empowerment. The TPFU 2019-2025 recommends that these indicators are tracked and reported annually to the NTDC.

Whilst the TPFU 2019-2025 recommends several policy actions to grow Vanuatu's modern economy, it is also important to be cognisant of the effects these recommendations may have on Vanuatu's traditional *kastom* economy. For Vanuatu's economic model to be sustainable, these differing and sometimes conflicting value systems have to be reconciled and managed, so that ni-Vanuatu can enjoy the benefits of economic growth while continuing to benefit from the services provided by their traditional communities. To achieve this objective, each recommendation of the TPFU 2019-2025 has been assessed in the light of its expected impact on the traditional economy. Tracking the Alternative Indicators for Well-being in Melanesia and reporting on their status at NTDC meetings will help validating the ex-ante assessment undertaken by the TPFU 2019-2025.

CHAPTER 10: TRADE MAINSTREAMING AND ITS PILLARS

The Vanuatu's trade mainstreaming program was endorsed by the Council of Ministers in 2012 to ensure that the trade dimension is duly considered whenever Government policy is formulated and implemented. It is led by the MTTCNVB, and includes three pillars: policy, institutions, and development cooperation. During the past eight years Vanuatu has been successful in implementing the program and has emerged as an example of good international practice. Key achievements include:

- approval and regular monitoring of the Vanuatu’s TPF;
- positive track-record in achieving the TPF’s recommendations;
- increased visibility of trade in subsequent national development policies;
- establishment and professional management of a NTDC, and ability of the NTDC to inform important development cooperation and policy decisions;
- establishment and growth of the Trade Development Division (TDD), the unit under the Office of the MTTCNVB’s Director General tasked to lead the trade mainstreaming program; and
- increased Aid-for-Trade resources managed by the MTTCNVB, from VUV 50 million/year during the period 2012-14 to VUV 350 million for the period 2018-20

Despite these achievements, opportunities for improvement still exist under each of the program’s pillars. At policy level, a rapid review of relevant national policies reveals that although trade concepts are sometimes mainstreamed, this does not happen to a sufficient degree, including in some agriculture sub-sectors (livestock and fisheries), as well as in the education, training, infrastructure, energy, and climate change sectors. Moreover, even policies which mainstream trade concepts sometimes fail to acknowledge or reference the TPF 2012. The TPFU 2019-2025 is much more comprehensive than its predecessor, and this should help the MTTCNVB to further promote policy mainstreaming.

At institutional level, there is an urgent need to legally establish the NTDC. A Trade Governance Act should give legal status to the NTDC’s decisions, incentivise more senior representation, strengthen cooperation between the MTTCNVB and the Ministry of Agriculture, Livestock Forestry, Fisheries, and Biosecurity, set out a procedure for the establishment of advisory public-private working groups, and give a legal basis to the National Trade Facilitation Steering Committee.

In 2013 the Department of External Trade (DoET) was moved from the MTTCNVB to the Ministry responsible for Foreign Affairs. This has reduced coordination between domestic and external trade policies, and delayed progress on trade agreements. To address these issues, the TPFU 2019-2025 recommends to bring the DoET back to the MTTCNVB.

During the TPF 2012 implementation period, the MTTCNVB became board member of important bodies whose determination have an impact on trade development, for example the Vanuatu Project Management Unit, the Vanuatu Primary Producers Authority, and the Vanuatu Qualification Authority. Seeking membership of additional trade-related bodies, for example the Scholarship Board and the National Advisory Board, is highly recommended.

Unlike Aid-for-Trade, Government resources allocated to the MTTCNVB increased only marginally, from VUV 400 million in 2013 to VUV 442 million in 2019. Limited coordination during the preparation of New Policy Proposals (NPPs) has undermined the Ministry’s inability to secure additional government funds. The TPFU 2019-2025 provides a unifying narrative and practical project ideas for the Ministry, which should inform the next rounds of budget preparation.

At development cooperation level, room for improvement still exists. The TPFU 2019-2025 recommends scaling up efforts with partners that have so far been less proactive in engaging with the MTTCNVB (World Bank, Asian Development Bank, China, and Japan), as well as promoting discussion on opportunities for blended projects – an area that the MTTCNVB has still to explore.

A brief analysis of Overseas Development Assistance (ODA) and Aid-for-Trade (AFT) concludes the chapter. Total ODA disbursed to Vanuatu, as reported by the Organization for Economic Cooperation and Development (OECD), increased on average by 3.4% a year during the past decade, from USD 98 million in 2008 to USD 132 million in 2017. This is in line with global trends. Australia was the major donor, with an average share of 46%, followed by New Zealand (17%) and Japan (13%). OECD does not report data from China. If these are included,^x China emerges as the second biggest donor.

About 33% of ODA within Vanuatu was spent on Aft projects during the past 10 years. This compares

^x Data on China’s ODA are reported by the Lowy Institute

well with the global average of about 25% and comes as a result of major infrastructure projects supported by Japan, Australia, the United States, and New Zealand. Transport projects absorbed on average 70% of AfT disbursements, followed by energy projects, mostly renewable energy, whose average share was around 7%. As to the productive sectors, support was significant for agriculture and tourism, which jointly absorbed around 12% of AfT during the past decade. In conclusion, AfT disbursed to Vanuatu was very much aligned with the country's needs, and with the TPFU's recommendations. AfT flows can be usefully monitored once a year, and a short report presented to the NTDC.

TABLES 10.3 AND 10.4: AID-FOR-TRADE DISBURSEMENTS

Donor	Share 2008-17	Sector	Share 2008-17
Japan	28.2	Transport and Storage	70.7
Australia	22.0	Communications	3.0
United States	18.9	Energy	7.3
New Zealand	17.2	Banking and Financial Services	0.8
Asian Development Bank	4.6	Business and Other Services	1.5
World Bank Group	3.1	Agriculture	6.7
France	2.6	Forestry	0.7
EU Institutions	1.6	Fishing	1.9
United Arab Emirates	1.0	Industry	0.2
Others	0.8	Mineral Resources and Mining	0.0
		Trade Policies and Regulation	1.8
		Tourism	5.4
TOTAL	100.0	TOTAL	100.0

Source: OECD

CHAPTER 11: GOODS

Coconut

Coconut products have historically been a high performing export commodity for Vanuatu, contributing to the wellbeing of the majority of the rural population. Over the period 2008 to 2018, the average combined merchandise export share of coconut products (crude coconut oil, copra, and coconut meal) has been about 38%. Despite coconut's importance for the economy, Vanuatu has specialised on a limited number of coconut products with minimal value addition. The sector has potential to move towards value addition with products such as virgin coconut oil, coconut milk, coconut water, coconut sugar, coir, and coconut shell charcoal, but first it needs to address some of its challenges.

Coconut exports experienced a significant fall in 2018 due to the fall of the international price for crude coconut oil. In addition, companies suffered from a decline in coconut production caused by aging or senile plantations (about 50% of coconut trees in 2017), natural disasters, high transactional costs (logistics, overheads, etc.), and strong global competition in the sector. Exposure to pests (in particular the Coconut Rhinoceros Beetle in the Shefa province in 2019), has exacerbated this trend.

Aging tree population calls for continuing the roll-out of the coconut replanting program and the research in genetic improved varieties (flavour and yield). A case is also made for moving away from bulk commodities towards high value products that are less sensitive to transactional costs and price fluctuations. The Government should consider undertaking a study on virgin coconut oil and other coconut products to identify market access' opportunities and challenges, supply and demand imbalances, and reinforce linkages in the value chains.

While moving towards product diversification, there is the need to strengthen the coconut value chain. To do so, Vanuatu can adopt national standards for coconut production and primary processing (Good Agriculture Practices), as well as for further processing (Codex standards), which are aligned with

international standards. It can then support producers and processors to meet those standards, for example by improving handling, transport and storage conditions of primary processed coconut products.

In order to reduce the exposure to pests, the Government should develop a pest control framework involving specific preparedness and response strategies, in line with relevant FAO's International Standards for Phytosanitary Measures.

Cattle

Historically, Vanuatu has had a very good environment for cattle, with productive pastures and a favourable animal health status. The industry has been very well-established for a number of years, and the country had the largest herd in the Pacific - approaching 200,000 heads in 2007. Along with kava, beef is the only merchandise export for which Vanuatu has had a global brand. In recent years however, the industry has been under threat, with declining head numbers, falling productivity, and falling quality, all meaning that the industry is now at a crisis point. This is shown by both exports – which have fallen from VUV 500m in 2012, to just under VUV 100m in 2018 – and by production, which has fallen by a third from 2014 to 2018.

There have historically been three major destinations for cattle exports, with Japan and Papua New Guinea each averaging just under 40% over the past decade, and the Solomon Islands averaging about 20%. After graduation from LDC status, there will be a tariff of 38.5% on exports to Japan – this will likely prove fatal for this market unless the Government can negotiate a concession. Demand by tourists and locals has also been increasing, although there is poor data on this. There is also a very large informal market, especially for custom events. Evidence is lacking for this market, but anecdotally it is very large. The Government should promote alternatives to cattle for these occasions.

According to the 2016 Mini Census, there were roughly 115,000 heads of cattle in Vanuatu, shared between 14,000 households. Of the cattle farmers, 0.2% are large (>1,000 heads); these provide roughly 60% of the cattle for the formal market, and are predominantly based on Efate and Espiritu Santo. A further 9% of farmers are small-to-medium (50-1,000 heads), and provide 24% of the supply for the formal market. The remainder are small-holder farmers, and evidence suggests that they are consistently unprofitable. There are three abattoirs, whose businesses are being put under strain by the declining production and large overheads. In order to offset the falling production, the Government is pursuing a restocking programme, with an increased focus on economic development.

Whilst Vanuatu currently enjoys disease-free status, the ability of BV to gain international recognition for this and to respond to emergencies is limited. This lack of capacity is a constrain to market access. Regarding quality, the evidence suggests this too has been declining, with some restaurants even resorting to importing beef due to concerns about quality. This has been compounded by declining skills, particularly relating to pasture management (invasive weeds are a large and growing issue), water management, and calving. In part this lack of skills has been caused by insufficient training of and by extension officers of the Department of Livestock.

The high cost of capital expenditure, such as fencing, also places restrictions on the ability of farmers to function profitably. Poor support industries – particularly utilities and transport, also add significant costs to farming. The state of the industry means large swathes of good land are being sold for residential use, which is a severe threat to the long-term status of the industry. The Government and private sector must work intensively together if this trend is to be reversed, and if the cattle industry is to return to its former status.

Fruits and vegetables

Fresh Fruits and Vegetables (F&V) have not historically been among the most exported goods in Vanuatu, and exports of these fresh products have been low and volatile over the 2008-2018 period. Major export items include Tahitian lime, coffee, root crops, and vanilla, as well as preparations such

as essential oils, and noni juice.

While F&V present many opportunities for value addition and growing export potential, presently Vanuatu relies on importing large amounts of fresh produce from external markets. To counter this trend and increase exports, supply chain inefficiencies should be addressed. The first issue relates to ineffective post-harvest management due to limited storage facilities, as well as poor sea and land transport infrastructure, which affect crops' quality and shelf life. Secondly, there are inconsistencies in supply generated by poor coordination between buyers and sellers, as well as a lack of information on potential markets. Thirdly, there is a lack of quarantine treatment facilities and protocols for selected F&V, which results in high barriers to trade.

The Government can play a role in this area, for example by supporting the Vanuatu Cooperative Business Network's work in coordinating supply and demand, while also undertaking a feasibility study about the establishment of a national commodity exchange platform, and improving storage facilities and cold rooms at strategic locations. Where products can be grown domestically, import substitution strategies should be pursued with a focus on improving quality standards, consumer safety, and establishing distribution linkages that ensure a reliable supply for end buyers - restaurants, hotels, resorts, retailers, and wholesalers. In addition, market access would be facilitated with the establishment of quarantine treatment facilities and protocols where a robust business case exists for export of certain F&V.

The main economic players in the sector find it difficult to access finance, which limits their ability to scale up through the purchase of productivity enhancing equipment. To this end, the establishment of funding facilities should be explored, aiming to benefit businesses that demonstrate their capacity to sustainably develop innovative products and generate employment.

Kava

Kava has for a long time been an incredibly important product for Vanuatu, both economically and for societal and custom reasons. In recent years however, its economic importance has rocketed, with exports reaching VUV 2.5bn in 2018, which represented 52% of total merchandise exports. As of late 2017 there were 23 licensed exporters, of which five were large scale. Kava is unique to the country, in that Vanuatu is the world leader for this commodity, whilst for every other export Vanuatu is just a minor player in a global market. Kava is also a high-value and durable product, grown across the country, and for which the farmers receive a high proportion of the total export price. Finally, the global kava market is booming. All of these factors combine to mean that kava is now definitively Vanuatu's most important commodity, offering an unparalleled road to development.

The main destinations for kava are America (31%), Fiji (24%), Kiribati (23%), and New Caledonia (16%). China is a growing destination. Given that kava is such a tiny commodity on the global stage, there exist very little data for this market, something which the Government should seek to improve – both on demand and supply. Access to markets remains subject to arbitrary restrictions – as demonstrated the European ban of the early part of the millennium. Although evidence clearly shows that kava is safe, there are still unfounded concerns within the international community. Standards therefore are incredibly important to maintain market access by improving aspects such traceability, product labelling, reliability of laboratory tests, etc. Finalising the Codex standard for kava remains crucial to sustain market access. Increasing trainers for farmers, and further development of support industries, would also help increase quality.

Kava is grown across the nation, but is particularly prevalent in Penama and Tafea provinces. There were roughly 18,000 households growing kava according to the 2016 Mini Census. Anecdotally however, rising prices have led to very significant increases in the amount of kava being planted. Given kava has a three-year lead time (at least) before it can be harvested, the rise in planting hasn't yet transferred to the global market price. The Government must keep a very close eye on the market, and possibly consider how to increase global demand. As part of this, development of new products and

further value addition should be encouraged within Vanuatu, for example of powder which currently makes up 44% of Vanuatu's kava exports.

Vanuatu's regulation for kava is now slightly confusing, as it talks about age of kava, which can't be tested for. The Kava Act should be amended to correct this. The Kava Industry Association is an excellent public-private body, but it is currently reliant on the Pacific Horticultural and Agricultural Market Access (PHAMA) Plus program, and so an independent funding mechanism should be established. Efforts should be made to strengthen the Pacific Kava Council.

Forestry products

Despite volatile trends for the period 2008 to 2018, forestry products (sandalwood and timber) have bright future prospects for export as they are high-value non-perishable products, which are well-suited for international trade. In particular, world demand for sandalwood (both processed and unprocessed) keeps rising, resulting in a steady increase of its price in international markets due to limited global supply.

In order to sustainably benefit from its sandalwood resources, Vanuatu should consider reviewing the sandalwood supply chain and its regulatory framework (replanting plans, quota, licenses, royalties, minimum pricing) vis-à-vis potential improvements (auction pricing, limiting licenses, and resource base aggregation), and evaluate whether domestic processing should be promoted.

Cocoa

Cocoa has historically been a key export crop for Vanuatu. Over the past ten years, however, cocoa exports have been volatile, following the international price for cocoa beans. Dependency on the international market is due to the country's specialisation in cocoa's primary processing (fermenting and drying), which occurs nearby its place of harvest and produces a non-perishable product ready for domestic and international trade. Like coconut, aging plantations threaten cocoa production, calling for the establishment of a cocoa nursery and the replanting of cocoa trees using genetically productive varieties of seedlings.

In recent years a few chocolate manufacturers have established in Vanuatu, and now supply high quality chocolate bars to the domestic market, cruise ships, and international markets such as Fiji, Australia and New Zealand. Transitioning away from raw cocoa bean exports towards value-adding products is a first step for Vanuatu's producers and processors to reduce their dependency on the international price for cocoa beans. A further step consists of keeping high quality standards in chocolate manufacturing and promoting Vanuatu's chocolate products. The Government can play a role in these areas, for example by providing post-drying facilities such as storage and cold rooms at key ports of entry to improve cocoa beans' quality and consistency, and by facilitating Vanuatu's visibility as a cocoa producer and chocolate manufacturer in the international markets.

Fisheries

Fisheries comprise the marine, freshwater, aquaculture, and recreational subsectors. Aquaculture is a sector in its infancy but it is already supported by the Government and has good potential to develop further in the future. The recreational sub-sector's importance is increasing: it involves sport fishing and has strong links with tourism. After the closure of the country's fish factory in 2014, most of Vanuatu's fish was caught against a fee and landed in other nations. This led to a sharp decline in fish exports, which were near zero in 2018. The launch of the Sino-Van fish processing plant near Port Vila in October 2019 may revert this trend and place fisheries among the top export sectors.

The Sino-Van plant will need a stable political, institutional, and regulatory environment; highly skilled providers of vessels' maintenance; an improvement in logistics; enhanced infrastructure for fishing and marketing; and ease of market access to deliver on its promise of a revitalised fisheries sector in Vanuatu. To avoid stock overexploitation, and keep the catch within sustainable yield limits, the Government should continue to monitor total catch very closely. In addition, since the Sino-Van plant

and the newly built fish markets are both Government joint-ventures, it is key that a national entity, such as the NTDC, consistently monitors their performance.

CHAPTER 12: TOURISM SERVICES

The tourism sector is the mainstay of the Vanuatu economy. Tourism exports represent about 75% of total exports. They increased by 6.8% a year during the period 2007-2017, from VUV 14 billion (26% of GDP) to VUV 27 billion (30% of GDP).

Although both air and cruise arrivals have grown over the last decade, cruise arrivals have exhibited the stronger performance, and in 2017 were about twice the number of air arrivals. However, air arrivals still provide the biggest contribution to the sector, as the typical tourist arriving by air spends about 50 times as much as the typical cruise passenger.^{xi}

FIGURE 12.2: TOURISM ARRIVALS, AIR AND CRUISE PASSENGERS



Source: Vanuatu National Statistics Office (VNSO)

The holiday market is by far the major source of tourism arrivals. The vast majority of air visitors only travel to the island of Efate, although tourists are increasingly travelling to outer islands, especially Tanna and Espiritu Santo. The latter has greatly benefitted from the introduction of direct flights from Brisbane (Australia). As to cruise passengers, Port Vila and Mystery Island (Aneityum) remain the main ports of call – 52% and 38% of calls respectively in 2018.

Australia, New Zealand, and New Caledonia are the main markets – they jointly provided 79% of air arrivals and over 90% of cruise passengers in 2017. China has been the fastest growing market during the past decade (starting from a low base), and now represents 3% of air arrivals.

The sector has ample margins for growth. From the demand side, global tourism departures are expected to grow at a rate of 3.3% per year until 2030, and Vanuatu is fortunate to be located in close proximity to regions and countries from which departures are expected to grow even faster. From the supply side, with its 2,300 hotel rooms, its 282 rooms provided by holiday homes, and its many guesthouses, Vanuatu already has the capacity to hosts many more tourists. It has also potential to further increase strategic capacity,^{xii} but should do so in a sustainable way by enhancing sector management and planning. The TPFU 2019-2025 supports the ambitious targets of the Vanuatu Tourism Market Development Plan (VTMDP), including achieving 200,000 air arrivals by 2025, and increasing the proportion of visitors to the outer islands - 58,000 visitors by 2025. It also proposes a target of 400,000 cruise passengers by 2025, with increased dispersal of cruise visitors around Efate

^{xi} Based on estimates of daily expenditure and length of stay for different types of tourists

^{xii} The Vanuatu Tourism Market Development Plan recommends targeting two new major brand name hotels, and two upmarket boutique resorts

and to Espiritu Santo.

Given the increased growth levels targeted and the increasingly competitive international environment, additional marketing funds will be needed. The TPFU 2019-2025 recommends that the levy supporting the Tourism Market Development Fund (TMDF) is charged on all businesses benefitting from tourism, noting that at the moment only a sub-set of beneficiaries pay the levy. It also recommends to increase the value of the VTO marketing funds through a combination of levy and government grant.

As noted in Chapter 6, infrastructure can be transformational for the sector. The TPFU 2019-2025 supports new road developments in Tanna and Malekula as key drivers of tourism dispersal to the outer islands, calls for an increased budget to road maintenance and rehabilitation, and favours the development of a new airport terminal in Port Vila. It also recommends to pay more attention to waste management and sewage systems whose capacity is stressed by tourism development, especially in urban areas.

Tourism is a major source of employment in Vanuatu. The Vanuatu Strategic Tourism Action Plan (VSTAP) estimates approximately 8,000 workers are employed by the sector – equivalent to 37% of formal employees in 2013. Looking ahead, tourism presents great potential to provide jobs to the 20,000 young people who will become of a working age during the next 5 years. To transform potential into reality, Vanuatu will need to further its training capacity for the sector. The Vanuatu Industry Survey 2018 indicated that 52% of tourism businesses already find it hard to recruit ni-Vanuatu with the required skills, up to the point that concerns have been expressed over the impact of expanding labour mobility schemes into the tourism and hospitality industry. Increased and improved training provisions will be particularly important if the growth targets of the VTMDP are to be achieved.

Tourism relies upon a wide range of support sectors. The TPFU 2019-2025 very much welcomes the planned expansion of the of Air Vanuatu fleet with four new Airbus A220, which will allow the country to strengthen connections with traditional markets and to start connecting to new regional destinations. Most food products served by the tourism industry are imported. The TPFU 2019-2025 recommends to build stronger linkages between tourism and the primary industries, including selected fruits and vegetables, fish, and meat products – see Chapter 11. Recommendations to improve crucial support sectors such as electricity and telecommunications are formulated in Chapter 5.

Legislation affecting the industry include the Foreshore Development Act (permissions for foreshore development), the Tourism Council Act (governance and accreditation), the Foreign Invest Promotion Act (reservation of certain activities), and the Import Duty Act (duty exemption). From a policy perspective, the sector is led by the Vanuatu Strategic Tourism Action Plan (VSTAP), and has a number of sub-sectoral policies covering issues such as cruise tourism, sustainability, and marketing. The VSTAP's last year of implementation was 2018, and the policy should now be updated.

CHAPTER 13: OTHER SERVICES (OFFSHORE AND ICT)

Offshore services

Vanuatu provides Offshore Financial Services (OFC) to non-residents. Back in 2008, the export of financial services represented 8% of total services exports. This share has rapidly decreased over the following years, especially as a consequence of the global fight against money laundering, terrorism financing, and tax evasion, and today is close to 1%.

Most of the services provided by the OFC relate to the establishment and management of international companies, and the award of licenses to securities dealers. In the past, the main clients of the sector were Australia, New Caledonia, New Zealand, and EU nations, but as of today almost 60% of the registered companies originate from China and Hong Kong, partly as a result of tying the sector with the permanent residency program – incorporating an international company in Vanuatu is a pre-requisite for acquiring residency.

The sector comprises of seven international banks, a range of insurance companies, and legal and

accounting firms. The sector's contribution to the GDP is unknown, but a common number entertained by the industry is that it represents between 3-5%. The sector still employs a pool of 900 highly skilled individuals (3.5% of formal employment) who serve the needs of Vanuatu's diversification, and also support local businesses.

The sector is regulated by the Reserve Bank of Vanuatu (RBV, for banks and insurance companies), and the Vanuatu Financial Service Commission (VFSC, for legal and accounting firms), but also monitored by the Financial Intelligence Unit (FIU) for the purpose of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

Since 2015, the regulatory framework of the offshore financial industry has undergone substantial reform to comply with recommendations of the Financial Action Task Force (FATF). Reforms have lifted the veil of secrecy on Vanuatu's offshore companies, and as a result Vanuatu has been removed from the FATF list of AMF/CFT deficient jurisdictions. Even after being whitelisted by the FATF, Vanuatu remains engaged in the reform process, and it is still considered a non-cooperative tax jurisdiction by the EU for failure to meet some standards related to tax-base erosion and companies' physical presence.

Thanks to the reforms undertaken, Vanuatu has now a more efficient FIU, a more effective Reserve Bank and Financial Service Authority, and a set of laws and regulations aligned with international standards. To capitalise on its skills Vanuatu must find new services to export, including by exploiting the interaction with new technologies – such as in the case of cryptocurrencies. The TPFU 2019-2025 recommends the establishment of a public-private working group under the NTDC to structure dialogue on this matter, a study on the new services that Vanuatu can reasonably export, and missions to leading OFC jurisdiction to better assess the options identified by the study. At institutional level, the TPFU 2019-2025 recommends to move registration functions for online gaming to VFSC to better promote a sector which shares features with the offshore industry.

Information and Communication Technology (ICT) services

The Vanuatu's ICT infrastructure has developed substantially during the past decade (see Chapter 5). As a result, exports ICT services has increased from VUV 400 million in 2008 to VUV 1 billion in 2017. These services are almost exclusively transmission of data via the undersea cable, and do not reflect the existence of other significant commercial activities, such as computer services.^{xiii} Although ICT-enabled services are also exported from Vanuatu (for example financial and insurance services), they are not categorised as ICT exports.

Other Vanuatu ICT and ICT-enabled services are sold domestically, and contribute to increase competitiveness of other export industries. The potential of the ICT sector to serve the driver of economic development is still largely untapped - with the exception of tourism in the private sector, and customs in the public sector, use of ICT and ICT-enabled services is still very limited.

Vanuatu lacks qualified and experienced local workers, forcing ICT service providers to import foreign expertise. The TPFU 2019-2025 recommends to increase provision of accredited certificates and graduate diplomas in ICT related matters, with more focus on coding, programming, and content development, in line with industry needs.

Vanuatu's legal framework has still some gaps that need to be filled as a priority matter to build trust in the country's ICT ecosystem and trigger further uptake of its services. In particular, Vanuatu needs to approve a Privacy and Data Protection Act, a Consumer Protection Act (including online protection), and a Cybersecurity Act.

With the noted exception of telecommunications, Vanuatu may still be unable to generate value from

^{xiii} In the balance of payment, ICT service exports include telecommunications services (transmission of data via telecommunication means), computer services (sale of software, data processing, etc.), and information services (news agency services, etc.).

the export of 'pure' ICT services. However, there is great potential to use ICT to boost trade competitiveness of other sectors.

In the public sphere, the TPFU 2019-2025 recommends the progressive establishment of an overarching e-government platform to provide better government services, move away from paper-based data collection, digitise and automate payments, and generate opportunities for content development. Some progress is being made by the agencies involved in the Electronic Single Windows System project, but additional priority agencies should be identified for digitization. The e-government platform should be informed by the experience of relevant overseas countries, and led by a "digital governance roadmap", which should be developed and approved.

In the private sphere, the TPFU 2019-2025 supports the country push to incentivise mobile payments, as this is an essential enabler of Vanuatu's ability to buy and sell ICT and ICT-enabled services.

As to 'pure' ICT services, there is scope to assess the feasibility of establishing a private data centre. Vanuatu and the South Pacific region are missing world class data-centre facilities despite the expected increase of data storage and processing needs of governments, corporations, and potential international clients with an interest to have their transactions taking place in the region. A data centre would not only support digitation, but also increase utilisation of exiting bandwidth and, in turn, reduce internet costs for the average consumer.

The e-Trade Strategy that the Government is planning to develop in the next months will further elaborate on options to increase export of ICT and ICT-related services.

CHAPTER 1: INTRODUCTION

1.1 Country Overview

1.1.1 Geography and population

The Republic of Vanuatu is an island nation located in the South Pacific Ocean. The archipelago is located about 2,500 km east of Australia, 500 km north-east of New Caledonia, 1,000 km west of Fiji and 1,300 km south-east of the Solomon Islands.

The Vanuatu's archipelago counts around 80 islands,¹ with Hiw being the northernmost island, and Matthew and Hunter being the southernmost islands. Of the islands, 14 have surface areas of more than 100 square kilometres.

The country has a land area of 12,189 square kilometres, an Exclusive Economic Zone (EEZ) of 680,000 square kilometres, and population of 273,000 in 2016 – the year of the last census.² This makes Vanuatu the fourth biggest Forum Islands Country (FIC)^{xiv} in terms of population, the fifth biggest country in terms of land mass, and the twelfth biggest country in terms of EEZ.³

Vanuatu's population is distributed across six provinces; Torba, Sanma, Penama, Malampa, Shefa, Tafea. About 18% of Vanuatu population (50,000 people) resides in Port Vila, Vanuatu's capital city.⁴

Vanuatu is a very young country; about 66% of its population is less than 30 years old, and about 40% is less than 15 years-old. The median age in 2016 was 20, against a global figure of 29.6.⁵ Based on United Nations projections,⁶ Vanuatu population is likely to double by 2050.^{xv}

1.1.2 Institutions⁷

The Republic of Vanuatu is a parliamentary democracy. Under the current Constitution, which was adopted in 1980 when the country became independent, the national political structure consists of a legislative, an executive, and a judiciary branch.

The head of the country is the President, who is elected for a term of five years by a two thirds majority of an electoral college including the 52 Members of Parliament (MPs) and the six heads of provincial governments. The power of the President is primarily ceremonial. The President appoints the Chief Justice of the Supreme Court, and three other justices.

The legislative branch is a unicameral Parliament consisting of 52 members, all of whom are elected every four years. The Parliament makes laws by passing bills introduced by one or more members, or by the Prime Minister or a Minister. When a bill is passed by the Parliament, it must be presented to the President, who assents to it within two weeks. If the President considers the bill to be inconsistent with a provision of the Constitution, the Supreme Court needs to be referred to for its opinion. The bill must not be promulgated if the Supreme Court considers it inconsistent with the Constitution.

The head of the executive branch (government) is the Prime Minister, who is the head of Government and is elected by a majority vote of a three-quarters quorum of the Parliament. The Prime Minister appoints other Ministers from among the members of Parliament. The national Council of Chiefs (Malvatu Mauri), elected by district councils of chiefs, advises the Government on matters relating to Vanuatu citizens' culture and language.

The head of the judicial branch is the Chief Justice of the Supreme Court, which consists of the Chief Justice and other judges. Two or more members of the Court may constitute a Court of Appeal.

^{xiv} The Forum Island Countries are Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. These 16 countries, plus Australia and New Zealand, form the Pacific Island Forum (PIF), the region's premier political and economic policy organisation.

^{xv} The total population should be between 340,000 and 368,000 by 2030, and between 429,000 and 526,000 by 2050.

Magistrate courts handle routine legal matters. Vanuatu's legal system is based on both British common law and French civil law. Village or island courts, presided over by local chiefs, deal with questions of customary law.

1.1.3 Economy

Nearly all rural households are engaged in own-account production,^{xvi} of mostly vegetables (97%), but also livestock (86%), and fish (58%). Own-account production of vegetables is also prevalent amongst urban households (61%).⁸ This production, especially in rural areas, is often based on the norms, rules, and practices of the traditional or *kastom* economy, including egalitarianism, joint ownership of productive assets, barter, and sustainable use of natural resources.

Semi-commercial agricultural production is also important in Vanuatu as it provides rural households with the necessary means to satisfy basic needs such as housing, health and education. The main cash crops in Vanuatu are coconut and coconut products, kava, timber, livestock and cocoa (see Chapter 3).

Agriculture's share of Gross Domestic Product (GDP) fluctuates around 20%, which indicates a relatively low productivity.

Around 70% of the Gross Domestic Product (GDP) is generated by the services sector, to which activities related to the internal tourism industry contribute significantly (see Chapter 2).

Since 2014 the government has adopted an expansionary fiscal policy aimed at improving the country's infrastructures. Whilst this move should increase the medium to long-term growth rate, it is also leading to more rapid accumulation of government debt, and calls for fiscal reforms to consolidate revenues.⁹

1.1.4 International relations

Vanuatu has bilateral diplomatic relations with around 70 countries, mostly located in Oceania, Asia, Europe and the Americas.¹⁰ At regional level, the country is a founding member of the Melanesian Spearhead Group (MSG) and the Pacific Islands Forum (PIF). Trade agreements are in place between Vanuatu and the members of these two regional organizations (see Chapter 4). At international level the country acceded to the World Trade Organization (WTO) in 2012.

1.2 Policy Landscape

The Vanuatu's National Sustainable Development Plan (NSDP) 2016-2030 is the country's development policy.¹¹ Its vision is that of a "stable, sustainable, and prosperous Vanuatu". Each of the vision's elements is pursued under a pillar, namely society, environment, and economy. A limited number of goals sit under each pillar, and are to be achieved through the pursuance of more specific objectives.

TABLE 1.1: THE NSDP, A SNAPSHOT

Society Pillar	Environment Pillar	Economy Pillar
6 Goals	5 Goals	4 Goals
36 Objective	29 Objectives	33 Objectives

Source: Government of Vanuatu (2016a)

Whilst trade-related objectives are included under each of the NDSP's pillars (see table 1.2), the most explicit linkages between trade and national development are under the economic pillar. In particular, goal ECO 1 is to achieve a "stable and prosperous economy, encouraging trade, investment and providing economic opportunities for all members of society throughout Vanuatu". The goal is important as it implicitly recognises that for a country with a small domestic market such as Vanuatu "opportunities for all" may be difficult to provide without a strong export performance. In fact, most of the NSDP's economic objectives represent options to improve Vanuatu's export competitiveness, and such will find their place amongst the Trade Policy Framework Update (TPFU)'s recommendations.

The most relevant multi-sectoral policies sitting under the NSDP are the Trade Policy Framework 2012

^{xvi} Own-account production is defined as production for one's own use

(TPF 2012) and the Overarching Productive Sector Policy (OPSP) 2012-2017. The TPF 2012, this document's predecessor, consolidated the government's priorities to increase Vanuatu's export competitiveness. The OPSP 2012-2017, currently being updated, included key recommendations for the development of the primary and agro-processing sectors.

The sectoral and sub-sectoral policies most relevant to the TPFU include those by:

- the Ministry of Tourism Trade Commerce and Ni-Vanuatu Business (MTTCNVB):
 - Vanuatu Industrial Development Strategy (2018-22)
 - Vanuatu Strategic Tourism Action Plan (2014-18)
 - Sustainable Tourism Policy (2019-30)
 - Vanuatu Tourism Market Development Plan (2019-30)
 - National Co-operative Policy (2017 -22)
 - National Investment Policy Statement

- the Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB):
 - Vanuatu Agriculture Sector Policy (2015-30)
 - Vanuatu National Livestock Policy (2015-30)
 - Vanuatu Forest Policy (2013-23)
 - Vanuatu National Fruits & Vegetables Strategy (2017-27)
 - Vanuatu Coconut Strategy (2016-25)
 - Vanuatu National Fisheries Sector Policy (2016-31)

The key messages advocated by the TPF 2012 and the TPFU 2019-2025 are generally informed by the above sub-sectoral policies.

With some exceptions, the degree of effective utilisation of trade-related policies could be improved. In particular, whilst the above documents have sometimes helped to build consensus around strategic priorities and/or specific projects, monitoring of their implementation has rarely been undertaken in a systematic manner. Lack of systematic monitoring makes it difficult to link a sector's performance to the degree of policy implementation, and to support the government to achieve its stated objectives of sectoral growth.

1.3 Rational for a Trade Policy

By putting trade at the centre of the country's development strategy, the Vanuatu's TPFU 2019-2025 reaffirms the rationale of its predecessor.

For a small country like Vanuatu, domestic demand is not enough to stimulate competitive production processes and generate decent employment opportunities for all. Therefore, increasing exports of goods and services in areas of comparative advantage remains the most viable option to promote economic development. Tourism is a case in point. In 2017 about 36% of Vanuatu's formal employees^{xvii} were employed by this export-oriented industry, including employment by hotels, travel agents, airlines, and other passenger transportation services.¹²

Despite its focus on export promotion, the TPFU does not take a negative stance on attempts to increase the share of domestic demand satisfied by local production. Firstly, there exist some primary sub-sectors in Vanuatu where import substitution policies aligned with good international practices^{xviii} can result in sustainable retention of value for the local economy. Secondly, when import substitution policies are targeting international tourists, they can increase competitiveness of the tourism industry

^{xvii} The number of active Vanuatu National Provident Fund (VNPF) members is about 30,500 in 2016. According to the World Travel and Tourism Council (WTTC), direct employment by the tourism industry in 2017 is 11,000 Full-Time-Equivalents (FTEs) in 2017

^{xviii} For Vanuatu these are summarised in Council of Ministers Decision 204/2013

by leveraging Vanuatu's unique features.

1.4 Vision and Goals

Since the NSDP's Goal ECO 1 clearly identifies the contribution of trade to national development, the TPFU adopts a vision which simply mirrors this goal. The vision of the TPFU 2019-2025 is therefore to achieve:

a prosperous economy encouraging trade and investment to provide economic opportunities for all members of society throughout Vanuatu

Encouraging trade and investment to provide opportunities for all requires coordinated action in a number of dimensions. By drawing extensively on the NSDP, the TPFU 2019-2025 identifies 12 Goals which articulate its vision in the different dimensions affecting trade. These are:

- Goal 1: an economy that pursues sound macroeconomic policies
- Goal 2: an economy that promotes exports in areas of comparative advantage and that, where feasible, reduces reliance on imported goods and services
- Goal 3: an economy that engages in and benefits from trade agreements
- Goal 4: an economy where energy and telecommunication services are modern, reliable, and affordable
- Goal 5: an economy that facilitates trade through state-of-the-art customs, biosecurity, and quality infrastructure systems, and through better transport infrastructure
- Goal 6: a business-friendly economy
- Goal 7: an economy with an adequate supply of skills to encourage trade
- Goal 8: an economy where trade and investment are sustainable
- Goal 9: an economy where trade is mainstreamed
- Goal 10: an economy that supports primary sectors and agro-processing with high export performance or potential, and strong tourism linkages
- Goal 11: an economy that supports accelerated export of tourism services and increased retention of tourism earnings
- Goal 12: an economy that supports emerging service sectors with high export potential or with the potential to increase the country's export competitiveness

Each of the 12 chapters that follow will focus on one goal. They will include an assessment of the state of play in the target area/sector, a set of recommendations to achieve the stated goal, and a detailed implementation matrix to ensure systematic monitoring.

By illustrating the channels through which implementation of the TPFU's recommendations will contribute to the broader development aspirations of the Vanuatu's people, Table 1.2 further details the linkages between the two policies. In particular, the TPFU will contribute to achieve 61% of the NSDP's 33 economic objectives, 55% of its 29 environmental objectives, and 36% of its 36 society objectives.

TABLE 1.2: TPFU GOALS AND CHAPTERS, AND NSDP OBJECTIVES

Goal	Chapter	TPFU 2019-2025	NSDP 2016-2030 Objective
1)	2)	The macroeconomic environment	ECO 1.1, ECO 1.2, ECO 1.3, ECO 1.4, ECO 1.5, ECO 1.7, ECO 3.1, ECO 3.2, ECO 4.1, ECO 4.3 ENV 1.1, ENV 1.3
2)	3)	Trade composition and trends	ECO 1.4, ECO 1.5, ECO 1.7, ECO 3.4, ECO 4.3, ENV 1.1, ENV 1.3
3)	4)	External trade policies and trade agreements	ECO 1.5, ECO 1.6, EC 4.7
4)	5)	Backbone services and related infrastructure	ECO 2.1 SOC 6.7
5)	6)	Trade Facilitation and related infrastructure	ECO 2.5, ECO 2.6, ECO 3.3 ENV 5.4
6)	7)	Doing Business	ECO 4.1, ECO 4.8 SOC 5.1
7)	8)	Education and skills	SOC 2.2, SOC 2.3, SOC 2.4 ECO 4.5, ECO 4.6
8)	9)	Trade and sustainable development	ECO 2.1, ECO 4.5 SOC 1.7, SOC 4.1, SOC 4.2, SOC 5.4 ENV 1.1, ENV 1.4, ENV 1.5, ENV 2.1, ENV 2.2, ENV 2.3, ENV 3.1, ENV 3.4, ENV 3.5, ENV 4.3, ENV 4.4, ENV 4.5, ENV 4.6
9)	10)	Trade mainstreaming and its pillars	ECO 1.4, ECO 4.9 SOC 6.1, SOC 6.4, SOC 6.7, SOC 6.8, SOC 6.9
10)	11)	Goods	ECO 3.1, ECO 3.4, ECO 4.3, ECO 4.4 ENV 1.1, ENV 1.3
11)	12)	Tourism	ECO 3.1, ECO 3.2, ECO 4.4
12)	13)	Other services (offshore and ICT)	ECO 2.9

Source: author's assessment

1.5 Consultation Process

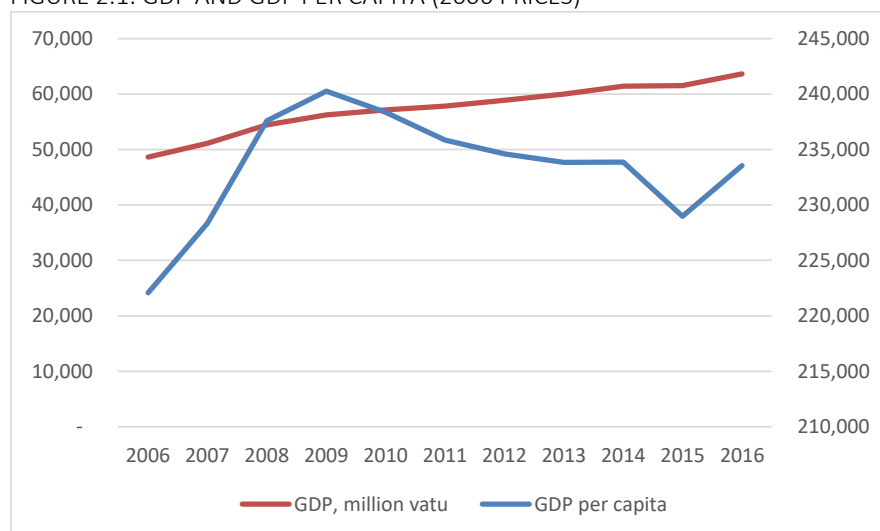
Consultations on the TPFU started in July 2018. In consulting stakeholders, the recruited international and national consultants were guided by the TPFU's Concept Note drafted by the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB) and approved by the National Trade Development Committee (NTDC). Face-to-face consultations on Chapters 1-9 were mainly conducted between July and August 2018, whereas consultations on Chapters 10-14 were mostly undertaken between October and November 2018. After being cleared by the MTTCNVB, each draft chapter was circulated to stakeholders for comments. These were incorporated in a final draft, which also included an implementation matrix. Supplementary consultations were required for some chapters, and these took place between July and September 2019. Final consolidation took place in October 2019, and the TPFU 2019-2025 was validated by the NTDC in November of the same year.

CHAPTER 2: THE MACROECONOMIC ENVIRONMENT

2.1 GDP Composition and Trends

Vanuatu's real Gross Domestic Product (GDP) was VUV 63.6 billion in 2016^{xix}. Real GDP grew at an average rate of 2.7% during the past decade. However, with a population growing at an average rate of 2.2%, the country only experienced a marginal increase in per-capita GDP, from VUV 222,081 in 2006 to VUV 233,546 in 2016 - see Figure 2.1.^{xx}

FIGURE 2.1: GDP AND GDP PER CAPITA (2006 PRICES)



Source: calculations on Vanuatu National Statistics Office (VNSO)

Services are by far the largest sector, followed by the Agriculture, Fishing, and Forestry, and Industry sectors. In 2006, sectoral shares of GDP were 68.6% for Services, 22.7% for Agriculture, Fishing and Forestry and 8.7% for Industry^{xxi}. By 2016, the share of Services had increased to 69.3%, Agriculture, Fishing and Forestry's share had declined to 19.9%, and the share of Industry had increased to 10.8% - see Figure 2.2

The decline in the Agriculture, Fishing and Forestry sector's share of GDP is explained by the slow growth in Crop Production (which was badly affected by cyclone PAM), and by the real decline in Animal Production. On the contrary, healthy growth was recorded for Fisheries, and Forestry.

The increase in the Industry sector's share of GDP was driven by the recent fiscal expansion benefitting the Construction sub-sector,^{xxii} and the solid performance of Electricity and Water Supply – linked to urbanisation. On the other hand, the Manufacturing sub-sector's GDP recorded a real decline during this period.

As to Services, five sub-sectors, namely Real Estate; Accommodation and Food Services; Professional, Scientific, Technical, and Administrative Services; Retail Trade; and Information and Communication, recorded above-average growth rates during the past decade. For most of the other sectors, average real growth was either negligible or negative. Progressive urbanisation, a healthy tourism industry, and the digital revolution are some of the factors explaining the observed trends in the most dynamic Services sub-sectors.

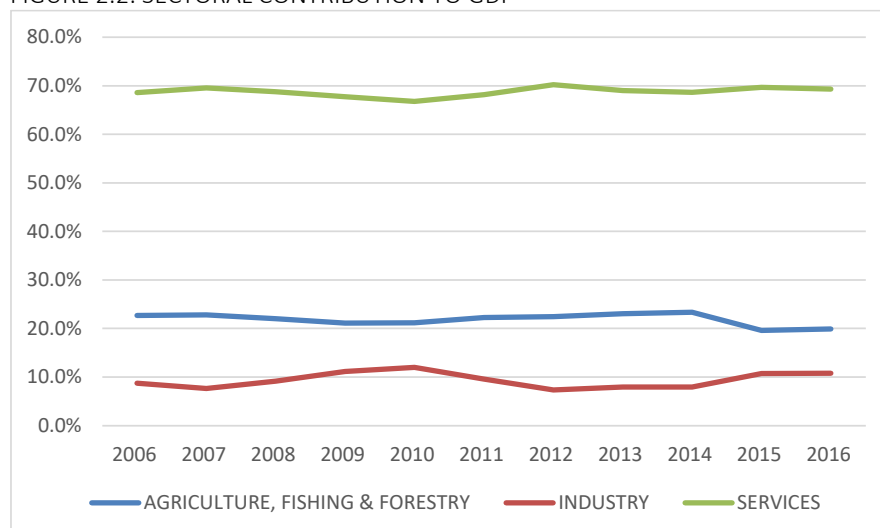
^{xix} All GDP figures in this chapter are based on 2006 prices

^{xx} Based on provisional estimates by the Vanuatu National Statistics Office, per-capita GDP in 2017 was VUV 238,382

^{xxi} In calculating the sectoral shares, the value of taxes and subsidies on products as well as the value of imputed bank service charges have not been considered

^{xxii} The expansion of the construction sub-sector accelerated in 2017. The sector increased by 11% compare to 2016 2017 based on provisional data from the Vanuatu National Statistics Office

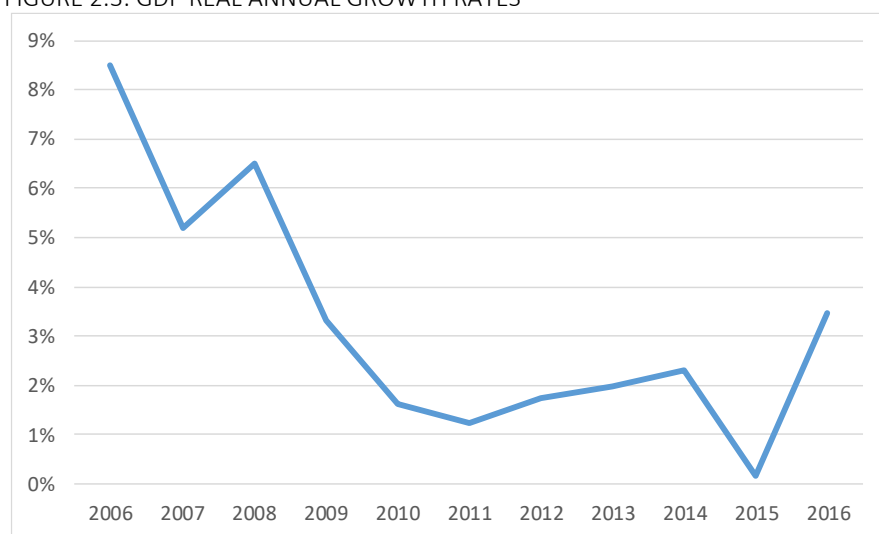
FIGURE 2.2: SECTORAL CONTRIBUTION TO GDP



Source: calculations on VNSO

Overall, growth in real GDP was quite strong at the beginning of the period – see figure 2.3. This declined afterwards, reaching a minimum of 0.2% in 2015 (due to cyclone PAM), before bouncing back to 3.5% in 2016 on the wave of a recovery in Crop Production, Services, and new infrastructure projects.^{xxiii} For 2017 the preliminary estimates by the VNSO register a growth of 4.4%. The Macroeconomic Committee (MEC) growth forecast for 2019 and 2020 are 3.4% and 4.0% respectively.¹³ The main drivers behind the projected performance include implementation of the new infrastructure projects, and the full recovery of Services.

FIGURE 2.3: GDP REAL ANNUAL GROWTH RATES



Source: calculations on VNSO

Economic growth needs to accelerate substantially over the next 5 years to result in a tangible increase of per-capita GDP. To do so, there is a need to invest in sectors and geographical areas that are operating below potential. From this point of view an increased focus on rural areas, where about 75% of the population lives¹⁴ and primarily engages in subsistence agricultural practices, would be beneficial:

- Agriculture and agro-processing can improve their performance to capture an increased share of domestic (local and tourism) demand and increase exports in areas of comparative advantage (see Chapter 11)

^{xxiii} Based on provision data by the Vanuatu National Statistics Office, growth accelerated to 4.4% in 2017, driven by infrastructure projects

- There is scope for the tourism industry to provide direct benefits to rural areas via diversification of its supply (see Chapter 12)
- There is scope for other services to accelerate their growth by enhancing productivity in areas/sectors operating below potential, including through application of new technologies (see Chapter 13)

2.1.1 Recommendations

- Increase the growth rate of agriculture and agro-processing (manufacturing), including by capturing an increased share of domestic demand and increasing exports in areas of comparative advantage
- Increase the growth rate of the tourism industry, including by segmenting supply strategically across locations throughout Vanuatu
- Support services suitable to boost productivity in the other sectors – e.g. Information and Communication and Professional/Technical/Scientific services

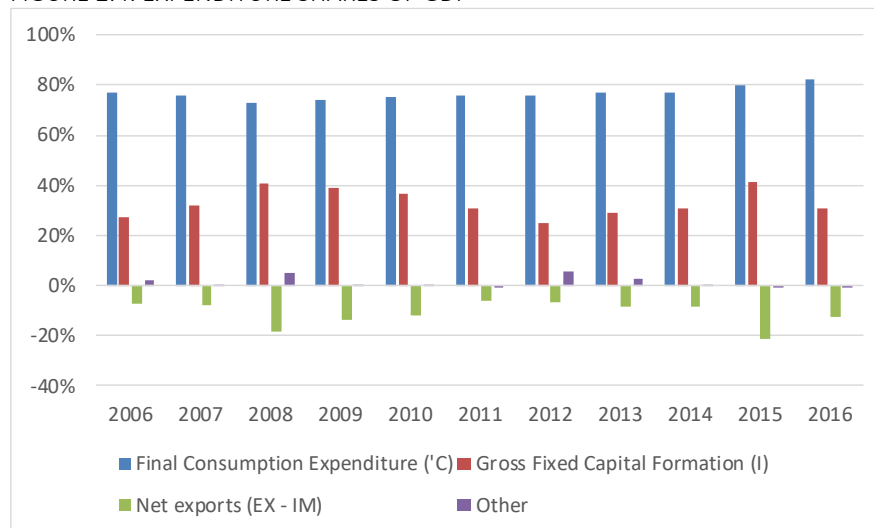
2.2 Macroeconomic Determinants of Growth

2.2.1 Short-term determinants

During the past decade, about 77% of GDP was consumed, 33% was invested, and the average trade deficit (net exports) was about 11% of GDP.

The period 2006-2016 saw consumption slowly but steadily increasing its share, investment fluctuating around its average share, and net exports as a share of GDP on a mildly declining path (see Figure 2.4). In other words, compared to 2006 Vanuatu is today a society that (in percentage terms) consumes a bit more, saves a bit less, and imports more goods and services to satisfy its consumers.

FIGURE 2.4: EXPENDITURE SHARES OF GDP



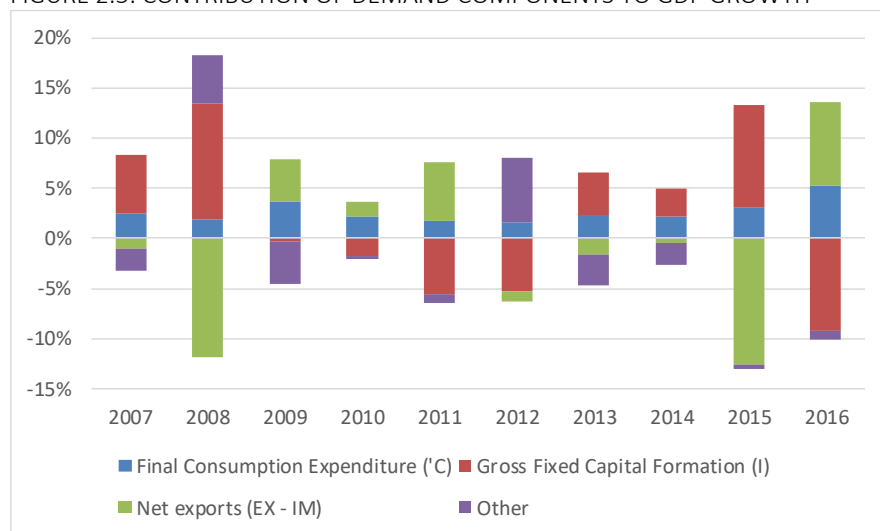
Source: Calculations on VNSO

The contribution to GDP growth by the different demand components (Figure 2.5) reflects the dynamics illustrated above. Consumption contributed positively to GDP growth for 10 out of 10 years, investment for 5 years and net exports gave a positive contribution for only 4 years. The high import-content of major infrastructure projects partly explains why a negative contribution of net exports is observed during the years of investment boom, especially 2008 (major US-funded roadworks) and 2015 (post-PAM reconstruction).

Economic growth in the short term is affected by activities that can impact on the level of aggregate demand. These include, but are not limited to, lower interest rates; increased real wages; increased government spending; reduction in taxes; currency devaluation; and increased consumer confidence.

The government proposal to introduce an income tax for firms and for individuals is creating uncertainties that may undermine consumer and investor confidence. From this point of view, a final determination on tax reform could help economic growth by reducing uncertainty. Of course, if an income tax was introduced without a corresponding increase in public expenditure or reduction in other taxes or fees, this would negatively affect growth.

FIGURE 2.5: CONTRIBUTION OF DEMAND COMPONENTS TO GDP GROWTH



Source: Calculations on VNSO

As to interest rates, space is limited. According to the IMF, excess liquidity already exists in the system, which, coupled with inflation pressures building up, requires a prudent approach.¹⁵

With the Vatu pegged to an undisclosed basket of currencies, and with the real exchange rate broadly in line with fundamentals and desirable policies,¹⁶ the space to act on this front to stimulate growth is also limited.

Public investment seems to be a reliable source of economic growth for Vanuatu in the short-term. Spending on infrastructure, including in the context of the reconstruction following cyclone PAM, has been significant and its effects should continue into 2019. Increasing inflows of Foreign Direct Investments (FDIs) and remittances, stimulated by domestic policies of foreign countries such as China, Australia and New Zealand can also benefit short-term growth.

2.2.2 Medium-term determinants

In the medium-term, economic growth can increase if additional workers are employed by existing firms to make full use of the existing capital. To achieve this, the establishment of the right regulatory environment for the labour market is essential. An excessively rigid regulatory regime will reduce the possibilities to generate formal employment in the private sector, whereas overly compressed workers' rights and protections may reduce their incentive to perform productively.¹⁷

The year 2018 saw a 17.6% increase in minimum wage (VUV 200/hour). This has the potential to produce adverse effects^{xxiv} on employment. Some options for improvement of the regulatory framework for the labour market are included in Chapter 7.

2.2.3 Long-term determinants

In the long-term, economic growth is determined by an increase in productive capacity (aggregate supply). This can be triggered by increase in population; increase in physical capital (construction or

^{xxiv} The nominal annual salary of a full-time employee (8 hours/day for 200 working days) paid the minimum wage would be VUV 320,000, which is equal to the 2016 nominal per-capita GDP. Unqualified workers, who may command salaries below the average GDP, might find it difficult to secure employment at the current wage rate.

durable equipment); increase in human capital (education or training); and technological progress resulting in higher productivity of both capital and labour (total factor productivity).

2.2.3.1 Population

The growth of Vanuatu’s population continues to be sustained. Vanuatu’s population increased at an average rate of 2.2% during the past decade. With a healthy rate of 3.31 births per woman in 2015¹⁸ population will no doubt continue to be a key determinant of economic growth during the period covered by the Trade Policy Framework Update (TPFU) 2019. Given the shape of the population pyramid, there will be marked increase in the number of people of working age, defined here as 15-54. Notably, with about 30,000 people expected to enter this age group and only 10,000 expected to leave, the number of people of working age will increase by about 20,000 units. This will in theory boost growth, although the exact entity of the increase will be determined by the elasticity of output with respect to labour – and this is likely to be less than 1.

2.2.3.2 Human capital

In 2010 Vanuatu introduced a universal primary education policy through the budget process to phase out parental contributions by increasing government grants to schools. School grants were first introduced in Years 1 to 6 and were gradually extended up to Year 10 and early childhood care. The purpose of the financial support, worth about VUV 1bn in 2018, was to reduce the financial contribution that parents are required to make to their children’s education, thus facilitating their attendance and attainment. The policy appears to have favoured human capital accumulation. For example, critical underachievement in Year 4 of the Vanuatu Standardized Test of Achievements (VANSTA) decreased from 63% in 2009¹⁹ to 14% in 2017.²⁰ The policy could also have facilitated the observed improvements in secondary education, with the survival rate to Year 13 increasing from 9.7% in 2010 to 23% in 2018. Other factors may have contributed to the observed trends, including the increasing percentage of certified teachers in both primary schools (from 69% in 2010 to 73.6% in 2018), and secondary schools (40% to 93.8%).

Accumulation of human capital will require to continue investing in quality education. Whilst this does not necessarily mean spending more money, levels of expenditure do also matter. From this point of view, some concerns relate to the observed decrease of expenditure in primary and secondary education as a percentage of current GDP, from 4.1% in 2010 to 3.5% in 2017. On a per-student basis, there was a 7% nominal reduction for primary education and a 33% nominal increase for secondary education. On the contrary, with regards to Post-School Education and Training (PSET), expenditure on scholarships more than doubled between 2011 and 2017, both in total (VUV 334m to VUV 752m), and on a per-student basis (VUV 563,000 to VUV 1,224,000).

TABLE 2.1: PRIMARY AND SECONDARY EDUCATION, GOVERNMENT EXPENDITURE

YEAR	VUV MILLION	PERCENTAGE OF GDP	VUV PER-STUDENT	
			PRIMARY	SECONDARY
2008	2,639	4.3	..	..
2009	2,632	4.0	..	..
2010	2,801	4.1	42,478	56,101
2011	2,862	4.0	..	..
2012	2,890	4.0	39,920	62,345
2013	2,894	3.8	38,770	62,698
2014	3,094	3.9	40,045	63,298
2015	3,120	3.8	39,996	62,363
2016	3,163	3.6	48,105	70,661
2017	3,335	3.5	39,439	74,416

Source: Calculations on VNSO and Ministry of Education and Training (MoET)

2.2.3.3 Physical capital

The World Bank Group (WBG) provides data on gross fixed capital formation as a percentage of GDP,

which can be used as a proxy for physical capital.^{xxv} Vanuatu’s fixed capital formation between 2006 and 2017 averaged 30% (Figure 2.7).

FIGURE 2.7: FIXED CAPITAL FORMATION, PERCENTAGE OF GDP^{xxvi}



Source: calculations on WBG and VNSO

This figure is broadly on par with that of lower-middle income countries (GNI per capita between USD 1,026 and USD 4,035), and above those of Pacific upper-middle income countries such as Fiji. However, Vanuatu’s capital accumulation is still lagging behind that of more dynamic East-Asia Pacific developing countries, where investment averaged 41% during the past decade.^{xxvii}

2.2.3.4 Technology

The percentage of population using the internet is adopted as a proxy of technological progress (Figure 2.8). This has increased significantly during the past decade, from 6% in 2006 to 24% in 2016. Importantly, the rate of growth has accelerated after 2013 – the year the submarine internet cable was completed. Despite progress, however, Vanuatu’s access to internet is still below the level enjoyed by lower middle-income economies (30% in 2016), and of Pacific upper-middle income countries such as Fiji.

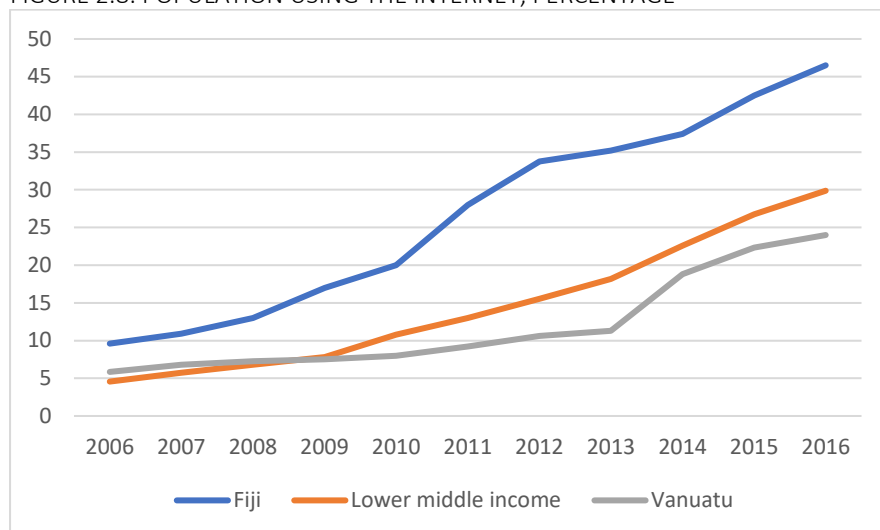
Promoting the development of a “technologically savvy” workforce and of an enabling business environment may facilitate technological innovation in a country. The correlation between technological innovation and the quality of the regulatory environment is shown in Figure 2.9. Chapters 7 and 8 propose options to facilitate innovation by addressing bottlenecks in the business environment and skills.

^{xxv} Whilst World Bank and national data slightly differ with regard to the size of fixed capital formation, the two series follow very similar paths. World Bank data is based on the 2014 version of the National Accounts, which were subsequently revised by the VNSO – this may explain the slight discrepancies.

^{xxvi} 2009 and 2010 value for Fiji are estimates.

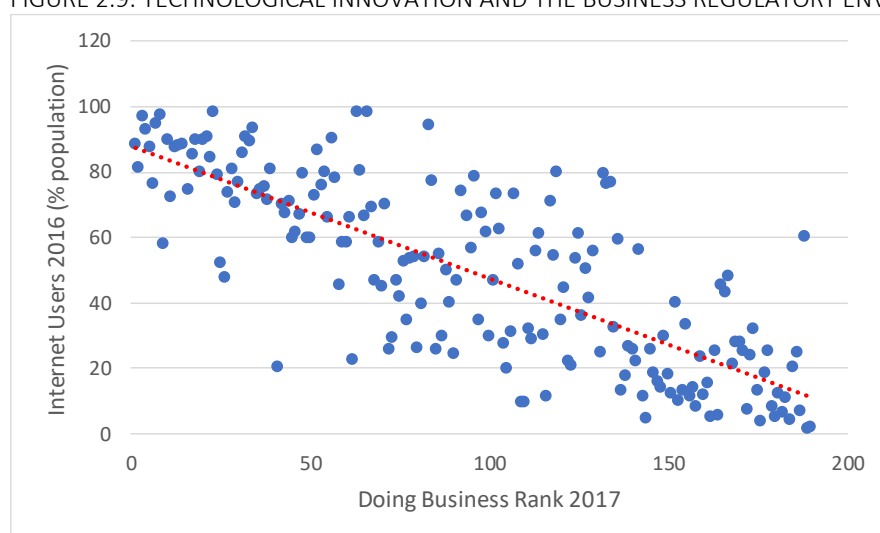
^{xxvii} During the period 2006-2014 external debt stock (% of GNI) of East Asia Pacific developing countries was consistently lower than in Vanuatu, suggesting that domestic savings in those countries played a greater role in funding capital accumulation. See: <https://data.worldbank.org/indicator/DT.DOD.DECT.GN.ZS?end=2018&locations=VU-4E&start=2006>

FIGURE 2.8: POPULATION USING THE INTERNET, PERCENTAGE



Source: WBG

FIGURE 2.9: TECHNOLOGICAL INNOVATION AND THE BUSINESS REGULATORY ENVIRONMENT



Source: WBG

2.2.4 Recommendations

- a. Make a final determination on the proposed tax reform (income tax)
- b. Development of a national labour policy - see Chapter 7
- c. Target an expenditure in primary and secondary education of 4% of GDP
- d. Increase fixed capital formation as a percentage of GDP compared to the 2006-2017 average (30%)
- e. Improve the business enabling environment to facilitate technological innovation - see Chapter 7
- f. Promote skills development to make a productive use of technological innovation - see Chapters 8 and 13

2.3 Measures to Ensure Sustainability of Vanuatu's Economic Growth

Measures to ensure macroeconomic sustainability of Vanuatu's economic growth relate to fiscal and debt sustainability, inflation and sustainability of the international financial position. Key statistics on these issues are included in Table 2.2.

TABLE 2.2: SUSTAINABILITY PARAMETERS

Year	Net lending/ borrowing (% GDP)	Government public debt (%GDP)	Inflation (%)	Current account balance (%GDP)	Capital and financial account balance (%GDP)	Gross international reserves (months of import)
2006	1.1	22.2	1.9	-6.1	..	4.6
2007	0.3	19.1	4.1	-7.3	..	4.6
2008	1.4	20.6	5.8	-11.4	..	2.8
2009	-0.8	20.5	2.4	-7.9	7.1	5.2
2010	-2.5	19.4	3.3	-5.9	9.1	4.5
2011	-2.2	20.7	1.2	-7.8	13.1	4.5
2012	-1.6	21.2	0.8	-6.5	5.4	4.6
2013	-0.2	19.7	1.5	-3.3	7.2	5.4
2014	0.1	23.1	1.1	6.2	25.1	5.2
2015	7.0	34.4	1.5	-1.6	41.0	6.4
2016	7.0	40.7	2.1	0.8	35.7	7.5
2017	-1.2	44.6	3.3	-6.4	15.9	10.1
2018	6.4	43.5	2.6	3.4	7.9	12.0

Source: IMF for inflation, balance of payment statistics, and public debt up to 2011. MFEM for net lending/borrowing, and public debt from 2012

Up to 2013 public debt was fluctuating at around 22% of GDP. The current account deficit, averaging 7% of GDP, was financed by the surplus in the capital and financial accounts, and international reserves were sufficient to cover about 4 months of imports – i.e. the stated government target.

The year 2014 saw a shift in policy, with the government embarking on major investment projects funded by increasing revenues, grants, and by some foreign loans. Investment projects have targeted enhanced long-term growth via infrastructure development and acquisition of strategic assets for Air Vanuatu. Post-cyclone PAM recovery and reconstruction added to the investment needs.

The fiscal expansion pursued since 2014 has increased public debt, from 19.7% in 2013 to 43.5% in 2018. According to the IMF, this has produced a moderate risk of debt distress, in consideration of Vanuatu's vulnerability to natural shocks and the increased debt service burden.

The inflow of infrastructure-related loans and PAM-related grants has had a positive impact on the capital and financial accounts, which has increased international reserves from 5.4 months of import in 2013 to 12 months in 2017.

Other facts of significance observed during this period include:

- The increase in inflation generated by the post-2013 fiscal expansion and by the Reserve Bank of Vanuatu (RBV)'s accommodating response to cyclone PAM (reduction in the rediscount rate and in the commercial banks' reserve requirement ratio). This was exacerbated by the increase in VAT from 12.5% to 15% in 2017.
- The increased share of non-tax revenues – from 2% of GDP in 2014 to 12% of GDP in 2018 – linked to the Honorary Citizenship program.^{xxviii} The government is mindful of the fact that revenues from this source may not be sustainable. This awareness has triggered a responsible use of non-tax revenues with the view of underpinning sustainability (including through prepayment of public debt), and promoting long term growth (including through investment in infrastructure development and purchase of strategic assets).

In summary, whilst there are no imminent threats to Vanuatu's economic performance, some recent

^{xxviii} According to the 2019 Half-Year Economic and Fiscal Update of the Ministry of Finance and Economic Management, "in 2018, revenue from the honorary citizenship programs overtook that of VAT for the first Time".

trends have the potential to undermine future growth and should therefore be controlled.

2.3.1 Recommendations

- a. Control net borrowing as a percentage of GDP by
 - i. increasing sustainable government revenues; and
 - ii. reducing recurrent government expenditure, and prioritising future infrastructure projects;
- b. target a positive recurrent balance (recurrent current revenues minus recurrent expenditures) over the medium term
- c. managing the level of State debt so that the nominal value of total State debt as a share of GDP remains well below the 60% threshold
- d. update the debt management strategy on an annual basis

2.4 Vanuatu's Graduation from LDC Status

Vanuatu's graduation from the Least Developed Country (LDC) group will happen on 4 December 2020, concluding a journey which started in 1994, when the country first met two of the three graduation criteria. International Support Measures (ISMs) tailored to the LDC group are usually divided in trade-related measures; Official Development Assistance (ODA); and general support.

2.4.1 Trade-related measures

Trade-related measures include schemes granting preferential market access to LDCs; Special and Differential Treatment (SDT) provisions regarding the World Trade Organization (WTO); and trade-related capacity building for LDCs.

2.4.1.1 Market access

Analysis from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) conducted on 2017 data from the Department of Customs and Inland Revenue (DCIR) reveals that for the six main commodities exported by Vanuatu and covering about 80% of merchandise exports (copra, kava, coconut oil, timber, beef, and cocoa), the impact of graduation will be limited.²¹ Notably, for all but beef graduation will not lead to significant increases in the duty rates applied by major importers.

As to beef, only exports to Japan will be affected (36% of the total), but in this case the duty increase will be significant – from 0% to 38.5%. Vanuatu can try to seek a 'zero duty transition period' from Japan, but this may be difficult, noting that recently graduated countries (Samoa and Maldives) failed to secure such an arrangement. Establishing a simple trade arrangement aimed at providing a formal but flexible forum for the discussion of important trade issues can be explored. Trade and Investment Framework Agreements (TIFAs) provide this option, and this is something that Vanuatu may consider, either individually or as part of a regional endeavour with the Pacific Islands Forum. Vanuatu's National Livestock Policy²² does not consider market access issues, which due to the relevance for the sector will further be addressed in Chapter 11.

Other duty increases noted by UNESCAP as a result of graduation include those for coconut oil export to Taiwan (15% of total export, from 0% to 4%), and those for tuna exported to Japan and Thailand (100% of total exports, based on mirror data, from 0% to 3.5%). These changes should not create significant problems to Vanuatu.^{xxix}

Recent data shows the emerging importance of China as a destination for Vanuatu merchandise, including for kava and noni – see Chapter 3. On the former, rates will increase from 0% to 3-9%, whereas

^{xxix} According to WTO data published in the online Preferential Trade Arrangement database, the MFN rate applied by Taiwan on coconut oil is actually 0%. Moreover, it is possible that Taiwan only represents a transshipment destination for Vanuatu's coconut oil. As to tuna, the duty increase is relatively low, and in any case, it is very likely mirror data for fish export from Vanuatu are actually capturing exports of foreign vessels flying the Vanuatu's flag.

on the latter they will increase to 0% to 3-35%.²³ The substantial and growing trade relations between China and Vanuatu could justify the establishment of a free trade agreement, including to cope with the consequences of graduation on market access.

The possibility to provide preferential market access to services and services suppliers from LDC was approved by WTO Trade Ministers in 2011, and subsequently operationalised in 2013 and 2015.²⁴ So far, 24 WTO members have submitted notifications of preferences accorded to LDCs,²⁵ however these are relatively limited (e.g. visa fee waiver, visa facilitation, contact point for LDC, etc.) meaning that losses from graduation will not be significant.

2.4.1.2 SDT provisions regarding the WTO

The latest report on SDT by the WTO Secretariat noted 157 provisions favouring developing countries, of which 16 reserved to LDCs.²⁶ SDT provisions for LDCs include flexibilities regarding certain rules, flexibilities in trade negotiations, and longer transition periods. The most significant provisions favouring LDCs are:

- exemption from prohibiting export subsidies - article 27.2 and Annex VII of the Agreement on Subsidies and Countervailing Measures;
- exemption until 1 July 2021 (likely to be renewed) from implementing the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), except for core non-discrimination principles included in articles 3, 4, and 5 – TRIPS article 66.1 and related decisions;
- exemption until 1 January 2033 from providing patent protection envisaged under the TRIPS for pharmaceutical products – TRIPS Council Decision IP/C/73; and
- exemption from the obligation of undertaking commitments during trade negotiations, for example, under the Agreement of Agriculture (article 15.2), and during the Doha round of Agriculture and Non-Agriculture Market Access (NAMA) negotiations - General Council Decision WT/L/579; and, for NAMA also see WTO document TN/MA/W/103/Rev.3.

Immediately after graduation Vanuatu will lose the possibility of introducing export subsidies (which are not provided at the moment), have to fully apply TRIPS provisions, and be expected to undertake more substantial commitments during trade negotiations. In the short-term, confirming critical post-graduation obligations, and requesting transition periods to phase them in or specific waivers is a possibility. In the medium-term, strengthening capacity of the Vanuatu Intellectual Property Office (VanIPO), and of the Department of External Trade (DoET) will be important to face the increased responsibilities arising from graduation.

2.4.1.3 Trade-related capacity building

In terms of trade-related capacity building, the Enhanced Integrated Framework (EIF) assists LDCs to enhance capacity of trade ministries and related stakeholders. Moreover, LDCs enjoy priority in the delivery of WTO technical assistance.²⁷ Other United Nations agencies and commissions (for example the Committee for Development Policy (CDP) Secretariat and UNESCAP) also provide trade-related capacity building for LDCs. Vanuatu will continue receiving assistance from the EIF for up to five years after graduation, and in any case the core positions of the EIF National Implementation Unit are already integrated and funded by the government. Other agencies will continue providing Vanuatu with the assistance normally reserved for developing countries. No specific action is recommended for this area.

2.4.2 Official development assistance

In 2011 donor countries represented in the Organization for Economic Cooperation and Development's Development Assistance Committee (OECD/DAC) confirmed an ODA target of 0.15–0.20% of their Gross National Income (GNI) for the decade 2011-2020 for LDCs. In fact, ODA peaked in 2010 (0.11%) and was only 0.09% in 2016.²⁸ Previous OECD/DAC determinations included recommendations to provide most ODA as grants (1978), and to have the majority of aid ODA as untied (2001). These

recommendations were substantially met.²⁹

The development cooperation landscape might therefore be expected to change after graduation, with more tied ODA and a higher percentage of loans. As to the level of ODA, this is not expected to be significantly affected in the run-up to graduation, nor afterward. The data even suggest the opposite - that graduating countries are experiencing an increase in aid, in several cases even after they have been identified for graduation.³⁰

2.4.2.1 Bilateral ODA

As highlighted by the draft UNESCAP analysis and by previous publications from the United Nations Department of Economic and Social Affairs (UNDESA),³¹ Vanuatu's graduation should not affect the overall ODA policies of the main bilateral donors (Australia, New Zealand, and China), who base their allocation on criteria that do not focus on the LDC status. The one notable exception is Japan, which has developed an LDC-specific concessional lending option that will no longer be available to Vanuatu. This should not create problems for Vanuatu noting the increasing availability of cheap concessional loans in the Pacific fuelled by the competition for regional influence between China and traditional donors.³²

2.4.2.2 Multilateral ODA

Vanuatu will lose access to some LDC facilities, notably the Enhanced Integrated Framework – which approved grants worth VUV 650 million during the period 2013-2018, and the LDC-Fund of the Global Environment Facility (GEF) – which approved grants worth VUV 2.1 billion during the period 2009-2018.³³ The GEF Trust Fund, which supported Vanuatu with grants worth VUV 1.4 billion – will continue to be available after graduation. The United Nations Development Programme (UNDP) the United Nations Children's Fund (UNICEF) are required to allocate 60% of their regular budget to LDCs, and their assistance may therefore decrease after graduation – according to the Lowy Institute's Pacific Aid Map, total funds committed to Vanuatu by UNDP and UNICEF during the period 2011-2018 was VUV 1.3 billion and VUV 540 million respectively.³⁴ Whilst not insignificant, losses due to graduation should be below 5% of annual ODA – VUV 15 billion according to the Lowy Institute's Pacific Aid Map.^{xxx} Vanuatu's losses can be compensated by re-focusing fundraising activities towards climate funds non-reserved to LDCs, leveraging increased blended finance,³⁵ and continuing to advocate prioritisation of Small Islands Developing States (SIDS) in donors' development cooperation strategies. A 5-year transition period should also be sought from the EIF.

As to multilateral lending agencies (notably the Asian Development Bank and the World Bank), graduation should not produce any significant impact on Vanuatu, noting that the LDC status is not a criterion adopted by these agencies.

2.4.3 General support

The United Nations, its funds, programs, and conventions provide support to LDCs to participate in their processes, conferences, and meetings.³⁶ Contribution to the regular budget of the United Nations and to that of its organisations is capped for LDCs. In the case of Vanuatu, contributions for peacekeeping operations and for memberships to some international organisations are expected increase after graduation.³⁷

A United Nations General Assembly (UNGA) resolution adopted in 2012 (67/221) comprises recommendations to smooth transition for graduating LDCs, including encouraging the application of transition periods for organisations committed to allocate a certain percentage of their funds to LDCs, for LDC-specific funds, for organisations providing LDC-specific travel benefits, and for countries providing LDC-trade preferences. In the short-term Vanuatu can engage with all relevant organisation to agree on smooth transition periods. In the medium term, prioritising budget allocation for international travel/engagement will be important to ensure value for money and government's

^{xxx} 3.65% assuming a pessimistic scenario of 100% loss of assistance from UNICEF and UNDP

effectiveness.

2.4.4 Recommendations

Graduation from LDC status should produce limited macro-economic implications in terms of reduced export earnings, increased government expenditures, and reduced government revenues. The recommendations proposed aim at mitigating possible adverse impacts:

- a. Initiate formal discussions with Japan to seek zero duty transition period for beef
- b. Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally)
- c. Secure regional consensus on the option to negotiate a Free Trade Agreement between China and Forum Islands Countries
- d. Confirm critical post-graduation obligations, and initiate formal discussions in relevant WTO bodies, including jointly with the LDC group, to seek transition periods for and specific waivers from those obligations
- e. Strengthen capacity of VanIPO – see Chapter 7
- f. Strengthen capacity of the Department of External Trade, including filling all vacant positions
- g. Seek a 5-year transition period from the EIF
- h. Develop and distribute briefs including consistent messages to support fundraising by all government agencies, and based on the critical challenges of Vanuatu – graduation, SIDS status, and environmental vulnerability
- i. Determine the increase in membership fees for international organisations after graduation, and set aside adequate budget to face the increase
- j. Formally engage with all international organisations providing general support measures to Vanuatu to seek transition periods after graduation, based on UNGA resolution 67/221.
- k. Prioritise budget allocation for international travel to/engagement with international organisations

2.5 Poverty Issues

Data on poverty in Vanuatu are scarce – there are just two data points, in 2006 and 2010. Anecdotal evidence suggests that poverty is not a major issue in Vanuatu. In a country where about 75% of the population lives in rural areas, and enjoys communal property rights over vast portions of fertile land, poverty is not the normal state of life. In urban areas, the strong bonds between the members of Vanuatu’s extended families create informal safety nets whereby no one is left behind.

The last poverty assessment is the Vanuatu Hardship and Poverty Report 2012³⁸ - the following paragraphs summarise some its key findings. Between 2006 and 2010 food poverty decreased by about 4 percentage points, from 7.4% to 3.2%, including in rural areas (6.6% to 2.6%) and in Port Vila (5.1% to 2.0%), whereas an increase was recorded in Luganville, Vanuatu’s second-largest city.

Whereas recent economic growth helped lifting a significant number of people out of food poverty, its speed wasn’t fast enough to substantially decrease the incidence of basic needs poverty (food plus essentials), which only recorded a marginal improvement – from 13% in 2006 to 12.7% in 2007. As to the quality of economic growth, this was conducive to a decrease in inequality, with the Gini Coefficient for households recording a decrease from 0.41 in 2006 to 0.31 in 2010.

Poor people are mostly located in rural areas, have low levels of education, and are overrepresented in the vulnerable groups such as women, aged people, and children. Around 15% of people employed in the formal sector live below the basic needs poverty line.

The declining path of per-capita GDP since 2010 may have increased the incidence of food and basic needs poverty during the past 8-9 years; however, data are not available to verify this hypothesis. The production of new poverty estimates for Vanuatu is clearly required.

Some of the recommendations already made in this chapter are aligned recommendations that,

according to Vanuatu Hardship and Poverty Report 2012, can be effective in addressing poverty.

2.5.1 Recommendations

- a. Target an expenditure in primary and secondary education of 4% of GDP
- b. Promote skills development to increase productivity and salaries (see Chapter 8)
- c. Support positive gender discrimination (see Chapter 9)
- d. Produce new estimates for poverty in Vanuatu

CHAPTER 3: TRADE COMPOSITION AND TRENDS^{xxx}

3.1 Balance of Trade in Goods and Services

Table 3.1 shows aggregate figures for trade in goods and services. The Balance on Trade in Goods has historically been the major cause of the Current Account deficit. However, it is important to note that the merchandise trade deficit actually decreased from 2008 (VUV 22.6 billion) to 2014 (VUV 20 billion) as a result of increasing exports and decreasing imports. This trend was reversed after cyclone PAM, when the high import-content of reconstruction and infrastructure projects, and the damages inflicted to the agriculture sector (see Table 3.1), brought the deficit to VUV 28.2 billion in 2017.

The Balance on Trade in Services has traditionally been important to offset the merchandise trade deficit. The services trade surplus improved from VUV 12.3 billion in 2008 to VUV 19.3 billion in 2017.

TABLE 3.1: BALANCE OF PAYMENTS, GOODS AND SERVICES BALANCE, VUV MILLION

Year	Merchandise Exports	Merchandise Imports	Balance on Trade in Goods	Services Exports	Services Imports	Balance of Trade in Services	Balance of Trade in Goods and Services
2008	4,230	26,871	-22,641	23,594	11,252	12,342	-10,299
2009	5,887	26,369	-20,482	26,094	11,472	14,622	-5,860
2010	4,695	23,530	-18,835	26,732	12,040	14,693	-4,142
2011	6,011	23,290	-17,279	25,302	12,978	12,323	-4,956
2012	5,071	23,453	-18,382	27,942	13,514	14,428	-3,954
2013	3,653	25,309	-21,656	33,399	14,095	19,304	-2,352
2014	6,160	26,181	-20,021	32,396	14,076	18,319	-1,702
2015	4,249	33,704	-29,455	30,926	19,544	11,382	-18,073
2016	5,444	34,765	-29,321	35,945	16,370	19,576	-9,745
2017	5,909	34,085	-28,176	36,144	16,838	19,305	-8,871

Source: Reserve Bank of Vanuatu (RBV)

An effective trade policy should try to re-establish the positive path towards the reduction in the merchandise deficit observed before cyclone PAM, and explore ways for the services sectors to increase their surplus. Reducing the merchandise trade deficit will require enhancing the output of the export-oriented sectors as well as boosting local production for selected goods that can competitively replace exports.

3.1.1 Recommendations

- a. Reduce merchandise trade deficit to pre-2015 levels (25% of GDP) by
 - i. increasing exports and,
 - ii. boosting local production in areas where imports can be competitively replaced
- b. Increase services trade surplus compared to pre-2015 levels (23% of GDP)

3.2 Trade in Goods - Export

3.2.1 Products

Tables 3.2 and 3.3 provide information on merchandise exports. Vanuatu's exports are concentrated in a limited range of products, which is to be expected noting the country's small size – hence, the limited capacity to diversify. During the past ten years the export share of the ten main products increased from 82% to 85%.

In 2008 copra was by far the major revenue earner, with a market share of 26%, followed by coconut

^{xxx} This chapter uses bespoke datasets provided by the Vanuatu Reserve Bank for the balance of payment, the Vanuatu National Statistics Office for international tourism, and by the Department of Customs and Inland Revenue for merchandise trade. The references provided at the end of the chapter can be used to source publicly available (but less detailed) data on these aspects.

oil (18%), kava (13%), beef (12%), and cocoa beans (5%). Together, these five commodities had an export share of 73%. Other export items of significance (over VUV 50 million) included Tahitian lime, timber, and ornamental fish.

At the end of the period, export concentration was slightly higher, with the first five commodities commanding a share of 78%.^{xxxii} A number of significant changes were observed, including:

- The halving in the export value of coconut products, down from VUV 2bn to VUV 1bn, as a result of low international prices, and the increased opportunities offered by kava trading.
- The four-time increase in the value of kava exports, due to a booming demand in the United States and Kiribati, which drove kava's share of merchandise exports above the 50% mark. The strong growth of Chinese demand for kava is also an interesting feature of this period, due to the potential for future expansion. As highlighted in Chapter 9, some sustainability concerns were expressed during consultations with regard to the impact of increased kava production on deforestation.^{xxxiii}
- The collapse of beef exports, which were impacted by a declining domestic production (see GDP figures for Livestock in Chapter 2), probably coupled with the need to satisfy an increased domestic demand coming from residents as well as tourists. The Australian Dollar's depreciation against the Japanese Yen started in 2013 may have also contributed to the observed decline, noting that Australian and Vanuatu compete in the Japanese beef market.
- The strengthening of value addition activities, leading to the emergence of new export products of significance including noni juice, essential oils (tamanu, nangai) and copra meal. In 2018, noni juice was mostly destined to China (89%); essential oils were mainly exported to the United States (51%), China (25%), and Australia (21%); and almost all Vanuatu's copra meal was sold to Australia (98%).

TABLE 3.2: MERCHANDISE EXPORTS, MAIN PRODUCTS

Product	2008		Product	2018	
	Value (VUV)	Share		Value (VUV)	Share
Copra	1,194,016,373	26%	Kava	2,531,391,618	52%
Coconut Oil	827,763,098	18%	Copra	549,919,572	11%
Kava	615,669,547	13%	Coconut Oil	403,768,954	8%
Beef	474,997,845	12%	Cocoa	189,802,924	4%
Cocoa	242,889,212	5%	Sandalwood	126,286,398	3%
Tahitian Limes	212,615,454	5%	Noni Juice	83,149,019	2%
Timber	96,492,403	2%	Essential Oils	82,875,631	2%
Ornamental Fish	74,507,721	2%	Beef	81,926,188	2%
Hides & Skins	44,158,247	1%	Timber	50,842,350	1%
Essential Oils	43,088,585	1%	Copra Meal	39,636,570	1%
Total	4,665,003,579	100%	Total	4,871,165,728	100%
Share of total Exports	82%		Share of total Exports	85%	

Source: Calculations on Department of Customs and Inland Revenue (DCIR)

^{xxxii} The value of the Herfindahl index, a measure of concentration which has been calculated on the first 10 commodities plus a residual group, increased from 0.16 in 2008 to 0.32 in 2018

^{xxxiii} Up until 2017, sustainability was also an issue with the export of blue water trees (rosewood). In 2017 blue water trees had become one of the top export commodities, but a temporary ban on logging issued in March 2018 put a halt on exports. In 2017, virtually all blue water tree slabs (99.7%) were exported to China

TABLE 3.3: MERCHANDISE EXPORTS, HIGH GROWTH SECTORS

Product	Average Growth 2008-2018	Value in 2018 (VUV)
Copra Meal	72%	39,636,570
Noni Juice	71%	83,149,019
Essential Oils	61%	82,875,631

Source: calculations on DCIR

3.2.2 Destinations

Table 3.4 illustrates exports by major destinations. In 2008 the top 10 destinations absorbed 84% of Vanuatu exports. These can be grouped as follows: Pacific Island Countries (Fiji, New Caledonia, PNG), with a share of 19%; Australia and New Zealand, with a share of 16%; Asia (Malaysia, Philippines, and Japan), with a share of 34%; and European Union (Netherlands and Germany), with a share of 15%.

In 2008 Developing Asia had already emerged as a *global factory* and was absorbing increasing shares of Vanuatu's major commodities for further processing (copra, coconut oil, and cocoa beans). By doing so, Developing Asia was emerging as a competitor of the EU, which at the beginning of the period was nonetheless importing noticeable quantities of coconut oil and cocoa beans. In Developed Asia (Japan), Vanuatu was successfully exporting beef. Australia and New Zealand, Vanuatu's developed neighbours, were importing a higher variety of consumer goods, facilitated by a relatively low distance, and by development cooperation programs promoting access to their markets. Merchandise exported to Australia and New Zealand in 2008 with a value above VUV 10 million included Tahitian limes, coconut oil (including virgin), beef, cattle hides, ornamental fish, and sandalwood oil. Pacific Islands were also importing consumer goods from Vanuatu (mainly kava, beef, and some fish), as well sawn timber.

TABLE 3.4: MERCHANDISE EXPORTS, MAIN DESTINATIONS

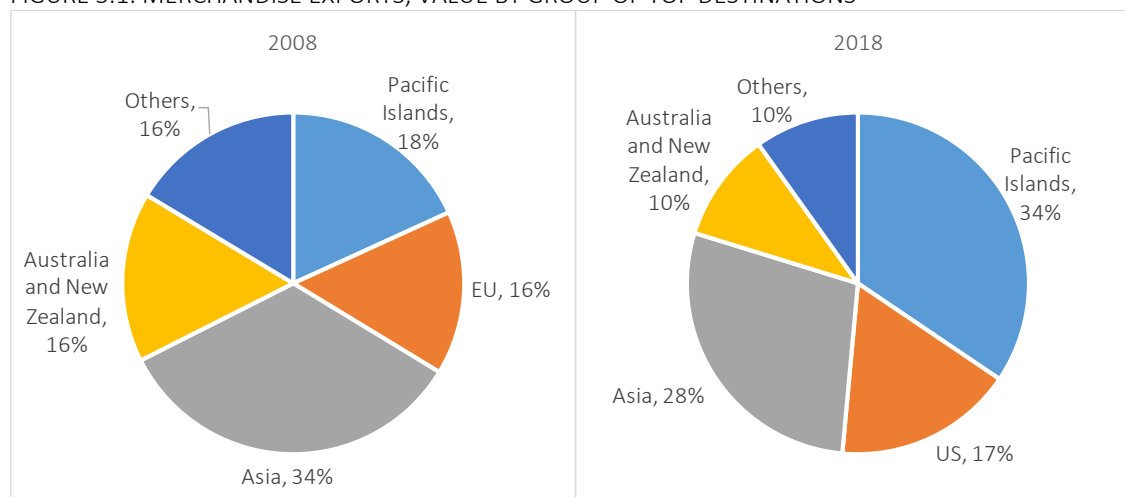
Country	2008		Country	2018	
	Value (VUV)	Share		Value (VUV)	Share
Philippines	990,698,732	21%	USA	827,661,267	17%
Netherlands	571,795,294	12%	Fiji	645,074,177	13%
New Zealand	556,722,280	12%	Kiribati	589,275,504	12%
New Caledonia	399,200,243	9%	Malaysia	525,027,563	11%
Malaysia	322,520,860	7%	New Caledonia	444,521,530	9%
Fiji	306,497,114	7%	Australia	388,637,429	8%
Japan	265,943,974	6%	Philippines	365,151,291	7%
Australia	193,886,224	4%	China	292,819,756	6%
Germany	151,854,538	3%	Bangladesh	196,037,091	4%
PNG	142,606,750	3%	New Zealand	116,447,387	2%
Total	4,665,003,579	100%		4,871,165,728	100%
Share of total Exports	84%			90%	

Source: calculation on DCIR

During the past 10 years the concentration of Vanuatu's exports remained broadly unchanged,^{xxxiv} but some significant changes were nonetheless observed. In particular, by 2018 Pacific Islands had become the most important destination for Vanuatu's merchandise, the EU and Japan had lost significance, and the United States (US) and China had become major importers. The top 10 destinations in 2018 can be grouped as follows: Pacific Island Countries (Kiribati, New Caledonia, Fiji), with a share of 34%; Australia and New Zealand, with a share of 10%; Asia (Philippines, Malaysia, China, and Bangladesh), with a share of 28%; and United States, with a share of 17%.

^{xxxiv} The value of the Herfindahl index, calculated on the first 10 destinations plus a residual group increased from 0.12 in 2008 to 0.11 in 2018

FIGURE 3.1: MERCHANDISE EXPORTS, VALUE BY GROUP OF TOP DESTINATIONS



Source: calculations on DCIR

In the US, exports were driven by the emergence of a profitable market for kava, sold as a relaxing alternative to alcohol. Kava exports increased from VUV 85 million in 2008 to VUV 781 million in 2018 – almost a third of Vanuatu’s export value for kava, and 95% of exports to the US. The US also became the top importer of essential oils (nangai) – VUV 43 million in 2018, or 52% of Vanuatu’s export value for this good. A kava boom was also observed in Kiribati, which in 2018 absorbed roughly almost VUV 600 million worth of kava. The market share of China increased from 0.3% in 2008 to 6% in 2018. About 44% of China’s imports were represented by kava. The country also absorbed the near totality of Vanuatu’s export of noni juice. Other items of significance exported to China (above VUV 20 million) included sandalwood logs and chips, essential oils, and timber. With regard to the markets losing share, Japan’s decline was mainly due to the collapse in beef exports (VUV 257 million in 2008 to VUV 41 million in 2017). As to the EU, statistics reveal a re-orientation of copra, coconut oil and cocoa beans exports towards Developing Asia (Malaysia, Philippines, and Bangladesh), triggered by the withdrawal of the shipping company providing direct links to Europe (Bank Line),³⁹ and compounded by the increased processing capacity, lower transport costs, and less stringent Sanitary and Phytosanitary (SPS) standards of Developing Asia.

Summing up, evidence from the past decade confirms that Vanuatu’s comparative advantages are in primary goods and goods adding value to primary production. Increasing production and productivity of the primary sector remains crucial to boost export values.

Equally important, moving up the value chain for commodities such as coconut, cocoa, kava, and beef by targeting quality or further processing has the potential to improve export values. In the “low-volume high-value” category, essential oils have the potential for further export development.

Some of Vanuatu’s fast-growing export industries such as kava pose risks to the preservation of natural forests and biodiversity, and should therefore be closely scrutinised. A National Forest Inventory (NFI) is planned by 2020 to support efforts on ensuring sustainability.

Vanuatu has re-oriented its exports in response to the general shift of economic power towards Developing Asia and to the booming interest for kava in the US and Kiribati. In this new context, Europe has lost significance as an export destination, in what appears to be a structural change that is difficult to reverse.

Export re-orientation has implications for current and potential trade agreements. The Pacific Agreement for Closer Economic Relations Plus (PACER Plus), an agreement whose members absorb about 45% of Vanuatu’s merchandise exports, present a clear potential for trade creation through better market access and should be ratified. Further engagement with Asian countries (the Association of South East Asian Nations (ASEAN), China, and Japan) and possibly the US should also be considered.

3.2.3 Recommendations

- a. Increase export of agriculture and agro-processed goods by more than 3.8% a year
- b. Conduct a NFI by 2020 (see Chapter 9)
- c. Ratify PACER Plus (see Chapter 4)
- d. Pursue trade arrangements with key Asian destinations– ASEAN, China, Japan – and possibly the US (see Chapter 4)

3.3 Trade in Services – Export

3.3.1 Categories

Table 3.5 shows services export by category for the period 2008-2017. Back in 2008, Vanuatu was exporting VUV 23.6 billion of services - five times the value of merchandise exports. The three major services exported were travel (73%, mostly leisure tourism), transport (11%, almost exclusively transport by Air Vanuatu), and financial services (8%, linked to the off-shore industry). Together, these three services covered 92% of total exports.

TABLE 3.5: SERVICES EXPORTS, MAIN SERVICES, MILLION VATU

	2008	2010	2012	2014	2016	2017
Transport	2,700	3,053	3,002	4,365	4,983	4,244
Travel	17,286	20,980	22,347	24,979	26,345	27,108
Business	1,905	2,040	2,365	1,604	2,005	1,771
Personal	15,381	18,940	19,982	23,375	24,340	25,337
Health related	0	0	0	0	0	0
Education related	271	388	239	1,568	1,945	2,589
Other	15,110	18,552	19,743	21,807	22,395	24,177
Telecommunications, computer, and information services	424	593	150	507	1,071	1,031
Construction	0	16	16	20	16	41
Insurance and pension services	99	22	692	328	0	0
Financial services	1,800	975	652	431	351	337
Charges for the use of intellectual property	24	n.a.	n.a.	n.a.	n.a.	n.a.
Other business services	519	514	433	392	431	338
Personal, cultural, and recreational services	5	12	16	18	16	44
Government goods and services	737	541	617	1,334	2,717	2,884
Total Exports	23,594	26,732	27,942	32,396	35,945	36,144

Source: RBV

Despite the setback imposed by cyclone PAM, the past decade was a positive one for the tourism industry, with growth in air arrivals and arrivals by sea (cruise ships) averaging 1.7% and 7.7% respectively. As a result, export of travel services increased by about 5% a year. Amongst tourists, receipts from overseas tertiary students increased the most in percentage terms, and in 2017 this category was generating VUV 2.6 billion – roughly equivalent to the combined export value of copra and coconut oil. Export of transport services recorded a similar growth to travel services.

As illustrated in Chapter 12, the export of tourism services still has ample margin to grow. The tourism sector can enhance primary production and productivity and certain forms of value addition by leveraging tourists' demand for local products (see Chapters 11-12). From this point of view, tourism is an important ally for a more balanced development model in Vanuatu. Education-oriented tourism is becoming an important phenomenon that can be nurtured by a strategic approach to the country's post-secondary education and training sector (see Chapter 8).

FIGURE 3.2: TRENDS IN TOURISM ARRIVALS AND EXPORT OF TRANSPORT SERVICES, INDEX NUMBER (2008=1)



Source: calculations on VNSO and RBV

Export of transport services (mainly foreign visitors using Air Vanuatu) grew faster than tourism arrivals during the past decade, thus suggesting that there was an increase in the share of visitors travelling with Air Vanuatu (Figure 3.2). As indicated in Chapter 12, developing new routes is an essential strategy to achieve higher growth in tourism arrivals. If Air Vanuatu is able to competitively serve some of the new routes this would not only increase exports of travel services but also of transport services. From this point of view, the TPFU welcomes the Government’s decision to support Air Vanuatu’s fleet expansion, including through the purchase of two 108 seats A220-100 and two 133 seats A220-300.

The export of financial services declined significantly due to the tighter scrutiny over Vanuatu’s offshore industry. In 2017, Vanuatu was exporting financial services worth only VUV 337 million compared to VUV 1.8 billion in 2008. However, on the back of recent reforms, there is possibly some space for the offshore industry to reinvent itself and start growing again (see Chapter 13). On the other hand, this period saw a good performance of export of telecommunications, computer, and information services (now worth VUV 1 billion, mostly charges related to data transfer, international calls, and roaming) and government services (expenditure by diplomats in Vanuatu, probably linked to the opening/expansion of certain international organisations/embassies). Whilst complex Information and Communications Technology (ICT) services cannot be yet exported from Vanuatu, the ICT industry has a great potential to provide services to other sectors which can greatly benefit their international competitiveness (see Chapter 13).

3.3.2 Destinations

The high share of travel services over total services exports means that the origin of international visitors travelling to Vanuatu can be used to approximate export destinations. Countries of origin (arrivals by air) are reported in Table 3.6. In 2008, 85% of international arrivals were originating from Australia (59%), New Zealand (15%), and New Caledonia (11%). As of 2017, Vanuatu managed to slightly reduce its export concentration, with the combined share of the three main origins declining to 79% in favour of countries/groupings such as Pacific Island Countries (4% to 7%), Europe (5% to 6%), and China (0% to 3%).^{xxxv}

^{xxxv} The Herfindahl index decreased from 0.39 in 2008 to 0.32 in 2017. However, if one could include cruise passengers, who mostly come from Australia, results might differ. Unfortunately, accurate data on origin of cruise passengers is not available

TABLE 3.6: SERVICES EXPORTS, DESTINATIONS (APPROXIMATED BY TOURISTS' ORIGIN)

Country	Share 2008	Share 2017
Australia	59%	53%
New Zealand	15%	11%
New Caledonia	11%	15%
Other Pacific Countries	4%	7%
Europe	5%	6%
North America	3%	3%
Japan	1%	1%
China	0%	3%
Other Countries	2%	2%
Total	100%	100%

Source: calculations on VNSO

3.3.3 Recommendations

- a. Increase export of travel services by more than 5% a year
- b. Increase export of transport services by strengthening the national airline
- c. Improve Post-School Education and Training (PSET) to increase export of education services (see Chapter 8)
- d. Assess options to reinvent the offshore industry on sustainable grounds (Chapter 13)

3.4 Trade in Goods – Imports

3.4.1 Products

Vanuatu's top-20 import categories, or Harmonized System (HS) Chapters,^{xxxvi} are shown in Table 3.7 and 3.8, including reference to the most common goods comprised in each category.

TABLE 3.7: MERCHANDISE IMPORTS, MAIN PRODUCTS IN 2008

HS Chapter	Mostly comprises	Value (VUV)	Share
27	Fossil Fuels	7,940,937,346	23%
85	Electrical appliances	3,823,347,327	11%
87	Vehicles	3,380,509,336	10%
84	Mechanical appliances	2,680,208,506	8%
30	Pharmaceutical products	1,532,049,618	4%
10	Rice	1,178,651,429	3%
73	Iron or steel articles	916,831,335	3%
39	Plastic articles	679,774,064	2%
94	Furniture	671,521,122	2%
22	Alcohol	664,367,351	2%
19	Food preparations from cereals, flour, starch or milk	610,989,430	2%
98	Other	609,814,967	2%
72	Iron or steel	601,916,813	2%
25	Cement	583,639,166	2%
44	Timber & Plywood	433,405,654	1%
16	Preserved Pork and Canned Fish	432,142,359	1%
48	Paper and paperboard articles	423,669,223	1%
90	Precision goods (optical, photographic, medical, etc.)	368,459,043	1%
11	Flour	366,268,142	1%
02	Chicken	348,327,553	1%
Top 20 HS Chapters		28,246,829,784	82%
TOTAL		34,575,264,359	100%

Source: DCIR

^{xxxvi} The Harmonized Commodity Description and Coding System, also known as the Harmonized System (HS) of tariff nomenclature is an internationally standardised system of names and numbers to classify traded products.

In 2008, about 80% of imports was concentrated in the top-20 categories. This share, together with the degree of import concentration, slightly decreased in 2016^{xxxvii}. Overall, the comparison between 2008 and 2016 reveals a substantial stability of Vanuatu's import patterns, with 18 of the top-20 categories for 2008 also included in the top-20 list of 2016.

Some structural features of the Vanuatu's economy are useful to explain import patterns. The country's lack of natural resources and limited deployment of renewable energy explains why fossil fuels command the biggest import share. Vanuatu's limited manufacturing base (heavy and light industries) explains the high reliance on imported goods such as mechanical and electrical appliances, precision instruments, iron and steel articles, plastic articles, furniture, pharmaceutical products, vehicles, iron and steel and cement. Finally, the limited productivity of the Agriculture, Fishery, and Forestry sector, existing and emerging food consumption habits, and the development of the tourism industry help explaining the significant shares of goods such as timber, rice, bread, flour, food preparations from cereals and flour (e.g. snacks), preserved pork, canned fish, chicken, alcohol and tobacco.

TABLE 3.8: MERCHANDISE IMPORTS, MAIN PRODUCTS IN 2016

HS Chapter	Mostly comprises	Value (VUV)	Share
27	Fossil Fuels	5,294,900,483	13%
87	Vehicles	3,645,669,242	9%
84	Mechanical appliances	3,631,378,622	9%
85	Electrical appliances	3,270,660,192	8%
73	Iron or steel articles	2,297,292,849	6%
10	Rice	1,518,737,190	4%
90	Precision goods (optical, photographic, medical, etc.)	1,432,379,017	3%
21	Plumpy nut, relief food for post-disaster	1,344,591,425	3%
25	Cement	1,053,431,004	3%
19	Food preparations from cereals, flour, starch or milk	1,026,934,502	2%
22	Alcohol	968,723,882	2%
39	Plastic articles	881,305,769	2%
30	Pharmaceutical products	878,350,712	2%
89	Ships and boats	872,812,526	2%
94	Furniture	831,253,180	2%
44	Timber & Plywood	725,675,853	2%
02	Chicken	722,810,600	2%
16	Preserved Pork and Canned Fish	669,630,580	2%
24	Cigarettes	618,080,051	1%
72	Iron or steel	612,441,237	1%
Top 20 Chapters		32,297,058,916	78%
TOTAL		41,407,836,643	100%

Source: DCIR

In line with the recommendations of Chapter 2, Vanuatu should target a more balanced development model by, inter-alia, promoting local consumption of goods that can be produced competitively.

Tables 3.7 and 3.8 suggest certain sectors that could be leveraged to promote a more balanced growth:

- Rice import is substantial, at VUV 1.5 billion in 2016. Vanuatu may wish to support production and consumption of alternative sources of carbohydrates that grown locally - cassava, sweet potatoes, and other root crops.
- The consumption of un-healthy food preparations (e.g. imported snacks, biscuits) could be discouraged in favour of healthier local alternatives (fruits and vegetables). Schools and institutional canteens (hospitals, tertiary institutions, correctional services, etc.) could be the focus of enhanced efforts in this area.
- Vanuatu should continue scoping opportunities to replace its dependence on fossil fuels when

^{xxxvii} The Herfindahl index, calculated on the first 20 HS Chapters plus a residual group, decreased from 0.12 to 0.10

this does not undermine trade competitiveness. Transitioning to on-grid renewable sources is not yet a cost-effective option for Vanuatu (see Chapter 9). But technological progress and global efforts to fight climate change, including donor-subsidised mitigation, creates opportunities to increase deployment of renewable energy (see chapter 9). In the case of off-grid development, renewable energy already represents a win-win solution that promotes greater access to electricity and reduces costs compared to fossil fuels (see Chapter 9).

- Discouraging consumption of cigarettes and tobacco, whose imported volumes increased between 2008 and 2016, would result in a healthier Ni-Vanuatu population whilst reducing the trade in goods deficit.
- During the past decade, starting from a small value, the forestry sector has grown significantly. If the sector can expand sustainably, there is a potential for increased production and consumption of local timber, as well as local production value added wooden furniture.
- Efforts are ongoing to promote local production of chickens, a major imported item, and to reactivate Efate's fish processing plant. If successful, these efforts have the potentials to substitute some imports.

3.4.2 Origins

Table 3.9 illustrates the major sources of Vanuatu's merchandise imports. Close to 90% of Vanuatu's merchandise imports originate from 10 countries. These can be consolidated in five groups: Australia and New Zealand, the closest developed group, commanded a share of 36% in 2008; Asia (Singapore, China, Thailand, Japan, and Hong Kong) had share of 38%; Pacific Island Countries (Fiji) presented a share of 9%; Europe (France) and the US commanded a share of 4% and 2% respectively. In 2016, the shares of the identified groups remained broadly unchanged compared to 2008. Within groups, the major change observed during the past decade was an increase in the Chinese import share (8% to 12%) and a reduction in the share of Singapore (19% to 12%).

The composition of imports from a specific country is explained by its economic size, distance from Vanuatu, and specialisation/economic development. With regard to the top-ten origins:

1. Imports from Australia cover a vast range of products, with the largest five categories (43% of total imports) including machineries/appliances, electrical equipment, ships, cereals (rice), and tobacco.
2. Singapore is the main (intermediate) source of fuels (92% of total imports).
3. Like Australia, New Zealand exports to Vanuatu cover a vast range of products. The largest five categories (41% of total imports) include wood (timber), machineries/appliances, instruments (optical, photographic, medical etc.), cement, and pharmaceutical products.
4. Imports from mainland China also cover many products, but present a higher concentration than Australia and New Zealand. The first five categories (57% of total imports) include machineries/appliances, electrical equipment, iron/steel, and vehicles
5. The largest five categories for Fiji cover 60% of total imports from the country. Three of these categories are food preparations. The other two categories are cement and dyes
6. 90% of imports from Japan are concentrated on vehicles and iron/steel
7. The top-five categories from France cover 80% of total imports. These include food preparations (50% of total imports), machineries/appliances, electrical equipment, wine and spirits, and perfumes.
8. Imports from Thailand are highly concentrated, with the first five categories representing 83% of total imports. Like Singapore, the country serves as a transshipment port, this time for vehicles (61% of total import). Other significant categories include meat/fish preparations and sugar confectionery, cement, and electrical equipment.
9. The largest five categories from the US cover 82% of total imports and include instruments (optical, photographic, medical etc.), pharmaceutical products, machineries/appliances, and

aircraft parts

10. Hong Kong has a similar export pattern to China. Exports to Vanuatu cover a wide range of products, with the top-five categories representing 65% of total imports. In the same way as China, these include electrical equipment, machineries/appliances and iron/steel. The other two categories are furniture and apparel

Overall, reduction of tariff and non-tariff barriers vis-a-vis major importers will increase imports and reduce prices of goods originating from the most competitive providers to the benefit of Ni-Vanuatu consumers (cheaper consumer goods) and producers (cheaper inputs of production). To avoid increasing imbalances, Vanuatu should prioritise agreements with countries which are both major import origins, and export destinations. Potential candidates include Australia and New Zealand, ASEAN countries, China, Japan, and possibly the US.

If trade from major origins is liberalised, the government should pay attention to protect policy space in sectors where it may intend to limit imports to promote local consumption of domestic goods (infant industries). These include rice, fruits and vegetables (including root crops), timber, and perhaps wooden furniture. Noting existing attempts to promote local production of chicken, and processed fish, policy space should also be protected in these areas. These sectors are particularly relevant to the PACER Plus agreement and to a potential agreement with ASEAN countries.

TABLE 3.9: MERCHANDISE IMPORTS, ORIGINS

Country	2008 (VUV)	Share 2008	2016 (VUV)	Share 2016
Australia	8,518,311,645	25%	10,206,465,194	25%
Singapore	6,731,072,180	19%	4,977,056,591	12%
New Zealand	3,867,665,821	11%	4,942,989,452	12%
China	2,662,064,996	8%	4,768,001,921	12%
Fiji	3,067,649,903	9%	3,459,135,299	8%
Japan	2,381,633,113	7%	2,608,442,890	6%
France	1,413,473,872	4%	1,975,302,323	5%
Thailand	842,197,691	2%	1,261,994,296	3%
United States	557,902,343	2%	1,193,504,464	3%
Hong Kong	676,101,631	2%	1,057,630,711	3%
Top 10 Origins	30,041,973,572	87%	36,450,523,141	88%
TOTAL	34,575,264,359	100%	41,407,836,643	100%

Source: DCIR

3.4.3 Recommendations

- a. Replace imports by promoting local production of:
 - i. Fruits and vegetables (including food crops)
 - ii. Timber and wooden furniture
- b. Reduce imports by increasing taxes (domestic excises) and promoting awareness campaigns with regard to:
 - i. Unhealthy food preparations
 - ii. Cigarettes and tobacco
- c. Promote off-grid uptake renewable energy (see Chapter 9)
- d. Promote on-grid uptake of renewable energy only when donor subsidies make it a cost-effective option compared to non-renewable sources (see Chapter 9)
- e. Ratify PACER Plus (see Chapter 4)
- f. Pursue trade arrangements with key Asian destinations– ASEAN, China, Japan – and possibly the US (see Chapter 4)
- g. In new trade agreements maintain policy space for rice, fruits and vegetables (including root crops), timber, wooden furniture, chicken, and processed fish (see Chapter 4).

3.5 Trade in Services – Imports

3.5.1 Categories

Vanuatu’s main imported services are transport (mainly sea transport of freight) and travel. The share of these sectors decreased from 81% in 2008 to 71% in 2017. This was mainly due to an absolute decline in personal travel. On the contrary, the share of transport services increased from 56% to 61%.

A few other sectors saw a significant increase in their share during the past ten years. These include telecommunications, computer, and information services (2% to 8%), financial services (3% to 5%) and other business services (6% to 9%).

TABLE 3.10: SERVICES IMPORTS, MAIN SERVICES, MILLION VATU

CATEGORY	2008	2010	2012	2014	2016	2017
Transport	6,283	6,455	6,694	7,221	10,501	10,275
Travel	2,876	2,881	3,434	3,568	2,679	1,762
Business	631	870	911	997	866	595
Personal	2,245	2,011	2,523	2,571	1,813	1,167
Health related	0	4	14	11	18	47
Education related	419	278	306	950	472	235
Other	1,826	1,729	2,204	1,610	1,323	885
Telecommunications, computer, and information services	281	1,285	1,313	802	835	1,381
Construction	17	0	0	8	10	33
Insurance and pension services	333	433	928	543	481	745
Financial services	340	357	476	230	59	808
Charges for the use of intellectual property	3	0	0	20	20	35
Other business services	643	511	587	1,157	1,491	1,574
Personal, cultural, and recreational services	0	0	0	0	0	0
Government goods and services n.i.e	476	118	82	202	114	226

Source: RBV

As highlighted in Chapter 8, local skill gaps and shortages are significant. Improving the quality of schools and of the Post-School Education and Training (PSET) system can help to substitute imports of some business services.

The increased share of transport services may reflect a greater use of foreign airlines by Ni-Vanuatu, as well as increased payments to foreign providers of freight transport. The increase in other business services captures the increasing ‘servification’ of modern economies, as well as possible skill gaps in the local labour market. Finally, the increase in imports of telecommunications, computer, and information services reflects the development of the ICT industry – charges by foreign telecommunication providers for transmission of voice, data and other information by electronic mail, telephone, etc.

3.5.2 Recommendations

- a. Promote provision of competitive local business services by strengthen the education and PSET system (Chapter 8), with the view of replacing some imports

CHAPTER 4: EXTERNAL TRADE POLICIES AND TRADE AGREEMENTS

4.1 Multilateral External Trade Policies^{xxxviii}

4.1.1 External trade policies directly affecting imports of goods

Vanuatu applies several measures that directly affect imports. The latest Trade Policy Review (TPR) report by the World Trade Organization (WTO) Secretariat⁴⁰ categorizes these measures in customs procedures, valuation, and requirements; rules of origin; tariffs; other charges affecting imports; import prohibitions, restrictions, and licensing; and anti-dumping, countervailing and safeguard measures.

4.1.1.1 Customs procedures, valuation, and requirements

All imported goods are subject to customs control. Importers are required to register in the Automated System for Customs Data (ASYCUDA), World version. Imported goods are cleared from customs control by the completion of an import declaration - known as Single Administrative Document (SAD); the commercial invoice; a packing list; shipping documents (airway bills or bills of lading); and an import permit or license, if applicable. Vanuatu does not require pre-shipment inspection. Use of a licensed customs broker is mandatory, and only customs brokers and licensed personnel have access to the custom system (ASYCUDA World). The Department of Customs and Inland Revenue (DCIR) maintains a risk management system, by virtue of which 48% of imports are not subject to physical or documentary examination. Importers, brokers and traders can apply for an advance ruling on the classification of goods, duty exemption or concession, the country of origin of goods, or the valuation rule to apply to goods. This is at a fee of VUV 5,000 for each application and it is issued within 40 days from the date of receipt of the request. The average time for clearance (arrival of vessel to release by customs) was three days and seven hours in 2017⁴¹ - this should now be shorter thanks to the introduction of ASYCUDA World and the completion of a new infrastructures – new wharf in Port Vila, upgraded wharves in Luganville, and upgraded airports in Port Vila and Luganville. At the TPR meeting, WTO “members praised Vanuatu for its considerable reduction in customs clearance times”.⁴² The primary method of valuation is the transaction value of the imported goods. Nothing in Vanuatu’s customs disciplines violates WTO rules. In fact, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Vanuatu’s customs procedures are the most compliant with trade facilitation and paperless trade principles among Pacific Island Countries (PICs).⁴³ Customs procedures are further addressed in Chapter 6.

4.1.1.2 Rules of origin

Vanuatu applies preferential rules of origin (ROO) in the context of the Melanesian Spearhead Group Trade Agreement (MSGTA), the Pacific Island Country Trade Agreement (PICTA). The Pacific Agreement on Closer Economic Relations Plus (PACER Plus), signed by Vanuatu but yet to be ratified, also envisages preferential ROO. Goods containing non-MSG inputs qualify for MSGTA preferences if the exported product falls under a different Harmonized Commodity Description and Coding System (HS) four-digit tariff heading than its non-MSG inputs.⁴⁴ Under PICTA, at least 40% of the good’s value must be produced by the exporting country.⁴⁵ Under PACER Plus, the good must undergo a product-specific change of tariff classification, or a product-specific process that fundamentally changes its nature, or at least 40% of value-addition must take place within the PACER Plus membership.⁴⁶

Vanuatu should consider the establishment in law of non-preferential rules of origin to support policy measures like anti-dumping duties and countervailing duties, safeguard and retaliation measures, quantitative restrictions, for trade statistics, for public tenders, for origin marking, and so on.

When goods are imported from a country with which Vanuatu has a trade agreement, criteria are

^{xxxviii} The section largely draws upon the 2018 Trade Policy Review (TPR) report prepared by the World Trade Organization (WTO) Secretariat

established to determine origin. However, dumped or subsidised goods may originate from other countries. Many countries applying the provisions of their anti-dumping or countervailing laws have found that, upon the issuance of a determination of dumping or subsidy, the first strategy employed by exporters is to tranship their goods through another country. Without a set of non-preferential ROO in place, there is no legal basis to determine that the goods are from the country against which the determination is made, and not the country of transshipment.

4.1.1.3 Tariffs

With regards to tariffs, there are four issues of interest: applied Most Favoured Nation (MFN) tariffs; tariff bindings; preferential tariffs; and tariff exemptions and concessions. Vanuatu grants at least MFN tariff treatment to all its trading partners. The country's tariff nomenclature is based on the HS 2017. Vanuatu's simple average applied MFN tariff have decreased dramatically over the past decade, from 16.7% in 2008 to 9.3% in 2018, and is today in line with the global average - 8.7% in 2016, based on World Bank Group (WBG) data.⁴⁷ Vanuatu applies higher tariffs on goods which are produced locally, and for revenue generation. Notably, the average applied tariff for agricultural products is 16.9%, higher than the average for non-agricultural products (8.0%). Moreover, tariff escalation exists between semi-processed and fully processed goods – reflecting a manufacturing industry which is mostly about assembling foreign semi-processed inputs. Average tariffs are the highest on beverages, spirits and tobacco (37%) – for revenue purposes.

Vanuatu has bound all its tariff lines, and there appear to be sufficient policy space for protecting domestic sectors. The average final bound rate is 40.2% - 43.6% for agricultural products and 39.6% for non-agricultural products. In an effort to promote the domestic poultry industry, the applied tariff on chicken wings has exceeded the bound rate – 30% versus 20%. This rate should either be reduced or renegotiated to ensure compliance with WTO obligations. Bound rates are exceeded for other two tariff codes of HS Chapter 29 (alkaloids) – also in this case tariff should be reduced at or below the bound rates.

Vanuatu applies preferential tariffs to parties of the MSGTA, PICTA and, upon ratification, the PACER Plus. Virtually all the preferential trade currently happens under MSGTA due to simpler ROO and the fact that the agreement covers the biggest Pacific Island Countries (PICs). Almost all goods originating from the other MSG members (Fiji, Papua New Guinea and Solomon Islands) are circulating duty-free, with the exclusion of alcohol, tobacco, fuel, and sugar cane.⁴⁸

Tariff concessions (exemptions) to promote economic development apply to the manufacturing sector (raw materials, packaging/labelling and equipment for manufactured products), the tourism sector (building material, fixtures and fittings for tourism accommodation), and the fisheries sector (boats, boat building material, fishing equipment, marine motors and refrigeration equipment for fishing projects). There are also exemptions for the mining industry (machinery equipment and materials for mineral exploration and extraction projects). Fuel imported by holders of a government concession for electricity generation is also eligible for duty exemption.⁴⁹

4.1.1.4 Other charges affecting imports

There are three other charges affecting imports (as well as domestic production): Value Added Tax (VAT), excise duties and vehicle registration fees. VAT of 15% applies to all goods and services, unless they are exempt or zero-rated. Until December 2017 the VAT rate had been 12.5% but this was increased to support fiscal consolidation – see Chapter 2. Imports are VAT-exempt if they are valued at VUV 10,000 or less. Registration to pay VAT is mandatory for companies or with a turnover of above VUV 4 million.

Excise duties apply to items such as alcoholic, tobacco products, and certain firearms. Duties on these items were increased in 2011 to offset expected fiscal losses from WTO accession. Further changes were implemented in 2012 and 2014 – when excises on vehicles and soft drinks including sugar were introduced. The changes applied in 2011 did not affect the competitive position of Vanuatu's producers

– in fact, the excise on beer was reduced in 2011. The 2014 excise on soft drinks may have affected competitiveness of local producers.⁵⁰

4.1.1.5 Import prohibitions, restrictions, and licensing

Pursuant to the Customs (Prohibited Import) Regulations Order No. 115 of 2014,⁵¹ a number of items are subject to import prohibition. These include beef in any form originating from Europe, as set out under the Food (Control) Act [CAP 228] (Prohibition of Beef from Europe Order No. 53 of 2001) and wine with a false description and presentation, as provided for in the Geographical Indications (Wine) Act [CAP 269]. In addition, the Customs Act No. 7 of 2013 prohibits the importation of goods infringing intellectual property rights. The prohibition of beef import from Europe was put in place as a control for to Bovine Spongiform Encephalopathy (BSE) due to the outbreak in Europe and the United Kingdom (UK) in the late 1990 and should be repealed. On Intellectual Property Rights (IPRs), there is scope to extend protection to Geographical Indication beyond wines by amending relevant legislation – see Chapter 7.

Certain goods are subject to import licensing. Vanuatu has not notified its import licensing procedures to the WTO, nor has it answered the questionnaire on import licensing. The country should comply with its notification obligations on import licensing.

4.1.1.6 Anti-dumping, countervailing and safeguard measures

The Import Duties (Consolidation) (Amendment) Act of 2013 No. 29 is the legal basis to conduct investigations for the application of contingency measures - anti-dumping, countervailing, and safeguard measures.⁵² The legislation has not been notified to the WTO and Vanuatu should do so to comply with its obligations. The designated authority responsible for an investigation is the Director of the Department of External Trade. If the authority has reasonable cause to suspect that there is dumping, subsidisation or increased imports of a good, it may, by a notice published in the Official Gazette, declare that an investigation be carried out and direct the customs authority to impose provisional payments. Decisions on a definite measure are taken by the Council of Ministers and must be published in the Gazette. A measure's duration is decided by the Minister responsible for External Trade. The legal and regulatory framework for anti-dumping, countervailing, and safeguard measures is incomplete^{xxxix} and would require more detailed disciplines to be adopted. A detailed draft legal and regulatory framework on contingency measures was developed in 2013, and may be worth considering as a way forward.

4.1.2 External trade policies directly affecting exports of goods

Vanuatu applies several trade policy measures that directly affect exports. The 2018 WTO TPR Report by the WTO Secretariat categorizes these measures in customs procedures and requirements; taxes, charges and levies; export prohibitions, restrictions and licensing; export support and promotion; and export finance, insurance and guarantees.

4.1.2.1 Customs procedures and requirements

Registration and documentation requirements are similar to imports, and similar considerations apply. According to the authorities, the process covering assessment of declaration to release by customs (a sub-set of clearance) usually takes less than one hour compared to seven hours for imports.

4.1.2.2 Taxes, charges and levies

The legal basis for export taxes is the Export Duties Act [CAP 31], and the Export Duties (Amendment) Act No. 19 of 2006. Based on those acts, an export duty of 5% plus VUV 3,000 per cubic meter applies on wood in the rough or roughly squared. The ability of this measure to achieve environmental protection appears rather limited – see Chapter 3 on recent problems with rosewood, and Chapter 9

^{xxxix} For example, current legislation does not establish how dumping margins are calculated

on over-exploitation of Vanuatu's forests in the 90s.

4.1.2.3 Export prohibitions, restrictions and licensing

Pursuant to the Customs (Prohibited Export) Regulations Order No. 114 of 2014,⁵³ an export prohibition applies to explosives. Since the 1 March 2018, exports of rosewood (blue water tree) slabs were also banned to stop deforestation. For most of the Vanuatu's key commodities, the Customs (Prohibited Export) Regulations Order No. 114 of 2014 requires an export license. Licenses are introduced to ensure safety and quality of the exported product (meat, cocoa, copra, kava), or to protect the natural environment (fauna and flora, certain fish species, trees).

4.1.2.4 Export support and promotion

Vanuatu does not provide export subsidies. A domestic support program has been introduced to prop up copra prices. The value of the subsidy is relatively small (VUV 200 million per annum) and may therefore be permitted under the WTO Agreement on Agriculture even after Vanuatu's graduation from Least Developed Country (LDC) status.^{xl} National and regional entities provide export promotion support to Vanuatu's enterprises, including the Department of Industry (DoI), the Vanuatu Chamber of Commerce and Industry (VCCI), and Pacific Trade and Invest (PTI). Vanuatu does not have any export processing zone; however, studies the possibility of establishing such a zone in Espiritu Santo is being considered.

4.1.2.5 Export finance, insurance, and guarantees

Vanuatu does not have any public finance, insurance, or guarantee scheme exclusively for exporters, nor does it have public finance schemes for domestic production. Access to finance remains an issue, which continues requiring attention – see Chapter 7.

4.1.3 Polices affecting production and trade

The WTO TPR Report by the WTO Secretariat categorizes measures affecting production and trade in incentives, standards and other technical requirements; sanitary and phytosanitary requirements; competition policy and price controls; state trading, state-owned enterprises, and privatisation; government procurement; and intellectual property rights. These issues will be dealt with in subsequent chapters 5, 6, and 7. The WTO TPR Report by the WTO Secretariat indicates that notifications may be outstanding with regard to domestic policies, including on Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT), and state trading arrangements - such as the Vanuatu Commodities Marketing Board (VCMB). The same report also indicated that Vanuatu has no intention to join the WTO Government Procurement Agreement (GPA).

4.1.4 External trade policies related to foreign direct investments

4.1.4.1 Cross-sectoral limitations

The key market access limitation to foreign direct investments (commercial presence) is found in the Foreign Investment Promotion Act (CAP 248) (FIPA). The FIPA reserves selected activities to Ni-Vanuatu (see Table 4.1) and restricts other activities below certain thresholds (see Table 4.2). Reservation can become a hindrance to economic development if a sector needs a level of physical or human capital which exceeds what is available locally. From this point of view, some of the existing reservations may be counterproductive – e.g. construction, road transport, and coastal shipping. More generally, reservation of activities would benefit from the written statement of an agreed criteria to guide decision by policy-makers – this statement could be included in the Bill for the Investment Promotion and Facilitation Act, the FIPA successor (see Chapter 7).

^{xl} Under article 15 of the Agreement on Agriculture, Least Developed Countries are not required to reduce domestic support to agricultural products. Under article 6.4(b) of the same Agreement, developing countries are not required to reduce product-specific domestic support whose value is below 10% of the total value of production of a product.

TABLE 4.1: FOREIGN INVESTMENTS, RESERVED SECTORS

<i>Trade</i>	
<ul style="list-style-type: none"> • Export of sandalwood in stick and chip form, harvested from natural forests • Local trading of sandalwood, harvested from natural forests • Export of seeds and other minor forest products, harvested from natural forests • Second hand clothing shops • Export of kava in root, chip and stick form 	
<i>Manufacturing</i>	
<ul style="list-style-type: none"> • Manufacture of handcrafts and artefacts 	
<i>Services</i>	
<ul style="list-style-type: none"> • Kava bars • Open-air vendors, door-to-door sales, and mobile shops • Road transport operators – the provision of any taxi or bus service, including airport road transfers and any other road transport service involving the guest of a hotel or other accommodation business • Private security services including security guards • Electricians and electro-technicians • Residential building and construction • Commercial cultural feasts 	
<i>Fishing</i>	
<ul style="list-style-type: none"> • Commercial fishing in Vanuatu's inshore waters as defined by the Maritime Zones Act (i.e. archipelagic waters including the first six nautical miles from land) 	
<i>Other</i>	
<ul style="list-style-type: none"> • Small scale production of sawn timber from natural forests using a portable sawmill (i.e. can be physically moved from one location to another in the forest) 	

Source: WTO

For permitted activities, a foreign investment approval certificate must be obtained which requires about 15 days and costs VUV 120,000.

The Vanuatu Constitution imposes a national treatment limitation on foreign direct investments (commercial presence), in that it prohibits freehold ownership of land by foreigners.^{xii} This means that foreign investors can only hold land in leasehold. The issue of land is further addressed in Chapter 7. An additional limitation to national treatment is given by the fact that under the Business License Act [CAP 249] issuance of most business license incurs additional annual costs of VUV 100,000 for each or each non-citizen principal or partner engaged in the business.⁵⁴ The business license regime is further addressed in Chapter 7.

TABLE 4.2: FOREIGN INVESTMENTS, RESERVED ACTIVITIES BELOW A MINIMUM THRESHOLD

ACTIVITY	MINIMUM THRESHOLD
<i>Tourism</i>	
<ul style="list-style-type: none"> • Tour agent (business that sells tourism services) • Tour operator (business that packages two or more travel services into a single product for the consumer, i.e. transport, accommodation, meals, entertainment, sightseeing) 	<ul style="list-style-type: none"> • Annual turnover of VT 20 million • Investment of VT 20 million

^{xii} National treatment is a basic principle of the WTO that prohibits discrimination between foreign and domestic goods, services, and investments. On the latter, the principle would require that foreign investors who are already established in Vanuatu are treated equally to local investors. The prohibition of freehold ownership of land by foreigners represents a limitation to the principle of national treatment which was accepted at the time of Vanuatu's accession to the WTO

<ul style="list-style-type: none"> • Guest house (business that provides simple accommodation using private or semi-private rooms and offers limited guest services) • Bungalows (business that provides island-style accommodation in detached or semi-detached dwellings) • Hotels and motels (business that provides accommodation using private rooms and offers amenities such as food, alcohol and other guest services) 	<ul style="list-style-type: none"> • 50 beds or 10 rooms or annual sale turnover of VT 20 million • Annual turnover of VT 30 million • Investment of VT 10 million, or annual turnover of VT 20 million
<i>Other services</i>	
<ul style="list-style-type: none"> • Retail shops including general merchandise trading shops (excluding specialty shops) • Coastal shipping (excluding vessels that exclusively provide transport to foreign tourists) 	<ul style="list-style-type: none"> • Annual turnover of VT 30 million • Vessel size with carrying capacity of 80 tonnes
<i>Other professional or business services</i>	
<ul style="list-style-type: none"> • Real estate agents; property managers; land and property developers; legal practitioners; accounting practitioners; engineering practitioners and services; architectural practitioners and services; surveyors and draftsmen; core drilling, assaying geological and prospecting support services; business and financial services and consultants; book keeping services; management services and consultants; advertising and marketing services and consultants; photocopying and duplicating services; typing and secretarial services; language translation and interpreting services; business security and protective services; debt collection and credit rating services; and other business and administrative services and agencies 	<ul style="list-style-type: none"> • Annual turnover of VT 5 million

Source: WTO

4.1.4.2 Sectoral limitations

Vanuatu has made specific commitments under the General Agreement on Trade in Services (GATS) in almost all services sectors. However, the Vanuatu's WTO schedule of commitments on services⁵⁵ introduces the possibility of market access and national treatment limitations to foreign direct investment (commercial presence) in some areas. Limitations on market access exist or can be imposed in relation to the following sub-sectors:

- Legal services - commercial presence must take the form of sole proprietorship or partnership
- Banking and related services - banks must comply with provisions of relevant banking legislation (see Chapter 7)
- Hotels and restaurants – limitations exist in areas where the FIPA reserves investment to Ni-Vanuatu
- Wholesale and retail trade – the government reserves the right limit market access
- Educational and hospital services funded from state resources - the government reserves the right limit market access
- Environmental services- the government reserves the right limit market access

Limitations on *national treatment* exist in relation to the following sub-sectors:

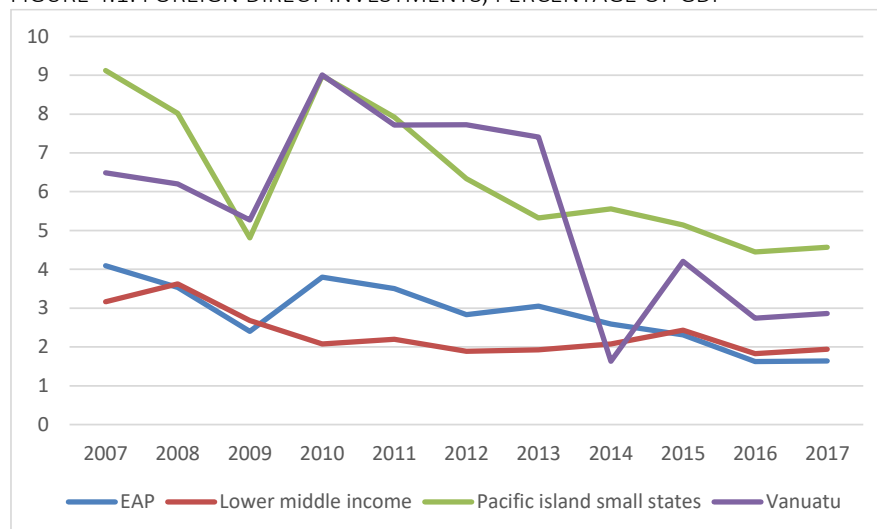
- Audio-visual services - unbound for support programmes funded by the government to preserve or promote the cultural identity of Vanuatu
- Distribution services (excluding franchising). Non-citizens and non-resident foreign investors must pay an additional annual fee of VUV 91,800^{xlii} and must have received an approval certificate from the Vanuatu Investment Promotion Authority
- Educational services and hospital funded from state resources
- Environmental services at local or central level

The services sectors and sub-sectors not included in the schedule of commitments are unbound – i.e. Vanuatu can impose any limitations on market access and national treatment. However, no significant restrictions exist in addition to those already in place by virtue of the FIPA.

4.1.5 Statistical analysis of Foreign Direct Investments

Data on Foreign Direct Investment (FDI) are collected by the Vanuatu Investment Promotion Authority (VIPA).⁵⁶ Unfortunately, information from VIPA is based on approved investment applications, and therefore fails to capture the actual FDI performance. A comparison of VIPA data with FDI information from the Reserve Bank of Vanuatu (RBV)⁵⁷ and the World Bank Group (WBG)⁵⁸ suggests that proposed investment values overestimate actual values by about four times. Notably, the average annual value of proposed FDI during the period 2007-2017 was VUV 16.6 billion, against an actual figure of VUV 3.7 billion recorded by the RBV.^{xliii}

FIGURE 4.1: FOREIGN DIRECT INVESTMENTS, PERCENTAGE OF GDP



Source: WBG

Looking at actual values, Vanuatu still emerges as a country where FDIs play a more significant role compared to groups such as lower-middle income countries and developing East Asia Pacific (EAP) countries.

Indeed, the high level of FDIs helps explaining why capital formation as a percentage of Gross Domestic Product (GDP) is higher in Vanuatu than in lower-middle income countries – see Chapter 2. From this point of view, promotion of FDI remains crucial for Vanuatu’s economic development – Chapter 7 further elaborates on options to improve the investment climate. The central role of FDIs is a feature that Vanuatu shares with other Pacific islands small states (see Figure 4.1).^{xliiv}

^{xlii} The additional fee for non-citizen and non-resident foreign investors applies to many sectors, as illustrated by the Business License Act [CAP 249] and subsequent amendments

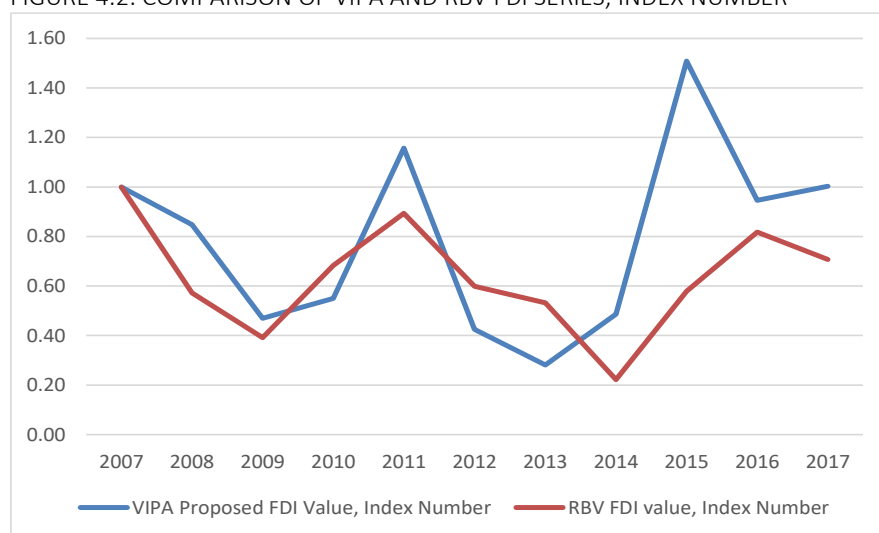
^{xliii} VUV 3.9 billion according to the WBG

^{xliiv} Pacific islands small states are Pacific islands World Bank member countries excluding Papua New Guinea – i.e. Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

During the period 2007-2017, Vanuatu's FDIs averaged 5.6% of GDP, compared to 2.9% in developing EAP and 2.3% in lower-middle income countries. During the same period, FDI inflows as percentage of GDP declined in all the observed country groupings, however, the reduction in Vanuatu was more pronounced, thus indicating a relative deterioration its investment climate. Despite this, in 2017 Vanuatu's FDIs as a percentage of GDP were still twice as much as those of developing EAP and lower-middle income countries.

Trends recorded by VIPA and RBV are relatively similar when comparing index numbers (Figure 4.2), thus suggesting that the VIPA dataset can be used to undertake some cautious analysis.

FIGURE 4.2: COMPARISON OF VIPA AND RBV FDI SERIES, INDEX NUMBER



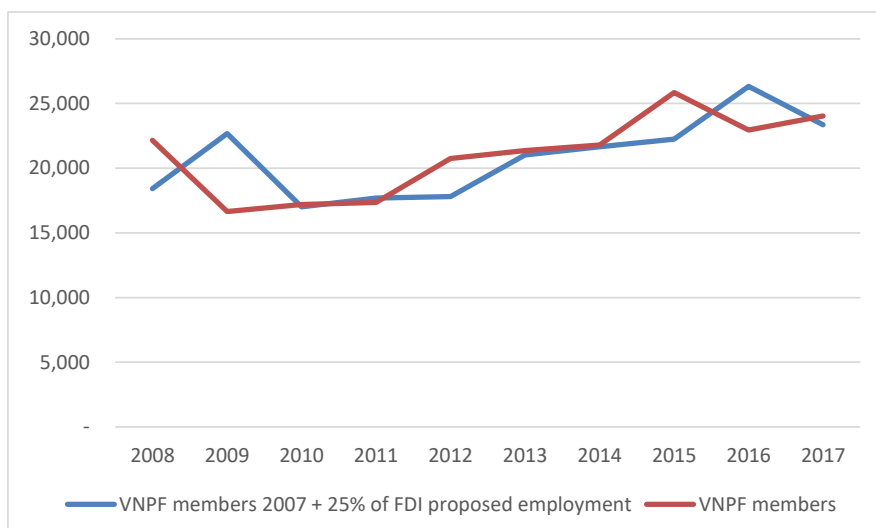
Source: VIPA and RBV

The main features of Vanuatu's FDIs emerging from the VIPA dataset can be summarised as follows:

- FDIs are probably the main contributor to the economy's formal employment. The average proposed annual employment from approved FDIs is 1,752 workers. Even assuming that only 25% of proposed employment is actually realised,^{xiv} FDIs would still be responsible for all the increase in formal employment observed from 2007 to 2017 (see Figure 4.3)
- The largest source of FDI inflows comes from Australia (37% on average). During the last decade, however, China significantly increased its share of FDIs (proposed value), from 3% in 2007 to 21% in 2017. The increase of Chinese FDIs mirrors developments already observed for trade in goods and services - Chapter 3
- Proposed investment values are concentrated in the tourism sector (31% on average), finance and insurance (20% on average), and wholesale and retail trade (11% on average). From an employment perspective, however, finance and insurance become relatively unimportant. The major sources of proposed employment (average share greater than 10%) include agriculture, forestry and fisheries (11%), manufacturing (13%), wholesale and retail trade (20%) and tourism (24%)
- 77% of proposed FDIs are concentrated in the Shefa province (56% in Port Vila). Most of the remaining FDIs (22%) are directed towards the Sanma province (9% to Luganville). Foreign investors show a clear preference for areas where property rights are better defined, and infrastructures are more developed. From this point of view, the recent infrastructure development initiatives in Malampa and Tanna provinces (see Chapter 6) could help redistribution of FDIs.

FIGURE 4.3 VNPf MEMBERS, ESTIMATED FDI CONTRIBUTION

^{xiv} i.e. the same proportion observed for investment values, 438 workers per year



Source: VIPA and VNPF

4.1.6 External trade policies related to movement of natural persons

Disciplines for movement of natural persons, i.e. business visitors, intra-corporate transferees, and foreign qualified professionals, are dealt with in Chapter 7. Generally speaking, visa upon entry is granted to the first category, a work permit and residency permit is required for the second category, and a work permit is required for the third category.

4.1.7 Recommendations

- a. Establish non-preferential rules of origin
- b. Reduce tariff rate for chicken wings (HS code 0207.1410) to 20% or renegotiate higher rates
- c. Reduce tariff rates for alkaloids (HS codes 2939.7100 and 2939.7900) to 0%
- d. Repeal the Prohibition of Beef from Europe Order No. 53 of 2001
- e. Fulfil WTO notification obligations in areas such as agriculture, SPS, TBT, customs valuation, import licensing, contingency measures, and state trading enterprises. Technical assistance from the WTO Secretariat can be secured on this matter
- f. Complete the legal and regulatory framework for anti-dumping, countervailing, and safeguard measures
- g. Consider reducing or eliminating reservation on investment in the construction, road transport, and coastal shipping sectors
- h. Consider introducing a clear criterion to guide decision by policy-makers on reserved investments in the Bill for the Investment Promotion and Facilitation Act

4.2 Free and Preferential Trade Agreements

Free and preferential trade agreements reduce tariff and non-tariff barriers on goods and services, thus promoting a country's export in areas of comparative advantage, and reducing costs of consumer goods and production inputs. They may also facilitate flow of capital and labour, which further promotes economic growth. Generally speaking, for an agreement to generate a positive impact it is important that trade is liberalised with countries that are already trading with each other, since this is an indicator that the agreement will create trade with the most efficient partners instead of diverting it towards less efficient partners. Given the above, a quantitative snapshot of Vanuatu's trade with major partners can give an indication of which agreement would be more beneficial. This is done in Table 4.3.

TABLE 4.3: VANUATU TRADE WITH EXISTING AND POTENTIAL PARTNERS TO TRADE AGREEMENTS

Agreement/Partner	Trade in Goods (share)		Trade in Services (share)		Foreign Investment (share)		Labour (share)	
	Export ¹	Import ²	Export ³	Import ⁴	Inflows ⁵	Outflows	Export ⁶	Import ⁷

MSG	10%	9%	..	..	..	..	2%	18%
New Caledonia	5%	1%	12%	..	..	..	33%	11%
PICTA [trading partners]	12%	8%	..	..	..	..	2%	15%
PICTA [signatories]	15%	9%	≈6%	..	..	..	2%	19%
PACER Plus [signatories]	28%	35%	≥64%	> 24%	≥ 45%	..	54%	48%
PACER Plus [potential]	37%	43%	71%	> 24%	≥ 45%	..	55%	61%
Japan	3%	5%	1%	..	..	..	..	..
China	6%	10%	3%	..	≥ 12%	..	..	..
India	0%	1%	..	..	..	..	..	..
ASEAN	38%	26%	..	..	..	..	..	..
US	4%	2%	..	..	..	..	..	..
EU	2%	6%	8%	..	≥ 6%	..	6%	24%
UK	0%	0%	..	..	..	..	1%	5%

Notes:

1 = average 2015-17, from DCIR

2 = average 2014-16, from DCIR

3 = average 2015-17, approximated by incoming tourism flows by air, from VNSO⁵⁹

4 = average 2015-17, Australia only, from Australian Government, Department of Foreign Affairs and Trade (DFAT)⁶⁰

5 = average 2015-17, from VIPA

6 = average 2015-17, from United Nations Department of Economic and Social Affairs (UNDESA),⁶¹ New Zealand Ministry of Business, Innovation, and employment (MBIE),⁶² and Howes⁶³

7 = average 2015-17, from (UNDESA)⁶⁴

.. = not available

Source: Calculations on DCIR, VNSO (Vanuatu National Statistics Office), Department of Forum Affairs and Trade (DFAT), United Nations Department of Economic and Social Affairs (UNDESA), New Zealand Ministry of Business, Innovation and Employment (MBIE), and Howes

4.2.1 Existing Free Trade Agreements

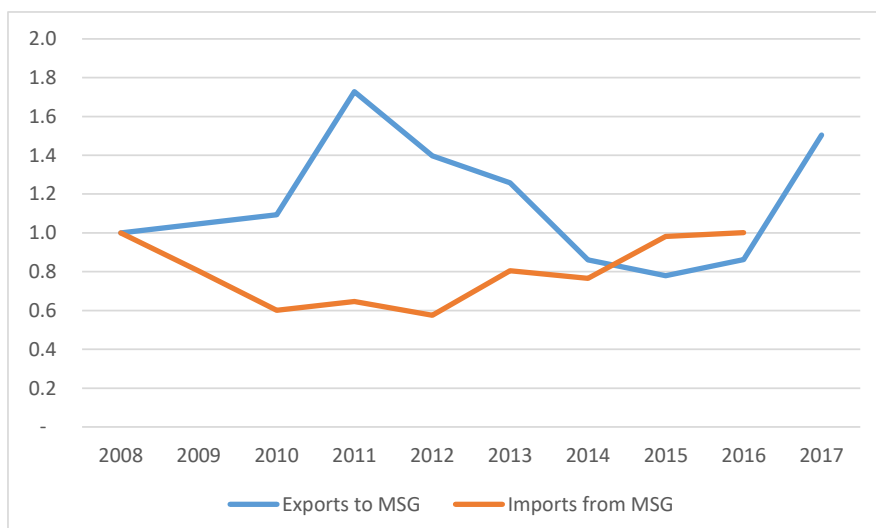
4.2.1.1 Trade Agreement among the Melanesian Spearhead Group of countries

The Trade Agreement Among the Melanesian Spearhead Group of Countries (MSGTA)⁶⁵ is an agreement covering goods which was signed in 2005 by Fiji, Papua New Guinea (PNG), Solomon Islands and Vanuatu. The agreement came into force in 2006 and covers about 10% of Vanuatu's merchandise trade. It adopts a negative list approach, meaning that all tariffs were subject to liberalisation except for a limited number of excepted products. Moreover, some products were excluded from the liberalisation (article 9.5), namely those of HS Chapter 22 (beverage, spirits, vinegar), 24 (tobacco and manufactured tobacco substitutes), 27 (mineral fuels and mineral oils) and HS Code 1701.1100 (cane sugar). As to excepted products, residual duties were eliminated in 2013 by Vanuatu and (except for mackerel, salt and sugar)⁶⁶ PNG, and in 2017 by Solomon Islands.⁶⁷ Fiji did not request any excepted product and fully liberalised trade since 2006.

Whilst MSGTA preferences are normally utilised for merchandise trade between MSG countries, the overall impact of the agreement has so far been limited for Vanuatu, noting that trade values in 2016 were pretty much the same as in 2008 – see Figure 4.4.^{xlvi} The limited production and import capacity of MSG members, as well as their limited economic diversification helps to explain the observed figures.

FIGURE 4.4 MERCHANDISE TRADE WITH MSG COUNTRIES, INDEX NUMBER

^{xlvi} The export peak recorded in 2017 is due to the one-off sale of TV equipment to PNG, and can therefore be disregarded



Source: Calculations on DCIR

During the past decade, about 90% of Vanuatu’s MSG imports came from Fiji, and were almost equally split between agricultural products (food and beverages) and non-agricultural products (production inputs such as cement, dyes, and iron/steel). Interestingly, DCIR data reveal that over the years Fiji was able to consolidate its share, including by replacing imports from PNG – such as in the cement industry. As to exports, about 50% went to Fiji (mostly kava), 30% to PNG (mostly meat), and 20% to Solomon Islands (mostly meat).

4.2.1.2 Pacific Island Countries Trade Agreement

The Pacific Island Countries Trade Agreement (PICTA) is a trade agreement among 14 Forum Island Countries (FICs).^{xlvii} PICTA entered into force in 2003 after six FICs ratified the agreement. To date, eight FICs^{xlviii} have announced their readiness to trade under PICTA. Vanuatu signed the Agreement in 2001, and ratified it in 2005. PICTA covers trade in goods, except for alcohol and tobacco (article 8.13), and goods subject to government procurement (article 9.8). Article 16 of PICTA permits trade restrictions for certain objectives, such as protection of the country’s security, human or animal health, etc.

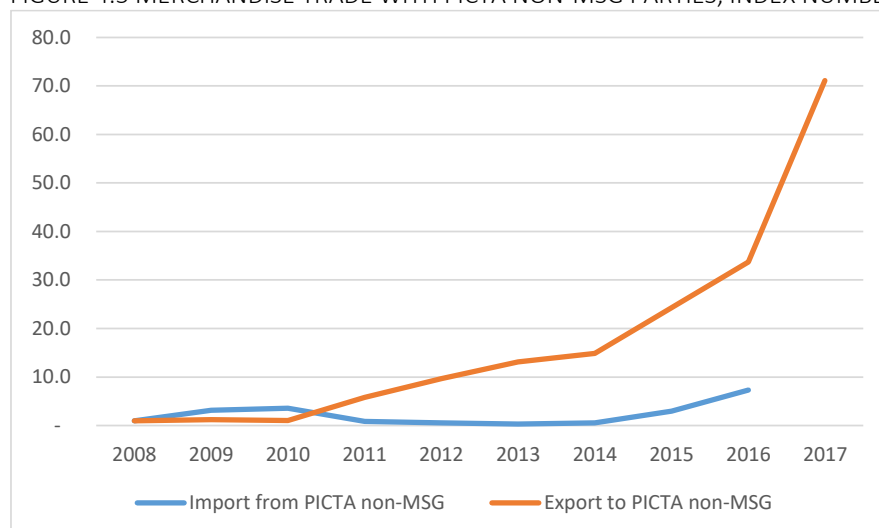
Under the original PICTA terms,⁶⁸ tariffs on non-excepted goods were to be removed by 2010 for developing countries and 2012 for Least Developed Countries (LDCs) and Small Islands States (SIS). Tariffs on excepted products (goods on a negative list) were to be removed by 2016. Schedules to eliminate tariffs were later extended to 2017 for non-excepted products and 2021 for excepted products. For Vanuatu, the excepted products concern 18 tariff lines. According to the WTO TPR report by the WTO Secretariat, apart from the list of excepted goods, products originating in PICTA countries enter Vanuatu duty free. As to the excepted products, Vanuatu has converted all specific duties to ad valorem duties, and does not impose any import quotas.

Due to simpler and more favourable ROO, MSG importers and exporters prefer using MSGTA preferences when trading with each other. Therefore, to assess the impact of PICTA it is advisable to look at trade between Vanuatu and non-MSG FICs. This is done in Figure 4.5.

^{xlvii} Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

^{xlviii} Cook Islands, Fiji, Niue, Samoa, Solomon Islands, Tuvalu, Vanuatu, and Kiribati

FIGURE 4.5 MERCHANDISE TRADE WITH PICTA NON-MSG PARTIES, INDEX NUMBER (2008=1)



Source: Calculations on DCIR

During the past ten years merchandise imports from non-MSG PICTA parties were negligible (averaging VUV 6 million), including due to their limited productive capacity and economic diversification. As export destinations, however, even non-MSG PICTA parties may become important partners if opportunities emerge to satisfy significant shares of their domestic demand. This is what happened with Kiribati, where Vanuatu’s ability to meet local demand for kava led to a 70-fold increase in exports. As a result, in 2017 non-MSG PICTA parties absorbed more than half of total exports to PICTA members. Kiribati imposes no import duty on kava, and thanks to PICTA preferences this will continue to be the case for the foreseeable future.

4.2.2. Free Trade Agreements under negotiations or still to enter into force

4.2.2.1. Melanesian Free Trade Agreement

The trade agreement between MSG countries was revised in 2016, with the intention of establishing more modern and comprehensive disciplines on trade in goods, expanding the agreement to new areas (trade in services, labour mobility, investment, etc.), and setting out a more structured approach to resolution of disputes. So far Fiji and Solomon Islands have signed the agreement, but none has yet ratified.

On trade in goods, the new Melanesian Free Trade Agreement (MFTA) confirms full liberalisation, with the exclusion of HS Chapter 22 (beverage, spirits, vinegar) and 24 (tobacco and manufactured tobacco substitutes). Unlike the MSG-TA, the MFTA also liberalises HS Chapter 27 (mineral fuels and mineral oils), however this should not lead to trade diversion noting that MSG countries do not produce refined petroleum, which is what Vanuatu mostly imports under this chapter. MFTA disciplines on trade in goods aim at establishing mechanisms to further facilitate merchandise trade, including through:

- more favourable rules of origin (change in tariff classification at 6-digit level, 30% regional value content, and cumulation) and phasing out of certificates of origin;
- disciplines on customs procedures mirroring those of the WTO Trade Facilitation Agreement (TFA); and
- reaffirmation of WTO commitments included in the Sanitary and Phytosanitary (SPS) Agreement and in the agreement on Technical barriers to Trade (TBT) – as enhanced by commitments on cooperation between the parties’ competent authorities on these matters

On the trade in services, notably cross-border supply, consumption abroad and commercial presence, the MFTA includes general commitments on market access, national treatment (foreign suppliers treated no less favourably than domestic suppliers), and most-favoured-nation treatment (foreign suppliers from MSG parties treated no less favourably than suppliers from non-parties). Some light-

touch commitments are also included to facilitate temporary movement of natural persons - i.e. persons not seeking accesses to the employment market. A series of more specific disciplines are then introduced to promote trade in services in three strategic sectors, namely financial services, telecommunications, and e-commerce. Specific commitments are finally included for each party, based on a positive list approach – see Table 4.4.

TABLE 4.4: MFTA TRADE IN SERVICES, SECTORS^{xlix} WITH SPECIFIC COMMITMENTS

Country	MFTA	WTO
Fiji	11	1 (9)
PNG	11	6 (1-3, 7, 9, 11)
Solomon Islands	10 (1-9 and 11)	4 (1, 3, 7, 9)
Vanuatu	11	10 (1-9 and 11)

Source: MFTA and WTO

Whilst the Vanuatu’s Schedule of Specific Commitments essentially replicates the General Agreement on Trade in Services (GATS) schedule, specific commitments by other parties are far more ambitious than those made at multilateral level. This means that Vanuatu is the country which stands to benefit the most from services liberalisation under the MFTA.

The MFTA includes a chapter on temporary labour mobility giving a secure legal basis to the arrangements of the Memorandum of Understanding on the Skills Movement Scheme. The MFTA labour mobility scheme is intended to make it easier and cheaper for workers of the parties to find temporary employment in selected skilled and semi-skilled occupations. The scheme is based on simplified and cost-free assessment and entry procedures, encourages the development of common standards and mutual recognition of qualifications, relies on certified recruitment agencies to facilitate information on employment opportunities and match labour demand with supply, provides for fair terms of employment of foreign workers, establishes authorised agents tasked to supervise and assist the recruited workers, and opens up the possibility of future developments such as pension portability. Whilst the sectors selected by Fiji, Solomon Islands and Vanuatu are limited to a few skilled occupations, the sectors opened by PNG cover a broad spectrum of skilled and semi-skilled occupations. As shown in Table 4.3, MSG countries already represent an important source of foreign labour for Vanuatu, whereas labour export towards MSG countries is limited. It is not certain that a country with significant skill-gaps such as Vanuatu (see Chapter 8) will be able to seize opportunities in highly skilled sectors, however, opportunities that will arise in semi-skilled occupations (especially in PNG) could benefit Ni-Vanuatu jobseekers.

The MFTA chapter on cross-border investment encompasses disciplines aimed at giving confidence and protection to prospective and existing foreign investors. These include provisions on national treatment and minimum standards of treatment for foreign investors, a most-favoured-nation (MFN) clause, provisions to avoid arbitrary expropriation and to provide for fair compensation, commitments to the free transfer of funds, possibility to activate state-state dispute resolution, etc. Schedules of specific exceptions are included which essentially cover activities that the parties reserve (partially or totally) to nationals. Fiji and PNG investors already play a significant role in Vanuatu, including in strategic sectors such as finance (PNG) and telecommunication (Fiji). The chapter on cross-border investment can increase the attractiveness of Vanuatu as a place to do business and promote additional FDI inflows from MSG countries.

Other significant disciplines are covered by the MFTA, including on intellectual property (reaffirmation of commitments under the WTO Agreement on Trade Related Intellectual Property Rights), public procurement (commitment to future liberalisation), competition (commitment to introduce pro-competitive measures), as well-defined options to resolve disputes.

^{xlix} Based on the WTO Service Sectoral Classification List, with 1) Business services, 2) Communication services, 3) Construction and related services, 4) Distribution services, 5) Education services, 6) Energy services, 7) Environmental services, 8) Financial services, 9) Health and social services, 10) Tourism services

Summing up, the small but not insignificant trade relations between MSG members are expected to receive a boost by the revised version of this trade agreement. For Vanuatu, the MFTA presents opportunities to reduce the cost of exporting merchandise to and importing merchandise from MSG countries, gain access to some employment opportunities in the semi-skilled sectors (especially in PNG), fill critical labour shortages, and attract additional FDIs from the biggest MSG members. It is possible that by virtue of the new ROO some local manufacturers will gain duty-free access to the MSG market, and that export-ready Ni-Vanuatu businesses will find it easier to sell their services to MSG countries. Should Fiji and PNG decide not to join the Pacific Agreement on Closer Cooperation Plus (PACER Plus), the MFTA would also protect against the possibility of damaging trade diversion. Given the above, it is recommended that Vanuatu signs and ratifies the MFTA.

4.2.2.2 Pacific Island Countries Trade Agreement

Discussion is ongoing at regional level on options to strengthen economic integration through the PICTA.⁶⁹ These include:

- Revise the PICTA legal text (trade in goods) to improve its ability to promote trade
- Entry into force of the PICTA Trade in Services Protocol, whose negotiations were concluded in 2012
- Re-activate negotiations on labour mobility under PICTA with the view of establishing a labour mobility scheme among FICs

As noted before, only eight FICs have ratified and are trading under PICTA (Cook Islands, Fiji, Niue, Samoa, Solomon Islands, Tuvalu, Vanuatu, and Kiribati), although Tonga may soon ratify. It is apparent that PICTA ROO (40% local value content) present challenges, including being difficult to meet by island producers, and being more complicated and less certain than alternative criteria - e.g. change in tariff classification.⁷⁰ Given this, work is ongoing to revise PICTA ROO. Revisions to other areas could also be beneficial, for example insertion of commitments similar to those included in the WTO TFA, and the establishment of facilitative SPS and TBT disciplines. Ratification of PICTA by the newly acceded PIF members, especially New Caledonia, would certainly increase the importance of the agreement. Ratification by additional FICs and review of PICTA disciplines is not expected to significantly affect Vanuatu's imports, noting that under the MSGTA Vanuatu is already trading duty-free with the biggest FICs. On the other hand, securing stable and streamlined access to new FICs could benefit Vanuatu's exporters who are able to satisfy their demands – as it happened for Kiribati.

The PICTA Trade in Services Protocol is signed by ten FICs^l but only ratified by four, namely Samoa, Nauru, Marshall Islands, and Tuvalu. The protocol is not very dissimilar from the MFTA's chapter on Trade in Services which Vanuatu is familiar with. It covers,⁷¹ among other things, commitments on market access (no restrictions for liberalised services), national treatment and MFN treatment provisions; the possibility of recognising certifications, qualifications, etc. of other parties' providers; liberalisation of financial flows for services providers; commitments to the protection of Intellectual Property Rights (IPRs); and specific disciplines to facilitate trade in telecommunications and financial services. Specific commitments are not as ambitious as those of the MFTA and PACER Plus, but still represent an improvement compared to the current situation (see Table 4.5), especially for FICs which are not WTO members.

Like for trade in goods, Vanuatu's imports are unlikely to be affected by ratification and entry into force of the PICTA Trade in Services (TIS) Protocol, noting the limited export capacity of FIC non-WTO members.^{li} Liberalisation by the letter, however, may open some opportunities for Vanuatu's export-ready service providers – e.g. business and perhaps telecommunication services.

^l Cook Islands, FSM, Kiribati, Nauru, RMI, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu

^{li} The Vanuatu's specific commitments on services are the same as those taken at the WTO

TABLE 4.5: PICTA TRADE IN SERVICES, SECTORS WITH SPECIFIC COMMITMENTS

Country	PICTA TIS	WTO
Cook Islands	4 (1-4)	0
Fiji	3 (1,7,9)	1 (9)
FSM	6 (1, 2, 4, 5, 7, 9)	0
Kiribati	9 (1-3, 5, 7-11)	0
Nauru**	5 (1, 3, 7, 9, 11)	0
Niue	2 (2, 5)	0
Palau	3 (1, 9, 11)	0
PNG	8 (1-3, 5, 7, 8, 9, 11)	6 (1-3, 7, 9, 11)
RMI**	10 (1, 2, 4-11)	0
Samoa**	8 (1-3, 5-7, 9, 11)	10 (1-7, 9-11)
Solomon Islands	6 (1-3, 7, 9, 11)	4 (1, 3, 7, 9)
Tonga	11 (1-11)	11 (1-11)
Tuvalu**	9 (1-7, 9, 11)	0
Vanuatu	10 (1-9 and 11)	10 (1-9 and 11)

Notes:

1 = based on services offers submitted at the PICTA TIS Seventh Round of Negotiations, 08-10 February 2012, Fiji

** = ratified

Source: PIFS

FICs commenced negotiations on a labour mobility scheme known as PICTA Protocol on the Temporary Movement of Natural Persons (TMNP). Contrary to the what is covered in TMNP chapters, the PICTA protocol deals with people who are seeking access to the employment market of other parties. Discussions have so far focused on a scheme based on two 'Tiers' of workers, i.e. skilled (Tier 1), and semi-skilled (Tier 2). It is intended to provide for unconstrained mobility to Tier 1 workers and to establish a quota system for Tier 2 workers, subject to subject to recognition of certifications, qualifications, etc.

Generally speaking, a labour mobility scheme will be beneficial if the parties present different skill levels – countries with abundance of high-skill workers will labour shortages in countries with abundance of low-skill workers and vice-versa. By approximating a country's skill level with the average years of schooling (Table 4.6) of its students, one can see that a certain degree of differentiation exists among Forum Island Countries (FICs) and that therefore a labour mobility scheme presents opportunities to deliver benefits, including for Vanuatu – Australia and New Zealand are also added to the table to illustrate the forces behind the existing labour mobility schemes.

TABLE 4.6: SKILL LEVEL OF PACIFIC ISLAND COUNTRIES

Country	Mean years of schooling (2017)	Expected years of schooling for pupils entering the system (2017)	Percentage of skilled labour force (2011-2017)
Australia	13	23	78
New Zealand	13	19	83
Palau	12	16	..
Tonga	11	14	..
Marshall Islands	11	13	..
Fiji	11	15	63
Samoa	10	13	85
Micronesia (Federated States of)	8	12	..
Kiribati	8	13	..
Vanuatu	7	11	..
Solomon Islands	6	10	..
Papua New Guinea	5	10	27
Nauru	..	10	..
Tuvalu	..	..	..

Source: United Nations Development Programme (UNDP)⁷²

To conclude, non-MSG Forum Island Countries present opportunities for Vanuatu, including as export markets for goods and services, and as a source of temporary employment. PICTA could help realise these opportunities, although its effectiveness is undermined by the limited number of countries trading under the agreement on goods, the fact that the services protocol is yet to enter into force, and the fact that negotiations have not progressed on labour mobility. PICTA (goods) and its services protocol could become redundant if PACER Plus was ratified by all signatories. On the other hand, a PICTA labour mobility scheme would still remain relevant even in a post-PACER Plus scenario.

4.2.2.3 Economic Partnership Agreement with the EU

The Economic Partnership Agreement (EPA) was originally intended to cover all trade relations (goods, services and investment) between the European Union (EU) and the Pacific Africa Caribbean Pacific States (PACPS). Negotiations started in 2004 and were meant to be concluded by 2008. However, this objective was not achieved, and only an interim agreement covering trade in goods could be finalised by the agreed deadline. Negotiations continued on a more comprehensive version of the agreement, but these were suspended in 2015 due to disagreements on a number of outstanding issues, particularly on fisheries. In the meantime, the EPA concluded in 2008 was ratified by the European Parliament in 2011. The PNG Parliament ratified the agreement in the same year and Fiji started applying the agreement in 2014. Solomon Islands and Samoa are currently acceding to the EPA.⁷³

The EPA provides 100% duty-free-quota-free access to the EU market, subject to meeting product-specific ROO. Favourable ROO are included for prepared and preserved (canned) fish. These give originating status to all fish landed in a Pacific country, irrespective to the waters where the fish was caught or the vessel's flag. PNG, whose fish exports to the EU increased from USD 60m in 2010 to USD 180m in 2017,⁷⁴ seem to have benefitted substantially from EPA's ROO.

The EPA includes a chapter on trade safeguards, and chapters aimed at facilitating trade – i.e. one on SPS and TBT, and one on customs cooperation.

Some of the agreement's provisions are still contentious for Vanuatu, including those on prohibition of export taxes (article 10) - which are permitted under Vanuatu legislation, and are not prohibited under WTO rules; circulation of goods (article 15) –requiring duty refund merchandise imported from the EU is re-exported to another Pacific State; non-discrimination clause (article 16) – requiring to give the EU no less-favourable treatment than that applicable to other major trading economies entering an FTA with the a Pacific State; and bilateral safeguards (article 21) – including a twenty-year sunset clause for infant industry protection.⁷⁵

Importantly, the EPA has no chapter or resources devoted to development cooperation, and there are no immediate plans to include chapters on trade in services and investments, i.e. areas where trade flows between the EU and Vanuatu are more substantial.

The limited merchandise trade between Vanuatu and the EU does not justify prioritising domestic resources on EPA accession. Should significant trade opportunities arise in the future, for example due to the establishment of fish processing factories able to benefit from the EPA's ROO, the situation could be reassessed. EPA developments should continue to be monitored, whilst cooperation with the EU on matters of common interest can progress through the existing frameworks - Cotonou and post-Cotonou agreements. Given this context, an alternative route which the Government should follow is to access the Generalised Scheme of Preferences Plus (GSP+). Vanuatu has already ratified 24 out of the 27 conventions needed to access GSP+, which unilaterally grants full tariff removal to over 66% of EU tariff lines. Given the ease with which Vanuatu should be able to access GSP+, this is an excellent replacement for Anything But Arms post LDC-Graduation.

4.2.2.4 Pacific Agreement on Closer Economic Relations Plus

The Pacific Agreement on Closer Economic Relations Plus (PACER Plus) is a Free Trade Agreement (FTA) between Forum Countries – i.e. FICs, Australia and New Zealand. It is a modern and comprehensive

agreement covering trade in goods, services, investment, development cooperation, plus an arrangement on labour mobility.⁷⁶ The agreement has been signed by 11 countries^{lii} and already ratified by Australia, New Zealand, and Samoa. It will enter into force after eight countries ratify the agreement.

TABLE 4.7: PACER PLUS, TARIFF LIBERALISATION OF FORUM ISLAND COUNTRIES SIGNATORIES

Country	Percentage of bound tariff lines	Implementation period from entry into force
Cook Islands	92.0%	3 years
Kiribati	90.4%	Entry into force. As Kiribati eliminated its ordinary customs duties in 2014, its PACER Plus tariff commitments (bindings at zero) are effective on entry into force.
Nauru	92.9%	35 years
Niue	97.3%	25 years
Samoa	85.8%	25 years
Solomon Islands	85.1%	Tariff reduction commencing after graduation from LDC status or 10 years, whichever is later, and tariff elimination over up to 25 or more years
Tonga	98.6%	25 years
Tuvalu	94.5%	Tariff reduction commencing after graduation from LDC status or 10 years, whichever is later, and tariff elimination over up to 25 or more years
Vanuatu	85.0%	Tariff reduction commencing after graduation from LDC status or 10 years, whichever is later, and tariff elimination over up to 25 or more years

Source: DFAT

The first chapters are about trade in goods and cover liberalisation commitments and safeguards, ROO, customs procedures, SPS and TBT. After entry into force, chapters 2-6 of PACER Plus will eventually supersede the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), the non-reciprocal trade agreement granting duty-free-quota-free access to Australia and New Zealand for goods coming from FICs. PACER Plus will provide more favourable ROO compared to SPARTECA, which adopts a 50% Regional Value Content rule. PACER Plus adopts Product Specific Rules requiring goods to undergo a product-specific change in tariff classification, or a product-specific process that fundamentally changes its nature, or requiring that at least 40% of value-adding takes place within the PACER Plus membership. Unlike SPARTECA, PACER Plus requires FICs to liberalise substantially all trade (see Table 4.7), includes a most-favoured-nation provision applicable to FTAs with all major trading partners, and a provision on national treatment.

Vanuatu's schedule of commitments protects government revenues and the sectors whose local production may reasonably be promoted, including via import substitution. With reference to promising sectors such as fruits and vegetables, wooden furniture, and processed fish, Table 4.8 reveals the different strategies adopted by Vanuatu to promote its local industry - no tariff reduction for target fruits and vegetables, and no tariff commitments for wooden furniture and processed fish. Moreover, chapter 2 of PACER Plus includes numerous provisions to protect local producers including in case of dumping (article 7), sudden increase of imports threatening an existing industry (article 8), and development of an infant industry (article 9).

^{lii} Australia, Cook Islands, Kiribati, Nauru, New Zealand, Niue, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

TABLE 4.8: PACER PLUS, POLICY SPACE FOR IMPORT SUBSTITUTION

Products	Average Bound Rate	Average Applied Rate	PACER Plus Rate (2054)	Percentage Unbound
Fruits & vegetables (HS Chapter 7 and 8)	51.8%	26.6%	20.0%	0%
Wood and wooden products (HS Chapter 44)	40.0%	15.1%	0.0%	20%
Wooden furniture (HS Codes 940161, 940169, 940330, 940340, 940350, 940360)	60.4%	30.0%	n.a.	100%
Processed fish (HS codes 0304, 0305, 0306, 0307, 1604, 1605)	56.8%	17.2%	11.0%	77%

Source: Calculations on WTO⁷⁷ and DFAT⁷⁸

On the import side, the substantial trade that is already happening with PACER Plus signatories (35% of total) means that progressive tariff liberalisation will result in trade creation, which should in turn increase national welfare and competitiveness by reducing consumer prices and the cost of inputs of production.

The chapter on customs procedures (which draw from the WTO Trade Facilitation Agreement) and those on SPS and TBT are expected reduce trade costs between the parties. The provisions of the SPS chapter on equivalence (article 6), cooperation (article 10), and technical discussions (article 12) can help Vanuatu improving market access for some of its agricultural products. The provisions on cooperation (article 10) and technical discussions (article 12) included in the chapter “Technical Regulations, Standards and Conformity Assessment Procedures” can play the same facilitative function with regard to TBT. Moreover, the provisions on transparency (TBT chapter) and notification (SPS chapter), whose implementation is currently being supported by the United Nations Conference for Trade and Development (UNCTAD),⁷⁹ should further help facilitating trade.

The chapters on trade in services, investment, and labour mobility present important opportunities, noting that for Vanuatu about 50% of trade in these areas takes place with the signatories of PACER Plus. Through PACER Plus Vanuatu can get easier access to strategic services able to improve its competitive position, receive additional FDI inflows in areas the areas of comparative advantage, and further solidify its leadership as provider of temporary work to the developed members of the Pacific Islands Forum.

The chapter on trade in services includes national treatment provisions (article 3) and most-favoured-nation provisions (article 6), commitments on reasonable and impartial regulation including right to review and remedies (article 10), transparency requirements on provisions impacting trade in services (article 17), and disciplines which should facilitate recognition of developing countries’ qualifications (article 11). Importantly, FICs that are Members of the World Trade Organization (WTO) have improved upon their commitments under the General Agreement on Trade in Services (GATS). Vanuatu, for example, has taken commitment in all 11 sectors, and in 39 additional sub-sectors. And non-WTO Members have made legally-binding commitments equivalent or better than their commitments under PICTA – see Table 4.9.

The investment chapter represents an important feature of the PACER Plus agreement, as it creates an enabling environment for FDIs. It does so by protecting foreign investors against discriminatory treatment (article 6), envisaging non-less favourable treatment vis-à-vis countries that are not parties to PACER Plus (article 7), providing for minimum standards of treatment for foreign investors in line with customary international law (article 9), and for compensation of losses in case of expropriation (article 12). It also prohibits imposition of nationality requirement to senior management positions, save for exceptions listed in an annex to the chapter (article 10). The PACER Plus investment chapter adopts a positive list approach to liberalisation, and only covers the primary, mining, and manufacturing sectors – FDIs in the services sector are already covered by the schedule of specific service commitments. Generally speaking, the parties to PACER Plus have undertaken commitments in most sectors and subsectors, with the exception of reserved activities and save for additional requirements

applicable to foreign investors in all sectors.^{liii} No investor-state dispute settlement is provided for under the investment chapter, meaning that disputes between private investors and FIC governments are to be settled by local courts – a positive feature for small administrations lacking adequate resources for international disputes. The PACER Plus investment chapter shares many features with the corresponding MFTA chapter.

TABLE 4.9: PACER PLUS TRADE IN SERVICES, SECTORS WITH SPECIFIC COMMITMENTS

Country	PACER Plus	PICTA TIS ¹	WTO
Australia	11**	n.a.	
Cook Islands	10 (1-9, 11)	4 (1-4)	0
Fiji	n.a.	3 (1,7,9)	1 (9)
FSM	11	6 (1, 2, 4, 5, 7, 9)	0
Kiribati	10 (1-3, 5-11)	9 (1-3, 5, 7-11)	0
Nauru	10 (1-7, 9-11)	5 (1, 3, 7, 9, 11)**	0
New Zealand	10 (1-7, 9-11)**	n.a.	
Niue	11	2 (2, 5)	0
Palau	10 (1-7, 9-11)	3 (1, 9, 11)	0
PNG	n.a.	8 (1-3, 5, 7, 8, 9, 11)	6 (1-3, 7, 9, 11)
RMI	11	10 (1, 2, 4-11)**	0
Samoa	11**	8 (1-3, 5-7, 9, 11)**	10 (1-7, 9-11)
Solomon Islands	9 (1-7, 9, 11)	6 (1-3, 7, 9, 11)	4 (1, 3, 7, 9)
Tonga	11	11 (1-11)	11 (1-11)
Tuvalu	11	9 (1-7, 9, 11)**	0
Vanuatu	11	10 (1-9 and 11)	10 (1-9 and 11)

Notes:

1 = based on services offers submitted at the PICTA TIS Seventh Round of Negotiations, 08-10 February 2012, Fiji

** = ratified

Source: PIFS and MFAT

PACER Plus includes a chapter on development assistance which commits the parties to contribute to the implementation of a work program (article 3). The specific resources and areas of assistance of the work program are identified by a separate arrangement committing Australia to provide AUD 19 million and New Zealand to provide NZD 7 million. These funds will be disbursed by a PACER Plus Implementation Unit upon entry in to force of the agreement. In the meantime, a package to improve readiness of the parties to ratify and implement PACER Plus has been established and resourced by Australia (AUD 4 million) and New Zealand (NZD 4 million). The package provides assistance in some specific areas including legislative drafting; customs modernisation, harmonisation, implementation of up-to-date tariff codes and transposition of schedules; training on notification requirements under the agreement; public outreach and stakeholder engagement; and revenue planning and mitigation.⁸⁰

The PACER Plus arrangement on labour mobility establishes the Pacific Labour Mobility Annual Meeting (PLMAM), a regional mechanism to expand cooperation on this subject (paragraph 4); identifies priority areas of work for sending and receiving countries (paragraph 5); and defines options for broader support that would usefully strengthen labour mobility (paragraphs 6 to 9). Provision also made for the possible establishment of enquiry points (paragraph 10) and technical discussions (paragraph 11). Despite the non-binding nature of the arrangement, its implementation has the potential to strengthen existing schemes and facilitate new employment opportunities in Australia and New Zealand.

Vanuatu has a clear interest in ratifying PACER Plus given that about 50% of the country's trade in goods and services, labour and capital flows take place within the area covered by the agreement. As such, PACER Plus has the potential to benefit consumers and producers by lowering price of merchandise imports; enhance merchandise exports in areas facing challenging SPS and TBT; improve the quality of

^{liii} For MSG countries which are also PACER Plus signatories, the degree of market access granted under PACER Plus is similar to that of the MFTA despite the different approach to liberalisation - positive list approach in the former and negative list approach in the latter

domestic service providers and domestic regulation; improve market access for Vanuatu's providers of selected services; increase FDIs inflows; benefit Ni-Vanuatu workers via improved labour mobility arrangements; and increase productive capacity and quality of Vanuatu's goods, services, and laborers via targeted development assistance programs.

PACER Plus is already broader, deeper and more facilitative than PICTA, and is therefore likely to supersede the latter in all areas, with the possible exception of labour mobility – an area where FICs may be more willing to open their market to each other than to Australia and New Zealand.

The breadth and depth of PACER Plus are similar to the MFTA. Noting that Fiji and PNG do not seem interested in signing and ratifying PACER Plus, the entry into force of the latter is important for Vanuatu to establish a level playing-field aimed at avoiding damaging trade diversion.

4.2.2.5 New Caledonia

The Trade Policy Framework 2012 identified New Caledonia as a potential partner for a bilateral trade agreement. In 2013, a study was carried out which recommended a WTO-compliant FTA (New Caledonia being a developed country) covering goods, services, and investment. Significant trade flows, bi-directional migration, language and cultural commonalities, and the complementarities between the economic structures of the two countries were all elements used to justify the recommendation of an FTA. In particular, the study noted that opportunities exist to increase market access for Vanuatu's primary and processed agricultural products and for New Caledonia's construction material and machineries/appliances; to promote further tourism development in Vanuatu; to get easier access to New Caledonia service providers; and to enhance FDI inflows in Vanuatu.⁸¹ The study also noted that an FTA would give Vanuatu a competitive advance over Pacific competitors, noting that New Caledonia is not part of any regional or sub-regional FTA.

An "Agreement between the Government of New Caledonia and the Government of the Republic of Vanuatu Regarding the Development of Trade and Economic Exchanges" has recently been signed by Vanuatu's Prime Minister that commit the two parties to reduce customs and other import-related duties and quotas on a list of priority products, and to promote foreign investments in selected sectors. The average import-related duties applied on Vanuatu's priority products (mainly primary and processed agricultural goods) is currently 7%, whereas the average duty applied to New Caledonia's priority products (mainly processed agricultural goods, beverages, and construction material) is currently 15%. Whilst the agreement falls short of an FTA's standards, fails to cover trade in services, and may face significant implementation challenges, it nonetheless represents a useful first step to enhance a mutually beneficial trade and economic integration. The agreement's implementation should be closely monitored and progressive deepening should be sought in the direction of a WTO-compliant FTA – barring a decision by New Caledonia to join a comprehensive FTA that Vanuatu is part of.

4.2.2.6 Recommendations

- a. Sign and ratify the Melanesian Free trade Agreement
- b. Ratify the Pacific Agreement on Closer Economic Relations Plus
- c. Monitor developments of the Economic Partnership Agreement with the EU
- d. Ratify the conventions so as to gain access to the EU's Generalised Scheme of Preferences Plus post-LDC Graduation
- e. Monitor developments of the Pacific Island Countries Trade Agreement (goods and services)
- f. Support re-opening of negotiations to establish a Pacific Island Countries Trade Agreement labour mobility scheme
- g. Deepen trade integration with New Caledonia towards a World Trade Organization compliant Free Trade Agreement – unless New Caledonia joins Free Trade Agreements that Vanuatu is party to

4.2.3 Free and Preferential Trade Agreements under consideration

Taken together, trade agreements entered into force and under negotiation cover a very significant share of Vanuatu's trade (see Table 4.3). However, these agreements are missing out on markets which have emerged as prominent during the 30-40 years. These partners are mostly located in developing Asia.

4.2.3.1 China

China is today the biggest merchandise exporter, it has the second-biggest Gross Domestic Product (GDP) and the second-highest value of FDI outflows in the world. And it is closer to Vanuatu than some of its traditional partners. Given these figures, it is not surprising that China is today satisfying about 10% of Vanuatu's import needs, it has become the second biggest source of FDIs, and that many Chinese citizens are now residing in Vanuatu as investors, service providers and workers. Vanuatu already is exporting a significant share of its merchandise to China, as well as increased tourism services. The substantial and growing trade relations between China and Vanuatu could justify the establishment of a free trade agreement furthering trade integration, and complementing the agreements and memoranda signed by the government as part of its accession to the Belt and Road Initiative⁸² – including the Trade and Investment Framework Agreement (TIFA).^{liv} To be of interest to China, a free trade agreement should probably be regional in scope. Negotiations on a regional agreement would benefit from support by a dedicated team of professionals, which would supplement national capacity to negotiate with such an important partner. The additional capacity made available in the context of regional negotiations would be important to ensure that key contentious issues are effectively addressed. Despite the many positive features, issues are routinely raised about sustainability aspects of the Sino-Vanuatu trade relationship, including negative environmental impact of Chinese projects – depletion of natural resources sectors and environmental degradation; limited benefits (job creation, skill development) accruing to Ni-Vanuatu from Chinese projects; ineffective controls on migration from China; lack of quality and safety of Chinese merchandise. Provisions exist in FTAs to effectively address many of these challenges.

4.2.3.2 Association of Southeast Asian Nations

The Association of Southeast Asian Nations (ASEAN) has emerged and as global economic, trade and investment powerhouse. Its market counts 634 million people (third largest of the world), it is the sixth richest economy of the world by GDP, holds a share of 11% of global merchandise trade, and is the fifth biggest recipient of FDI with a world share of 5.6%.⁸³ Like China, ASEAN members are closer to Vanuatu than some of its traditional commercial partners, and this has prompted very significant trade flows, particularly during the past decade – see Chapter 3. Given the economic structure of the partners, trade flows are mainly concentrated in merchandise, with ASEAN members absorbing 36% of Vanuatu exports (mainly coconut oil, copra and cocoa beans), and with Vanuatu importing 26% of its merchandise from ASEAN members – mostly transshipment of fuel and vehicles through Singapore and Malaysian ports, but also iron and steel articles, meat/fish preparations, cereals (rice), electrical machineries and mechanical appliances.

Institutional relationships between Vanuatu and ASEAN countries are weak, and this may limit the ability of Vanuatu's exporters to make the most of opportunities offered by the ASEAN market and to address contentious issues that may emerge from time to time. A free trade agreement can help structuring trade dialogue, ensuring a stable access to the ASEAN market, and a reduction or elimination of customs duties on commodities – 10% on copra from Philippines and 5% duty on coconut oil from Malaysia. South-South cooperation could also be envisaged within the framework on an FTA, including

^{liv} Trade and Investment Framework Agreements (TIFAs) provide strategic frameworks and principles for dialogue on trade and investment issues between two parties. TIFAs serve as a forum for the parties to meet and discuss issues of mutual interest with the objective of improving cooperation and enhancing opportunities for trade and investment. The Memorandum of Understanding signed between Vanuatu and China in 2018 on establishing a Joint Economic and Trade Commission is an example of TIFA

on agriculture and value addition. Like China, ASEAN's interest in a free trade agreement with Vanuatu may be limited unless this option is pursued at regional level. Opportunities for trade in services and investment may be more limited at this stage, but chapters on these issues could nonetheless be included as they may become relevant in the years to come.

4.2.3.3 United Kingdom (post-BREXIT)

The UK is keen to 'transition' EPA preferences and provisions so that, post-Brexit, trade with ACP countries is not disrupted. In this context, the UK is assisting countries that have ratified the EPA to frame a 'transitioned' agreement. Trade flows with the UK are negligible and do not justify to prioritise this option – which would first require to join the EPA. Should trade relations with the UK become more important in future years this position could be reassessed.

4.2.3.4 Japan and the United States

Trade flows between Vanuatu and Japan and between Vanuatu and the United States are of a similar magnitude as those with the EU – small but not insignificant.

Vanuatu's merchandise exports to the two countries is highly concentrated – mostly beef to Japan and kava to the US. Beef enters Japan duty free by virtue of trade preferences granted to LDCs. The applied most-favoured-nation rate for kava in the US is 0%.⁸⁴ Vanuatu exports some tourism services to Japan.

For Japan and the US Vanuatu is a very marginal export market, which is unlikely to warrant the establishment of complex trade agreements. More than half of Japanese exports to Vanuatu are vehicles, whereas about half of US exports is jointly made of machineries/appliances (mechanical and electrical) and optical instruments.

The small but non-insignificant trade flows between Vanuatu and the two countries may benefit from the establishment of simple trade arrangements aimed at providing a formal but flexible forum for the discussion of important trade issues – for example the end of duty-free-entry for Vanuatu beef following its LDC graduation. TIFAs provide this option, and this is something that Vanuatu may consider, either individually or as part of a regional endeavour.

4.2.3.5 Recommendations

- a. Secure regional consensus on the option to negotiate a Free Trade Agreement between China and Forum Islands Countries
- b. Secure regional consensus on the option to negotiate a Free Trade Agreement between members of the Association of South East Asian Nations and Forum Islands Countries
- c. Monitor developments on Brexit
- d. Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally)
- e. Secure a Trade and Investment Framework Agreement with the United States (bilaterally or regionally)

4.3 LDC Graduation – Implications on Free Trade Agreements that Vanuatu is Party to

With regard to FTAs that Vanuatu is party to, implications from LDC graduation are minimal. Both the MSGFTA and the PICTA contain provisions on Special and Differential Treatment (SDT) for LDCs.

The MSGFTA has explicit SDT provisions benefitting LDCs in relation to the protection of an infant industry - one extra year to start duty reductions. The PICTA specifically notes the special circumstances of the LDCs and Small Island States (SIS), and this is captured in several provisions. LDCs and SIS have two extra years (already elapsed) for liberalisation of non-excepted products and one extra year for excepted products (2021 instead of 2020). They also have longer periods of protection under the developing industry provisions, and the emergency action provisions. Specific provisions are also made to ensure participation of LDCs and SIS in the Rules of Origin Committee, established under the agreement.

CHAPTER 5: BACKBONE SERVICES AND RELATED INFRASTRUCTURE

5.1 Energy

5.1.1 Overarching framework

5.1.1.1 Energy demand and supply

As with many Pacific countries, Vanuatu does not produce fossil fuels and has not yet developed a sizeable renewable energy supply. As a result, Vanuatu's energy sector relies heavily on imported fossil fuels and traditional biomass for primary energy supply. Recently, renewable energy sources, in the form of hydro, wind, and solar energy, have also been developed.

Between 2012 and 2017, total energy consumption in the on-grid areas increased by roughly 12%.⁸⁵ Energy demand is likely to increase further due to the growth in the economy. According to International Monetary Fund (IMF) estimates, Vanuatu's Gross Domestic Product (GDP) will grow at around 3% annually for the next 10 years.⁸⁶ If the economy grows at this pace, Vanuatu's Department of Energy estimates that domestic demand for energy will also grow at around 3% annually under the Business As Usual (BAU) scenario.

5.1.1.2 Institutional, policy, and regulatory framework for energy sector development

Currently, the main stakeholders involved in the development and operation of Vanuatu's energy sector are:

- Department of Energy (DoE). The DoE is responsible for energy sector policy making and coordinating the energy sector development in Vanuatu;
- The Utility Regulatory Authority (URA), an independent regulatory body, is responsible for the regulation of the electricity and water utilities operating within the current concession areas, as well as regulatory issues outside concession areas;
- Private companies – in particular the Union Electrique du Vanuatu Limited (UNELCO) and Vanuatu Utilities and Infrastructure (VUI);
- Mini-grids: which are constructed by the government with donor support; and
- Development partners and NGOs, which are active in providing assistance to those who have no or limited access to electricity, especially in rural and peri-urban areas.

5.1.1.3 Policy framework

The National Sustainable Development Plan (NSDP) has the following energy related development goals:

- ENV 2.3: "Promote renewable sources of energy and promote efficient energy use", under the environment pillar
- ECO 2.1: "Increase access to safe, reliable and affordable modern energy services for all that are increasingly generated from renewable sources and reduce reliance on imported fossil fuels", under the economy pillar

To facilitate achieving these development goals, Vanuatu has updated the Vanuatu National Energy Roadmap 2013-2020 and developed the Vanuatu National Energy Roadmap 2016-2030, which has identified five priority areas and set up energy sector development targets for the period between 2016 and 2030, including:

- By 2020: 75% electricity access in and near concession areas, 65% for off-grid areas, and 80% for public institutions;
- By 2030: 100% electricity access in and near concession areas, 100% for off-grid areas, and 100% for public institutions;
- 65% of electricity generated from renewable sources by 2020, and 100% by 2030.

In addition, the Department of Energy (DoE) is currently implementing the Barrier Removal for Achieving the National Energy Road Map Targets of Vanuatu (BRANTV).⁸⁷ The project commenced in 2018 and is expected to complete in 2022. The project’s objective is to enable the achievement of the energy access, energy sustainability, and green growth targets of Vanuatu, and there are five project components:

- Capacity and Awareness Enhancement on Sustainable Energy, and Low Carbon Development
- Improvement of Energy Policy and Planning, Formulation, and Implementation
- Institutional Framework Enhancement for Sustainable Energy and Low Carbon Development
- Sustainable Energy and Low Carbon Initiatives Financing
- Sustainable Energy and Low Carbon (Renewable Energy (RE) and Energy Efficiency (EE)), Technology Applications

5.1.1.4 Laws and regulations

The legal framework for the energy industry in Vanuatu is primarily based on the following legislation and contracts:

- The Electricity Supply Act (2000) defines the regulatory framework, both for the concessionaires in the electricity sector and for electricity providers outside the current concessions;
- The Utilities Regulatory Authority Act (URA Act) was developed in 2007 and amended in 2011. It defines the role and responsibilities of the URA. The two purposes of the act are to (a) ensure the provision of safe, reliable and affordable regulated services; and (b) maximise access to regulated services throughout Vanuatu.
- The Energy Efficiency of Electrical Appliances, Equipment and Lighting Products Act (2016). This aims to minimise the use of fossil fuel through promoting energy efficiency, while improving demand side (energy) efficiency for Vanuatu.
- The Geothermal Energy Act (1987). This act regulates the rights and responsibilities for holders of a license for geothermal energy utilisation.
- The Environmental Management and Conservation Act (2002). This act regulates the requirements to carry out Environmental Impact Assessments for projects and development activities, which have a negative impact on certain parts of the environment – see Chapter 9.

TABLE 5.1: CONCESSION AGREEMENTS FOR ELECTRICITY GENERATION AND SUPPLY

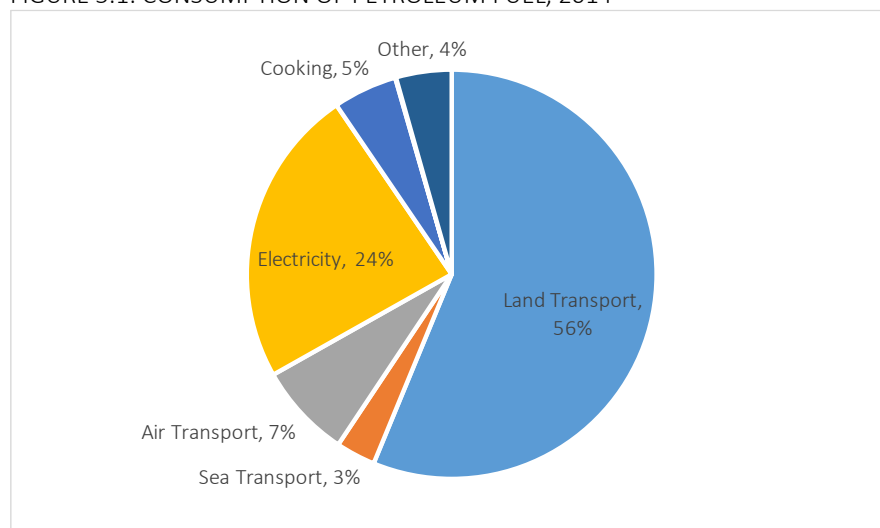
Area covered	Concessioner	Expiration Date
Efate	UNELCO	2031
Luganville	VUI	2039
Tanna	UNELCO	2030
Malekula	UNELCO	2030

Source: URA

5.1.2 Petroleum products and LPG markets

The imported primary energy supply includes diesel, petrol, kerosene, and Liquefied Petroleum Gas (LPG). The consumption of imported energy is presented in Figure 5.1.

FIGURE 5.1: CONSUMPTION OF PETROLEUM FUEL, 2014



Source: Global Green Growth Institute (GGGI)

In 2014, land transport accounted for 56% of the total petroleum fuel consumption, while air and sea transport accounted for 10%. Electricity generation was the second largest user of imported petroleum fuel.

The cost of imported fossil fuels amounted to nearly 6% of GDP in 2017 (VUV 5.2 bn), only slightly lower than the value of Vanuatu's merchandise exports. However, this is down from VUV 7.9bn in 2008 – see Chapter 3. Heavy reliance on imported fuel puts strain on the economy and is an energy security concern, in particular because there is a sole large-scale importer for petroleum products.

5.1.2.1 Market structure

For the petroleum fuel market Pacific Energy is currently the sole importer of bulk petroleum products for public supply. It mainly imports directly from Singapore, with some imports from Fiji. It has fuel depots in Espiritu Santo and Port Vila and is installing further depots in Malekula and Tanna. There are also a limited number of importers who import a small volume of petroleum fuels for self-supply.

At the retail level, Pacific Energy has its own petrol sales network; the second largest retailer is the Au Bon Marche (ABM) supermarket chain, which has four service stations, accounting for nearly 15% of the market. ABM sources its petrol from Pacific Energy. The latter also supplies diesel to both UNELCO and VUI for electricity generation. Petroleum fuel sold to ABM, UNELCO, and VUI accounts for nearly 40% of Pacific Energy's imported petroleum fuel.

Pacific Energy uses a voluntary formula for calculating the cost of fuel, using the base purchase price in Singapore, and then adds the known costs of shopping, storage, sales, taxes, and tariffs, and then adds a set profit margin. At the request of the Government, Pacific Energy calculates a national price. This lowers the price on the islands, but means that customers in Port Vila fund some of the transportation costs of fuel to the outer islands. Its market power is constrained to some extent by ABM, UNELCO, and VUI's countervailing power through their ability to bring in or establish an alternative potential petroleum fuel wholesaler.

According to the Price Control Act 1974, the Government has the legal right to control fuel prices but this power has not been used since 1989. The government is developing regulations for URA to impose 'light-handed' regulation on the petrol market, and is examining options for price monitoring of Liquefied Petroleum Gas (LPG).

For LPG, currently Origin is the sole major wholesaler. Origin imports from Australia and distributes through its own retail shops and other domestic retailers. In addition to Origin, there are a few small LPG importers. However, use of LPG is still very low, with modern cooking fuels being used by less than

20% of the population, with about 95% of the rural population still cooking with biomass.⁸⁸ The Government should seek to increase the usage of LPG throughout the country.

Competitive pressure and the threat of regulation tend to constrain both Pacific Energy and Origin Energy's ability to abuse their market power.

5.1.2.2 Market Performance

Vanuatu's average retail price for diesel and petrol is slightly higher than the average for Pacific Small Island Countries.^{lv} However, this is largely driven the country's tax structure. Vanuatu's pre-tax prices of diesel and petrol are 15-20% lower than the Pacific average – see Table 5.2. Taxes from diesel and petrol (duties and VAT) are roughly seven percent of total Government revenues,^{lvi} and so there would be a clear impact on the Government's ability to deliver services if these taxes were reduced.⁸⁹ Prices for LPG are roughly the same as the Pacific average, but significantly higher than in Fiji. Given the concentration of the LPG market in Vanuatu – i.e. it is very focused in the urban areas, and the proximity of Vanuatu to Australia, there may be scope for these prices to reduce further. The newly re-established office of the Price Controller should look further into the LPG market, to see whether there is any scope for price regulation of this market.

There may be the potential to reduce prices by increasing competition in the market. In Fiji, where pre-tax prices are substantially lower, there are three international companies importing petroleum products, whilst Tonga, which also has lower prices, has two international companies.

TABLE 5.2: UNLEADED PETROL PRICES IN VANUATU, PACIFIC, AND FIJI, 2017

	Retail Price (Pre-Tax) US Cent per Litre			Tax and Duty US Cent per Litre			Retail prices (After-Tax) US Cent per Litre		
	Vanuatu	Pacific	Fiji	Vanuatu	Pacific	Fiji	Vanuatu	Pacific	Fiji
Retail	82.9	97.6	56.4	49.6	20.4	30.9	132.5	118.0	87.2
Wholesale	73.0	89.8	60.4	48.2	26.5	18.1	121.2	116.3	78.4

Source: Pacific Community

5.1.3 Electricity

5.1.3.1 Supply and consumption

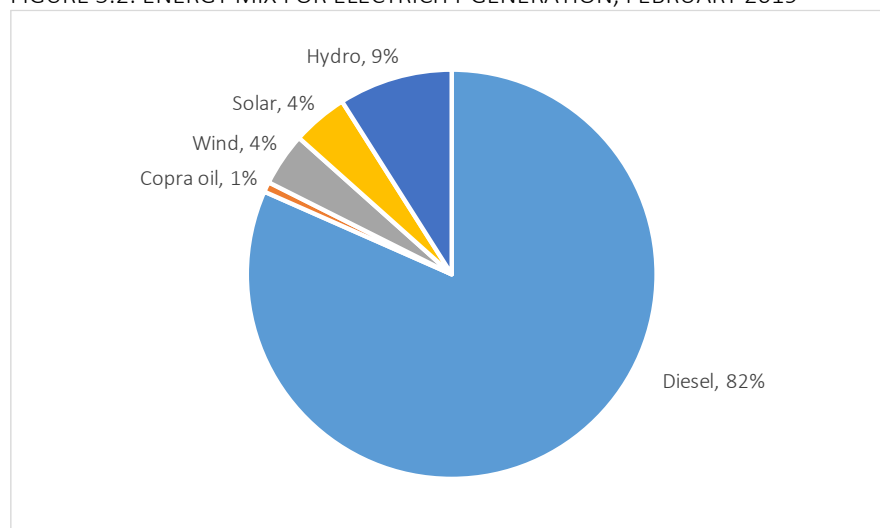
In Vanuatu, electricity is mainly generated through diesel fuel powered generators, which is complemented by electricity generated from wind, hydro, copra, and solar sources. Vanuatu has a generation capacity of 31.7MW (Megawatt). In 2017, more than 77 GWh (Gigawatt hours) of electricity were generated within the four concession areas, excluding electricity generated off-grid. 82% of the electricity was generated, with the remainder generated from renewable energy sources.

Copra oil has also been used to generate electricity in the past - for example in 2013, copra oil accounted for 15% of the total electricity generated. However, a rise in the international price of copra oil since then made this uneconomical, with no copra oil being used in 2017.⁹⁰ Since then, the copra price has collapsed, and the diesel price has risen, therefore potentially making it economical to use coconut oil once more. This has indeed been seen in early 2019, but to a very minor degree – see Figure 5.2.

^{lv} Pacific Island Small Economies, here, include American Samoa, Cook Islands, Fiji, Kiribati, Niue, Palau, PNG, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis & Futuna

^{lvi} This is based off the projections for 2018. Passport sales were in fact far higher, but these are not included in the calculation

FIGURE 5.2: ENERGY MIX FOR ELECTRICITY GENERATION, FEBRUARY 2019



Source: URA

Between 2012 and 2017, electricity consumption increased by 2.2% annually, driven mainly by the relatively rapid growth in residential consumption. It is estimated that electricity consumption will increase by 4.2% annually between 2015 and 2020, and increase by 6.4% annually between 2020 and 2030.⁹¹ This will be mainly driven by the growth in residential electricity consumption. The country must rapidly increase the availability of renewable energy if it is to meet this demand without significantly increasing imports of fossil fuels and emissions.

5.1.3.2 Market Structure

In Vanuatu, utility companies manage and operate assets that belong to the Government under long term concession agreements. Under these agreements, they have the exclusive rights to produce, distribute, and sell electricity within their assigned concession areas. They also have the exclusive rights to construct and maintain any lines, constructions, and facilities for public supply of electricity.

Access to electricity supply outside the concession area can be made available through off-grid electricity generation, including community based mini-grids, solar home systems, etc.

There are currently two companies operating in four concession areas: Union Electrique du Vanuatu Limited (UNELCO) in Efate and parts of Malekula and Tanna, and Vanuatu Utilities and Infrastructure Limited (VUI) in Luganville. Both are vertically integrated - they are engaged in electricity generation, distribution, and supply. The Efate concession areas currently subsidise the concession areas on Malekula and Tanna; the agreements for these two areas were recently extended until 2030 to allow alignment with the Efate contract. There is therefore very limited scope over the course of the TPFU to improve the concession areas.

The concession agreements effectively exclude any potential entrants from entering into the concession areas. In 2010, the Electricity Supply Act was amended to explicitly enable any person to generate electricity and sell wholesale electricity to the concessionaire. In 2014, the URA issued their decision on implementing feed-in tariffs and net-metering program for renewable energy in Port Vila for UNELCO's customers.⁹² In 2015, the URA also issued regulatory guidelines applicable to Independent Power Producers (IPP) entering into Power Purchase Agreements (PPA) for the generation and supply of electricity. However, this decision was challenged by UNELCO in court and was over-turned by the Court of Appeal in 2016.

Consequently, the only sizeable IPP that has emerged is the government solar project at the parliament through an agreement between the government and UNELCO. This project has a generation capacity of 767kW and generated 1,055 MWh of electricity in 2017, accounting for 1.6% of electricity generated in Port Vila⁹³ and 1.4% of electricity generated in Vanuatu.

For UNELCO, the concession agreements also define the pricing formula for determining the retail electricity tariff. This is based on a reference price defined in the agreements, which is then adjusted according to fuel price, general inflation, and an equipment price index to generate a base tariff. Currently, the base electricity price charged by UNELCO is adjusted monthly. This provides weak incentives for utility companies to improve efficiency and reduce costs. As of February 2019, the base tariff for UNELCO was 48.99 VUV per kWh, with the actual tariffs varying with different category of customers. For VUI the base tariff was 38.52 Vatu per kWh, with the hydro facilities being the main driver behind the differences.⁹⁴

According to the Utility Regulatory Act, the URA has the mandate to determine the maximum price that may be charged in relation to any aspect of a regulated service and to conduct regular price reviews. In 2018, the URA reduced UNELCO’s base tariff to 38.69 Vatu/kWh, although UNELCO have challenged this and the two organisations are currently in arbitration.

Within the concession areas, households or businesses which are currently not connected to the grid may choose to pay the majority of the connection cost and connect to the grid. Outside the concession areas, communities, public institutions, businesses, and private households may choose to access electricity through mini-grids if available or through small or medium size diesel or biomass generators, Pico or commercial solar home systems, solar or battery lamps, etc. A few mini-grids have been established by either government or local communities to supply electricity to a limited number of customers.

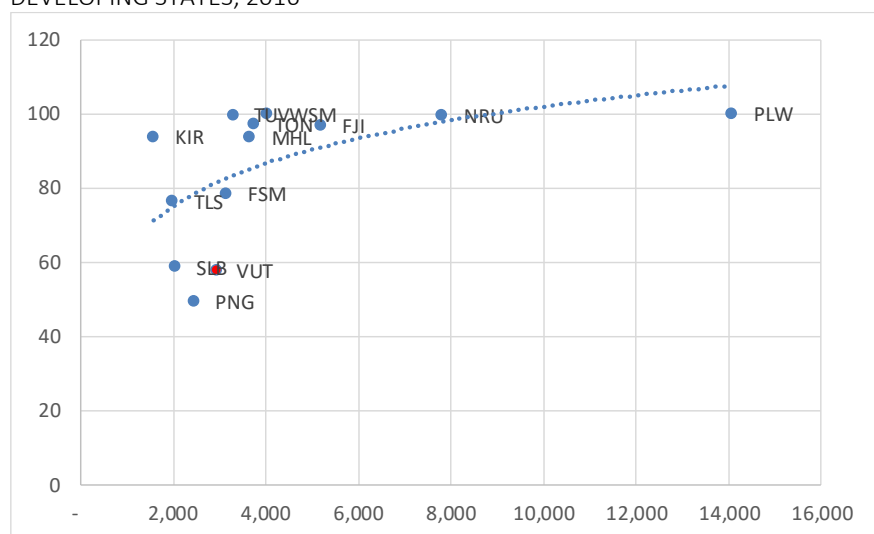
A number of players, including Vanuatu government, development partners, NGOs, and private companies, are active in making electricity accessible and affordable for those currently unserved or underserved. They provide either financial support, technical or technology support in helping communities and households to access electricity through mini-grid, small solar home systems, solar lantern, etc.

5.1.3.3 Market performance

5.1.3.3.1 Electricity access

Electricity access is low in Vanuatu. Only about 60% of the Vanuatu’s population had access to electricity in 2016.⁹⁵ This is also lower than the level of electricity access it should have achieved, considering its level of economic development – see Figure 5.3. In the Pacific, the percentage of population having access to electricity was only lower in Papua New Guinea. In Vanuatu, 46% of public institutions, such as rural primary schools, had no access to electricity in 2016.⁹⁶

FIGURE 5.3: GDP PER CAPITA AND ACCESS TO ELECTRICITY (% POPULATION), PACIFIC SMALL ISLANDS DEVELOPING STATES, 2016



Source: World Bank Group (WBG)

There are also significant gaps in electricity access between urban and rural areas, and between off-grid and concession areas. In 2016, 20% of the urban population lacked access to electricity, compared to 83% of rural households; and whilst 62% of the population living within or near concession areas had access to electricity, the corresponding figure for those living in off-grid areas was only 9%.⁹⁷

For new businesses, connecting to the grid is not easy and the connection cost is high. According to the Getting Electricity indicators in the World Bank’s Doing Business Report, which covers electricity access in Port Vila only, it takes an in-concession-area business 120 days to connect to the network, and costs roughly 10 times of Gross Domestic Product (GDP) per capita.⁹⁸ For businesses outside concession areas, access to electricity is even more difficult.

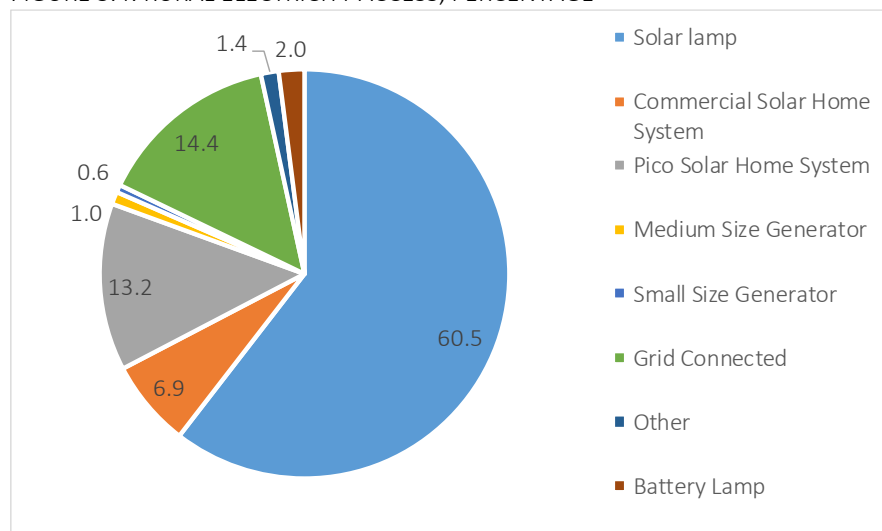
Development assistance can play an important role in improving electricity access. Between 2002 and 2016, development partners provided a total of USD 20 million development assistance to Vanuatu on energy generation, distribution, and renewable energy sources. These projects have had varying success. Recently, the Vanuatu Government has launched the Vanuatu Rural Electrification Programme, in partnership with the New Zealand Government, which subsidises the purchase of solar equipment. The programme is now in Phase 2, which aims to support approximately 45,000 people in rural areas.

5.1.3.3.2 Electricity quality

UNELCO, which is providing electricity in three of the concession areas, had forced outages of 1.55%, and planned outages of 0% in 2017. The figure for forced outages was the fourth highest of the 22 utility companies in the Pacific surveyed by the Pacific Power Association (PPA).⁹⁹ There was a marked improvement compared to the previous year, when UNELCO had the highest planned outage rate among comparable Pacific utility companies (11.3%), and had the third highest forced outage rate.¹⁰⁰ There is no data for VUI.

In rural areas, in particular off-grid areas, the majority of the electricity access is solar lamp only (60.4%), which are weather dependent, and which offers limited opportunities for development to rural businesses – see Figure 5.4. This trend to solar systems is likely to continue and accelerate over the coming years.

FIGURE 5.4: RURAL ELECTRICITY ACCESS, PERCENTAGE



Source: Department of Energy

5.1.3.3.3 Electricity prices

Electricity retail prices in Vanuatu are generally higher than the Pacific average, except for smaller domestic consumer consuming less than 60kWh monthly.¹⁰¹ For these small consumers, only Fiji had cheaper electricity. The customers in this category are cross-subsidised by other customer groups to encourage electricity access and consumption for low income households. For larger domestic consumers Vanuatu was much more expensive, with UNELCO being the third most expensive out of the

25 companies, and VUI being seventh. There was a similar story for businesses, albeit not as stark, with all options – with the exception of high voltage customers from VUI – being above the Pacific average, with UNELCO and VUI low voltages being the fifth and sixth most expensive tariff options.

TABLE 5.3: ELECTRICITY PRICES FOR DIFFERENT CONSUMER GROUPS

Group	UNELCO Price (VUV)	VUI Price (VUV)	Pacific Average (VUV)
Small Domestic Consumer consuming 60kWh per month at 1.1kVA	1,180	1,108	2,401
Domestic Consumer consuming 300kWh per month at 3.3kVA	21,948	14,689	13,066
Business Consumer consuming 10,000kWh/mth at 100kVA connection (High voltage)	549,403	451,895	500,044
Business Consumer consuming 10,000kWh/mth at 100kVA connection (Low voltage)	618,766	609,830	500,044

Source: URA

5.1.3.3.4 Electricity generation efficiency

One indicator measuring fuel efficiency is electricity generated per litre of diesel. UNELCO's fuel efficiency (3.83 kWh/litre) is lower than the Pacific average. Consultations indicated that the fuel efficiency of the power stations in Tanna and Malekula is particularly low, and so there may be an opportunity to improve the technology being used here. UNELCO's distribution loss of 5.4% is lower than the Pacific average of 22.6%, albeit with a more concentrated customer base than many of the other utility companies.¹⁰²

5.1.3.4 Impacts on businesses

The lack of access to electricity produces adverse economic and social impacts. It may constrain the length of working hours, limit the use of modern technology, hinder access to financial services and information, and limit the choices of economic activities, all of which would suppress trade and investment – both domestic and foreign.

High electricity prices push up business costs and frequent outages reduce business productivity, and weaken businesses' competitiveness. The Micro, Small, and Medium Enterprises (MSMEs) survey conducted by Reserve Bank Vanuatu in 2016 found that access to electricity and high electricity costs is one of the main impediments for MSMEs, with 64% of formal MSMEs and 72% of informal MSMEs considering electricity costs as the main problem, with regards to utilities and infrastructure.¹⁰³

5.1.4 Recommendations

- a. Develop electricity generation capacity from non-fossil fuel resources
- b. Increase access to electricity, especially for those in rural areas
- c. Undertake a study looking at the prices in the Liquefied Petroleum Gas
- d. Improve the institutional setting for electricity sector development, including:
 - i. develop a handbook on concession contracts to outline the procedure for awarding such contracts, and define clearly the roles and rights of the government and the concessioners;
 - ii. involve both URA and the agency responsible for competition in designing concession contracts to ensure regulation and competition policies or principles are integrated into the contracts
- e. Improve the policy and regulatory framework for electricity sector development, including:
 - i. Formulate and implement competition and consumer protection legislation
 - ii. Ensure the enforcement of existing energy policies and strategies, inclusive of the supporting rules/guidance and legislations/regulations
 - iii. ensure that future contracts facilitate Independent Power Producers and Power Purchase Agreements

- f. Support the use of coconut oil as an alternative to diesel, including through the 11th European Development Fund (EDF) funding
- g. Develop an electrification plan for renewable energy in remote islands

5.2 Telecommunications and Information and Communications Technology Sector

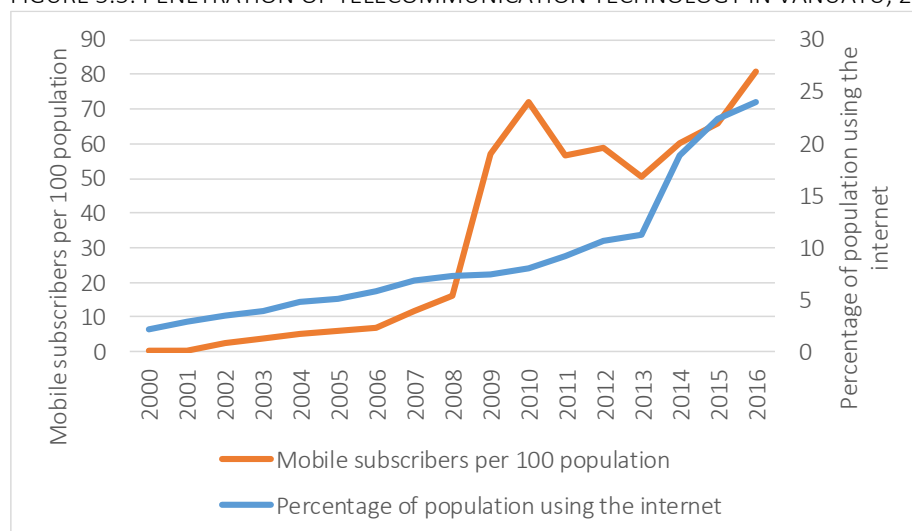
5.2.1 Introduction

In recent decades, telecommunication services have become an essential input for many economic activities. They contribute to economic growth and the overall productivity growth through enhancing the productivity of capital and labour, including through facilitating the exchange of knowledge and information. Telecommunications also offer immediate linkages between other parts of the world, and therefore offer substantial opportunities to reduce the geographical disadvantage that the country faces. At the same time, the global economy is becoming ever more technology-driven, and there is a substantial risk that any country which is not able to link into the technological trend will be severely disadvantaged. Reliable telecommunications access and services are also critical for many other parts of development, including financial inclusion, disaster preparedness and response, and bridging the gender gap.

Telecommunication services in Vanuatu are delivered through a combination of mobile and fixed line network, satellite, and undersea cables. Since the beginning of the century, Vanuatu has witnessed significant progress in the spread of telecommunication technology. The opening of the telecommunications market to competition in 2008 and the construction of the undersea cable (Interchange Cable Network 1, ICN1) in 2014 were the two main domestic factors driving this trend. As an illustration, between 2000 and 2016, mobile subscriptions per 100 population have increased from 2.1 to 80.8, and the percentage of population using the internet has increased from close to null in 2000 to 24% in 2016 – see Figure 5.5. Between 2014 and 2017 the amount of data downloaded increased from 15.5TB to 632.4TB. This has been accompanied by a fall in the number of SMSs being sent, and also in revenue from phone calls – these are all global trends which are only likely to increase.

104

FIGURE 5.5: PENETRATION OF TELECOMMUNICATION TECHNOLOGY IN VANUATU, 2000-2016



Source: WBG and TRR

5.2.2 Existing telecommunications and ICT-related policies

5.2.2.1 Vanuatu National ICT Policy

The Vanuatu National Information and Communications Technology (ICT) Policy was launched in 2013, and promotes a vision of “ICT for all”. The Policy expressed a commitment of the Government to maximise the contribution, efficiency and effectiveness of ICT. It has clearly identified priority areas,

implementation strategies and identified responsible entities for implementation. The priority areas are:

- Access to ICTs in Education: Providing educational institutions with access to ICT infrastructure, related services, and equipment adequate to support the educational process, as well as providing appropriate ICT-based educational content
- Access to ICT Infrastructure and Devices: Enhancing general access to as well as availability and affordability of the reliable ICT infrastructure
- E-Government: Enhancing effective and cost-efficient use of ICTs (including wireless communications) in Government operations
- Integration of ICTs into Sectoral Policies
- Building Trust: Mitigating risks and threats related to the ICT development, and recognising that alongside numerous benefits, ICTs also bring various dangers
- Locally Relevant Content: Increasing availability of locally relevant sustainably supported content, especially by making global content accessible in local languages
- Capacity Building: Enhancing skills necessary to utilise and develop ICTs, especially in the public service
- Platform for Multi-Stakeholder and Multi-Sector Coordination and Collaboration

Progress with Telecommunications and ICT services development and roll out in the Government offices and across Vanuatu has been mixed. Email services can now be accessed in the Government's provincial headquarters and in the main villages of Vanuatu's islands, along with other services in selected locations such as video conferencing, or Over The Top (OTT) services.^{lvii} There is also an increased number of government websites and improved communications. However, the majority of the Government offices do not have a digital strategic plan as required by the 2013 National ICT policy. Additionally, many Government workers need to be re-skilled and upskilled, and also to learn how to integrate telecommunications further into their work in order to fully capture the benefits technology can offer – for example through Business to Government (B2G) e-banking, or through innovative service delivery.

There is a clear need to update the ICT Policy which is now 6-year old, particularly given the pace of change in the telecommunications market. Importantly, the updated policy should also examine how to cope with new technologies, such as Artificial Intelligence (AI), Internet of Things (IoT), smart cities, blockchain and 5G. In the long-term some of these technologies have the potential to transform delivery of certain services, with the use of AI in health being a clear example. The Government must however be realistic in what it is trying to achieve in the short- and medium-term, as most of these technologies are at a nascent stage in the developed world, and therefore their impact on Vanuatu may still be limited for a number of years. This for example applies to blockchain, a technology which has already been subject of many discussions,¹⁰⁵ and for which a feasibility study may be required to identify costs, benefits, and the necessary regulatory framework.

5.2.2.2 Universal Access Policy

The Telecommunications, Radiocommunications, and Broadcasting Regulator (TRBR) is responsible for implementing the Universal Access Policy (UAP), which was launched in 2013. The UAP's objectives can be summarised as follows:

- By 1 January 2018, 98% of the population shall have access to voice, narrowband data (including text), and broadband internet services. This should include all education centres, health facilities, and public offices. The quality of the services must meet a minimum standard as defined by the regulator
- The prices provided shall be geographically uniform, and at the level that would be available in a competitive market

^{lvii} Over the top (OTT) media service is a streaming media service offered directly to viewers over the Internet

- The regulator shall be responsible for the implementation and enforcement of the policy

By January 2018, mobile broadband coverage had increased to over 98% of Vanuatu’s total population. In addition, 97% of sites were upgraded from 2G to 3G.¹⁰⁶ This is a very positive success story for the regulator and the largest operators within the industry. The lessons learnt from this success story should be clearly identified and communicated. Given the main policy objectives have been achieved, the UAP needs now to be updated. The Office of the Government Chief Information Officer (OGCIO) has begun the update process, through a new Digital Universal Service Policy.

5.2.2.3 Cybersecurity Policy

The national cybersecurity policy was also launched in 2013, and promotes a vision for “citizens of Vanuatu, tourists, business and government to enjoy the full benefits of a safe, secured and resilient cyberspace enabling them to get access to knowledge and share information while understanding and addressing risks to reduce the benefits to criminals”.

As an outcome of the cybersecurity policy, a draft cybercrime legislation is currently in the drafting stage and is anticipated to be approved by the Parliament in 2019. There is a need for the cybercrime bill to be widely consulted, but also to be prioritised given that access to internet is now near universal in Vanuatu.

Recently, with the support of the Australian Government, Vanuatu has established its Computer Emergency Response Team (CERT VU). The CERT VU is established under the OGCIO with the purpose of “support[ing] businesses, organisations and individuals affected by cyber security incidents, and provide[ing] trusted and authoritative information and advice”.¹⁰⁷

5.2.3 Legal and Regulatory Framework

The Telecommunications and Radiocommunications Regulator was established in 2008 and mandated to operate under the Telecommunications and Radiocommunications Act, No. 30, 2009. In accordance with section 7 (12) of the Act, “The Regulator must act independently and impartially in performing the responsibilities, functions, duties and powers set out in this Act and other laws”. Vanuatu’s regulatory regime is listed by the International Telecommunication Union (ITU) 2018 ICT Regulatory Tracker as the 11th best regulatory regime in the Asia Pacific Region – out of 29 regimes considered – and first among Pacific Island Counties.¹⁰⁸ It is critical that the Government recognises this success and continues to protect the independence of the regulator.

In June 2018, through an amendment of the Telecommunications and Radiocommunications Regulations Act, the Government approved for the Broadcasting regulatory functions to be transferred to the TRR, thereafter renamed as the Telecommunications, Radiocommunications, and Broadcasting Regulator (TRBR). This means that TRBR is now a ‘convergence regulator’ – i.e. a regulator of an industry whose sub-sectors are converging by virtue of technological trends. However, the existing regulatory regimes and mechanisms have not been updated to address convergence.

Furthermore, the TRBR is currently still focused on the more traditional telecommunication methods, such as voice calls and SMS, as well as access to services. It is anticipated that the challenges faced by the regulator will change in the next few years, particularly driven by increased usage of data and corresponding applications – for example OTT services. Some providers have recently begun to restrict access to OTT services – such as messenger calls. This will limit the transformational impact which these technologies can have, and is something which the regulator should monitor closely.

The TRBR will face both internal and external pressures to modernise, and it must be proactive in ensuring it can suitably regulate the emerging challenges. Besides convergence issues and OTT services, these include issues related to the Internet of Things (IoT), Artificial Intelligence (AI), cybercrime, data exploitation, digital financial inclusion, and multi-media activities.

The Government should consider which generation of ICT/Telecommunications regulatory framework¹⁰⁹ is most practical in this new setting. This framework should promote cooperation across

existing sectors in Vanuatu, and provide avenues to support the growth of e-services.

5.2.4 Market structure and the impact on consumer price and reliability

The telecommunications market was liberalised in 2008. This reform brought in Digicel, an Irish company, to the market to compete with Telecom Vanuatu Limited (TVL), the incumbent. It is deemed to have significantly benefitted Vanuatu. The clearest metric for this is the number of mobile subscriptions per 100 people, which increased substantially soon after the reform, but this is also reflected in the fall in prices since 2008. Similarly, the proportion of people using the internet dramatically increased since the opening of the submarine cable. Whilst these are trends that have been observed on the global scale, the stark nature of the changes and the timing indicate that it was these reforms which have driven these improvements.

There continues to be a duopoly for mobile voice and mobile broadband data services. The limited market size and Vanuatu's topography have contributed to the duopoly and it is unlikely that a third competitor will enter this market. There are other small-scale internet service providers targeting citizens within Luganville and Port Vila, where there is a larger market.

TABLE 5.4: MAIN TELECOMMUNICATIONS MAIN PLAYERS

Service Provider	Activities
1. Interchange Ltd	Interchange Ltd (ICL) constructed the first and only international submarine cable between Port Vila to Suva (Fiji). This linked Vanuatu directly into the high capacity Southern Cross cable between Sydney and USA. It sells its international bandwidth to both wholesalers and retail service providers
2. Kacific Broadband Satellite company	Kacific Broadband provides broadband wholesale internet across the archipelago and plans to launch a Vanuatu only satellite in 2019
3. Fidelity Communication Corporation (FCC)	FCC is the wholesaler of ICL's international bandwidth capacity to retail service providers in the form of Indefeasible Rights of Use (IRU)
4. Telecom Vanuatu Limited (TVL)	Telecom Vanuatu Limited was created in 1978 and provides fixed line (phone and internet) as well mobile (telephone and internet) services. In the past few years, it has built its own fibre network for its fixed line services and has set up 4G+ network for its mobile service
5. Digicel Vanuatu Limited	Digicel entered into the Vanuatu market since 2008 after the market was liberalised. It focuses on providing mobile services (telephone, internet). Recently, it has set its own fibre network and has entered into the fixed line service
6. Telsat Broadband Limited Vanuatu (via leased capacity from Speedcast, a telecom licensee)	Telsat provides Carrier-Grade wireless coverage to Port Vila and surrounds via their own independent network. Telsat also supplies and maintains Very Small Aperture Terminal (VSAT) systems for the other remote parts of Vanuatu
7. Wantok Network Limited	Wantok launched the first LTE network in Vanuatu in 2014. It provides wireless 4G Internet in Port Vila and surrounding areas, as well as satellite internet service in rural areas
8. Pacific Group	Pacific Group is a newly developed satellite internet service provider, focusing on rural areas
9. SPIM	Providing consulting and supporting services on IT and communication issues, as well as Wi-Fi internet to businesses in Port Vila
10. Incite	Providing consulting and supporting services on IT and communication issues

Source: author's consultations

As of 2018, there were ten service providers in Vanuatu, including three Exception License Holders (wholesale operators), two main mobile and internet service providers, and four small scale internet service providers – see Table 5.4.

5.2.5 Quality of service

Although citizens are enjoying the benefit of telecommunications services across Vanuatu, in many instances the quality of service is still lacking. This is one of the key issues which the TRBR and other stakeholders are currently addressing. Although there is no good data about the quality of services throughout Vanuatu, there is a clear disparity between the different parts of the country, with the quality in Port Vila and Luganville definitively better than in more remote areas. Fourth Generation Plus (4G+) mobile network technology is available in both cities as well as in parts of Tanna, Malekula, and Pentecost. The speed of the 3G available to much of the rest of the country is still very low by international standards – averaging at 5/1 Mbps^{lviii} – albeit higher than what the UAP specified.¹¹⁰

The Government is currently undertaking a Quality of Service audit exercise to try and address the lack of data. This exercise will measure a large number of parameters, such as availability of network/signal, the strength of the signal, and how long a connection takes, and will consider calls, SMS, and mobile data. This exercise should give much needed data to producers and the regulator about which areas they need to improve, as well as empowering consumers to make informed decisions about which product is most suited to their needs. Table 5.5 below outlines some of the key factors which limit the quality of service, as well as possible mitigating actions.

TABLE 5.5: QUALITY OF SERVICE ISSUES AND MITIGATING ACTIONS

Factors	Mobile user experience and issues	Possible mitigating actions
1. Mobile handsets	Some mobile handsets have weak signal to attract voice network signal from a nearby tower base station	TRBR have 'Type Approval Regulation' which also covers handsets
2. Terrain	This is the main factor for Vanuatu. The terrain - such as mountains – blocks the signal	Although boosters can be used, there are limits to what can be done. Placement of towers is key
3. Coverage simulation/signal reduction	This factor is technical and related to the spectrum the operators are currently using. The higher the frequency, the shorter the distance mobile coverage caters for. This is regarded as the second main issue across Vanuatu	TRBR has allocated 700MHz for respective mobile operators to improve signal coverage
4. Non-terrain obstructions	This factor refers to things like big trees, caves, buildings etc. that block the network	Although boosters can be used, there are limits to what can be done. Placement of towers is key
5. Multipath fading	Occurs when a transmitted signal divides and takes more than one path to a receiver and some of the signals arrive out of phase, resulting in a weak or fading signal	Rake receivers can counter the effect of fading. Work with consumers to identify specific areas that are experience such problem
6. In building penetration	Signal quality is reduced because of the type of building someone is in	Coverage or signal booster is an option for improvement
7. Antenna angle and tilt	This is when the signal is weak because the antenna is tilted to an unfavourable angle	Quality of Service audit help operators to identify and address this issue

^{lviii} 5 Mbps in download and 1 Mbps in upload

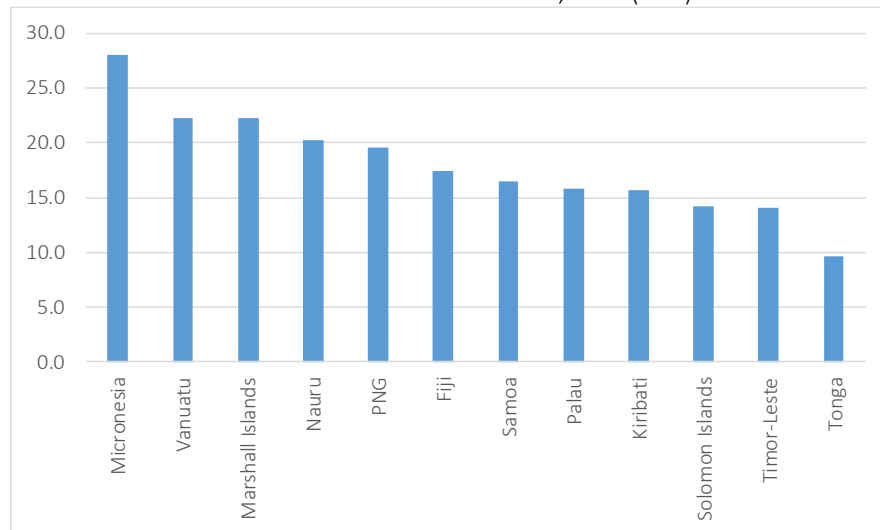
8. Cell overlap: co-channel interference	When two cell towers are receivable from one location thus contributing to co-channel interference, which can reduce quality	Experiences must be reported to the operators and the regulator to find solutions for such experiences
9. Cell overlap: pilot pollution	Presence of multiple cell towers will cause more than simple co-channel interference	Like the above, communities or individual consumer must report such experiences

Source: Consultant's own work

5.2.6 Market pricing

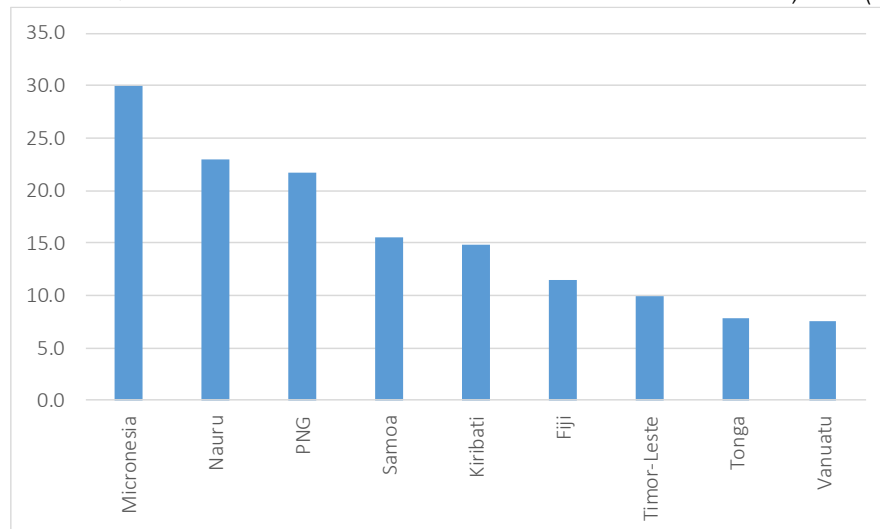
Figure 5.6 shows the price of a basket of voice and SMS mobile-cellular services in 11 Pacific Island Countries in 2016. It shows that Vanuatu has the second highest price for these services.^{lix}

FIGURE 5.6: PRICES FOR MOBILE-CELLULAR BASKET, 2016 (USD)



Source: ITU

FIGURE 5.7 PRICES FOR A PREPAID HANDSET-BASED PACKAGE OF 500MB, 2016 (USD)



Source: ITU

Looking at the data for mobile internet in Figure 5.7 a different story emerges, with Vanuatu instead

^{lix} ITU collects data on voice and SMS mobile-cellular services. The price basket comprises 30 calls (equating to approximately 50 minutes) and 100 SMS messages per month, and includes both on-net and off-net pricing, as well as peak, off-peak and weekend pricing variations. Prices are collected for the least expensive prepaid plan offered by the mobile operator with the highest market share.

being the cheapest country in the Pacific for a prepaid handset-based package of 500MB. The latest Pacific wide data is from 2016, but the data from the TRBR shows that the price of mobile data has continued to fall – from USD 24 in 2015, to USD 7.5 in 2016 to USD 5.35 by the end of 2017.

Table 5.6 shows the cost for computer-based broadband, both fixed and mobile. This shows that Vanuatu has the highest prices within the Pacific. At the same time, the speed in Vanuatu is very poor, showing that consumers are not getting a corresponding quality to accompany the price.

TABLE 5.6 PRICES, SPEED, DATA ALLOWANCE FOR COMPUTER-BASED BROADBAND

Country	Fixed Broadband basket (monthly data usage of (a minimum of) 1 GB)			Mobile Broadband, Post-paid, Computer Based ^{lx} (at least 1GB)	
	Price (US\$)	Speed (Mbps)	Data Cap (GB)	Price (USD)	Monthly allowance (GB)
Fiji	15.83	10	10	11.3	8
Kiribati	..	..	..	148.7	20
Marshall Islands	49.95	0.3	Unlimited	..	..
Micronesia	33	0.3	Unlimited	..	..
Nauru	34.94	0.5	5	..	..
Papua New Guinea	9.26	24	1	..	..
Samoa	38.6	2	3	17.5	1
Solomon Islands	..	..	..	25.3	1
Timor-Leste	49	2	6	12.5	1.2
Tonga	..	..	..	12.5	1
Vanuatu	55.86	0.5	Unlimited	37.6	1.5

Source: ITU

The high price for fixed line broadband seen in Vanuatu can be partly explained by fact that the level of usage in Vanuatu is quite low, both in terms of the proportion of population using internet, but also in terms of usage-type, with a large proportion users being engaged in low-capacity activities such as social media. This means that a relatively small customer base has to pay back the high investment costs. The Government should seek ways to encourage increased usage of the existing capacity, in order to reduce prices for the entire country – for example through supporting the establishment of a data centre (see Chapter 13).

Since the introduction of the cable, the average lease price in the market was around USD 340/Mbps/month. In 2017, following an anti-competitive investigation, the TRBR required all proposed price and non-price terms and conditions of wholesale supply be reviewed and approved by the TRBR. This was to ensure that prices are cost-based and not discriminatory. As part of the outcome of the investigation, ICL began offering approved capacity leases at USD 285/Mbps/month. Whilst this is lower than before, it is still much higher than the prices charged in Fiji, New Caledonia, French Polynesia, and Northern Marianas, which are all lower than USD 100/Mbps/month. TRBR is currently carrying out price investigations at both the retail and wholesale level.

5.2.7 Quality of physical infrastructure

For the telecommunications industry, high quality physical infrastructure is exceptionally important. For a country such as Vanuatu, this is particularly true given the geographical constraints that the country faces, as outlined in the quality of service analysis above. The archipelagic nature of the country, poor infrastructure, and high energy costs means that it is very expensive to install and maintain equipment compared to other nations, and then at the same time a given piece of physical infrastructure such as a tower will cover a very small population. The infrastructure must also be resilient against natural disasters, such as cyclones.

Critical infrastructures include the power supply, telecommunications base stations (towers),

^{lx} Mobile-broadband accessed via USB dongle

submarine cable, and VSATs. The power supply is covered earlier in this chapter. VSAT are satellite communications system which serve home and business users. Vanuatu now has full coverage of high-speed broadband access through satellites. VSATs offer an opportunity for communities which cannot be covered through other means to access the internet, and so offer an invaluable resource – including after disasters when other means of communication may be disabled.

There are around 200 towers, which provide over 98% of Vanuatu’s population access to voice and data. It costs around VUV 50 million (a full package) to build a single tower.¹¹¹ The biggest challenges faced by operators are logistical costs involved in set-up, power supply, the cost of maintenance, and ensuring that the towers are disaster-proof. Given these high costs, already some of the towers built to serve remote communities under the UAP are unlikely to be profitable,¹¹² and so there is no prospect of both TVL and Digicel building towers in the same remote location. This means users on one of these networks will experience large black spots. The Government is therefore looking into an Infrastructure Sharing Policy, to improve coverage and to promote competition.

There is currently only one undersea cable for Vanuatu, running from Port Vila to Fiji. There are currently discussions about installing a second undersea cable, which would provide much needed redundancy.^{lxi} This is particularly important given Vanuatu’s high level of vulnerability to natural disasters. However, given the high investment cost in an undersea cable, and the already existing high prices, the Government should make sure that there is a very clear rationale and coherent strategy before committing to any such investment. Any additional undersea cable should also extend capacity to the outer islands – in particular prioritising Tanna and Espiritu Santo - in order to spread economic opportunities and growth more equitably around the country.

The TRBR released the approved Type Approval and Conformity Standards Regulation in late 2018. This Regulation is established to ensure the Telecommunications, Radiocommunications, and Broadcasting infrastructure and equipment coming into Vanuatu conforms to the international standards, and is type approved. Enforcement of this Regulation begun in January 2019.

5.2.8 Recommendations

- a. Update the National ICT Policy
- b. Finalise the Digital Universal Service Policy
- c. Approve the cybercrime legislation
- d. Continue to maintain the independence of the TRBR
- e. TRBR to consider upgrading the generation of its telecommunications/ICT regulations from generation 3 – *“an enabling environment, investment, innovation and access dual focus on stimulating competition in services and content delivery and consumer protection”* to generation 5 – *“collaborative regulation, inclusive dialogue and harmonized approach across sectors”*.
- f. Finalise the Quality of Services (QoS) audit, and act on the key recommendations
- g. Finalise the Infrastructure Sharing Policy
- h. Subject to robust cost-benefit analysis, deploy a second international submarine cable
- i. Subject to robust cost-benefit analysis, deploy a domestic submarine cable, linking the main islands of Tanna and Espiritu Santo

^{lxi} Redundancy is defined as the inclusion of extra components which are not strictly necessary to functioning, in case of failure in other components.

CHAPTER 6: TRADE FACILITATION AND RELATED INFRASTRUCTURE

6.1 Time and Costs of Trading Across Borders

6.1.1 Vanuatu's performance

Improving the Ease of Doing Business, as defined by the World Bank Group (WBG),¹¹³ is important to offset Vanuatu's structural weaknesses such as small size and geographical distance from the main markets.

Table 6.1 shows that while Vanuatu ranks relatively well in terms of overall Ease of Doing Business (DB) compared to other Pacific Island Countries (PICs), it lags behind with regard to Trading Across Borders (TAB) - the DB component measuring time and cost to export and import.

On average, whereas Vanuatu's time to export is about 20% lower than other PICs, the time and cost to import and the cost to export are between 30% and 40% higher.

TABLE 6.1: DOING BUSINESS AND TRADING ACROSS BORDERS IN PICs, 2017

Country	DB rank	TAB rank	Time to Export (hrs)	Cost to export (USD)	Time to import (hrs)	Cost to import (USD)
FSM	155	58	62	228	91	260
Fiji	101	75	112	387	76	378
Kiribati	157	127	96	730	141	805
Marshall Islands	149	83	84	240	144	263
Palau	130	133	205	605	180	705
PNG	109	137	233	735	192	875
Samoa	87	148	75	1580	109	1130
Solomon Islands	116	156	170	887	145	955
Tonga	89	103	220	271	98	478
PICs, average (excl. Vanuatu)	121	113	140	629	131	650
Vanuatu	90	143	110	899	174	864

Source: WBG

Exporting from Vanuatu is more expensive but faster than importing into Vanuatu - USD 899 and 110 hours to export, against USD 864 and 174 hours to import.^{lxii} This is partly at odds with normal practice in most countries, where export procedures are both faster and cheaper than import procedures.

TABLE 6.2: COMPONENTS OF BORDER COMPLIANCE IN VANUATU, 2017

	Time (hrs)	Time (%)	Cost (USD)	Cost (%)
Export				
Clearance and inspections required by customs authorities	2	5.3	56 ^{lxiii}	7.9
Clearance/inspections required by agencies other than customs	0	0.0	0	0.0
Port or border handling	36	94.7	653	92.1
Total	38	100	709	100
Import				
Clearance and inspections required by customs authorities	78	38.2	110	16.2
Clearance/inspections required by agencies other than customs	0	0.0	0	0.0
Port or border handling	126	61.8	570.6	83.8
Total	204	100	680.6	100

Source: WBG

^{lxii} To calculate time and costs of exports, the World Bank Group (WBG) estimates cost of exporting the following from Port Vila to Malaysia: Harmonised System (HS) code 15: Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes. For imports, the WBG estimates the cost of importing the following from Australia into Port Vila: HS code 8708: Parts and accessories of motor vehicles.

^{lxiii} The Department of Customs and Inland Revenue (DCIR) indicates that costs of clearance and inspections is USD 10

Table 6.2 focuses on border compliance,^{lxiv} one of the two elements of Trading Across Borders – the other being documentary compliance.^{lxv} Looking at the table it is apparent that port handling charges represent the key challenge to reduce Vanuatu’s time and cost to export and import.

6.1.2 Port handling charges

Ninety percent of Vanuatu’s traded goods are transported by sea via the wharves of Port Vila and Luganville. Stevedoring services at the two wharves are provided by private concessionaires, namely Ifira Port Development Services (IPDS) and the Northern Islands Stevedoring Company Limited (NISCOL). The 2007 Diagnostic Trade Integration Study for Vanuatu reported that stevedoring charges in these two ports were the highest in the Pacific region. A decade later, in 2017, the Vanuatu Transport Plan 2030¹¹⁴ confirms that stevedoring charges in Vanuatu are still higher than in other Pacific Island Countries (Table 6.3).

TABLE 6.3: STEVEDORING REGIONAL COMPARATIVE TARIFF CHARGES, 2017, USD

	Vanuatu Port Vila	Samoa Apia	Fiji Suva	Tonga Nuku'alofa
Stevedoring import 20'	403.25	50.93	71.91	178.14
Stevedoring export 20'	403.25	50.93	71.91	178.14
Stevedoring import Revenue Ton (RT)	23.62	4.24	7.79	3.27
Stevedoring export Revenue Ton (RT)	23.62	4.24	7.79	3.27

Source: ADB

Charges have further increased after the recent upgrade of the two wharves. Under the stevedoring scale of charges for Port Vila prior to June 2018,¹¹⁵ handling a 20-foot container cost VUV 49,100. Under the new tariff schedule,¹¹⁶ IPDS charges for the same container are VUV 56,000.^{lxvi} Under both the old and new tariff regimes, an additional minimum of VUV 20,000 is charged for container delivery around Port Vila.^{lxvii} For Luganville, port handling charges for exports and imports are VUV 49,100 for a 20-foot container.¹¹⁷

Besides the entity of stevedoring charges, payment terms in Vanuatu strongly differ compared to international standards where fees are charged on a Liner In/Liner Out (LILO) basis,^{lxviii} even for Less than Container Loads (LCL). In Vanuatu, a minimum charge of VUV 3,000 per cubic metre is levied for each LCL consignment. Each individual LCL consignee pays the stevedore directly for loading or unloading of their freight, which results in high costs compared to when the payment is done collectively per container.¹¹⁸ Local payment terms for LCL also lead to time delays as customers do not pay the charges at the same time.

IPDS and NISCOL have 50-year concession agreements to manage stevedoring and cargo handling, expiring respectively in June 2068 and November 2065. Both concession agreements envisage exclusive rights. In the case of IPDS, under article 4 of the concession agreement, exclusivity applies to operations within the Lapetasi International Multi-Purpose Wharf, but also prevents others from operating a new container terminal within 80 km until the loan contracted by IPDS for upgrading the wharf is repaid.¹¹⁹ In the case of NISCOL, article 27 of the concession agreements states that the “government shall not enter into any other stevedoring concession in respect of the Espiritu Santo International Wharf during the tenure of this concession”.

^{lxiv} Border compliance captures the time and cost associated with compliance with customs regulations and with regulations such as phytosanitary inspections that are mandatory in order for the shipment to cross borders as well as the time and cost for handling that takes place at the port or border.

^{lxv} Documentary compliance captures the time and cost associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination and any transit economies.

^{lxvi} Discharge/load from vessel to quay, transfer to yard, and lift to truck or vice versa. VUV 35,000 are charged to the importer/exporter (code 101 of the tariff schedule), and VUV 21,000 charged to the shipping line/agent (code 201 of the tariff schedule)

^{lxvii} Code 402 of the new tariff schedule

^{lxviii} Under LILO payment terms, both loading and unloading of the cargo in and from the ship is included in the freight rate

The ownership structure of the wharves has partly constrained the government's ability to effectively regulate fees. Traditional land owners of Ifira Island own 51% of IPDS. The remaining 49% is owned by the central government. NISCOL is 80% owned by the provincial governments of Samna, Penama, Malampa and Torba, 10% by Luganville Municipal Council, and another 10% by central government.

To address the above challenges the Maritime Sector Regulatory Act no. 26 of 2016, article 17(q), gives the Office of the Maritime Regulator (OMR) the power to "to monitor and regulate stevedoring activities that are under a concession". Under article 34(f), the OMR is given the specific power to "monitor and regulate tariffs, prices and charges imposed at ports and on port users". Despite these powers, the OMR, established in August 2017, still lacks capacity to effectively regulate stevedores. Assistance to enhance the OMR's capacity in this area could substantially improve the country's ease of doing business. Assistance could be modelled on previous programs which were successful in building capacity for regulators such as the Utility Regulatory Authority (URA), and the Telecommunication, Radiocommunications, and Broadcasting Regulator (TRBR).

Cargo handling operations at airports pose fewer challenges to trade facilitation. Operations in Vanuatu are managed by Vanuatu Terminal Services Ltd (VTS), a subsidiary of Airport Vanuatu Ltd (AVL) – a State-Owned Enterprise (SOE). VTS has recently upgraded the cargo handling facilities at Bauerfield International airport of Port Vila, but this has been accompanied by an increase in service charges.^{lxix} These are seen as high by importers, especially by small importers who normally require more time to process and clear their imports.

Port and border handling fees also include charges for services provided by Biosecurity Vanuatu. VUV 6,500 is charged for fumigation of containers, and VUV 3,000 for quarantine services.

6.1.3 World Trade Organization Trade Facilitation Agreement

6.1.3.1. The Trade Facilitation Steering Committee

The Trade Facilitation Steering Committee (TFSC) was established in 2017 by the Council of Ministers upon recommendation of the National Trade Development Committee (NTDC). The TFSC is a multi-stakeholder body whose members include the Department of Customs and Inland Revenue (chairman), Biosecurity Vanuatu, Department of External Trade (secretariat), Department of Industry, Trade Development Division of the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB), Department of Ports and Harbours, Vanuatu Bureau of Standards, Customs Brokers and Freight Forwarders Association, IPDS, NISCOL, VTS, and Vanuatu Chamber of Commerce and Industry.

The main objective of TFSC is to support implementation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA). Vanuatu has notified its category commitments^{lxx} under the TFA in January 2018.¹²⁰ The notification was informed by the findings of a WTO Trade Facilitation Needs Assessment undertaken in 2015 by the WBG.¹²¹

A Vanuatu National Trade Facilitation Action Plan has been prepared by the TFSC secretariat to coordinate implementation of TFA commitments. Two working groups (test procedures and Single Window and Communications) have been established under the TFSC to lead on implementation of specific commitments.

6.1.3.2 Trading Across Borders and the Trade Facilitation Agreement

The WTO TFA includes provisions whose implementation can improve the business enabling environment. Clear linkages exist between implementation the TFA articles and the Doing Business reforms to reduce time and cost of trading across borders.¹²² A schematic illustration of these linkages

^{lxix} Storage fees - from VUV 20/kg charged from 48 hours after arrival to VUV 30/kg charged from 24 hours after arrival; freight handling charges - increased by VUV 10,000 per tonne; usage of cold room facilities – increased to VUV 1,000 per hour

^{lxx} Notification did not include definite date for Category C commitments, which will have to be notified by the 21 August 2021

is presented in Table 6.4.

TABLE 6.4: LINKAGES BETWEEN DOING BUSINESS REFORMS AND TFA ARTICLES

Art. Number	Art. Title	ES*	BC*	CA*	BI*	RBI*	NL*
1	Publication and availability of information	✓					
2	Opportunity to comment, information before entry into force, and consultations						✓
3	Advance rulings			✓			
4	Procedures for appeal or review						✓
5.1, 5.2	Other measures to enhance impartiality, non-discrimination and transparency			✓			
5.1, 5.3	Other measures to enhance impartiality, non-discrimination and transparency					✓	
6	Disciplines on fees and charges imposed on or in connection with importation and exportation and penalties			✓			
7.1, 7.2	Release and clearance of goods	✓					
7.3, 7.6., 7.9	Release and clearance of goods			✓			
7.4, 7.5, 7.7, 7.8	Release and clearance of goods						✓
8	Border agency cooperation		✓				
9	Movement of goods intended for import under customs control			✓			
10.2, 10.4	Formalities connected with importation, exportation and transit	✓					
10.8, 10.9	Formalities connected with importation, exportation and transit		✓				
10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7	Formalities connected with importation, exportation and transit			✓			
11	Freedom of transit		✓				
12	Customs cooperation		✓				
* DB reforms:	<i>ES = E-Systems</i> <i>BC = Border Cooperation</i> <i>CA = Customs Administration</i> <i>BI = Border Infrastructure</i> <i>RBI = Risk-Based Management</i> <i>NL = No link to Doing Business Reforms</i>						

Source: Elaborations on WBG

Across the world, the biggest reduction in the time of trading across borders has been delivered by reforms promoting e-Systems, followed by development of border infrastructure, risk-based inspections, streamlining of customs administration, and customs cooperation.¹²³ Vanuatu is making significant progress on e-Systems through the establishment of an Electronic Single Window.

6.1.3.3 TFA reforms: the Electronic Single Window System

As part of its efforts to facilitate trade, the Department of Customs and Inland Revenue (DCIR) has recently reviewed and redesigned its clearance process and updated its customs management system to the World version of the Automated System for Customs Data (ASYCUDA), a software developed by the United Nations Conference for Trade and Development (UNCTAD). These reforms are expected to reduce time to clear cargo compared to the 2017 figure of 3 days and 3 hours – time taken by customs brokers to process and pay the customs declaration.¹²⁴

Whilst recent reforms are positive, challenges still remain. As highlighted by the Vanuatu Electronic Single Window System (ESWS) project document,¹²⁵ key outstanding issues include, but are not limited to:

- Un-integrated and inefficient government clearance systems, leading to duplication of documentary submission to government agencies and to unstructured management of border risk
- Paper based documentation
- Manual processing by government agencies, which is time consuming, unpredictable and lacks transparency
- Lack of centralised data gathering for monitoring and statistical purposes
- Separate points of payment for different government agencies
- Lack of e-payment

To address some of these challenges the government is implementing an Electronic Single Window System. The ESWS project, funded by the Enhanced Integrated Framework (EIF) and the Australian Department of Foreign Affairs and Trade (DFAT), and supported by the UNCTAD will run until 2020 and includes the following activities: (1) development of an ESWS Blueprint providing the policy, technical, legal and procedural guidelines for the various components of the project; (2) Review and redesign of non-customs clearance process in five priority government agencies – e.g. Biosecurity Vanuatu; (3) phased operationalisation of the ESWS by establishing a central portal, developing ASYCUDA World modules at priority government agencies, and deploying the modules. If successful, the ESWS project has the potential to address many of the challenges that still affect the clearance process, thus resulting in significant reduction of time and cost of trading across borders.

In November 2017 the DCIR introduced the possibility of making e-payments for its services. The ESWS project offers the possibly to extend this feature to the other agencies involved in the clearance process.

6.1.3.4 Other TFA reforms

Besides implementation of an ESWS, Vanuatu is targeting other reforms linked to the WTO TFA. Of the 36 applicable TFA sub-articles, Vanuatu is already complying with 12 sub-articles (Category A), is targeting compliance with other 12 sub-articles after a transitional period and without technical assistance (Category B), and is targeting compliance with the remaining 12 sub-articles after a transitional period and subject to receiving technical assistance (Category C).^{lxxi} Implementation of outstanding Category B and C commitments will reduce the time and cost of trading across borders.

As at October 2018, many of the recommendations included in the 2015 WBG needs assessment have already been implemented, and a clear way forward has been agreed on other priority projects - see Table 6.5.

TABLE 6.5: TFA IMPLEMENTATION, KEY ACHIEVEMENTS AND WAY FORWARD

Article	Article Title	Cat.	Achievement	Way forward (priority projects)
1.1	Publication	C	Work on a Trade Portal amalgamating all legislation, import and export procedures initiated	Trade Portal up and running before Electronic Single Window project is completed (end 2020). To include web-links with existing websites, and for agencies without a well-maintained website, direct provision/upload of the relevant information
1.2	Information Available through Internet	C	(see above)	(see above)
1.3	Enquiry Points	C	DCIR has developed and	Appoint Enquiry Points for each of agency

^{lxxi} WTO TFA's provisions are categorised as follows. Category A: provisions that the member will implement within one year after entry into force of the Agreement; Category B: provisions that the member will implement after a transitional period following the entry into force of the Agreement; Category C: provisions that the member will implement after a transitional period following the entry into force of the Agreement and requiring the acquisition of assistance and support for capacity building. Vanuatu was already compliant with many of the provisions which were classified as Category B at the time of the notification to the WTO.

			published a client service charter and published it on its website ¹²⁶	of the TFSC Communication Working Group, plus Enquiry Points for other relevant agencies which are not part of the WG (e.g. Department of Environmental Protection and Conservation) Include the contact details of the Enquiry Points in the Trade Portal
1.4	Notification	C		Notify to WTO Trade Facilitation Committee after priority projects for articles 1.1. and 1.2 are completed
2.2	Consultations	B	Consultation points - Customs Brokers and Freight Forwarders Association established	
3	Advance Rulings	B	Implemented an awareness program to educate traders on the Standard Operating Procedures to obtain an advance ruling developed Undertaken staff training on complex HS and valuation issues for advance rulings	Seek and obtain PSC approval for DCIR restructuring including a new technical unit made of three senior officers focusing on classification/valuation/rules of origin and responsible for advance rulings Secure budget and recruit the three officers
5.1	Notification for Enhanced Controls or Inspections	B		
5.2	Detention	C		
5.3	Test Procedures	C		Vanuatu Bureau of Standards to draft, submit and secure approval of a position paper to TFSC for this article
6.1	General Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation	B	DCIR and Biosecurity have submitted full list of their fees and charges to TFSC DCIR fees and charges are included in the Customs Regulations Order No.113 of 2014 which is available online	Others agencies imposing fees and charges to submit their respective list to the TFSC Publish information on the Trade Portal Undertake review of non-tax revenue fees and charges in anticipation of the income tax
7.1	Pre-arrival Processing	B		
7.2	Electronic Payment	B	Customs has introduced the possibility of electronic payment for Bred Bank clients	Extend the possibility of electronic payment to other banks based in Vanuatu – ANZ, BSP, NBV Use the Electronic Single Window to extend the option of electronic payment to other agencies
7.4	Risk Management	C	The terms of reference for the DCIR Selectivity Committee developed Risk management plan for DCR in place	Develop risk management plans for other agencies involved in import/export

7.5	Post-clearance Audit	C		Secure technical assistance to assist Post-Clearance Audit office at DCIR to develop procedures with the view of improving PCA's effectiveness (in terms of revenue collection) and efficiency (in terms of trade facilitation)
7.6	Establishment and Publication of Average Release Times	C	Average Release Time Study undertaken in 2017	Customs Officer to undertake and publish Average Release Time Study in 2019 – TA may be required for capacity-building
7.7	Trade Facilitation Measures for Authorised Operators	C		
7.8	Expedited Shipments	B	World Customs Organization immediate release guidelines implemented	Undertake World Customs Organization training on implementation of the guidelines to further speed-up the process
8	Border Agency Cooperation	B		Electronic single Windows system (ESWS) project to address this issue for 5 priority agencies and to be extended to other relevant agencies if funding is secured to connect other agencies to the ESWS
9	Movement of Goods Intended for Import under Customs Control	B	After ASYCUADA World (AW) was deployed, this article is complied with - entry and clearance at different locations is now a possibility	
10.1	Formalities and Documentation Requirements	B	DCIR business process was reviewed as part of the AW project and is now compliant with this article	Electronic single Windows system (ESWS) project to address this issue for 5 additional priority agencies
10.2	Acceptance of Copies	B	DCIR business process was reviewed as part of the AW project and is now compliant with this article - copies are now accepted, including electronic ones	Electronic single Windows system (ESWS) project to address this issue for 5 priority agencies
10.3	Use of International Standards	C	Vanuatu has ratified Revised Kyoto Convention on the Simplification and Harmonization of Customs procedures DCIR is already compliance with 75% of the RKC provisions	Implement the Action Plan to ensure compliance with 25% additional provisions in the next 3-5 years
10.4	Single Window	C	ESWS project started	EWSW project completed by the end of 2020, with focus on 5 priority agencies
11	Freedom of Transit	B		

Source: WTO, World Bank Group, and Vanuatu's TFSC

Despite the substantial work already undertaken on trade facilitation, Vanuatu has still to ratify the WTO TFA. Vanuatu is already compliant with most of the TFA Category B provisions and has already

ratified the Revised Kyoto Convention,¹²⁷ whose provisions mirror disciplines of the TFA. Ratification would therefore come at no cost, but would be important to signal commitment to potential partners and to secure assistance to implement the agreement's provisions.

6.1.4 Recommendations

- a. Provide additional resources to the Office of the Maritime Regulator to monitor and regulate stevedoring activities that are under a concession, notably to monitor and regulate tariffs, prices and charges imposed at ports and on port users
- b. Replace the current payment terms for Less Container Load (LCL) with the Liner-In Liner-Out (LILLO) terms
- c. Ratify the WTO Trade Facilitation Agreement
- d. Implement the Electronic Single Window System (ESWS) project and monitor its impact on trade facilitation
- e. Implement priority projects included Table 6.5 of the TPF Update 2019 to comply with obligations included in Category B and C articles of the WTO Trade Facilitation Agreement

6.2 Trade Facilitation Infrastructure

6.2.1 Institutional and legislative arrangements in transport sector

6.2.1.1 Institutions

A broad range of entities are involved with transport infrastructure. Three departments under the Ministry of Infrastructures and Public Utilities (MIPU), namely Public Works Department (PWD), Department of Ports and Harbours (DPH), and Civil Aviation Authority of Vanuatu (CAAV), are responsible for policy making and implementation, infrastructure development and maintenance, and regulation. For maritime transport, the recently established OMR has taken over substantial regulatory functions.

Moreover, the Vanuatu Project Management Unit (VPMU) under the Prime Minister's Office (PMO) oversees infrastructure projects worth more than VUV 1 billion. These include the Lapetasi Multipurpose and International Wharf project (completed), the Vanuatu Aviation Investment Project, the Port Vila Urban Development Project, and the Vanuatu Tourism infrastructure project (completed).

6.2.1.2 Legislation overview

Road management and ownership is regulated by the Road Act No 35 (2013).

The Port Act (Cap 26) remains the key legislation for management and operation of ports. In 2016 an important piece of legislation was introduced to regulate the maritime sector, the Maritime Sector Regulatory Act No 26 of 2016. Moreover, concessions for Port Vila and Luganville international wharves exist which transfer most operational responsibilities to concessionaires.

Civil aviation is guided by the Civil Aviation Act No.16 of 1999, as amended in 2005. The Act establishes the CAAV. Moreover, the Civil Aviation Security Act No.10 of 2007 covers aviation security.

6.2.1.3 Policy

The Vanuatu Infrastructure Strategic Investment Plan (VISIP) 2015-2024¹²⁸ is the main document providing direction for investment in infrastructure. The Vanuatu Transport Plan 2030, not yet in place, provides situation analysis and high-level guidance to the transport sector.

6.2.1.4 Infrastructure

Vanuatu's trade facilitation infrastructure includes:¹²⁹

- International Gateways - two main international seaports (Port Vila and Luganville) and three international airports (Port Vila, Luganville, and Lenakel)^{lxvii}
- Road network - estimated to be around 3,000 km of sealed, gravel and earth roads
- Domestic airports - 26 airstrips on most of the main islands
- Domestic wharves, landings and jetties – 36 in total

6.2.2 Air transport

Air transport is a key component of trade facilitation in Vanuatu. It is essential for the development of the tourism industry. It also is important for time-sensitive export industries, facilitates and opens opportunities for low-volume, high-value products, serves the needs of exporters wishing to test new markets and gradually build a regular base of supply, and supports e-commerce.

Thanks to the ‘open sky’ policy that the country adopted since 2004 the number of commercial passenger flights into and departing Vanuatu has notably increased – and with it airfreight capacity.

Vanuatu has 29 airports, of which three are international – Bauerfield in Port Vila (72% of domestic and international passengers), Pekoa in Luganville (20% of passengers), and Whitegrass in Tanna (8% of passengers).¹³⁰

Airports Vanuatu Limited (AVL), a corporatised State-Owned Enterprise (SOE) overseen by the CAAV, operates the three international airports and maintains their infrastructure. Vanuatu Terminal Services Limited (VTS), a subsidiary of AVL, provides, inter-alia, international cargo terminal, freight forwarding, and handling services at international airports. The 26 national airfields on the outer islands are owned by the government and managed and maintained by the PWD.

6.2.2.1 International airports

The international airports are located in islands which collectively cover 60% of the country’s population and 45% of the land area.

As part of Vanuatu Aviation Investment Project (VAIP) funded by the WBG, the country’s infrastructure for international air transport is undergoing major rehabilitation, improvement of safety features, and upgrading. This will allow the three international airports to meet and maintain International Civil Aviation Organization (ICAO) standards and, for Bauerfield, to serve larger aircrafts. The aircrafts capable to be served by the three airports include:

- Bauerfield: Boeing 737-800 (175 passengers). Upon completion of works to upgrade to ‘Code E’, Boeing 787 (335 passengers) and Airbus A330 (335 passengers)
- Pekoa: Boeing 737-800 (175 passengers)
- Whitegrass: ATR 72 series (78 passengers)

Works at the international airports also include terminal upgrades at Pekoa (completed in 2018) and at Bauerfield - with funding provided by Japan. Upgrade of the Bauerfield passenger terminal is important for the further development of the tourism industry.

As noted in the previous section, VTS has recently upgraded Bauerfield cargo terminal to provide a better and faster services - increased security features, new cold rooms, enhanced quarantine facilities, and facilities for animal inspections. With a view to facilitating trade, the new cargo terminal brings all border agencies and private operators (cargo airlines offices, DCIR, customs brokers, freight forwarders, and Biosecurity Vanuatu) under the same physical facility. The airport still lacks heavy-duty deck loader, which increases time and costs of loading and unloading heavy cargo. Moreover, essential equipment is stored in the open-air and exposed to fast depreciation.

Notwithstanding the improvements in airport cargo facilities, cargo throughput volumes at Bauerfield have not changed much since 2017, when VTS cargo facilities were completed - 15 tons per month of

^{lxvii} Whilst Lenakel is an international airport, it currently does not operate any international flights

exports and 64 tonnes per month of imports.¹³¹ The 2015 VTS annual report noted that international cargo volumes recorded at Pekoia international airport are quite limited, such that the airport is not able to break-even and must be subsidised by income from Bauerfield international airport.

The recent infrastructure upgrade will allow Vanuatu to achieve the objectives of the Aviation Sector Strategy which are to:¹³²

- Bauerfield:
 - Focus international frequency growth on existing or new regional routes through Code C jets (A320-200 and Boeing 737-800) and smaller aircrafts
 - Code E charter operations (Airbus A330 and Boeing 787) from China are a possibility
- Pekoia:
 - Growth in international services through Code C jets
 - No requirement for Code E operations, but protect the possibility to expand to Code E in the future
- Whitegrass:
 - The airport should provide for Code C turboprop (ATR-72) operations

The three international airports are maintained by AVL, which is entirely funded by user fees. Funds allocated to maintenance and rehabilitation are unknown, but the 2016 events (interruption of flights by Air New Zealand and cancellation of code-sharing by Qantas due to the poor conditions of the runway) suggest that these were inadequate. According to the Vanuatu Master Plan 2017 charges per international passenger should increase to USD 33 in order to fund a prioritised USD 212 million investment program for the next 20 years to meet maintenance and compliance needs as well cater for the expected increase in arrivals and departures.

6.2.2.2 Domestic airports

Airstrips in the outer islands are small and basic (grass landing strips) and are only flown to by 19-seater Twin Otters and 9-seater Britten-Norman Islanders (BNIs), and similarly sized charter planes. Most airstrips do not have lighting, air traffic control/navigation aids, firefighting equipment or perimeter fencing. It is land by sight only, so bad weather may prevent landings. The terminal buildings in most locations are nothing more than a shed with a set of scales and a small baggage trolley. Refuelling services are only available in Port Vila and Luganville. When flying to other islands, all aircraft must carry enough fuel to return to these locations to refuel.¹³³

The state of domestic airports limits the possibility of outer islands to develop a strong tourism industry - and, to a lesser extent, primary industry. Upgrading of domestic airports is therefore important. Recommendations in this area are included in the draft Vanuatu Tourism Market Development Plan - VTMDP, see Chapter 12. Amongst the airports recommended for upgrade by the VTMDP, Norsup should probably be prioritised noting its size, significance for agriculture, tourism potential, and the complementary road improvements which are taking place on the island of Malekula.

The 26 domestic airports are managed and maintained by the PWD. Maintenance of domestic airports is carried out by village-based contractors, and the CAAV assists by providing training for the contractors. Ground handling services at these locations are the responsibility of the aircraft operators.¹³⁴ VUV 52 million were appropriated for maintenance in 2019. The Vanuatu Transport Plan 2030 does not include information about the adequacy of these funds, however, with VUV 2 million airport/year, these appear inadequate.

6.2.2.3 Recommendations

- a. Upgrade Bauerfield international passenger terminal
- b. Improve Bauerfield international cargo handling by:
 - i. Procuring heavy-duty deck loader and equipment for handling airfreight containers which can hold up to five tonnes

- ii. Building storage space for equipment at Bauerfield international cargo terminal
- c. Set aside adequate resources for maintenance of international airports. Notably, increase charges to USD 33 for passenger movement at Bauerfield to fund the prioritised USD 212 million investment program included in the Vanuatu Master Plan 2017
- d. Set aside adequate resources for maintenance of national airports
- e. Upgrade Norsup airport to accommodate Code C turboprop (ATR-72) operations

6.2.3 Sea transport

Sea transport is the main modality for international and inter-island transport of goods, and an important modality for transport of international tourists.

6.2.3.1 International shipping terminals

As an island country, Vanuatu depends on maritime transport, yet for a long time there has been a mismatch between the increased traffic and the capacity of international ports.

To address this mismatch Vanuatu embarked on the construction of a new 200-metre international wharf in Port Vila (Lapetasi wharf), and the upgrade of the international wharf in Luganville – now a 361-metre wharf. Both works were mainly funded by loans – Japan in Port Vila and China in Luganville. The two international sea ports should be able to meet expected demand for the next 20 years.^{lxxiii}

Opening the Lapetasi wharf has reduced delays of container vessels operations, which used to be affected by the priority given to cruise ships for berthing at the old international wharf. The latter ('Main Wharf') is now exclusively dedicated to cruise ships and tankers.

Benefits of the Lapetasi wharf include reduced vessel turnaround time (now between 12 and 24 hours), reduced congestion, more container storage, efficient and effective cargo handling, and reduction in delivery delays. The future increase in containers should also exercise a downward pressure on stevedoring charges.

The upgraded wharf in Luganville can handle close to 100,000 tons of freight annually. The wharf leverages the agricultural and services sector potential of Espiritu Santo, which is the major source of agricultural produce and the second major tourism destination.¹³⁵ The upgraded wharf is now big enough to accommodate simultaneous berthing of a cargo and a cruise liner, thus reducing potential delays. However, works to improve the wharf have negatively affected cruise ship arrivals in Espiritu Santo,¹³⁶ and concerns exist that current low capacity utilisation will impact on the ability to repay the loan. Port users and the private sector have at times lamented the lack of proper consultations on this project.¹³⁷

Maintenance of the international wharves is outsourced to IPDS and NISCOL based on the provision of the respective concession agreements – article 2.1 and 6 respectively.

Besides Port Vila and Lunganville, other international points of entry for specific purposes include Mystery Island in Aneityum (cruise ships), Litzlitz in Melekula (copra and yachts), Lenakel in Tanna (yachts), and Sola in Vanualava (yachts).

Currently, six overseas shipping operators provide container and general cargo international services to and from Vanuatu, via the two international two ports.¹³⁸ There is a need to maintain accurate statistical shipping data to understand the dynamics which may affect Vanuatu's market access – like the 2008 withdrawal of the Bank Line linking Vanuatu to Europe.

Trade is imbalanced, with 90% of containers arriving full and leaving empty – the cost of imbalanced trade is borne by importers, as it is absorbed into the freight rate for imports.

^{lxxiii} For example, according to the Vanuatu Transport Plan 2030 the Lapetasi wharf can handle 30,000 20-foot containers a year, whereas projection for 2037 indicate a demand of only 20,000 containers

6.2.3.2 Domestic shipping terminals

Vanuatu's maritime infrastructure includes 36 small wharves, jetties and landings with various forms of ownership rights including traditional land owners and regional House of Chiefs and Councils.¹³⁹

Port Vila and Luganville serve as hubs for the domestic maritime transport network. A new domestic terminal in Port Vila (South Paray) is under construction in the same area as the Lapetasi wharf. In Espiritu Santo, the domestic Simonsen wharf is being rehabilitated. Temporary terminals are currently operating in both cities.

Most outer island ports have very limited shipping infrastructure, and are generally in a poor state. They range from concrete or wooden piers to crumbling rock jetties, with some islands having no facilities at all for cargo. This can often mean that cargo has to be discharged, first onto a small lighter vessel, and then onto a shore.¹⁴⁰ Poor conditions of domestic wharves and wharves' facilities increase shipping costs, and in turn the price of goods. For example, in March 2017 petrol was sold for VUV 143/litre in Port Vila, VUV 250/litre in Torba and Tafea provinces, and VUV 170/litre in the Malampa province.¹⁴¹

The Vanuatu Interisland Shipping Support Project (VISSP), supervised by VPMU, and funded by Asian Development Bank (ADB) and New Zealand, is aiming to develop crucial maritime infrastructure in the following locations: Port Vila (new inter-islands shipping terminal - South Paray wharf); Lolowai, Ambae (new jetty), Loltong, Pentecost (new jetty); Port Sandwich, South East Malekula (new jetty); Litzlitz, North East Malekula (facility rehabilitation); Lenakel, Tanna (facility rehabilitation); and Luganville, Espiritu Santo (facility rehabilitation – Simonsen wharf). Work on this project was stalled due to issues with engineering design. Reactivating VISSP should be given priority, noting the importance of domestic shipping terminals for rural development.

The domestic fleet consist of 40 ships, all privately owned and with trading routes adjusting based on market supply and demand. As a result, larger islands like Pentecost and Malekula, situated along the main commercial route between Port Vila and Luganville are normally better serviced than islands away from this route. Investment in inter-islands shipping services for vessels of less than 80 tonnes is reserved to Ni-Vanuatu.¹⁴² Vessels below 100 Gross Registered Tonnage (GRT) are much older than those above 100 GRT,¹⁴³ meaning that the existing reservation is potentially limiting investment in the sector.

To assist private sector operators serving isolated locations and bringing their communities into the commercial sector, VISSP has been running a Shipping Subsidy Scheme (SSS) for operators providing services on unprofitable routes. An evaluation of the subsidy programme is yet to be done to assess its sustainability and impact.

Demand for shipping is unbalanced with about 40,000 tonnes shipped out of Port Vila and Luganville yet only 20,000 tonnes shipped back to these ports yearly.¹⁴⁴ Copra, kava, and cocoa are the main commodities carried on return services, together with general freight and passengers. As trade has grown and because of traditional differences in the crop mix across Vanuatu, some islands have started to develop specialisations – for example oranges and peanuts from Epi or water taro from Pentecost – which are seen at the main markets.

Maintenance of domestic shipping terminals, as well as maintenance of aids to navigation for domestic and international shipping comes under responsibility of the DPH. Government appropriation for maintenance in 2018 was around VUV 150 million^{lxxiv}. According to the Vanuatu Transport Plan 2030 there is no clarity about the funds required for maintenance of domestic shipping terminals – given their poor state, current funds appear inadequate.

^{lxxiv} Budget 2018 appropriation for Ports Administration (MUEA) less contribution to government projects (76EB) and to Office of the Maritime Regulator (76ED)

6.2.3.3 Recommendations

- a. Monitor and disseminate accurate data on shipping operators and routes
- b. Re-activate works under the Vanuatu Interisland Shipping Support Project (VISSP) to rehabilitate and improve target wharves and jetties
- c. Evaluate the impact of the VISSP Ship Subsidy Scheme
- d. Clarify maintenance needs for domestic shipping terminals and set aside adequate budget for maintenance
- e. Consider eliminating reservations on investment for inter-island shipping services, or else limit reservation below a gross registered tonnage of 20 tonnes

6.2.4 Road transport

6.2.4.1 Road network

Strengthening the road network is essential to promoting rural development. By facilitating easier access to urban hubs and international markets, a quality road network creates the incentives to boost production of rural goods and services.

Evidence is already available about the impact of road development in Vanuatu. For example, the Efate ring road and the Espiritu Santo east road have in less than a decade unleashed unprecedented tourism development in Shefa and Sanma provinces, increased commercial and semi-commercial production of fruits and vegetables to meet urban and tourism demand, and reduced costs of transporting commodities to the main export hubs.

Vanuatu's road network has wide margins for improvement. Official estimates from the Road Inventory Management System (RIMS) indicate that the length of the Vanuatu's road network is 2,048 km, of which only 13% is sealed – Efate, Espiritu Santo, and a few kilometres in Tanna - see Table 6.6.¹⁴⁵ According to the Transport Plan 2030, length is underestimated and the real figure is closer to 3000 km - see Table 6.7.

TABLE 6.6: VANUATU'S ROAD NETWORK, RIMS

Province	Sealed	Gravel	Earth	Total	Share
Malampa	-	202	205	407	20%
Penama	-	74	281	355	17%
Sanma	124	298	102	164	8%
Shefa	130	62	164	356	17%
Tafea	7	86	262	354	17%
Torba	-	42	9	52	3%
Total	261	764	1,023	2,048	100%
Share	13%	37%	50%	100%	

Source: ADB

TABLE 6.7. VANUATU'S ROAD NETWORK, 2030 TRANSPORT PLAN

	Sealed	Unsealed	Total
RIMS	261	1,787	2,048
Corrected for missing rural roads	261	2,323	2,584
Corrected for missing urban roads	682	2,323	3,005
Share	23%	77%	100%

Source: ADB

As part of the recent fiscal expansion (see Chapter 2) the government has increased investment in roads. The strategic focus is on rural areas. According to Rural Road Access Policy (RRAP) "the highest priority is to maximise year-round basic access. 'Access' means that people and goods can travel by local vehicle to their nearest commercial, services, and transport hub in all but the worst weather. The principal consideration for 'basic' access is year-round connectivity, regardless of how fast or slow, smooth or rough".¹⁴⁶ According to the Rural Road Access Strategy (RRAS), which provides further guidance on how to achieve the RRAP's priorities, "maintenance of the existing road network is having

the highest priority. Significant improvement and rehabilitation^{lxxv} of the existing road network is considered a second priority”.

Strictly speaking, the priority objective of the RRAP would not require major improvements to the road network. On the other hand, improvements are necessary to unleash structural transformation.

From this viewpoint, the TPFU welcomes the significant improvements being pursued in the islands of Tanna (Lenakel to Port Resolution tar-sealing, 30 km) and Malekula (Norsup to Metensel tar-sealing, 15 km), and funded through a loan by the China’s Exim Bank. Works in Tanna have been completed, whilst works in Malekula are still ongoing. It is likely that additional financing will be sought to extend the scope of current works in the two islands.¹⁴⁷ Tanna and Malekula have significant trade potential,¹⁴⁸ for both goods and services, and the new roads are therefore expected to catalyse development as they did in Efate and Espiritu Santo.

Improvements normally come with an increased bill for maintenance and rehabilitation. Whilst estimates differ between different documents, there is a general concurrence that the existing government and donor budget for maintenance and rehabilitation is not sufficient. Table 6.8 reveals that annual available funds are about VUV 1 billion, which is between 30% and 40% of the required resources. This is tantamount to an implicit decision to let the network depreciate and reduce the level of services. The same table shows that the rightful rural focus is coming at expense of the urban network which is only absorbing 20% of government funds for maintenance, despite the heavy use of urban roads and their apparent deterioration.

The above leads to the following considerations. First, whilst current investments may be increasing basic access, sustainability is not guaranteed. The same holds for improvements. The structural change triggered by the road works in Efate and Espiritu Santo, and expected from works in Malekula and Tanna, may fail to be sustained if significant asset depreciation kicks-in. Second, urban networks play a key role in economic development and should not be neglected. Lastly, the rightful demand for more and better roads by Ni-Vanuatu will eventually need to be matched by the ability to pay for these essential infrastructures via increased revenue collection.

TABLE 6.8: MAINTENANCE AND REHABILITATION OF THE ROAD NETWORK

	VUV mil
Annual depreciation = Rehabilitation & Renewal (RR) needed	1,600
Maintenance needed (min)	900
Maintenance needed (max)	1,900
Maintenance and RR needed (min)	2,500
Maintenance and RR needed (max)	4,100
Maintenance available (GoV)	300
Maintenance & RR available (GoV + R4D & VIRIP)	1,000
	Percentage
Gap maintenance (min)	67
Gap maintenance (max)	84
Gap maintenance and RR (min)	60
Gap maintenance and RR (max)	71

Notes

Rehabilitation/Renewal: USD 7,000/km-year

Maintenance (min): USD 3,000/km-year sealed, USD 1,500/km-year unsealed

Maintenance (max): USD 7,000/km-year sealed, USD 2,500/km-year unsealed, USD 3,000/bridge-year

Maintenance available (GoV): 80% rural and 20% urban

Source: elaborations on ADB

^{lxxv} Maintenance aims at keeping the original level of services over the course of an asset’s life, rehabilitation/renewal aim at re-establishing the original level of service after an asset has come to the end of its life, and improvement aims at enhancing the existing level of services. Sealing of formerly unsealed road is considered as an improvement.

6.2.4.2 Recommendations

- a. Increase the budget for maintenance and rehabilitation of road to the minimum required amount - VUV 2.5 billion/year
- b. Restricts improvements (earth-gravel to seal) during the next 5 years to Tanna and Malekula

6.2.5 Urban waterfronts

Improvements to the Port Vila waterfront were recently concluded with support from New Zealand and the EIF. Anecdotal evidence indicates that the waterfront regeneration has improved tourism satisfaction and played an important role towards promoting local art works.

Beautification of the Luganville waterfront is also being considered, with support from the Asian Development Bank. Noting the more rural nature of the Espiritu Santo tourism product compared to Port Vila, waterfront beautification in the former may produce a smaller development impact.

6.2.5.1 Recommendations

- a. Evaluate the economic impact of the upgraded waterfront in Port Vila
- b. Assess the economic impact of an upgraded waterfront in Espiritu Santo before taking a final decision on whether to beautify

6.3 Sanitary and Phytosanitary Measures

6.3.1 International Regulatory Framework

In becoming a Member of the World Trade Organization (WTO) on 24 August 2012, Vanuatu committed to applying all WTO provisions from the date of its accession. The provisions include those 'rules' set out in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures concerning food safety and animal and plant health protection.¹⁴⁹ Sanitary and Phytosanitary (SPS) measures, by their very nature, may result in restrictions on trade.

An annex to the SPS Agreement names three international standard setting bodies:

- the Commission on Phytosanitary Measures (CPM) under the International Plant Protection Convention (IPPC), for plant health;
- the World Organization for Animal Health (Office International des Epizooties (OIE)), for animal health;
- the FAO/World Health Organization (FAO/WHO) Codex Alimentarius Commission (CAC), for food.

Vanuatu's attendance at the meetings of the above organisations is not regular and could improve. The country joined OIE in 1983, has been a member of CAC since 1995, and became a contracting party to the IPPC on 2 August 2007.¹⁵⁰ So far Vanuatu has not submitted any notifications to the WTO on its SPS measures.¹⁵¹ No pest reports have been submitted to the IPPC Secretariat by the Official Contact Point, presently the Acting Director of Biosecurity Vanuatu, since 31 May 2005. Regular six-monthly reports are submitted to the OIE by the Vanuatu's Permanent Delegate, presently the Acting Principal Veterinary Officer, and as viewed in OIE's World Animal Health Information System (WAHIS).

6.3.2 SPS Legislation

The legislative basis for Vanuatu's SPS measures includes:

- Animal Importation and Quarantine Act [CAP. 201] of 1988, amended 2014;
- Plant Protection Act [CAP. 239] of 1997, amended 2013;
- Food (Control) Act [CAP. 228] of 1993, amended in 2009;
- The Meat Industry Act 1991 [CAP. 239];
- Pesticides (Control) Act [CAP 226] of 1993;
- Animal Disease (Control) Act [CAP. 220] of 1992;

- Kava Act of 2002, amended 2015.

For SPS-related purposes, except for the Food (Control) Act, the Acts listed above are all administered by one or other department within the Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB). However, it is the Biosecurity Department (Biosecurity Vanuatu (BV)) that is mandated to protect Vanuatu's borders from the entry of foreign pests and diseases and facilitate trade in Vanuatu's agri-products with external markets. Until 2013, BV was known as the Vanuatu Quarantine and Inspection Services (VQIS) and sat within the Department of Livestock and Quarantine.

All the main pieces of legislation pre-date Vanuatu's accession to WTO. Not surprisingly, the legislation is in need of amendment to better reflect: the international trading environment under the SPS Agreement; recent changes in organisational structures and responsibilities within Vanuatu's departments and ministries; and Vanuatu's need to protect itself against new pests^{lxxvi} and diseases^{lxxvii} and effectively manage existing introduced pests.

In Vanuatu's National Biosecurity Policy 2016-2030 (NBP),¹⁵² one of the high priorities (i.e., to be completed within one to three years) listed in the Action Log Frame is to "harmonize Biosecurity related laws." The Vanuatu Government's Trade Policy Framework (TPF) 2012 recorded that the then Department of Livestock and Quarantine was working on a Biosecurity Bill which, based on a regional template, would combine and streamline the existing pieces of legislation. A Biosecurity Bill is reported to be have been drafted and consulted on but not yet enacted.

6.3.3 Documentation for trading in SPS-sensitive products

The import of animal products is regulated through the Animal Importation and Quarantine Act [CAP. 201] while export of meat comes under the Meat Industry Act 1991 [CAP. 239]. The Plant Protection Act [CAP. 239] covers both the export and import of plants and plant products. Under the Food (Control) Act [CAP. 228] there are prohibitions regarding the importation of food. Almost invariably, there is SPS-related documentation associated with the export and import of plants and animal products. Documentation may include permits to import (issued by BV) or phytosanitary or zoo-sanitary certification (issued/approved either by BV for goods to be exported from Vanuatu or the competent authority of another exporting country for goods to be imported to Vanuatu). To date, Vanuatu's system(s) for the associated data collection, record keeping, document preparation and transmission has been largely paper-based and manual. There is considerable scope for the introduction of more efficient electronic systems.

6.3.3.1 Electronic systems

The Electronic Single Window System (ESWS) project (refer 6.1.3.3) entered its second phase in 2018. One of the key activities for this phase is the review and redesign of the non-customs clearance process in five priority government agencies, including BV. Phase two runs through to December 2020 with modules for the five priority agencies to be rolled out successively; BV was first with the specifications due to be published shortly. Once the software development work begins, the BV module is expected to take three-four months to complete, allowing permits and the likes of phytosanitary certificates to be processed electronically and the collection of real time trade data. The ESWS project is highly trade-focused and does not purport to address other matters relevant to BV's responsibilities such as surveillance, data collection, or international reporting obligations that can affect trade. How far the intended BV module of Vanuatu's ESWS fills BV's needs is not clear and with the identification of just one Biosecurity Officer to independently 'test' the software before assisting with training, it appears the ESWS project may not gain the necessary buy-in to serve BV well. Similarly, it is not clear to what extent other international initiatives such as the IPPC-developed Generic ePhyto National System

^{lxxvi} In accordance with ISPM 5 (FAO 2019): A pest is "any species, strain or biotype of plant, animal or pathogenic agent injurious to plants or plant products."

^{lxxvii} From the Animal Importation and Quarantine Act: "disease" means any departure from normal health or production, from diagnosed reasons or not, and caused by any infectious, parasitic, hereditary or toxic agent."

(GeNS) are being linked. According to IPPC, the GeNS “is a centralized system to facilitate the creation of electronic phytosanitary certificates (ePhytos). It is a multi-tenant web-based system developed for countries without their own system to produce ePhytos, send and receive them electronically”.¹⁵³ Furthermore, it adopts an approach to ePhyto that is aligned with the relevant International Standard for Phytosanitary Measures (ISPM 12).

6.3.4 SPS-related institutional arrangements

6.3.4.1 Biosecurity Vanuatu

Biosecurity Vanuatu is one of five departments within MALFFB and is responsible for implementing SPS provisions on animals and plants, and the Department of Health is responsible for food safety. A staff of about 40 deliver BV’s services for Vanuatu’s islands through two main offices located in Port Vila, Efate, and Luganville, Espiritu Santo. The country’s two main international seaports are also located in Port Vila and Luganville, as are two of three international airports. In addition, in accordance with the Meat Industry Act 1991 there are three approved slaughterhouses, one situated on Efate and the other two on Espiritu Santo.

Under BV’s Director there are two Principal Officers, the Principal Veterinary Officer (PVO) and the Principal Biosecurity Officer (PBO), both located in Port Vila. The PVO leads the Veterinary Section (VS) and is supported by two Senior Veterinary Officers, one based on Espiritu Santo. The VS is the national Competent Veterinary Authority for Vanuatu. The PBO has four senior officers in support, two Senior Border Control Officers (one located in Port Vila and the other on Espiritu Santo), a Senior Plant Health Officer and a Senior Compliance Officer.

Staff capacity and capability can only be described as wanting as highlighted with the recent Emergency Order declared by the Minister responsible for Agriculture, Livestock, Forestry, Fisheries, and Biosecurity in July 2019 for the purpose of managing the unexpected and serious outbreak of the coconut rhinoceros beetle (*Oryctes rhinoceros*) (CRB), a quarantine pest discovered on the island of Efate. Staff from other ministries without proper training have been periodically directed to assist in the application of control measures in BV’s attempt to eradicate the beetle.

At the time the Minister made the Emergency Order, two of BV’s key positions were - the Director and the Acting Principal Veterinary Officer – were held by acting officers. The appointed Director of Biosecurity was undertaking postgraduate study in New Zealand while the Senior Compliance Officer was participating in a two-year training programme offshore. Clearly, the development of highly qualified and experienced staff enhances capacity and professional recognition of Vanuatu’s SPS-related institutions. However, the absence of key staff for prolonged periods has contributed to BV being short-staffed to manage the additional workload associated with the incursion of a quarantine pest and the high priority actions identified in Vanuatu’s NBP 2016-2030. Although Vanuatu’s NBP is a relatively new development, with recent ‘game-changing’ issues (e.g. the arrival of CRB and associated pressures on BV, pest and disease problems in the animal and plant production sectors, and significant changes in senior BV staff) coming to the fore, a MALFFB-review of the NBP is timely.

Other capacity and capability issues within BV reported include:

- Inadequate resources to staff offices at the certified ports of entry of Sola on Vanua Lava, Lakatoro on Malekula, Lenakel on Tanna, and Anelgauhak on Aneityum for effective border control of arriving vessels;
- Lack of succession planning and/or slow recruitment of highly qualified contracted staff within the VS, which precludes enough continuity of service.

6.3.4.2 Vanuatu Bureau of Standards

The VBS, within the Ministry of Tourism, Trade, Commerce & Ni-Vanuatu Business (MTTCNVB), presently undertakes SPS-related testing on cocoa, virgin coconut oil, and kava for export. In addition, it is involved in testing of organic fertilizers, nutrient content of locally processed food and

microbiological testing. The VBS is staffed by the Chief Executive Officer and three temporary laboratory assistants. While VBS has some Government funding to subsidise testing costs to small scale producers, testing services are essentially provided on a cost-recovery basis.

Its capacity to increase the number of samples tested and extend the range of tests performed is severely constrained and as such, if demand for testing increases further, additional human resources and new equipment will be required. In certain areas, sub-contracting may be the best option. For example, VBS has fostered subcontract arrangements with AsureQuality, a New Zealand State-Owned Enterprise (SOE) running a laboratory, for provision of residue and heavy metal testing required. Yet other difficulties impede effective day-to-day operations, including the six- to eight-month turnaround time for laboratory supplies and equipment to be obtained from overseas.

The following are identified as priorities to enhance capacity in VBS and ensure that SPS-related testing can be accessed by Vanuatu's exporters when required:

- the acquisition of a commercial blender to reduce the time taken to complete a test - currently 24 hours, much of which is time to prepare a sample;
- recruitment of laboratory assistants to permanent positions;
- six- to eight-week placement in a formally accredited laboratory in New Zealand or Australia for each of the laboratory assistants;
- secure long term sub-contractual arrangements with a foreign laboratory, for example AsureQuality, for supply of residue and heavy metal testing services, as required;
- seek professional assistance from an accredited laboratory's system manager to advise and prepare a roadmap for international accreditation of VBS's laboratory systems.

6.3.5 SPS requirements for exporting sectors

Chapter 3 emphasizes the need for Vanuatu to reduce its merchandise trade deficit and recommends enhancing the output of export-oriented sectors as well as boosting local production in areas where imports can be competitively replaced. Nearly all merchandise export is focused on commodities affected by SPS requirements. Specific requirements necessarily vary from country to country with some measures needing to be implemented pre-export, others applied on arrival in the importing country and yet others post-entry. Furthermore, producers, exporters, transporters, BV officers, importing country officers, and/or importers may have roles in implementing required SPS measures. Ultimately though, there needs to be product(s) to trade.

Presently, production rather than SPS-related issues within a number of Vanuatu's key primary product industries constrain development of merchandise export trade and import(s) replacement. Specific SPS-related matters for some export (past and present) primary products are considered below.

6.3.5.1 Coconut products

The Vanuatu National Coconut Strategy 2016-2025 highlights two major concerns: firstly, the over-reliance of the coconut sector on copra as the only coconut-based product and secondly, the significant decline in coconut production, as reflected in the 2018 trade statistics. Various value-added 'coconut' products were identified as offering Vanuatu unprecedented opportunities for linking to the tourism industry. Using copra to produce refined coconut cooking oils also presents an opportunity, one where *Codex Standard for Named Vegetable Oils CXS 210-1999* (revised and amended subsequently)¹⁵⁴ comes into play. The VBS undertakes conformity assessment testing on virgin coconut oil, which is benchmarked against Codex standards.

However, probably the biggest challenge to Vanuatu's coconut sector now is the threat to production posed by the CRB. Significant production impacts have been reported in some of the other Pacific island Countries (PICs) where the CRB has established in recent years (Guam, Papua New Guinea, Hawaii (US), Palau and the Solomon Islands).¹⁵⁵ Research is being undertaken in Papua New Guinea and the Solomon Islands to investigate the use of a nudivirus as a biocontrol to manage CRB and minimise the threat of CRB on palm oil and coconut industries.¹⁵⁶ The haplotype of CRB collected from Efate is reportedly close

to that recorded in PNG. Any opportunity to extend the current biocontrol research programme underway in PNG and the Solomon Islands should be pursued. Similarly, any opportunity to recruit extra scientific/technical staff and trained operations personnel to assist with the eradication attempt should be taken. Alternatively, contractors such as AsureQuality could be engaged to work in partnership with BV. At best, with current resources, BV's eradication programme may contain CRB to Efate and long-term management options will be required. Additional resources will be required by BV to identify and implement phytosanitary measures (inter-island border controls) to prevent the spread of CRB to other islands. The ISPM that applies to these circumstances is *ISPM 9 Guidelines for Pest Eradication Programmes*.¹⁵⁷ It describes components of a pest eradication programme which can lead to establishment or re-establishment of pest absence in an area, including reporting requirements under the IPPC. A pest report regarding CRB has not been submitted to the IPPC Secretariat.

6.3.5.2 Kava

The Vanuatu National Kava Strategy 2016-2025 refers to “Vanuatu’s position as the ‘home’ of kava” and sets out objectives to “support the vision of being the leading producer of quality kava in the world”.¹⁵⁸ In the late 1990s the export industry’s prospects were significantly impacted by a European ban on kava imports because potential health concerns were linked with kava consumption. Fortunately, in 2007 the WHO concluded that “consumption of kava as a beverage has been shown to cause no irreversible, long term health problems”.¹⁵⁹ German courts have since overturned the ban on kava imports.

The WHO’s conclusion did not, however, detract from quality issues that can arise with kava. Toxic effects are linked with higher levels of flavokavins and alkaloids in kava. The competent authorities in some countries may place bans on kava imports if health concerns arise over poor quality kava. Improving the quality of kava to avoid toxic effects is readily achieved through the use of noble varieties and appropriate processing techniques. The Pacific Horticultural and Agricultural Market Access (PHAMA) program, an Australian Government initiative, has thus presided over the development and publication of national standards for kava.¹⁶⁰ In addition, PHAMA oversaw the development of a colorimetry test to distinguish between noble and ‘tudei’ (potentially toxic) varieties. Aligned with the 2015 amendment to the Kava Act, BV undertakes sampling of kava for export for VBS to conduct testing to ensure conformity with the legislation. Only noble varieties can be exported so based on the colorimetry test result, BV prepares a permit for export.

Vanuatu has led an initiative for the National Quality Standard for Kava Exports to be developed into a Codex standard. This is important to ensure that Vanuatu’s conformity assessment procedures are internationally recognised. The CAC follows an eight-step process for standard setting, the eighth being adoption. In 2017, with Quad country (i.e. Australia, Canada, New Zealand, and US) support for the initiative, CAC approved the preparation of a regional draft for kava based on consumer protection and fair-trade considerations. The next step in the standard-setting process involves the regional Codex Committee for North America and South West Pacific (CCNASWP). Presently Vanuatu is the Regional Coordinator of CCNASWP and hosted a meeting of the committee in September 2019, in part to continue work on two regional Codex standards for noni juice and kava, both local beverages. In time then, it is probable a Codex standard for kava will apply.

6.3.5.3 Beef

Vanuatu has the reputation of being the only PIC with volume, quality, and infrastructure to export beef.¹⁶¹ The recent decline in beef production and export is well documented,¹⁶² however, the cattle industry remains important to Vanuatu. The industry is well established and has around 35 commercial cattle farmers with large herds that supply most of the beef to the formal market.¹⁶³ The two longer established abattoirs (Vanuatu Abattoirs Limited (VAL), Espiritu Santo Meat Packers Limited (SMP)) are the only processors for export. A third abattoir, Wong Sze Sing (WSS) opened on Espiritu Santo in 2015 mainly to supply a canning factory. Currently none of the abattoirs are operating at full capacity, but SMP continues to supply the Japanese market and VAL exports to Papua New Guinea and Solomon

Islands periodically as domestic supply allows. In the past, VAL had accessed Australia, Japan and New Zealand.

The Veterinary Services (VS) within BV, comprising three VOs and eight meat inspectors, provides services to the three abattoirs in accordance with the Meat Industry Act 1991 [CAP. 239]. The OIE identified aspects of Vanuatu's VS and related regulatory services (i.e. regulatory veterinary activities needed to support international trade and public health) that do not meet OIE standards.¹⁶⁴ Consequently, currently Vanuatu cannot meet the SPS requirements of markets such as the EU, US, and China.

To support trade in animal products the OIE recommended that "the VS will:

- continue to protect the favourable national animal disease free status through import control, but will also seek international recognition of such status;
- develop specific residue testing and animal and animal product identification [programs] to meet importing country requirements".¹⁶⁵

With little prospect of a significant increase in the cattle available for slaughter there is no immediate need to focus on developing specific residue testing and animal and animal product identification systems, as recommended. However, import controls must be maintained and preferably strengthened at certified ports of entry to maintain the animal disease free status. Similarly, the current capacity in VS must be sustained in order to preserve Vanuatu's reputation and ability to perform in international beef markets in the future.

Fortunately, arrangements can be made with internationally recognised diagnostic and testing laboratories for ready access to any diagnostics/testing required or authorised by BV, VS or VBS. The costs and technical capacity required to establish and operate comprehensive SPS-related laboratory services would be impossible for Vanuatu to justify and maintain.¹⁶⁶

6.3.5.4 Fruits and vegetables

Trade in fresh fruits and vegetables – perishable products with seasonally variable production – carries inherent risks. Meeting the SPS requirements to address pest risks directly associated with some fruits and vegetables can be challenging. The risks associated with tephritid fruit flies exemplify this. Vanuatu has just three economically important species of pest fruit flies but there are many species that are not known to be present in Vanuatu. Hence, exporting or importing fruit fly host material, such as Tahitian lime, requires phytosanitary measures for fruit flies. For example, Vanuatu has the opportunity to export Tahitian lime to New Zealand if it complies with the SPS measures set by the Ministry for Primary Industries (MPI).¹⁶⁷ Tahitian lime can be infested by fruit flies, but the species present in Vanuatu do not infest the fruit. The MPI-specified measure for fruit flies on Tahitian lime from Vanuatu is 'non-host status'. In contrast, the export of mango from Vanuatu would require a pre-export disinfestation treatment, such as high temperature forced air. When production is insufficient and supply inconsistent, investment in costly, possibly little used treatment facilities to meet SPS requirements to importing countries cannot be a priority.

6.3.6 SPS-related risks to exporting sectors

6.3.6.1 Sea containers

Because of the merchandise trade deficit, 90% of sea containers arrive full and leave empty. Regardless of whether a container carries goods or not, it can carry pests and diseases and is therefore a 'regulated article'.^{lxxviii} Some countries, including important trade partners to Vanuatu (e.g. Australia, New Zealand, US) are becoming increasingly concerned about the risks posed by sea containers. As recently as 5

^{lxxviii} According to ISPM 5 (FAO 2019): A regulated article is "any plant, plant product, storage place, packaging, conveyance, container, soil and any other organism, object or material capable of harbouring or spreading pests, deemed to require phytosanitary measures, particularly where international transportation is involved."

August 2019, an item on this issue was posted on the IPPC website.¹⁶⁸ Not long before, on 19 July 2019, New Zealand's MPI issued a new Import Health Standard for Sea Containers from All Countries, that revoked and replaced an earlier version.

Sea containers, unintentionally harbouring pests such as giant African snail, fire ants, and/or seeds from invasive plants, could be the cause of disruption to trade in export markets but more importantly, contamination of containers arriving in Vanuatu may bring new pests and diseases to the country. Biosecurity Vanuatu, together with private stevedoring companies and sectors participating in international trade (e.g. shipping lines) will need to co-operate to manage the risks to trade associated with sea containers. Since March 2018 both Ifira Port Development Services (IPDS) and Northern Islands Stevedoring Company Limited (NISCOL) operate MPI-approved Sea Container Hygiene Systems (SCHS) at their facilities in Port Vila and Luganville, respectively.

6.3.7 Recommendations

- Biosecurity Vanuatu to participate in relevant international fora, including the WTO SPS Committee, the IPPC Commission on Phytosanitary Measures, OIE Regional Commission and Codex CNASWP
- Review and enact the Biosecurity Bill
- Update the Biosecurity Policy 2016-2030 to include and prioritise Vanuatu's SPS-related legislation updates and immediate pest management needs (e.g. CRB response).
- Electronically generate SPS permits and certificates including, if merited, by linking Vanuatu's ESWS to the IPPC-developed GeNS
- Develop specifications to address the wider e-System needs of Biosecurity Vanuatu and implement these to complement the ESWS project
- Identify BV human resource gaps at certified ports of entry and employ trained personnel for effective border control of high-risk entry pathways (e.g. yachts, sea containers)
- Strengthen arrangements with ISO accredited (e.g. AsureQuality) or OIE-recognised diagnostic and testing laboratories overseas to ensure ready access to any pest and disease diagnostics or testing required or authorised by BV, VS or VBS
- Provide additional resources to develop the laboratory capacity of VBS and establish the international credentials of the VBS laboratory
- Increase capacity to address key primary production issues associated with the management of pests (CRB and invasive pasture weeds) and diseases (e.g. vibriosis)
- Progress development through CCNASWP of a Codex standard for kava
- Develop and formalise collaborative arrangements between public and private sector to manage increasing risks to trade associated with sea containers

6.4 Quality Infrastructure

6.4.1 Introduction

Vanuatu's policy-makers and private businesses are faced with quality issues on a daily basis. These include meeting quality requirements demanded by overseas buyers and ensuring that fit-for-purpose quality requirements are adopted and enforced in the domestic market. Failure to meet quality requirements undermines Vanuatu's export competitiveness.

National Quality Infrastructure (NQI) is the totality of the institutional framework (public and private) needed to provide acceptable evidence that products and services meet defined requirements. These requirements are either specified on a mandatory basis (in the form of technical regulations) or on a voluntary basis through standards.¹⁶⁹

The five components of a NQI include (1) quality-related policy, legislation and regulations (2); standardisation; (3) metrology; (4) accreditation; and (5) conformity assessment (testing, inspection, and certification).

The composition of a NQI does not change significantly between countries. In Vanuatu, the system is in its infancy. The Vanuatu Bureau of Standards (VBS) is the National Standards Body (NSB), with the mission of leading the development of the NQI. The VBS was established in late 2016 as a body corporate under the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB).¹⁷⁰

Besides the establishment of a leading institution, the NQI requires investment in several areas. For example, a national policy is necessary to define the scope of the NQI, and set the boundaries of the leading institution; metrology needs equipment and, which in some cases can be highly expensive; standards need not only to be set, but compliance needs to be promoted when it gives access to profitable markets; conformity assessment bodies cannot survive without the appropriate maintenance and update - of equipment, knowledge, etc.

6.4.2 Why is a National Quality Infrastructure necessary?

When exporting their products, producers will need to meet specifications which are included in technical regulations, for example related to packaging and labelling. These specifications are in addition to those demonstrating compliance with sanitary and phytosanitary provisions (see section 6.3). Beyond the realm of regulation, there exist a multitude of private standards (organic, fair trade, etc.), which when met can guarantee a higher sale price. It is a fact that non-tariff barriers to trade usually rest on these specifications, and that clear rules set by an NQI reduce the chance of possible international complaints.

The NQI is essential to leverage trade and investment. International trade is facilitated when countries' standards, measurements, test results, and certificates are mutually accepted as reliable.

Therefore, to attract foreign investors and support domestic producers targeting export markets, a NQI should provide appropriate access to standards and technical regulations, guarantee reliable measurements, and support a system for accreditation of the country testing and certification facilities which assures international recognition of their services.

It is important to point out that the World Trade Organization (WTO)'s Agreement on Technical Barriers to Trade (TBT) normally relies upon NQI institutions for its implementation, even though this should not be the sole purpose of their establishment in a country.

Summing up, the benefits of a NQI are multiple:

- Better, safer, and more innovative and sustainable products are developed
- Domestic commercial activity increases
- Consumer protection is enhanced
- Technical barriers to international trade (TBT) are reduced, and so is the cost of international trade
- Products and services become internationally competitive
- The country can represent its views more effectively in international fora and shape the development of international rules

6.4.3 Vanuatu Bureau of Standards and the WTO Agreement on Technical Barriers to Trade

The Republic of Vanuatu has been a member of the WTO since August 2012. The WTO Agreement on TBT states that, *“any technical regulations, standards, and conformity assessment procedures do not constitute a technical barrier.”* The same Agreement indicates that: *“... it seeks to achieve a balance between allowing Members to take regulatory measures to protect legitimate interests, and assures that technical regulations, standards and conformity assessment procedures do not become unnecessary obstacles to international trade”.*

In 2016 Vanuatu communicated the identity of the bodies responsible for implementing the TBT Agreement, including the MTTCNVB as the entity responsible to implement the obligations of the TBT agreement, the Department of External Trade as the entity responsible for TBT notifications, and the

Food Technology Development Centre and Analytical Unit (FTDCAU), the VBS' predecessor, as the TBT Enquiry Point.¹⁷¹ Vanuatu should notify that the VBS is the new TBT Enquiry Point.

In the same year, the legislation to establish the VBS was passed. On the export side, the bureau is to create an enabling environment helping producers to address TBT in foreign markets. On the import side, the bureau acts on behalf of the MTTCNVB to ensure that all standards adopted and made mandatory^{lxix} are genuinely justified by the protection of "legitimate interests" and are not discriminatory to the point of creating an unnecessary obstacle to international trade.

6.4.4 Vanuatu Bureau of Standards – general constraints

The VBS performs its role by undertaking functions in most of the core NQI areas including standardisation, conformity assessment, and metrology.

The VBS is only two years old and faces several problems due to its lack of experience, numerous responsibilities, multiple divisions, limited budget, and lack of physical capital and qualified human capital – including due to the country's skill shortages.

However, room for fast improvement exists, including by leveraging experience from more advanced countries, and exploring opportunities for regional cooperation.

Whilst the VBS was established as a semi-autonomous body corporate under the MTTCNVB,^{lxxx} its current administrative treatment resembles that of the old FTDCAU – i.e. a unit of MTTCNVB's Office of the Director General. This treatment limits the VBS' ability to impartially perform its functions, for example certification and promotion/advice on mandatory standards.

The possibility of imposing fees and charges (VBS Act article 11) can ensure VBS' self-sustainability. However, the VBS Act also specifies (article 12.2) that all investment necessary for developing the bureau's functions is responsibility of the Government: "The Government must ensure there is a sufficient budget allocated to the Bureau to enable it to perform its functions efficiently, effectively and professionally". In 2018, nearly 95% of VBS funds come from the Government whilst 5% came from fees.

6.4.5 National Quality Policy

A National Quality Policy (NQP) is a document that fosters the culture of quality and "specifies the overall policy vision, the policy objectives, expected outcomes and required measures with respect to the development of the NQI".¹⁷² A NQP also provides details of the NQI, and facilitates a proper and coherent division of work within a country's context. At the same time, it is the first step for a National Quality Strategy setting the more detailed roadmap for arriving to a fully developed and internationally harmonised NQI.

Vanuatu lacks a NQP, and this gap should be addressed. In order to ensure biggest possible buy-in for its NQP, the government will have to engage in extensive consultations with a variety of stakeholders.

6.4.6 Standardisation

The country has inherited several different standards from their pre-independence days. Even today, standards of imported products are likely to differ based on the origin of the key trading partner. The same applies to goods and services which are locally produced and exported to different overseas markets, but also sold in the domestic market.

Lack of declared national standards favours the current situation and may represent an obstacle for investors and a potential source of legal problems. In order to face these problems, it is recommended that national standards are adopted which are based on international standards. Some of these

^{lxix} Even though standards are voluntary, they may be turned into a mandatory article of law. When this happens, standards become technical regulations – see Annex 1 of the WTO Agreement on TBT

^{lxxx} Same legal personality as the Vanuatu Tourism Office (VTO) and the Vanuatu Investment Promotion Authority (VIPA)

standards may be declared as mandatory by being included in relevant technical regulations.

The adoption of national standards is expected to facilitate foreign investment as well as promote a quality culture among national producers. Guidelines for adoption of national standards, as well as the process decide on mandatory standards, is included in Part 4 of the VBS Act.

The path for adoption is preceded by a number of steps, namely:

1. Gathering
2. Classification
3. Prioritisation
4. Adoption
5. Publishing (catalogue production)

The Commonwealth Standards Network (CSN) is currently assisting the VBS on standardisation. However, some of the above steps are strictly a country's responsibility, and therefore require national ownership and leadership.

6.4.7 Metrology

A national metrology body provides quality assurance on measurement. Metrology is a barrier against fraud and a promoter of international trade. Metrology laboratories are the depositories of national measurement standards (primary or secondary) and provide calibration services that can significantly reduce trading costs, and at the same time can generate significant revenues.

In Vanuatu, the VBS carries responsibility for metrology – article 11 of the VBS Act. The VBS has not yet a metrology division and laboratory and the CSN is providing some basic training in this area. However, metrology requires investment in equipment, measurement standards and trained staff.

The current VBS building has enough space for a metrology laboratory if appropriately prepared for matching the standard requirements. These include structure modification in order to obtain isolation from environmental impacts (humidity, temperature, dirt, pollution, etc.), from other surrounding laboratories, vibration absorption preventive measures, restriction to visitors etc. For some aspects of metrology, regional cooperation can help reducing costs and overcoming common challenges.¹⁷³

6.4.8 Accreditation

Accreditation ensures that the services provided by Conformity Assessment Bodies (CABs, i.e. those undertaking testing, inspection and certification), are internationally recognised. As such, accreditation reduces transaction costs and breaks barriers to trade. By the same token, lack of accreditation creates risks that tests, certificates, and inspection reports undertaken by Vanuatu's conformity assessment bodies are rejected in overseas markets.

To ensure international recognition of CAB's services, the Accreditation Body (AB) needs itself to be recognised by a competent regional or international organisation.^{lxxxix} This will involve evaluating the AB's capacity to assess CAB's ability to meet certain standards.

The most well-known and used standard is ISO/IEC 17025, which sets the requirements for accreditation of testing and calibration laboratories. There is then ISO/IEC 17020 for accreditation of inspection bodies, as well as standards for accreditation of certification bodies – for example, ISO/IEC 17021 for quality management, environmental management, and food safety management.¹⁷⁴

Private sector certification systems based on private standards (e.g. Fairtrade, Forest Stewardship Council, etc.) frequently use their own accreditation criteria to recognise CABs wishing to participate in the particular certification scheme.

^{lxxxix} Asia-Pacific organisations include the Asia Pacific Accreditation Cooperation (APAC). At international level, the International Laboratory Accreditation Cooperation deals with accreditation of testing services, and the International Accreditation Forum (IAF) deals with accreditation of certification and inspection services.

The VBS should work towards accreditation of its conformity assessment services, as well as support priority domestic CABs to be accredited. Regional solutions can be explored to reduce costs of accreditation¹⁷⁵

6.4.9 Conformity assessment services

Conformity assessment involves a set of processes to demonstrate that a product, service or system meets the requirements of a standard. Conformity assessment includes testing, certification, and inspection.

- Certification is the provision by an independent body of written assurance (a certificate) that a product (or management system) has been inspected and tested (or assessed) and that it complies with specified requirements, usually contained in a standard
- Testing is the determination of one or more of an object or product's characteristics against the requirements of a standard
- Inspection describes the observation of a product or process (which can be supported by testing) and the judgement on its conformity to specified criteria as set in a standard

The VBS laboratories currently perform most of the conformity assessment services of the Vanuatu's NQI. Notably, the laboratories provide testing of food quality and safety (mostly microbiological and organoleptic characteristics) for several products (i.e. coffee, kava, packaged products).

The issuance of certificates is limited as the VBS laboratories are not accredited and VBS' certificates are only accepted in a limited number of countries (e.g. kava in New Caledonia). If VBS laboratories were to target accreditation, evaluation from an external AB would be required to avoid conflict of interest and ensure broader international recognition of the services' results.

6.4.10 Recommendations

- a. The VBS is given semi-autonomous status in line with the provisions of the VBS Act
- b. Notify to the WTO that VBS is the new TBT Enquiry Point
- c. Draft and approve a National Quality Policy
- d. Adopt a catalogue of priority national standards
- e. Establish a metrology laboratory and train staff in legal metrology and calibration
- f. Pursue international recognition for the national metrology body (metrology division of the VBS) from the International Organisation of Legal Metrology (OIML)
- g. The VBS to work towards accreditation of its conformity assessment services
- h. The VBS to support priority domestic CABs to be accredited
- i. Start developing certification schemes for some food safety standards - HACCP and/or ISO 22000
- j. Scope options for regional cooperation, for example in the areas of measurement standards and accreditation services

CHAPTER 7: DOING BUSINESS - REFORMS FOR PRIVATE SECTOR DEVELOPMENT

A business-enabling environment can improve Vanuatu's trade competitiveness by promoting private investment in areas of comparative advantage. Enhanced private sector dynamism has in turn the potential to boost innovation and result in higher rates of long-term growth (see Chapter 2). This chapter proposes a series of recommendations in topical areas of private sector development including: business policies, laws, and regulations; labour market; land; financial sector; Intellectual Property Rights (IPRs); public sector entities influencing the enabling business environment; and private sector entities providing business support services.

7.1 Business Policies, Laws and Regulations

Businesses require an efficient, effective and certain regulatory framework within which to operate.

7.1.1 Company structures

Significant progress has been made since the previous Trade Policy Framework in the area of the legal framework for companies. The new Companies Act was passed in Parliament in 2012, making it easier for people to conduct business. The Registration of Business Names Act was amended in 2015 to provide that all companies in Vanuatu must register their business names.

The new Companies Act streamlined compliance requirements, resulting in lower transaction costs for company owners. For example, the online business registry permitted under the Act allows both Ni-Vanuatu and overseas investors to register a business, maintain its details, and pay fees online, reducing the average time for company registrations from more than three weeks to under three days.¹⁷⁶

The legislative changes are being implemented by the Vanuatu Financial Services Commission (VFSC), which was established by the Vanuatu Financial Services Commission Act [CAP 229]. The VFSC has introduced important online initiatives to streamline regulatory requirements, such as online search functions, online payment options, and online verification of documents. In particular, there is an electronic business registry which allows company registration and filing of annual returns from anywhere at any time, provided internet access is available. The business registry can also be searched by the public, which improves access to up-to-date information on companies, directors, and shareholders. It also allows lenders, customers and investors to deal more confidently with companies in Vanuatu.

Private sector opinion of the VFSC is generally positive. The VFSC is funded through the collection of fees and charges for the services it provides (as authorised under the legislation it is responsible for implementing) and also any grants given to it from Government.¹⁷⁷ From a review of the Government budgets, VFSC has not received any funding allocation in the past three years.

7.1.2 Legislative framework for foreign investment

Foreign investment entry is regulated under the Foreign Investment Promotion Act (CAP 248) (FIPA), and is administered by the Vanuatu Investment Promotion Authority (VIPA). Following a review in 2008, the Council of Ministers decided in August 2009 to draft a new bill for consideration,¹⁷⁸ which this resulted in the drafting of a Bill for the Investment Promotion and Facilitation Act in 2010. The Bill has gone through subsequent rounds of consultations, but has yet to be put forward to Parliament by the Minister of Tourism, Trade, Commerce, and Ni-Vanuatu Business. The long delay between each round of consultations on the Bill and the ongoing uncertainty as to whether the Bill will be put forward to Parliament has created considerable uncertainty in the foreign investment climate.

One of the major impediments to finalising the Bill for the Investment Promotion and Facilitation Act is the lack of a national investment policy. The government finalised its National Investment Policy Statement in 2019,¹⁷⁹ but this is still pending approval by the Council of Ministers. Once the National Investment Policy Statement is approved and publicly released, the Bill for the Investment Promotion

and Facilitation Act should be presented to the Parliament.

7.1.3 Foreign investment entry

The foreign investment approval process, which is the process for obtaining a foreign investment approval certificate, has been consistently improving, with time to obtain approval dropped from more than 30 working days in 2008, to an average of fewer than 15 working days.

There are a number of further issues relating to foreign investment entry that should be resolved by the Government:

- the FIPA sets out areas in which Vanuatu wishes to limit foreign investment. Some areas on the list are reserved solely for investors who are citizens of Vanuatu, while others are open to companies with foreign ownership, as long as they meet specific minimum requirements. The strategic and policy objectives behind the list are sometimes unclear and many of the activities on the list are not well-defined. In addition, the FIPA does not define a process for revising the reserved list over time. Reservation of activities would benefit from the written statement of an agreed criteria to guide decision by policy-makers. This statement could be included in the Bill for the Investment Promotion and Facilitation Act, the FIPA's successor.
- investment promotion strategy is still nascent; the National Investment Policy Statement identifies priority sectors and sub-sectors and related investment opportunities, and the Trade Policy Framework Update 2019 provides overall development directions for these sectors and sub-sectors. These two documents should now inform the development of specific and practical investment promotion strategies for each priority sub-sector, including tourism, coconut, beef, kava, fruits & vegetables, cocoa, timber, and fishery products.

7.1.4 Licensing requirements

Licensing requirements typically provide regulatory approval for a defined activity; however, they should not create unnecessary barriers to entry.

The business license, which is regulated under the Business License Act [CAP 249], must be obtained by all businesses and is issued in different jurisdictions. In Port Vila and Luganville, the business license is issued by the Rates and Taxes Office, Department of Customs and Inland Revenue (DCIR), within the Ministry of Finance and Economic Management (MFEM). In areas outside Port Vila and Luganville, the business license is issued by the local provincial councils. As the license is specific to commercial activity and geographic location, it does not allow businesses to have mobility and to operate throughout the country.

The requirement for renewing the business license annually is an administrative burden, however, the proceeds of business licenses are theoretically partly used to fund the Vanuatu Chamber of Commerce and Industry.¹⁸⁰ The Government should consider whether the primary purpose of the business license is regulation or revenue raising.

If the primary purpose is regulation, the business license system should be converted to a registration process,¹⁸¹ while allowing regulation for activities that are a threat to the public interest or environmental sustainability. A registration process would also provide a useful source of information for Vanuatu's regulators, Government, and service providers. This online registration process would be in addition to the company registration process that is already administered by the VFSC. Given that Vanuatu has an online platform, administered by VFSC, which covers company registration, it should be easy to add a business license aspect (module) to the online platform.

In certain sectors, additional licenses are required, however, there is no central repository of information in Vanuatu as to what licenses and permits, such as development and construction permits, are required for certain activities. The effect of this is that it is not easy for prospective businesses to obtain information about what requirements they must comply with.

One further difficulty is that many of the existing license categories appear to lack clear application guidelines and well-defined criteria for approval decisions. The promulgation by the Government of well-defined, consistent and relevant criteria for approval decisions would assist in providing private sector businesses with greater understanding of the information they are required to provide.

7.1.5 Industry Development Act

The Government introduced the Industrial Development Act No. 19 of 2014 (IDA)¹⁸² which requires businesses that are undertaking industrial activities and/or external trading services to obtain an industrial permit from the Department of Industry. Though useful from the perspective of providing relevant information to the Government, there does not appear to be a policy basis for introducing an industry permit as the Vanuatu National Industry Policy 2011, on which the IDA was based, does not refer to any need for any such license. The industry license could be converted to a requirement to provide specific information on an annual basis, perhaps by introducing relevant ‘fields’ to the business license ‘module’ of the VFSC online platform.

The IDA introduces a discretionary process for the Department of Industry to impose export taxes (of up to 40%) on primary products to encourage value-added processing in Vanuatu. The discretionary export tax has created uncertainty for primary producers. The new Vanuatu Industry Development Strategy 2018-2022 has proposed restrictions on the export of copra to expand local processing, however, such restriction would need to comply with the IDA. The IDA states that certain information, such as market studies, is to be considered by the Director when making a decision on export taxes.¹⁸³ This process should be more transparent and the IDA should set out better criteria for considering the imposition of an export tax, including the conduct of independent economic analysis, and an annual monitoring and evaluation exercise whose outcomes should be publicly available.

7.1.6 Competition

An effective competition framework should discourage anticompetitive business practices and Government policies (e.g. overly restrictive licensing regimes), thus fostering innovation, productivity and trade competitiveness.

Vanuatu has made significant progress in encouraging competition within its markets, and has established three separate independent regulators for certain infrastructure services.

In 2019 the Vanuatu Government passed its first competition and consumer protection policy.¹⁸⁴ This policy sets out a number of principles which the Government should follow, but will not by itself lead to significant structural change. The Government must develop legislation pertaining to consumer protection, as well as a suitable and proportionate enforcement mechanisms.

7.1.7 Consumer protection

Vanuatu relies on outdated British legislation (the Sale of Goods Act), regarding the protection of consumers’ right to quality products. This legislation is insufficient to ensure the necessary consumer rights,¹⁸⁵ as it did not keep pace with commercial expectations, particularly in an increasingly global, services-based, and electronic trading environment.^{lxxxii}

Beyond the Sale of Goods Act, the only legislative instrument that governs any aspect of consumer rights is the Penal Code [CAP 135]. The Penal Code imposes penalties on persons who obtain money by deception or false or misleading statement.¹⁸⁶ The penalty for breaching these sections of the Penal Code is 12 years imprisonment. Whilst this may be seen to be a deterrent, being a criminal offense, it can only be enforced by the police and public prosecutors. The public does not have direct access to such redress, as a person would need to make a complaint to the police and hope that the police would deem the alleged crime to be worthy of considering investigating and referral for prosecution.

^{lxxxii} In Britain, new legislation filling the observed gaps, the Consumer Rights Act, was approved in 2015

Consumer protection is vital to competition, as it ensures consumers have adequate information to make informed choices, which will lead to empowered consumers subject to fewer abuses. Consumer protection also contributes to creating a level playing field for businesses, which have to apply a common set of standards, thereby supporting competition.¹⁸⁷

The Government must develop legislation pertaining to consumer protection, as well as a suitable and proportionate enforcement mechanisms.

7.1.8 Contract enforcement

There are four levels of courts in Vanuatu, the highest of which is the Court of Appeal, which is preceded by the Supreme Court, Magistrates' Court, and Island Courts. Different courts in Vanuatu have jurisdiction over different causes of action and different values of claims. Each court in Vanuatu is bound by the decision of superior courts through the doctrine of judicial precedent.

Court delays are an ongoing issue with the judiciary system in Vanuatu.¹⁸⁸ Following a 2013 review of the judiciary system, it was found that delays were so lengthy that justice was being effectively denied. For example, in a list of complaints reported to the Ministry of Justice in 2011, pending decisions (after a trial was completed) were the main cause of delays, with an average length of four years and seven months.¹⁸⁹ In late 2015, a new case management system was implemented which represents a significant improvement. There has been improvement in the average rate of pending decisions,¹⁹⁰ however, to further reduce delays, the Government could consider amending the Civil Procedure Rules to provide time limits for judges giving decisions.

7.1.9 Arbitration

Arbitration is a type of alternative dispute resolution, being an alternative mechanism to the court system for resolving disputes. In arbitration, the parties present arguments and evidence to an independent third party, the arbitrator, who makes a determination. Arbitration is most often used in disputes where the subject matter is technical and requires in-depth technical knowledge to make an accurate determination, for example, in construction contracts.

There is no domestic legislation currently in force relating to arbitration, meaning that there is no system for domestic arbitration, which parties could use to resolve disputes within the country. The implementation of a system of domestic arbitration in Vanuatu could resolve the issue with court delays, though it would take a number of years to set up. An alternative dispute resolution centre focusing on mediation would be more cost effective and easier to implement, as referred to in the following section.

International arbitration is limited to those agreements that voluntarily consent to an arbitration process in the event of a dispute under the contract. If parties consent to international arbitration, they agree to undertake an arbitration according to the particular international rules that the parties select. Once the arbitrator makes a decision, this decision is known as the "arbitral award". There is no provision for the enforcement in Vanuatu of foreign arbitral awards. The practical effect of this is that foreign investors would be less likely to agree to any arbitration with Vanuatu-based companies or the Government, as the foreign investors would not be sure of being able to enforce any award given as a result of the arbitration process. The New York Convention on the Enforcement of Arbitral Awards is a convention which provides for reciprocity of enforcement of international arbitration awards. By becoming a signatory to the New York Convention, Vanuatu could ensure reciprocity of enforcement and, therefore, increase confidence in doing business with Vanuatu-based companies.

7.1.10 Alternative dispute resolution centre

Mediation is another form of alternative dispute resolution, meaning an alternative mechanism to the court system for resolving disputes. It requires the participation of a third party (a mediator), whose role is to assist the parties to reach agreement on the resolution of the dispute. A mediator does this by seeking to align the parties' interests where possible, identifying the possible outcomes of the

litigation or arbitration, and examining what options might be available to the parties to settle the dispute.

In Vanuatu, a court may refer a matter to mediation under Part 10 of the Civil Procedure Rules 2002. Attendance at, and participation in, mediation sessions are voluntary and a party may withdraw from mediation at any time.

In addition to court-referred mediation, it would be beneficial to have options for mediation prior to the lodging of a formal dispute via court proceedings. The Government could establish a centre for alternative dispute resolution, where any party to a commercial contract could seek assistance in resolving disputes.

7.1.11 Access to information

Access to information, particularly information on legislative frameworks, are critical to encouraging private sector development. In Vanuatu, unauthorised versions of the legislation are available online through the Pacific Islands Legal Information Institute (PaclII). In addition to not having online authorised versions of legislation, Vanuatu does not produce regular consolidated legislation. The last consolidation of the legislation was completed in 2006. Consolidation of legislation is when the Acts are updated with all of the amendments up to that particular date, and then officially published. Most jurisdictions consolidate their legislation on an ongoing basis as new legislation is passed, or on an annual basis. The lack of consolidated legislation makes it difficult for the private sector to firstly, be aware of any potential amendments to the legislation that may have occurred and secondly, be able to read the legislation with ease.

An example of such an occurrence is the Business Names Act. The Business Names Act was originally passed by Parliament in 1990,¹⁹¹ and was then consolidated in 2006 as Chapter 211. Since 2006, there have been two amending pieces of legislation, which must be individually read and compared against Chapter 211. A simple consolidation of this legislation would improve the private sector's access to critical information.

The Vanuatu Trade Portal^{lxxxiii} – still in its development stages – is an exception in this regard. The Portal covers areas of trade, investment and mobility (movement of people and lands), providing a wide range of information on procedures to complete regulatory requirements, which would be normally scattered across a variety of Government line agencies' web pages, in a single place, making it a transparent platform able to facilitate work in these areas.

7.1.12 Recommendations

- a. Finalise and publish the national investment policy
- b. Once the national investment policy is finalised, present the Bill for the Investment Promotion and Facilitation Act to Parliament
- c. Prepare practical investment promotion strategies for each of the priority sectors included in the National Investment Policy, and use the recommendations of the TPFU sectoral chapters to inform those strategies
- d. Consider converting the business license application into a registration process
- e. Amend the Industry Development Act to introduce greater transparency over the imposition of export taxes
- f. Develop competition legislation
- g. Develop consumer protection legislation
- h. Consider ratifying the New York Convention on the Enforcement of Arbitral Awards
- i. Establish an alternative dispute resolution centre
- j. Publish consolidated versions of national legislation

^{lxxxiii} Please find the website here: <https://tradeportal.gov.vu/>.

7.2 Labour

7.2.1 Introduction

The regulations concerning the labour market provide the minimum requirements that employers and employees must comply with for commencing, during of the period of, and terminating employment. Importantly, the Government's role in the regulation of the labour market must balance two competing interests, namely protecting the employees' rights, and giving employers flexibility to create job opportunities.

7.2.2 Overview of legal framework

The legal framework for the labour market in Vanuatu is incredibly complex for a country of Vanuatu's size and development. There are five main pieces of legislation that cover domestic workers:

- the Employment Act (CAP 160), which establishes the conditions of employment;
- the Trade Unions Act (CAP 161), which set out the rules for establishment and operation of trade unions;
- the Trade Disputes Act (CAP 162), which establish mechanisms to resolve labour disputes;
- the Minimum Wage and Minimum Wages Board Act (CAP 182), which establishes the process for setting minimum wages; and
- the Workmen's Compensation Act (CAP 202), which requires employers to pay compensation to workers for workplace injuries.

In addition, foreign workers are also regulated under three other pieces of legislation being:

- the Labour (Work Permits) Act (CAP 187);
- the Foreign Investment Promotion Act (CAP 248); and
- the Immigration Act 2010.

The Commissioner of Labour, supported by the Labour Department within the Ministry of Internal Affairs (MIA) is responsible for administering most of the labour legislation. The Principal Immigration Officer, who issues residence permits and entry visas (if required), also has a decision-making role in the labour market.

7.2.3 Information in relation to foreign workers

One significant impediment to reforming the system in relation to foreign workers is the lack of data and statistics available from the Department of Labour. There is some information available on the number of foreign workers within each category, but it is far from comprehensive and difficult to access (see Chapter 8). Moreover, no information is available on the timing of application processes, rejected applications or complaints. Without a historical record that can be objectively analysed, it is difficult to fully assess effectiveness and timeliness of the granting of work permits.

There is a potential to further improve data collection on foreign workers by the Department of Labour, and to make this information more easily accessible. This can be achieved by implementing the recommendations of Chapter 8 on this issue, as also required by the policy objective SOC 6.9 of National Sustainable Development Plan (NSDP).¹⁹²

7.2.4 National labour policy

In 2010, the Government established the Tripartite Labour Advisory Council (TLAC) to replace the Labour Advisory Board. The TLAC is comprised of representatives from Government, employers, and trade unions, who work together to advise the Government on labour market policy. The TLAC has been working to modernise the country's laws, however, rather than developing a policy for consultation which would guide the legislative development, the TLAC focused on drafting new legislation. The result was an Employment Relations (ER) Bill which sought to combine all the relevant labour legislation in one Act and was consulted and developed from 2012 until recently. There was significant opposition to

the ER Bill from the private sector, mostly concerning annual leave benefits and severance payments,¹⁹³ and the ER Bill appears now to have been abandoned by the Department of Labour.

In August 2018, the Department of Labour commenced a review of the Employment Act. Recently, amendments to the Labour (Work Permits) Act were adopted by Parliament, which make it more difficult and costly to recruit foreign workers.¹⁹⁴ Overall, the lack of a national labour policy impedes consistency across the various legislation. It would be easier and more consistent for the Government to conduct in-depth consultation on a national labour policy, which would cover the subject matter of all legislation, and provide direction to any consequential amendments to individual pieces of legislation.

7.2.5 Social welfare

There is no comprehensive social welfare program, which involves organised public social services for disadvantaged groups. The Workmen's Compensation Act [CAP 202] provides for employers to pay compensation to workers for workplace injuries, and requires employers to maintain insurance for this purpose. In practice, many Micro, Small, and Medium Enterprises (MSMEs) do not have any insurance.¹⁹⁵

The only other aspect of social welfare in Vanuatu is the national pensions fund, the Vanuatu National Provident Fund (VNPF). The VNPF was established under the Vanuatu National Provident Fund Act [CAP 189]. Employers and employees in Vanuatu are compulsorily required to each contribute six per cent of salary to the VNPF. Employees cannot access their contributions until they reach the age of 55, however, employees may be allowed to withdraw a portion of savings in circumstances deemed appropriate by the Government, mainly as a form of disaster relief for members. For example, following Cyclone Pam, the Government allowed VNPF members to withdraw 20% of their retirement savings.

The development of the national labour policy should address the Government's policy decision on the issue of social welfare.

7.2.6 Process issues relating to foreign workers

Under the FIPA, approved foreign investors are eligible for at least two work permits, which seems an arbitrary number, and which implicitly suggests a stricter approval process in case more than two permits are requested. Foreign investors must still fully comply with all labour and immigration requirements, which is the international standard.

Whilst many aspects of Vanuatu's policy on expatriate workers are consistent with international best practice, there are a number of areas which could be reviewed and reformed:

- overlap of administration. There are three Government agencies involved in the process for accessing foreign workers. VIPA 'pre-approves' work and residence permits for foreign investors. The Department of Labour issues work permits. The Department of Immigration issues entry approvals and/or residence permits. Each foreign worker is then issued two permits: a work permit and a residence permit. The Government should consider streamlining this process with the issuance of one permit to each foreign worker.
- duration of work permits. The current policy is to limit the duration of work permits to 12 months, though technically they can be issued for up to four years. The annual renewal policy poses a high administrative and economic burden on employers, foreign workers, and the Government, as the entire application process must be completed each time and the employee must leave Vanuatu to have the permit renewed.
- lack of objective criteria for work permits. The criteria for assessing residence permit applications are clear, however, the criteria for assessing work permit applications are subjective.¹⁹⁶ This can create uncertainty for applicants.

The proposed national labour policy should address the above identified issues.

7.2.7 Information dissemination

Labour legislation in Vanuatu is difficult to understand, even for qualified lawyers. The Vanuatu Chamber of Commerce and Industry (VCCI) have released an 'Employer's Handbook', which aims to give employers an overview of the different statutory requirements. The publication was last updated in 2014.

Employees do not have any guidebook to assist them in understanding the legislative framework and the benefits to which they are entitled. The Department of Labour should take the leading role in drafting and publishing a tri-lingual (Bislama, English and French) guidebook, which sets out what employees should understand as both their obligations and rights, in respect of their employment relationship. The guidebook should be written in everyday language and simplify the legal concepts so they can be understood by the public.

7.2.8 Recent reform

There is a number of recent reforms in the labour market, primarily driven by the Government.

For example, there is currently a review being undertaken by the Department of Labour in relation to the level of statutory leave and severance allowances, with a view to decrease such allowances for Government employees who have decades of continuous employment and large accrued balances. Also, the minimum wage was increased from 1 January 2018 from VUV 170 per hour to VUV 200 per hour.¹⁹⁷ It is unclear whether this increase was based on the perceived need to deter workers' exploitation and provide a reasonable standard of living to workers. It noted, however, that the gross salary of a worker employed 8 hours a day for 200 days a year and paid the minimum wage (VUV 320,000) would be higher than the average per capita Gross Domestic Product (GDP) in 2016 (VUV 272,000), thus indicating that the existing minimum wage might, in some circumstances, discourage employment creation.

The recent reforms are piece-meal and do not address the issues from a holistic perspective. The development of a national labour policy should address the issue.

7.2.9 Recommendations

- a. Development of a national labour policy
- b. Review of all legislation in accordance with national labour policy
- c. Develop a plain language tri-lingual Employee Handbook, and also an Employer Handbook
- d. Establish an information gathering and data recording project within the Department of Labour (see Chapter 8)

7.3 Land

7.3.1 Land ownership

The primary basis of all rules relating to land ownership herald back to the Constitution. In Article 73 of the Constitution, it is stated that "all land in the Republic of Vanuatu belongs to the indigenous custom owners and their descendants". The custom basis for the ownership of land is further enshrined in Article 74 which states that "the rules of custom shall form the basis of ownership and use of land". According to Article 75, land may only be owned, in perpetuity, by the "indigenous citizens" who have acquired their land in accordance with a recognised system of land tenure. In addition, based on Article 80, the Government of Vanuatu may own land acquired by it in the public interest. The effect of these Articles of the Constitution is that only Ni-Vanuatu customary land owners and the Government may own the land.

7.3.2 Types of land interests available for economic use

Any person who does not own land may obtain an interest in land, however, the only option is to obtain a leasehold interest, via a lease with the custom owners of the land or the Government. The grant of

leases is governed under the Land Leases Act [CAP 163].

The Land Reform Act [CAP 123], including its amendments in 1992 and 2000, provides that all land belonging to the former colonial governments would be vested in the Government as public state land.¹⁹⁸ Given the former colonial governments' land was mostly located in the two main urban areas, Port Vila and Luganville, when this land was transferred to the Government, it allowed for certainty of ownership of a large section of the main urban areas of land. Consequently, a large amount of the leasehold titles in Vanuatu are found in these two main urban areas.

In Vanuatu, the term of any lease granted is limited to 75 years.¹⁹⁹ However, for land which is public state land, lessees have a right to request the Minister of Lands to either extend the lease (for leases less than 75 years) or the renew the lease (for leases of 75 years).²⁰⁰ In addition, leases are required to specify the purpose and use for which the land is leased and any development conditions.²⁰¹ Leases must be registered with the Ministry of Lands and Natural Resources.²⁰²

7.3.3 The 2013 reform

The need for land reform was identified in 2006 and culminated in a National Land Summit held late in the same year. The issues identified in the National Land Summit 2006 as being related to leasing were:

- successive Ministers of Land were misusing ministerial powers to sign leases on behalf of custom owners;
- many leases were being granted without the full understanding and consent of the custom land owners;
- many leases were granted by individuals instead of groups of custom owners; and
- leases were being poorly drafted with very loose terms and conditions and little prospect of enforcement.²⁰³

In 2013, the newly appointed Minister of Lands led a process of land reform. Following a short consultation process, legislative amendments were tabled in Parliament at the end of 2013 and were gazetted, becoming effective, in February 2014.

The legislative amendments were comprised of the following:

- the Constitution (Sixth) (Amendment) Act No. 27 of 2013 - this amended Articles 30 and 78 of the Constitution to ensure that the Malvatumauri Council of Chiefs must be consulted on any proposed legislative amendments concerning land and custom and also provided that disputes regarding ownership of customary land must be dealt with under custom and not the legal sector;
- the Land Leases (Amendment) Act No. 32 of 2013 - this amended the definition of lessor to change from only "person" to "person or custom owner group" thereby removing individualism;
- the Land Reform (Amendment) Act No. 31 of 2013 - this created the Land Planning Management Committee, set up a different and more streamlined process for leases over State Land,²⁰⁴ established the Land Ombudsman and also set out a detailed negotiation and consultation process for land dealings with custom owners; and
- the Custom Land Management Act No. 33 of 2013 - this replaced the Customary Land Tribunal Unit with the new Customary Land Management Office and provided a process of identifying custom owners, as well as amending leasing provisions and inserting greater control on development.

The consequences of the formation and implementation of these legislative amendments are further discussed below.

7.3.4 The Process for obtaining a lease

The process for obtaining a lease in Vanuatu is complicated and lengthy, with different processes for

leases on state land and leases with custom owners.

7.3.5 State land

The following process applies with respect to leases on state land:

- the person applies to the Chairperson of the Land Management Planning Committee (LMPC) by submitting the prescribed form and paying the prescribed fee;
- the information that is required for an application for a lease on state land is set out in Article 10B of the Land Reform Act;
- the Chairperson refers the application to the LMPC;
- the LMPC considers the application and is empowered to give a recommendation for approval of the lease only if it is satisfied of the conditions set out in Section 10C of the Land Reform Act;
- after the LMPC gives its written advice to the Minister, the Minister must consult with the Council of Ministers and seeks its approval for the lease; and
- if the Council of Ministers approves an application, the Minister is to approve the lease and notify the Director of Lands to register the lease.

7.3.6 Custom land

The following process applies with respect to leases on custom ownership land:

- a person applies to the LMPC, in the prescribed form and paying the prescribed fee, for a certificate certifying that person as a registered negotiator. The information required for a negotiator's certificate includes information on the proposed development including funding and capital expenditure estimations;
- if the custom owners are already identified by a recorded interest in land in accordance with the Custom Land Management Act, then the LMPC will consider the application;
- if the custom owners are not already identified, the National Coordinator must arrange for certain public notifications, then allocate a custom land officer to facilitate the identification of the custom owners in accordance with the provisions of the Custom Land Management Act. The process of identification will vary based on whether a dispute exists over ownership of the land;
- the LMPC will then either give a recommendation to the Minister to issue or reject the application - and the LMPC can specify any conditions as it considers fit to impose.²⁰⁵ If the recommendation is to issue, then the Minister will issue the negotiator's certificate;
- following the issue of the negotiator's certificate, then the consultations with the custom owner group can begin²⁰⁶ and there are certain requirements for each stage of negotiation;
- the approved negotiator must ensure that a valuation of the land is done by a registered land valuer under the Land Valuers Registration Act [CAP 289];
- the custom land officer must then prepare a custom owners' consultation report;²⁰⁷
- once the lease is agreed, the LMPC's National Coordinator must hold a meeting with the custom owners (and all disputing groups of custom owners) to make sure that there is a consensus on the terms of the lease;²⁰⁸
- the National Coordinator then gives a written report to the Chairperson of the LMPC;²⁰⁹
- once the report is received, the Chairperson of the LMPC must arrange for public notifications in relation to the lease;
- if there is no complaint to the Land Ombudsman, then the Committee will consider the registration of the lease;
- the Committee must give a recommendation for approval to the Minister if the conditions in section 6T(2) of the Land Reform Act are satisfied; and
- the Minister then consents to the registration of the lease.

7.3.7 Assessment of access to customary land

Customary land often represents an impediment to development due to uncertainties associated with ownership and length of lease periods. In Vanuatu, the current land laws, following the 2013 reform, have had an immediate negative impact on land development, due to the very lengthy process in securing a lease and also due to the large amount of information that is required before a lease is granted.

In relation to the timing aspect, as most of the delays have centred about determining which custom owner group is the 'recorded' group and resolving those disputes, the process may become faster in the future, once more custom owner disputes are resolved.

In relation to the information required to be provided, this represents a significant barrier to entry into the Vanuatu market, and negatively impacts small and medium enterprises, who may not have the funding available to complete all the environmental and development proposals prior to securing a lease. For small enterprises, the cost of obtaining all the required consents but still having a risk that the lease may not be granted, represents a prohibitive investment.

7.3.8 Economic Development Zone

The Government is currently considering establishing an Economic Development Zone (EDZ). EDZs are given various names around the world, but regardless of the name used, EDZs generally have one or more of the following features:

- liberalisation of national legislation, regulation and policies (immigration, customs and taxation, etc.) within the zone;
- provision of taxation, fiscal and other incentives (especially reductions in corporate taxation, removal of restrictions on foreign exchange and capital repatriation) to developers and investors within the zone;
- good infrastructure and facilities within the zone (such as roads, industrial, warehouse and office space); and
- provision of assistance (especially assistance with Government ministries and departments) and reduction in 'red tape' for investors in the zone.

In general, EDZs are characterised by their status as spatially-delimited, designated locations. EDZs are used by many economies to promote trade, economic growth and industrialisation. In the last five decades, more than two-thirds of all countries have developed EDZs.

Given the low tax environment of Vanuatu, the absence of foreign exchange controls and the easy repatriation of profits, any EDZ policy would need to focus on simplifying or incentivising other areas that currently inhibit doing business. In Vanuatu, the most significant constraint that an EDZ could help to resolve is access to land. The Government has tentatively identified a suitable plot of land in Espiritu Santo for this purpose. The next steps prepare a detailed feasibility study proposing specific regimes on access to land, access to key infrastructure and utilities, as well as the governance, from which the Government can make the final decision about how to proceed.

7.3.9 Standard lease documents

One of the key issues raised in the 2006 National Land Summit, that many leases were poorly drafted and had little prospect of enforcement, has yet to be addressed. Many custom owners are not familiar with land-related interests, such as easements or 'rights of way' access to areas such as the sea, and may not realise the long-term consequences of what they are signing. One way for the Government to address this would be drafting a standard tri-lingual (Bislama, English, French) plain-language lease agreement, with multiple options and commentary which can reflect a wide range of risk allocation models. For example:

- rent escalation: currently there is a process in section 39 of the Land Leases Act in relation to

rent review, however, this involves referral to external parties as opposed to the parties to the lease. Options for adjustment in rent could include linking the rent to inflation, to increases of the development's revenues or profits, etc.;

- rights of way: this could set out the custom owners' rights in relation to access to areas, such as the sea, which require crossing the leased land;
- dispute resolution: this could have multiple options, including mediation; and
- transfer of fixtures and improvements: One of the key areas of concern for private sector is the uncertainty surrounding what happens to the fixtures, structures and improvements following the termination or expiration of the lease. Section 41(j) of the Land Leases Act provides that "on determination of the lease [the lessee] peaceably and quietly to deliver up vacant possession of the leased land and all improvements thereon". As such, any consideration of the value of the structures and improvements are currently only a matter of negotiation within the terms of the lease. For commercial business, the impact is that they would try to negotiate the maximum term of the lease, being 75 years, because they would need to recover any capital expenditure within that time. While it should not be expected that custom owners are required to compensate the lessees for the transfer of such assets at the end of the lease period, particularly in circumstances when the custom owners do not have a right to prohibit certain levels of capital expenditure on the leased land, a standard form lease could provide options that are of benefit to both the custom owners and the private sector. An example would be where the custom owners agree to a certain level of compensation based on a percentage of the net depreciated value of the assets, provided that they have approval rights over the capital expenditure on those assets.

7.3.10 Land advisory service

The 2013 land reform program created many new Government decision-making entities, however, there was no entity created to provide advisory services to landowners. The creation of an advisory services unit, independent of the Ministry of Lands and Natural Resources, could assist landowners in two ways. Firstly, to advise on beneficial terms in the lease agreements. Secondly, to provide advice on establishing fair mechanisms for distributing benefits within the custom owner groups. The establishment of an advisory services unit would assist private sector development by creating more certainty around the ongoing relationship with the owners, once the lease is signed, and potentially lead to fewer disputes between lessors and lessees.

7.3.11 Recommendations

- a. Development of a tri-lingual, plain language template land lease agreement, with different options for key legal clauses (rent review, right of way, transfer of fixtures and improvements, etc.)
- b. Consider the establishment of a specialised advisory unit to assist land owners
- c. Produce a final feasibility study on establishing an Economic Development Zone

7.4 Financial Sector

7.4.1 Overview of financial sector

Vanuatu's financial sector includes both domestic and offshore components, however, this chapter will only focus on the domestic sector, as it is in the context of facilitation of access to local finance.

The domestic banking sector is dominated by four banks, being the National Bank of Vanuatu (NBV), Australia and New Zealand Bank (ANZ), BRED Bank, and the Bank of South Pacific (BSP). BSP recently acquired, in 2016, the banking operations of Westpac in Vanuatu.²¹⁰ ANZ, BRED Bank, and BSP are all subsidiaries of foreign banks, from Australia, France, and Papua New Guinea, respectively. NBV was restructured in 2012, pursuant to the National Bank of Vanuatu (Restructuring) Act No. 3 of 2012, which repealed the National Bank of Vanuatu Act [CAP 209] and transferred the assets, rights and liabilities of

NBV to a limited liability company established under the Companies Act. NBV is currently majority owned by the Government, with minority shareholdings by VNPF and the International Finance Corporation (IFC), which is part of the World Bank Group (WBG). NBV has the greatest outreach in terms of rural banking, with a network of more than 30 branches throughout the country. Within Vanuatu, there are also registered credit unions and savings and loans cooperatives.

In terms of regulation, all financial institutions are required to comply with the Financial Institutions Act [CAP 254]. The Reserve Bank of Vanuatu (RBV) is the regulator and supervisor of the banking system, with task of ensuring its financial stability. RBV was established pursuant to the Reserve Bank of Vanuatu Act [CAP 125] and its principal objectives are:

- to regulate the issue, supply, availability and international exchange of money;
- to supervise and regulate banking business and the extension of credit;
- to advise the Government on banking and monetary matters;
- to promote monetary stability;
- to promote a sound financial structure;
- to foster financial conditions conducive to the orderly and balanced economic development of Vanuatu; and
- to regulate and supervise domestic and international (offshore) banks.²¹¹

7.4.2 Overview of access to finance

The Vanuatu 2016 Mini Census report noted that only 49,037 adults aged 15 years and over (31% of the total) are banked, of which 26,985 (40%) are women. In addition, 14,187 adults aged 15 years and over (9% of the total) had access to semi-formal financial services. This means that about 60% of Ni-Vanuatu adults has no access to a bank account.

A survey of Micro, Small, and Medium Enterprises (MSMEs) was conducted in 2016 by RBV. According to the survey, access to finance was identified as a pressing problem by five percent of MSMEs in both rural and urban areas.²¹² When finance is accessed for starting a business, informal savings (own savings) represent the main source of finance - 81% of rural businesses and 68% of urban businesses, followed by loans from commercial banks, which make up a far smaller proportion – nine percent of rural businesses and 18% of urban businesses. Overall, only 32% of formal MSMEs applied for loans from commercial banks within the 12-month period preceding the survey and only 12% of informal MSMEs.²¹³

The MSME Survey identified that 87% of the businesses surveyed used cash for transactions, and only 0.2% used electronic mode of payments, with eight percent of MSMEs in Vanuatu using internet banking for business transactions.

7.4.3 Taking security

The ratio of non-performing loans in Vanuatu has steadily increased in the last few years, from 4.8% in 2010 to 7.8% in 2012, 10.7% in 2014, 10.8% in 2016, and 15.1% in 2017.²¹⁴ The ratio of non-performing loans relates to the consequences of a default in the loan by the borrower and reflects whether the bank has been able to recover the outstanding money. In such cases, the amount and quality of security or collateral is critical. Collateral, in a loan context, is defined as “valuable property owned by someone who wants to borrow money, that they agree will become the property of the company or person who lends the money if the debt is not paid back”.²¹⁵ Collateral is generally defined as being one of two main categories, being immovable (such as land or fixtures on land, such as buildings) or moveable (such as cash, equipment, stock).

The Personal Property Securities Act No. 17 of 2008 (PPS Act) contains a comprehensive legislative regime governing a wide range of security interests in the property, other than land and some property that is specifically excluded, such as ships that are registered in accordance with the Maritime Act [CAP 131]. This system creates a single register for recording security interests in personal property and is

based on similar systems operating in Australia, Canada, and the United States of America. The PPS Registry can be accessed and searched online via a website.^{lxxxiv}

In Vanuatu, there are a number of complicating factors which inhibit the use of collateral effectively. Firstly, mortgages over the land itself are not possible, given the customary land ownership system created under the Constitution, and therefore, the only security interest in land available is a mortgage over the leasehold interest. Any security interest in a lease must be registered through a process detailed in the Land Leases Act. The delays in the granting of leases following the 2013 land reform, the consequential delays in creating mortgages in leases and issues relating to accuracy of the land registry, have impeded leases being used as effective collateral.

Secondly, registration in the PPS Registry does not, of itself, create a security interest but simply records priority and allows other lenders to establish if the particular debtor has already given a security interest in the particular property. Lenders are still required to enter into agreements, known as security agreements, which create the security interest. Those security agreements are generally complex and not well understood by the public, which discourages debtors from agreeing to give such collateral. In addition, banks are discouraged from formally documenting and registering collateral, because of the costs of documentation and the difficulty in convincing debtors to sign the agreements. The Government could assist by providing standard, tri-lingual (Bislama, English, French) plain language forms for security agreements in respect of different categories of movable property, such as cash and vehicles, and also in respect of leasehold interests. Standard template agreements which are easily understood by the public would assist in increasing awareness of the concept of collateral over property. An increase in the usage of such collateral could increase lender security, reduce lending rates and increase access to finance.

7.4.4 Credit bureau

One of the key aspects of increasing lender confidence is allowing lenders to accurately assess a borrower's risk, in terms of potential for defaulting on a loan. Understanding a potential borrower's credit history is key to lenders understanding risks relating to a borrower, however, this also has to be balanced with the need for privacy of information and also requirements as to fair credit reporting. In 2011, Data Bureau Vanuatu was set up and is owned by Insoft International Limited. Data Bureau Vanuatu operates as a private credit bureau, collating the information provided by its members. The major members of the credit bureau are ANZ, BRED Bank, NBV, Wilco Limited, and Credit Corporation (Vanuatu) Ltd.²¹⁶

The WBG reports on the number of individuals or firms listed by a private credit bureau with current information on repayment history, unpaid debts, or credit outstanding. For Vanuatu, figures are set out in Table 7.1²¹⁷

TABLE 7.1 PRIVATE CREDIT BUREAU COVERAGE (PERCENTAGE OF ADULTS)

Year	2012	2013	2014	2015	2016	2017	2018
Percentage of adults covered	0.0%	5.5%	6.8%	6.6%	9.6%	9.4%	12.2%

Source: WBG

Whilst the increasing trend can be interpreted as encouraging - a higher coverage leads to more informed lending decisions by banks - there are a number of concerns regarding the private credit bureau in Vanuatu. Firstly, there is no statutory privacy law in Vanuatu, which means that any breach of privacy could only be redressed by general common law, which the courts may choose to disregard. This is fairly unsatisfactory given the particularly sensitive nature of credit information. It is noted that Data Bureau Vanuatu operates on a 'Code of Conduct' basis, which is publicly available on their website.²¹⁸ The Code of Conduct sets out a grievance mechanism for persons who wish to correct certain information held by Data Bureau Vanuatu, however, it does not have the force of law. As

^{lxxxiv} The PPS Registry can be accessed and searched online via www.ppsr.vu

information on persons are only available to the Bureau's paying members, it would be difficult for a borrower to understand what, if any, information is recorded about them. Secondly, the operations of private credit bureaus are not supervised or regulated in Vanuatu. International best practice is for credit reporting agencies to be supervised by the central or reserve bank and to have a legislative framework for privacy and data security.

7.4.5 Consumer credit legislation

Consumer credit legislation exists to protect consumers when dealing with credit lenders. It focuses on individual consumers in recognition of the fact that individuals may not be as financially sophisticated or knowledgeable as corporate borrowers, and therefore, need additional protective frameworks, particularly when considering the potential ramifications to individuals (and society at large) of entering into unfair credit arrangements.

In a market such as Vanuatu, where a large portion of the population is rural and education levels are low, it would be advantageous to introduce consumer credit legislation, to protect consumers and to encourage responsible lending by credit providers. Further, this would assist credit providers as it would provide a level playing field, regulatory oversight, and direction as to the type of lending products suitable for different categories of borrowers.

Should Vanuatu wish to introduce consumer credit legislation, a policy should first be developed which considers the following issues:

- the extent of licensing requirements for all credit providers;
- any exemptions for 'quasi' credit providers such as retail stores and car dealers;
- the extent of responsible lending requirements, for example, requirements to complete credit assessments, prohibitions on engaging in unfair or dishonest conduct, disclosure obligations on credit lenders in terms of plain language and "easy to understand" contracts, requirements to take reasonable steps to verify potential borrower's financial situations; and
- any consideration for consumer rights to complain regarding credit providers.

7.4.6 Vanuatu Agricultural Development Bank

The Vanuatu Agricultural Development Bank (VADB) was established pursuant to the Vanuatu Agricultural Development Bank Act No. 20 of 2006 to facilitate and promote the economic development of the agriculture sector in Vanuatu. The last available financial statements for VADB were in 2014, which stated that VADB realised a net profit of over VUV 4 million. However, there does not appear to be any information available stating the activities of VADB in the past four years. The Council of Ministers passed a resolution in 2017 to proceed with the winding up of VADB, however, this has not been implemented to date.

7.4.7 Personal bankruptcy framework

As part of the reform of laws regarding companies, Vanuatu introduced a Companies (Insolvency and Receivership) Act in 2013. It provides a simple system for the winding up of a company. This is in contrast to personal bankruptcy, an issue that still lacks a specific regulatory regime. The Government should consider developing a policy in relation to introducing a personal bankruptcy regime to provide individuals with a cost-effective and administratively easy process for the discharging of debts.

7.4.8 The Financial Inclusion Strategy 2018-2023

Financial inclusion refers to improving access to, and usage of, appropriate financial services by the underserved adult population and MSMEs in Vanuatu.²¹⁹ Financial inclusion is accepted as an effective strategy for equitable economic growth, through which low income earners can be economically empowered and improve their standard of living.²²⁰

Following the conduct of two surveys in 2016, the first being a financial inclusion demand survey and the second, a MSMEs survey, the Government developed the Financial Inclusion Strategy (FIS) 2018-

2023. The FIS is a medium-term road map to drive financial inclusion across the country.

One of the goals of the FIS is that by 2023, an additional 54,000 adults (34% of the total) will be active users of formal or semi-formal financial services, of which 50% will be women.^{lxxxv} For MSMEs, the FIS mission is to “ensure a suite of MSME business financing products are available, which are tailored to the needs of businesses led by women and youth”.²²¹ The FIS is comprehensive and, if implemented, will have a significant impact on access to finance for MSMEs.

One example of successful FIS implementation is the announcement by NBV, in August 2018, of the commencement of the migration of almost 30,000 of its rural customers from legacy paper-based passbook system to electronic and mobile banking.²²²

The implementation of FIS is being led by RBV, however, there are numerous goals which require significant Government policy direction and input. One such goal is Goal 5.3.1 which is to “introduce policies and a regulatory environment to support access to finance for MSMEs, with a specific target of 30% of women”. The action plan states that this would involve working with MTTCNVB on the introduction of an MSMEs Act. The Act is currently in draft form with the name of Small Businesses Development Bill. The Government is in the process of updating the 2011 MSMEs policy would also be useful provide direction for implementation of the FIS.

7.4.9 Legislation relating to the payment system

The interbank payment system in Vanuatu still operates on a manual basis, with clearance and settlements of interbank payments taking a number of days. A new payment system is being established in Vanuatu. First, a Bill for the Payment System Act is being drafted that will accommodate electronic real-time settlement of interbank payments, as well as innovative means of payments. This, together with upgraded financial infrastructure for clearance and settlement will reduce the cost of doing business.²²³

Vanuatu lacks interoperability across its electronic payment platforms, including Automated Teller Machine (ATM) and Electronic Funds Transfer at Point Of Sale (EFTPOS) machines, which raises the cost of doing business. In other words, the customer of a bank cannot use his debit card at any other bank's ATM and EFTPOS machine – however, the banks are working on implementing this operability currently. Moreover, there is no interoperability between banks and mobile network operators. An electronic switch system is being developed in Vanuatu to allow for interoperability amongst the banks. The FIS identified a strategic goal to “implement interoperability of electronic payment platforms between formal financial service providers such as banks and further between financial service providers and mobile network operators”. As part of the FIS action plan to ensure interoperability, the Government is required to implement a Payment Systems Act.

7.4.10 Interchange fees

Interchange fees are fees which are paid between banks for the acceptance of card-based transactions. It is a fee that the merchant's bank (the “acquiring bank”) pays a customer's bank (the “issuing bank”) and therefore reduces the amount received by merchants. The fees are often set by the card networks and are used to fund the cost/risk of card systems. In Vanuatu, these fees are commonly referred to as a “merchant clearing fee” and they range from 1.5% to 5% of the total transaction value, which is often passed on, in part or in full, to the customer.

Interchange fees have a complex pricing structure, which is based on the card brand, regions or jurisdictions, the type of credit or debit card, the type and size of the accepting merchant, and the type of transaction. Large merchants can often negotiate reduced fees, which leads to a disadvantage to MSMEs.

^{lxxxv} Noting that according to the 2016 MSMEs survey, 60% of population had no access to financial services, meeting the FIS' target would reduce this percentage to 26%

Interchange fees are not regulated in some jurisdictions, such as the United States, where the fee averages approximately 2% of the transaction value. In jurisdictions where the interchange fees are regulated, it has led to significantly lower interchange fees. For example, in the EU, interchange fees are capped at 0.3% of the transaction for credit card and 0.2% for debit cards, and in Australia, interchange fees are capped at 0.8% for credit cards, and 0.2% for debit cards.

The lack of regulation of interchange fees in Vanuatu does not aid in transparency for either consumers or merchants, in terms of understanding the real “cost” of transactions. In addition, regulation of the interchange fees could significantly reduce the extent to which small and medium-sized merchants are disadvantaged relative to preferred merchants in the MasterCard and Visa interchange systems.

The regulation of interchange fees in Vanuatu would be different to that of a mature market (as the cost may be higher in a developing payment system), however, an analysis should be done to identify the ‘cost’ to banks and open a dialogue on the potential for regulation of interchange fees.

7.4.11 Anti-Money Laundering/Combating Financing of Terrorism

Vanuatu has made significant progress in the area of the regulatory framework for anti-money laundering and combating the financing of terrorism. Parliament passed, in 2017, the Anti-Money Laundering and Counter-Terrorism Financing (Amendment) Act No. 16 of 2017 which addressed technical deficiencies in the previous legislation and following that, in June 2018, Vanuatu was officially removed from the Financial Action Task Force (FATF) Grey List. Notwithstanding the significant progress, there are a number of recommendations which Vanuatu needs to continue implementing.

The Government should prioritise the monitoring of the ongoing compliance with anti-money laundering and combating the financing of terrorism requirements and also monitor any international developments in those requirements.

7.4.12 Recommendations

- a. Introduce standard form, trilingual (Bislama, English, French) plain language security agreements in respect of different categories of movable property and leasehold interests
- b. Introduce a legislative and regulatory framework for private credit bureaus
- c. Develop consumer credit policy and legislation
- d. Close the Vanuatu Agricultural Development Bank
- e. Introduce a personal bankruptcy framework that provides individuals with a cost-effective process for discharging their debts
- f. Monitor implementation of the Financial Inclusion Strategy 2018-2023, and, in particular, prioritise the development of the MSME policy and legislation
- g. Develop legislation relating to payment systems
- h. Consider regulating interchange fees
- i. Monitor ongoing compliance with, and international developments in, anti-money laundering and combating the financing of terrorism requirements

7.5 Intellectual property rights

7.5.1 Introduction

The purpose of protecting intellectual property rights is to ensure that there is proper legal recognition and financial benefit given to people for their creative work.²²⁴ Vanuatu adopted its first National Intellectual Property Strategy in 2014, which noted that “efficient and effective intellectual property institutions and legal framework that promotes the use of intellectual property assets in Vanuatu” can assist in ensuring “a fair balance between intellectual property rights and the public benefit resulting from innovation and creativity”.²²⁵

7.5.2 Legal and regulatory framework in Vanuatu

Vanuatu's intellectual property rights legislation is somewhat new, with the first intellectual property legislation being introduced in Vanuatu in 2000. The intellectual property legislation was introduced in anticipation to Vanuatu's accession to the World Trade Organization (WTO). Under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, members are required to implement intellectual property laws. However, given its Least Developed Country (LDC) status, Vanuatu was not bound by TRIPS disciplines. This will change with Vanuatu's graduation from LDC status, due to happen in December 2020 – see Chapter 2. There are currently seven pieces of legislation which govern intellectual property rights in Vanuatu, being:

- the Trade Secrets Act 2000;
- the Circuit Layouts Act 2000;
- the Geographical Indications (Wine) Act 2000;
- the Copyright and Related Rights Act 2000;
- the Patents Act 2003;
- the Trademarks Act 2003; and
- the Designs Act 2003.

The intellectual property legislation is administered by the Vanuatu Intellectual Property Office (VanIPO), which is also the Registrar of intellectual property, who is appointed by the Minister responsible for trade. VanIPO is established under MTTCNVB pursuant to a ministerial order of 2012, being the Establishment of the Intellectual Property Office Order No. 24 of 2012.

VanIPO published, in February 2017, the Business Plan 2017-2019 which provides short-term direction for the office.

7.5.3 International organisations

Since 2012, Vanuatu has been a member of the World Intellectual Property Organization (WIPO).²²⁶ WIPO is a United Nations (UN) agency and is the global forum for intellectual property services, policy, information and cooperation. It is a self-funded agency of the UN, with 191 member states.

Also, in 2012 Vanuatu ratified the Berne Convention for the Protection of Literary and Artistic Works.²²⁷ The Berne Convention is an international agreement governing copyright and was first accepted in Berne, Switzerland in 1886. It is administered by WIPO. The Berne Convention sets out several aspects of modern copyright law and importantly, including a requirement that countries recognise copyright held by the citizens of all other parties to the Convention. Therefore, Vanuatu, as a member state, is required to recognise the copyright of citizens of the other 175 member states of the Berne Convention.

In addition to the WIPO-administered treaties and WTO IP-related agreements, Vanuatu has also ratified or acceded to a number of international treaties with IP aspects, including but not limited to: the Convention on Biological Diversity; the Nagoya Protocol on Access to Genetic Resources and Fair and Equitable Sharing of Benefits Arising from their Utilisation; Convention on the Safeguarding of the Intangible Cultural Heritage; and the United Nations Framework Convention on Climate Change.

7.5.4 Registration and enforcement in Vanuatu

The number of intellectual property titles applied for and/or registered in Vanuatu is relatively low. As at 31 August 2018, the figures are:

- Trademarks: 9000 registered marks and 20 pending applications.
- Patents: 129 granted patents. These patents were granted previously, when the British IP laws applied in Vanuatu.
- Designs: There are currently no registered designs and VanIPO is yet to implement the law due to lack of regulations. Recently, VanIPO staff members were training on design examination, therefore, registered designs may occur in the future.
- Copyright and related rights: There is no registration requirement under the Act which means

that all works entitled to copyright and related rights would benefit from protection. There is a current proposal to amend legislation to insert a provision on voluntary registration.

- Geographical indications for wine: There is no registration requirement under the Act which means that all wines within Vanuatu would benefit from protection.

7.5.5 Reform relating to VanIPO

The National Intellectual Property Strategy and the VanIPO Business Plan 2017-2019 both focus on the need to strengthen VanIPO and change it from a unit within MTTCNVB, and into a separate statutory body.

In August 2018, the Council of Ministers decided to establish a new legal framework for the management and operations of VanIPO and it is expected that implementing legislation, once drafted, will be presented to Parliament in 2019.

7.5.6 Protection of traditional knowledge and expressions of culture

In August 2017, the Council of Ministers²²⁸ approved the development of a policy to protect traditional knowledge and expressions of culture. A Bill has been drafted to address this and was presented to Parliament in December 2018, but later withdrawn. The bill should be re-presented in 2019.

7.5.7 Implementation of electronic registration systems

VanIPO and WIPO signed a cooperation agreement in 2017 to establish an Intellectual Property (IP) automation system for registering trademarks, patents, and designs.²²⁹ The system is known as Industrial Property Automation System (IPAS). VanIPO is required to provide certain information to WIPO on Vanuatu patents and applications, trademarks, industrial design application, as well as other information, before IPAS' deployment.²³⁰

7.5.8 Legislative reform

There are a number of gaps within the current intellectual property legal framework in Vanuatu.

There are no regulations with respect to the Patent Act and the Design Act. In addition, the law on geographic indications only covers wine, but not any other product, which seems incongruous considering that Vanuatu would also benefit from protecting products which originate in the country – e.g. kava.

Further, there is no recognition of international protection systems for patents, trademarks, designs and appellations of origin and therefore, Vanuatu-registered intellectual property rights holders cannot use reciprocal provisions to have their IP protected in other countries.

A comprehensive review of the current laws should highlight the areas that do not align with international best practice, and the review should be considered as part of the next national intellectual property strategy.

7.5.9 Recommendations

- a. Establish a proper legal framework for the Vanuatu Intellectual Property Office (VanIPO)
- b. Finalise legal framework on the protection of expressions of culture and traditional knowledge
- c. Implement the Industrial Property Automation System (IPAS)
- d. Review intellectual property laws to identify main gaps to be addressed; in first instance, consider the following
 - i. Draft required regulations under Patent Act and the Design Act
 - ii. Extend protection of Geographical Indications beyond wines
 - iii. Consider joining the systems provide for international protection of patents, trademarks, design systems, and appellations of origin

7.6 Public Sector Entities

7.6.1 Overview of public sector entities in Vanuatu

There are numerous public sector entities within Vanuatu that are mandated to support the private sector. Broadly, these entities fall into two main categories, those being primarily regulatory and those being primarily promotional or assistance-based. In terms of those entities which are primarily regulatory, the infrastructure regulators (Utility Regulatory Authority (URA), and Telecommunications, Radiocommunications, and Broadcasting Regulator, (TRBR)) are covered under Chapter 5, and the Vanuatu Intellectual Property Office and the Vanuatu Financial Services Commission are considered earlier in this chapter. The VIPA is also considered earlier in Chapter 7; however, it is noted that VIPA straddles both an investment and regulatory role.

The main non-government public sector entities which focus on the promotion of the private sector are initiatives developed by the MTTCNVB, such as the Vanuatu Cooperative Federation,^{lxxxvi} and the Vanuatu Tourism Office. Moreover, in 2018, the Parliament passed the Vanuatu Primary Producers Authority Act to facilitate representation of farmers' instances.

In addition to regulatory and promotional public sector entities, a number of corporatised commercial State-Owned Enterprises (SOEs) affect the private sector. In Vanuatu, these are known as Commercial Government Business Enterprises (CGBEs). There are eleven CGBEs which are majority owned by the Government and operate under a commercial mandate.^{lxxxvii} In addition, the Government has a number of minority shareholding interests, including in Ifira Port Development and Services Company (49%), Interchange Limited (12.5%) and Northern Island Stevedoring (10%).

In the past two years, Vanuatu's CGBEs have received direct Government funding and there are also numerous Government guarantees to support the CGBEs. Many CGBEs fail to produce audited financial statements in a timely manner, which makes it difficult to assess the portfolio's financial performance. CGBEs are monitored by the Government Business Enterprise Unit within the Ministry of Finance and Economic Management (MFEM).

7.6.2 Recent reform

In October 2013, the Council of Ministers adopted a Government Business Enterprise (GBE) Policy²³¹ which was aimed at the commercial, majority-owned enterprises. This GBE Policy was adopted to address three key issues, namely:

- the absence of a robust legal, governance and monitoring framework;
- poorly defined mandates; and
- a lack of transparency and accountability.

Since the adoption of the GBE Policy in October 2013, there has been limited progress in implementation. A CGBE Bill was drafted and submitted to Parliament in June 2018, however, Parliament referred the CGBE Bill to the ad-hoc Committee.²³² It is expected that the CGBE Bill will be referred back to Parliament.

7.6.3 The Commercial Government Business Enterprises Bill

The enactment of the CGBE Bill is imperative to address the key issues regarding CGBE performance. The CGBE Bill addresses some of the critical aspects of CGBEs in Vanuatu, particularly:

- objectives: the CGBE Bill states that CGBEs are required to be at least as profitable and efficient

^{lxxxvi} Now renamed as Vanuatu Cooperative Business Network. The network has been established to serve as a link between grassroots cooperatives, the government, and the broader marketplace.

^{lxxxvii} Air Vanuatu (Operations) Ltd, Airports Vanuatu Ltd, Vanuatu Post Ltd, National Bank of Vanuatu, Vanuatu Agriculture Development Bank, National Housing Corporation, Vanuatu Broadcasting & Television Corporation, Metenesal Estates Ltd, Vanuatu Livestock Development Ltd, Asset Management Unit, Vanuatu Commodities Marketing Board

as comparable business and are to generate a net operating profit, as stipulated by the Minister;²³³

- management: the directors are required to develop and adopt (i) statements of corporate intent, detailing a commercial and financial strategy,²³⁴ and (ii) business plans;²³⁵
- governance: the CGBE Bill stipulates certain requirements for the appointment and qualification of directors, including limiting the number of public servants to the boards of CGBEs,²³⁶ and also sets out the duties of the directors;²³⁷
- financial reporting: all CGBEs will be required to provide financial statements²³⁸ and annual reports and to have the financial statements audited by the Auditor-General before submission to Parliament;²³⁹
- enhanced capacity for monitoring: a specialist Enterprise Monitoring Unit will be established within MFEM,²⁴⁰ with defined functions²⁴¹ and powers²⁴² for monitoring of CGBEs; and
- formalised community service obligations: in terms of CGBEs with a specific mandate to provide services which are known as community service obligations (i.e. non-profitable services), the Minister will provide proposals, upon the approval of the Council of Ministers, for negotiation and agreement with the relevant CGBEs.²⁴³

7.6.4 Remaining gaps in State-Owned Enterprises policy and proposed legislation

The adoption of the GBE Policy and the proposed enactment of the CGBE Bill will improve the framework within which CGBEs operate within Vanuatu. However, there are a number of gaps and opportunities for more clarity in the proposed legislation.

7.6.4.1 Funding and guarantees

The first relates to the funding of CGBEs and the provision of Government guarantees with respect to the operations of CGBEs. Section 28 of the CGBE Bill provides that the Minister may give a guarantee or other credit support in respect of a liability of a CGBE in accordance with sections 59 and 60 of the Public Finance and Economic Management Act [CAP 244] (PFEM Act). The PFEM Act provides that the Minister may, on behalf of State, provide a guarantee or indemnity upon the following three conditions:

- with the prior approval of a simple majority of Parliament;
- after consultation with the Director-General of MFEM; and
- where such guarantee or indemnity is consistent with the fiscal responsibility provisions of the PFEM Act.

Whilst this addresses the issue of guarantees given by the Government, the CGBE Bill is silent as to how each CGBE is funded, particularly in situations where the CGBE is required to invest capital in expansion or strategic plans. In some CGBEs, the Government has entered into sovereign loans with external financiers and has on-lent the proceeds of those loans. There is no policy that stipulates the conditions upon which such on-lending takes place, and what, if any, shareholder loans will be given to the CGBEs. The development and adoption of a specific funding and on-lending policy related to both CGBEs and enterprises where the Government has a minority shareholding interest will increase transparency, lead to greater fiscal responsibility and create a more level playing field in terms of competing private sector entities.

7.6.4.2 Minority interests

The GBE Policy and the CGBE Bill only apply to enterprises where the Government has 'control', meaning the Government owns 50% or more of the share capital.²⁴⁴ The consequence of this is that there has been no consideration or consultation regarding the Government's minority shareholding interests. The GBE Policy states that the Government's powers in respect of minority shareholding interests will be stipulated in the relevant shareholders agreement relating to each enterprise. However, there does not appear to be any shareholders agreement for any Government minority interests, nor is there any guidance as in relation to governance, financial reporting, and financial support to enterprises where the Government has a minority interest. The development and adoption

of a policy on such matters will also increase transparency and confidence in competing, or vertically dependent, private sector entities.

7.6.4.3 Identity of CBGEs included in the CGBE Bill

There are a number of Government CBGEs which are listed in the policy but are not listed in the schedule to the Bill. They are:

- Metensel Estates Limited;
- Vanuatu Livestock Development Limited;
- Vanuatu National Provident Fund; and
- Asset Management Unit.

Each of these entities are still recognised by the Government as a CBGE, however, there is no information available as to why these CBGE are not covered by the CGBE Bill. A formal statement as to the reasons why such entities have not been included will assist in clarifying which CBGEs are still intended to be operational in the future and also the scope of the CGBE Bill.

7.6.4.4 CBGEs rationalisation

Following the development of a rationalisation strategy by the Government,²⁴⁵ with assistance from the Asian Development Bank (ADB), a number of priorities were adopted, however implementation of the identified short and medium-term priorities has been slow. The following priorities should be implemented by the Government:

- Vanuatu Agricultural Development Bank (VADB). According to the Asian Development Bank, The VADB is technically insolvent with current liabilities exceeding current assets 2.7:1.²⁴⁶ It has failed to provide financial statements since 2015. The Council of Ministers passed a resolution in 2017 to liquidate, however this has not been implemented to date.
- Asset Management Unit (AMU). The AMU was established to assume defaulting loans in the context of bank restructurings, however, AMU ceased operations in 2012 and is currently insolvent. The Council of Ministers passed a resolution in 2015 to proceed to liquidation of AMU, however, this has not yet been finalised.²⁴⁷
- Vanuatu Livestock Development Corporation (VLDC). VLDC has not been operational since 2001, however, it does have some assets. These include a 49% shareholding in Sino-Van Fisheries, a lease regarding an off-loading wharf in Mele, Efate, and a lease of land at Teouma, Efate. These assets should be transferred to the Government and VLDC liquidated.²⁴⁸
- Vanuatu Commodities Marketing Board (VCMB). VCMB was established by the Vanuatu Commodities Marketing Board Act [CAP 133] to market commodities such as copra. The Government announced that the VCMB would be repealed, and Parliament passed the Vanuatu Commodities Marketing Board (Repeal) Act No. 7 of 2010, however, such legislation has not yet come into force. The Government should gazette the winding up of the VCMB.²⁴⁹

7.6.5 Government procurement

Government procurement is governed by the Government Contracts and Tenders Act [CAP 245] (GCTA Act). Pursuant to GCTA and the Tenders Regulations No. 40 of 1999 (Tenders Regulation), the Government has established a procurement procedure that applies to all Government contracts of an amount which is VUV 5 million or more.²⁵⁰ The GCTA creates the Central Tenders Board,²⁵¹ which reviews all proposed Government contracts over VUV 5 million and reports to the MFEM. Pursuant to section 3 of the Tenders Regulations, all procurement is required to be done on an open and competitive bidding basis, unless the Central Tenders Board believes that an open and competitive bidding process would not provide the “best result”.²⁵² The Central Tenders Board has published contract templates to be used for the contracts under its review.

There are a number of difficulties with the current process, primarily:

- the low threshold for consideration by the Central Tenders Board: the VUV 5 million threshold amount is low and has the consequence that much procurement is slow as the relevant Ministry must undertake an onerous process and documentation to have any particular procurement approved. This is particularly relevant to ministries such as the Ministry of Infrastructure and Public Utilities, which procures large numbers of maintenance contracts.
- the option out of the open and competitive bidding process: the ability of the Central Tenders Board to approve contracts or arrangements which are not the product of an open and competitive bidding process is ambiguous and should be more clearly defined. The Government should identify the criteria to consider when deciding about the adequacy of an open and competitive bidding process to produce “best result”.
- the standard form contracts: the standard form contracts are lengthy and there is no standard Government risk allocation for issues such as insurance requirements, bond requirements and liability provisions. The effect of this is that major risk issues are often not addressed adequately in project contracts which leaves the Government exposed to losses, liabilities, cost overruns and claims by counterparties.

MFEM is currently leading a review of the GCTA and the Tenders Regulation with a view to streamlining the Government procurement process, while ensuring transparency of process. This review should be prioritised.

7.6.6 Recommendations

- a. Approve State-Owned Enterprise (SOE) legislation
- b. Finalise on-lending policy for SOEs
- c. Close certain SOEs, including VADB, AMU, VLDC, and VCMB
- d. Review Government procurement policy and legislation to streamline the procurement process

7.7 Private Sector Entities

7.7.1 Overview

There are limited private sector entities^{lxxxviii} within Vanuatu with the mandate to provide business support the private sector.

The Vanuatu Chamber of Commerce and Industry (VCCI) was established in 1995 by the Chambers of Commerce and Industry of Vanuatu Act (CAP 236) and is the premier private sector entity in terms of dealing with, and access to, the public sector in Vanuatu.

There are also a number of sector-based associations, such as the Vanuatu Hotels & Resorts Association, the Vanuatu Bankers Association, the Land Transport Association, the Espiritu Santo Tourism Association, the Financial Centre Association of Vanuatu, the Vanuatu Tour Operators Association, the Dive Operators Association, and the Vanuatu Organic Cocoa Growers Association.

In some sectors, there are direct links between the private sector association and the relevant Government ministry. For example, the Vanuatu Hotels and Resorts Association directly liaises with, and contributes to, the Vanuatu Tourism Office’s promotional activities, in addition to representing members on the board of entities such as Vanuatu Tourism Office, the Tourism Marketing and Development Fund (TMDF), and Hospitality Tourism Leisure Training Centre (HTLTC). However, most associations do not have a direct dialogue with the Government.

7.7.2 Vanuatu Chamber of Commerce and Industry

The VCCI was established by the Government to promote the private sector. The objectives of the VCCI are, *inter alia*:

^{lxxxviii} Private sector entities are intended as entities representing the private sector, irrespective to their legal status

- the representation of the business community in dealings with persons or organisations, public or private, national or international;
- the collection and dissemination of information on all matters of interest to the business community;
- the encouragement and promotion of the greatest possible Ni-Vanuatu participation and success in business; and
- the provision of information and advice to the Government and other public authorities in all matters affecting business in or the economy of the Republic of Vanuatu.²⁵³

The VCCI is intended to be comprised of seven regional chambers, one representing each of the six provinces with an additional chamber representing Port Vila, known as the Capital Chamber.²⁵⁴ In addition to the general responsibilities of VCCI, the Capital Chamber is further mandated to, *inter alia*:

- establish and manage a business training and support centre for the promotion of Ni-Vanuatu people in business;
- assistance to potential investors; and
- assistance to the Local Chambers.²⁵⁵

Every holder of a business license is automatically a member of the Chamber of the province in which their license was issued.²⁵⁶ In addition, each ordinary member has one vote in respect of any general meetings of that Chamber.²⁵⁷

For a number of reasons, regional chambers were never established, the Capital Chamber was renamed VCCI, and the VCCI has operated as the Port Vila Chamber, under the Capital Chamber provisions in the Act.

7.7.3 Funding relating to the Vanuatu Chamber of Commerce and Industry

The VCCI is funded through the business license system. As set out in section 7 of the Chambers of Commerce and Industry of Vanuatu Act [CAP 236], each regional Chamber is entitled to receive an annual sum equal to 10% of all business license fees paid in respect of that region in the previous year. In respect of the Capital Chamber, 50% of all subscriptions and other funds received are to be used to fund the business training and support centre for the promotion of Ni-Vanuatu people in business.²⁵⁸

The MFEM has capped the VCCI grant to VUV 20 million, however, this is probably below the VCCI's entitlement. For example, in 2018 business licenses received from Port Vila, Tanna, and Espiritu Santo totalled VUV 256 million. In order to sustain its mission, VCCI engages in some revenue-raising activities, for example renting of its premises, and management of donor contracts.

There should be greater accountability within Government in ensuring that VCCI receives the full amount of its entitlement.

7.7.4 Governance structure of the Vanuatu Chamber of Commerce and Industry

The VCCI is governed by a National Council, which is comprised of the President of each regional chamber and the Capital Chamber and one additional member of each chamber for each 200 members of that chamber.²⁵⁹ Councillors are appointed for a term of two years, which is renewable. The President of the National Council is elected by the members of the National Council.²⁶⁰

Each Chamber is managed by its own Council, which has no less than six members and no more than 16 members, at least one of whom must be a woman.²⁶¹

For the Capital Chamber, the Council has 16 members²⁶² who are represented by individuals elected to represent certain sector industries. Only one position is reserved for a female nominee, and only two positions are reserved to small business - being defined as an annual turnover of less than VUV 50,000,000.²⁶³

Given the lack of regional chambers, the only active Council is that of the Capital Chamber. One of the

main complaints in respect of VCCI was that the composition of its Council was not reflective of Vanuatu's diversity, and that turnover of Councillors was limited. This is no longer the case. Since the VCCI Council's elections of 2019, five Councillors are indigenous Ni-Vanuatu and three Councillors are women. Ten of the 16 Councillors have joined the Council for the first time since August 2018.

To future-proof diversity, the Government could consider amending the VCCI Act to reserve positions to indigenous Ni-Vanuatu, youth, and women.²⁶⁴ It could also amend the VCCI Act to provide that any Councillor cannot hold their position for more than three consecutive terms, and no more than six terms within a 20-year period.

7.7.5 Services to the provinces

The same issues preventing the establishment of regional chambers^{lxxxix} have made it difficult to provide services to the provinces. However, under its new Strategic Plan 2019-2021, VCCI's Business Information and Advice, Business Training, and Communication 'workstreams' aim at increasing services outside Port Vila, by leveraging traditional and new communication channels and donor funding.²⁶⁵

7.7.6 Communication of VCCI's mandate and membership

Discussions with private sector entities reveal that many businesses are not aware of either their automatic membership to VCCI, upon payment of the business license fees, nor of the general objectives and mandates of VCCI. Greater awareness of VCCI's role should lead to greater participation by the private sector, and therefore more diversified and comprehensive representation. The Government could address this issue by providing an informative brochure about the automatic membership to VCCI and providing contact details for VCCI, preferably tri-lingual (Bislama, English and French), to companies when they pay for their business license fees at the relevant office.

7.7.7 Consultations between VCCI and the public sector

After a number of years of relatively poor working relationships, the partnership between VCCI and the Government has markedly improved. The VCCI Strategic Plan 2019-2021 acknowledges previous problems and commits to establish effective two-way communication with all relevant Government Ministries and Departments.²⁶⁶ The joint efforts by VCCI and the Government to conclude the New Caledonia Trade Agreement are a testament to the improved working relationships. However, even in the new setting, more formalised consultation arraignment between VCCI and the Government could be beneficial as this could lead to greater understanding of the issues and challenges faced by each party.

7.7.8 Awareness of the NTDC role and private sector membership

The National Trade Development Committee (NTDC) is a body established by the Council of Ministers in 2012, with the mandate to "formulate recommendations to the government, through the Development Committee of Officials (DCO) and the Council of Ministers (CoM) as to how to mainstream trade into the Vanuatu's national development strategy".²⁶⁷ The NTDC has VCCI as one of its members, on behalf of the private sector. A Bill for the Trade Governance Act has been drafted by the MTTCNVB with the view of formally establishing the NTDC. The Bill should confirm VCCI membership to the NTDC as a way to enhance the role of the private sector in Vanuatu.

7.7.9 Recommendations

- a. Confirm compliance with the Vanuatu Chamber of Commerce and Industry (VCCI) funding arrangements as set out in the VCCI Act
- b. Implement the VCCI Strategic Plan 2019-2021
- c. Amend VCCI legislation to:

^{lxxxix} In most provinces, 10% of business license revenues has never been devoted by local authorities to sustain regional chambers

- i. encourage youth and Ni-Vanuatu participation in VCCI governance structure; and
 - ii. restrict the number of consecutive elections by any person to the position of councillor
- d. Government to provide an informational brochure on VCCI's mandate to all companies when the business license fee is paid
- e. Formalise VCCI and Government consultation arrangements
- f. Strengthen the private sector's role in the NTDC

CHAPTER 8: EDUCATION AND SKILLS

8.1 Introduction

Skill gaps and shortages are an obstacle to the further development and diversification of Vanuatu's exports, and to the long-term growth of the country. They hinder productivity and competitiveness, and hamper entrepreneurship. Skills gaps and shortages are particularly damaging in sectors open to international competition, such as those that the Trade Policy Framework Update (TPFU) 2019 wishes to promote.

The Government of Vanuatu has identified that there is a mismatch between the current education and training system and labour market demand where an over-supply of low-skilled labour is seen to hinder national development objectives.²⁶⁸

In recognition that human resource development is one of the key engines for sustainable economic and social development, the Government through the Prime Minister's Office has developed a National Human Resource Development Plan (NHRDP) that is intended to clarify priority areas for education and training investments (including scholarships) over the medium to longer term. This Chapter draws on the research that has been undertaken as part of the NHRDP drafting process.

8.2 Unmet Skill Demand

This section discusses skill gaps and shortages that are perceived to constrain export growth in Vanuatu and national development more generally.

8.2.1 Skill profiles in priority export sectors

The National Sustainable Development Plan (NSDP) 2016-2030 provides the overarching framework to guide investment decisions in education and skill development over the coming 15 years.²⁶⁹ If national objectives are to be achieved, it will be critical over this period to establish clear priorities for investment in education and training that are aligned to occupational requirements in relevant industry sectors. This requires the identification of occupational categories (and their associated qualifications and skill sets) that are most relevant to the NSDP's economic objectives. From this base, labour market analyses can target identified occupational categories to determine existing skill shortages and skill gaps as a guide to education and training investment decisions.

The TPFU 2019-2025 has a clear focus on priority export sectors including agriculture, manufacturing, tourism and other commercial services. Occupational profiling will provide a basis to determine perceived skill shortages and gaps for each of these sectors. It will also provide a mechanism to identify and correlate generic occupational types across sectors, for example general management, finance, and accounting.

To identify occupational categories for TPFU related industries, this chapter adopts the International Standard Classification of Occupations (ISCO), a four-level taxonomy of occupations developed by the International Labour Organisation (ILO).²⁷⁰ As an illustration, Table 8.1 applies a third level ISCO classification to the tourism Industry.

TABLE 8.1: ISCO OCCUPATIONAL CATEGORIES RELATED TO TOURISM

ISCO Level	Occupational Category	ISCO Level	Occupational Category
141	Hotel & restaurant managers	514	Hairdressers, beauticians & related workers
142	Retail & wholesale trade managers	515	Building & housekeeping supervisors
242	Administration professionals	516	Other personal services workers
243	Sales, marketing & public relations professionals	611	Market gardeners and crop growers
264	Authors, journalists & linguists	612	Animal producers
265	Creative & performing artists	613	Mixed crop and animal producers
332	Sales and purchasing agents & brokers	621	Forestry and related workers
313	Process control technicians	622	Fishery workers, hunters and trappers
314	Life science technicians & related associate professionals	731	Handicraft workers
315	Ship & aircraft controllers & technicians	741	Electrical equipment installers & repairers
333	Business services agents	751	Food processing and related trades workers
511	Travel attendants, conductors & guides	832	Car, van and motorcycle drivers
512	Cooks	833	Heavy truck and bus drivers
513	Waiters & bartenders	834	Ships' deck crews & related workers

Source: ILO

8.2.2 Skill shortages and skill gaps in priority export sectors

A 2008 Asian Development Bank (ADB) study noted that across the Pacific Island Countries (PICs), formal economies are small and yet there are widespread skills shortages, particularly in management and trade occupations. As is the case in Vanuatu, the ADB observed that the primary source of skill supply is from the Technical and Vocational Education and Training (TVET) sector and that "...there appear to be too few TVET graduates in key fields and the performance level of TVET graduates is below that expected in the workplace".²⁷¹ However, the study noted significant data limitations, particularly for labour market data, which made it difficult to compare and contrast employment and skill shortages across the PICs.

Lack of data was further noted in a 2011 labour market review commissioned by the Government of Vanuatu as part of its approach to human resource planning.²⁷² The review, relying on secondary sources and in-country consultations, found that management, tourism and construction (related to an expanding tourism sector) were the principal areas where skill shortages and skills gaps were apparent.

The critical lack of coherent labour market data upon which analysis of future education and training investments can be based remains an issue. Routine labour market and industry surveys have not been conducted by the Department of Labour (DoL) and the little available data has not been aggregated in digital form.

Given the paucity of current data, an industry survey was conducted in mid-2018 with the support of the Vanuatu Chamber of Commerce and Industry (VCCI) and a number of other professional associations. Over 200 responses covering almost 5,500 employees predominantly in Port Vila have been received and analysed in order to establish a baseline from which skill demand and future investments in education and training can be projected. This represents approximately one third of private sector employment in Port Vila.²⁷³ For the purposes of the TPFU 2019-2025 further analysis has been undertaken specifically in the priority export sectors – agriculture, manufacturing, and tourism.

The following tables provide an analysis of each of these sectors in the context of the broader 2018 industry survey results. They then highlight a number of factors that point to existing skill shortages and gaps.

In aggregate, the agriculture, manufacturing, and tourism respondents to the survey represent about 50% of the full sample in terms of number of employees. Of these respondents, Table 8.2 indicates the types of enterprise activity. Naturally, accommodation, food service and people transport businesses

predominate in tourism classification. Manufacturing, wholesale and retail trade and transportation and storage businesses account for most in the manufacturing and agriculture classification.

TABLE 8.2: PROPORTION OF INDUSTRY TYPE REPRESENTED IN SURVEY RESPONSES

Tourism N=82		Manufacturing and Agriculture N= 40	
People Transport	30%	Wholesale and retail trade	33%
Accommodation	24%	Manufacturing	30%
Food service	22%	Transportation and storage	15%
Arts, entertainment and recreation	12%	Agriculture	10%
Wholesale and retail trade	7%	People Transport:	8%
Manufacturing	4%	Food service	3%
		International agencies and NGOs	3%

Source: Vanuatu Industry Survey 2018

Finding skilled workers is the number one issue for employers in Vanuatu. In response to a survey question asking respondents to consider 10 business-related issues and to rank the significance of each issue to their business, there was consensus that finding skilled workers was the most significant issue.

Table 8.3 shows the relative significance of each issue to employers in each category. As seen in the table, there is general agreement about the rank of issues between the Manufacturing and Agriculture and All Other Responses categories. For both of these categories, energy costs are also regarded as a significant issue, possibly due to the issues canvassed in Chapter 5. On the other hand, the tourism sector is less concerned about energy costs and more concerned about the state of the roads. Given most of the tourism respondents are based in Port Vila this is perhaps a reflection on the disruption caused by the longstanding roadworks in Vanuatu's capital.

It is noteworthy, that while skill levels are a significant issue, employers see the work habits of Ni-Vanuatu as less of an issue than others. While in a comparative sense work habits were less of an issue, further analysis points to some concern in this area (see Tables 8.11 and 8.14).

Given the difficulty in finding skilled workers, many employers have recruited personnel from overseas, the cost of which does not seem to be an inhibiting factor with the issue being consistently ranked least significant amongst the 10 offered in the survey.

TABLE 8.3: MOST IMPORTANT ISSUES FACING BUSINESS

Issue	All Other Responses Rank ^{xc}	Tourism Rank	Manufacturing & Agriculture Rank
Finding skilled workers	1	1	2
Energy costs	2	6	1
The duties and tax system	3	4	3
Government regulations	4	3	3
The state of the roads	5	2	5
Access to credit or finance	6	8	7
Business permits	7	4	9
Lack of good work habits among your workers	8	7	6
Problems with suppliers	9	9	8
The cost of foreign workers	10	10	10

Source: Vanuatu Industry Survey 2018

While the results illustrated in Table 8.3 point to a general recognition that skilled labour is a fundamental requirement for business success, Table 8.4 below shows there is some variability as to how difficult each sector finds recruitment of personnel with required skills.

Manufacturing and agriculture find it more difficult than others to recruit Ni-Vanuatu with required

^{xc} Relative proportion of responses in relation to each issue

skills, with 64% indicating that it is hard or very hard compared to 61% for all other sectors and 53% in the tourism sector. This variation is perhaps an indication that manufacturing and agriculture needs to meet international standards to be successful, and that the tourism sector recruits a higher proportion of lower level occupations and is served by better TVET institutions.

TABLE 8.4: EASE OF RECRUITMENT OF NI-VANUATU WITH REQUIRED SKILLS

Degree of Difficulty	All Other Responses %	Tourism %	Manufacturing & Agriculture %
Very hard	39	26	36
Hard	22	27	28
Not very hard	26	40	32
Easy	13	7	4

Source: Vanuatu Industry Survey 2018

Whilst Table 8.4 identifies the perceived recruitment difficulty for all occupational levels irrespective of qualifications required, Table 8.5 provides a more specific indication of skill shortages by level of the Vanuatu Qualifications Framework (VQF). As the table indicates there is a clear view that it is more difficult to recruit Ni-Vanuatu with appropriate higher-level qualifications than lower level qualifications.

In part, this is a reflection of the current qualification levels available through local Post-School Education and Training (PSET) providers. For example, 83% of the 47 qualifications currently accredited by the Vanuatu Qualifications Authority (VQA) are below the Certificate IV level (see Table 8.18).

TABLE 8.5: RECRUITMENT DIFFICULTY BY QUALIFICATION

Difficulty in finding locally, people with relevant:	All Other Responses % ^{xci}	Tourism %	Manufacturing & Agriculture %
Degrees and post-graduate degrees	66	54	56
Technician level qualifications (Cert IV to Diploma)	61	54	56
Basic operator level qualifications (Cert I to III)	38	42	32
Secondary school qualifications	22	27	24

Source: Vanuatu Industry Survey 2018

It is also a reflection that the national scholarship program has not been specifically targeted to industry needs resulting in an over-supply of some higher-level qualifications that are not relevant to businesses and an under-supply of those that are.

A possible reason for the tourism sector finding recruitment of higher-level qualifications less difficult than others is the location of a Tourism and Hospitality campus of the Australian Pacific Training Coalition (APTC) in Port Vila where for example, 48 students graduated with hospitality and tourism qualifications in 2017.²⁷⁴ Since its inception in 2007, the APTC has graduated over 690 Ni-Vanuatu with tourism and hospitality related qualifications. Of this number 72% have found employment.²⁷⁵

As a result of the above difficulties, Vanuatu's employers are forced to recruit employees who lack the required higher-level qualifications. A study based on 2009 Census data and prepared as part of an Australian Department of Foreign Affairs and Trade (DFAT) Investment Design,²⁷⁶ shows that Vanuatu has a low proportion of managers, professionals and technicians with post school qualifications compared to Fiji and Australia (see Table 8.6).

^{xci} Proportion of responses for each qualification level selecting 'Hard' or 'Very Hard' on a 4-point scale ranging from 'Very Easy' to 'Very Hard'

TABLE 8.6: POST-SCHOOL QUALIFICATIONS, PER CENT OF EACH OCCUPATION GROUP

ISCO - 1 Digit Level	Vanuatu %	Fiji %	Australia %
1. Managers	29.7	43.4	68.6
2. Professionals	34.8	77.0	91.5
3. Technicians & associate professionals	18.8	56.7	73.0

Source: Curtain (2014)

In addition to the pointers to skill shortages outlined above, employers were asked to comment on their existing staff. Table 8.7 indicates the level of agreement employers had to a number of statements related to Ni-Vanuatu workers.

TABLE 8.7: LEVEL OF AGREEMENT TO STATEMENTS ABOUT NI-VANUATU WORKERS

Statement	All Other Responses % ^{xcii}	Tourism %	Manufacturing & Agriculture %
Many of our Ni-Vanuatu workers need improved technical skills relevant to their job	80	86	74
Our Ni-Vanuatu workers have a good attitude to their work	74	86	70
We cannot find enough Ni-Vanuatu workers with the skills we need	63	52	52
Ni-Vanuatu workers have only basic skills	62	56	48
We prefer to use foreign workers	17	14	17

Source: Vanuatu Industry Survey 2018

While a very high proportion believed Ni-Vanuatu workers had a good attitude to their work, especially the tourism sector, there was even stronger agreement across all sectors that workers needed improved technical skills.

There was less consensus in the tourism, agriculture and manufacturing responses (compared to all other responses) in relation to difficulties finding Ni-Vanuatu workers with required skills, with only about half agreeing or strongly agreeing that they cannot find enough Ni-Vanuatu workers with the skills needed.

Similarly, there was proportionally less agreement to the proposition that Ni-Vanuatu workers have only basic skills. Irrespective of perceived skill levels, there was clear consensus that employers preferred Ni-Vanuatu workers to foreign workers. The conclusion being there is significant demand to improve the technical and basic skill gaps amongst the existing workforce in preference to filling gaps through foreign worker recruitment.

The composition of foreign workers currently operating in Vanuatu provides important indicators to skill shortages and gaps in the Ni-Vanuatu workforce.

In June 2018, the Department of Labour reported 899 foreign worker permits. As Table 8.8 shows, most of these foreign workers are engaged in managerial, professional and/or technician level occupations. This composition is consistent with earlier analysis related to difficulties with recruiting skilled Ni-Vanuatu employees and an apparent lack of concern about the cost of foreign workers (Table 8.3). It also provides further evidence that local education and training providers are not delivering to required standards and that scholarship graduates lack relevant qualifications and skills.

^{xcii} Percentage of responses that either agreed or strongly agreed with the statement

TABLE 8.8: FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY

ISCO Class	ISCO Occupations (1 Digit level)	All Others	Tourism	Manufacturing & Agriculture
		N=691 %	N=179 %	N=29 %
1	Managers	28	32	31
2	Professionals	34	2	10
3	Technicians and Associate Professionals	23	55	41
4	Clerical Support Workers	0	1	3
5	Services and Sales Workers	5	6	3
6	Skilled Agricultural, Forestry and Fishery Workers	0	0	7
7	Craft and Related Trades Workers	10	3	0
8	Plant and Machine Operators and Assemblers	0	0	3
9	Elementary Occupations	0	1	0

Source: Department of Labour, June 2018

In the tourism sector, 89% of foreign workers are in managerial, professional and technician level positions. There is a similar pattern in the manufacturing/ agriculture sectors with 82% of foreign workers classified in the first three ISCO code areas. However, it is noteworthy that managers and technicians/associate professionals are the predominant occupational category of foreign workers in the tourism, agriculture and manufacturing sectors whereas the professional category is more significant in other sectors of the economy. From this analysis, targeted skills training at the managerial and technician/associate professional levels would be particularly advantageous for the sectors targeted by TPFU 2019-2025 – potentially reducing their employment costs and reducing the outflow of foreign worker remittances.

If there is to be targeted skills training at the managerial and technician/associate professional levels, the question then arises – targeted to which occupations in particular? In the tourism sector most of the managers are designated as general manager (37%) and there are also significant numbers of food and beverage (12%) and casino assistant managers (9%). Foreign workers also occupy a broad range of other management roles including finance, operations, housekeeping, sports and recreation, and spa. At the technician/associate professional level aviation related roles (especially pilots) and chefs dominate.

TABLE 8.9: FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY – TOURISM SECTOR
MAJOR CATEGORIES TO 3-DIGIT LEVEL

ISCO Class	ISCO Occupations (3 Digit level)	%
	Managers N= 57	
141	General Manager	37
141	Food & Beverage Manager	12
141	Casino Assistant Manager	9
	Technicians and Associate Professionals N= 99	
315	Pilot	34
315	Engineer – Aviation	8
343	Chef	37
	Services and Sales Workers N =10	
514	SPA & Beauty Therapist	40
514	Masseuse	50
514	Tattooist	10

Source: Department of Labour, June 2018

The foreign worker profile in the tourism sector is broadly consistent with employer responses in the 2018 Industry Survey to an open question to name the most difficult occupations to recruit – see Table 8.10.

TABLE 8.10: TOP TEN MOST DIFFICULT OCCUPATIONS TO RECRUIT – TOURISM SECTOR
PERCENTAGE OF ALL RESPONSES – N=80

ISCO Class	ISCO Occupations (3 Digit level)	%
343	Chefs	14
141	Managers	13
241	Finance & Accounting Staff	9
513	Waiters	8
342	Dive Instructors	6
334	Administrators	5
422	Reservation Officers	5
315	Pilots	5
332	Sales & Marketing Staff	5
315	Engineer	3

Source: Vanuatu Industry Survey 2018

Once again chefs and managers were cited by a high proportion of respondents. It is perhaps surprising to see less technical occupations such as waiters being mentioned as a difficult occupation to recruit. A possible explanation is that the skills required in higher end hotels/resorts are greater than the standards of hospitality graduates coming from local PSET providers. A similar rationale might explain the identification of occupations such as reservation officers and sales and marketing staff as difficult to recruit.

Other explanatory factors may be found by looking at employer responses to an open question asking them to identify up to five general/basic missing skills. The wide range of expressions received have been classified into five categories in Table 8.11. The fact that personal attributes were foremost among these may partly explain the difficulty in recruiting front of house staff such as waiters, reservations officers and sales and marketing staff. The other issue frequently cited by tourism sector respondents related to language, literacy and numeracy (LLN). Literacy and numeracy references were common across most respondents pointing to a general concern about the levels of literacy and numeracy being achieved by the end of schooling. Understandably, language skill concerns mostly related to bilingualism and interpreting, specifically French and Chinese.

In the PSET sector, following the Government's endorsement of a National Adult LLN Framework in 2017,²⁷⁷ a National LLN Strategy was approved and published at the end of 2018. The successful implementation of the strategy which focuses on workplace literacy and numeracy is critical across all sectors, but particularly so where a strong human interface is required such as the tourism sector.

TABLE 8.11: GENERAL/BASIC SKILLS LACKING IN NI-VANUATU TOURISM SECTOR WORKFORCE
PERCENTAGE OF ALL RESPONSES – N=69

General/Basic Skills Lacking	%
Personal attributes ^{xciii}	35
Language, literacy numeracy	29
Self-management ^{xciv}	16
Customer Service	12
ICT	9

Source: Vanuatu Industry Survey 2018

In the manufacturing and agriculture sectors the highest proportion of foreign managers are production managers in the primary sector (31%) and retail and wholesale trade managers (10%). The 'Other' category includes a range of other management roles including logistics and supply chain. Maritime related roles including ships' captains and engineers make up the bulk of Technician and Associate Professional level positions occupied by foreign workers.

^{xciii} Personal attributes category includes references to reliability, work ethic, commitment, consistent standards, personal grooming

^{xciv} Self-management category includes references to time management, initiative, pro-activeness, organisation

TABLE 8.12: FOREIGN WORKERS IN VANUATU BY OCCUPATIONAL CATEGORY – MANUFACTURING AND AGRICULTURE SECTORS - MAJOR CATEGORIES TO 3-DIGIT LEVEL

ISCO Class	ISCO Occupations (3 Digit level)	%
<i>Managers N= 29</i>		
131	Production managers in agriculture, forestry and fisheries	31
142	Retail and wholesale trade managers	10
<i>Technicians and Associate Professionals N= 12</i>		
313	Process control technicians	17
315	Ship controllers and technicians	75
331	Financial associate professionals	8

Source: Department of Labour, June 2018

The responses to the open question about which occupations are hardest to recruit correlates with the foreign worker profiles. As was the case in the tourism sector a number of difficult to recruit occupations cited by respondents include less technical roles such as cashiers and sales and marketing staff.

TABLE 8.13: TOP TEN MOST DIFFICULT OCCUPATIONS TO RECRUIT – MANUFACTURING AND AGRICULTURE SECTOR - PERCENTAGE OF ALL RESPONSES – N=43

ISCO Class	ISCO Occupations (3 Digit level)	%
315	Engineers - Maritime	14
131	Managers	12
332	Sales & Marketing Staff	12
741	Tradespeople	7
315	Captains - Maritime	5
421	Cashier	5
313	HACCP supervisor	5
241	Accountant	5
833	Heavy Vehicle Drivers	5
314	Agriculture Technician	2

Source: Vanuatu Industry Survey 2018

Manufacturing and agriculture businesses' responses to the open question related to general/basic skills lacking in their workforce, followed a similar pattern to the tourism sector. Again, personal attributes were the most frequent concern. The citing of LLN issues was frequent but not as high as in tourism sector, perhaps because there is comparatively less face to face communication requirements. Nevertheless, findings reinforce the view that LLN is an issue across all industry sectors. The self-management category was also a major concern.

TABLE 8.14: GENERAL/BASIC SKILLS LACKING IN NI-VANUATU MANUFACTURING/AGRICULTURE WORKFORCE - PERCENTAGE OF ALL RESPONSES – N=37

General/Basic Skills Lacking	%
Personal attributes	51
Language, literacy numeracy	19
Self-management	19
Customer Service	5
ICT	5

Source: Vanuatu Industry Survey 2018

8.2.3 Unmet skill demand summary

A short summary of the evidence presented is provided below:

- In a list of ten business challenges, finding skilled workers is the number one issue identified by employers
- A high proportion of employers believe it is hard or very hard to recruit Ni-Vanuatu with the required skills, particularly at higher-level qualifications
- As to general skills, significant emphasis was given to lack of personal attributes, self-

- management skills, and language, literacy and numeracy
- There is significant demand to improve the technical and basic skill amongst the existing workforce in preference to filling gaps through foreign worker recruitment
- Part of the skills gap and shortages are filled by foreign workers predominantly in managerial, professional and technician/associate professional levels.
- The tourism sector has identified chefs and various types of managers (general, food and beverage, finance etc.) as the more significant areas of skill shortages and skills gaps
- The manufacturing and agriculture sectors have identified maritime engineers, managers (again various forms) and sales and marketing staff as the areas they find most difficult to recruit locally

8.3 Key Constraints in the School System

Chapter 2 noted improvements in primary and secondary education, but mindful of the persistent challenges also recommended reversing the relative decline in primary and secondary expenditure observed during the last decade. The challenges in the school system are well documented, as it is their impact on the observed skills gaps and shortages. In 2005 the World Bank concluded that “despite Vanuatu’s progress towards achieving universal primary education, its education sector outcomes remain disappointing and do not seem to be commensurate with the level of funding provided to the education sector from both the government and donors.”²⁷⁸

A 2011 literacy assessment in Shefa Province conducted by the Asia South Pacific Association for Basic and Adult Education (ASBAE)²⁷⁹ recommended that “there is a need to dramatically improve the quality of education at primary and secondary schools and ensure that more students become literate”. It based this recommendation on findings that on completing primary school only 32.6% were literate. For those completing secondary school only 55% were assessed as being literate. The study acknowledges that its findings are confined to the rural parts of Shefa province and that the extent to which these findings might reflect national literacy levels needs further assessment. However, given the centrality and proximity of Shefa province to national services, it is reasonable to expect that similar or possibly worse results might arise in more remote provinces.

A 2018 analysis developed for a DFAT investment design²⁸⁰ reported there are some positive literacy level signs as evidenced by a Vanuatu Standardised Test of Achievement (VANSTA) conducted in 2017, which showed 64% of French-speaking students and 65% of English-speaking students met the Year 4 minimum literacy standard. While the methodologies between the two studies may be different and a direct comparison is difficult, there is certainly an indication of significant improvement compared with the 2011 ASBAE assessment.

However, the DFAT analysis highlighted a number of challenges impacting the quality of schooling in Vanuatu. These included a large and widely dispersed number of schools, limited supply of qualified teachers and principals, low numbers of children enrolled at the right age, high repetition rates, large numbers of out-of-school children and weak infrastructure. Linguistic diversity was seen as a factor that further compounds the challenges outlined above. In 2016 Net Enrolment Rates^{xcv} (NER) for primary schools overall were 79.1 for both males and females. For secondary schools in the same year it was 42.1 and 46.1 for males and females respectively.²⁸¹ The introduction of school grants in 2010 has not eliminated concerns related to stagnant enrolment, access inequalities, right age entry, retention and completion.

Importantly, there is a need for more qualified teachers and improved school leadership. Of the registered primary school teachers in 2017 only 60% are certified, predominantly from a pre-service two-year diploma program offered by the Vanuatu Institute of Teacher Education (VITE).²⁸² School

^{xcv} Students enrolled at specified education levels as a percentage of the total number of same-age individuals in the population

principals are often appointed without a merit-based selection process, and many lack financial or leadership experience.

The quality of teaching and learning is further hampered by low Ministry of Education and Training (MoET) capital and recurrent budgets for school infrastructure. Overcrowding and safety concerns for children result, due to both a lack of classrooms and many classrooms requiring significant repairs and maintenance.

In 2015, the total budget for MoET Vanuatu education budget of VUV4.3 billion, mostly spent on payroll and administrative support, represented 24% of the recurrent national budget.²⁸³ At 4.7% in 2017, total expenditure on education as a percentage of GDP is relatively high compared to countries such as Fiji (3.9% in 2013) and Samoa (4.1% in 2016).²⁸⁴ However, with 64% of the population under the age of 24, considerable pressure continues to be placed on available resources.

8.4 Key Constraints in the PSET System

The Trade Policy Framework (TPF) 2012 identified a number of barriers to trade related to the education and training system in Vanuatu, namely: (1) lack of tools to understand which skills are in high-demand in the labour market; (2) lack of capacity of training institution to deliver high-quality training and the right quantity; (3) lack of career counselling; and (4) lack of coordination in the tertiary education system.²⁸⁵ While there has been considerable progress since 2012, these barriers still exist.

8.4.1 Reforms since 2012

There have been significant reforms, particularly in the Post-School Education and Training (PSET) sector since 2012. Following a 2013 review, the Vanuatu National Training Council (VNTC) Act was repealed and replaced by the Vanuatu Qualifications Authority Act 2014²⁸⁶ which incorporated two principal changes:

1. The replacement of the VNTC Council, comprised mostly of training providers, with a VQA Board comprised mostly of productive sector departmental heads and the private sector – the intent being for the Board to ensure better alignment between VQA’s quality assurance practices and procedures and priority skill demand
2. The VQA was given quality assurance responsibilities for all Post-School qualifications, including higher education and TVET - previously its focus was solely on TVET

Another fundamental change occurred in 2015 when, through Ministerial Agreement, responsibility for the VQA shifted from the Ministry of Youth Development, Sports and Training (MYDST) to the Ministry of Education (MoE). In parallel, a restructure of the MoE was approved which included for the first time a Tertiary Education Directorate taking over responsibility for Scholarships, Teacher Education, Higher Education, and TVET. The renaming of the MoE to the Ministry of Education and Training (MoET) was an integral element of the restructure.

The MoET structure now includes six^{xvii} Provincial Skills Centres to facilitate decentralised and flexible delivery of accredited qualifications and business development support services. Since their progressive inception in Malampa, Sanma, Torba and Tafea, these Centres, in partnership with the Department of Tourism and the Vanuatu Tourism Office, have played a central role in the considerable expansion of provincial tourism. These partnerships have established a model for similar arrangements with other productive sector agencies such as the Departments of Industry (DoI) and Agriculture and Rural Development (DARD). The purpose of these partnerships is to facilitate better alignment between PSET investments and national development priorities.

Extensive consultation in 2016 led to the formulation of National PSET Policy (2016-2020)²⁸⁷ that is

^{xvii} While formalised in the MoET structure, only four Provincial Skills Centres have been established to date (2018) – the two provinces without a Centre are Penama and Shefa

directly focused on National Sustainable Development Plan’s objectives and aligned with the World Bank’s approach to effective workforce development.²⁸⁸ The National PSET Policy which includes key objectives for an inclusive, quality-assured and demand-led system, is built around the legislative and structural reforms cited above with the VQA Board having direct accountability to the Minister of Education and Training for the strategic direction and performance of the PSET sector.

Following the PSET Policy’s release, a National PSET Policy Implementation Plan was developed in 2016 to promote a more coordinated approach to PSET strategic and corporate planning, and policy implementation.

In 2018, the Prime Minister’s Office (PMO) through the Department of Strategic Policy Planning and Aid Coordination (DSPPAC) commissioned the development of a National HRD Plan to guide on-going PSET investments and ensure they are directly linked to national objectives.

8.4.2 Key constraints

8.4.2.1 PSET funding

While there has, and continues to be, considerable progress towards a better coordinated and demand focused PSET system, there remains a number of critical constraints that continue to impede the capacity of the system to better contribute to national development objectives.

On the plus side there is strong evidence of increasing investment in PSET overall. A comparison between actual investment in 2016 and budgeted investment for 2018 shows an overall increase of 37%.²⁸⁹

TABLE 8.15: PSET INVESTMENT 2016 AND 2018

	2016 (actual) VUV	2018 (budget) VUV	% change
Scholarships	586,440,092	809,515,006	38%
MoET	23,911,975	52,370,150	119%
Tertiary Education Directorate	1,523,489	5,967,165	292%
Scholarships Coordination Unit	18,795,211	18,700,199	-1%
TVET	2,993,275	23,083,093	671%
Teacher Education	600,000	4,619,693	670%
Vanuatu Qualifications Authority	25,000,000	50,000,000	100%
PSET Providers (Public)	462,488,339	591,771,326	28%
Agriculture College (VAC)	82,800,392	82,800,392	0%
Bilingual Institute of Higher Education (BIHE)	3,259,026	38,000,000	1,066%
College of Nursing Education (VCNE)	102,299,584	175,525,517	72%
Institute of Technology (VIT)	124,706,986	109,463,935	-12%
Institute of Teacher Education (VITE)	89,598,374	105,518,268	18%
Maritime College (VMC)	41,255,243	43,355,234	5%
Police College (VPC)	18,568,734	37,107,980	100%
TOTAL PSET	1,097,840,406	1,503,656,482	37%

Source: calculations on Government of Vanuatu (2018c)

However, the increase in PSET budget has not been shared equally across all elements of the PSET system. Over half of the budget increase in monetary terms went to the scholarship program. Strong percentage but relatively low value increases were also seen in the MoET administrative units responsible for PSET – particularly the TVET and Teacher Education units. Increased investment in the TVET division follows increasing Government commitment to Provincial Skills Centres. These Centres have contributed to substantial economic development, especially in the tourism sector, by facilitating decentralised delivery of accredited training and business development support that is specific to provincial needs.²⁹⁰ The Government funds a number of staff positions in these centres already and is expected to increase this level of commitment over successive budgets in the coming years.

Across the PSET Providers, the levels of budget changes have also been variable. The large percentage

increase in the Bilingual Institute of Higher Education is reflective of the Government’s strong interest in the development of a national university. Discussions are on-going across the various line agencies – MoET, Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB), Ministry of Health (MoH) and Ministry of Internal Affairs (MIA) about PSET institutional amalgamations to create an Institute of Higher Education, perhaps as a first step towards a national university. An Institute of Higher Education would reduce costs through efficiencies derived from a single administration and economies of scale. Providing the new Institute with a sufficient degree of autonomy would allow for the establishment of incentive mechanisms designed to promote improvements in the Institute’s overall performance.

The strong increase in the Vanuatu College of Nursing Education (VCNE) budget has come from a grant to support the development and introduction of a nursing degree program as a first step to addressing the acute shortage of nurses.

When combined with the increased allocation to the Institute of Teacher Education and the Police College, the increased investment in the Bilingual Institute of Higher Education and the College of Nurse Education account for all of the increased funding to public PSET Providers. As Table 8.15 also reveals, the actual allocations to other PSET providers have either declined (Vanuatu Institute of Technology, VIT), remained static (Vanuatu Agriculture College, VAC), or only marginally increased (Vanuatu Maritime College, VMC). Table 8.16 reveals that despite some PSET Providers are receiving increased allocations, the overall PSET Provider percentage share of the national PSET Budget has declined by 3% between 2016 and 2018. This is significant, as the capacity of VIT, VAC and VMC is directly relevant to meeting the skill needs of the trade related industries as identified in Section 8.2 of this chapter.

TABLE 8.16: SHARE OF PSET INVESTMENT 2016 AND 2018

	2016 (actual) VUV	% Share	2018 (budget) VUV	% Share	% Share Change
Scholarships	586,440,092	53%	809,515,006	54%	+1%
MoET/VQA	48,911,975	4%	102,370,150	7%	+3%
PSET Providers	462,488,339	42%	591,771,326	39%	-3%
	1,097,840,406		1,503,656,482		

Source: calculations on Government of Vanuatu (2018c)

8.4.2.2 Labour market data

Vanuatu lacks a coherent and routine approach to collection and dissemination of labour market data. Data limitations were encountered in the Skilling the Pacific study (ADB, 2008) which commented on a lack of reliable and comparable labour market statistics across PICs that made it difficult to compare and contrast differences in employment and skills shortages. Hind (2011) noted the quality and coverage of labour market information in Vanuatu is poor and that there is no regular collection of information on job vacancies, unemployment levels, and wage and salary trends. The major data source for that report was the 2009 National Census. Curtain (2014) also relied on census data but noted its limitations as being a snapshot in time between extended periods which inhibited forward projections of jobs growth by occupation. The last full census in Vanuatu was in 2009 and the last Household Income and Expenditure Survey (HIES) was conducted in 2010. A more recent mini-census in 2016 has provided more up-to-date labour market data but of a limited nature.

In 2018, the lack of readily accessible labour market data remains an issue. The DoL does not conduct routine labour market surveys and for the most part relies on hard-copy filing systems that have not been aggregated in digital form.

Most of the data presented in this chapter relied on a specially commissioned Industry Survey conducted as part of the Government’s process to develop a NHRDP. As part of this process, the foreign

worker data was obtained only after a request for the DoL to digitise data from the hard-copy work-permits in their files.

8.4.2.3 Scholarships

The PSET Policy includes a specific objective related to scholarships:

The award of Government and development partner funded TVET and Higher Education scholarships is merit based and strategically focused to ensure scholarship awards are inclusive, equitably distributed across provinces and educational levels, and aligned to the National Sustainable Development Plan.

This objective emanated from a belief expressed during policy development consultations that currently, scholarships are awarded predominantly on the basis of student interests and available university places. That is, they are supply-driven and not driven by skill demand.

In the absence of available research into the outcomes and impact of the high investment in scholarships it is difficult to conclude whether this investment has been either efficient or effective. However, anecdotal evidence from a number of Ministers and Departmental Heads consulted as part of the NHRDP development process, indicates that it has been neither efficient nor effective. Concerns were predominantly perceived to be oversupply of degree and post-graduate degree holders who are unable to find employment in their chosen professions upon completion of their respective scholarships. Moreover, in line with the skill gap/shortage perceptions cited in the earlier part of this chapter, comment was made about the need for more middle-level technical skills in both the public and private sectors.

A number of strategies to achieve a more efficient and effective scholarship system that were identified in the PSET Policy are now being implemented including:

- Provincial Skills Plans and the development of the NHRDP in line with NSDP 2016-2030,
- Since 2018 applicants are being asked to indicate how their course preferences relate to the achievement of NSDP objective,²⁹¹
- Review of scholarship award criteria to ensure weighting for certificate, diploma, degree and post-graduate awards align to national skill development priorities,
- Expand the availability of national scholarships where PSET Providers have the capacity to deliver qualifications to the required standard – this has already commenced. For example, in 2018, 52 diploma level scholarships have been awarded to the Vanuatu Agriculture College, and 25 Information and Communication Technology (ICT) diploma level scholarships to the USP Pacific Technical and Further Education (TAFE) at the Emalus Campus in Port Vila. Moreover, the current development of a degree program at Vanuatu College of Nursing Education (VCNE) should obviate the need for international nursing scholarship in the near future. Furthermore, in 2019 all new USP scholarships awardees will undertake their 100-level (basic) courses at the Emalus Campus.

It is recommended that research, including scholarship graduate tracer studies, is undertaken to evaluate the impact and return on investment of the scholarship program. Economic and financial analyses will need to assess the relative costs/benefits of international scholarships compared to strengthening national provider capacity to the levels where scholarships can be delivered in-country.

8.4.2.4 PSET providers' capacity constraints

In a PSET Provider survey conducted in 2018, as part of the process to develop the NHRDP, the technical and teaching capacity of staff emerged as a significant issue as illustrated in the following two tables:

TABLE 8.17: MOST SIGNIFICANT ISSUE AFFECTING QUALITY OF PSET QUALIFICATIONS (TOP 5)

Most significant Issue	Rank ^{xcvii}
Literacy/numeracy levels of students at enrolment	1
Ability to recruit skilled instructors/lecturers/teachers	2
Student fees	2
Capacity to generate revenue	3
Availability of data to guide planning	4
Information, communications technology (ICT)	5

Source: PSET Provider Survey (2018)

TABLE 8.18: PERCEIVED TEACHING AND MANAGEMENT STAFF SKILL LEVELS

Level of Skill	% of Responses
All our staff have the skills to do their job	26
Most of our staff have the skills to do their job	32
Some of our staff have the skills to do their job	42
None of our staff have the skills to do their job	0

Source: PSET Provider Survey (2018)

Of 10 possible issues, the ability to recruit skilled instructors/lecturers/teachers was the second most significant issue cited by PSET Provider directors/principals. In fact, only 1 in 4 believed all their staff had the necessary skills to do their job while over 40% believed that only some staff had the requisite skills.

Successive Australian funded programs including the Australia-Pacific Training Coalition (APTC) initiative have over a number of years supported trainer training through the delivery of the Australian minimum trainer qualification – Certificate IV in Training and Assessment. Encouragingly, VITE is now offering a similar pre-service qualification. As a result, the pedagogical skills of instructors have been enhanced. However, there remains a concern that their technical capability is below current industry standards. For example, at VIT most instructors are employed through the Teaching Service Commission (TSC) with guaranteed tenure. Many have been in the Institute for a very long time, lack industry experience and have not had opportunity (or possibility the incentive) to improve their technical skills over time.

8.4.2.5 Quality assured qualifications

Recognition of qualifications is fundamental to graduates seeking employment in national and international labour markets. The Vanuatu Quality Assurance Framework (VQAF) administered by the VQA prescribes quality criteria for PSET Providers and the accreditation of qualifications.²⁹²

Expected outcomes for respective qualification levels are prescribed in the Vanuatu Qualifications Framework (VQF).²⁹³ The VQF is benchmarked to other regional and international qualification frameworks to establish levels of equivalence. Accredited Vanuatu qualifications are registered on the Pacific Register of Qualifications and Standards.

Over recent years an increasing number of qualifications have been accredited by the VQA. There has also been a trend towards higher level qualifications. There is a need for this positive trend to continue with the view of developing appropriate courses for accreditation and delivery.

Table 8.19 provides a breakdown of the type and level of qualifications accredited by the VQA as of July 2018. As can be seen, most of these (70%) are at the two lowest levels of the VQF – Certificates I and II. These are basic entry level qualifications that are below the trade and technician/associate professional levels required by industry.

^{xcvii} Proportion of responses by identification of issue

TABLE 8.19: ACCREDITED QUALIFICATIONS (JULY 2018)

Industry Sector	Certificate Level				Diploma Advanced	Diploma Graduate	Total
	I	II	III	IV			
Trades	6	3	1	3			13
Tourism & Hospitality	4	5		1			10
Primary Production	4	4					8
Business	2	2	2	1			7
ICT	1	1	3		1		6
Climate Change	1						1
Nursing Education						1	1
Teacher Education				1			1
Total	18	15	6	6	1	1	47

Source: VQA Records

8.4.2.6 Flexible delivery and workplace training

Respondents to the 2018 Industry Survey were asked whether they had paid for training in the previous year. Around 50% of the Tourism, and Manufacturing/Agriculture firms indicated that they had, with a combined value of over VUV 27 million.

TABLE 8.20: INDUSTRY INVESTMENT IN SKILLS TRAINING

Sector	# Firms Invested in training	2017 Total VUV	2017 Average VUV
Tourism	27 out of 55	11,580,200	428,896
Manufacturing & Agriculture	12 out of 25	16,580,000	663,200
Total		27,150,200	

Source: Industry Survey (2018)

Industry was also asked to indicate their preferred mode of training. A clear majority of firms identified on-the-job training (OJT), either by qualified instructors or their own staff as their first preference.

TABLE 8.21: INDUSTRY PREFERRED TRAINING MODALITY

Training Preferences	Tourism, Ranked 1 st	Manufacturing & Agriculture, Ranked 1 st
Classroom training away from the workplace by qualified instructors	15%	16%
Training delivered on the job by qualified instructors	45%	40%
Training delivered on the job by your own staff	27%	44%
A mixture of the above	29%	32%

Source: Industry Survey (2018)

Industry's recognition of skills gaps within their existing workforce (see Table 8.7), in combination with their preparedness to purchase training services and preference for OJT, presents an excellent opportunity for PSET Providers to increase their revenue base by delivering accredited short courses directly in response to industry demand.

8.4.2.7 Private providers

A specific objective in the National PSET Policy is that "Government investment in PSET is supplemented by increased levels of private sector, non-government and community funding of PSET program delivery" (Objective 4a).

Up until recently PSET delivery has been through a number of public providers and a network of rural training centres generally governed by Non-Government Organizations (NGOs). The National PSET Policy includes elements that focus on fostering an enabling environment that encourages increasing levels of private and non-government delivery of PSET qualifications in Vanuatu.

There are now two private providers that, having achieved VQA accreditation for a number of courses, are delivering these courses. Importantly, all of these courses are at a higher level compared to most

of the accredited courses offered by public providers.

TABLE 8.22: PRIVATE PROVIDER ACCREDITED QUALIFICATIONS (JULY 2018)

Private Provider	Qualification Level	Course
Pacific Vocational Training Centre	Certificate IV	Electrical Engineering (Installation & Maintenance)
	Certificate IV	Mechanical Engineering (Refrigeration & Air Con)
	Certificate III	Computing (Hardware)
Edwards Computer Foundation	Certificate III	Computing (Networking)
	Certificate III	Computing (Support)
	Diploma - Advanced	Information Systems

Source: VQA Records

8.4.2.8 National Adult Language, Literacy and Numeracy Framework

It is noteworthy that results from both the Industry and PSET Provider surveys shared a common concern for language literacy and numeracy (LLN) levels. A significant number of Industry respondents referred to a lack of LLN skills as a predominant issue within their workforce – see Tables 8.11 and 8.14. Similarly, PSET providers reported literacy and numeracy levels of students at enrolment was ranked as their number one concern – see Table 8.17.

In 2017, the Minister of Education and Training launched the National Adult Language, Literacy and Numeracy Framework (NALLNF). In his foreword to the Framework the Minister noted that it “...is particularly relevant to those working in the PSET sector (TVET and Higher Education) where learners of technical skills require certain levels of LLN for their learning to be effective”.²⁹⁴

In 2018, based on the agreed Framework, a National LLN Strategy was approved and published. The Strategy notes that low LLN levels have hindered the delivery of PSET programs and people’s capacity to work in a range of industries. It further notes that MoET is committed to addressing the complex and high LLN needs at all levels of the education system in Vanuatu and across all societal contexts.²⁹⁵

8.4.3 Summary

While, the structural and policy reforms over the past 6 years have been positive there remains a number of critical constraints requiring attention:

- PSET Funding – allocation of resources to PSET Providers is lagging increased funding to the PSET system generally
- Scholarships – an important trend toward more strategically aligned scholarship awards has commenced but the overall funding allocation to scholarships remains disproportionate to other elements of the PSET system
- PSET Provider Capacity Constraints – technical skills of instructors are below current industry standards and permanent employment structures inhibit incentives for self-improvement
- Quality Assured Qualifications – strong trends toward more accredited qualifications at higher levels of the VQF but public providers still lagging, with most of their accredited qualifications at lower certificate levels.
- Flexible Delivery and Workplace Training – preferred by employers and an essential element of filling skill gaps but limited practice by PSET Providers in this area
- Private Providers – positive trend toward more private providers but still low level
- National Adult Language, Literacy and Numeracy Framework – significant attention being given to improving LLN but this remains a critical issue

8.5 Recommendations

The following recommendations have been drawn from and are consistent with the NHRDP because processes to meet skill shortages and skill gaps in support of national development are generic and equally applicable to all industry sectors including those that are the focus of the TDFU 2019.

1. Primary and Secondary Education
 - a. Improve primary and secondary education, including in areas such as net enrolment, completion rates, certified teachers, and educational attainment.
2. Labour Market Data
 - a. That the Department of Labour establish a web-based Labour Market Information System (LMIS).
 - b. That the Department of Labour conduct comprehensive labour market research on a triennial basis (as a minimum) in collaboration with key industry groups such as the Vanuatu Chamber of Commerce and Industry and other professional associations.
 - c. That the web-based LMIS facilitates data input from industry on a routine basis to supplement and keep current labour market data between triennial surveys.
 - d. That the labour market data be provided to key agencies such as the VQA, Tertiary Education Directorate and the Institute of Higher Education (once established) to ensure course development and accreditation is aligned to industry and national development priorities, and to ensure all investments in PSET are similarly aligned.
 - e. That the LMIS also facilitates career counselling and employment by providing extensive information on occupational options and information of employment vacancies posted by employers.
3. Industry Engagement
 - a. That PSET Providers establish working partnerships with industry that facilitate the placement of instructors on work experience to improve their currency and gain a better understanding of industry requirements
 - b. That the VQA and PSET Providers note the skill shortages and skill gaps identified in the 2018 Industry Survey and develop relevant courses for accreditation and delivery as soon as possible.
 - c. That the PSET providers recognise the opportunity to expand their revenue base and become more responsive to industry needs by offering increased levels of on-the-job training of accredited short courses for a fee.
 - d. That the Tertiary Education Directorate, note the skills shortages and skills gaps identified in the 2018 Industry Survey and initiate the provision of professional development programs for current PSET instructors in these priority areas to ensure they have the skills to meet industry standards.
4. Institute of Higher Education
 - a. That an Institute of Higher Education is established with each of the merged institutes becoming schools or departments of a semi-autonomous statutory authority accountable to the Minister of Education and Training through a Board of Directors.
 - b. That budget allocations for the effective running of the Institute of Higher Education include a performance-based component conditional on the achievement of specific targets linked to the NHRDP and national development objectives.
 - c. That funding to establish and maintain the Institute of Higher Education be derived from the sum of existing appropriations of the Public PSET Providers plus an increasing share of overall scholarships allocations for delivery of scholarships in Vanuatu.
5. Scholarships
 - a. That the award of international and national scholarships be demand driven - directly linked to

the NHRDP and any emerging areas of skill shortages and gaps identified in regular labour market research undertaken by the Department of Labour.

- b. That triennial impact evaluations of the scholarship program be undertaken to measure outcomes and to inform ongoing review of the NHRDP and adjustments to award criteria.

6. Performance Based Funding

- a. That overall PSET investments by Government, including current scholarship allocations, include performance-based funding approaches to provide incentive for public and private providers to improve their standards to the level required for scholarship award
- b. That performance-based funding criteria have a focus on meeting access and inclusion targets – particularly in rural and remote areas.
- c. That performance-based funding criteria include revenue targets derived from sale of education and training services to the private sector through flexible workplace delivery.
- d. That performance-based funding criteria include targets for the accreditation and delivery of qualifications at VQF certificate level three and above.

CHAPTER 9: TRADE AND SUSTAINABLE DEVELOPMENT

9.1 Introduction

This chapter will assess the sustainability of Vanuatu's current trade-related policies, and recommend policy options to promote sustainable development. To guarantee that development is sustainable, Vanuatu has to ensure that the growth of export-oriented sectors does not harm the environment, that natural resources are used in a sustainable manner, and that such development contributes to achieving global climate change mitigation and adaptation goals. Further, Vanuatu's development will become more sustainable when both women and men have the equal opportunity to contribute to it, and when it builds on the traditional foundations of Melanesian society.

The first section of this chapter investigates the impact of trade development on the environment, and recommends policy options to mitigate these impacts. The second section assesses whether current levels of resource exploitation are sustainable, and recommends policy options to improve sustainability and to reduce the risks of over-exploitation. The third section examines the impact of Vanuatu's commitments to the global community for climate change mitigation, particularly the impact of these commitments on the price, access, and reliability of electricity. This section also discusses options to mainstream trade into Vanuatu's climate change adaptation and disaster risk reduction strategies. The fourth section assesses women's contribution to Vanuatu's economy, considers barriers to their participation, and discusses the potential of women's economic empowerment to develop Vanuatu's export sectors. Finally, the fifth section analyses the relationship between trade development and Vanuatu's traditional *kastom* economy. Based on this analysis, the section proposes a number of criteria to assess the impact of trade development on Vanuatu's *kastom* economy. The proposed criteria will be employed to evaluate the risk from implementing each recommendation of this Trade Policy Framework Update (TPFU) for the traditional *kastom* economy.

9.2 Environmental Impacts

9.2.1 Environmental impact assessment

Development of Vanuatu's primary and secondary export industries, as well as development of the tourism sector, can adversely affect the surrounding environment. For example, tourism development close to the shore may harm mangrove forests or coral reefs; development of on-shore fish processing plants may generate effluents that pollute the soil and the water; primary forests may be cleared to plant more cash crops for sale in the export markets; and deep-sea mining may permanently damage the marine environment.

The Government of Vanuatu recognises several of these risks, and has developed tools to regulate them. The Environmental Protection and Conservation Act 2011^{xcviii} (the EPC Act) requires that every project in Vanuatu, with the exception of single-family residential structures and traditional structures, be subject to a Preliminary Environmental Assessment (PEA) by the Environmental Planning and Impact Assessment Division of the Department of Environmental Protection and Conservation (DEPC). Depending on the recommendation of the PEA, the DEPC may require a more detailed Environmental Impact Assessment (EIA). Some of the instances in which projects are likely to require a full EIA include proximity to the shoreline, to sources of fresh water, or to human settlements. The EIA may impose environmental conditions on the project through an Environmental Management and Monitoring Plan (EMMP). If these conditions are violated, the DEPC has the authority to impose penalties and to stop the work on the project site. For example, according to the 2016 report by the Ministry of Climate Change Adaptation, 85 project applications were registered with the DEPC in 2016.²⁹⁶ Of these, 56 were granted an Environmental Permit with conditions, 3 were granted an Environmental Permit following

^{xcviii} The legislation was initially called the Environmental Management and Conservation Act 2002, but its name was changed to Environmental Protection and Conservation Act in 2011.

the submission of an EIA report, one was cancelled, and the other applications were still being processed at the time the report was drafted. As per the same annual report, DEPC has issued 40 ‘stop work’ notices between 2008 and 2016, and 35 penalty notices for non-compliance.²⁹⁷

This regulatory framework is a good first step to address environmental impacts arising from the implementation of TPFU recommendations, but there are important challenges in its implementation. First, according to the DEPC, several projects have started without environmental permits (i.e. without a PEA study), in violation of the EPC Act. Several such projects have been funded through foreign investments, where the investor began work after receiving an approval from the Vanuatu Investment Promotion Authority (VIPA), but did not apply for an environmental permit from the DEPC. This includes the “Rainbow City” real estate project near Rentabau bridge in southern Efate, which was eventually halted by the DEPC pending compliance with the provisions of the EPC Act.

To deal with environmental risks from foreign investments, there should be a close relationship between the DEPC and VIPA. Since VIPA has to approve all foreign investment projects in Vanuatu, it should play an active role in ensuring that the potential foreign investors are aware of Vanuatu’s environmental laws and regulations. Until July 2018, VIPA was not considering environmental risks in its assessments of foreign investment proposals.^{xcix} In July 2018, the VIPA updated its application template for new foreign investment approval certificates, which now clearly mentions that foreign investors must consult the DEPC to determine if the project has significant environmental, social, or cultural impacts. The language in the VIPA application template could be made even clearer by mentioning the legal obligation to obtain a permit from the DEPC. There is scope to make the relationship between VIPA and DEPC stronger. One option could be for VIPA to automatically forward each foreign investment application to the DEPC for their assessment. A stronger option could be that the Director of the DEPC is included as a member of the VIPA Board, though this does not seem to be aligned with the Government’s objective of streamlining the VIPA Board, as per the latest draft Bill for the Investment Promotion and Facilitation Act.

Second, the DEPC’s capacity to conduct PEAs, and to monitor compliance with the conditions imposed by the EMMPs, is severely constrained by the small number of officers available for these tasks. For example, there are three officers assigned to PEAs, who have to conduct approximately 70-80 PEA studies in a year. Moreover, only one officer is assigned to ensure that all projects are complying with the relevant environmental regulations. To relieve these constraints, the Government should consider expanding the human resources within the Environmental Planning and Impact Assessment Division of the DEPC.

Other departments could contribute to the environmental compliance process. For example, Section 27 of the Tourism Council Act 2012 empowers the Director of the Department of Tourism to accredit existing tourism operators. One of the criteria for refusing or revoking accreditation is violation of the EPC Act. The Department of Tourism is currently piloting a project to monitor compliance with the accreditation conditions, in collaboration with local industry associations. Implementing this project nationally will help ensure that all tourism businesses comply with Vanuatu’s environmental framework, and reduce the environmental risks from the tourism sector. It would also help contribute towards achieving the DEPC’s compliance goals, and perhaps allow the DEPC to allocate its limited capacity towards other sectors.

Moreover, Vanuatu could explore the option of Strategic Environmental Assessments (SEA) for key export sectors and for policies related to these sectors. These studies may help to identify important sectoral risks and provide recommendations to better integrate sustainability into the national planning process.²⁹⁸ By identifying environmental risks for sensitive sectors, SEA studies may reduce the burden on the DEPC for undertaking a large number of PEAs and EIAs. Discussions with stakeholders suggest

^{xcix} Until July 2018, VIPA used the following criteria to assess foreign investment proposals: (i) the proposed investment should not include a “prohibited” activity; (ii) the proposed investment should not contravene the “reserved list” requirements; and (iii) the proposed investor should be deemed to be a fit and proper person.

that the Asian Development Bank (ADB) and the Secretariat of the Pacific Regional Environment Programme (SPREP) are interested in supporting SEA studies for Vanuatu. These assessments should be pursued, as long as the DEPC is able to integrate them within the existing environmental regulatory framework.

Further, consultations reveal that in some recent cases donor-funded projects did not apply for environmental permits, in violation of the EPC Act. This should be avoided in the future, noting the size of some donor-funded projects and the fact that some of these projects may pose significant environmental risks, for example, the risk that the effluents from the proposed SinoVan processing plant in Black Sands are not properly treated, thus polluting the land and the marine environment.

9.2.2 Deep sea mining

Additional risks to Vanuatu's environment could emerge from Deep Sea Mining (DSM). Previous surveys within Vanuatu waters have found zinc deposits at sub-sea hydrothermal vent sites,^c which has sparked the interest of the DSM industry. The Department of Geology and Mines (DGM), which has authority over DSM under the Mines and Minerals Act 1986, has not issued any prospecting licenses for DSM at the moment. However, to prepare the DSM regulatory framework, the DGM has drafted a national Deep-Sea Mining Policy, which recommends using Vanuatu's existing environmental regulatory framework to assess risks from issuing DSM prospecting licenses. The policy has not yet been officially adopted by the government. The technology for DSM is still nascent, and production is not likely to be commercially viable soon, so it is unlikely that DSM poses a major risk to Vanuatu's environment during the period of the TPFU. However, it is important that the draft DSM policy is widely consulted and approved, and that the regulatory framework is amended in line with the policy's recommendations to ensure that Vanuatu is ready to deal with DSM when this sector becomes commercially important.

9.2.3 Recommendations

- a. Strengthen the relationship between VIPA and the DEPC, by establishing an obligation for VIPA to automatically forward each foreign investment application to the DEPC
- b. VIPA should update its investment application template to clearly inform the foreign investment applicants about the legal necessity to take environmental permits from the DEPC before beginning any project in Vanuatu
- c. Strengthen the relationship between the Prime Minister's Office's Aid Coordination Unit and the DEPC, by establishing an obligation for the Aid Coordination Unit to automatically forward each project design document to the DEPC
- d. Strengthen capacity within the DEPC to conduct PEAs and evaluate EIAs
- e. Department of Tourism should scale up the accreditation compliance process at national level to ensure compliance with the EPC Act
- f. Explore the option of conducting Strategic Environmental Assessments for key export sectors, through assistance from the ADB and/or the SPREP
- g. Approve the DSM policy after consultations, and amend the regulatory framework in line with the policy's recommendations

9.3 Resource Over-Exploitation

For its export-led development to be sustainable, Vanuatu has to ensure that it does not over-exploit its stock of exhaustible natural resources. These resources should be harnessed in such a way that their stock remains stable, or grows over time. Two natural resources that face this risk are fisheries and forest products.

9.3.1 Forestry products

While growing exports of natural resources can significantly increase Vanuatu's export earnings, boost

^c A hydrothermal vent is a fissure on the seafloor from which geothermally heated water is released.

its GDP, and create valuable employment opportunities, there is also a risk that over-exploitation will rapidly deplete the current stocks, which can take several years to recover, causing long-term damage. Vanuatu has already experienced this with timber. While the production and exports of timber grew through the late 1990s and early 2000s, over-exploitation of accessible hardwood forests drastically reduced Vanuatu's timber production capacity by mid-2000s, harming the economic health of the sector.^{ci} More recently, over-exploitation has affected the high-grade *Pterocarpus Indicus*, known locally as the 'blue water tree' (see also Chapter 3).

Assessing the sustainability of current forestry practices is more challenging, since the last National Forest Inventory (NFI) was carried out in 1989-1990, before the reported over-exploitation of timber resources. The National Forest Policy Statement 1997 used the NFI to estimate the total volume of *pacmerch*^{cii} species in different islands of Vanuatu, and recommended sustainable annual yield for each island. These numbers are most probably outdated in 2018. Nevertheless, the National Forest Policy 2013–2023 concludes that because timber harvesting is mostly done on a small scale with the help of mobile sawmills, annual timber harvests of approximately 10,000 cubic meters are substantially below the recommended sustainable yield levels of 68,000 cubic meters per annum. However, these are national figures; it is possible that timber harvests on certain islands exceed the sustainable yields established for those islands.

To improve the current status of forestry statistics, the German aid agency, Gesellschaft für Internationale Zusammenarbeit (GIZ), has agreed to provide financial resources to support the next NFI through the Reducing Emissions from Deforestation and Forest Degradation (REDD+) initiative. Work on the NFI was expected to start by the end of 2018 and to be completed by 2020. This inventory process will also provide the opportunity to conduct Vanuatu's first national carbon stock assessment, which can then be used to promote trade in carbon.

In addition to the NFI, the Department of Forestry has emphasised the importance of a national reforestation program, to increase the stock of forest resources in the country and reduce the risk from natural disasters such as mud-slides and extensive soil erosion.

9.3.2 Fishery products

When assessing the sustainability of Vanuatu's fisheries sector, it is helpful to divide fishing into three categories: fisheries in Vanuatu's Exclusive Economic Zone (EEZ) (up to 200 nautical miles from the coast), coastal fisheries (up to 12 nautical miles from the coast), and reef and lagoon fisheries (up to 3 nautical miles from the coast).

The most important commercial species fished in Vanuatu's EEZ is tuna. Four tuna species pass through Vanuatu's EEZ: albacore, bigeye, skipjack, and yellowfin tuna. Fishing of these species is managed based on the Revised Tuna Fishery Management Plan,²⁹⁹ which ensures that the exploitation of the tuna resources found in, and passing through, Vanuatu's EEZ is compatible with the sustainability of their stocks throughout their range. Using bio-economic modelling in collaboration with the Forum Fisheries Agency (FFA) and the Secretariat of the Pacific Community (SPC), the Department of Fisheries has estimated the Total Allowable Catch (TAC) per year for each tuna species. The TAC is the volume of tuna, in metric tonnes, that can be caught each year without threatening the tuna stocks in regional waters. The TAC for the four main tuna species is shown in Table 9.1.

^{ci} This over-exploitation occurred for several reasons: reduction in government support for replanting after the fiscal crisis of 1997-98, major cyclones in 1998-99, and poor planning by land-owners. Source: discussions with Director, Department of Forestry

^{cii} "Pacmerch" species refers to those tree species that are generally accepted commercially in the Pacific.

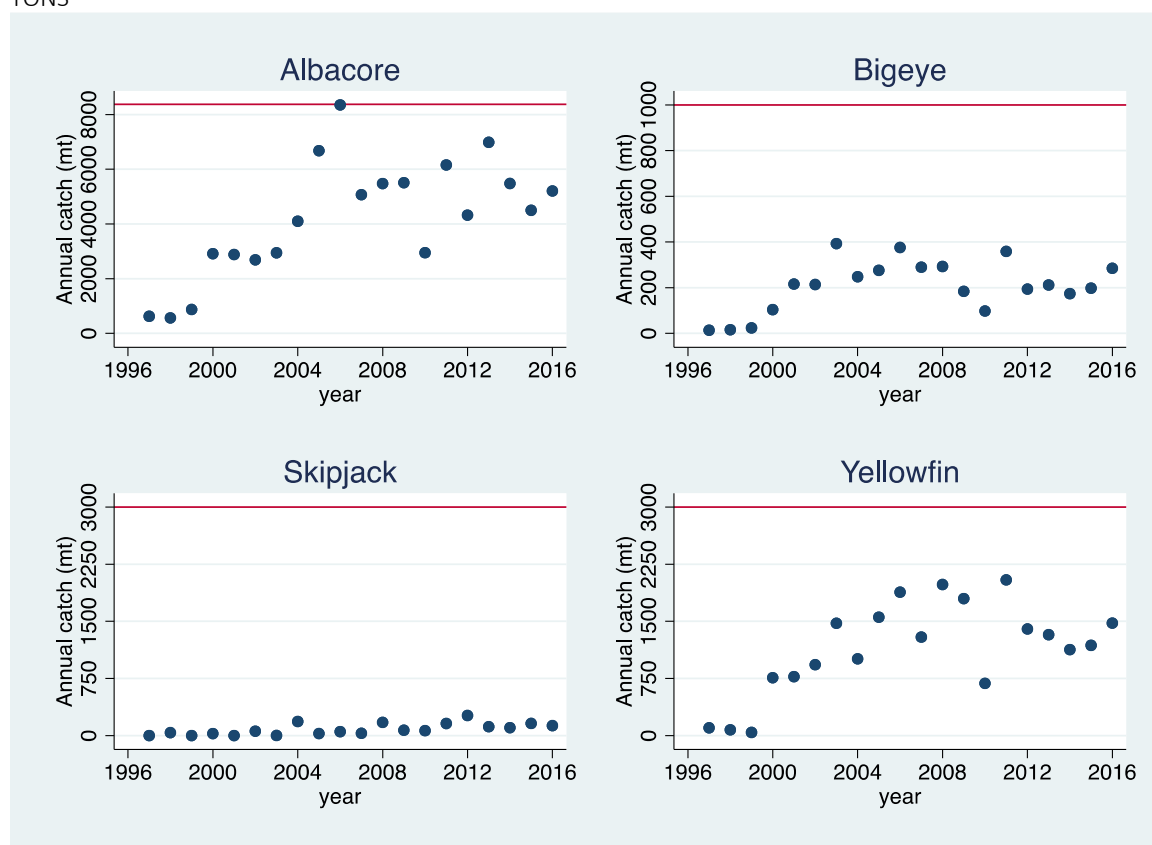
TABLE 9.1: TOTAL ALLOWABLE CATCH FOR EACH TUNA SPECIES

Species	TAC (metric tonnes)
Albacore	8,376
Bigeye	1,000
Skipjack	3,000
Yellowfin	3,000

Source: Department of Fisheries

Figure 9.1 plots the annual catch for each tuna species over the 1996 to 2016 period. Each graph also shows the TAC for that species; this is the red horizontal line in the graph. As we can observe, for each species, Vanuatu’s annual catch volumes are significantly lower than the TAC for that species. Only in one year – 2006 – did Vanuatu’s annual catch of albacore (8,354 tonnes) come close to its TAC (8,376 tonnes). Therefore, with the exception of albacore – the most abundant species in Vanuatu’s waters, whose catch volumes are on an increasing trend – it seems that there is significant scope to expand catch volumes for other tuna species while remaining within the bio-economic sustainable limits.

FIGURE 9.1: ANNUAL CATCH VOLUMES OF TUNA SPECIES FOUND IN VANUATU’S EEZ AGAINST TAC, METRIC TONS



Notes: The red line in each graph shows the Total Allowable Catch for that species, as per the Revised Tuna Fishery Management Plan, August 2014.

Source: FFA Compendium of Economic and Development Statistics 2017

In terms of coastal fisheries, the main species fished include the poulet or snapper, sea cucumber, and aquarium fish. Among these, the survival of sea cucumber populations was threatened by extensive over-fishing in the last few decades. The Government imposed a ten-year moratorium on the harvesting of sea cucumber in 2008. Since then, several sub-species of sea cucumbers have begun to recover to healthy population levels. In 2015, the Government allowed harvesting of certain sub-species for a trial four-month period. The Government is now considering options to award concession contracts for harvesting sea cucumbers, under strict guidelines and rigorous monitoring. If managed properly, they

could become an important source of export revenue for Vanuatu, given their importance in certain pharmaceutical products and as a dietary delicacy.

In terms of reef and lagoon fishing, anecdotal evidence suggests that there has been over-fishing, depleting the stock of reef fish and compelling fishermen to travel longer distances to support their traditional catch volumes. But until recently, there has been no systematic data to back these claims. In 2017, the SPC supported the Department of Fisheries to pilot the 'Tails' project, under which fishermen in 19 sites around Vanuatu were provided with tablets to record their fishing effort and catch values for different species of fish. Extending this project to more sites in Vanuatu and using it to collect regular data will enable the Department of Fisheries to assess the sustainability of reef and lagoon fisheries, and develop management plans to promote its sustainability.

One of the strategies being followed by the Department of Fisheries to reduce dependence on reef and lagoon fish stocks is encouraging the use of Fish Aggregating Devices (FADs). FADs help to attract and concentrate a large number of fish species beyond the reef, and therefore make it easier to fish there. This can promote economic independence and nutritional security, especially in places where reef and lagoon fishing is prohibited due to the establishment of Marine Protection Areas (MPAs). However, the use of FADs has to be carefully monitored and tracked, since they can damage the marine habitat and result in by-catch of non-target species.³⁰⁰ The Department of Fisheries is seeking assistance with tracking FADs through the Global Ghost Gear Initiative.

9.3.3 Recommendations

- a. Government should conduct a National Forest Inventory (NFI) and National Carbon Stock Assessment by 2020
- b. Continue to monitor annual catch volumes for EEZ fish (e.g. tuna) and ensure they remain below the sustainable yield limits
- c. Government should secure donor assistance (from ADB or SPC) to continue implementing the Tails program to develop a better dataset of reef and lagoon fisheries

9.4 Climate Change Mitigation, Adaptation and Disaster Risk Reduction

9.4.1 Mitigation

In its Intended Nationally Determined Contribution (INDC) submission to the United Nations Framework Convention on Climate Change (UNFCCC), Vanuatu has committed to use close to 100% renewable energy to produce electricity sector by 2030. Vanuatu has stated that achieving this target is conditional on receiving sufficient funding from external sources. In addition, the Vanuatu National Energy Roadmap (VNER) specifies a short-run target of using 65% renewable energy to produce electricity by 2020. These renewable resources currently include wind, solar, hydropower and biofuel (especially coconut oil), and may expand to include geothermal in the future.

Transitioning to 100% renewable energy by 2030 will be very challenging. According to the VNER, only 29% of electricity was produced using renewable sources in 2015.^{ciii} The major renewable resource is hydropower, in particular, the Sarakata dam in Espiritu Santo, which produces electricity for the Luganville concession area. However, recent reports suggest that the electricity output from the Sarakata dam has weakened, especially since the El Niño phenomenon adversely affected the flow of the river.³⁰¹ In the Port Vila concession area, approximately 10-20% of the energy is currently obtained from renewable sources, which include wind, solar, and coconut oil.

From a trade perspective, what is important to assess is the impact of the transition to 100% renewable energy on Vanuatu's trade potential. The Trade Policy Framework (TPF) 2012 identified factors related

^{ciii} There is substantial intra- and inter-year variation in the proportion of electricity generated from renewable sources of energy, due to the inherent variability of environmental conditions. For instance, the Vanuatu Energy Roadmap reveals that in 2015, the proportion of electricity generated from renewable sources varied between 13% in March and 50% in August.

to electricity as some of the major barriers to trade in Vanuatu. In particular, the TPF argued that Vanuatu's trade performance is constrained by limited access to electricity, its high price, and its low reliability. This section will assess how transitioning will impact these three dimensions.

9.4.1.1 Access

A substantial proportion of households in Vanuatu do not have access to regular electricity. In 2015, about 83% of rural households lacked electricity access, as did 20% of urban households.³⁰² Increasing access is a major priority for the Government of Vanuatu. In the VNER, the Government has committed to ensuring 100% access to electricity by 2030.

For households located close to the grid, the Government's strategy involves subsidising the cost of grid connections, through the Grid Based Electricity Access Project (GBEAP). For households located on outer islands without an electricity grid, but still close to areas of concentrated demand (such as schools or hospitals), the Government's strategy involves the construction of solar-based 'micro-grids'. Finally, for households that are distant from the current electricity grid and from areas of concentrated demand, the Government's strategy is to provide access to pico solar^{civ} lighting products, solar home systems, and other similar products. One challenge that would emerge with this policy is ensuring appropriate recycling mechanisms for lead-acid and lithium-ion batteries that are commonly used with solar systems for energy storage purposes. Discarded batteries can pose several environmental risks, and different government departments will have to coordinate to ensure that these risks are mitigated.

Therefore, except for grid connections, the Government's transition to producing 100% electricity from renewable sources will increase electricity access, and will therefore help to promote trade. As to grid connections, the transition to producing 100% electricity from renewable sources may negatively affect access through its impact on prices.

9.4.1.2 Price

If Vanuatu has to transition to using renewable sources of energy to produce almost 100% of its electricity, substantial investments in capital expenditure, for example, in hydropower plants, solar plants, and wind farms, will be required. In the past, such capital expenditure has been financed through donor partners such as the European Union and the World Bank. Without this support from donor partners, transitioning to 100% renewable energy is likely to substantially increase the per unit cost of electricity.

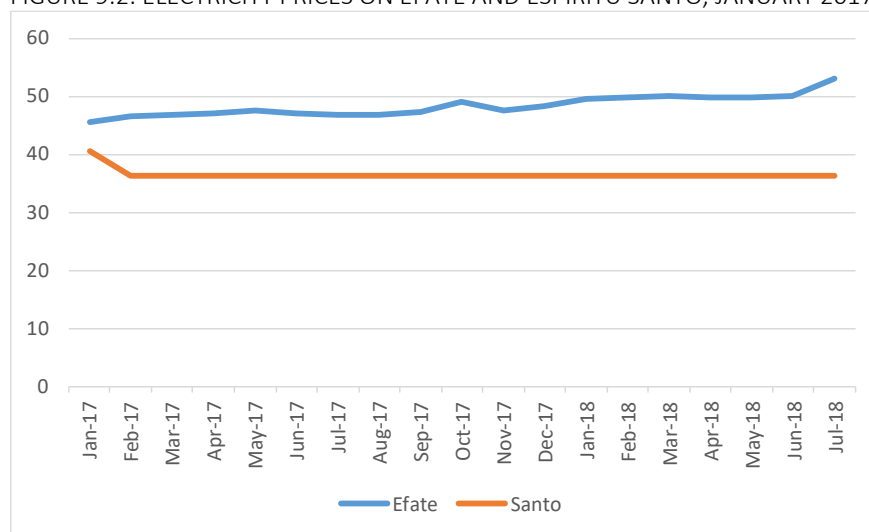
Discussions with UNELCO, the holder of Efate's electricity concession contract, suggest that fuel costs are responsible for approximately 45% of the per unit cost of electricity (23-24 vatu out of a total of 53 vatu per kilowatt hour). UNELCO could engage in capital expenditure on renewable sources such as wind and solar without donor support, but to recover its investment, the fuel component would have to be increased from 23-24 vatu to approximately 30-40 vatu per kwh. Therefore, in the absence of donor support for capital expenditure, the per unit price of electricity is expected to increase by 10-30%. This would impose a heavy burden on businesses and households, especially since electricity prices in Vanuatu are already higher than the Pacific average (see Chapter 5). This highlights the importance of financial support from bilateral donor partners, and from multilateral funds such as the Global Environment Facility (GEF) and the Green Climate Fund (GCF), if Vanuatu has to achieve its climate change mitigation targets without damaging its domestic economy.

While hydropower represents a relatively cheap and renewable source of energy, generating electricity using hydropower requires large and fast-flowing rivers. It was earlier believed that the Teoma river on Efate could be harnessed for generating electricity, but UNELCO's technical assessments have concluded that this is not feasible. There are currently no hydropower plans for Efate. Hydropower from the Sarakata River is used to produce electricity on Espiritu Santo. Its low cost is an important

^{civ} Pico solar products use small compact and light weight solar photovoltaic panels to generate just a few watts of power in a wide range of small and portable applications.

reason why electricity in Espiritu Santo is cheaper than electricity on Efate (see Figure 9.2).

FIGURE 9.2: ELECTRICITY PRICES ON EFATE AND ESPIRITU SANTO, JANUARY 2017 – JULY 2018



Source: Utilities Regulatory Authority (URA)

There are two alternative renewable sources of energy, in addition to hydropower, wind and solar. The first is biofuel, in particular, coconut oil or ‘coco-fuel’. According to UNELCO, the company has sufficient installed thermal capacity to start generating 80% of the electricity for Efate from coconut oil within a very short period of time. However, the high and volatile price of coconut oil is a major impediment to its widespread adoption as an energy source. Coconut oil is about one-third as efficient as diesel. Therefore, for its use to be economical, its price per litre has to be less than one-third the price of diesel. This has not been the case for most 2017-18 and UNELCO hasn’t therefore used any coconut oil to produce electricity in this period. When the world price is high, coconut oil producers find it more profitable to export coconut oil rather than sell to UNELCO.^{cv} Coconut oil has been reintroduced in the production mix towards the end of 2018 as a result of a moderate increase in the international price of diesel and a pronounced decline in the international price of coconut oil.

Some of the reasons for the limited uptake of coconut oil include the absence of a deep and well-integrated domestic market, as well as the absence of long-term contracts between coconut oil producers and UNELCO. Discussions with UNELCO suggest that to operate its coconut oil-based thermal generators, it would require approximately 20 million litres of coconut oil per year. The Government of Vanuatu, especially the Department of Energy, the Department of Industry, and the Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB) should explore options for expanding the domestic production of coconut oil and encouraging its greater use to generate electricity, also noting that significant resources will be allocated to the coconut value chain under the 11th European Development Fund.

The second alternative renewable source is geothermal energy. The World Bank made a preliminary assessment that there is “medium to high potential” of geothermal energy near the Takara hot springs in northern Efate. A prospecting license has been issued to establish the site’s energy potential. However, issues such as land ownership disputes and lack of clarity around electricity production and distribution rights have stymied the project. Discussions with stakeholders suggest that the current licensee has written off the project, before it was able to conclusively assess the geothermal potential of the site. This is something that the Government can investigate further, possibly with financial support from the World Bank or from private sector operators.

^{cv} The increase in coconut oil exports observed in 2017 can partly be explained by this fact.

9.4.1.3 Reliability

Based on their reliability, energy sources can be divided into two categories: intermittent sources, whose output varies with environmental conditions, and baseload sources, which provide stable energy output. Among the renewable energy sources discussed in the previous subsection, wind and solar are intermittent, while hydropower, coconut oil, and geothermal energy can be classified as baseload sources. The challenges associated with increasing the reliance on baseload renewable sources of energy have been discussed above. If Vanuatu has to increase the share of renewable energy in the short-term, it would likely have to increase its reliance on the intermittent sources, such as wind and solar.

Wind and solar energy are intermittent sources because their output is susceptible to sudden changes in environmental conditions. This volatility can threaten the stability of an electricity grid that depends on their output. Fluctuations in the grid reduce the reliability of electricity supply, increase the risks of blackouts, and therefore impose severe costs on electricity users, particularly mechanised businesses. If the electricity grid in Vanuatu will increase its reliance on intermittent sources of energy, utility companies will have to invest in infrastructure that mitigates the costs of this instability.

There are two main types of this 'stability infrastructure': primary reserves and storage systems. Primary reserves, or spinning reserves, refers to the extra capacity that can be generated by increasing the power output of generators already connected to the grid. Therefore, if the output of a solar generator drops sharply, for instance because the weather becomes overcast instantaneously, other generators will immediately (within seconds) increase their output to ensure that the grid is not affected. Storage systems, on the other hand, absorb power from the grid when there is excess generation, and use the stored power to replenish the grid when there is a deficit. Both these types of infrastructure are expensive to establish and maintain. These investments would require substantial support from donors and multilateral funds, otherwise the resulting capital expenditures would increase electricity tariffs and hurt business and household consumers.

9.4.1.4 Recommendations

- a. Government should continue pursuing renewable options to increase off-grid access to electricity
- b. Government should work with bilateral donor partners and multilateral funds such as the GEF and the GCF to secure capital expenditure for establishing wind farms and solar plants
- c. Government should work with bilateral donor partners and multilateral funds such as the GEF and the GCF to secure capital expenditure for stabilisation infrastructure, such as spinning reserves and storage systems, to ensure grid stability
- d. Government of Vanuatu should explore options for increasing the production of coconut oil and expanding its use for generating thermal electricity
- e. Government should further assess the geothermal potential in Vanuatu, notably on Efate, and, if significant, facilitate a way forward to solve land and concession-related issues preventing its commercial exploitation

9.4.2 Adaptation and Disaster Risk Reduction

Due to its location in the South Pacific tropical cyclone basin and the Pacific Ring of Fire, Vanuatu is particularly exposed to hydro-meteorological hazards such as cyclones, and geophysical hazards such as earthquakes, volcanic eruptions, and tsunamis. These natural disasters are expected to increase in intensity and frequency as a consequence of climate change. The Government of Vanuatu will have to prepare and plan to mitigate these systemic risks.

Like most Pacific Island Countries, Vanuatu's economy and trade sector are highly susceptible to natural disasters. Between 1950 and 2011, natural disasters were responsible for an annualised loss equivalent to 6.6% of GDP in Vanuatu, the highest figure in the Pacific.³⁰³ The latest major natural disaster was Tropical Cyclone (TC) Pam, which struck Vanuatu in March 2015, killing 11 people and resulting in an

estimated USD 450 million of damages. This was equivalent to 64% of Vanuatu's GDP.³⁰⁴ TC Pam affected the Vanuatu economy in three major ways:

1. Expenditure on reconstruction activity contributed to increase the public debt to GDP ratio
2. Production losses in the agriculture sector led to a precipitous decline in merchandise exports, while imports surged. Between 2014 and 2015, merchandise exports declined by 31% while imports increased by 29%, worsening the trade deficit
3. Tourism, the most important economic sector in Vanuatu in terms of employment and contribution to GDP, also suffered significantly. Visitor arrivals by air dropped 17% between 2014 and 2015.

Cyclones such as TC Pam are not expected to be one-off events. Vanuatu will have to prepare to deal with high costs arising from these natural disasters in the coming years. According to the World Bank, by 2040, Vanuatu will have to spend between 2 and 8% of its GDP on adaptation costs.

For a long time, climate change adaptation and disaster recovery were considered as separate processes at the global and national levels. However, integrating climate change adaptation and disaster risk reduction initiatives is now perceived as the most efficient way to leverage national and global resources. In Vanuatu, this has been achieved through the establishment of the National Advisory Board on Climate Change and Disaster Risk Reduction (NAB) in 2012.

The Vanuatu Climate Change and Disaster Risk Reduction Policy 2016-2030 outlines the institutional framework for coordinating Vanuatu's efforts to "integrate and strengthen climate change adaptation and disaster risk reduction initiatives across national, provincial and local levels, and across all sectors." While this policy acknowledges the economic costs arising from natural disasters and climate-related events in Vanuatu, it does not explicitly focus on the trade channel through which these events will affect Vanuatu's economy. Further, the MTTCNVB is not a member of the of the NAB, and there does not seem to be a close relationship between the NTDC and the NAB. There is scope to improve this relationship, which would help ensure that trade-related concerns are addressed more explicitly within the context of Vanuatu's adaptation and disaster-risk reduction planning. The recent work by the World Trade Organization (WTO) on the linkages between trade and natural disasters³⁰⁵ can help the MTTCNVB advocating for an increased focus on trade-related issues by the NAB.

9.4.2.1 Recommendations

- a. The MTTCNVB should raise awareness on the linkages between trade and natural disasters at the NTDC, and seek membership of the NAB so that trade can be further mainstreamed into climate change mitigation and adaptation, and disaster response, recovery, and resilience

9.5 Women's Economic Empowerment

Greater economic participation by women can provide a substantial boost to Vanuatu's GDP, either if more women join the workforce as formal wage workers, or as entrepreneurs. On a global scale, greater female economic participation can add between USD 12–26 trillion to global GDP by 2025.³⁰⁶ From the perspective of the TPFU, women's economic empowerment will power the growth of Vanuatu's export sectors. Already, women constitute almost half the formal sector workforce in the tourism sector.^{cvi} Policies that support women's economic empowerment can potentially increase this number, and enable women to lead the growth of other key export sectors.

However, despite legal commitments to gender equality,^{cvi} there continues to be gender disparity in terms of access to training opportunities, ownership of land and other productive assets, access to

^{cvi} Source: discussions with Department of Tourism

^{cvi} Article 5(1) of the Constitution of Vanuatu prohibits discrimination on the grounds of sex. In addition, Vanuatu ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1995, acceded to the Optional Protocol of CEDAW in 2007, and adopted the Millennium Development Goals (MDG) Agenda in 2000. These actions and commitments involve a series of obligations to promote gender equality, eliminate discrimination and empower women.

credit, and participation in the formal workforce. For example, data from the Ministry of Education and Training (MoET) indicate underrepresentation of women in vocational, technical and other tertiary education.³⁰⁷ Of the 30,000 registered leases in Vanuatu, fewer than 20 are in the sole name of a woman.³⁰⁸ Among the Ni-Vanuatu without bank accounts, 64% are women.³⁰⁹

Given these disparities, it is perhaps not surprising that even though women constitute 49% of Vanuatu's population, they are only 39% of the formal workforce.³¹⁰ Even among formal sector workers, women occupy only 29% of "positions of authority" across the public and private sectors,³¹¹ and only 3% of senior executive positions.³¹² According to Reserve Bank of Vanuatu (RBV) data, fewer than 20% of small and medium businesses are owned by women.³¹³

Underpinning these barriers to women's participation in economic activities is the role of patriarchal social norms that perpetuate discrimination towards women and constrain their ability to become economically independent. These norms may have emerged through traditional *kastom*, as well as through the effects of the church and colonisation on Ni-Vanuatu society. Some of these norms may have been internalised by women themselves: for example, in a survey of women by the Vanuatu Women's Centre (VWC), 36% of women agreed that "it is all right for a woman or girl to be swapped or exchanged for marriage", and 53% women agreed with the statement that "I become a property of my husband after bride price is paid".³¹⁴ Women who violate these social norms to participate in the formal economy face considerable risks of backlash from their partners and from their communities. This is particularly relevant in a context of common physical and sexual violence. For example, approximately 60% of women surveyed by the VWC had experienced some form of physical or sexual violence in their lives, of whom 21% had been left with permanent injuries. 68% had been subjected to psychological violence by their intimate partners.³¹⁵

Yet, traditional social norms can, and do, change over time. Different departments within the Government of Vanuatu, NGOs, and donor partners are working to ensure that women are provided with the right tools (or *inputs*) to enable them to join the formal workforce, either as wage employees or as entrepreneurs. This section organizes these efforts into three types of inputs: access to school education, access to PSET opportunities, and access to the formal financial sector. These are discussed in more detail below.

In addition to the NSDP, there are two high-level policy documents that direct the Government's efforts in this area: the National Gender Equality Policy and the National Financial Inclusion Strategy. These policy documents have developed a number of recommendations and indicators to track women's economic empowerment. This section does not recommend any policy actions that are not already included in the high-level policy documents, but recommends that the relevant indicators should be tracked and reported also to the National Trade Development Committee.

9.5.1 Access to school education

Girls should have the opportunity to continue in school until they acquire secondary education. Unfortunately, the high costs of secondary education in Vanuatu compel a substantial percentage of students to leave school at the completion of free primary schooling in Year 6.

The TPFU welcomes the decision by the Government of Vanuatu to provide free secondary education to all students in Vanuatu.³¹⁶ Once fully implemented, this policy can substantially decrease the number of all students dropping out of school after Year 6. In the meantime, in 2018 still 18% of students dropped out between Year 6 and Year 7, and only 23% reached Year 13.³¹⁷

However, there seems to be no gender disparity in terms of these dropout rates. If anything, girls are slightly more likely to stay in school as students transition from primary school (Years 1-6) to secondary school (Years 7-13). The MoET measures gender parity using the Gender Parity Index (GPI), which is equal to the ratio of girls to boys at a given level of schooling. In 2018, the GPI at the primary school level was 0.95, while at the secondary school level was 1.12. Even in 2016 and 2017, the secondary school GPI was higher than the primary school GPI.³¹⁸

9.5.2 Access to Post-School Education and Training (PSET)

Data from MoET reveal no significant gender imbalance in terms of access to universities and scholarships. For example, in 2017, 146 Ni-Vanuatu students completed a degree course at the Emalus campus of the University of the South Pacific (USP). Of these, 54.1% were women. Similarly, in 2018, there were 614 awardees with ongoing scholarships for higher education. Of these, 51.1% were women. 581 new higher education scholarships were awarded in 2018. Of these, 49.2% were awarded to women.³¹⁹

Nevertheless, a substantial gender imbalance remains in terms of access to public PSET institutions: in 2018, only 30% of trainees in public PSET institutions were females.³²⁰ This means that fewer trained women enter the labour force, and this is likely to be one of the factors contributing to their low share in the skilled workforce.

However, over the past few years, there has been a strong push to provide vocational skills and training to women entrepreneurs to enable them to participate in the modern economy. This has been particularly driven through the Vanuatu Skills Partnership (previously known as TVET), a joint program of the Australian and the Vanuatu Government. To ensure sustainability, equal household participation, and to mitigate against the risks of male backlash, the VSP focusses on training couples rather than just women to become business owners. Focus sectors include the tourism and handicraft sectors. For example, VSP's "Skills for Tourism" program grew from 11 clients in 2010 to 127 clients in 2017. In 2017, 43% of these clients were couples, and 17% were women. In businesses that received training through the "Skills for Tourism" program, 60% of the employees are women. Such programs therefore have a great potential to expand both women entrepreneurship and women's participation in the formal economy.

9.5.3 Access to credit

As noted above, one way in which women's low participation in the formal economy manifests itself is in their limited participation in the formal financial sector. For example, among the Ni-Vanuatu without bank accounts, 64% are women. However, when provided with bank accounts, women are more likely to use their bank accounts to save than men.³²¹

The Reserve Bank of Vanuatu is now implementing the Vanuatu National Financial Inclusion Strategy 2018 – 2023, with explicit targets for promoting women's participation in the formal financial sector. Some of the salient targets include:

1. Ensuring that an additional 54,000 Ni-Vanuatu adults will be active users of formal or semi-formal financial services by 2023, of which 50% will be women
2. Introducing policies and a regulatory environment to support access to finance for MSMEs, with a specific target of 30% of women-led MSMEs
3. Encouraging widely available financial literacy programmes targeted at building entrepreneurial and financial management skills, especially among women entrepreneurs.

In addition to the formal banking system, Ni-Vanuatu women entrepreneurs can also access credit through microfinance channels. Vanwods has been a leading microfinance institution that has provided low-cost credit to Ni-Vanuatu women since its foundation in 1996. In recent years, though, there has been a rapid increase in the number of microfinance institutions in Vanuatu, which has generated fears of predatory lending and over-burdened borrowers trying to repay loans to several lenders simultaneously. To avoid this situation, the RBV will have to vigilantly monitor the lending patterns of microfinance institutions and ensure healthy and sustainable lending by these organisations.

9.5.4 Recommendations

- a. Relevant indicators of the National Gender Equality Policy and the National Financial Inclusion

Strategy are tracked and reported annually to the National Trade Development Committee

9.6 Kastom

At its broadest level, *kastom* refers to the set of social norms, rules, and practices that influence and inform the way in which the people of Vanuatu interact with each other, within their families, their communities, their island, their country, and within the wider Melanesian region. It guides the operation of Vanuatu's traditional economy, which constitutes the political, economic, and social foundation of the country.³²² The traditional economy is more likely to be based on the principles of egalitarianism, joint ownership of productive assets, production and barter of traditional food crops, and sustainable use of natural resources. However, with globalisation and the growth of the modern economy, the principles of traditional *kastom* often come in conflict with relatively more 'western' values systems that emphasise individualism, alienation of land from its traditional owners, the cash economy, and consumerism. For Vanuatu's economic model to be sustainable, these differing and sometimes conflicting value systems have to be reconciled and managed, so that the citizens of Vanuatu can enjoy the benefits of economic growth while continuing to respect their traditions and *kastom*.

This Trade Policy Framework Update (TPFU) recommends several policy actions to develop Vanuatu's export sectors. While each policy recommendation will contribute towards growing Vanuatu's modern economy and increasing the standard of living of its citizens, it is also important to be cognisant of the effects these recommendations may have on Vanuatu's traditional *kastom* economy. Some recommendations may have positive effects on both the export sectors and the *kastom* economy, while some recommendations may involve trade-offs. This section identifies a number of criteria to evaluate the potential positive and negative effects of TPFU recommendations on the *kastom* economy. Specific evaluations are mentioned in the Trade Policy Implementation Matrix (TPFIM). The Government, and other users of the TPFU such as donor partners, can use these evaluations while prioritising the implementation of different TPFU recommendations.

In addition, Vanuatu National Statistics Office (VNSO) and the Malvatumauri National Council of Chiefs have developed the Melanesian Wellbeing Indicators ("Alternative Indicators for Well-being in Melanesia") to measure the prosperity of Vanuatu's traditional economy and its contribution to the well-being of the Ni-Vanuatu people. Several of these indicators are being tracked as key indicators under the Monitoring and Evaluation framework of the NSDP. The NTDC should take cognisance of these indicators and regularly track them, depending on the availability of data on these indicators.

The *first* criterion for evaluating the effect of a TPFU recommendation on the *kastom* economy is the *potential of the recommendation to generate dispute within the community around the ownership or use of land*. In Vanuatu, all land is owned by the traditional, or *kastom* owners. People who do not own land, for example, foreign investors, must lease land from the traditional owners before using the land for productive reasons. However, given the absence of written ownership records, it is often difficult to establish the correct *kastom* owners. This is usually not a problem when the land is used for growing food crops, but becomes a major point of contention as soon as the expected value of land (or value of the lease) increases. These land disputes weaken social cohesion within the village or the community, and threaten traditional *kastom* relations. Therefore, if any TPFU recommendation is likely to increase land ownership disputes, it will be judged negatively in the *kastom* risk column. Any TPFU recommendation that supports the institutional set-up to resolve land ownership disputes will be judged positively in the *kastom* risk column.

The *second* criterion is the *potential of the TPFU recommendation to generate dispute around ownership of traditional knowledge*. Several policy documents of the Government of Vanuatu have recommended leveraging traditional knowledge to grow Vanuatu's tourism sector, and tourism-related exports. However, once traditional knowledge becomes valuable in the cash economy, there can be competing claims on its ownership. These competing claims and conflicts can once again weaken social

cohesion and threaten the *kastom* economy. Therefore, if any TPFU recommendation is likely to increase the risk of disputes around the ownership of Traditional Knowledge, it will be judged negatively by the *kastom* risk matrix. Any TPFU recommendation that recommends strengthening institutions for resolving Traditional Knowledge disputes, for example, the establishment of the Traditional Knowledge authority within the *Malfatumauri* (Council of Chiefs), will be judged positively in the *kastom* risk column.

The *third* criterion is the *potential of the TPFU recommendation to reduce the production and consumption of traditional root crops*, such as yam, taro, kava etc. These root crops underpin the *kastom* exchange economy, and a decline in their production can adversely affect traditional social ceremonies. Therefore, if any TPFU recommendation is likely to reduce the production of traditional root crops, for example by encouraging the allocation of resources towards cash crops for export, it will be judged negatively in the *kastom* risk column.

The *fourth* criterion is the *effect of the TPFU recommendation on inter-island trade*. By expanding the domestic market, greater inter-island trade increases the market opportunities for selling traditional products, such as traditional food crops and handicrafts. To the extent that investing labour and other resources in the production of these traditional products strengthens the *kastom* economy, greater inter-island trade can be good for the *kastom* economy.

The *fifth* criterion is the *effect of the TPFU recommendation on traditional tabu or conservation areas*. Several Ni-Vanuatu communities use *tabu* areas to conserve natural resources and prevent over-exploitation of natural resources. These *tabu* areas are common ways of protecting forests and marine resources. Any TPFU recommendation that supports the creation of *tabu* areas is therefore good for the *kastom* economy, and therefore will be judged positively in the *kastom* risk column.

The *sixth* criterion is the *potential of the TPFU recommendation to increase income inequality in the community*. Traditionally, Ni-Vanuatu societies are fairly egalitarian, emphasising the joint ownership of the means of production and redistributing income and productive assets to those in need. Any policy that increases the income inequality in the community weakens these traditional norms and harms the *kastom* economy. For example, the rapid increase in the number of cruise ships visiting Mystery Island off the coast of Aneityum has generated windfall gains for land-owners located close to the Mystery Island. Those living at some distance from Mystery Island can view this new-found prosperity, but cannot partake in it. These negative spillovers, also found by the cash transfers literature,³²³ weaken social cohesion and therefore damage the *kastom* economy.

The *seventh, and final*, criterion is the *potential of the TPFU recommendation to increase rural to urban migration*. When villagers migrate to the town, their kinship networks may become weaker. They contribute less to informal insurance mechanisms and receive less in turn. Their immediate social group may not belong to their community or their island. These factors weaken traditional social bonds, and therefore harm the traditional *kastom* economy.

The TPFIM uses these criteria to evaluate the impact of each TPFU recommendation on the *kastom* economy, classifying TPFU recommendations as positive or negative for the *kastom* economy. Users of the TPFU can then decide the optimal portfolio of recommendations to support, which can achieve the appropriate goals of growing Vanuatu's modern economy without harming the traditional *kastom* economy.

9.6.1 Recommendations

- a. The NTDC regularly track the Melanesian Wellbeing Indicators ("Alternative Indicators for Well-being in Melanesia"), depending on the availability of data on these indicators

CHAPTER 10: TRADE MAINSTREAMING AND ITS PILLARS

10.1 Progress So Far

Vanuatu's trade mainstreaming program aims at ensuring that the trade dimension is duly considered whenever government policy is formulated and implemented. It is led by the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB).

10.1.1 CoM decision 20/2012

The program was officially endorsed by the Council of Ministers (CoM) with decision 20/2012. The latter approved the proposed three pillars of the program (policy, institutional, and development cooperation), and provided direction on each of those pillars as follows:

- At policy level, (1) draft a Vanuatu Trade Policy Framework (TPF) to identify and consolidate trade-related priorities across the government; and (2) draft a Vanuatu Trade Act to formalise the institutional arrangements of the trade mainstreaming program;
- At institutional level, establish a National Trade Development Committee (NTDC) to serve as multi-stakeholder advisory body on matters of trade; and
- At development cooperation level, stimulate donor engagement on Aid-for-Trade by leveraging the TPF and NTDC mechanisms.

10.1.2 Achievements

The trade mainstreaming program has been quite successful in achieving its objectives, and Vanuatu is now mentioned as an example of good practice in relevant international literature.³²⁴ Main achievements are briefly reported below.

10.1.2.1 Policy level

The year 2012 saw CoM approval of the Vanuatu TPF with decision 99/2012. A Trade Policy Framework Implementation Matrix (TPFIM) was drafted in 2013, endorsed by the NTDC in the same year, and approved by CoM with decision 54/2014. Since March 2013 the MTTCNVB has reported on TPF implementation three times a year, including through detailed updates and succinct summaries. The monitoring and evaluation system established by the MTTCNVB has received very positive feedback from the government, donors and the private sector, who have found the TPFIM to be one of the best available mechanisms to get reliable information on implementation of the country's economic policy. The MTTCNVB should continue to devote adequate resources the TPFU's monitoring and evaluation, also noting the increased complexity of the TPFU implementation matrix compared to its predecessor.

Policy mainstreaming has benefitted from the MTTCNVB's ability to use the TPF and TPFIM to deliver consistent messages over a number of years. Examples of policy messages first advocated by the TPF and subsequently endorsed by the whole government include the need to prioritise sectors of comparative advantage, to give more prominence to trade in services, to adopt more comprehensive approaches to technical barriers to trade, to increase support to trade-oriented Technical and Vocational Education and Training (TVET), and to pursue innovative Aid-for-Trade projects such as waterfront regeneration.

The track-record with implementation the TPF's recommendations can also provide evidence of the MTTCNVB's achievements. At the time of the first TPFIM status report (July 2013), implementation was on-track for 28% of the TPF's recommendations, partly on-track for 41% of the recommendations, and off-track for 31% of the recommendations. The subsequent five years saw most off-track recommendations becoming partly on-track, and a similar number of partly on-track recommendations moving to the on-track status. As a result, in the last TPFIM status report (September 2018), the percentage of on-track, partly on-track and off-track recommendations was 49%, 40%, and 9% respectively.³²⁵ Despite the good achievements, there are some lessons which can be learnt from the

targets which remained off-track after seven years of TPF implementation; these are summarised in Annex 1, together with proposed or adopted measures to achieve these targets.

Policy mainstreaming can also be assessed by comparing the former and the current national development policy. The Priority Action Agenda Update (PAA Update) approved in 2012 included 7 Strategic Priorities and 32 Priority Objectives. The National Sustainable Development Plan (NSDP) approved in 2016 includes 15 Goals and 98 Priority Objectives. In the PAA Update, the word 'trade' was mentioned in zero Strategic Priorities (0%) and one Priority Objective (3.1%).^{cviii} In the NSDP the same word is mentioned in one Goal (6.7%)^{ciix} and three Priority Objectives (3.1%).^{cx} This indicates policy mainstreaming took place, at least at the highest strategic level.

10.1.2.2 Institutional level

The NTDC in its current form was first convened in May 2012 for the purpose of validating the TPF. It has since met three times a year, with the TDD serving as its secretariat. It is chaired by the Minister responsible for trade, with the Director General of the MTTCNVB as vice-chairman.

At each NTDC meeting members are updated on TPF implementation, presented with the latest trade statistics, and introduced to trade-related issues requiring their decisions. Upon discretion of its secretariat, the NTDC recommendations can be submitted to the attention of the CoM.

The consistency and professionalism of NTDC meetings have won the committee unanimous support from the government, the private sector, and donor partners. During the past seven years the committee has played an important role in informing some key development cooperation decisions, including the choice of value chains to be supported by the National Indicative Program (NIP) of the 11th European Development Fund (EDF 11), the decision by New Zealand to support waterfront regeneration in Port Vila, and the prioritisation of project proposals under the Enhanced Integrated Framework (EIF). Some policy decisions have also been informed by the committee's recommendations, for example those in support of the local poultry industry. Open discussion on contentious issues such as the Vanuatu Commodities Marketing Board (VCMB) have been instrumental in promoting transparency and fostering accountability. Despite some shortcomings, the Vanuatu's NTDC epitomises the best regional practice of trade governance in the Pacific region.

The Vanuatu's NTDC would not have performed as it did without the TDD, a dedicated team of professionals sitting under the Office of MTTCNVB's DG and tasked to serve as NTDC secretariat, monitor and coordinate implementation of the TPF, and secure and manage the MTTCNVB's projects for the purpose of TPF implementation. Together with the NTDC, the TDD represents the second institutional leg of the trade mainstreaming program. Established in 2011 as an offspring of a former project management unit, the TDD quickly developed into high-performing body servicing the strategic needs of the MTTCNVB's leadership and of its departments. Initial support from Australia and the EIF was crucially contributed to the division's early achievements, including CoM approval of the TPF and the TPFIM, standardisation of NTDC meetings, and the successful management of some Aid-for-Trade projects. These achievements were important to build confidence in the division, secure additional resources to boost its capacity, and expand its project management responsibilities.

In terms of human resources, the division expanded from a three-staff structure in 2011, with two vacant positions plus the contribution of one long-term external contractor, to a six-staff structure in 2019, with one vacant position plus the contribution of eight long-term external contractors.^{cxii} At the

^{cviii} Priority Objective 1: Enhance Performance of Trade and Industry

^{ciix} Goal ECO 1: A stable and prosperous economy, encouraging trade, investment and providing economic opportunities for all members of society throughout Vanuatu

^{cx} Priority Objectives ECO 1.4 (Increase trade and investment opportunities and reduce barriers, including through the use of Aid-for-Trade), ECO 1.6 (Require all new trade agreements to demonstrate tangible benefits in the national interest), and ECO 4.2 (Strengthen linkages between urban and rural business and promote trade between islands)

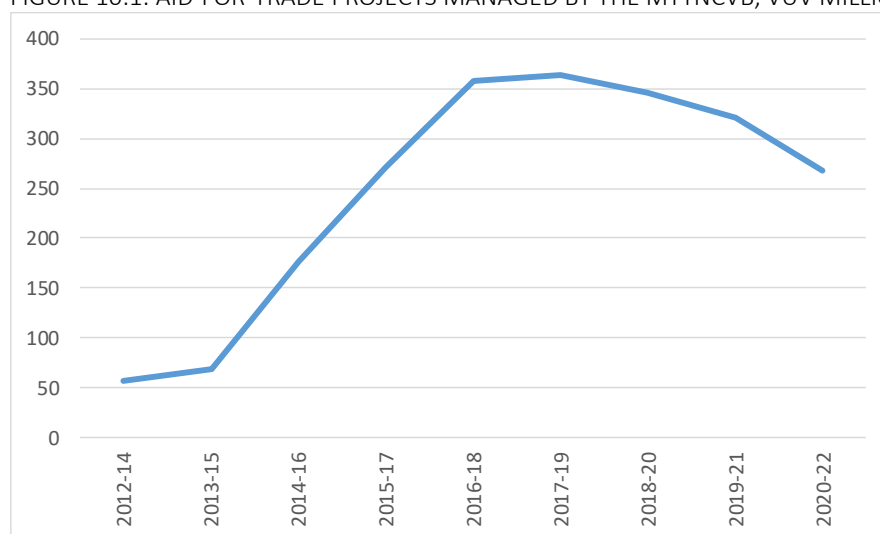
^{cxii} Four contractors under the EIF programme, two under the EDF 11 program, one Overseas Development Institute (ODI) Fellow, and one Trade Adviser supported by Australia

same time, the amount of national budget appropriated by the TDD increased by four times during the past six years, from VUV 3,652,281 in 2013^{cxii} to VUV 15,937,910 in 2019.³²⁶

10.1.2.3 Development cooperation level

The policy and institutional changes triggered by the trade mainstreaming program resulted in increasing amounts of Aid-for-Trade committed to MTTCNVB and managed by the TDD. Annual Aid-for-Trade committed to the MTTCNVB increased from an average of about VUV 50 million during the period 2012-14 to an average about VUV 350 million for the period 2018-20 – see Figure 10.1.^{cxiii} The scope of projects managed by the MTTCNVB also expanded, from an initial focus on trade facilitation to a broader set of priorities including tourism development, value chain support, economic governance, trade-related infrastructure, and disaster recovery.

FIGURE 10.1: AID-FOR-TRADE PROJECTS MANAGED BY THE MTTCNVB, VUV MILLION, COMMITTED



Source: MTTCNVB

10.2 Challenges and Opportunities

As illustrated in the previous section, Vanuatu’s trade mainstreaming program is undoubtedly a strong success story. However, the program still presents a number of weaknesses which should be addressed during the TPFU implementation period.

10.2.1 Policy level

A review to the main policies adopted by the ministries with trade-related mandates^{cxiv} reveals that whilst trade concepts are at least partly incorporated in most documents, many of the same documents fail to explicitly mention the TPF - see Table 10.1. The need to further mainstream trade policy concepts emerges with regard to some agriculture sub-sectors (livestock and fisheries), the education and training sector, the infrastructure sector policies, and the energy and climate change sector.

The TPFU chapters on agriculture, agro-processing, skills, and sustainable development will be useful to support the MTTCNVB’s efforts to further mainstream trade policy concepts in target sectors and should make it easier for the TPFU to be explicitly referenced in other sectoral policies.

^{cxii} No budget was explicitly allocated to the division before 2013

^{cxiii} Value of projects managed by the TDD, with the value of each project divided by the length of its implementation period. Whilst some projects are also managed by MTTCNVB’s departments their amount is negligible due to the centralisation policy adopted by the MTTCNVB with respect to project management. The estimated decline after 2018-20 may well be reversed if some of the projects being discussed are eventually secured

^{cxiv} For the purpose of this section the following ministries are considered: MTTCNVB, Ministry of Agriculture, Livestock, Forestry, Fisheries, and Biosecurity (MALFFB), Prime Minister Office (PMO), Ministry of Education and Training (MoET), and Ministry of Climate Change and Energy (MCCE)

TABLE 10.1: TRADE POLICY MAINSTREAMING, RAPID ASSESSMENT

Ministry	Policy (timeframe)	TPF mentioned	Trade mainstreamed	
			Y/N	Notes
MTTCNVB	Vanuatu Industrial Development Strategy (2018-22)	Yes	Yes	Draws upon the concept of comparative advantage to justify its recommendations
MTTCNVB	Vanuatu Strategic Tourism Action Plan (2014-18)	Yes	Yes	Fully acknowledges TPF role and builds upon its recommendations
MTTCNVB	Sustainable Tourism Policy (2019-30)	Yes	Yes	However, it criticises the narrow economic focus of the TPF
MTTCNVB	Vanuatu Tourism Market Development Plan (2019-30)	No	Yes	Tourism analysed akin to a product to be exported
MTTCNVB	National Co-operative Policy (2017 -22)	No	No	The focus is mainly on domestic issues
PMO	Overarching Productive Sector Policy (2012-17)	No	Yes	Adopts a trade-oriented value chain approach. Three objectives are trade-related: market access, quality, value-addition
MALFFB	Vanuatu Agriculture Sector Policy (2015-30)	Yes	Yes	Some recommendations are aligned with the TPF
MALFFB	Livestock Policy (2015-30)	No	Partly	The focus is more on domestic issues
MALFFB	Vanuatu Forest Policy (2013-23)	No	Yes	Importance of external markets acknowledged and strategies to access profitable external markets highlighted
MALFFB	Vanuatu National Fruits & Vegetables Strategy (2017-27)	No	Yes	Trade dimension visible both in term of import substitution and export promotion (mainly to Australia and New Zealand). Mentions the NTDC
MALFFB	Vanuatu Coconut Strategy (2016-25)	No	Yes	Adopts a trade-oriented value chain approach. Three objectives are trade-related - market access, quality, value-addition. Mentions the NTDC
MALFFB	Vanuatu National Fisheries Sector Policy (2016-31)	No	Partly	Very limited trade-related recommendations
MoET	Vanuatu Post-School Education and Training (PSET) Policy (2016-20)	No	Partly	Alignment of PSET to development priorities and intl. standards is recommended, but there is not explicit linked to trade
MoET	Vanuatu Interim Education and Training Sector Strategy (2017-18)	No	No	No reference to linkages with trade
MIPU	Vanuatu Infrastructure Strategic Investment Plan (2015-24)	Yes	Partly	The economic impact of infrastructure used to prioritise, but not explicitly linked to trade. TPF only mentioned for a laboratory project
MIPU	Vanuatu Transport Plan (2018-30)	No	Yes	Trade-related needs used to justify recommendations
MCCE	Updated Vanuatu Energy Roadmap (2016-30)	No	No	No reference to linkages with trade
MCCE	Vanuatu Climate Change and Disaster Risk Reduction Policy (2016-30)	No	Partly	Acknowledges the economic costs arising from natural disasters and climate-related events, but does not explicitly focus on the trade channel through which these events will affect Vanuatu

10.2.2 Institutional level

The NTDC is seen by many as a good mechanism of economic governance. However, some limitations are apparent and these should be addressed as the body enters its maturity stage. Seven years after its establishment the body still operates without a legal basis. A Trade Governance Act legally establishing the NTDC was recommended by the TPF 2012 and the TPFU reaffirms this recommendation. By giving legal status to the NTDC and its recommendations, a Trade Governance Act would avoid lack of follow-up that has sometimes affected the committee's determinations. This should also incentivise more senior representation at the committee's meetings – the seniority required could be specified in the Act. The MTTCNVB may also consider a co-chairing arrangement with the MALFFB in recognition of the important linkages between the two ministries and to incentivise a more joined-up approach. The Trade Governance Act could define a procedure for the establishment of public-private working groups as advisory bodies to the NTDC. The National Trade Facilitation Steering Committee (NTFSC) could as well be legally established under the Trade Governance Act in consideration of the fact that it already operates and reports to the NTDC. In September 2019 the CoM decided to pursue the directions recommended by the TPFU, and to rename the NTDC as National Trade and Production Committee (NTPC) – a Bill for the Trade Governance Act should soon be presented to Parliament.

Vanuatu's ability to carry out consistent trade policy is undermined by the poor coordination between its domestic and external dimensions, with the former falling under the responsibility of the MTTCNVB and the latter falling within the remit of the Ministry of Foreign Affairs, International Cooperation, and External Trade (MoFAICET). After moving the Department of External Trade (DoET) from MTTCNVB to MoFAICET, Vanuatu has not ratified any new trade agreement, despite good reasons existing to do so – see Chapter 4.

During TPF implementation period the MTTCNVB was included as board member of the Vanuatu Project Management Unit (VPMU), the body managing the country's major infrastructure projects, and of the Vanuatu Primary Producers Authority (VPPA), a new institution tasked to support Vanuatu's farmers. These are important achievements for institutional mainstreaming, however, the MTTCNVB's participation to decision-making bodies operating under trade-related ministries could further be improved. These include the Ministry of Education and Training (MoET), the Ministry of Infrastructure and Public Utilities (MIPU), the MALFFB, and the Ministry of Climate Change and Energy (MCCE). With regard to the MoET, the MTTCNVB's Director General is already member of the Vanuatu Qualifications Authority (VQA) board. Membership to the Scholarships board could also be targeted, noting the importance to align scholarship allocation to the demand of trade-related skills (see Chapter 8). With regard to the MCCE, a more active engagement with the National Advisory Board on Climate Change and Disaster Risk Reduction (NAB) is recommended, including seeking membership and regularly participating to NAB meetings, promoting discussion on trade-related topics at NAB meetings (see Chapter 9), presenting project proposals for endorsement by the NAB, and participating to the United Nations Framework Convention on Climate Change (UNFCCC) Conferences Of the Parties (COP), together with other NAB members, to support fund-raising for trade-related climate change projects. A mapping of decision-making bodies under trade-related ministries would be useful to identify further opportunities for institutional mainstreaming.

Unlike donor resources, government resources allocated to the MTTCNVB did not increase significantly. As a percentage of total government budget, the MTTCNVB's budget declined from 2.5% in 2013 to 1.6% in 2018. The increase in infrastructure expenditure during the past few years partly explains the relative decline, however, even looking at absolute figures, results are disappointing. Notably, the MTTCNVB's total budget only increased by VUV 42 million between 2013 (VUV 400 million) and 2019 (VUV 442 million), with 30% of the increase allocated to the TDD.^{cxv} The elaboration of New Policy

^{cxv} Figures for 2013 are obtained by adding the budget for the Ministry of Trade, Industry, Commerce, and Tourism (MTICT) and the Ministry of Cooperatives and Ni-Vanuatu Business (MCNVB). Figures for 2019 are obtained by adding the budget of the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCVB) and the Department of External Trade

Proposals (NPPs) at the MTTCNVB is very decentralised, it is based on the departments' ad-hoc priorities, and lacks a unifying narrative. The TPFU 2019-2025 can provide a unifying narrative to the MTTCNVB's submissions, serve to inform guidelines for the ministry's NPPs, and to exercise a better scrutiny of each proposal. The ability to secure additional budget is also undermined by the limited capacity of the MTTCNVB's departments to design and implement practical projects to operationalise their NPPs. A capacity assessment of the MTTCNVB's, including recommendations on departmental structures and tailored training options, could be a useful step to create the conditions for increased budget allocation. In addition to informing the NPP process, the TPFU's targets and strategies should logically inform the key corporate documents defining what the MTTCNVB does with its existing resources, namely, the its triennial corporate plan and its annual business plan.

10.2.3 Development cooperation level

Development cooperation has been one of the most successful pillars of the trade mainstreaming program, and the MTTCNVB's can now rely on a core group of very supportive partners, including Australia, New Zealand, the European Union, and the Enhanced Integrated Framework.

Beyond this core group, the MTTCNVB has been less successful in mobilising support, including from donors and agencies such as China, Japan, the Asian Development Bank (ADB), and the World Bank. Whilst the infrastructure focus of these partners partly explains their limited engagement with the MTTCNVB, the latter could nonetheless try to open new development cooperation channels, including through direct involvement of its technical and political leadership. Recent experience with the beautification of the Port Vila waterfront shows that the MTTCNVB can be a reliable partner for infrastructure projects. And evidence across the Asia-Pacific region show that donors focusing on infrastructure can be keen to support projects in complementary sectors.^{cxvi}

The possibility of securing projects which blend aid and private (local and foreign) finance could also be considered, as this is an area which the MTTCNVB has still to explore. The MTTCNVB could promote a roundtable on this topic with like-minded partners to initiate dialogue on possible options.

10.2.4 Recommendations

- a. Continue devoting adequate resources the TPFU's monitoring and evaluation
- b. Promote trade policy mainstreaming, including explicit reference to the TPFU 2019-2025 in relevant policies by the Ministries of Tourism, Trade, Commerce and Ni-Vanuatu Business (MTTCNVB), Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB), Education and Training (MoET), Infrastructures and Public Utilities (MIPU), Climate Change and Energy (MCCE), and the Prime Minister Office (PMO)
- c. Approve a Trade Governance Act legally establishing the NTDC, giving legal status to its recommendations, promoting stronger MALFFB-MTTCNVB cooperation, ensuring senior representation at its meetings, setting-up a procedure to establish advisory public-private working groups, and legally establishing the National Trade Facilitation Steering Committee
- d. Moving the DoET back under the umbrella of MTTCNVB and give this Department (maybe renamed as Department of Trade) responsibility for both domestic and external trade policy
- e. Map decision-making bodies under the MALFFB, MoET, MIPU, and MCCE, and seek MTTCNVB membership in relevant ones, for example the Scholarship Board under MoET
- f. Increase MTTCNVB engagement with National Advisory Board on Climate Change and Disaster Risk Reduction (NAB)
- g. Use the TPFU 2019-2025 to create a unifying narrative for the MTTCNVB's New Policy Proposals (NPPs)
- h. Use the TPFU 2019-2025's strategies and targets to inform the MTTCNVB's corporate plan and

(DoET) – the latter was under the MTTCNVB until 2014. Notably, in 2013 the MTCIT budget was VUV 303,842,470 and the MCNVB budget was 96,539,137. In 2019, the MTTCNVB was 410,581,906 and the DoET budget was 31,310,962

^{cxvi} One example is the Laos' Second Trade Development Facility, which was also supported by the World Bank with and International Development Association (IDA) grant of USD4 million

- its agencies' business plans
- i. Undertake a capacity assessment of the MTTCNVB's staff, including recommendations on departmental structures and tailored training options
- j. Formally engage World Bank, Asian Development Bank (ADB), China, and Japan to scope options for new Aid for Trade projects managed by the MTTCNVB
- k. Promote a donor roundtable on opportunities for blended projects managed by the MTTCNVB

10.3 Aid-for-Trade

Official Development Assistance (ODA) disbursed to Vanuatu, as reported by the Organization for Economic Cooperation and Development (OECD), increased at an average rate of 3.4% during the past decade, from USD 98 million in 2008 to USD 132 million in 2017 – see Table 10.2. This is in line the global growth of 3.7% observed during the same period.³²⁷

According to OECD statistics, Australia is by far the major donor, with an average share of about 46%. Donors with a share above 5% include New Zealand (17%), Japan (13%) and the United States (9.1%). Unlike the first three donors, engagement by the United States and was on an ad-hoc basis, and the country quickly disengaged after completion of a major road project in 2010. OECD statistics do not include data from China, which however are reported by the Lowy institute.³²⁸ Looking at Lowy Institute data (Table 10.5) China emerges as one of the top donors, with an average share of 17% during the last decade, and with a steep increase in disbursements since 2015 which brought the country to become Vanuatu's biggest donor partner in 2017.

Aid-for-Trade (AfT) is a sub-set of ODA, which essentially covers aid codified under one of the following categories: (1) technical assistance for trade policy and regulations; (2) trade-related infrastructure; and (3) productive capacity building.³²⁹ Based on OECD data (Table 10.3), about 33% of ODA was spent for AfT projects during the past 10 years. This compares well with the global average of about 25% and comes as a result of major infrastructure projects which took place in 2008-2009 (ring road in Efate and Espiritu Santo) and after cyclone PAM (reconstruction, roads, wharves). Integrating OECD data with information about China would not change this conclusion, as also for China AfT represented 33% of total ODA during the period 2008-2017.^{cxvii}

Like for most recipient countries, the majority of Aid-for-Trade disbursed to Vanuatu supported trade-related infrastructure - transport and storage, communication, and energy (Table 10.4). In particular, transport projects absorbed on average 70% of Aid-for-Trade disbursements, followed by energy projects, mostly renewable energy, whose average share was around 7%. As to productive capacity building, support was significant for agriculture and tourism: Aid-for-Trade disbursed to the two sectors increased at a higher-than-average rate, and the two sectors jointly absorbed around 12% of Aid-for-Trade during the past decade.

In conclusion, it appears that Aid-for-Trade disbursed to Vanuatu was very much aligned to the country needs. Support to strategic infrastructure reflects the need to unleash overall development and increase the long-term rate of growth (see Chapter 2 and Chapter 6); support to the energy sector responds to the need of ensuring that the transition to renewables doesn't undermine the country's competitiveness (see Chapter 9); and the increasing support to agriculture and tourism is well-justified by the need to promote rural development by investing in sectors of comparative advantage (see Chapter 2).

^{cxvii} E-government project in 2008 and road reconstruction in 2015-2017, jointly worth USD 72 million, according to the Lowy institute

TABLE 10.2: TOTAL ODA DISBURSEMENTS TO VANUATU BY DONOR, MILLION USD AT 2017 PRICES

Donor	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Av. Growth	Av. Share
Australia	29.0	45.5	51.4	48.1	52.8	43.0	48.8	96.1	43.0	50.5	6.4	45.9
New Zealand	12.8	20.7	14.5	13.6	14.9	14.0	22.8	28.8	28.8	16.4	2.8	16.9
Japan	12.7	10.8	12.4	5.4	7.5	12.2	9.3	19.8	26.9	30.0	10.1	13.3
United States	29.6	25.9	21.5	3.3	2.4	2.8	3.2	5.1	3.5	3.7	-20.8	9.1
EU Institutions	3.5	2.4	1.9	1.6	4.0	3.6	0.3	10.2	12.3	0.6	-18.3	3.6
France	9.2	5.3	3.2	1.8	2.6	3.1	3.2	1.1	2.3	2.2	-14.8	3.1
World Bank Group	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	0.9	3.5	17.7	n.a.	1.7
Asian Development Bank	..	..	..	..	-1.7	-1.5	-0.9	2.1	3.5	7.8	..	0.8
United Kingdom	0.1	0.1	0.1	0.1	0.0	0.1	0.0	3.3	1.3	0.1	0.0	0.5
United Arab Emirates	..	..	..	..	..	..	0.8	2.6	0.4	0.4	..	0.4
Others	1.1	1.1	0.7	3.1	1.9	2.5	3.4	27.0	7.6	3.0	12.2	4.7
TOTAL	97.6	111.3	105.1	76.5	83.8	79.3	90.4	197.0	133.1	132.2	3.4	100.0

Source: OECD

TABLE 10.3: AID-FOR-TRADE DISBURSEMENTS TO VANUATU BY DONOR, MILLION USD AT 2017 PRICES

Donor	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Av. Share
Japan	9.7	8.4	8.7	2.3	1.5	2.3	2.7	14.7	24.5	27.2	28.2
Australia	1.5	11.6	3.8	7.9	11.4	5.8	10.7	9.5	5.8	11.5	22.0
United States	27.4	20.9	19.4	0.7	0.0	..	..	..	..	..	18.9
New Zealand	2.1	9.7	3.1	1.4	2.3	2.8	10.2	7.6	16.0	7.1	17.2
Asian Development Bank	..	..	..	..	..	0.0	0.5	2.4	4.5	9.0	4.6
World Bank Group	..	..	..	..	..	..	..	0.4	1.9	9.1	3.1
France	6.0	0.3	0.2	0.6	0.6	0.6	0.5	0.4	0.2	0.1	2.6
EU Institutions	0.4	0.3	0.4	0.5	0.7	1.4	0.2	1.7	0.1	0.0	1.6
United Arab Emirates	..	..	..	..	..	..	0.8	2.3	0.0	0.4	1.0
Others	0.0	0.1	0.0	0.9	0.0	0.3	0.1	0.2	0.4	0.8	0.8
TOTAL	47.2	51.2	35.5	14.1	16.6	13.2	25.7	39.2	53.4	65.3	100.0
Share of ODA (%)	48.3	46.0	33.8	18.5	19.8	16.6	28.4	19.9	40.1	49.4	32.7

Source: OECD

TABLE 10.4: AID-FOR-TRADE DISBURSEMENTS TO VANUATU BY PURPOSE, MILLION USD AT 2017 PRICES

Sector	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Av. Growth	Av. Share
Transport and Storage	34.3	40.8	32.3	8.7	7.5	3.3	16.0	25.2	38.6	48.9	4.0	70.7
Communications	1.5	7.0	0.7	0.2	0.5	0.3	0.1	0.2	0.2	0.3	-16.2	3.0
Energy	7.5	1.1	0.0	..	1.7	0.9	3.7	4.9	1.6	5.1	-4.2	7.3
Banking and Financial Services	..	0.1	0.2	0.2	1.3	0.5	0.1	0.3	0.1	0.0	..	0.8
Business and Other Services	0.3	0.8	0.1	1.2	0.1	0.7	0.8	0.7	0.4	0.1	-14.6	1.5
Agriculture	1.8	0.4	1.0	2.2	2.4	3.9	1.5	1.6	2.2	7.1	16.4	6.7
Forestry	0.1	0.3	0.3	1.0	..	..	0.4	0.2	0.1	0.2	5.5	0.7
Fishing	0.8	0.3	0.3	0.1	1.1	1.5	0.7	0.8	0.1	1.0	1.4	1.9
Industry	0.1	0.0	0.1	0.0	..	..	0.0	0.1	0.0	0.3	11.4	0.2
Mineral Resources and Mining	0.1	..	..	..	..	..	..	..	..	..	..	0.0
Trade Policies and Regulation	0.0	0.1	0.0	0.5	1.7	1.7	0.9	0.9	0.4	0.4	31.1	1.8
Tourism	0.4	0.4	0.4	0.2	0.4	0.4	1.3	4.4	9.7	1.9	17.8	5.4
TOTAL	47.2	51.2	35.5	14.1	16.6	13.2	25.7	39.2	53.4	65.3	3.7	100.0

Source: OECD

TABLE 10.5: TOTAL ODA DISBURSEMENTS TO VANUATU INCLUDING CHINA, MILLION USD AT 2017 PRICES*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total ODA, China	28.8	0.0	0.0	0.0	3.0	3.7	3.7	66.0	45.6	68.7
Total ODA, official donors reported by the OECD**	97.6	111.3	105.1	76.5	83.8	79.3	90.4	197.0	133.1	132.2
Total ODA, official donors reported by the OECD + China	126.4	111.3	105.1	76.5	86.7	83.0	94.1	262.9	178.7	200.9
ODA share, Australia	22.9	40.9	48.9	62.9	60.8	51.8	51.9	36.5	24.1	25.2
ODA share, China	22.8	0.0	0.0	0.0	3.4	4.5	3.9	25.1	25.5	34.2

* Current prices for China

** Includes Development Assistance Committee (DAC) countries, non-DAC countries, multilateral agencies, and private donors

Source: OECD and elaborations on Lowy Institute

10.3.1 Recommendations

- a. Regularly monitor Aid-for-Trade to ensure it is aligned with the country needs

CHAPTER 11: GOODS

11.1 Introduction

The absence of a sectoral chapter on goods in the Trade Policy Framework (TPF) 2012 hindered the ability of the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB) to monitor and coordinate Vanuatu's trade policy. Acknowledging this gap, the Trade Policy Framework Update (TPFU) 2019 introduces a sectoral dimension. The goods addressed in this chapter have been selected based on their export performance (current or perspective) and possibilities to establish economic linkages with the tourism industry. They are coconut, cattle, fruits and vegetables, kava, timber, cocoa, and fish.

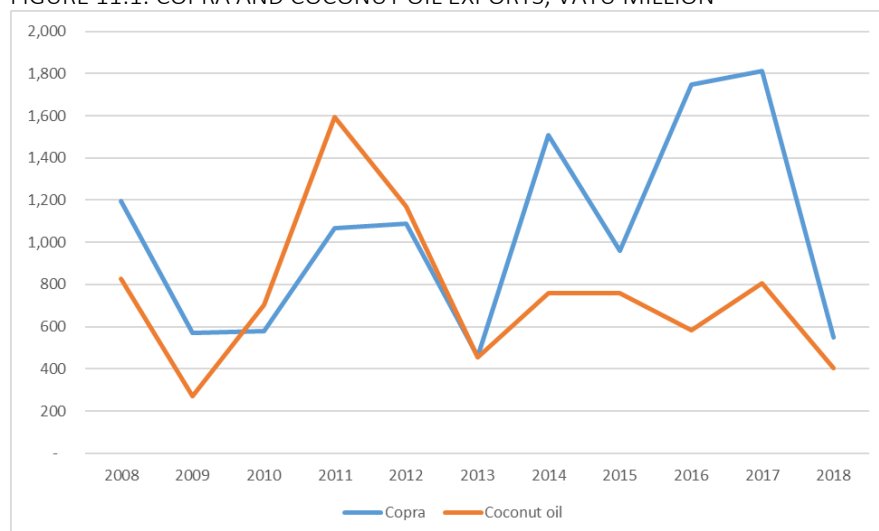
11.2 Coconut

Coconut products have been the mainstay of Vanuatu's economy for well over a century and will continue to be a significant source of export earnings in the near future. In 2016 Vanuatu ranked among the 26 major coconut product (copra, crude coconut oil, coconut meal, and other value-added products) exporters.³³⁰ Over the period 2008 to 2018, the average share of coconut products of merchandise exports has been about 38%.

11.2.1 Export performance

Copra and Crude Coconut Oil (CNO) make up the bulk of the sector's exports. According to data from the Department of Customs and Inland Revenue (DCIR), in 2018 copra accounted for 11% of total exports for a value of VUV 550 million, while CNO accounted for 8% for a total value of VUV 403 million. Over the last decade, export of CNO had its peak in 2011 and since then has been declining, while copra exports increased until 2017, and experienced a 70% drop in 2018 - see Figure 11.1.

FIGURE 11.1: COPRA AND COCONUT OIL EXPORTS, VATU MILLION



Source: DCIR

Vanuatu's other coconut-based export product of significance is copra meal, an animal feed whose exports averaged VUV 71 million over the past ten years, with a peak in 2015. Export of other coconut-based products (food preparations, essential oils, cosmetics, soaps, etc.) is still very limited.

DCIR data reveal that on average Vanuatu exported 80% of its copra to the Philippines, 6% to Hong Kong, and 5% to Australia over the period 2008 to 2018. Copra processing capacity is underutilised: the copra mill in Espiritu Santo has not been functioning to its full capacity.³³¹ As for CNO, 37% of Vanuatu's exports went to Australia and 36% to Malaysia over the period 2008 to 2018. Both countries became major export destinations after 2009, when the Bank Line, a shipping company providing direct links

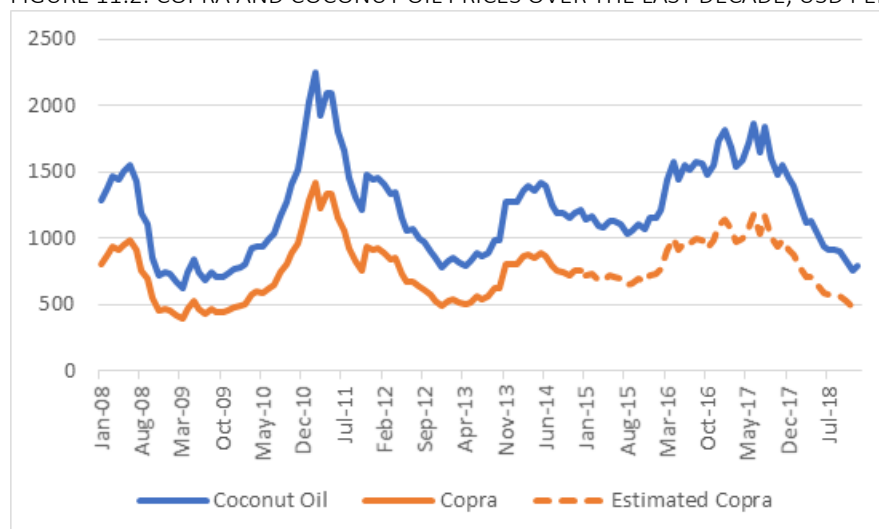
between Vanuatu and Europe ceased operations – see Chapter 3.

11.2.2 World market conditions

In 2016, coconut oil represented about 2.5% of the global edible oil production,³³² to which Vanuatu contributed with a relatively significant volume of copra and some CNO.

The world market for edible oil and oleochemicals^{cxviii} underpins Vanuatu’s coconut industry. International prices for edible oil are characterised by two main factors, namely replaceability between coconut and other vegetable oils, and fluctuation caused by weather conditions affecting production.³³³ Prices for copra and CNO are highly volatile and, over the period, peaked in early 2011, declined sharply afterwards, recovered from 2013 to 2017, and returned to very low levels in 2018 – see Figure 11.2.

FIGURE 11.2: COPRA AND COCONUT OIL PRICES OVER THE LAST DECADE, USD PER METRIC TONNE



Source: The World Bank Commodity Markets data^{cxix}

When international prices for CNO are low, Vanuatu partly employs its CNO to generate electricity.^{cxx} Exploiting CNO’s competitiveness over diesel, Vanuatu can therefore work towards achieving its Updated National Energy Road Map 2016-2030’s targets (see Chapter 5), import substitution, and counteracting adverse price volatility.

According to the Food and Agriculture Organization (FAO), Indonesia, Philippines, and India dominate global coconut production, with their respective shares being 31%, 23% and 19% in 2017.³³⁴ The biggest Pacific producer is Papua New Guinea (PNG), with a share of 2% in 2017. Vanuatu’s share in the same year was 0.6%.

Melanesian countries are world leaders of copra exports, signifying minimal value addition. PNG had a world export share of 35% in 2017, followed by Solomon Islands (13%) and Vanuatu (12%). Only Indonesia has a two-digit share (20%) outside of the Melanesian countries. Copra is mainly exported to the Philippines (64% of world imports) and Bangladesh (18%).³³⁵

Export of CNO is dominated by the two biggest coconut producers, i.e. Indonesia (42% share in 2017) and the Philippines (20%), plus Malaysia (16%). CNO eventually finds its way into the markets of developed countries such as the United States (18%), the Netherlands (12%), and Germany (10%), as

^{cxviii} Oleochemicals are chemicals derived from biological oils or fats. They are analogous to petrochemicals which are chemicals derived from petroleum.

^{cxix} The time series from the World Bank stopped in 2014 for copra. The years to follow have been estimated using the average ratio found between coconut oil prices and copra prices in the years ranging from 2008 to 2014. This average is (roughly) equal to 63%, and it states that the copra price has been 63% of the coconut oil price for the period 2008-2014, on average.

^{cxx} CNO accounted for 1.8% of total energy sources to produce electricity in Vanuatu during the month of April 2019.

well as China (14%).³³⁶

Virgin Coconut Oil (VCO) is a niche market and a value-added product whose economic performance has boomed in recent years due to intense promotion of its health benefits to the consumers.^{cxxi} VCO uses range from cooking oil to cosmetics and health care. The Philippines are the largest exporters of virgin coconut oil (VCO) in the world.³³⁷ In addition, since different types of technologies can be employed depending on the setting and scale of the operations,³³⁸ VCO seems well suited for micro- and village-scale productions creating new opportunities for rural communities.³³⁹

Additional uses for coconut, such as oleochemicals and geo-textiles contribute to uphold global demand for this commodity.

11.2.3 Domestic supply conditions

11.2.3.1 Current producers and production capacity

As of 2019, a wide range of companies are active in Vanuatu. Teouma Coconut, a major actor in the coconut industry, is based in Port-Vila and produces refined and deodorised cooking oil. The company works with a large network of farming communities from nearby coconut-producing islands.

A second major company, Coconut Oil Production Espiritu Santo Limited (COPSL), is based in Luganville and processes 10t/year of oil for food and 6t/year of copra meal for both the local and export markets. It also produces bio fuels.^{cxix} The company employs over 150 staff and buys copra from farmers across the northern regions of Vanuatu. The company faces recurrent management and productivity challenges.^{cxiii}

Pacific Pride Ltd, a small-medium enterprise founded in Espiritu Santo in 2018, is producing and trading premium (white) copra. They provide local communities with the needed training and production tools to transition away from low quality crude (black) copra towards higher quality premium copra.

Tanna Farms produces organic CNO, i.e. made without genetic modification or use of pesticides, and is certified by BioGro, a New Zealand certifier of organic produce. It capacitated farmers in organic growing, traceability and standards, and focuses on the New Zealand and New Caledonia markets.

Another relevant company is Plantation Reunie de Vanuatu, which is planning to start a widespread replantation campaign to secure an integrated coconut supply for its processing plant.

Smile Premium Virgin Coconut Oil and Bella Trading Limited, two new VCO companies, smaller in size and capacity, were recently established on Ambrym. They employ mainly women, who benefit from training sessions on quality control and hygiene standards. Microenterprises and NGOs are also present in this market.

Companies suffer from a decline in coconut production caused by aging or senile plantations (an estimated 50% of the 11,040,000 coconut trees were thought to be senile in 2017),³⁴⁰ exposure to pests (in particular the Coconut Rhinoceros Beetle pest in the Shefa province in 2019), natural disasters, strong global competition in the sector, and the decline in the world price of CNO.

Despite these challenges, opportunities exist for Vanuatu in coconut derived products driven by food, health, cosmetic and sport sectors.³⁴¹ A case is made for moving away from bulk commodities towards high value products that are less sensitive to transactional costs (shipping, overheads, etc.) and price fluctuations. A case is also made in government policy for revitalising production – target is to plant 1 million new seed nuts from 2016 to 2025.

^{cxix} While this was true for the early 2000s, it seems that in more recent years the overall literature on the health benefits of VCO became more controversial. According to Sacks et al. (2017) lowering the intake of saturated fat (VCO) would 'lower the incidence cardiovascular disease' – therefore discouraging its consumption.

^{cxii} COPSL owns the only mill to produce CNO in the Northern provinces.

^{cxiii} These challenges led to cash flow issues that resulted in COPSL ceasing their operations for the larger part of 2018 and 2019. In 2019, COPSL operated only as copra crusher for other copra buyers.

11.2.3.2 Capital and technology

To further develop exports, there is need to mobilise investment into the coconut subsectors of greatest potential. Investment is critical but lacking. The lengthy return on coconut investments in particular is an impediment – it takes five to six years before a tree starts to bear fruit after planting.

The National Bank of Vanuatu provides micro credit lines to businesses as well as farmers in rural Vanuatu. These are short-term loans for a maximum period of 36 months. Farmers, as well as small and medium enterprises, must contribute 25% of the capital. The high interest rate for rural areas is a reflection of the high cost and risk of providing services to those areas. Currently, lending is also provided to individuals for copra trading - i.e. buying green then selling dry.

There is a need for smallholder credit, as the formal banking systems does not seem to have adequate facilities to provide this for farmers. Low uptake of loans appears to be associated with lack of collateral as custom land cannot be used – see Chapter 7. The Vanuatu National Coconut Strategy (VNCS) 2016-2025 recommends the establishment of a revolving fund, which would need to cover all aspects of the value chain.^{cxxiv}

In 2019, as part of the 11th European Development Fund (EDF 11) Vanuatu Value Chain (VaVaC) Programme, the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB) launched the Trade Ready Programme (TRP), which will offer, among other things, grants and training to entrepreneurs to start or expand their business ventures in one of the three value chains: coconut, fruit and vegetable, and beef.

The research and development potential within Vanuatu are limited. The Vanuatu Agricultural Research and Technical Centre (VARTC) has an established history in coconut breeding to support the sector. The development of the Vanuatu Tall Elite tree and varieties of hybrid dwarfs have provided a significant contribution. VARTC also carries out research on pest control and husbandry to ensure optimal yields. In Vanuatu, market (access) information is limited and technological innovation not easily accessible or tailored to small farmers.

11.2.3.3 Quality of products and services

Vanuatu's larger coconut products, copra, CNO, and VCO are of lower quality compared to those of their competitors and struggle to meet international standards.

Almost all copra production in Vanuatu is crude (or black) copra, which produces a CNO with a Free Fatty Acid (FFA)^{cxxv} level of minimum 3%, making it a lower quality product vis-à-vis the CNO resulting from premium (or white) copra, which has a FFA below 0.5%. Rancid oil requires refining, bleaching and deodorising to create a commercially acceptable product, making crude copra a worse alternative for leading oil companies due to the high costs of refining oil. In addition, poorly maintained driers and lack of storage docks result in poor quality copra, which impacts on any localised downstream processing of copra into oil.

Premium copra does not require refining and is produced using dried kernel only, allowing producers to utilise the other parts^{cxxvi} of the coconut such as the water, the shell and the husk, which can be further processed and traded as by-products. Premium copra pays a higher price than crude copra (between 40% and 50% higher), making it a more profitable commodity.

Presently Pacific Pride Ltd alone is producing and trading premium copra. Capacity building and trainings are needed at the community level and tailored support is required to willing entrepreneurs

^{cxxiv} POPACA, a project funded under the 9th European Development Fund, provided credit through a revolving fund for improving copra driers and building and storage docks. The funds were provided to cooperatives that in turn took over responsibility for the provision of loans to individuals and the repayment.

^{cxxv} A measure of rancidity of oil.

^{cxxvi} The coconut parts are, on average, split as follows water (25%), shell (12%), husk (35%), and kernel (28%).

who aim to transition towards this product.

Despite its high potential, only a few communities produce VCO supplying just a small number of exporters. The quality of the VCO produced by small-scale producers is low and irregular due to low hygiene standards and lack of technology and capacity.

There are no established product or process-specific standards for coconut and its products. Vanuatu Bureau of Standards (VBS) is developing a national standard for VCO. In addition, VBS and Biosecurity's institutional capacities to address certain requirements related to coconut, especially on food safety and traceability, are still inadequate.

The VNCS 2016-2025 highlights that unexploited market access potential, weak producers-exporters linkages, supply imbalances and quality issues all affect the Vanuatu's coconut industry. Additional studies in the area, focusing on trade, are required to assist the implementation of the strategy.

11.2.3.4 Labour force availability, skills, and skill gaps

The agriculture sector finds it difficult to recruit Ni-Vanuatu with the required skills – see Chapter 8. VNCS 2016-2025 identifies plantation management, pest and disease control, pasture and undergrowth control, financial literacy, and value addition as priority areas where additional training is needed. Coconut processing companies point to the difficulties in sourcing qualified supervisors and middle management from the domestic labour market.

11.2.3.5 Availability and conditions of support industries

The coconut industry in Vanuatu is fragmented with no leadership or coordination in the value chain. It is characterised by recurrent shortage of raw material supplies, low productivity and high transaction costs. Economies of scale could be achieved by encouraging alliances between farmers, value addition companies and traders through branding, marketing and distribution cost sharing.

Lack of adequate rural infrastructure and infrastructure services, such as rural roads and inter-island shipping, hamper the development of the coconut sector by preventing all-weather access to coconut producing islands, and making it difficult to get nuts to driers and to reach the most isolated areas. In addition, stevedoring charges in Vanuatu are among the highest in the Pacific region (Chapter 6), significantly increasing shipping costs for copra and CNO.

Electrification outside of urban areas is very limited and processing is therefore confined to Luganville and to areas where it is possible to operate diesel generators or produce steam power.

Poor information and communications technology coverage makes it difficult to relay and receive information on markets and shipping schedules. These factors make it problematic to improve or change the existing copra production model in remote areas.

The Vanuatu Cooperative Business Network (VCBN), whose scope is yet to be institutionalised and defined, is performing well in this context, as it provides the missing link between producers and manufacturers which ease their logistics burdens.

On a positive note, emphasis on the development of rural transport infrastructure is increasing, at both policy and project level – see Chapter 6. The same can be said of rural electrification (Chapters 5 and 9), and the development of backbone telecommunication services in rural areas – see Chapter 5. In 2019, a Coconut Industry Working Group (CIWG) was established under the EDF 11 VaVaC Programme to improve coordination within the coconut industry.

11.2.3.6 Potential new products or services

The coconut industry needs to implement a selective trade approach focusing on achieving premium quality status, for example organic or fair trade,^{cxvii} for existing export products. In addition, the

^{cxvii} In addition to the organic certification, Fair Trade, is one that could have positive impact on profitability, particularly in European markets niches, where consumers sensitivity is higher towards best production practices (respect of social and

coconut industry needs to promote product diversification through new non-oil products such as coconut water, coconut milk, coconut sugar, desiccated coconut and other non-food products (coconut shell charcoal, activated carbon, coir etc.).^{cxxviii}

Coconut water is a well-established niche product counting a worldwide market of USD 6 billion in 2017, which is expected to grow at a 14.4% compound annual growth rate for the next five years.³⁴² The level of investment required for coconut water is generally higher than for VCO due to the technology and knowledge required for maintaining both the taste of the water and the nutritional benefits.

Desiccated coconut and coconut milk are not novel products and their markets have been stable in the past years. The global coconut milk market is segmented into conventional coconut milk market and an organic coconut milk market, with Asia and North America being the main market areas.

Demand for organic coconut sugar is increasing due to awareness on health as it has a lower glycaemic index as compared to cane sugar and honey.³⁴³

Non-food coconut products derive from either the husk or the coconut shell. Items and utensils are the basis of the many products that can be made from the fibres of the husk, making it a renewable raw material alternative to peat and plastic.³⁴⁴ Coconut shells, for example, can be used to produce charcoal and even activated carbon, which can have many applications – from environment applications to fuel storage – thanks to its physical properties.³⁴⁵ Some of these products do not require high levels of investment or skills, making them a viable alternative for Vanuatu in the short term.

11.2.4 Domestic policy and regulatory environment

Vanuatu's National Sustainable Development Plan (NSDP) emphasises the importance to achieve economic development by creating jobs in both urban and rural areas. In this context, the NSDP's monitoring and evaluation framework includes targets to increase production of copra (indicator ECO 1.7.1) and value addition to coconut (indicator ECO 4.3.2).³⁴⁶

The Overarching Productive Sector Policy (OPSP), currently under review, provides the guiding framework for the productive sectors, and aims to achieve the joint outcomes of increasing production and productivity, enhancing quality and safety, enhancing market access, adding value to Vanuatu's products, and strengthening resilience. On coconuts, the OPSP emphasised value addition by recommending (strategy 4.5) to “promote expansion of domestic coconut oil production and facilitate village-level value adding of coconut product”.³⁴⁷

The Vanuatu Agriculture Sector Policy (VASP) 2015-2030³⁴⁸ and VNCS recognise the need to increase production and support the existing supply chain for copra and CNO, which in the short to medium-term at least remains the most important source of income for smallholders.

Copra remains a prescribed commodity under the Vanuatu Commodities Marketing Board (VCMB) Act – whose repeal was approved by Parliament but never gazetted. As such, an export levy of 800 vatu a tonne is still collected by the VCMB on copra export, which acts to compress farmers' margins of an already unprofitable sector.^{cxxix}

To counter the declining trend in copra prices observed in the last few years, in late 2018 the government introduced a VUV 150 million^{cxxx} copra subsidy scheme. According to the Government

environmental international rules, as well as implemented sustainable production methods). “FLOCert” (Website: <https://www.flocert.net>), “ECOCERT” (Website: <https://cosmetics.ecocert.com>) and “Fair for life” (Website: <https://www.fairforlife.org>) are the leading organisations for Fair Trade certification. A detailed cost-benefit analysis should be undertaken to assess the actual potential of fair trade, noting the high costs of obtaining certification.

^{cxxviii} Also, VNCS promotes value adding through technical support for farmers wanting to engage with emerging markets for high-end products such as tender coconut water and coir.

^{cxxix} According to the VNCS, 1 hectare of coconut plantation returns USD 144 a year to farmers.

^{cxxx} The full amount decided under the Council of Ministers on its 30th Ordinary meeting on Thursday 6th December 2018 (Decision 203/2018: Copra Subsidy) was of VUV 187 million, split in VUV 150 million for the copra subsidy scheme, and VUV 37 million for the Department of Industry to use for projects supporting value addition in the coconut sector. Note that the

(2018), the “subsidy is designed as a short-term stabiliser, both whilst prices are very low, and whilst the Government pursues its long-term goal of increasing value addition of coconut products within Vanuatu”.³⁴⁹ In the medium or long term, however, the copra subsidy scheme may act as a disincentive to pursue quality in the sector.

Responsibility for promoting agriculture production and trade is spread across Ministries, so coordination becomes a priority especially between: the Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB), leading on matters of production, Sanitary and Phytosanitary (SPS) measures, agricultural education, and research; MTTCNVB, leading on matters of value addition, cooperatives, quality standards, metrology, and aspects of support to conformity assessment; the Ministry of Foreign Affairs, International Cooperation, and External Trade (MoFAICET), leading on trade agreements; and the Ministry of Lands and Natural Resources (MLNR), leading on matters of land development and the environment.

11.2.5 SWOT analysis coconut

Strength	Weakness
<ul style="list-style-type: none"> • Good genetic material locally available • Favourable climate • Developing market network • Low maintenance plantation management • Low labour force costs • Fits in well with existing farming systems 	<ul style="list-style-type: none"> • Limited value-added production and reliance on raw commodities exports • Limited product diversification • Aging trees, declining supply • Poor tree management causing pests and disease • Lack of incentives to replant for future supply • Lack of incentives for vertical diversification • Lack of vertical integration and coordination in the value chain • Inadequate infrastructure for manufacture and transport • Lack of financing for smallholders
Opportunities	Threats
<ul style="list-style-type: none"> • Emerging demand from tourists and international markets for coconut products, which are less/not influenced by world prices • Rich possibilities for value addition • Price premium attached to higher quality standards (e.g. organic) and value-added products • Potential demand for flooring and timber uses from senile coconut trees • Increased global awareness of coconut products health benefits 	<ul style="list-style-type: none"> • Change in government policy • Rising quality standards of markets and competing countries • Price volatility – International global market shocks affecting commodity prices (mostly affects CNO) • Land issues • Pest invasion affecting plantations and organic standards • Impacts of climate change and natural disasters

11.2.6 Recommendations

Institution strengthening

- a. Improve leadership and coordination within the coconut industry through the Coconut Industry Working Group

Product development

copra subsidy is revolving and will stay in place until another Council of Ministers decision will end it.

- b. Continue to roll out the coconut replanting programme, including by pursuing techniques such as G3PH, and strengthen capacity to establish nurseries and supply farmers with seedlings
- c. Promote research in genetic improved varieties (flavour and yield)
- d. Pursue product diversification in new edible non-oil products (milk, water, sugar, etc.) and non-food products
- e. Undertake a study on Virgin Coconut Oil (VCO) and other coconut products to identify market access' opportunities and challenges, demand and supply imbalances, and reinforce linkages in the value chains

Disaster/pest

- f. Develop a pest control framework involving specific preparedness and response strategies, in line with relevant FAO's International Standards for Phytosanitary Measures (ISPMs)

Quality

- g. Adopt national standards for coconut production and primary processing (Good Agriculture Practices), as well as for further processing (e.g. Codex standards) which are aligned with international standards
- h. Improve handling, transport and storage conditions of primary processed coconut products – based on the recommendations of the adopted national standard
- i. Improve the quality of copra (transition from crude copra to premium copra) and Virgin Coconut Oil (training in hygiene and sanitary practices, and technical support) to meet relevant international standards
- j. Facilitate certification against relevant international standards (e.g. Global GAP, Organic, Fair Trade, etc.), when this is conducive to enhanced profitability

11.3 Cattle

Historically, Vanuatu has had a very good environment for cattle with productive pastures and a very favourable animal health status. The industry has been very well established for a number of years, and the country had the largest number of cattle in the Pacific - approaching 200,000 in 2007.³⁵⁰ Along with kava, beef is the only merchandise export for which Vanuatu has had a global brand. In recent years however, the industry has been under threat, with declining herd numbers, falling productivity, and falling quality all meaning that the industry is now at a crisis point.

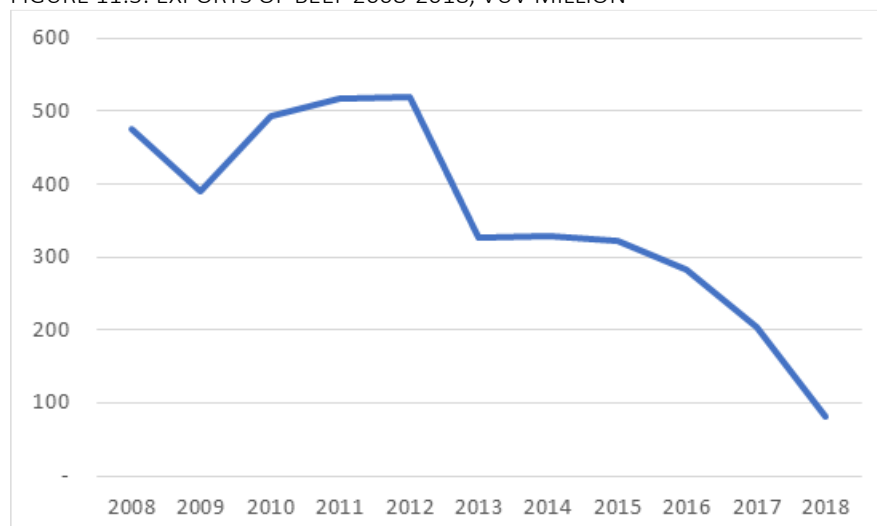
11.3.1 Export performance

As shown by Figure 11.3, beef exports have declined massively in recent years, from a peak of over VUV 500m in the early part of the decade, to just under VUV 100m in 2018. There was a large fall from 2012 to 2013, and a slow but steady fall ever since then. The majority of exports are of frozen beef, with some chilled beef exported too.

Historically the largest markets for Vanuatu beef have been Japan and Papua New Guinea (PNG), which averaged 36% and 39% of beef exports over this period. In 2018, 51% of exports went to Japan, with just 19% going to PNG. The Solomon Islands have been the third largest market – averaging 21% of exports, with sporadic exports to Australia and other destinations. The declining level of production from Vanuatu has meant that key markets in PNG and the Solomon Islands have been lost to competitors from New Zealand and Australia.

Beef exports to PNG and Solomon Islands are duty-free under the MSG agreement. For Japan, there is currently no duty applied due to a Least Developed Country (LDC) concession. However, after graduation, there will be a duty applied of 38.5%. Exports to Japan are already struggling, and the imposition of such a tariff could prove fatal for this market.

FIGURE 11.3: EXPORTS OF BEEF 2008-2018, VUV MILLION



Source: DCIR

Vanuatu beef is also in high demand from tourists, whose numbers are increasing (Chapter 12), although there is no data on consumption of beef by tourists. There is also increasing demand from the local market. This goes a small way to offsetting the decline in merchandise exports, but the overall picture of an industry in massive decline definitively remains.^{cxxxi}

11.3.2 World market conditions

Total world production of beef was 71.1 million tons in 2018, (up 2.1% on 2017) of which exports were 10.9 million tons (up 6.1% on 2017).³⁵¹ Globally there is rising demand for beef, primarily due to increased demand in China, which now is responsible for 20% of global imports. Trends in global prices for beef are slightly upward over the past decade - see Figure 11.4.

FIGURE 11.4: BEEF MONTHLY EXPORT PRICE, AUSTRALIA NEW ZEALAND, USD PER KILO



Source: Indexmundi

World beef prices relate to the US market with changes based on supply and demand, feed, weather and currency. In New Zealand and Australia, the beef price offered to producers is a result of trends in the export market. The price that Vanuatu receives for beef exports is dependent on the price offered to producers in Australia and New Zealand, which are the main competitors. International market access for uncooked beef and beef products is typically negotiated bilaterally between an importing

^{cxxxi} According to the VNSO, Gross Domestic Product at constant prices for animal production (mostly cattle beef) decreased from VUV 1.17 billion in 2008 to VUV 0.88 billion in 2017.

country and exporting country in compliances with international sanitary measures provided by the World Organisation for Animal Health (OIE) and international food safety standards provided by Codex Alimentarius Commission.

11.3.3 Domestic supply conditions

11.3.3.1 Current producers and production capacity

The 2016 Mini Census indicated that there were roughly 115,000 cattle in Vanuatu. The majority of these cattle were in Sanma and Shefa (around 40,000 each). In Shefa, however, cattle ownership was particularly low, at 11% of households, well below every other province.

TABLE 11.1: CATTLE PRODUCTION FIGURES

Province	Number of cattle	Households owning cattle	% of households owning cattle	Cattle/household average
Torba	2,076	543	28%	4
Sanma	42,213	3,707	35%	11
Penama	9,626	2,147	31%	4
Malampa	15,315	3,500	39%	4
Shefa	40,145	2,098	11%	19
Tafea	6,165	2,022	30%	3
Total	115,540	14,017	25%	8

Source: VNSO 2016 Mini Census

Vanuatu's cattle industry is made up of 'commercial' beef cattle farmers and 'non-commercial' or smallholder farmers.

Of the cattle farmers, roughly 0.2% are classified as 'large', with herds over 1,000 animals. These farmers supply 59% of the beef to the formal market for domestic consumption and for export. A further 9% are 'small-to-medium' beef cattle farmers, with herds between 50 and 1,000, who supply 24% of Vanuatu beef production.³⁵²

There are roughly 14,000 smallholder farmers.³⁵³ Estimates in 2016 indicated they made up 90.8% of all beef cattle farmers and contributed 17% to the formal beef market.³⁵⁴ Evidence from the 2018 Commercial Beef Cattle Farmers Survey indicated that 'small' commercial beef cattle farmers (breeder herd size <150) were consistently unprofitable. For these smallholders there is also a lack of an efficient marketing and pricing process for selling cattle for finishing and fattening.

All cattle for the formal market are slaughtered and processed through three abattoirs - Vanuatu Abattoirs Ltd (VAL) in Port Vila, Espiritu Santo Meat Packers and Wong Sze Sing on Espiritu Santo. VAL has traditionally provided exports to PNG and Solomon Islands and was also eligible to export to Australia. Ongoing eligibility for market access to Australia is now subject to completion of a review on beef imports by Australian authorities. Espiritu Santo Meat Packers traditionally supplied Japan, while Wong Sze Sing abattoir only supplies products for domestic consumption. The level of domestic supply has been falling rapidly, with a total of 9,876 cattle being slaughtered at abattoirs in 2018, compared to 14,806 in 2014.³⁵⁵ The commercial farmers on Efate are still doing relatively well, with slaughter in the Efate abattoir falling 'only' 20% from 2006 to 2018, compared to 63% for Espiritu Santo.³⁵⁶ Historically, Espiritu Santo and Efate had roughly similar production,³⁵⁷ but by 2018 Efate was responsible for roughly 75% of commercial slaughter.³⁵⁸

This declining trend has placed great strain on both the domestic market, with prices rapidly increasing over the past few years, and on the abattoirs, who have large overhead costs to deal with, and who therefore struggle to function at lower volumes.

Abattoirs and butchers are willing to increase the price per kg carcass if farmers can meet minimum requirements – meaning consistent supplies of no less than 280kg carcass weight and an average bone-out yield of no less than 65% of carcass weight.³⁵⁹ This is incredibly difficult for most smallholders to achieve however, and so they face lower prices. Smallholders also lack market information.

As well as the formal market, there is also a large informal market, although there are no clear statistics for this. This market is typically for ceremonies and festivals (known also as ‘custom kill’). Societal pressures to provide cattle for these events places great pressure on the smallholders, affecting their ability to grow their stock numbers. The Government is promoting the development of the small livestock sector, including pigs, sheep, and goats as an important initiative to improve food security and rural livelihoods as well as reducing demand on the custom slaughter of cattle.

Invasive weeds pose a serious and growing threat to pasture productivity and sustainability to all cattle farmers, both in the commercial farms and smallholders alike, with 34% of grazing land now being affected by weeds.³⁶⁰ The main weeds of significance in both coastal and interior pastures are Wild Peanut, Pico and Hibiscus Burr.³⁶¹ The combination of correct pasture species and appropriate grazing management is normally sufficient to prevent serious weed invasion, but in many properties overgrazing, poor management, and a lack of investment have resulted in the situation becoming unmanageable and beyond the financial resources of farmers to control.

11.3.3.2 Quality of products

For many years, Vanuatu enjoyed a favourable animal health status for beef cattle production. Significant diseases such as bovine tuberculosis and bovine brucellosis were eradicated in the mid-1990s. Cattle tick, tick fever, and foot-and-mouth disease are all absent. For most commercial operations an annual management program for internal parasites is the only animal health management measure applied, with external parasites (ticks, lice) not regarded as a problem. Amongst smallholder farmers, animal health management measures are virtually non-existent and subsequently problems due to high levels of internal parasites are encountered when situations of overstocking occur. There are, however, concerns that serious reproductive diseases, such as vibriosis (bovine venereal campylobacteriosis) and bovine virus diarrhoea (BVD), are present but unmanaged in many cattle herds, resulting in low pregnancy and hence declining calving rates. Therefore, while Vanuatu does have a favourable animal health status for production and international trade, the significance of diseases such as vibriosis and BVD remains unclear, particularly in small to medium-size herds which have no management interventions for these diseases.

As noted in Chapter 6, despite the favourable animal health status, the World Organisation for Animal Health (OIE) has identified aspects of Vanuatu’s Veterinary Services and related regulatory services that do not meet OIE standards, and that in turn would prevent access to markets such as the EU, the US, and China.

With regards to quality, the evidence³⁶² indicates that this is declining, with the average carcass weight falling from 198 Kgs in 2014 to 191 Kgs in 2018. This trend has been driven by a number of factors including weed infestation, cattle farmers not de-stocking thus leaving some cattle numbers to graze on less suitable pasture, and a lack of knowledge amongst cattle farmers (both commercial and non-commercial). The fall is also caused by an increase in the slaughter of veal, which does not indicate a decline in quality.

A report by Lincoln University also corroborates this decline in quality, with every restaurant interviewed expressing concerns about a declining quality of product, and multiple now importing beef. A concern with regards to quality is that the abattoirs are not ageing all the beef for long enough. This is because domestic demand is far outstripping supply, and so the abattoir cannot hold the product as long as necessary for ageing. Whilst there are some outlets that can purchase suitably aged beef, supply is insufficient, meaning many outlets must alternatively purchase lower quality beef.³⁶³

Vanuatu Abattoirs Ltd (VAL) is Hazard Analysis and Critical Control Points (HACCP)^{cxixii} certified, have an on-site microbiology laboratory, and processing standards conform to Australian and New Zealand food

^{cxixii} HACCP (Hazard Analysis and Critical Control Points) is a systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes. HACCP certification is a system that recognizes that a food business has developed, documented and implemented systems and procedures in accordance with HACCP.

safety standards. VAL had previously achieved certification as an organic processing plant but considers there is an insufficient premium for organic product to justify the cost of maintaining organic certification. The predominant processing sector view is that branding of product as 'rain fed, grass fed' is both pragmatic and cost-effective for marketing Vanuatu beef. Similarly, the cost of meeting EU standards is not considered to be justifiable.

11.3.3.3 Capital and technology

The cost of imported fencing wire has increased markedly in recent years as international steel prices have risen, which means fencing is often regarded as being too expensive. This can be a serious impediment to cattle putting on weight. Similarly, water supply pumps and pipes have gone up in price. Both commercial and non-commercial/smallholder farmers lack access to seeds and planting material for establishing improved pastures due to the costs associated with purchase and importing. Other constraints include a lack of improved breeding bulls and genetic material, as well as issues surrounding land ownership and its use as collateral for development loans. Increasingly large amounts of land are being sold for residential use, which poses a serious long-term threat to the viability of the industry.

Importantly, the down-sizing of funding for the government services has severely restricted the Departments of Livestock (DLV) and Biosecurity's capacity to provide support through extension services, both to smallholder cattle farmers and commercial farmers. As an indication of this decline, previously the DLV used to import seeds for distribution and sale to farmers, but this activity has now stopped.

11.3.3.4 Labour force availability, skills, and skill gaps

Regarding farmers, there are serious knowledge gaps, particularly below the largest commercial farmers – and even some of the commercial farmers rely on imported labour on the farms. Knowledge of pasture development and weed management is poor, and good breeding practices are very rarely practiced. Whilst calving rates for the commercial farms are fine at roughly 65%, the smaller farmers (50-149 head) have exceptionally low calving rates of 36%.³⁶⁴ Stock development is also lacking, with many farmers simply tethering cattle to trees, which will severely limit their development. Knowledge outside of the farm is lacking, with commercial farmers indicating that they need to improve their knowledge of current prices, market weights, land transport costs, the best markets to sell to, and sea transport costs.³⁶⁵ Consultations with the private sector reveal that the industry often struggles to fill the supervisor and management roles, especially to improve the business side of things. This is in line with the findings of Chapter 8.

11.3.3.5 Availability and conditions of support industries

Support industries are poor, especially for the smallholders and non-commercial farmers. Access to water, a key input for beef, is often a serious impediment, with many farmers having limited access. For farms where water is available through a formal channel such as UNELCO, it is often prohibitively expensive. The same is applicable to electricity – for example to pump water. Lack of water and electricity mean that many smallholders cannot substantially expand their operations.

Access to transport to take cattle to market is also a serious constraint in many areas, with many feeder roads being of particularly poor quality. Farmers on islands without abattoirs will also have to pay for shipping. Commercial farmers have a reduced problem with transporting their cattle to market as they have their own trucks and, in some cases, their own barge for transporting cattle inter-island. However, the poor state of roads imposes a cost for commercial and non-commercial farmers alike.

11.3.4 Domestic policy and regulatory environment

The Ministry of Agriculture, Livestock, Forestry, Fisheries and Biosecurity (MALFFB) has the official responsibility for the sector, with the Department of Livestock being the main agency responsible for providing production advice. The National Livestock Policy 2015-2030 supports the development of the smallholder cattle sector and targets an increase in the national herd as a primary objective. It identifies

six main constraints to the cattle sector: breeding, animal health, credit, land access and title, markets and transport, and pasture.³⁶⁶

The plan proposes the revitalisation of livestock extension services to provide advice and support access to improved cattle breeding stock, facilitate access to improved pasture materials by establishing nurseries, and promote meat hygiene through support to the rural butcheries in their meat processing for rural consumers. However, lack of funding through the government budgets over recent years has reduced the ability to fully implement the policy. The national livestock development plan has an ambitious vision of reaching a national herd of 500,000 within the decade. In this context, the Government placed a moratorium on the slaughter of female cattle in 2017.³⁶⁷ This has placed greater strain on the formal market as supply has dropped, but it should yield long-term benefits for the industry by boosting production.

The government has recently begun stage 2 of the Beef Cattle Re-stocking Programme. The evaluation for stage 1 was negative, with poor skills of recipients, lack of infrastructure, and poor transportation being major issues.³⁶⁸ The fact that many recipients were not suited to receive cattle meant that the programme was in fact taking cattle from high productive farms to low productive farms. In part, this was because the first stage more focused on food security, rather than economic development. For stage 2, this has changed, and the Department is ensuring that the recipients have the required skills and equipment – such as fencing.

The Department of Biosecurity is the Competent Authority for veterinary services, responsible for ensuring meat hygiene and processing standards are maintained to meet importing country requirements, and for providing export health certification that beef is fit for human consumption. It also confirms Vanuatu’s animal health status as free from specific diseases of biosecurity concern to importing countries (e.g. foot-and-mouth disease) in accordance with international standards provided by the OIE. Biosecurity is responsible for providing six-monthly and annual disease reporting on Vanuatu’s animal health status to the OIE. In the event of a significant change in Vanuatu’s animal health status (e.g. due to disease outbreak), Biosecurity is the government agency responsible for providing the OIE with an early notification, and then details of the disease outbreak and government interventions. Biosecurity is also responsible for ensuring that Vanuatu beef meets international food safety standards established under the Codex Alimentarius Commission. This includes requirements for chemical residue monitoring and product traceability (see Chapter 6).

11.3.5 SWOT analysis beef

Strengths	Weaknesses
<ul style="list-style-type: none"> • Free-range naturally produced low-cost grass-fed beef • Positive image, well-established traditional industry and recognised as producer of quality beef • Well-developed commercial sector and large smallholder sector • Efficient domestic retail markets • Market access to Australia, New Zealand, Japanese and Pacific Islands markets • Significant prior investment in the sectors from donor agencies and government 	<ul style="list-style-type: none"> • Sector is fragmented with many inefficient smallholder producers • Knowledge and skill deficits amongst beef cattle farmers, both commercial and non-commercial • Lack of support from public and private sector for finance, inputs supply, breeding stock, and training/advice • Declining production volume and quality • Geographically dispersed and remote farms • High cost of farming inputs • High cost of safety and quality certification – disease free status, organic, etc. • Increasing challenges from weed infestations • High cost of farm maintenance
Opportunities	Threats
<ul style="list-style-type: none"> • Increasing global demand and price 	<ul style="list-style-type: none"> • Increased profitability from competing sectors - kava, copra, noni etc.

-
- Potential to supply beef to niche markets with special branding - Vanuatu 'rain-fed, grass-fed' organic beef
 - Growing domestic demand with increase in per capita incomes and from the tourist industry
 - Loss of LDC status leading to imposition of higher tariffs - especially to Japan
 - Negative impact of climate change – droughts, cyclones
 - Increased competition from low-cost exporters
 - Subdivision of prime grazing land for real estate and other non-agricultural uses
 - Land disputes over grazing land
 - Growing entrenchment of beef product imports with domestic restaurants, resorts and other retailers
-

11.3.6 Recommendations

- a. Increase the number of extension officers working for the Department of Livestock
- b. Increase training for pasture management
- c. Increase training for water management
- d. Promote alternatives to cattle as 'custom kill'
- e. Increase the calving rates, particularly amongst smallholders
- f. Continue implementing stage 2 of the Cattle Re-stocking Programme, with a focus on economic opportunities
- g. If necessary, and as part of a revitalisation program for the industry, provide temporary support to the abattoirs, to ensure they remain operating
- h. Maintain animal disease-free status, and seek international recognition for it
- i. Pilot for chemical residue testing and beef traceability, for access into high-value markets

11.4. Fruits and vegetables^{cxxxiii}

Fresh Fruits and Vegetables (F&V) sales accounted for VUV 99 million in 2010, representing an average of VUV 8,000 per household per month.³⁶⁹ F&V have not historically been among the Vanuatu's key exports. However, with suitable assistance, F&V and related products have positive export prospects. The same holds for sales of F&V to non-residents persons, which represents an indirect form of export.

11.4.1 Export performance

F&V exports have been low and volatile over the 2008-2018 period. Major export items include Tahitian lime, coffee, root crops, and vanilla, as well as preparations such as essential oils and noni juice. Only Tahitian lime and essential oils^{cxxxiv} maintained consistent level of exports, whereas vanilla's exports significantly declined following cyclone Pam in 2015, and root crops recorded limited exports over the period. Noni juice peaked in 2018 becoming Vanuatu's top F&V export – see Table 11.2. Tahitian lime, essential oils, and noni juice have high potential for the export market. New Zealand is the destination market for Vanuatu's Tahitian limes, having imported all of Vanuatu's produce over the period^{cxxxv} for an annual average of VUV 47 million, while China and Hong Kong were the main export destinations for noni juice in 2018, importing 89% and 9% of it respectively. Essential oils were exported to the United States (51%), China (24%) and Australia (21%) in 2018.

While F&V present many opportunities for value addition and growing export potential, Vanuatu heavily relies on importing large amounts of fresh produce from external markets. For example, in 2015

^{cxxxiii} For the purpose of this section, Fruits and Vegetables (F&V) include fresh F&V (HS chapter 7 and 8), coffee and spices (HS chapter 9), fruits and vegetable preparations (HS chapter 20). Noni juice and essential oils are also important 'fruit preparations', and are considered for the purpose of this section even though their exports are normally coded under chapters other than those for F&V.

^{cxxxiv} Based on the Harmonized System classification adopted by DCIR, essential oils comprise tamanu oil, nangai oil and canarium oil. They do not include sandalwood oil.

^{cxxxv} Vanuatu's Tahitian limes enjoy fruit flies non-host status in New Zealand, which eases market access – see New Zealand Ministry of Agriculture and Forestry (2006).

VUV 108 million of fresh vegetables and VUV 60 million of fresh fruits were imported into Vanuatu for just the tourism sector,³⁷⁰ which amounted to roughly 53% of all fresh F&V imported in that year.^{cxvii} Where products can be grown domestically, import substitution strategies should be pursued with critical focus on improving quality standards, consumer safety, and establishing distribution linkages that ensure a reliable supply for the end buyers (restaurants, hotels, resorts, retailers and wholesalers).

TABLE 11.2: EXPORT OF F&V PRODUCTS, VATU MILLION

Year	Coffee	Essential Oils	Noni Juice	Root Crops	Tahitian Limes	Vanilla	Total
2008	2	1	0	11	213	7	234
2009	3	18	8	0	151	5	184
2010	3	47	1	1	31	5	88
2011	23	14	7	1	13	5	61
2012	3	8	0	-	11	11	32
2013	6	6	13	-	19	6	50
2014	28	20	7	1	27	4	87
2015	11	10	0	2	17	0	40
2016	11	10	1	25	18	0	66
2017	17	48	2	0	10	0	76
2018	33	83	83	0	12	1	212

Source: DCIR

The rest of the section is mainly focused on fresh F&V, and address them as a whole. Some general considerations, however, also apply to other F&V categories - coffee, vanilla, essential oils, and noni juice.

11.4.2 World market conditions

Fresh F&V must comply with rigorous legislation to access foreign markets. New Zealand, Australia and New Caledonia, Vanuatu's closest developed neighbours and suitable trade partners for F&V, are no exception.

All fresh F&V are prohibited entry into New Zealand unless they meet valid Import Health Standards (IHS). The New Zealand Biosecurity Act 1993 describes IHS in Section 22.³⁷¹ An IHS specifies the requirements that must be met to mitigate risks associated with the goods, like fruit fly infestation.³⁷² Bilateral Quarantine Agreements detail offshore quarantine procedures, evaluating potential risks of infestation before a product arrives in New Zealand.³⁷³

In Australia, all imported fresh F&V are restricted under the Biosecurity Act 2015, and importers may need to obtain a permit prior to import.³⁷⁴

In New Caledonia, fresh F&V are subject to mandatory permit application, unless they are imported from certain countries or pertain to specific categories that are exempted.³⁷⁵

When fresh F&V are processed into food preparations different legislation applies, generally of a less stringent level given the lower risks to human, animal, and plant health posed by the import of processed products.

Tariff barriers are also an issue, mainly in New Caledonia. Following the Bilateral Trade Agreement signed in April 2019, specific F&V coming from Vanuatu, and designated to receive preferential treatment, can now be imported with diminished or no restrictions – see Chapter 4.

Among F&V, tropical fresh fruits are currently successful mainstream market items,^{cxviii} with production of the four main fruits growing at an average annual increase of 3.6% in the past decade.³⁷⁶ An estimated 6.6 million tonnes of tropical fruits were traded globally in 2017 making them one of the most valuable agricultural food commodities when measured on a value basis.³⁷⁷ Within tropical fresh

^{cxvii} Department of Customs and Inland Revenue, calculated as the total value of HS chapters 07 and 08.

^{cxviii} For the purpose of simplicity, tropical fresh fruit are intended here as the four major tropical fruits, excluding banana: mango, avocado, pineapple, and papaya.

fruits, organic produce is surging as an established niche market. Although organic tropical fruits command a higher premium than non-organic produce,^{cxviii} prices are also more volatile, making them both a preferred and riskier alternative for producers.³⁷⁸

11.4.3 Domestic supply conditions

11.4.3.1 Current producers and production capacity

In Vanuatu, production is dominated by semi-subsistence farmers using mostly household labour and few farm inputs to meet their food needs and produce some surplus for markets.³⁷⁹ Most small farms have mixed gardens with crops intercropped or rotated over seasons and years. There is a small number of intensive commercial growers, mostly located in the vicinity of Port Vila, who specialise in small portfolios of products such as lettuce, salad greens, herbs, tomatoes, capsicum, papaya, pineapple and Tahitian limes, and use modern techniques such as hydroponic.

In recent years, the Government, through the Department of Agriculture and Rural Development, has undertaken several initiatives to increase and diversify production of F&V, and to facilitate trade between the islands of Vanuatu. Regarding import substitution, the Government encourages farmers to produce vegetables to meet local demand, specifically targeting the tourism and hospitality sectors.³⁸⁰ Some products, which in the recent past were exclusively imported (potato, tomato, cucumber, carrots, radish and green pepper), are increasingly produced and distributed within Vanuatu's domestic market. Seasonal fruit products, including pineapple, mango, grapefruit, watermelon, lemon, and avocado, meet local demand but still have difficulties in accessing the hospitality sector, with inconsistent supply and quality being the two key constraints.³⁸¹ The Government should support farmers seeking to increase the harvest seasons with the adoption of productivity enhancing equipment (greenhouses, irrigation systems, etc.).

The number of processing plants in this sector is limited, and their relative size and capacity is small. Only a small family-owned business, Lapita, a medium enterprise, ACTIV,^{cxix} and a large enterprise, Fine Foods Ltd, currently produce processed F&V products in Port-Vila. Therefore, the high demand for processed products is satisfied through imports.

11.4.3.2 Quality of products and services

F&V are often highly perishable following harvest. In Vanuatu, poor and ineffective post-harvest management severely affect crops' quality and shelf life. The main issues in this regard arise from:

- Land transport (buses, trucks, or vans) and road infrastructure, which are not suited to handle fresh produce, spoiling the product;
- Maritime transport, which is undertaken on small/medium sized ships with limited facilities for handling fresh produce, insufficient packing, and limited cold storage facilities, and inadequate loading/unloading facilities;
- Limited extent of cold storage facilities accessible to farming communities; and
- Absence of pack-houses.

Providing fresh produce to the tourism market and the retail chains requires consistency in volumes, quality, and meeting safety requirements. Policy can improve the linkages between rural producers and the growing urban and tourism markets. The recent cooperation between MTTCNVB and MALFFB on agritourism and VCBN's establishment and work are steps in this direction.

When volumes are sufficient and sufficiently consistent, targeting the export market becomes a possibility as long as safety and quality can be demonstrated. Governments can play a role to in this area, for example by strengthening border control systems to maintain and prove freedom from pests

^{cxviii} Major tropical fruits organic varieties are typically priced 50 to 70% higher than their conventional varieties.

^{cxix} Alternative Communities Trade in Vanuatu.

and diseases, providing quarantine treatment facilities against certain pests, providing training services to facilitate the adoption of Good Agricultural Practices (GAP) and HACCP certification,³⁸² and providing accredited conformity assessment services (for example testing and calibration) that can facilitate access to markets – see also Chapter 6.

Internationally recognised assurance on quality required to access export markets and is also becoming increasingly important to access higher value domestic markets, notably the tourism and hospitality industry.

11.4.3.3 Capital and technology

F&V producers and traders find it very difficult to access finance, which limits their ability to scale up through the purchase of productivity enhancing equipment.³⁸³ Exploring innovative financing mechanisms, such as a matching grant and loan programme, could facilitate needed investment in productivity and quality-enhancing technology. To this end, establishment of funding facilities should be explored, aiming to benefit businesses that demonstrate their capacity to sustainably develop innovative products and generate employment.

The few F&V processors located in the vicinity of Port Vila have invested significant resources^{cxl} in processing and transport equipment. However, their return on investment is undermined by the fact that their companies are running at a capacity of between 30% and 50%, including due to the insufficient supply of primary inputs. The absence of economies of scale and integrated value chains in turn results in high cost of the final products.

Establishing mechanisms modelled on the principles of a commodity exchange^{cxli} could improve integration of the value chains and stimulate enhanced quantitative and qualitative production. The use of new technologies could facilitate this process.^{cxlii}

11.4.3.4 Labour force availability, skills, and skill gaps

The F&V sector suffers from a lack of skilled personnel. This is true for both farming and processing.

As highlighted by the FAO, at farm level capacity needs to be built in the areas of “improved crop varieties, husbandry practices and farm budgeting. To extend cropping seasons ... [farmers require to adopt] ... new farm practices including crop cover during the height of the rainy season, irrigation during the drier periods and flower induction technology where necessary. Furthermore, revenue realisation at farm level could be improved significantly through better crop planning and market linkages, both of which are necessary for the development of a more commercial, for-profit sector”³⁸⁴.

At the processing level, few employees meet requirements in business administration and finance, management of operations, technicians (including reparation and maintenance of equipment and specialists on green and renewable technologies), marketing and sales, and customer’s service support positions. While companies often run on-the-job training, skills are still insufficient to significantly increase productivity. Qualifications and skills needs of value addition companies must be identified and assessed in close collaboration with the education and vocational system.

^{cxl} Between USD 30,000 and USD 2m.

^{cxli} A commodity exchange is an organised, regulated market that facilitates the purchase and sale of contracts whose values are tied to the price of commodities. Typically, the buyers of these contracts agree to accept delivery of a commodity, and the sellers agree to deliver the commodity.

^{cxlii} Some countries already developed platforms with successful models such as the “Ethiopian Commodity Exchange” (<http://www.ecx.com.et/>), a private public partnership that provides organised farmer groups with access to markets and fair pricing, as well as providing market information.

11.4.3.5 Availability and conditions of support industries

Lack of adequate rural infrastructure and infrastructure services including rural roads, inter-island shipping, electrification, and telecommunications hamper the development of the F&V sector by reducing both quantity and quality of production.

There are limited resources to properly maintain land and sea infrastructures. While F&V supply is challenged by the irregularity and inconsistency of sea transportation, the quality of produce suffers from inappropriate handling and storage facilities, including cool storage, on both land and sea.³⁸⁵ The Vanuatu's National Fruits and Vegetables Strategy (VNFVS) 2017-2027 identified the above as priority challenges, and laid down a four-year plan to address them.³⁸⁶

Access to electricity in rural areas is limited, with only 60% of the population having access to electricity – see Chapter 5. Given most F&V farms are located in rural areas, the lack of electricity directly affects the produce's shelf life and farmers' ability to invest in new technology and machineries. In addition, it hinders information flows relating to good farming practices and market requirements.

To ensure consistent quantities and quality of the fresh produce, VNFVS's objectives need to be pursued, and support infrastructure (both land and sea) improved. In support of these improvements, mechanisms such as those of a national commodity exchange platform can be explored, and an entity such as VCBN, assisting coordination between producers and manufacturers, can help to vertically integrate the value and supply chains.

11.4.3.6 Potential new products or services

There are several F&V products that grow domestically and may be pursued for export.³⁸⁷ The list includes pineapple, root crops, tomatoes, and Tahitian lime.

A Pacific Horticultural and Agricultural Market Access (PHAMA) study on Samoa highlighted that pineapple has export potential in the New Zealand market.³⁸⁸ In addition, pineapple can be exported under the fruit fly non-host status protocol.³⁸⁹

Root crops (taro, yams, sweet potatoes (kumala), and cassava) have high potential for processing and export due to their year-round production, high-quality proteins, dietary fibres and calories.³⁹⁰ They are also presently processed as chips.^{cxliii}

Tomato is the second highest value^{cxliv} fruit in Vanuatu.³⁹¹ Tomatoes have many processing opportunities, such as tomato sauce, chutney and purees, that fully utilise excess production during peak seasons, preserving tomatoes for off-season demand. Full-year production can be also explored by selecting suitable varieties such as cherry tomatoes.³⁹²

Tahitian lime also has high potential as an export product, particularly in New Zealand. Tahitian lime has a small but lucrative market in New Zealand, given that its domestic production is seasonal and cannot be obtained between September and March. Furthermore, Tahitian lime is listed under the fruit fly non-host protocol.³⁹³

In addition to the export and domestic markets, the cruise ship market represents another opportunity in Vanuatu. However, access to this market is challenging for the following reasons:

- With regards to cruise tourists coming ashore
 - The cruise offers pre-paid packages to their clients including all meals and activities. Many clients are not ready to spend additionally on local food;
- With regards to the farmers supplying the cruise ships
 - The local food's quality and safety are not guaranteed;
 - The local volume of supply and price of produce is inconsistent;

^{cxliii} Lapita Café Vanuatu and Fine Foods Ltd are two Vanuatu based organic certified companies processing F&V products, notably in "chips" form, for domestic consumption and export.

^{cxliv} In terms of price per kilogram.

- The loading of products is slow and time consuming

11.4.4 Domestic policy and regulatory environment

Vanuatu's NSDP emphasises the importance of enhancing traditional agricultural practices, reducing reliance on food imports, and achieving economic development by creating jobs in both urban and rural areas.³⁹⁴ In this context, the NSDP's monitoring and evaluation framework includes targets in support of import substitution strategies (indicator ENV 1.3.1), increasing F&V products' diversification (indicator ENV 1.5.2), and value addition of commodities in which Vanuatu enjoys a comparative advantage (indicator ECO 4.3.2).³⁹⁵

The OPSP 2012-2017, currently under review, provides the guiding framework for the productive sectors, and aims to achieve the joint outcomes of increasing production and productivity, enhancing quality and safety, enhancing market access, adding value to Vanuatu's products and strengthen resilience.³⁹⁶ The policy promotes a supply chain approach where the many stakeholders work in coordination supported by adequate policy and regulatory frameworks.

The VASP 2015-2030 promotes value addition, training, access to credit, investment, quality and productivity, market access, and import substitution strategies.³⁹⁷ The VNFVS 2017-2027 is a strategic document produced to assist implementing the VASP. It addresses the inefficiencies in the sector and sets a roadmap for the government and the private stakeholders to "ensure that systematic measures are put in place for enhancing the coordination and management of the sector and to ensure as well that a certain level of consistency is maintained within the fruits and vegetable sector and a certain level of quality is maintained throughout the whole value chain despite external factors including climate change."³⁹⁸

Vanuatu's National Industrial Development Strategy addresses, promotes and supports the value addition component of agricultural products that have potential for export, focusing on medium, high-end products.³⁹⁹

11.4.5 SWOT analysis fruits and vegetables

Strengths	Weakness
<ul style="list-style-type: none"> • Developing market network • Favourable climate for year-round harvests • Fertile soil favouring production • Fits in well with existing farming systems • Existing organic local production of fruits and vegetables • Low labour force costs 	<ul style="list-style-type: none"> • Absence of a regular and reliable production data as a basis for planning • Lack of market intelligence on consumer preferences and market conditions • Inadequate information and support on new/improved technologies, and limited use of technologies • Lack of quality standards • Inadequate infrastructure for manufacturing and transport (handling) • Lack of / inadequate storage facilities • Lack of skills, particularly relating to commercial farming and processing • Lack of financing for smallholders and other economic players • Lack of integrated supply and value chains resulting in lack of coordination
Opportunities	Threats
<ul style="list-style-type: none"> • Growing domestic demand linked to tourism sector • Markets available in New Zealand, New Caledonia and Australia 	<ul style="list-style-type: none"> • Unavailability of imported inputs on a timely basis (e.g. seeds/ planting materials, agricultural pesticides) • Change in government policy • Impacts of climate change and natural disasters

-
- Rising quality standards and more stringent health and safety standards of overseas market
 - invasion affecting crops and organic standards
-

11.4.6 Recommendations

Value chain strengthening

- a. Consider establishing a national commodity exchange platform
- b. Improve and define Vanuatu Cooperatives Business Network's institutional capacity and scope
- c. Increasing capacity to serve needs of the growing urban, peri-urban and tourism markets by enhancing production quality inter-island linkages
- d. Reduce reliance on imported food where products can be grown domestically
- e. Improve skills, at both farming and processing level
- f. Improve storage facilities and cold rooms at strategic locations

Product development

- g. Design and establish a grant facility to provide finance to smallholders developing innovative products and generating employment
- h. Improve research and extension systems (improve the use of technology) – soil laboratory, hydroponics, irrigation, covered structures (greenhouses), and practices to extend fruiting seasons
- i. Use improved and proven crop varieties
- j. Promote technical assistance and training in agro-processing practices and marketing

Disaster/pest

- k. Establishing quarantine treatment facilities and protocols where a robust business case exist for export of certain fruits and vegetables
- l. Strengthen pest controls to maintain low pest prevalence

Quality

- m. Develop/review relevant national standards for Fruits and Vegetables
- n. Facilitate the compliance and certification with standards such as Good Agricultural Practices and Hazard Analysis and Critical Control Points

11.5. Kava

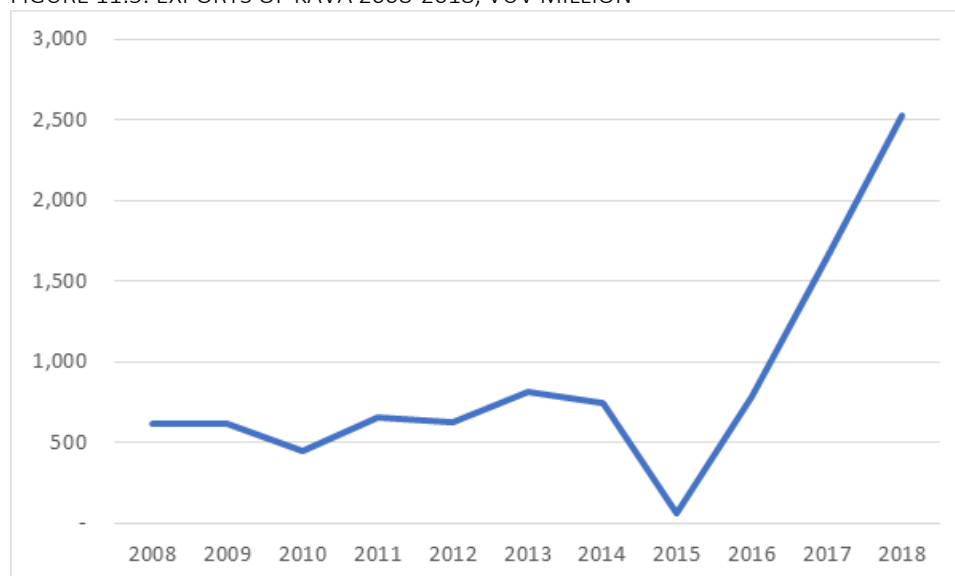
Kava is a pepper plant variety, scientifically known as *Piper Methysticum*, which is endemic to the South Pacific. Kava is unique to the country, in that Vanuatu is the world leader for this commodity, whilst for every other export (including services), Vanuatu is just a minor player in a global market. Kava is also a high-value and durable product, grown across the country, and for which the farmers receive a high proportion of the total export price. Finally, the global kava market is booming. All of these factors combine to mean that kava is now definitively Vanuatu's most important commodity, offering an unparalleled road to development.

11.5.1 Export performance

Kava has always been an important export for Vanuatu. From 2008 to 2014, exports of Kava were consistently around the VUV 600m mark, with a slight upwards trend from 2010. In 2015, kava exports were decimated by TC Pam, and exports fell to only VUV 64m. Since then, exports have recovered incredibly strongly, and are now by far Vanuatu's largest merchandise export – a trend helped by the

collapse of prices for coconut products. In 2018, kava exports were just over VUV 2.5bn – or 52% of the total. This underlines the significance that kava now has for the country.

FIGURE 11.5: EXPORTS OF KAVA 2008-2018, VUV MILLION



Source: DCIR

Just under half of exports (44%) were of kava powder, with the remaining being of dried roots or chips. Regarding destinations, there are four main markets. The US market has boomed in recent years, from VUV 150m in 2016, to VUV 780m in 2018, and is now the largest market at 31%. Fiji (24%), Kiribati (23%), and New Caledonia (16%), are the other major markets. New Caledonia has always been a key market, but both Fiji and Kiribati have also massively expanded in recent years – possibly caused by TC Winston in Fiji in 2016, and a subsequent drought.

11.5.2 World market conditions

There are little to no data for the world market for kava. On the demand side, data are non-existent, and on the supply side there are good data for Vanuatu and Fiji, the two major exporters, but limited data from elsewhere. However, there are some high-level conclusions which can be drawn:

- Global demand for kava is growing, with the United States driving this. As of August 2019, there were 144 kava bars in the United States registered on kava-world.com. Over half of these (81) were found in Florida, with California (14) being the second largest market.
- The markets in the Pacific Island Countries are already relatively saturated – for example per capita domestic consumption in Vanuatu is exceptionally high.

Therefore, of the existing markets, the US offers the best prospects for long-term export growth. Regarding other markets, there were widespread bans of kava from the early 2000s, which were led by Germany, with a chain effect to other EU countries. This was caused by a lack of consistency in quality controls, and a general lack of research. Previously demand from Europe had been very high, particularly for pharmaceutical uses, and so this ban led to a collapse in kava exports from the Pacific. Most bans have been lifted since 2015, as the evidence overwhelmingly points to the safety of kava. However, despite this, exports to Europe remain exceptionally low, possibly in part because there have been continued efforts by various European authorities to limit kava's access. The Government should proactively take part in any future negotiations or disputes relating to kava access, working together with other kava producing nations.

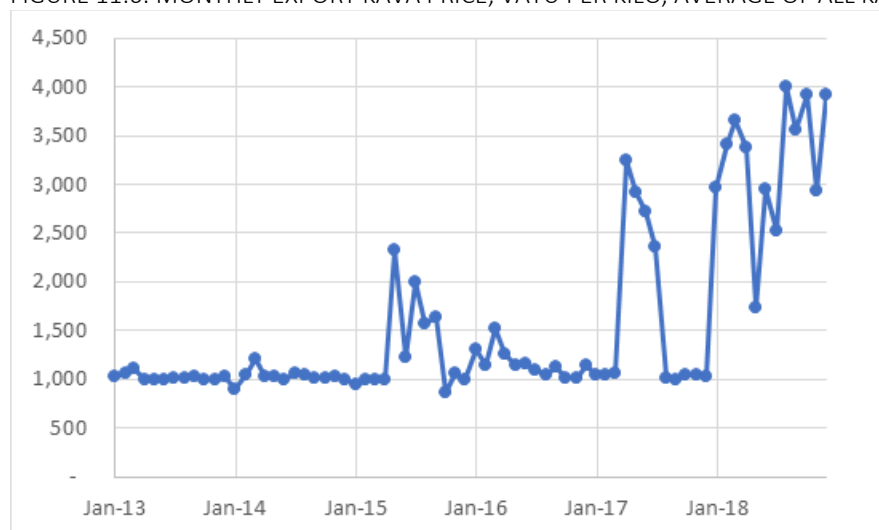
Opportunities for export growth also exist in China, whose kava imports have started to increase significantly in recent years, and which has today become the fifth biggest buyer of Vanuatu's kava.

Similarly, there is a lot of potential in the Australian kava market. Currently, one can only take two kilograms of kava into Australia for personal use, but this limit will be soon increased to four kilograms

and commercial importation will soon be piloted.⁴⁰⁰ The Government should continue its dialogue with counterparts in Australia to try and gain access to the market.

There are no global commodity market exchange platforms for kava, and thus no global price. Prices have been inferred for this report from the monthly export values and volumes. This is an imperfect measure for a number of reasons – most notably it will include a number of different kava export products (powder, roots, etc.) - but is the best proxy available. Prices should be taken as indicative of the trend, rather than as the actual prices. Most notable is the very large increase in price which has been observed since early 2018. This price increase has in part been driven by increasing demand, as supply growth has been constrained by a number of factors, including Cyclones Pam and Winston, and a drought in the Pacific.

FIGURE 11.6: MONTHLY EXPORT KAVA PRICE, VATU PER KILO, AVERAGE OF ALL KAVA PRODUCTS



Source: VNSO^{cxlv}

On the supply side, Vanuatu was the major global producer and exporter in 2018. Vanuatu exported roughly 1,000 tonnes per annum in recent years, with Fiji second, at an average of 218 tonnes per annum.⁴⁰¹ Comparisons with Fiji are complicated by the fact Fiji predominantly exports kava powder, which is relatively high value and low volume compared to roots and chips, which make up the bulk of Vanuatu’s exports. Furthermore, Fiji imports a lot of kava from Vanuatu, a good proportion of which is likely to be processed and re-exported.^{cxlvi} Samoa, Tonga, and Hawaii all are smaller producers, with the Solomon Islands and Papua New Guinea also producing very small quantities.

Vanuatu’s four main export markets - Fiji, the US, Kiribati, and New Caledonia - do not impose any tariffs on the import of kava. They also do not impose any specific quality standards on the import of kava. Given kava’s role in the Pacific, regional coordination should be improved, so that the producing countries can work together to chart a positive future for kava – especially regarding market access and demand.

The boom in kava prices has anecdotally led to a large increase in the number of kava plants being planted across the region. However, since kava takes at least three years before it can be harvested, this has not yet manifested itself as an increase in supply in the market. It is highly likely that in the next few years the forecast increase in supply will lead to prices falling, which would harm the growers. Indeed, anecdotally the domestic price has recently begun to fall. There is currently very limited work

^{cxlv} Note: In March 2015 there were no exports of kava, and hence no price could be calculated. Given the calculated price for February and April were both 1,000 vatu per kilo, this is assumed to be the same for March.

^{cxlvi} The greater focus on value addition shown by Fiji compared to Vanuatu implies that the export values per kilogram in the former are higher than in the latter – in 2018, export value for Fiji was USD 14m with only 218 tonnes (see: <https://fijisun.com.fj/2019/08/31/kava-exports-earned-about-30-7m-last-year-says-reddy/>) whereas for Vanuatu it was USD 21m with about 1,000 tonnes.

done by the Government of Vanuatu to promote kava abroad – some work is done by diplomats – and the Government should consider options to try and boost global demand. This must be very carefully managed to ensure that growth is managed in a sustainable manner, and so improved forecasting and understanding of the global market is needed. The Government must also protect the Vanuatu brand, and should pursue Geographical Indication as a priority.

According to the Vanuatu National Kava Strategy 2016-2025 (VNKS 2016-2025), the domestic kava market value was around VUV 2 billion in 2016.⁴⁰² It is estimated that about 70% of kava goes to the domestic market.⁴⁰³ Kava does not only support the farmers, but it also supports the livelihoods of many kava bar owners, and other associated industries, such as food vendors. Moreover, kava is an essential and integral component of Vanuatu’s culture and society. The Government must ensure that there continues to be sufficient kava for the domestic market.

11.5.3 Domestic supply conditions

11.5.3.1 Current producers and production capacity

The latest statistics on kava farmers come from the 2016 mini-census, which showed 43% of rural households, and 32% of all households, grew kava. This represents a decline from the 2007 Agricultural Census, which had 51% of rural households engaged in kava growing. The mini-census was just after TC Pam however, which destroyed up to a third of kava plants,⁴⁰⁴ and so the 2016 figure may be lower than in equilibrium. Anecdotally, the number of kava growers has been skyrocketing in recent years, and so more up to date information must be collected. Kava growing was particularly high in Penama province, but was at least 30% of households in all provinces apart from Shefa – see Table 11.3.

TABLE 11.3: KAVA GROWERS BY PROVINCE

Province	No. of households	No. of households growing kava	% of households growing kava
Penama	6,959	5,429	78%
Tafea	6,853	4,236	62%
Torba	1,960	817	42%
Sanma	10,704	3,459	32%
Malampa	8,896	2,695	30%
Shefa	19,913	1,257	6%
Total	55,285	17,893	32%

Source: 2016 Mini Census

From 1983 to 2007 there was also a very large uptrend in the average number of kava plants per household, rising from 200 to 1,200. Again, this data is very old, but this trend is likely to have continued since. This is driven by both increasing hectareage and density – in part due to lower intercropping. It is thought that the total production capacity is roughly in the range of 32,000-35,000 tonnes fresh weight,⁴⁰⁵ although similarly, this must be updated with new data.

Kava supply faces long-term fluctuations, mostly due to the impacts of natural disasters, as well as annual fluctuations, although these mostly impact the domestic market. The primary causes for the annual patterns are the increase in demand during festive seasons, generally in July, due to the independence celebrations, and December for Christmas and New Year celebrations; and punctual shortages of supply, particularly during the cyclonic season, where weather conditions can disrupt sea shipping transportation of commodities in Vanuatu. Kava is primarily transported by boats and ships, although planes are increasingly being used.

Processing solutions have been long been practiced. Kava roots are sundried from a period of a minimum of two days, generally near their production and harvest sites, and then shipped to traders or exporters who will properly package the product for exportation. Dried kava is either sold in its dried root form or in dried chips, the latter being more convenient as far as volume/weight ratios are concerned. Kava is considered “dried” with 12% or less of moisture content. There is significant potential for kava transformation, whether for local or export market for beverage and food in the form

of powder. For now, the majority of kava is exported raw and dried without processing, as green and semi-dried kava are not eligible for export.

In terms of exporters, in late 2017 there were 23 licensed exporters, of which five were large scale.⁴⁰⁶ There is one particularly large exporter which makes certified powder for the US market. There are further small-scale processors.

11.5.3.2 Quality of products

The Kava Act of 2002 lists the requirements for kava production and export, and restricts its exploitation to Vanuatu citizens only or to joint ventures 50% owned by indigenous citizens.⁴⁰⁷ Kava has since then been categorised as either noble or non-noble (narafala). Only the noble selection is considered proper for consumption. The lack of product knowledge, and proper research, have limited the expansion of kava roots export potential.

A 2016 FAO and World Health Organization (WHO) study lays out a number of recommendations, some of which are relevant for improving the quality of the kava.⁴⁰⁸ Key recommendations include:

- Choosing noble-variety kava;
- Carefully selecting the parts of the kava plants used for consumption; and
- Monitoring quality of kava plant material used for consumption and storage conditions.

Kava consistency and estimated reasonable intake quantity must be determined and standardised, by:

- Establishing controls to provide a consistent high-quality raw material for kava beverage preparation, considering kava varieties, kava plant material, and preparation and handling techniques;

In order to improve knowledge of kava quality and varieties, the Government should support the private sector to improve traceability - indicators could potentially include the grower and processor, the island of origin, the variety and age of the plant.

The Vanuatu Bureau of Standards (VBS) did a survey of 57 kava bars in 2017, which showed that many of them had exceptionally poor hygiene. This poses a risk to both the kava industry as it artificially makes kava look unsafe, and to the health of Ni-Vanuatu and tourists. The municipal authorities should develop and enforce standards.

The main method used to determine the “nobility, quality and purity” of kava is today known as the Acetone Test.⁴⁰⁹ This test shows with a high level of reliability if a kava sample is deemed noble or not. A superior, but more expensive test, is the High-Performance Thin Layer Chromatography test (HPTLC). The Government should seek to upgrade the capacity of the VBS regarding kava testing ability.

As highlighted in Chapter 6, a major objective to ensure international recognition of kava as a quality product is to establish a Codex standard. The Codex Alimentarius Commission accepted in 2017 a Vanuatu joint proposal to elaborate new standards and related texts for kava, as a commodity with an intended use as beverage for regional export.⁴¹⁰ The proposal was partially endorsed by September 2019, with a full endorsement scheduled for 2021.

11.5.3.3 Capital and technology

The Vanuatu National Kava Strategy (VNKS) (2015-2025) defines an [average] kava farmer as an individual who possesses a plantation of at least 10,000 kava plants spread over 1 hectare of land (ratio of 1 kava plant/sqm). Individuals falling under the latter definition are limited in number and most small farmers generally focus on mix-cropping to diversify their source of income and maintain sustainable food security levels.

Whilst small-scale mix-cropping, which involve localised on-site drying and selling activities, is not capital intensive, the integration of the quality component requires further substantial financial commitment from small farmers.

The Department of Agriculture and Rural Development (DARD) has recently been looking into how it can improve farming of kava plants, most notably through various nursery programmes. DARD has also been running annual Kava Forums, to promote knowledge to the farmers, which has been a very successful initiative. Both initiatives are expected to support the integration of the quality component at small-farmer level.

11.5.3.4 Labour force availability, skills, and skill gaps

Ni-Vanuatu identified as small kava farmers are naturally good self-sufficient farmers, but many do not possess the necessary skills with regards to commercial and sales best practices, quality management, and market readiness.

The VNKS 2015-2025 seeks to ensure that kava is processed in a manner that maintains quality and meets market demands, by ensuring that kava is harvested in the proper manner and that the harvested material is treated correctly. The Government should increase training for farmers regarding best practice standards for harvesting, cleaning, preparation, packaging, and identification of fresh and dried kava and transportation to market.

Larger farms are better able to cope with such skills deficiencies, but face critical shortage at middle management levels within their organisations, including administrative and financial managers, as well as processing plant managers.

11.5.3.5 Availability and conditions of support industries

Kava is less reliant on support industries than other exports – it is not as resource intensive as others, for example it requires less water than cattle, it is less perishable than most fruits and vegetables, and without a specific harvesting season. This means that once a kava plant has reached the required maturity, it can be harvested at the most favourable time. This reduces the pressure on the transport system.

Nonetheless, kava, as an industry, faces the same challenges as other commodities in Vanuatu, which includes lack of market information and statistics, lack of regular and reliable transportation, poor handling facilities and storage conditions and scarce access to basic utility and telecommunication services. Generally, support industries such as commodity traders and shipping companies are poorly organised and coordinated.

11.5.3.6 Potential new products or services

A key focus of the kava industry over the coming years should be on enhancing existing products – in particular kava-powder. For kava powder, there are companies in Fiji who import kava roots from Vanuatu, before value adding and exporting. The Government should aim to support the kava industry so that this value addition can take place domestically instead.

Kava destined for the pharmaceutical industry is slowly picking up, particularly since the Germany 2002 kava ban was lifted. Kava and its extracts are now being promoted as a natural organic product or medicine with extremely limited effects due to a gentler action, as opposed to traditionally prescribed anti-anxiety drugs. It is thought that the compounds in kava make it particularly good for alleviating anxiety, protecting neurons from damage, and relieving pain. Potential products include kava oil, kava tea, kava liquid, and kava capsules. At the same time, it must be recognised that kava is a traditional drink, with huge cultural heritage. The Government should develop some labelling standards to ensure that this heritage is acknowledged, whilst new products are developed.

11.5.4 Domestic policy and regulatory environment

Development of the kava industry is an important element of the Vanuatu National Agriculture Sector Policy, which covers the period 2015-2030. The Vanuatu National Kava Strategy (2015-2025) was developed in response to the overarching National Agriculture Sector Policy.

The Kava Act 2002 and its amendments (the latest in 2015) regulate the market. The Act defines 12 noble kava varieties, which are the only type of kava that can be sold, either domestically or internationally. The only exception is if an international buyer specifically requests 'narafala' kava. For domestic consumption, the kava plant has to be at least three years old, and for export markets it has to be at least five years. However, it is not possible to test the age of kava. The Act should be updated to remove this potential source of confusion.

Kava was previously regulated by the Vanuatu Commodities Marketing Board, which included an export levy of 5%. Kava was removed from VCMB's list of prescribed commodities in 2018. The Vanuatu Kava Industry Association (VKIA) has indicated they are willing to pay a levy, but that the funding supplied must support the kava industry in turn. The VKIA has been an excellent platform for public-private dialogue, but has so far been supported by the PHAMA Plus programme. Alternative funding sources should be found, to ensure the long-term sustainability of the association.

11.5.5 SWOT analysis kava

Strengths	Weakness
<ul style="list-style-type: none"> • Traditional crop (local expertise) • Government support for the kava sector • Strong local demand and export markets • Increased supply of planting material from tissue culture lab and nurseries • Availability of land to expand production • Attractive returns • Biggest player in global market • No seasonality • Women engagement in the value chain • Youth engagement in the value chain • Unexploited potential for product diversification and value addition 	<ul style="list-style-type: none"> • Shortage of planting material • Shortage of supply • Lack of sustainability and consistency of supply • Limited incentives for FDI • Poor handling and transport conditions • Lack of adequate infrastructure and utility supply • Price fluctuations • Quality standards embedded in technical regulations (Kava Act) not enforced • Lack of market information, marketing skills, production skills • Lack of farm management skills and financial literacy • Limited branding, packaging and marketing • Laboratory tests are qualitative only • Limited research and extension capacity • Land tenure systems • Weak value chain coordination
Opportunities	Threats
<ul style="list-style-type: none"> • Development of international FAO/WHO Codex Alimentarius standards and certification against them • Growing international demand 	<ul style="list-style-type: none"> • Fall in price due to rising supply • Pests and diseases - e.g. kava dieback and nematodes • Natural disasters - cyclones and droughts • Increased competition from other countries • Lack of export compliance possibly leading to future bans • Theft of kava • Spiking fears from other nations about the health impacts of kava

11.5.6 Recommendations

- a. Increase diversification of kava exports, both in terms of destinations and products
- b. Register Geographical Indication for Kava
- c. Improve data of the kava markets:
 - i. Improve data on domestic supply and demand of kava

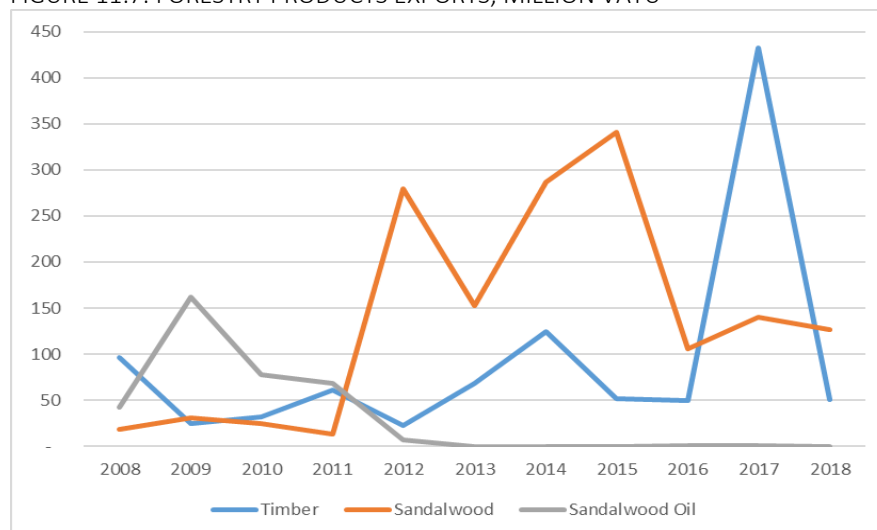
- ii. Improve data on the international demand for kava
- d. Ensure, as far as possible, that the European market remains open for kava exports
- e. Develop a promotion strategy to boost global kava demand and stimulate FDIs
- f. Improve the governance mechanisms, including:
 - i. Support the Vanuatu Kava Industry Association to find a long-term funding mechanism
 - ii. Continue to run annual Kava Forums
 - iii. Revive Pacific Kava Council under Vanuatu leadership
- g. Improve quality, including:
 - i. Complete the FAO/WHO Codex Alimentarius standards
 - ii. Establish quality traceability criteria and mechanisms
 - iii. Develop and enforce domestic standards for the municipal areas
 - iv. Develop kava product labelling standards
- h. Improve the testing capability of relevant Government authorities

11.6 Forestry Products

Forestry products exported by Vanuatu include sandalwood (heartwood and sapwood), sandalwood oil, timber, and, to a minor degree, carvings^{cxlvii}

Despite an overall upward trend since 2008 that reached its peak in 2015, sandalwood exports have been volatile over the period. Sandalwood oil exports virtually ceased after 2012. Timber exports fluctuated around the VUV 50 million mark, with the exception of one peak in 2017^{cxlviii} – see Figure 11.7.

FIGURE 11.7: FORESTRY PRODUCTS EXPORTS, MILLION VATU



Source: DCIR

Today's timber industry struggles internationally due to difficulties in accessing niche markets, lack of competitiveness, and inconsistencies in supply. Furthermore, the country relies on imports from neighbouring countries, such as New Zealand, to meet domestic demand. With the exception of a few larger producers in Espiritu Santo, logging production is scattered and unorganised, resulting in imbalances of wood supply that affect both exporters and domestic buyers.

^{cxlvii} Carvings are handicrafts. Economically they provide income to the most vulnerable segments of the population, women and isolated communities. Socially they represent a strong link with Vanuatu's traditional heritage. Handicrafts are either directly or indirectly (through tourism) exported, and their economic importance is growing. While handicrafts would deserve a dedicated section, the TPFU does not address them directly. A strategy has been developed by the Department of Industry.

^{cxlviii} Blue water tree (rosewood) slabs' sales into China were the primary reason behind this significant export increase. Due to sustainability concerns, blue water tree's logging was temporarily banned in March 2018 – see Chapter 3.

In 2018, Vanuatu sandalwood was primarily exported to Hong Kong (58% of all sandalwood exports), Vietnam (22%) and China (20%), whereas most of Vanuatu's timber was exported to China (85%) and New Caledonia (12%). Other export markets for Pacific sandalwood are Taiwan, Singapore, Korea and Japan.⁴¹¹

Sandalwood is a high-value, low-volume, non-perishable product well-suited for international trade. Its price in international markets is in steady increase due to limited global supply and rising demand. For example, its auction price in India increased at a compound annual growth rate of 14% between 2000 and 2015.⁴¹² Australia, the second largest producer of sandalwood after India, is also a major importer due to domestic demand that exceeds supply, and there are substantial opportunities for Vanuatu's sandalwood exporters.⁴¹³

Sandalwood's heartwood and sapwood are extracted from both wild and planted trees. Planting trees is a long-term investment, as trees take between 15 to 20 years to produce commercial quantities of heartwood. Therefore, overexploitation of wild stocks is a serious threat – see Chapter 9.⁴¹⁴ To prevent deforestation, the Management and Control of Sandalwood Trade and Exports Order (1997) and the Sandalwood Policy (2002) introduced a three-month limitation on the harvesting season,^{cxlix} a licensing system for logging companies, an export permit system, a quota system, and royalties paid to the Department of Forestry (DoF). DoF is the sandalwood regulatory body that sets an annual quota and a minimum price for one kilo of sandalwood to be paid to landowners.^{cl} Reforestation has been driven by the National Forest Policy (1997 and 2013) and is regulated by the Forest Act (2001). As a result, over the past 10-15 years, replanting has generated around 700 hectares of combined smallholder and commercial sandalwood plantings, which are expected to mature in 2030.⁴¹⁵

According to DoF data in 2017, under a quota of 70 tonnes, 12 businesses held active sandalwood licenses^{cli} - 57% of total licensees. A total of 49 tonnes of sandalwood were harvested,^{clii} which amounted to over VUV 63 million in royalties.

The bulk of Vanuatu's sandalwood exports consist of unprocessed chips and logs. However, there is some domestic small-scale processing in Port Vila and Malo. These sites produce essential oils and focus primarily on local markets. Sandalwood presents many value-adding opportunities, such as carving, oil for fine fragrances, medicines, therapeutic products, attars (fragrant blends of sandalwood and flower oils), chewing gums, mouth fresheners, and incense sticks.⁴¹⁶

There are several value chain limitations that must be addressed to ensure sandalwood's continued development:

- Limited market access, industry structure, data and coordination. Vanuatu produced roughly 1-2% of sandalwood globally in 2010. This number will likely increase by 2030 as the replanted stock matures.⁴¹⁷ The industry would benefit from (better) publicly-available data on local production to monitor the resource base (both wild and planted), exports, future prospects, value chain players and market destinations. Market access should be assessed and improved, and a strategic government plan could be introduced.
- Limited capacity in domestic value addition. Some existing examples demonstrate industry know-how and capacity to scale up operations. However, pursuing value addition and product differentiation requires resource aggregation to achieve economies of scale, financial capital to establish the processing facilities, skilled or semi-skilled workers, and government investment towards industry standards and certification. There is also a need to evaluate whether returns from processing can match or exceed the returns from exporting the wood.

^{cxlix} These months are set each year along with an additional three months for trading and exporting.

^{cl} It is the minimum price payable to landowners for various grades of sandalwood heartwood logs – it is subject to periodic reviews, although rarely changed. In 2019, the minimum price is VUV 2,000 per kilo of sandalwood.

^{cli} A significant increase with respect to 2016, when only 5-6 of these licensees were reported to be active.

^{clii} Tanna, Erromango and Aneityum produced 75%, 17% and 3% of the total harvest for 2017, respectively.

- Risky investment. Factors, such as changes at the political and regulatory levels, natural disasters or pests, may affect long-term investment.

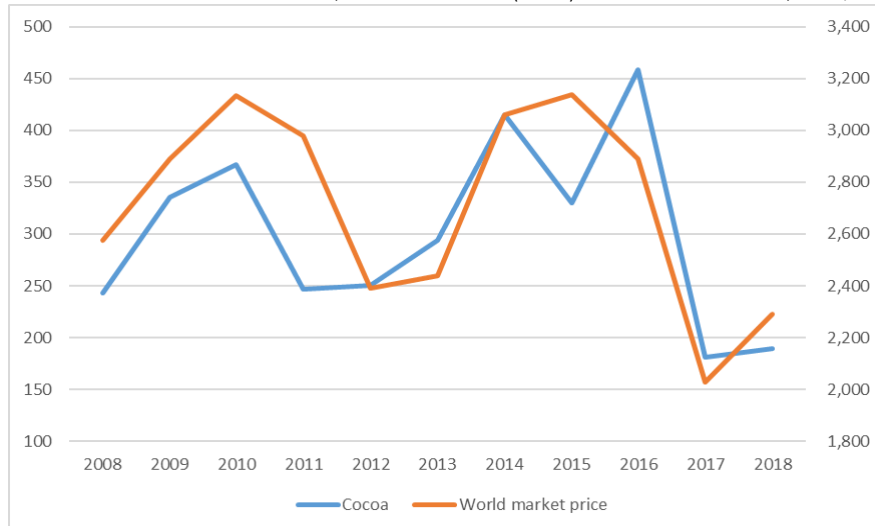
11.6.1 Recommendations

- Create unique HS codes for sandalwood and sandalwood oil
- Commission an independent sandalwood value chain study in Vanuatu. The study objectives would be twofold: 1) review and assess the sandalwood supply chain and its regulatory framework (replanting plans, quota, licenses, royalties, minimum pricing) vis-à-vis potential improvements (auction pricing, limiting licenses, resource base aggregation), and 2) assess the economic rationale behind encouraging domestic processing of sandalwood

11.7 Cocoa

Cocoa has historically been an export crop for Vanuatu. Over the past ten years, cocoa exports have been volatile, following the international price for cocoa beans^{cliii}. Cocoa exports peaked in 2016 (VUV 458 million) and fell significantly in 2017 (VUV 181 million) – Figure 11.8. In 2018, almost the entirety of Vanuatu’s cocoa was exported to bulk grinding markets in Malaysia (83%), Indonesia (6%), and Italy (6%).

FIGURE 11.8: COCOA EXPORTS, MILLION VATU (LEFT) AND WORLD PRICE, USD/TONNE (RIGHT)



Source: DCIR; International Cocoa Organization^{cliv}

Cocoa’s global value chain is characterised by vertical and horizontal integration in the industry. A few large transnational corporations control the industry, to the detriment of the smaller economic players (farmers, small traders and chocolate manufacturers).⁴¹⁸ In 2017, Ivory Coast was the largest exporter of cocoa beans in the world (40% of global exports), and the Netherlands was the largest importer (25% of global imports).⁴¹⁹

Unlike other agricultural products, cocoa’s primary processing (fermenting and drying) occurs near its place of harvest, producing a non-perishable product. The features of primary processing, which often involves women and youth, make cocoa an attractive commodity for employment or income-generation in the remote outer islands.⁴²⁰

In Vanuatu, cocoa’s plantations are concentrated in the Sanma, Penama, and Malampa provinces and are either rented or owned by local farmers.⁴²¹ Following primary processing, farmers sell beans to

^{cliii} The International Cocoa Organization (ICCO) reports cocoa beans’ daily price, which is the average of the quotations of the nearest three active futures trading months on ICE Futures Europe (London) and ICE Futures US (New York) at the time of London close.

^{cliv} ICCO’s prices have been averaged over the year to make them consistent with yearly cocoa exports.

cocoa exporters or chocolate manufacturers. The main cocoa exporters in Vanuatu are Vanuatu Copra and Cocoa Exporters Ltd, C-Corp Cocoa Export Ltd, Vanuatu Cocoa Premium Ltd, and Tal Milfirer. The only chocolate manufacturers in Vanuatu are the ACTIV Association and Gaston Chocolat, which produce high-quality handcrafted chocolate bars and other cocoa products. They are small enterprises^{clv} that produce 400-500 kilos of cocoa products on average per month.

Manufacturers typically work with a pool of trusted farmers, to whom they provide crop management, primary processing trainings, and basic equipment (thermometers, driers). Domestically produced cocoa products perform well in the domestic market and selling to cruise customers. There is also some export to Fiji, Australia, and New Zealand^{clvi}. While market opportunities exist in New Caledonia, Japan, and the United States, access to export niche markets remains a challenge to local manufacturers – Table 11.4.

TABLE 11.4 PRODUCERS AND MANUFACTURERS' CHALLENGES IN VANUATU

Cocoa Producers ⁴²²	Chocolate Manufacturers
<ul style="list-style-type: none"> • Absence of institution and legislative framework to govern the cocoa sector • Absence of strategic directions for all stakeholders to effectively coordinate and manage the sector • Aging and depleting cocoa plantations • Climate change impacts • Lack of proper infrastructure, high costs and inappropriate means of transportation • Limited access to finance • Limited technical expertise 	<ul style="list-style-type: none"> • Cocoa beans' quality consistency due to limited storage and cold rooms facilities • Competitiveness due to high transport costs, energy costs, export licenses, and costs to comply with international food standards • High volumes demanded internationally • Markets access information • Marketing and visibility (establishing Vanuatu as a cocoa producer) • Sourcing of ingredients and equipment

International price volatility and aging plantations call for a transition away from raw cocoa bean exports towards value-adding products, such as chocolate bars. Specialisation in single-origin and certified organic lines should coincide with replanting using genetically productive varieties.⁴²³ To avoid inconsistency in quality, improved primary processing practices should be accompanied by post-drying facilities, such as storage and cold rooms at key ports of entry for inter-island trade.

Vanuatu National Cocoa Strategy 2020-2025, the first sectoral vision, is aligned with the Agriculture Sector Policy objectives. Recognising the main challenges of the sector, the Strategy addresses the need to establish a nursery and seedling production, undertake replanting with the improved seedling, improve crop management, improve cocoa's primary processing and transportation, and secure niche markets.⁴²⁴ The Cocoa Act (2006) is the only existing regulatory framework in Vanuatu,^{clvii} and Vanuatu Commodities Marketing Board act as a regulator for the industry, charging an export levy of 6% cocoa's sale price.

11.7.1 Recommendations

- a. Establish a nursery and seedling production and replant cocoa trees using genetically productive varieties of seedlings
- b. Improve quality consistency by providing post-drying facilities such as storage and cold rooms at key ports of entry
- c. Promote and improve Vanuatu's visibility as a cocoa producer and chocolate manufacturer

^{clv} Their capital investments do not exceed USD 170,000.

^{clvi} Around 5% of Gaston Chocolat's production is exported to these destinations.

^{clvii} This Act provides for the licensing of cocoa fermentaries and dealers, concerns standards and inspection of cocoa intended for exportation and establishes the Cocoa Industries Fund.

11.8 Fisheries

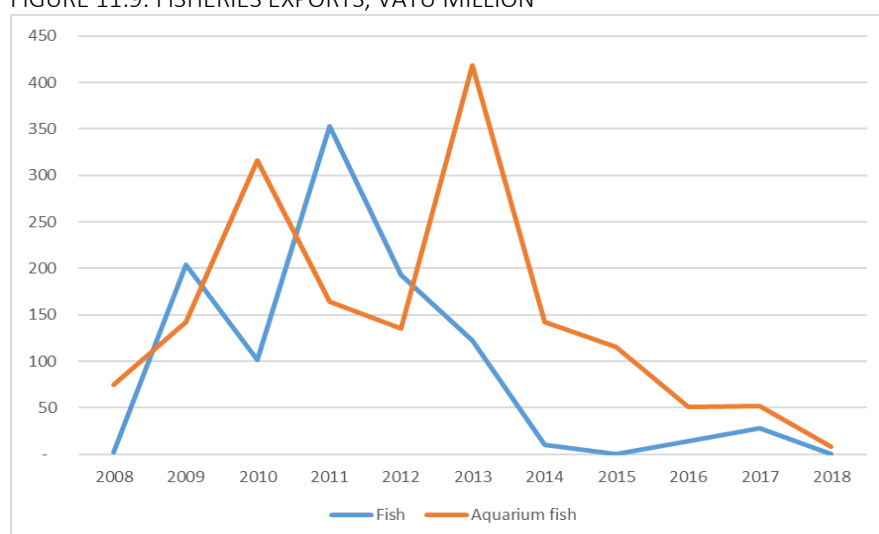
Vanuatu has a maritime Exclusive Economic Zone (EEZ) of 680,000 km² and an archipelago coastline of approximately 2,528 kilometres.⁴²⁵ About 70% of Vanuatu's population lives on the coastal lowland making subsistence fisheries extremely important in the local economy for household income and food security.⁴²⁶

Fisheries comprise the marine, freshwater, aquaculture, and recreational subsectors. Marine fisheries have two components: coastal and offshore. Coastal fisheries are mostly subsistence fisheries and for sale in local markets, with the exception of the export-oriented sea cucumbers,^{clviii} and aquarium fish. In 2014, 3,906 tonnes of catch were estimated from coastal waters.⁴²⁷ Offshore fisheries are undertaken on an industrial scale by longline and purse seine vessels within Vanuatu EEZ;^{clix} the largest catch is tuna. From 2008 to 2018, an average of 7,484 tonnes of tuna were caught each year from offshore national waters.⁴²⁸ Freshwater fishing is not prevalent, with the 2014 catch estimated to be 88 tonnes; while aquaculture is still at its infancy,^{clx} with good potential to develop further in the future. The recreational sub-sector's importance is increasing: it involves sport fishing and has strong links with tourism.⁴²⁹

In the past decade, fish products have never been among the top exports for Vanuatu. Export levels were volatile for the period 2008 to 2013, and in sharp decline thereafter – see Figure 11.9. In particular, fish exports significantly declined since 2012, and have been negligible from 2014 to 2018 due to Tuna Fishing Vanuatu Limited relocating their operations in the Solomon Islands.

Aquarium fish also decreased, at an annual growth rate of 55% from 2013 to 2018. Major export destinations in 2018 were Australia (85% of total aquarium fish exported), the United States (13%) and New Caledonia (2%).

FIGURE 11.9: FISHERIES EXPORTS, VATU MILLION



Source: DCIR

In the 1990s, the only two urban fish markets^{clxi} ceased their operations leading to fresh fish being sold on the day at local markets or in a limited group of retailers in urban areas.⁴³⁰ The lack of adequate refrigerated fish-storage resulted in inconsistencies of fish supply for consumers, as well as for the catering and hospitality sector. In 2018 and in 2019 the Supekalapoa and the Tamahu Natai fish markets

^{clviii} Due to extensive over-fishing in the last few decades, the Government imposed a ten-year moratorium on the harvesting of sea cucumber in 2008 – Chapter 9.

^{clix} According to official reporting, all foreign vessels licensed to fish in Vanuatu zone in 2018 were tuna long-liners. In 2018, there were 83 long-liners, while the average for the period 2008 to 2018 has been 105.

^{clx} According to Gillett (2016), aquaculture production was estimated to be 27,300 pieces and 43 tonnes.

^{clxi} These two government-owned fish markets were established in Port Vila and in Luganville in 1983.

opened, in Luganville and Port Vila respectively. These two markets are jointly managed and operated by the Department of Fisheries, the Office of the Registrar of Cooperatives & Business Development Services (ORCBDS), and the Municipalities.

Vanuatu has not had a fish factory since 2014. As a result, most of Vanuatu's fish was caught against a fee and landed in other nations, thus leading to a decline in exports. The launch of the Sino-Van fish processing plant^{clxii} near Port Vila in October 2019 may revert this trend and places fisheries among the sectors with significant export potential. The plant will focus on frozen and fresh tuna processing for both the domestic and the export markets (mainly China and the United States, but also Europe) and, in a second phase, it may consider canned tuna, which is currently solely imported.^{clxiii}

The Sino-Van processing plant presently owns a fleet of six longline vessels and aims to purchase the catch of the vessels holding a licence for fishing in Vanuatu EEZ. Should the Sino-Van plant be able to sell overseas all the tuna caught in Vanuatu waters, this would result in over USD 60 million of exports per year,^{clxiv} which is approximately one and a half times Vanuatu's merchandise exports in 2018. The Sino-Van plant will need a stable political, institutional, and regulatory environment, quality providers of vessels' maintenance, improvement in logistics, enhanced infrastructure for fishing and marketing, and ease of market access to deliver on its promise of a revitalised fisheries sector in Vanuatu.

Discussions with China on options to reduce their tariffs on relevant codes (now between 5% and 7%) may be beneficial. Discussion with other development partners should also be undertaken - see Chapter 4.

The Vanuatu National Fisheries Sector Policy 2016-2031, the first sectoral vision, is aligned with the NSDP and OPSP 2012-2017's objectives. Recognising the main challenges of the sector, the Policy focuses on fisheries governance, sustainable and economically viable fisheries and aquaculture, access to finance, infrastructure, market access, seafood safety and value adding, sustainable growth, employment, and food security.⁴³¹ The Fisheries Act 2014 is the main sector's regulatory framework for the sector.

The Department of Fisheries acts as the industry regulator; conserving, managing, and developing fisheries resources.^{clxv} They issue and renew fishing licenses and permits, and collect fees from catch. The Department collected an average of VUV 330 million per year in government revenues from 2014 to 2018.⁴³²

11.8.1 Recommendations

- a. Continue to monitor annual catch volumes for EEZ fish (e.g. tuna) and ensure they remain below the sustainable yield limits
- b. Monitor fish processing plant and fish markets performances, including financial viability

^{clxii} The plant is a joint venture between the Government and the China National Fisheries Corporation.

^{clxiii} Vanuatu imported an average of over VUV 234 million of canned tuna per year from 2008 to 2017.

^{clxiv} This number assumes the following. Total tuna catch in Vanuatu EEZ: 7,484 tonnes (average annual catch 2008-2018); price: USD 8,139 per tonne of tuna (average prices for Albacore, Yellowfin and Bigeye in 2018).

^{clxv} To access the Fisheries Act, regulation, policies and plans, visit the following websites:

<https://malffb.gov.vu/index.php?id=3> or <https://fisheries.gov.vu/>.

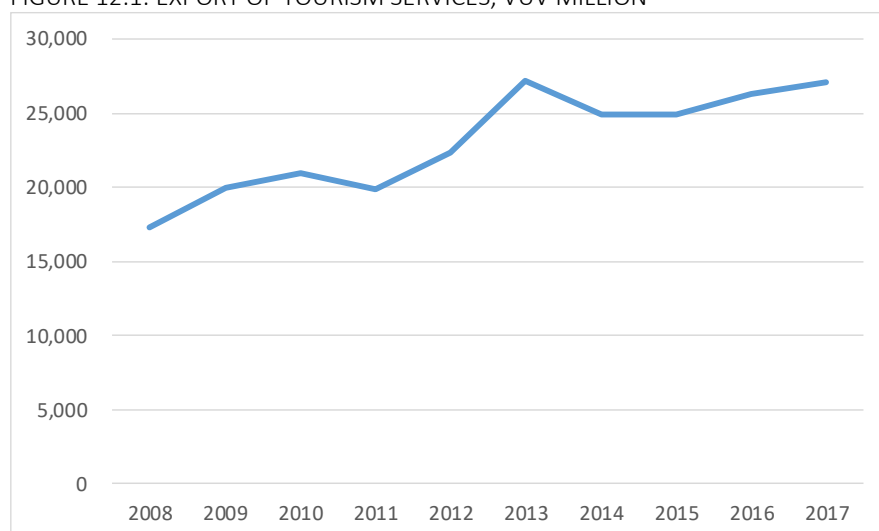
CHAPTER 12: TOURISM SERVICES

12.1 Export Performance

12.1.1 Export value and volume

The Reserve Bank of Vanuatu (RBV) classifies tourism as an export under Travel Related Services. RBV indicates that the value of tourism exports has increased from VUV 14.0 billion in 2007 (26% of GDP) to VUV 27.1 billion in 2017 (30% of GDP),^{clxvi} equating to an average annual increase of 6.8%.

FIGURE 12.1: EXPORT OF TOURISM SERVICES, VUV MILLION

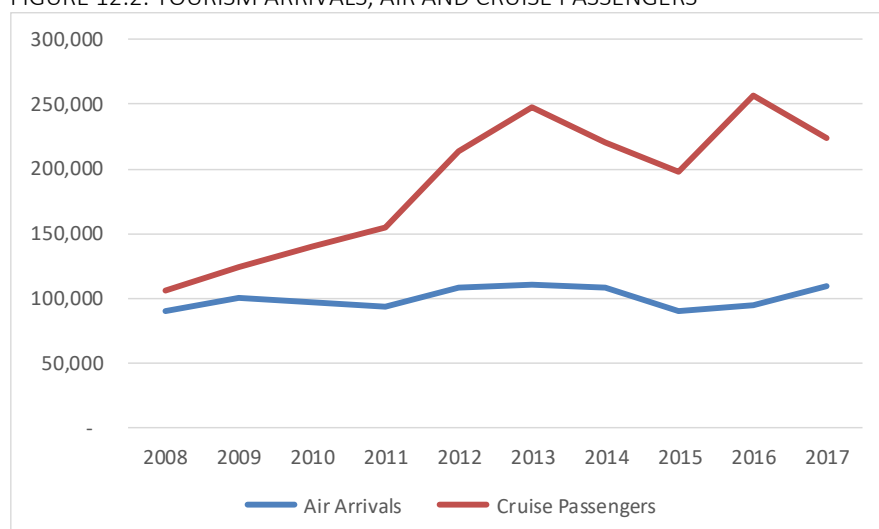


Source: Reserve Bank of Vanuatu (2018a)

The tourism sector is the mainstay of the Vanuatu economy and represents the major source of export earnings. In 2017 international tourism was responsible for approximately 75% of total exports from Vanuatu.

Tourism in Vanuatu is underpinned by day visitors who arrive by cruise ships and air visitors arriving primarily from short haul markets. Whilst both air and cruise arrivals have grown over the last decade, cruise passengers have exhibited the stronger growth (see Figure 13.2).

FIGURE 12.2: TOURISM ARRIVALS, AIR AND CRUISE PASSENGERS



Source: Vanuatu National Statistics Office (VNSO)

^{clxvi} Uses the IMF estimated rate of growth for 2017 from the 2018 IMF Article IV

The level of air arrivals has continued to grow over the last ten years, from 90,657 in 2008 to 109,170 in 2017,⁴³³ but significant shocks impacted the market in 2015 (Tropical Cyclone PAM) and 2016 (inadequate infrastructure maintenance of Bauerfield Airport – Port Vila). The Vanuatu International Visitor Survey (IVS) indicates that direct expenditure from air visitors was VUV 18.7 billion in 2017.⁴³⁴ The same survey indicates that average daily expenditure from air visitors was VUV 21,031 per day in 2017.

Cruise passenger arrivals to Vanuatu increased from 106,138 in 2008 to 254,489 in 2016 (296 calls) but declined to 223,551 in 2017 (268 calls). The level of proposed calls was also lower for 2018 at 214,⁴³⁵ although this is in part due to increased vessel size resulting in reduced frequency, and also to a change in scheduling by the cruise lines to primarily offer shorter seven- and nine-day cruises. Daily expenditure varies significantly depending on the port of call. Average passenger expenditure was estimated to be VUV 7,611 per day in Port Vila^{clxvii} and significantly lower for Luganville and Mystery Island (VUV 3,568 and VUV 872 per day respectively) in 2013.⁴³⁶

12.1.2 Types of products exported

The holiday market is the major source of arrivals for Vanuatu and represents the major export. The main features of the Vanuatu tourism product are the authentic culture and natural attractions which include pristine reef and marine life, volcanoes, and traditional cultural events.

In 2017 holiday visitors accounted for 76% of all visitor arrivals by air, followed by visitors who arrived for business, meetings and conferences (8%), and visitors coming to visit friends and relatives (8%). Tourists coming for education and sports accounted for about 7% of total visitors.

Different destinations within Vanuatu do, to an extent, offer different tourism products. The vast majority of air visitors only travel to the main island of Efate, although visitors are increasingly travelling to outer islands. Visits to the outer islands have been growing at a faster rate than the overall level of visits over the last four years, with an average increase of 19% per annum (see Table 13.1).⁴³⁷

Espiritu Santo has been the beneficiary of the introduction of direct flights from Brisbane by Air Vanuatu and has increased its share of international air arrivals from 2.7% in 2010 to 5.2% in 2017, with an annual average growth rate of 18% over the last four years. Tanna still receives more visitors with 10,301 air arrivals in 2017 and had an annual average growth rate of 18% over the last four years.

TABLE 12.1: VANUATU OUTER ISLANDS - TOURIST ARRIVALS BY AIR

Island	2014	2015	2016	2017	Average growth rate
Tanna	6,343	7,295	7,774	10,301	18%
Espiritu Santo	4,739	5,342	6,861	8,840	23%
Efate offshore Islands	2,144	3,201	4,328	3,333	16%
Malekula	636	945	935	1,071	13%
Ambrym	521	775	863	837	19%
Pentecost Island	379	1,093	820	550	17%
Other Islands	1,349	1,572	1,973	2,416	21%
TOTAL	16,111	20,223	23,554	27,348	19%

Source: Vanuatu National Statistics Office (VNSO)

The average length of stay in Vanuatu for air visitors is 11.4 nights,⁴³⁸ length of stay is slightly shorter for Port Vila at 10.4 nights compared to Espiritu Santo at 12.3 nights. The average length of stay for the country has increased by approximately 11.5% since 2010.

For cruise ship visitors, the majority of calls are to Port Vila and Mystery Island (Aneityum), with a smaller number of calls visiting other outer islands including Tanna, Espiritu Santo, and Pentecost. Port Vila received 52% of calls followed by Mystery Island with 38%.⁴³⁹ The Espiritu Santo market share

^{clxvii} Exchange rate of AUD 1 = 79.2859 VUV used for the purposes of conversion of original data

(including Champagne Beach) declined from 21% in 2017 to 8% in 2018, due to issues with the new wharf in Luganville and rescheduling by the cruise operator – see Chapter 6. Pentecost received five calls in 2018 associated with the traditional land diving or ‘Nangol’. The majority of cruise ships which visitors in Vanuatu are from Australia on short seven to ten-day trips.

TABLE 12.2: VANUATU CRUISE SHIP CALLS – 2009 -2018

Location	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Port Vila	50	57	73	111	126	123	104	139	117	111
Mystery Island	23	21	57	55	74	67	63	103	95	81
Wala	9	11	15	18	18	5	0	0	0	0
Champagne Bay	6	4	13	17	16	19	29	26	27	4
Pentecost	3	5	5	3	2	5	4	3	1	5
Luganville	2	2	6	15	16	25	26	25	28	13
TOTAL	93	100	169	219	252	244	226	296	268	214

Source: Department of Tourism (DoT)

The Department of Tourism (DoT) has developed additional criteria to classify specific types of tourism products including accommodation type and type of tourism activity (land and water-based). Currently this system of classification is in the initial implementation stage and there is insufficient data to provide information in relation to these criteria.

12.1.3 Export destinations

The short haul markets of Australia, New Zealand and New Caledonia are the traditional main markets of Vanuatu and provide the majority of visitors. These three markets combined make up 79% of arrivals in 2017 and over 90% of cruise passengers.⁴⁴⁰

Australia is the largest inbound market, accounting for more than half (53%) of all air arrivals in 2017, followed by New Caledonia (15%), New Zealand (11%), Other Pacific Countries (7%) and Europe (6%). Air arrivals from Australia and New Zealand are still to return to pre-cyclone PAM levels. China has been the fastest growing country during the past decade, but from a low base and still represents only 3.3% of all air arrivals to Vanuatu.

TABLE 12.3: VANUATU AIR ARRIVALS BY COUNTRY OF ORIGIN

Year	Australia	New Zealand	New Caledonia	Other Pacific Countries	Europe	North America	Japan	China	Other Countries
2008	53,251	13,916	9,648	3,759	4,887	2,578	590	n.a.	2,028
2009	64,909	12,607	9,155	3,708	4,890	2,549	642	573	1,643
2010	58,760	11,927	11,410	4,719	4,888	2,395	517	693	1,871
2011	57,843	11,399	11,376	3,397	5,265	1,922	630	581	1,547
2012	65,405	14,430	13,138	4,313	5,491	2,094	705	623	1,962
2013	65,776	15,068	12,515	4,874	5,544	2,614	659	1,062	1,997
2014	60,808	16,293	12,756	6,630	5,591	2,373	763	1,563	2,031
2015	46,098	13,422	10,567	5,953	5,839	2,962	633	2,186	2,292
2016	49,752	10,931	9,681	5,705	10,067	2,893	903	2,736	2,449
2017	57,387	11,554	15,880	7,147	6,806	3,016	1,076	3,612	2,692

Source: VNSO

12.2 World Market Conditions

12.2.1 World market prospects

Globally tourism arrivals grew by an average of 3.7% per annum between 2007 and 2017, from 920 million⁴⁴¹ to 1.32 billion.⁴⁴² The rate of growth for the Oceania region^{clxviii} was somewhat lower at 3.3% per annum, from 2005 to 2016. Vanuatu arrivals grew at a slightly lower rate of 3.0% per annum

^{clxviii} Oceania region includes Vanuatu and other Pacific countries, but also includes New Zealand and Australia

between 2007 and 2017.

Global tourism receipts were USD 1,186 billion in 2017, whilst for the Oceania region the total value was USD 50.5 billion (4.2%). Globally, the average expenditure per arrival was USD 900 in 2017, whilst for Oceania this was significantly higher at USD 3,040.

The United Nations World Tourism Organization (UNWTO)'s long-term growth forecast indicate that tourism arrivals will grow by an average of 3.3% per annum until 2030, up to 1.8 billion.

The adventure tourism market,⁴⁴³ which is closely targeted by the Vanuatu Tourism Market Development Plan (VTMDP), is estimated by the UNWTO to be one of the fastest growing market segments, with an estimated compound annual growth of 46 percent between 2016 and 2020.

The global cruise market grew at an average of 5.6% per annum over the last nine years.⁴⁴⁴ In Vanuatu the rate of growth was higher, at an average of 8.3% per annum.

Australia and New Zealand are the primary source markets for most Pacific countries. Arrivals to the Pacific have been consistently growing at approximately 5% per annum since 2007.⁴⁴⁵ Starting from a low base, Asia is becoming an important source of arrivals. Other Asia arrivals (Asian countries less China and Japan), have grown at a similar rate as Australia and New Zealand, whilst China has shown stronger growth at 13.2% over the last 5 years.^{clxix} Growth from China reflects growth in business traffic, as well as some growth in holiday traffic, mainly to Fiji.

Total outbound air departures from Australia, the main source of arrivals to the Pacific, were approximately 9.11 million in 2017.⁴⁴⁶ Trips by Australians (by air) to all Pacific countries accounted for approximately 9% of all outbound trips; air arrivals to Vanuatu represented around 7% of Australian arrivals to the Pacific.

For New Zealand, departures by air were 2.9 million in 2017.⁴⁴⁷ Departures to all Pacific countries accounted for 14% of total outbound trips. Air arrivals in Vanuatu represented around 2.9% of New Zealand arrivals to the Pacific.

China's outbound air departures were 129 million in 2017. Total arrivals to the region were 0.11% of all outbound trips.⁴⁴⁸ Arrivals in Vanuatu represented around 2.5% of Chinese air arrivals to the Pacific.

For New Caledonia, an important source market for Vanuatu, total departures were 127,000 in 2015.⁴⁴⁹ Departures to Vanuatu accounted for about 8% of total departures by air.

12.2.2 Major competitors

Vanuatu competes mainly with other major Pacific tourism destinations for the short haul markets of Australia, New Zealand, and New Caledonia. The number of arrivals by air in the Pacific for 2017 was 1.96 million. Fiji was the leading destination with approximately 843,000 air arrivals (42.9% of the total), whilst French Polynesia was second with 199,000 arrivals (10.1%). Vanuatu ranks ninth.⁴⁵⁰

The average rate of growth in tourism air arrivals for Pacific countries^{clxx} in the ten years since 2007 has been 3.2% – broadly the same as Oceania. The more developed tourism destinations achieved higher rates of growth, with the Cook Islands at an average of 5.22% per annum and Fiji at 4.57%.

In terms of cruise ships, Vanuatu's main competitor is New Caledonia. The number of cruise passengers in the Pacific was 982,000 in 2017. New Caledonia is the top destination (493,000 arrivals), followed by Vanuatu.⁴⁵¹ The main cruise companies are based in Australia and earn the majority of cruise revenues from short haul cruises. Pacific ports inside the short haul cruise range are Port Vila, Luganville, Champagne Beach, Mystery Island, Noumea (New Caledonia), Lifou (New Caledonia), and Isle De Pines (New Caledonia). The residual traffic arises from repositioning cruise itineraries, boutique and expeditionary cruise itineraries, round the world cruise itineraries, and long-haul cruise itineraries.⁴⁵²

^{clxix} Statistics for China are only available for the last five years

^{clxx} Pacific countries in this instance refers to the countries which were member countries of SPTO for the period

The South Pacific Tourism Organization (SPTO) estimates that international air visitor arrivals to Pacific Countries will reach approximately 2.25 million in 2019,⁴⁵³ generating expenditure worth an estimated USD 4.2 billion^{clxxi} to the regional economy – approximately 8% of the total value for Oceania. With the addition of cruise passenger expenditure, the total value of the tourism sector for the Pacific region is estimated to reach 4.4 USD billion by 2019.

12.3 Domestic Supply Conditions

12.3.1. Current producers and production capacity

A very significant data gap still exists with regard to tourism supply in Vanuatu; no data is publicly available on the total number and distribution of tourism products including accommodation and rooms supply, which is surprising given the importance of the sector.

Overall there is substantial underutilisation of existing accommodation products, due to an imbalance between supply and demand in the sector.

The Vanuatu Hotel and Resort Association (VHRA) estimated the total number of hotel rooms for Efate, Espiritu Santo, and Tanna at 2,307 in 2017.^{clxxii} There have been some supply additions in recent years, both in larger resorts and hotels on Efate, and boutique resorts on Espiritu Santo and Tanna.

According to the VHRA, room occupancy rates averaged 52% for their members in 2017, an increase from 44% in 2016 and 42% in 2015. Luxury hotels reported a higher occupancy rate, while accommodation outside Efate generally reported lower occupancy rates.

VHRA estimates do not include the numerous smaller guesthouses. Official data for guesthouses is unavailable, however, anecdotal evidence indicates that there have been significant supply additions to the local guesthouse sector in the outer islands. Although no formal data is kept, anecdotal evidence also suggests that many outer island guesthouses are only achieving low occupancy levels.

The VHRA estimates that there are also an additional 282 rooms provided through holiday homes on Efate and Espiritu Santo.

The Vanuatu cruise market is dominated by Carnival Australia (65%) and Royal Caribbean Cruise Lines (35%). Fleet expansion plans will see cruise vessels increasing capacity from 1,500 passengers to around 5,000 passengers in the next few years, which is expected to increase volume of passengers but reduce the number of calls.

The large volume of cruise passengers has stimulated significant investment in land and marine based tour operators and local attractions catering for this day tour market. As a consequence, Port Vila has a wide range of day tour activities.

The Vanuatu Strategic Tourism Action Plan (VSTAP) identifies that there are over 200 operators providing land-based activities in Vanuatu; these activities include cultural products, village tours, and some traditional handicrafts. In addition, VSTAP identifies that there are more than 50 marine-based tourism operators in Vanuatu, organising tourism activities such as: kayaking, paddle-boarding, kite-surfing, ocean swimming, sports fishing, and yachting.⁴⁵⁴

12.3.2 Quality of products and services

The Department of Tourism (DoT) has designed a comprehensive Tourism Accreditation Programme which outlines minimum standards for tourism operators covering both accommodation and activities including hotels, guesthouses, island bungalow operators and marine and land-based tours. Currently the Programme is linked to the system of Tourism Permits which are issued by DoT to compliant businesses, with standards defined for each of the relevant Business License's sub-sector.⁴⁵⁵ Funding

^{clxxi} Broad estimates only (excluding inflation and currency fluctuations)

^{clxxii} Assuming 2.5 beds/room and an average length of stay of 10 days, existing supply would be able to absorb 210,500 tourists/year. VHRA figures on occupancy rate suggest that these numbers may be broadly correct.

and capacity constraints may hinder the sustainability of the current approach.

Several local industry associations operate under either local or international codes of practice or standards; the Vanuatu Scuba Operators Association (VSOA) operates under the Professional Association of Diving Instructors (PADI) international code, whilst the VHRA and the Vanuatu Tour Operators Association (VTOA) have their own Codes; these Codes are both broad in nature, rather than covering the specific sub-sector standards developed by the DoT.

12.3.3 Capital and technology

12.3.3.1 Capital

As noted in Chapter 6, capital investment in roads has been transformational for the tourism industry, notably in Efate and Espiritu Santo. However, there is a clear need to devote additional resources to maintain the road network.

After a period of inadequate maintenance, substantial capital investment in airports is now taking place to rehabilitate and improve crucial tourism-related infrastructure in Efate, Tanna, and Espiritu Santo.

The increase in cruise vessel size will place increasing demands on port infrastructure. The recent developments at Port Vila main wharf (the old wharf) have been designed to accommodate the larger new vessels but concerns have been expressed by the cruise companies regarding the capacity of the new wharf on Espiritu Santo to accommodate larger vessels.⁴⁵⁶ The capacity of the existing road infrastructure to deal with increased passengers and associated traffic volumes, particularly in Port Vila, is also a concern.

In addition, increased tourism levels, along with urbanisation, has increased the need to improve waste management and sewage systems; this is particularly the case in Port Vila, where the Municipality has recently banned swimming (and associated swim events partly aimed at tourism) due to concerns over water quality in the harbour.

12.3.3.2 Technology

The internet has had a substantial impact on the distribution of tourism information and bookings; the World Travel and Tourism Council estimates that in 2017, 80% of travel planning is made through the internet and 33% of travellers use travel blogs for advice.

The tourism sector has been one of the most receptive industry to the developments in Information and Communicating Technologies. The Vanuatu Tourism Office's (VTO) website includes up-to-date information about the Vanuatu's tourism products, including a comprehensive list of accommodation divided by type and location. Some advances have also been made through the availability of e-commerce platforms, with on-line payment technology made available to the industry through BRED Bank.⁴⁵⁷

VSTAP highlights the need to further develop on-line technology capacity among local providers and the critical difference this can make to business sustainability. Some operators in the outer islands are receiving training and capacity building through the Vanuatu Skills Partnership Programme, but there is a need to further upskill local tourism businesses to enable global on-line distribution.

12.3.4 Labour force mobility, skills and skill gaps

Tourism is a major source of employment in Vanuatu, but precise workforce figures are not available; VSTAP estimates the number employed in the sector at approximately 8,000 – equivalent to 37% of formal employees in 2013.

The Vanuatu Industry Survey 2018 indicated that 52% of tourism businesses find it hard or very hard to recruit Ni-Vanuatu with the required skills, up to the point that concerns have been expressed over the potential impact of expanding the Australian Seasonal Workers Program into tourism and hospitality industry.

Certificate level I, II, III, and IV courses in tourism and hospitality are available in Vanuatu through the Vanuatu Institute of Technology (VIT), the St. Michel Technical College, the Torgil Rural Training Centre, and the Australia Pacific Training Coalition (APTC). Moreover, the Vanuatu Skills Partnership, funded by the Governments of Australia and Vanuatu, has worked broadly with over 130 Ni-Vanuatu tourism businesses to include product quality and tourism services, in partnership with the DoT.

There is a need to increase the level of tourism and hospitality training at all levels, to meet the increased demand from the growth of the sector, as well as opportunities for overseas employment of Ni-Vanuatu. Increased training provision will be particularly important if the growth targets established under the Vanuatu Tourism Market Development Plan (VTMDP) are to be achieved.

12.3.5 Availability and conditions of support industries

Tourism relies upon a wide range of support sectors including construction, agriculture, and telecommunications. In Vanuatu the linkages between the tourism sector and local primary producers are poor. A study by the International Finance Corporation (IFC)⁴⁵⁸ indicates that 54% of all food products served by hotels are imported; this equates to over VUV 1.68 billion a year. Substantial opportunities exist to substitute imported fresh produce for selected vegetables and fruits, as well as fish and meat and poultry products.

The 2017 Vanuatu Agritourism Plan of Action (VAPA) provides a roadmap for the development of agritourism, including the strengthening of linkages between tourism, agriculture and handicrafts.

Only limited implementation of VAPA has been undertaken since 2017 including recent efforts to increase local production of potatoes and strengthen beef production, as well as initiatives to enhance handicraft production and sales to tourists. Significant opportunities still exist to increase linkages in a number of areas and substantially increase the economic impact of the sector, through a more coordinated and comprehensive implementation of the VAPA.

The cost of vital supporting services and infrastructure in Vanuatu is also high, resulting in relatively high operating costs for the tourism sector. In particular Vanuatu has a high cost of power and relatively high domestic air transport cost, with only one major domestic airline (Air Vanuatu).

Air Vanuatu is the national carrier and operates as a State-Owned Enterprise (SOE). The airline has limited financial capacity to significantly grow its fleet and services, although it has been instrumental in establishing direct services to Espiritu Santo and in maintaining access to foreign markets, when other carriers reduced services due to the impact of Cyclone PAM and inadequate international airport standards. Despite its limited capacity, in January 2019 Air Vanuatu introduced a scheduled service to Melbourne, Australia,⁴⁵⁹ and is announced addition of eight large aircraft for the international sector by 2030.⁴⁶⁰ Expanding air connections is crucial for the development of the tourism industry.

12.4 Domestic Policy and Regulatory Environment

12.4.1 Specific policies and regulations to promote the sector

The Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business (MTTCNVB) has the overall mandate for tourism sector policy and management. The DoT has specific responsibility for tourism policy, planning, standards, training coordination and coordination with other sectors. The budget of the DoT was approximately VUV 64 million in 2018; around two thirds of the annual budget is allocated to payroll costs, leaving a relatively small amount for operations.

The destination marketing of Vanuatu is coordinated by the Vanuatu Tourism Office (VTO), which is a statutory authority operating under a government grant. The grant was approximately VUV 185 million in 2018, although in recent years additional funding of approximately VUV 140 million has been provided by the New Zealand and Australian governments as part of their assistance towards to Cyclone PAM recovery.

Destination marketing activities are also supported by a number of industry associations including the Vanuatu Hotels and Resorts Association (VHRA), the Vanuatu Scuba Operators Association (VSOA) and Espiritu Santo Tourism Association (ESTA), through a voluntary marketing levy on accommodation providers - Tourism Marketing Development Fund (TMDF); collection rates have varied but a target of VUV 30 million has been set by the VHRA for this levy. VHRA are seeking government support to improve collection rates, including through approval of relevant secondary legislation, and to extend the levy to all tourism-related businesses. These options should be supported - the VHRA estimates that additional collection could worth be approximately VUV 80 million per annum.

There are a number of private sector associations in the tourism sector, such as the VHRA, the Vanuatu Tour Operators Association (VTOA), the VSOA and the Vanuatu Island Bungalows and Tourism Association (VIBTA). A number of these associations' representatives participate at Board level to the VTO and/or the National Trade Development Committee.

The overarching national development policy is set out in the National Sustainable Development Plan (NSDP). Tourism is mentioned in three policy objectives, mostly in terms of linkages with agriculture (NSDP ECO 3.1), need to promote tourism to outer islands (NSDP ECO 3.2) and the need to promote sustainable tourism products (NSDP ECO 4.4). Whilst tourism is not explicitly mentioned as an NSDP Goal, it is implicitly included in Goal ECO 1: "A stable and prosperous economy, encouraging trade, investment and providing economic opportunities for all members of society throughout Vanuatu".⁴⁶¹

This VSTAP 2014-2018 provides a roadmap for tourism sector. The VSTAP is framed around six objectives as follows: Governance, Marketing, Infrastructure and Transport, Investment, Product Development and Human Resource Development. A review of VSTAP is programmed for the last quarter of 2018.

Several other subsector strategies and reviews have been undertaken or are in the process of formulation, including the Vanuatu Sustainable Tourism Policy and the Vanuatu Cruise Ship Strategy. As the VSTAP's final year of implementation was 2018, the DoT has commenced discussions with donor partners regarding the preparation of a new overarching tourism sector plan. It will be important for public and private sector stakeholders, as well as donor partners, to work together on this plan.

Specific legislation governing the tourism industry in Vanuatu includes the Foreshore Development Act (Chapter 90), requiring written consent of the Minister for any foreshore development project, and the Tourism Council Act no.23 of 2012. Under the latter, a National Tourism Council, and six Provincial Tourism Councils, were established. This Act also contains provisions on compulsory tourism accreditation.⁴⁶²

The Foreign Investment Promotion Act (Chapter 248) reserves certain types of tourism services for Ni-Vanuatu including local tour agents and small guest houses. The Act provides for minimum foreign investment levels in prescribed sub-sectors thus supporting Ni-Vanuatu participation in activities with a low capital entry barrier.⁴⁶³

Under the Import Duty Act, the Director of DoT can recommend the Director of Customs to apply duty exemption for goods imported for tourism development projects.⁴⁶⁴

12.5 Future Directions

12.5.1 Export products

The VTMDP developed by the Vanuatu Tourism Office (VTO), which is strongly supported through a shared aviation and tourism vision with Air Vanuatu Operations Limited (AVOL) and Airports Vanuatu Limited (AVL), establishes a target of 300,000 air visitors by 2030.

It identifies the need for new accommodation and new attractions. The VTMDP identifies the need to support private sector investment in two major brand name hotels, two upmarket boutique resort, a

new world class attraction on Efate and development of liveaboard^{clxxiii} options.

It also indicates the need to increase dispersal of visitors to outer islands through new route development, including through increased use of Espiritu Santo as a hub to the outer islands, and expansion into more adventurous market segments. Specific activity segments mentioned in the VTMDP include nature-based, adventure, diving, sports tourism, fishing, conferences and weddings.

To achieve the above objective, the VTMDP identifies the need to enhance infrastructure through public investment in completion of the works at Bauerfield, Tanna and Espiritu Santo airports, upgrading of domestic airports at Gaua (Banks), Ambrym, and Norsup (Malekula), road maintenance and the beautification of Port Vila and Luganville and expansion of Air Vanuatu’s current fleet.

Priorities for Cruise Shipping under the VTMDP include the upgrading of hydrographic navigational charts for Port Vila, Espiritu Santo, and Tanna, targeting expedition cruises in the outer islands and improvements to the arrival/departure and visitor experience.

12.5.2 Export destinations

Route development priorities identified under the VTMDP include improved access from New Zealand, maintaining year-round peak-season schedules, new direct services from Melbourne, improved connections from long haul markets and limited charter services from China during peak holiday periods.

The VTMDP also identifies the need to provide additional marketing funds to support the targeted market growth. Given the increased growth levels targeted and the increasingly competitive international environment, additional public and private sector marketing funding will need to be a priority.

12.6 SWOT analysis tourism

Strengths	Weaknesses
<ul style="list-style-type: none"> • Growing diversification of products – Espiritu Santo and other outer islands, cruise • Diverse suppliers – accommodation, restaurants, tour operators • Emerging market segments - adventure, experiential, culture • High level of visitor satisfaction 	<ul style="list-style-type: none"> • Underutilised accommodation • Low industry profitability • Weak linkages to productive sectors • Lack of adequate budget and consistent funding mechanism for destination marketing • Limited dialogue with government • Low Ni-Vanuatu participation in the sector – directly and indirectly
Opportunities	Threats
<ul style="list-style-type: none"> • Strong donor support for the sector • Growth of cruise market – globally and regionally • Growing demand from core and emerging markets • Growing demand for nature-based and adventure tourism segments • Presence of national airline (Air Vanuatu) with route development role • Enhanced VTO capacity • Improved infrastructure and access – wharfs, roads, airports • Sector plan (VSTAP) under review 	<ul style="list-style-type: none"> • Inadequate infrastructure maintenance and delays in works (Infrastructure asset decline) • Traditional land system inhibits investment • High cost of tourism operations including domestic air transport • High cost of utilities • Bauerfield airport capacity limitations • Lack of clarity on sector planning after VSTAP • Air Vanuatu undercapitalised • Poor enforcement of regulations including environmental and building codes • Low workforce skills base and small labour market • Damaging environmental impacts – poor developments, lack of regulation enforcements,

^{clxxiii} Journey or holiday (especially a cruise or diving trip) which involves living aboard a ship or boat for a time

-
- poor infrastructure
 - Natural disasters
 - Loss of traditional culture
-

12.7 Recommendations

- a. Increase tourism arrivals by air and sea and ensure the sustainable development of the sector through enhanced sector management and planning
- b. Increase the value of the VTO marketing funds through a combination of levy and government grant to fully implement the Vanuatu Tourism Market Development Plan (VTMDP)
- c. Provide the necessary support and develop mechanisms to broaden the application of the Tourism Marketing Development Fund (TMDF) to all businesses who are direct or indirect beneficiaries of tourism
- d. Expand training provision to meet increased demand for skilled tourism and hospitality workers domestically and internationally
- e. Continue to invest in infrastructure maintenance and upgrading to facilitate tourism growth including wharfs, airports, roads, waste management and sewage systems
- f. Continue to facilitate dispersal of tourists away from Port Vila by marketing the outer island attractions and dispersing cruise visitors around Efate and to Espiritu Santo
- g. Implement the Vanuatu Agritourism Plan of Action (VAPA) including building stronger linkages between tourism and the productive sectors including agriculture, livestock, poultry and fisheries through increased local production
- h. Review the Vanuatu Strategic Action Plan (VSTAP) and facilitate enhanced public/private sector dialogue, to formulate a new overarching tourism sector plan (VSTAP II) to provide an updated roadmap for sector development beyond 2018

CHAPTER 13: OTHER SERVICES (OFFSHORE AND ICT)

13.1 Offshore services

13.1.1 Export performance

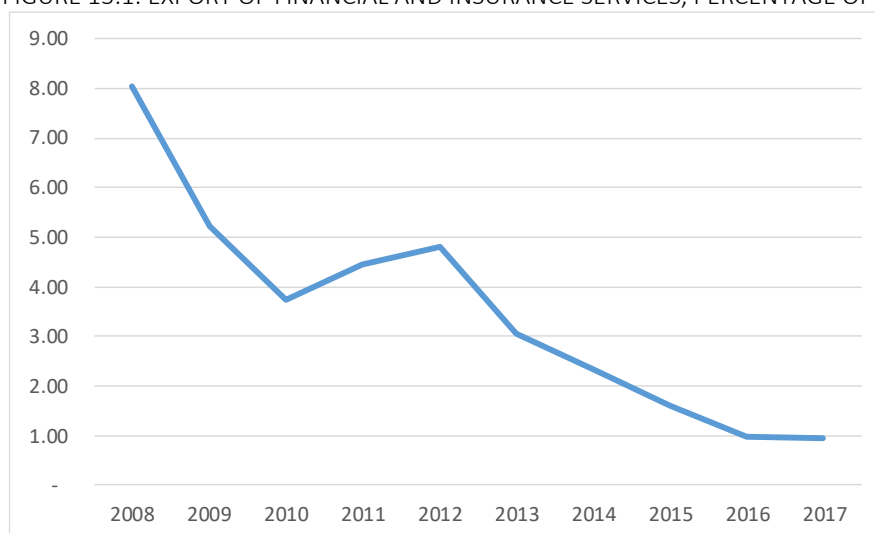
The Vanuatu Offshore Financial Centre (OFC) is a small, natural tax haven that provides services to non-residents in the form of offshore companies and the investment of offshore funds.

13.1.1.1 Export value and volume

By definition, all services provided “offshore” are directed towards international companies and individuals not residing in Vanuatu and are classified as services export. Offshore services include financial and insurance services provided to non-residents by offshore banks and insurance companies as well as auxiliary services (such as legal and accounting services).

Back in 2007 the OFC was a relatively significant contributor to Vanuatu’s economy, with clients attracted by Vanuatu’s absence of personal or corporate income taxes, estate or death duties, capital gains taxes, exchange controls, withholding taxes, and (up until 2018) tax treaties. The contribution to Vanuatu’s economy has rapidly decreased over the years, especially as a consequence of the global fight against money laundering, terrorism financing, and tax evasion – see Figure 13.1.

FIGURE 13.1: EXPORT OF FINANCIAL AND INSURANCE SERVICES, PERCENTAGE OF SERVICES EXPORT



Source: Reserve Bank of Vanuatu (RBV)

13.1.1.2 Type of services exported

The services offered by Vanuatu firms supporting international companies, and the type of businesses international companies are involved in, is illustrated in Table 13.1. The table reveals the predominance of services relating to the establishment and management of international companies, and the award of licenses to securities dealers.

The primary reason for choosing Vanuatu is establishing a company in a jurisdiction which does not charge tax on income, profits, and capital gains and where (at least until recently) beneficial ownership is not disclosed. A growing interest in Vanuatu is coming from Asian countries whose political uncertainty incentivizes investors to hold some assets outside their country of residence. Vanuatu is also used for establishing investment companies whose beneficial owners live in countries with strict foreign exchange controls making it difficult to move capital for investment purposes. Last, Vanuatu is becoming an attractive location for setting up a corporate structure requiring a special license

(securities dealer) that is generally difficult to obtain in the country of residence.^{clxxiv}

TABLE 13.1: SERVICES PROVIDED BY THE VANUATU OFC, 2017

Type of services provided	Type of business
<ul style="list-style-type: none"> • International companies 64.60% • Securities dealer's license 11.73% • Trust services 4.27% • International bank formation 1.60% • Fund management and investment 1.33% • Nominee director 1.00% • Captive insurance 0.67% • Nominee shareholder 0.40% • Offshore foundation 0.07% • Others: 14.33% 	<ul style="list-style-type: none"> • Investment company (forex, securities, hedge fund, mutual fund, private equity) • Trading companies (export, import, retail, wholesale) • Manufacturing companies • Holding company • Services industries • Non-profit organisation • Transport (air, sea) • Technologies (high tech) • Education and R&D • Primary (resource extraction, agriculture, etc.)

Source: Financial Action Task Force

13.1.1.3 Current export destinations

For several decades, the origin of international companies could be traced to Australia, New Caledonia and New Zealand, as well as a few EU nations. In the last 10 years, however, most of the international companies registered in Vanuatu originated from China and Hong Kong Special Administrative Region (SAR), including thanks to the permanent residence visa program introduced by the Government in 2011.^{clxxv} As of October 2018, the Vanuatu Financial Service Commission (VFSC) recorded 3,674 international companies, of which 2,139 originated from Hong Kong SAR.

13.1.2 World market conditions

Traditionally, OFCs were assumed to be small, low-tax jurisdictions in remote locations. In practice, determining which countries are in fact OFCs is difficult. Initiatives spearheaded by Organization for Economic Cooperation and Development (OECD), the Financial Action Task Force on Money Laundering (FATF) and the International Monetary Fund (IMF) have been effective in curbing some excesses of OFCs, especially on the issue of taxation. Nevertheless, countries have been able to adjust and rendered some mechanisms even more complex, through the use of conduits, leading to specialisation. For example, the United Kingdom is main the conduit between European countries and former members of the British Empire, such as Hong Kong SAR, Jersey, Guernsey, or Bermuda. Hong Kong SAR and Luxembourg also serve as key conduits in the route to typical tax havens - British Virgin Islands, Cayman Islands, and Bermuda. The specialisation is not only geographical, but also sectoral, with countries such as United Kingdom, Ireland, Luxembourg, Hong Kong SAR, and Switzerland exercising specific sectoral leaderships.

Tying the Vanuatu OFC with residency programs, including having a representative office in Hong Kong SAR, has proven a smart move when it comes to ensuring a steady flow of international companies into Vanuatu. Looking ahead, however, tax-minimisation schemes may become increasingly problematic as international pressure increases on eliminating tax havens. Over time, some of Vanuatu's neighbours such as Cook Islands and Samoa have rethought the benefits and costs of focusing on tax-minimisation and have increased their efforts to promote trusts designed for asset protection.^{clxxvi}

^{clxxiv} Against this, many international entities will not deal with a licensed Vanuatu entity for the very same reason.

^{clxxv} There is a pre-requisite for acquiring a Vanuatu residency under the permanent residence visa program in Hong Kong SAR, and that is having prior incorporation of a Vanuatu international company. The Vanuatu Financial Services Commission has established itself in Hong Kong for this purpose. This is legislated in the Immigration Visa Regulation No. 180 of 2011. For further information see:

[http://www.hkprg.com/PublishWebSite/hkprg/gallery/getCMSPage.asp?url=/PublishWebSite/hkprg/en/contentPage41466.h](http://www.hkprg.com/PublishWebSite/hkprg/gallery/getCMSPage.asp?url=/PublishWebSite/hkprg/en/contentPage41466.htm)
[tm](#)

^{clxxvi} Attempts by Pacific countries to refocus their offshore sector have not eliminated international pressure. For example,

13.1.3 Domestic supply conditions

13.1.3.1 Producers and production capacity

The OFC is servicing 3,674 international companies and 131 licensed dealers.^{clxxvii} It comprises of seven international banks, a range of insurance companies, and legal and accounting firms licensed by the Vanuatu Financial Service Commission (VFSC) under the Companies and Trust Services Providers Act. As of October 2018, the latter category includes:

- 14 Company and Trust Service Providers (CTSP) - engage in company services (including incorporation, filing of documents at the VFSC, serving as the registered agents), as well as in formation of trusts;
- 16 General Company Service Providers (GCSP) - engage only in company services;
- 10 Limited CSP (LCSP) - can only serve as a registered agent for an international company;
- 3 Special Trust Service Providers (STSP) - manage customary land on behalf of custom owners
- 42 Director Service Providers (DSP) - act as a director of an international company

Commercial banks are also doing part of their business with offshore clients.

Other service providers linked to the offshore industry include 35 designated agents for the Development Support Program (DSP), which grants citizenships to foreign investors.

There is uncertainty about the economic contribution of the Vanuatu OFC, but a common number entertained in the sector is that it represents between 3-5% of annual GDP. Employment figures confirm that the sector is still relevant. According to the RBV, in 2017 the OFC employed about 900 people (3.5% of formal employment), of which 90% are Ni-Vanuatu. The average salary paid in 2016 was about VUV 5 million, which is way above the prevalent rate in Port Vila.⁴⁶⁵ The small base of highly skilled individuals is a part of Vanuatu's economic growth and diversification, and to attract Foreign Direct Investments (FDIs). The OFC professionals also serve the needs of local businesses, and investments in the local economy are sometimes triggered by wealthy clients attracted first by the OFC and then moving onshore to invest in Vanuatu.

13.1.3.2 Quality of services, labour force availability, skills, and skill gaps

The quality of services provided by OFC firms is usually credited as professional. On the job learning plays a critical part in the sector. An expert in offshore services is someone who has many years of experience as an accountant or lawyer and in dealing with offshore clients.

13.1.4 Domestic policy and regulatory environment

The RBV is the regulator and supervisor of the banking system, with the task of ensuring its financial stability. The RBV's responsibility is not limited to supervision of commercial banks and international (offshore) banks but has widened to also supervise other financial institutions including insurance companies and intermediaries.^{clxxviii}

The Financial Intelligence Unit (FIU) acts as the monitoring agency for transactions potentially involving money laundering and terrorism financing. It is also tasked to ensure compliance with the provisions of the Anti-Money Laundering and Countering the Financing of Terrorism Financing (AML/CFT) Act 2014,⁴⁶⁶ and as such it issues guidelines to the reporting entities^{clxxix} on how to prevent or detect instances of money laundering and terrorism financing.

on March 12, 2019, the Council of the European Union updated its list of non-cooperative tax jurisdictions. Samoa remained on the black list, as a product of "having no commitments to address EU's concerns" (European Commission, 2019).

^{clxxvii} Down from 600 in 2016 due to recent changes to the International Companies Act and the Financial Dealers Licensing Act

^{clxxviii} Offshore banks were previously supervised by the VFSC.

^{clxxix} Reporting entities under the Act include those operating in the offshore financial industry- see AML-CFT Act, part 1, article 2

The VFSC is the registrar of international companies and offshore financial dealers. It is the supervisor of legal and accounting firms operating in the OFC and determines issuance and revocation of licenses. Relevant laws administered by the VFSC include: Company and Trust Services Providers Act No. 8 of 2010; Dealers in Securities (Licensing) Act [CAP 70] and amendments; International Companies Act [CAP 222] and amendments; and Offshore Limited Partnerships Act No. 39 of 2009. The VFSC also plays a role in administering the AMF/CFT Act 2014 and Amendments.⁴⁶⁷

Vanuatu committed to the global fight against money laundering and terrorist financing by becoming a founding member of the Asia-Pacific Group on Money Laundering (APG), an international body committed to enforce international standards against money laundering and the financing of terrorism, in particular the Forty Recommendations of the Financial Action Task Force (FATF).^{clxxx}

Since 2015 the regulatory framework of the offshore financial industry has undergone substantial reform to comply with recommendations of the APG, which identified Vanuatu as a country with serious deficiencies on AML/CFT.⁴⁶⁸ The ‘black listing’ of Vanuatu triggered a series of legal and institutional reforms. A total of 30 bills were approved by Parliament in June and November 2017 and brought into force. Reforms introduced a statutory scheme to include foreign tax offences as money laundering predicate offences,^{clxxxi} and removed secrecy provisions and impediments to international cooperation. Extension of AML powers and international cooperation provisions to cover foreign tax offences removed previous significant impediments to lifting the veil of secrecy on Vanuatu legal persons and financial services.⁴⁶⁹ Vanuatu was moved to the ‘grey list’ in 2017 and finally ‘white listed’ in 2018.

13.1.5 Future directions

Even after being whitelisted by the FATF, Vanuatu remains engaged in the reform process to sustain its FATF status, as well as to meet additional requirements set by the Organization for Economic Cooperation and Development (OECD) and the European Union (EU).

Vanuatu has made significant progress on meeting OECD and EU requirements, however, there is still significant work to be done. Vanuatu has in particular: (i) signed the Convention on Mutual Assistance in Tax Matters; (ii) committed to the Common Reporting Standard on Automatic Exchange of Information; and (iii) provisionally been assessed as ‘largely compliant’ with the standards set by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Additional requirements by the EU include the request to remove tax concessions that only apply to international companies, to meet minimum Base Erosion and Profit Shifting (BEPS) standards, and to ensure that all relevant businesses in Vanuatu have a substantial economic presence in the country. The substantive economic presence requirement will have a significant impact on international companies which will be required to have physical presence, employees and management meetings in Vanuatu. This will increase costs of establishment and will effectively eliminate the so-called ‘shelf companies’.

Failing to meet OECD standards and EU requirements is likely to result in black listing, sanctions from the G20 and defensive measures from the EU in tax and non-tax areas.^{clxxxii}

Thanks to the reforms undertaken, Vanuatu has now a more efficient FIU, a more effective Reserve Bank and Financial Service Authority, and a set of laws and regulations aligned with international standards.

To collect the benefits from these investments Vanuatu must find new services to export, including by

^{clxxx} The FATF is an international policy-making body that sets international anti-money laundering standards and counter-terrorist financing measures.

^{clxxxi} A predicate offence is a crime that is a component of a more serious crime

^{clxxxiii} In June, 2019, the Council of the European Union updated its list of non-cooperative tax jurisdictions. Vanuatu was moved from the grey list to the black list, as a product of facilitating “offshore structures and arrangements aimed at attracting profits without real economic substance”. See: [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:52019XG0621\(01\)](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:52019XG0621(01)).

exploiting the interaction with new technologies. For example, new types of financial assets such as cryptocurrencies (virtual assets) are emerging, for which FAFT standards are already in place,⁴⁷⁰ and which may offer export opportunities.

13.1.6 SWOT analysis offshore

TABLE 13:2: SWOT ANALYSIS, OFFSHORE FINANCIAL SERVICES

Strength	Weaknesses
<ul style="list-style-type: none"> • Unique capacity and experience in the South Pacific • Competitive prices • Modern regulatory framework and strengthened institution to oversee the industry - RBV, FIU and VFSC 	<ul style="list-style-type: none"> • Delayed compliance with some international requirements • International image as a non-compliant jurisdiction - EU blacklisting as of June 2019 • Offshore activities not centralised in a single registry, thus leading to reduced efficiency
Opportunities	Threats
<ul style="list-style-type: none"> • Growing demand from Asian markets • Global demand for new offshore products - blockchain for payments, cryptocurrency, e-residency schemes, etc. 	<ul style="list-style-type: none"> • EU and OECD pressures may lead to excessive regulation • Defensive tax and non-tax areas measures by EU for failure to comply • Brain drain, as companies cannot sustain the presence of foreign expertise - with negative effects on local employment, and Port Vila economy

13.1.7 Recommendations

- Set-up an Offshore Financial Centre Working Group (OFCWG) under the National Trade Development Committee (NTDC) to spearhead innovation in the sector and structure dialogue with the industry
- OFCWG to commission a study on new services that can be realistically exported and technologies that can realistically be adopted within a regulatory framework which meets international standards
- OFCWG representatives to undertake study trip in leading OFC to better assess options for innovation
- Review resourcing of VFSC to ensure it has adequate financial ability and autonomy to promote the OFC
- Move registration functions for online gaming to VFSC to better promote a sector which shares features with the offshore industry

13.2 ICT services

Information and Communication Technologies (ICTs) play an important role as a backbone of and driver for other sectors in the Vanuatu's economy. The introduction and uptake of new ICTs has been rapid in Vanuatu and has increased the competitive edge of businesses while empowering citizens, although from a low basis. The backbone of any digital economy is dictated by the strength of its ICT infrastructure, which has developed substantially over the past decade (see Chapter 5). Vanuatu's complex geography makes mobile phones and related services (telephony, internet and mobile banking/money) a key driver of connectivity and financial inclusion.

13.2.1 Export performance

Exports of services are sales of services provided to non-resident importers. Exports of ICT services follow three modes of delivery: remotely, when the service is supplied to a customer abroad via the internet (mode 1); in-person, to foreign entities/persons temporarily in Vanuatu (mode 2); in person, by a representative of a Ni-Vanuatu firm temporarily travelling abroad to provide services to non-

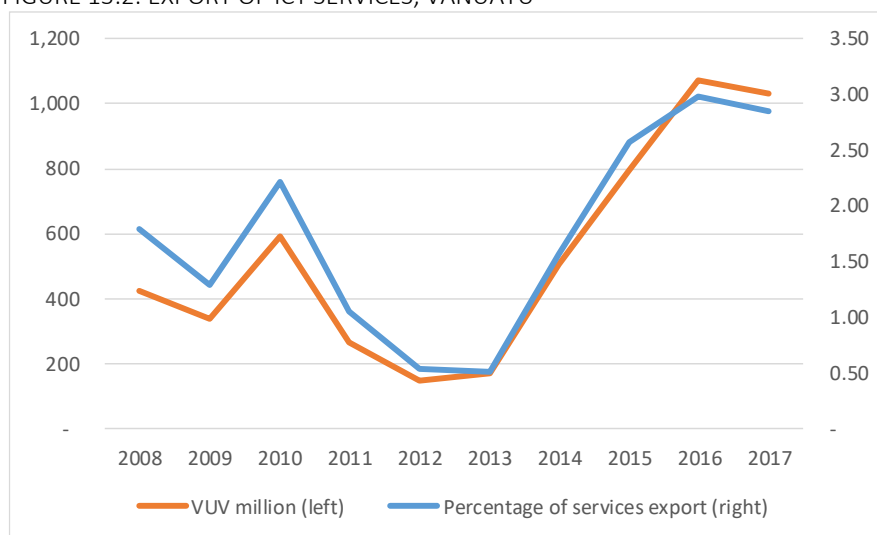
resident customers (mode 4). For ICT services, mode 1 is clearly the most important form of delivery, whilst mode 2 is mainly related to international tourism.

13.2.1.1 Export value and volume

Exports of ICT services in the Vanuatu’s Balance of Payments (BOP) are listed under the heading ‘Telecommunications, computer, and information services. ICT service exports include telecommunications services (transmission of data via telecommunication means), computer services (sale of software, data processing, etc.), and information services (news agency services, etc.).⁴⁷¹

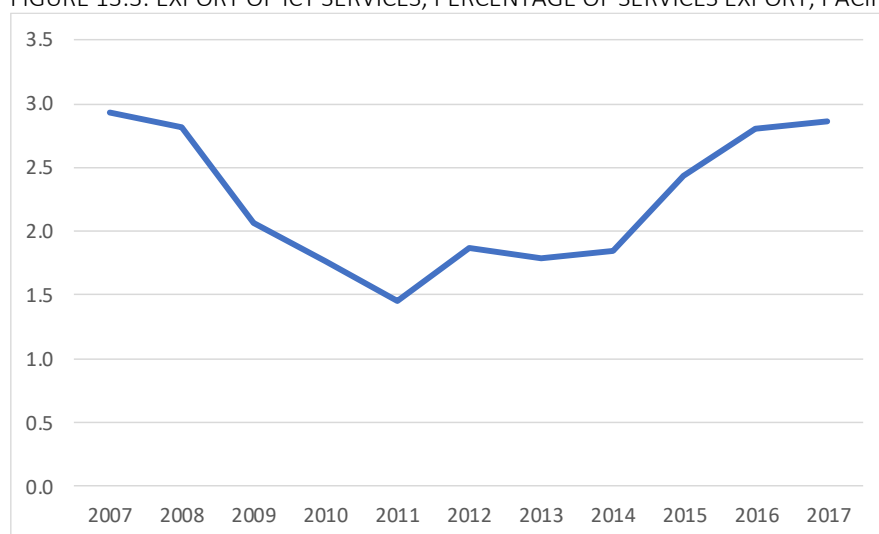
The RBV does not provide detailed export data for each of the services listed above, however, it is safe to say that telecommunication services make the bulk of exports. As shown in Figure 13.2, the contribution of ICT services exports to total services exports increased from 1.8% in 2007 to about 3% in 2017. The fact that share and value of ICT exports increased so much from 2014 is clearly related to the higher amount of data transmitted through the Interchange Cable Network 1 (ICN1), the new submarine internet cable which was completed in the same year. Trends for Vanuatu are broadly in line with those observed in the Pacific Islands Small States, as shown in Figure 13.3.

FIGURE 13.2: EXPORT OF ICT SERVICES, VANUATU



Source: RBV

FIGURE 13.3: EXPORT OF ICT SERVICES, PERCENTAGE OF SERVICES EXPORT, PACIFIC ISLAND SMALL STATES



Source: World Bank Group (WBG)

Enhanced ICT infrastructure influenced the behaviour of international travellers. Stakeholder consultations reveal that during the observed period traffic and revenues from international outbound

calls declined, whilst inbound roaming traffic increased - but revenues remained stable due to the decline in unit prices.

13.2.1.2 Type of services exported

Disaggregated import and export data for Vanuatu's ICT services are not compiled. However, discussions with leading ICT services providers (see Table 13.2) confirm that ICT services exported by Vanuatu are mainly international calls and internet traffic, plus limited computer software information services developed in Vanuatu. Other ICT-enabled services are exported, but these are not categories as ICT exports.^{clxxxiii} These include insurance and financial services. Other services listed by the United Nations Conference for Trade and Development (UNCTAD) as ICT-enabled services (e.g. management, administration and back office services, licensing services, engineering, related technical services, and R&D, education and training services) are not exported by Vanuatu.⁴⁷²

13.2.1.3 Current export destinations

In Vanuatu's BOP the information on ICT services exports is available at aggregate level without any break down by partner country and by mode of delivery, making it difficult to assess current export destinations. However, evidence for other countries shows that trade in ICT services tend to follow paths which are similar to those of trade in goods,⁴⁷³ and to be influenced by variables such as distance, geographical and cultural vicinity, language similarity and country economic size.⁴⁷⁴

13.2.2 World market conditions

Globally, technological advances have translated into escalating global exports of ICT services, in particular computer services. These represented around 72% of ICT services exports in 2016, followed by telecommunications services (23%) and information services (5%).⁴⁷⁵

Exports of ICT services remains concentrated in certain areas, leaving Africa and the Pacific (excluding Australia and New Zealand) at less than 1%. In 2016, according to the World Trade Organization (WTO), Europe made up 62.6% of global computer services exports, followed by Asia (23.5%, including India at 11%) and the USA (6%).⁴⁷⁶

Improved ICT connectivity has opened new opportunities, including for local development and export of ICT and ICT-enabled services. Global Outsourcing Services (GOS) range from relatively low- to mid-skill activities, such as business process outsourcing (BPO, for example, data entry, call centres, software and mobile apps programming) to skill-intensive knowledge process outsourcing. While large players, such as India and the Philippines, have traditionally dominated the global outsourcing market, some small island economies are also competitive and benefitting from this global industry. Mauritius and Jamaica are recognised among the offshoring leaders in their respective regions. Fiji already hosts major offshoring operations that employed about 3,000 persons in 2017, including ANZ Bank's Pacific Operations Centre, Mindpearl, and Centrecom.⁴⁷⁷

Equally interesting is the Online Outsourcing (OO) approach, which refers to the performance of tasks conducted over the Internet by workers from anywhere in the world, using online marketplaces or exchanges. This is a particularly promising channel for job creation in the Pacific Islands including in Vanuatu. Online Outsourcing provides individuals and firms the opportunity to contribute to overseas projects and global value chains without having to relocate. Aside from the convenience of being able to work from one's home, it also helps to overcome the typical hurdles to overseas employment, including the need for visas and work permits. The global OO industry already has over 48 million registered workers, of which an estimated 10 percent (4.8 million) are active. The OO industry is

^{clxxxiii} For instance, e-commerce is a method of ordering or delivering products at least partly by electronic means, such as through the internet or other computer-mediated networks. Charges for electronically delivered products are usually included in other business services, whereas products supplied across the border are usually classified as goods. Shipping charges associated with e-commerce are allocated to transport services. Financial services associated with e-commerce are included in financial services.

projected to grow rapidly, from an estimated market size of USD 2.2 billion in 2013 to USD 4.8 billion in 2016 and USD 15 to 25 billion by 2020.⁴⁷⁸

13.2.3 Domestic supply conditions

The Vanuatu ICT sector continues to grow at an unprecedented rate since 2008, when the Government decided to liberalise the telecommunication industry and introduce competition. The entry of new players into the market has contributed significantly to the expansion of mobile coverage and broadband internet from 20% in 2008 to around 98% of 2018.⁴⁷⁹ The reduction in prices, upgrade of mobile network up to 4G, and introduction of value-added services^{clxxxiv} stimulated by competition, have generated a significant uptake of ICT services especially mobile voice and data services.

From its side, the government established its own broadband network in 2011 to ensure fast and reliable connection between all provinces. The network, badly damaged by Cyclone Pam, was rebuilt in November 2017.

Deployment of the Interchange Cable Network 1 (ICN1) submarine cable in 2014 led to significant reduction of internet pricing and offered faster internet connection that led to an unprecedented growth in internet usage by consumers and businesses - see Chapter 5.

All sectors benefited from ICT developments since liberalisation, starting from the possibility of making and receiving voice calls and sending SMS to/from areas previously unserved by the telecommunication network.⁴⁸⁰ Deployment of the ICN1 led to the progressive reduction in the use of voice calls and SMS and text and to the increasing uptake of broadband data services.⁴⁸¹

Quantifying the impact of ICT on Vanuatu's economic growth is challenging. Like energy or transport, the internet has become an essential part of the country's infrastructure, and thus a factor of production in almost any economic activity.

What is apparent, is that the potential of the ICT sector to serve the cause of economic development is still largely untapped, noting the limited development of meaningful online services for consumers and businesses. Tourism is the sector that has most effectively utilised the possibilities offered by the ICT infrastructure through the development of online marketing and booking services. Other sectors including agriculture and manufacturing are still lagging behind. In the public sector, with the exception of some agencies such as the Department of Customs and Inland Revenue (DCIR, see Chapter 6), the development of e-government services is still in its infancy.

13.2.3.1 Producers and production capacity

ICT service providers in Vanuatu can be divided in two segments: the ICT sector itself, and the providers of ICT-enabled services.

The ICT sector comprises of ICT infrastructure and telecommunication service providers, as well as ICT service providers. ICT Education and training providers lie at the intersection between this category and ICT-enabled services – see Table 13.3.

ICT-enabled services comprise a broad category of economic activities that are either made possible or otherwise enhanced by ICT technologies, particularly the internet. These include, for example: business services such as e-commerce, e-marketing, online back-office services; online financial services (fintech); online entertainment; online government services; etc.^{clxxxv}

^{clxxxiv} Examples of value-added services include: (1) Live streaming; (2) Location based services; (3) Miss call alerts and voice mail boxes; (4) Mobile advertising; (5) Mobile money (ANZ, NBV); (6) Mobile TV (Digicel Play Go) and OTT services; (7) Ring tones; (8) Online gaming (although not regulated); (9) Ring back tone; (10) Infotainment services; (12) Sticker; (13) Wireless application protocol content download.

^{clxxxv} Inspired by UNCTAD classification: https://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d03_en.pdf

TABLE 13.3: THE ICT SECTOR IN VANUATU, A SNAPSHOT

Telecoms & Internet Carrier	ICT Professional Services	ICT Education and Training
<ul style="list-style-type: none"> • Telecom Vanuatu Ltd (TVL) • Digicel • Telsat Broadband • Interchange • FCC • Wantok • GPT • SPIM • Pacific Group Ltd 	<ul style="list-style-type: none"> • Incite • V-Solutions • ODC • eTech • Pacific Networks • Garden Code • Computer World • Computer Network Services 	<ul style="list-style-type: none"> • CNS / Edwards Computer Foundation, • Vanuatu Skills Partnership • Vanuatu National Institute of Technology (INTV) • University of the South Pacific • Vanuatu Women and Girls in ICT • Smart Sistas Programme

Source: country consultations

As the digital economy in Vanuatu is still at an early stage, not many of these services are provided by local suppliers. When they do, these are mostly sold to foreign consumers and businesses. An e-commerce platform for booking tour services (BookMeVanuatu.com) has also been developed which can serve foreign clients.

Foreign e-commerce platforms that are accepting online payments (e.g. PayPal) are being used by local companies such as The Summit Vanuatu, Tanna Farms, Tanna Coffee, and some tourism services providers.

In the public sphere, an integrated Government (iGov) initiative is ongoing, which is led by the Office of the Chief Government Information Officer (OCGIO) promoting use of ICT-based solutions in public administration.

13.2.3.2 Quality of services, labour force availability, skills, and skill gaps

Reliable data on available ICT labour force, including skill levels, is unavailable. What is apparent (see also Chapter 8) is Vanuatu lacks qualified and experienced local workers, forcing ICT service providers to import foreign expertise. Interviews conducted for the purpose of this chapter suggest that lack of workers with post-secondary ICT education is particularly acute, including compared to neighbours Fiji and Solomon Islands. Scholarships offered to Ni-Vanuatu have focused on other areas including education, health, and legal professions with only very limited and low number of graduates in ICTs.

13.2.4 Domestic policy and regulatory environment

Policies related to telecommunication services and ICTs are developed by the National ICT Development Committee, the Office of the Government Chief Information Officer (OGCIO), and the Telecommunications, Radiocommunications, and Broadcasting Regulator (TRBR). The National ICT Policy 2013 provides a roadmap for the development of the ICT sector around eight core priorities, i.e. (i) access to ICT in education; (ii) access to ICT infrastructure and devices; (iii) e-government; (iv) integration of ICT into sectoral policies (e.g. agriculture, trade, finance, forestry, health); (v) building trust, and mitigating risks related to ICT development; (vi) developing locally relevant content; (vii) building capacity, including literacy; and (viii) establishing a platform for multi-sector coordination and collaboration.

In the past few years, the Government has passed a number of ICT-related acts and regulations in line with international commitments, and in order to keep up with ICT development in the most advanced countries in the Pacific region (Fiji, Tonga, Papua New Guinea) (UNCTAD, 2018). The long-established E-transaction Act and E-business Act have provided a conducive legal framework for the initial uptake of ICT activities in Vanuatu. However, as ICT has reached almost all sectors of the economy there is a need to develop an equally robust legal and regulatory regime for data protection^{clxxxvi}, online consumer

^{clxxxvi}There is no National Consumer Protection legislation. However, the Telecommunications and Radiocommunications (Consumer Protection) Regulations Order n°157 of 2015 details provisions for consumer protection in the telecommunication sector.

protection and cybersecurity to support an uptake of ICT-based activities, such as Business to Business (B2B), Business to Consumers (B2C) and Government to Consumer (G2C) services.

Currently, the ICT-related legal framework includes:

- the Telecommunication and Radiocommunications Regulation Act No. 30 of 2009;
- the Telecommunications Act [CAP 206];
- the Wireless Telegraph (Ships) Act [CAP 5];
- the Electronic Transactions Act No. 24 of 2000 as amended by the Statute Law (Miscellaneous) Provisions Act No. 2 of 2010,^{clxxxvii}
- the E-Business Act No. 25 of 2000 as amended by the E-Business (Amendment) Act No. 17 of 2007);
- the Broadcasting and Television Act [CAP 214].

The Vanuatu National Sustainable Development Plan (NSDP) 2016-2030 and the National Financial Inclusion Strategy 2018-2023 acknowledge and promote the use of ICT to achieve the country's development objectives.

13.2.5 Future directions

There does not appear to be immediate export potential for 'pure' ICT services in the short run – but great potential lies ahead in the form of ICT services embedded in other goods and services.

ICT-related opportunities could generate a significant number of jobs and income, in particular in Global Outsourcing services (GOS) and the participation of individuals in Online Outsourcing (OO) activities. Vanuatu could learn from countries that have been able to develop a significant ICT industry, notably Mauritius and Jamaica (for outsourcing services). Mauritius is the most relevant country for Vanuatu as it shares the characteristics of being a bilingual small island developing state and remote from most major markets. Mauritius has proactively invested into the development of its ICT sector for more than 20 years, including investments into fibre optic cables to establish the necessary bandwidth, a supportive regulatory regime, and industry specific incentives. By 2016, the global outsourcing sector in Mauritius comprised 750 companies employing 23,000 professionals and generating about 5 percent of GDP.

In addition to outsourcing, the following areas should be considered as potentially supporting diversification of services going forward:

- digital businesses operations established by companies to sell goods and services online (e-commerce);
- social media - development and use of social media platforms to provide services that enhance communications and facilitate buyer-seller interactions;
- application of ICTs within value chains to digitise operations and enhance productivity. Here the extent to which ICT technologies can be used within a value chain such as agriculture is considerable;⁴⁸²
- government-led services: e-Government to improve service delivery for citizens and businesses in a geographically challenging environment, and building consumer confidence in conducting online transactions. An e-Government platform should be led by a clear "digital governance roadmap" and cover both digitalisation of data collection and service provision. The experience of Estonia may present a source of inspiration and emulation for Vanuatu. e-Estonia refers to an initiative by the Government of Estonia to facilitate citizen interactions with the State through the use of electronic solutions. E-services created under this initiative include e-Voting, e-Tax Board, e-Business, e-Banking, e-Ticket, e-School, University via internet, the e-

^{clxxxvii} The law deals with the legal requirements for electronic records; communication of electronic records; electronic signatures; encryption and data protection; and intermediaries and e-commerce service providers. It is based on the UNCITRAL Model Law on Electronic Commerce.

Governance Academy, as well as the release of several Government-to-Consumers (G2C) mobile applications;

- provision of digital financial services (mobile banking and mobile money, credit card and debit card usage etc.). This is relevant in the case of Vanuatu as there is a government-led push (through the National ICT Policy and the National Financial Inclusion Strategy) to incorporate these as the normal way of doing businesses.

Harnessing ICT for economic growth will require sustained investment, by the private and – where additional stimulus is needed – public sectors, in the following elements:

- enhanced skills – starting at the primary level, continuing at secondary and post-secondary level (including more certificate and diplomas in needed disciplines) through the provision of high-quality and relevant teaching and learning materials to develop the capacity of students to meet the demands of the changing workplace Vanuatu, and to stimulate innovation and entrepreneurship locally;
- enabling environment for the digital economy – including legal and regulatory frameworks supporting online transactions and facilitating secure e-commerce; payments and transactional systems;
- Inter-connected government offices – as a precondition for the provision of e-government services (such as those provided in the e-National Single Window) and for increasing the ease of doing business.

On ‘pure’ ICT services, Vanuatu and the South Pacific region are missing world class data-centre facilities despite the increasing needs of governments, corporations operating in the region such as banks and telecommunication, and potential international clients with an interest to have their transactions taking place in the region. At national level, the trend towards digitisation in the government and private sector spheres will drive broadband demand and high data usage across the country. While various infrastructure projects are ongoing in the region, the importance of reliable computing environment to provide the backbone of industrialisation and to act as a stimulator for the economic growth is often overlooked.

13.2.6 SWOT analysis ICT

TABLE 13.4 SWOT ANALYSIS, ICT AND ICT-RELATED SERVICES

Strengths	Weaknesses
<ul style="list-style-type: none"> • ICT infrastructure widely in place across Vanuatu, 98% of population covered • Strong regulatory framework • Healthy competition among providers of network and other ICT-related services • Continued reduction of price, increased latency and reliability • Remaining cable capacity for additional traffic • Presence of the Offshore Financial Centre attracting ICT talents to Vanuatu 	<ul style="list-style-type: none"> • No vision for transition to a digital economy, e.g. on e-commerce (e-commerce strategy), and to encourage more productive use of connectivity (digital financial inclusion strategy) • Lack of ICT graduates • Lack of local content and app development, including in local language • Weak linkages to productive sectors • Lack of local mobile payment solutions, and bank interoperability for e-commerce • Fragmented government-industry dialogue on ICT issues • Lack of progress on a 2nd undersea cable
Opportunities	Threats
<ul style="list-style-type: none"> • Interoperability platform promoted by OGCIO to interconnect all Government agencies • Unmet demand for better government 	<ul style="list-style-type: none"> • Cash-based economy • High cost of utilities • Fiji increasing GOS • Emerging overseas opportunities and easier

<p>services which can be satisfied by use of ICTs – e.g. e-Government platform</p> <ul style="list-style-type: none"> • Data and ICT-services hungry tourism sector • GMT+12 and bilingual population (for Global Outsourcing Services, GOS) 	<p>labour mobility trigger brain-drain of ICT graduates</p> <ul style="list-style-type: none"> • Low level of ICT literacy amongst general population, resulting in unproductive, Facebook-only, use of bandwidth
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13.2.7 Recommendations

- Study relevant overseas country experiences on e-Government services and present recommendations to emulate good practices
- Approve a Privacy and Data Protection Act
- Approve a Consumer Protection Act, including online and offline protection (or update existing regulations to include online consumer protection and redress mechanisms for online consumers)
- Update the 2013 National Cybersecurity Policy and develop corresponding Cybersecurity Act
- Establish a “digital governance roadmap” to drive development of a digital government platform in Vanuatu
- Establish a digital government (e-Government) platform to:
 - provide better government services
 - support the move away from paper-based data collection to electronic data
 - digitise and automate payments
 - generate opportunities for content, application, and website development
- As part of the establishment of the e-Government platform:
 - identify government agencies directly involved with trade in ICT and ITC-enabled services, secure funding, and kick start the process leading to the online provision of their services to citizens and businesses
 - prioritise digitalisation of Financial Intelligence Unit, Reserve Bank of Vanuatu, Vanuatu Financial Service Commission and Lands Department in term of data information collection and payment
- Incentivise the use of mobile payments (e-wallet, mobile wallet) for business and citizens through studying the costs of handling cash and promoting e-payment campaign, in line with National Financial Inclusion Strategy 2018-2023
- Work towards accreditation of more certificates and graduate diplomas in ICT related matters, with more focus on coding, programming, and content development, in line with industry needs
- Develop and implement e-Trade Strategy
- Assess costs and benefits of supporting the establishment of a private data centre

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IMPLEMENTATION MATRIX

Note: * TEI refers to the potential impact of the recommendation on the traditional economy: negative (-), positive (+), or with the potential to generate both positive and negative effects (+/-). When no sign is included in the TEI column, the impact is expected to be neutral. TEC refers to the type of impact generated by the recommendation, with direct reference to the seven criteria identified in section 9.6

TPFU Recommendation	Responsible Implementing Agency	Indicator	Baseline	Target	TEI*	TEC*
CHAPTER 2: THE MACROECONOMIC ENVIRONMENT						
Increase the growth rate agriculture and agro-processing (manufacturing), including by capturing an increased share of domestic demand and increasing exports in areas of comparative advantage	MFEM	GDP at 2006 prices, Agriculture, Fishing and Forestry, ISIC, Rev.4 , Section A, average growth rate	1.6% (2006-2016)	Higher than 1.6% (2019 onwards)		
	MFEM	GDP at 2006 prices, Manufacturing, ISIC, Rev.4 , Division 10, average growth rate	[to be confirmed] (2006-2016)	Higher than [to be confirmed] (2019 onwards)		
	MTTCNVB	Merchandise exports, annual rate of growth	3.8% (average 2008-2017)	Higher than 3.8% (2019 onwards)		
Increase the growth rate of the of the tourism industry, including by segmenting supply strategically across locations throughout Vanuatu	MTTCNVB	Export of travel services, current prices, average growth rate	5.1% (2008-2017)	Higher than 5.1% (2019 onwards)	+/-	1,2, 5,6
	MTTCNVB	Visitors to outer islands, percentage of total visitors	25.1% (2017)	Higher than 25.1% (2019 onwards)	+/-	1,2, 5,6
Support services suitable to boost productivity in the other sectors – e.g. Information and Communication and Professional/Technical/Scientific services	MFEM	GDP at 2006 prices, Information and Communication and Professional/Technical/Scientific services, ISIC, Rev.4 , Sections J, M, N, average growth rate	7.0% (2006-2016)	Higher than 7.0% (from 2019)		

Make a final determination on the proposed tax reform (income tax)	MFEM	Whether a final determination on income tax is made and communicated to the public	No (2019)	Yes (2020)		
Development of a national labour policy	See Chapter 7					
Target an expenditure in primary and secondary education of 4% of GDP	MFEM , MoET	Expenditure in primary and secondary education, percentage of GDP	3.6% (2016)	4% (from 2020 onwards)		
Increase fixed capital formation as a percentage of GDP compared to the 2006-2017 average (30%)	MFEM	Fixed capital formation as a percentage of GDP	30% (average 2006-2017)	Higher than 30% percent (2019 onwards)		
Improve the business enabling environment to facilitate technological innovation	MTTCNVB	Doing Business, distance to Frontier	62.87 (2018)	Higher than 62.87 (2019 onwards)		
Promote skills development to make a productive use of technological innovation	See Chapters 8 and 14					
Control net borrowing as a percentage of GDP by <ul style="list-style-type: none"> increasing sustainable government revenues reducing recurrent government expenditure, and prioritising future infrastructure projects 	MFEM	Net borrowing, percentage of GDP	-4.8%, i.e. lending (2018)	Lower than 2% (2019 onwards)		
Target a positive recurrent balance (recurrent revenues minus recurrent expenditures) over the medium term	MFEM	Whether the government is targeting a positive recurrent balance	Yes (2019)	Yes (2020 onwards)		
Set a debt ceiling, including both external	MFEM	Debt as percentage of GDP	53% (2017)	Below 60% (2019)		

and internal public and publicly guaranteed (PPG) debt, 60% of GDP				onwards)		
Update the debt management strategy on an annual basis	MFEM	Debt Management Strategy, annual updates	1 (2015-2018)	5 (2019-2024)		
Initiate formal discussions with Japan to seek zero duty transition period for beef	MoFAICET	Formal discussions with Japan	Not commenced (2018)	Commenced (2019) and transition obtained (2021)		
Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally)	See Chapter 4					
Secure regional consensus on the option to negotiate a Free Trade Agreement between China and Forum Islands Countries	See Chapter 4					
Confirm critical post-graduation obligations, and initiate formal discussions in relevant WTO bodies, including jointly with the LDC group, to seek transition periods for and specific waivers from those obligations	MoFAICET	Formal discussions at WTO	Not commenced (2018)	Commenced (2019) and transition arrangements/waivers obtained (2021)		
Strengthen capacity of VanIPO – see Chapter 7	See Chapter 7				+	2
Strengthen capacity of the Department of External Trade, including filling all vacant positions	MoFAICET	Number of vacant positions in DoET	2 (2019)* * a submission to PSC has been made for restructuring	None (2021)		
Seek a 5-year transition period from the	MoFAICET	Formal discussions with EIF	Not commenced	Commenced (2019) and		

EIF			(2018)	transition arrangement obtained (2021)		
Develop and distribute briefs including consistent messages to support fundraising by all government agencies, and based on the critical challenges of Vanuatu – graduation, SIDS status, and environmental vulnerability	PMO	Fundraising briefs for government agencies	Not in place (2018)	Drafted and distributed (2019)		
Determine the increase in membership fees for international organisations after graduation, and set aside adequate budget to face the increase	MoFAICET	Outstanding fees to international organisations	VUV 105,4m (2018)	none (2020 onwards)		
Formally engage with all international organisations providing general support measures to Vanuatu to seek transition periods after graduation, based on UNGA resolution 67/221.	MoFAICET	Formal discussions with all international organisations	Not commenced (2018)	Commenced (2019) and transition arrangements in place (2021)		
Prioritise budget allocation for international travel to/engagement with international organisations	MoFAICET	Prioritised list of international organisations	Not in place (2018)	Drafted and approved by CoM (2019)		
Promote skills development to increase productivity and salaries	See Chapter 8					
Support positive gender discrimination	See Chapter 9					
Produce new estimates for poverty in Vanuatu	VNSO	New estimates for poverty in Vanuatu	Not produced (2018)	Produced (2019) and repeated by 2024		

CHAPTER 3: TRADE COMPOSITION AND TRENDS						
Reduce merchandise trade deficit to pre-2015 levels (25% of GDP) by increasing exports and boosting local production in areas where imports can be competitively replaced	MTTCNVB	Merchandise trade deficit percentage of GDP	33.6% (2016)	Lower than 25% (2025)		
Increase services trade surplus compared to pre-2015 levels (23% of GDP)	MTTCNVB	Services trade surplus, percentage of GDP	22.4% (2016)	Higher than 23% (2025)		
Increase export of agriculture and agro-processed goods by more than 3.8% a year	MTTCNVB	Merchandise exports, annual rate of growth	3.8% (average 2008-2017)	Higher than 3.8% (2019 onwards)		
Conduct a NFI by 2020 (see Chapter 9)	See Chapter 9				+	2,5
Ratify PACER Plus (see Chapter 4)	See Chapter 4					
Pursue trade arrangements with key Asian destinations– ASEAN, China, Japan – and possibly the US (see Chapter 4)	See Chapter 4					
Increase export of travel services by more than 5% a year	MTTCNVB	Export of travel services, current prices, average growth rate	5.1% (2008-2017)	Higher than 5.1% (2019 onwards)		
Increase export of transport services by strengthening the national airline	Air Vanuatu MFEM	Export of transport services, annual rate of growth	6% (average 2008-2017)	As much as travel services (2019 onwards)		
Improve Post-School Education and Training (PSET) to increase export of education services (see Chapter 8)	See Chapter 8					
Assess options to reinvent the offshore industry on sustainable grounds (see Chapter 13)	See Chapter 13					

Replace imports by promoting local production of: Fruits and vegetables (including food crops); Timber and wooden furniture;	MALFFB	Imports of fruits and vegetables (HS Chapter 7 and 8), percentage of GDP	0.4% (2016)	Decrease (2019 onwards)	+	3
	MALFFB	Imports of cereals (HS chapter 10), percentage of GDP	1.7% (2016)	Decrease (2019 onwards)		
	MALFFB	Import of wood and wooden products (HS Chapter 44), percentage of GDP	0.8% (2016)	Decrease (2019 onwards)		
Reduce imports by increasing taxes (domestic excises) and promoting awareness campaigns with regard to: Unhealthy food preparations; Cigarettes and tobacco;	MoH MFEM	Excise taxes on unhealthy food preparations, average	[to be estimated] (2018)	Increase (2020 onwards)		
	MoH MFEM	Imports of unhealthy food preparations, percentage of GDP	[to be estimated] (2018)	Decreases (2020 onwards)		
	MoH MFEM	Excise taxes on cigars, cigarettes and tobacco	VUV 18,000/kg, VUV 16/stick, and VUV 4,000/kg (2018)	Increase (2019 onwards)		
	MoH MFEM	Imports of cigars, cigarettes and tobacco (HS Chapter 24), percentage of GDP	0.7% (2016)	Decreases (2020 onwards)		
Promote off-grid uptake renewable energy (see Chapter 9)	See Chapter 9					
Promote on-grid uptake of renewable energy only when donor subsidies make it a cost-effective option compared to non-renewable sources (see Chapter 9)	See Chapter 9					
Ratify PACER Plus (see Chapter 4)	See Chapter 4					
Pursue trade arrangements with key Asian	See Chapter 4					

destinations– ASEAN, China, Japan – and possibly the US (see Chapter 4)						
In new trade agreements maintain policy space for rice, fruits and vegetables (including root crops), timber, wooden furniture, chicken, and processed fish (see Chapter 4)	MoFAICET	Average bound tariff in new trade agreements for fruits & vegetables (HS Chapter 7 and 8), over average applied rate	n.a. – note: average applied rate is 26.6% in 2018	At least 0.5 (for new FTAs)		
	MoFAICET	Average bound tariff in new trade agreements for wood and wooden products (HS Chapter 44), over average applied rate	n.a. – note: average applied rate is 15.1% in 2018	At least 0.5 (for new FTAs)		
	MoFAICET	Average bound tariff in new trade agreements for wooden furniture (HS Codes 940161, 940169, 940330, 940340, 940350, 940360), over average applied rate	n.a. – note: average applied rate is 30.0% in 2018	At least 0.5 (for new FTAs)		
	MoFAICET	Average bound tariff in new trade agreements for processed fish (HS codes 0304, 0305, 0306, 0307, 1604, 1605), over average applied rate	n.a. – note: average applied rate is 17.2% in 2018	At least 0.5 (for new FTAs)		
Promote provision of competitive local business services by strengthening the education and PSET system (Chapter 8), with the view of replacing some imports	MTTCNVB	Import of business services, percentage of GDP	1.7% (2016)	Decreases (2020 onwards)		
CHAPTER 4: EXTERNAL TRADE POLICIES AND TRADE AGREEMENTS						
Establish non-preferential rules of origin	DCIR	Legislation on non-preferential ROO	Not in place (2019)	Approved and gazette (2020)		
Reduce tariff rate for chicken wings (HS	DCIR	Tariff rate on chicken wings	30% (2019)	20% (2020)		

code 0207.1410) to 20% or renegotiate higher rates						
Reduce tariff rates for alkaloids (HS codes 2939.7100 and 2939.7900) to 0%	DCIR	Tariff rate on alkaloids	5% (2019)	0% (2020)		
Repeal the Prohibition of Beef from Europe Order No. 53 of 2001	MALFFB	Status of Beef from Europe Order No. 53 of 2001	In place (2019)	Repealed (2020)		
Fulfil WTO notification obligations in areas such as agriculture, SPS, TBT, customs valuation, import licensing, contingency measures, and state trading enterprises	DoET	Number of missing notifications (agriculture, SPS, TBT, customs valuation, import licensing, contingency measures, and state trading enterprises) submitted to the WTO	0 (2019)	8 (2021)		
Complete the legal and regulatory framework for anti-dumping, countervailing, and safeguard measures	DoET	Comprehensive legal and regulatory framework on contingency measures	Not in place (2019)	In place (2021)		
Consider reducing or eliminating reservation on investment in the construction, road transport, and coastal shipping sectors	VIPA	Status of investment reservations in the construction, road transport, and shipping sector	In place (2019)	Reduced or eliminated (2020)		
Consider introducing a clear criterion to guide decision by policy-makers on reserved investments in the Bill for the Investment Promotion and Facilitation Act	VIPA	Legal provisions defining a clear and transparent criterion to reserve and restrict foreign investments	Not included in the Foreign Investment Promotion Act (2019)	Included in the Investment Promotion and Facilitation Act (2020)		
Sign and ratify the Melanesian Free trade Agreement	MoFAICET	Status of MFTA	Not signed nor ratified (2019)	Signed and ratified (2019)		
Ratify the Pacific Agreement on Closer	MoFAICET	Status of PACER Plus	Signed but not	Signed and ratified		

Economic Relations Plus			ratified (2019)	(2019)		
Deepen trade integration with New Caledonia towards a World Trade Organization compliant Free Trade Agreement – unless New Caledonia joins Free Trade Agreements that Vanuatu is party to	DoET	Status of Agreement between the Government of New Caledonia and the Government of the Republic of Vanuatu Regarding the Development of Trade and Economic Exchanges	To be completed (2019)	Rules of Origin protocol completed and Agreement ratified by Parliament (2020)		
Ratify the conventions so as to gain access to the EU's Generalised Scheme of Preferences Plus post-LDC Graduation	DoET	Status of access to the EU's GSP+	Unable to access GSP+ (2019)	Full access to GSP+ (2023)		
Monitor developments of the Economic Partnership Agreement with the EU	DoET	Regular written updates on EPA	Submitted by DoET to NTDC at least annually (2019)	Submitted by DoET to NTDC at least annually (2019)		
Monitor developments of the Pacific Island Countries Trade Agreement (goods and services)	DoET	Regular written updates on PICTA (goods and services)	Submitted by DoET to NTDC at least annually (2019)	Submitted by DoET to NTDC at least annually (2019)		
Support re-opening of negotiations to establish a Pacific Island Countries Trade Agreement labour mobility scheme	DoET	Status of a labour mobility scheme between PICTA country	Not being negotiated (2019)	Being formally negotiated (2020)	-	7
Secure regional consensus on the option to negotiate a Free Trade Agreement between China and Forum Islands Countries	DoET	Negotiations on a Pacific FTA with China	Not taking place (2019)	Started (2023)		
Secure regional consensus on the option to negotiate a Free Trade Agreement	DoET	Negotiations on a Pacific FTA with ASEAN	Not taking place (2019)	Started (2023)		

between members of the Association of South East Asian Nations and Forum Islands Countries						
Monitor developments on Brexit	DoET	Regular written updates on BREXIT (goods and services)	Submitted by DoET to NTDC at least annually (2019)	Submitted by DoET to NTDC at least annually (2019)		
Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally)	DoET	TIFA with Japan	Not in place (2019)	In place (2023)		
Secure a Trade and Investment Framework Agreement with the United States (bilaterally or regionally)	DoET	TIFA with US	Not in place (2019)	In place (2023)		
CHAPTER 5: BACKBONE SERVICES AND RELATED INFRASTRUCTURE						
Develop electricity generation capacity from non-fossil fuel resources	MCC	Electricity generated from renewable sources	18% (2017)	65% (2020) 100% (2030)		
Undertake a study looking at the prices in the Liquefied Petroleum Gas	MFEM	Status of the study	To be undertaken (2019)	Study finished (2020)		
Increase access to electricity, especially for those in rural areas	MCC	Electricity access in and near concession areas	62% (2016)	75% (2020) 100% (2030)		
	MCC	Electricity access in off-grid areas	9% (2016)	65% (2020) 100% (2030)		
Improve the institutional setting for	MCC	Status of handbook on concession contracts	To be developed (2019)	Developed (2020)		

<p>electricity sector development, including:</p> <ul style="list-style-type: none"> • develop a handbook on concession contracts to outline the procedure for awarding such contracts, and define clearly the roles and rights of the government and the concessioners • involve both URA and the agency responsible for competition in designing concession contracts to ensure regulation and competition policies or principles are integrated into the contracts • ensure that future contracts facilitate Independent Power Producers and Power Purchase Agreements 	MFEM MCC	Whether URA and competition agency is involved in development of new concession contracts for Malekula (2020) and Tanna (2020)	n.a.	Yes (2020 onwards)		
	MFEM MCC	Percentage of electricity supplied through Power Purchase Agreements	1.4% (2017)	Increase compared to baseline (2020 onward)		
<p>Improve the policy and regulatory framework for electricity sector development, including:</p> <ul style="list-style-type: none"> • Formulate and implement competition and consumer protection legislation • Ensure the enforcement of existing energy policies and strategies, inclusive of the supporting rules/guidance and legislations/regulations 	See chapter 7 on competition policy and legislation					
	MCC	% of BRANTV annual targets which are on track	n.a.	50%		
Support the use of coconut oil as an alternative to diesel, including through the 11th European Development Fund (EDF) funding	MTTCNVB	Percentage of electricity generated from coconut oil	1% (2019)	Increase compared to baseline (2020 onward)		
Develop an electrification plan for	MCC	Status of electrification plan for	To be developed	Developed (2020)		

renewable energy in remote islands		renewable energy in rural areas	(2019)			
Update the National ICT Policy	PMO (OGCIO)	Status of National ICT Policy Update	To be undertaken (2019)	Finalised and approved by CoM (2020)		
Finalise the Digital Universal Service Policy	PMO (OGCIO)	Status of Digital Universal Service Policy	Being drafted (2019)	Finalised and approved by CoM (2020)		
Approve the cybercrime legislation	PMO	Status of cybercrime legislation	Being developed (2019)	Developed, passed by Parliament and gazetted (2020)		
Continue to maintain the independence of the TRBR	PMO	Score of Vanuatu Telecom Regulator in ITU's ITC Regulatory Tracker	17 (2018)	Increase compared to baseline (2019 onwards)		
TRBR to consider upgrading the generation of its telecommunications/ICT regulations from generation 3 – “an enabling environment, investment, innovation and access dual focus on stimulating competition in services and content delivery and consumer protection” to generation 5 – “collaborative regulation, inclusive dialogue and harmonized approach across sectors”.	TRBR	Whether a review of telecommunications/ICT regulations is undertaken and amendments are identified to upgrade from generation 3 to generation 5	No (2019)	Yes (2021)		
Finalise the Quality of Services (QoS) audit, and act on the key recommendations	TRBR OGCIO	Status of QoS audit	Ongoing (2019)	Finalised, and recommendations agreed upon (2020)		
	TRBR OGCIO	Percentage of QoS audit recommendations successfully implemented	n.a. (2019)	50% (2025)		

Finalise the Infrastructure Sharing Policy	TRBR OGCIO	Status of Infrastructure Sharing Policy	Being drafted (2019)	Finalised and approved by CoM (2020)		
Subject to robust cost-benefit analysis, deploy a second international submarine cable	MFEM MIPU VMPU	Status of cost-benefit analysis	To be undertaken (2019)	Undertaken (2020)		
	MFEM MIPU VMPU	Status of second international submarine cable	n.a.	Deployed (2025), subject to cost-benefit analysis		
Subject to robust cost-benefit analysis, deploy a domestic submarine cable, linking the main islands of Tanna and Espiritu Santo	MFEM MIPU VPMU	Status of cost-benefit analysis	To be undertaken (2019)	Undertaken (2020)		
	MFEM MIPU VMPU	Status of domestic submarine cable link Tanna and Espiritu Santo	n.a.	Deployed (2025)		
CHAPTER 6: TRADE FACILITATION AND RELATED INFRASTRUCTURE						
Provide additional resources to the Office of the Maritime Regulator to monitor and regulate stevedoring activities that are under a concession, notably to monitor and regulate tariffs, prices and charges imposed at ports and on port users	OMR	Whether technical and financial assistance to OMR division monitoring and regulating stevedores is provided	No (2019)	Yes (2020 onwards)		
Replace the current payment terms for Less Container Load (LCL) with the Liner-In Liner-Out (LILO) terms	OMR	Payment terms for LCL	Minimum rate of VUV 3,000 per cubic meter (2019)	LILO terms (2021 onwards)		
Ratify the WTO Trade Facilitation Agreement	DoET	Status of WTO TFA in Vanuatu	To be ratified (2019)	Ratified (2020)		

Implement the Electronic Single Window System (ESWS) project and monitor its impact on trade facilitation	DCIR	Number of agencies automated as part of the ESWS project	1 (2019)	6 (2021)		
Implement priority projects included Table 6.5 of the TPF Update 2019 to comply with obligations included in Category B and C articles of the WTO Trade Facilitation Agreement	DCIR	Number of priority TFA-related projects completed	[to be confirmed] (2019)	100% (2025)		
Upgrade Bauerfield international passenger terminal	AVL	Whether the Bauerfield international passenger terminal has been upgraded	No (2019)	Yes (2025)		
Improve Bauerfield international cargo handling by: <ul style="list-style-type: none"> • Procuring heavy-duty deck loader and equipment for handling airfreight containers which can hold up to five tonnes • Building storage space for equipment at Bauerfield international cargo terminal 	AVL	Whether deck loader and equipment for handling containers of up to 5 tonnes has been procured	No (2019)	Yes (2013)		
	AVL	Status of storage space for equipment at Bauerfield international cargo terminal	Not in place (2019)	Built (2025)		
Set aside adequate resources for maintenance of international airports. Notably, increase charges to USD 33 for passenger movement at Bauerfield to fund the prioritised USD 212 million investment program included in the Vanuatu Master Plan 2017	AVL	Per-passenger charges at Bauerfield airport	USD 24 or VUV 2,800 (2019)	USD 33 (2020)		
Set aside adequate resources for	PWD	Level of adequate resources	n.a. (2019)	Known (2020)	+	4

maintenance of national airports	PWD	Annual resources for maintenance and rehabilitation of national airports	VUV 52m (2019)	Identified adequate level (2025)	+	4
Upgrade Norsup airport to accommodate Code C turboprop (ATR-72) operations	PWD	Whether Norsup airport can accommodate Code C turboprop (ATR-72) operations	No (2019)	Yes (2025)	+	4
Monitor and disseminate accurate data on shipping operators and routes	DPH	Whether regular data on international shipping capacity and frequency linking Vanuatu to international partners is collected and distributed	No (2019)	Yes (2020)		
Re-activate works under the Vanuatu Interisland Shipping Support Project (VISSP) to rehabilitate or and improve target wharves and jetties	VPMU	Status of Port Vila works (new inter-islands shipping terminal - South Paray wharf)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Lolowai works, Ambae (new jetty)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Loltong works, Pentecost (new jetty)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Port Sandwich works, South East Malekula (new jetty)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Litzlitz works, North East Maleluka (facility rehabilitation)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Lenakel works, Tanna (facility rehabilitation)	To be completed (2019)	Completed (2025)	+	4
	VPMU	Status of Luganville works, Espiritu Santo (facility rehabilitation – Simonsen wharf)	To be completed (2019)	Completed (2025)	+	4

Evaluate the impact of the VISSP Ship Subsidy Scheme	VPMU	Status of ex-post impact assessment of SSS	To be undertaken (2019)	Undertaken (2021)		
Clarify maintenance needs for domestic shipping terminals and set aside adequate budget for maintenance	DPH	Status of assessment of maintenance and rehabilitation needs for domestic shipping terminals	To be undertaken (2019)	Undertaken (2021)	+	4
	DPH	Annual budget for maintenance and rehabilitation of domestic shipping terminals	VUV 150m (2018)	To be based on the assessment of maintenance and rehabilitation needs	+	4
Consider eliminating reservations on investment for inter-island shipping services, or else limit reservation below a gross registered tonnage of 20 tonnes	MTTNCVB	Status of ex-ante impact analysis of eliminating or limiting reservation of inter-islands shipping services	To be undertaken (2019)	Undertaken (2021)		
Increase the budget for maintenance and rehabilitation of road to the minimum required amount - VUV 2.5 billion/year	MIPU	Annual budget for maintenance and rehabilitation of road network	VUV 1bn (2018)	VUV 2.5bn (2025)		
Restricts improvements (earth-gravel to seal) during the next 5 years to Tanna and Malekula	VPMU	Whether road improvements (earth-gravel to seal) affect islands other than Tanna and Malekula	No (2019)	No (2025)		
Evaluate the economic impact of the upgraded waterfront in Port Vila	MTTCNVB	Status of ex-post impact assessment of upgraded waterfront in Port Vila	To be undertaken (2019)	Undertaken (2020)		
Assess the economic impact of an upgraded waterfront in Espiritu Santo before taking a final decision on whether to beautify	MTTCNVB	Status of ex-ante impact analysis of upgraded waterfront in Espiritu Santo	To be undertaken (2019)	Undertaken (2020)		

Biosecurity Vanuatu to participate regularly in relevant international fora, including the WTO SPS Committee, the IPPC Commission on Phytosanitary Measures (CPM), OIE Regional Commission and Codex CNASWP	BV	Number of meetings attended	WTO SPS Committee attended when one-off opportunity allowed (2018)	At least one meeting of each of the four bodies attended each calendar year by BV (2023)		
Review and enact the Biosecurity Bill	BV	Status of Biosecurity Bill	Draft in place (2019)	Reviewed, passed by Parliament and gazetted (2021)		
Update the National Biosecurity Policy 2016-2030 to include and prioritise Vanuatu's SPS-related legislation updates, international reporting obligations and immediate pest management needs (e.g. CRB response)	BV	Updated National Biosecurity Policy 2020-2030 and annual planning/budgeting documents and new funding applications to Government or donors	National Biosecurity Policy 2016-2030 (2016)	Updated NBP 2020-2030 utilised in annual planning/budgeting process and new spending proposals (2020)		
Electronically generate SPS permits and certificates including, if merited, by linking Vanuatu's ESWS to the IPPC-developed GeNS	DCIR	Status of SPS permits and certificates	Manually generated (2019)	Electronically generated (2020)		
Develop specifications to address the wider e-System needs of Biosecurity Vanuatu and implement these to complement the ESWS project	BV	Status of systems supporting all BV's operations (i.e. sample submission/processing, record keeping, data retrieval and reporting needs)	Manual, paper-based (2019)	Computerised (2025)		
Identify BV human resource gaps at certified ports of entry and employ trained personnel for effective border control of high-risk entry pathways (e.g. yachts, sea containers)	BV	Number of trained border control personnel at certified ports of entry	5 located at seaports (3 in Espiritu Santo and 2 in Port Vila) (2019)	Doubled compared to 2019 baseline (2022)		

Strengthen arrangements with ISO-accredited (e.g. AsureQuality) or OIE-recognised diagnostic and testing laboratories overseas to ensure ready access to any pest and disease diagnostics or testing required or authorised by BV, VS or VBS	BV	Status of arrangements in place with ISO accredited or OIE-recognised diagnostic and testing laboratories	Relatively informal arrangements (2019)	BV with formal agreements or MoUs in place with ISO-accredited or OIE-recognised laboratories (2021)		
	VBS	Status of arrangements in place with ISO accredited or OIE-recognised diagnostic and testing laboratories	Relatively informal arrangements (2019)	VBS with formal agreements in place with AsureQuality for residue and heavy metal testing (2021)		
Provide additional resources to develop the laboratory capacity of VBS and establish the international credentials of the VBS laboratory	VBS	Status of VBS laboratory capacity	No commercial scale blender (2019); No permanent laboratory assistants (2019)	Commercial scale blender (2020); At least three permanent laboratory assistants (2020)		
	VBS	Status of accreditation of VBS laboratory systems	No ISO-accredited laboratory systems (2019)	Accredited laboratory systems (2025)		
Increase capacity to address key primary production issues associated with the management of pests (CRB and invasive pasture weeds) and diseases (e.g. vibriosis)	BV	Status of invasive weeds in Vanuatu* [*] Main project on this issue: GIP No. 18A849: Improving productivity in the beef industry in Vanuatu [MFAT Pasture weed project]	Lantana, nail grass, parthenium, pico, hibiscus burr and wild peanut identified as invasive weeds impacting pasture (2018)	Sustainable and cost-effective biocontrol agents for invasive weeds identified and deployed (2025)		

	BV	Status of CRB in Vanuatu	Contained to Efate (2019)	Eradicated (2025)		
	BV	Status of bovine genital campylobacteriosis in Vanuatu (available here)	Recorded as absent (2018)	Diagnostic testing undertaken and status confirmed. If necessary, vaccination program implemented (2020 onwards)		
Progress development through CCNASWP of a Codex standard for kava	BV , VBS, Kava IWG, and PHAMA Plus	Status of Codex standard for kava	Codex Alimentarius Commission approved preparation of a regional draft standard for kava (2017)	Codex standard adopted (2022)		
Develop and formalise collaborative arrangements between public and private sector stakeholders to manage increasing risks to trade associated with sea containers	IPDS/NISCOL	Level of application of SPS measures to exported containers (e.g. inspection, cleaning) at Port Vila and Luganville wharves	IPDS and NISCOL facilities with MPI-approved Sea Container Hygiene Systems (SCHS, 2018)	IPDS and NISCOL SCHS retain MPI-approved SCHS and meet other trading partners' requirements (2022)		
	BV	Level of application of SPS measures to imported containers (e.g. inspection, cleaning) at Port Vila and Luganville wharves	No BV-approved SCHS and inspection regime for sea containers arriving in Vanuatu (2019)	BV-approved SCHS and inspection regime for sea containers arriving in Vanuatu developed and in place (2022)		

The VBS is given semi-autonomous status in line with the provisions of the VBS Act	MTTCNVB	Status of VBS Board	To be established (2019)	Established and operational (2020)		
	MTTCNVB	Source of funding for VBS	MTTCNVB Budget (2019)	Government Grant (2021)		
Notify to the WTO that VBS is the new TBT Enquiry Point	DET	Whether the notification has been sent	No (2019)	Yes (2020)		
Draft and approve a National Quality Policy	VBS	Progress with NQP	Being drafted (2019)	Approved by CoM (2020)		
Adopt a catalogue of priority national standards	VBS	Status of catalogue of priority national standards	Not yet started (2019)	Finalised and approved in line with provision of VBS Act (2020)		
Establish metrology laboratory and train staff in calibration	VBS	Status of legal metrology laboratory	n.a. (2019)	Established and operational (2025)		
	VBS	Provision of calibration services	No (2019)	Yes (2025)		
Pursue international recognition for the national metrology body (metrology division of the VBS) from the International Organisation of Legal Metrology (OIML)	VBS	Whether OIML accreditation is obtained	No (2019)	Yes (2025)		
The VBS to work towards accreditation of its conformity assessment services	VBS	Whether VBS services have been accredited by APAC	No (2019)	Yes (2025)		
The VBS to support priority domestic CABs to be accredited	VBS	Number of domestic CABs (excluding VBS) accredited	None (2019)	At least one (2025)		
Start developing certification schemes for some food safety standards - HACCP and/or ISO 22000	VBS	Whether VBS staff is trained in HACCP and ISO 22000 certification	No, but capable to assist towards certification (2019)	Yes, to audit (2021)		

	VBS	Number of companies certified by VBS in HACCP and ISO 22000	None, but 2 companies assisted towards being certified (2018)	2 (2021 onward)		
Scope options for regional cooperation, for example in the areas of measurement standards and accreditation services	MTTCNVB	Whether priorities for regional QI cooperation have been identified	No (2019)	Yes, and endorsed by Trade Ministers (2019)		
	MTTCNVB	Status of QI projects to address agreed regional priorities	N.A. (2019)	Commenced (2021)		
CHAPTER 7: DOING BUSINESS - REFORMS FOR PRIVATE SECTOR DEVELOPMENT						
Finalise and publish the national investment policy	VIPA	Status of National Investment Policy	Under development (2019)	Finalised and approved by CoM (2019)		
Once the national investment policy is finalised, present the Bill for the Investment Promotion and Facilitation Act to Parliament	VIPA	Status of Bill for the Investment Promotion and Facilitation Act	To be passed by Parliament and gazetted (2019)	Passed by Parliament and gazetted (2020)		
Prepare practical investment promotion strategies for each of the priority sectors included in the National Investment Policy, and use the recommendations of the TPFU sectoral chapters to inform those strategies	VIPA	Status of investment promotion strategies for tourism, coconut, beef, kava, fruits & vegetables, cocoa, timber, and fishery products	To be developed (2019)	Developed (2021)		
Consider converting the business license application into a registration process	MFEM	CoM decision on converting business license application process into a registration process	n.a. (2019)	Made (2020)		
Amend the Industry Development Act to	Dol	Status of amendments to the	To be made	Made, passed by		

introduce greater transparency over the imposition of export taxes		Industry Development Act, section 12	(2019)	Parliament, and gazetted (2021)		
Develop competition legislation	MTTCNVB	Status of competition legislation	To be developed (2019)	Developed, passed by Parliament, and gazetted (2025)		
Develop consumer protection legislation	MTTCNVB	Status of consumer legislation	To be developed (2019)	Developed, passed by Parliament, and gazetted (2025)		
Consider ratifying the New York Convention on the Enforcement of Arbitral Awards	MJCS	CoM decision on ratification of the New York Convention on the Enforcement of Arbitral Awards	n.a. (2019)	Made (2020)		
Establish an alternative dispute resolution centre	MJCS	Status of alternative dispute resolution centre	To be established (2019)	Established (2025)		
Publish consolidated versions of national legislation	SLO	Whether consolidation of legislation is undertaken, at least on annual basis	No (2019)	Yes (2025)		
Development of a national labour policy	TLAC	Status of national labour policy	n.a. (2019)	Developed and approved by CoM (2021)		
Review of all legislation in accordance with national labour policy	TLAC	Status of amendments to labour-related legislation* recommended by national labour policy [*] Includes: <ul style="list-style-type: none"> • Employment Act (CAP 160) • Trade Unions Act (CAP 161) • Trade Disputes Act (CAP 162) • Minimum Wage and Minimum Wages Board Act (CAP 182) 	To be made (2019)	Made, passed by Parliament, and gazetted (2025)		

		<ul style="list-style-type: none"> • Workmen's Compensation Act (CAP 202) • Foreign Investment Promotion Act (CAP 248) • Immigration Act 2010 				
Develop a plain language tri-lingual Employee Handbook, and also an Employer Handbook	DLES	Status of Employee Handbook	Not in place (2019)	In place (2020)		
	VCCI	Status of Employer Handbook	In place, last updated in 2014 (2019)	Updated (2020)		
Establish an information gathering and data recording project within the Department of Labour	See recommendations in Chapter 8 on LMIS					
Development of a tri-lingual, plain language template land lease agreement, with different options for key legal clauses (rent review, right of way, transfer of fixtures and improvements, etc.)	LPMC	Status of template land lease agreement	Not in place (2019)	In place (2021)	+	1
Consider the establishment of a specialised advisory unit to assist land owners	LPMC	CoM decision on establishment of independent advisory unit to assist land owners	n.a.	Made (2021)	+	1
Produce a final feasibility study on establishing an Economic Development Zone	MTTCNVB	Status of sector analysis on establishing an Economic Development Zone	Being developed (2019)	Finalised and approved by CoM (2020)		
Introduce standard form, trilingual (Bislama, English, French) plain language security agreements in respect of different categories of movable property and	MFEM RBV	Status of template plain language security agreement	n.a. (2019)	In place (2020)		

leasehold interests						
Introduce a legislative and regulatory framework for private credit bureaus	MFEM RBV	Status of legislation regulating credit bureaus	n.a. (2019)	Developed, passed by Parliament, and gazetted (2025)		
Develop consumer credit policy and legislation	MFEM RBV	Status of consumer credit policy	n.a. (2019)	Finalised and approved by CoM (2021)		
	MFEM RBV	Status of consumer credit legislation	n.a. (2019)	Developed, passed by Parliament, and gazetted (2025)		
Close the Vanuatu Agricultural Development Bank	MFEM RBV	Whether the VADB has been liquidated* [*] Liquidation is intended as the process of bringing a business to an end and distributing its assets to claimants	No (2019)	Yes (2025)		
Introduce a personal bankruptcy framework that provides individuals with a cost-effective process for discharging their debts	MFEM RBV	Status of personal bankruptcy legislation	n.a. (2019)	Developed, passed by Parliament, and gazetted (2025)		
Monitor implementation of the Financial Inclusion Strategy 2018-2023, and, in particular, prioritise the development of the MSME policy and legislation	RBV	Status of FIS monitoring reports	[to be confirmed] (2019)	Regularly produced and submitted to NTDC, at least annually (2020 onwards)		
	ORCBDS	Status of Small Businesses Development Act	Draft (2019)	Approved by Parliament and gazetted (2020)		
	ORCBDS	Status of MSMEs policy	To be updated (2019)	Updated (2020)		

Develop legislation relating to payment systems	MFEM RBV	Status of payment systems legislation	Under development (2019)	Developed, passed by Parliament, and gazetted (2020)		
Consider regulating interchange fees	MFEM RBV	CoM decision on whether to regulate (cap) interchange fees	n.a. (2019)	Made (2020)		
Monitor ongoing compliance with, and international developments in anti-money laundering and combating the financing of terrorism requirements	FIU	Status of AML-FT monitoring reports	[to be confirmed] (2019)	Regularly produced and submitted to NTDC, at least annually (2020 onwards)		
Establish a proper legal framework for the Vanuatu Intellectual Property Office (VanIPO)	VanIPO	Status of legislation establishing VanIPO as a statutory body	n.a. (2019)	Developed, passed by Parliament, and gazetted (2021)	+	2
Finalise legal framework on the protection of expressions of culture and traditional knowledge	VanIPO	Status of the Bill for the Protection of Traditional Knowledge and Expressions of Culture	Developed (2019)	Passed by Parliament, and gazetted (2019)	+	2
Implement the Industrial Property Automation System (IPAS)	VanIPO	Status of IPAS implementation	Ongoing (2019)	Completed and operational (2020)		
Review intellectual property laws to identify main gaps to be addressed; in first instance, consider the following <ul style="list-style-type: none"> • Draft required regulations under Patent Act and the Design Act • Extend protection of Geographical Indications beyond wines • Consider joining the systems provide for international protection of patents, trademarks, design systems, and 	VanIPO	Whether IP laws review has been undertaken	No (2019)	Yes (2020)		
	VanIPO	Status of regulations for Patent and Design acts	n.a. (2019)	Approved by competent Minister (2020)		
	VanIPO	Status of amendments to the Geographical Indications Act to extend protection beyond wines	To be made (2019)	Made, passed by Parliament, and gazetted (2021)	+	2
	VanIPO	CoM decision on joining WIPO systems for international protection	n.a. (2019)	Made (2020)	+	2

appellations of origin		of (1) patents, (2) trademarks, (3) design systems, and (4) appellations of origin				
Approve State-Owned Enterprise (SOE) legislation	MFEM	Status of Commercial Government Business Enterprises (CGBEs) Bill	With the Parliament's ad-hoc Committee (2019)	Passed by Parliament, and gazetted (2020)		
Finalise on-lending policy for SOEs	MFEM	Status of on-lending policy for SOEs (CGBEs) and minority interest enterprises	n.a. (2019)	Finalised and approved by CoM (2020)		
Close certain SOEs, including VADB, AMU, VLDC, and VCMB	MFEM	Whether VADB is closed and liquidated	No (2019)	Yes (2025)		
	MFEM	Whether AMU is closed and liquidated	No (2019)	Yes (2025)		
	MFEM	Whether VLDC is closed and liquidated	No (2019)	Yes (2025)		
	MFEM	Whether VCMB is closed and liquidated	No (2019)	Yes (2025)		
Review Government procurement policy and legislation to streamline the procurement process	MFEM	Status of review of Government Tenders Act	Under Review (2019)	Review completed, and amendment made, passed by Parliament, and gazetted (2021)		
	MFEM	Status of review of Government Tender Regulations	Under Review (2019)	Review completed, and approved by competent Minister (2021)		
Confirm compliance with the Vanuatu Chamber of Commerce and Industry (VCCI)	VCCI	Status of report on VCCI funding arrangements	n.a. (2019)	Submitted to NTDC (2020)		

funding arrangements as set out in the VCCI Act						
Implement the VCCI Strategic Plan 2019-2021	VCCI	Annual report on Implementation of VCCI Strategic Plan 2019-2021	n.a. (2019)	Submitted to NTDC (2020 onwards)		
Amend VCCI legislation to: <ul style="list-style-type: none"> encourage youth and Ni-Vanuatu participation in VCCI governance structure restrict the number of consecutive elections by any person to the position of councillor 	MTTCNVB	Status of amendments to VCCI legislation	To be made (2019)	Made, passed by Parliament, and gazetted (2021)		
Government to provide an informational brochure on VCCI's mandate to all companies when the business license fee is paid	VCCI MTTCNVB	Whether the brochure has been produced and disseminated	No (2019)	Yes (2020)		
Formalise VCCI and Government consultation arrangements	MTTCNVB VCCI	Whether a formal consultation arrangement has been drafted and signed	No (2019)	Yes (2020)		
Strengthen the private sector's understanding of the NTDC process and structure	VCCI	Whether the President and General Manager of VCCI are included as NTDC members in the approved Trade Governance Act	n.a. (2019)	Yes (2020)		
CHAPTER 8: EDUCATION AND SKILLS						
Improve primary and secondary education, including in areas such as net enrolment, completion rates, certified teachers, and educational attainment	MoET	Net enrolment; completion rate; percentage of certified teachers; percentage of underachievement in VANSTA	tbc	tbc		

That the Department of Labour establish a web-based Labour Market Information System (LMIS)	DoL	Status LMIS	Not established (2019)	Established and functional (2020)		
That the Department of Labour conduct comprehensive labour market research on a triennial basis (as a minimum) in collaboration with key industry groups such as the Vanuatu Chamber of Commerce and Industry and other professional associations	DoL	Status Comprehensive Labour Market Research	Not undertaken. (2019)	Undertaken (2020, 2023, and 2026)		
That the web-based LMIS facilitates data input from industry on a routine basis to supplement and keep current labour market data between triennial surveys	DoL	LMIS data reports	n.a. (2019)	Produced regularly (quarterly) and circulated by DoL (2020 onward)		
That the labour market data be provided to key agencies such as the VQA, Tertiary Education Directorate and the Institute of Higher Education (once established) to ensure course development and accreditation is aligned to industry and national development priorities, and to ensure all investments in PSET are similarly aligned	DoL	LMIS data reports	n.a. (2019)	Produced regularly (quarterly) and circulated by DoL (2020 onward)		
That the LMIS also facilitates career counselling and employment by providing extensive information on occupational options and information of employment vacancies posted by employers	DoL	LMIS 'modules' on occupational options and vacancies	n.a. (2019)	Established and functional (2021)		
That the VQA and PSET Providers note the	VQA	Number of accredited qualifications	9 (2018)	Increases compared to		

skill shortages and skill gaps identified in the 2018 Industry Survey and develop relevant courses for accreditation and delivery as soon as possible		at Certificate IV and diploma levels		baseline (2020 onward)		
That the PSET providers recognise the opportunity to expand their revenue base and become more responsive to industry needs by offering increased levels of on-the-job training of accredited short courses for a fee	MoET	Number of accredited short courses provided by PSET Providers for a fee	4 (2018)	Increases compared to baseline (2020 onward)		
	MoET	PSET Providers' revenues from short courses provided for a fee	VUV 500,000 (2018)	Increases compared to baseline (2020 onward)		
That the Tertiary Education Directorate, note the skills shortages and skills gaps identified in the 2018 Industry Survey and initiate the provision of professional development programs for current PSET instructors in these priority areas to ensure they have the skills to meet industry standards	MoET	Training needs analyses of PSET instructors/teachers	Not undertaken (2018)	Undertaken (2020, 2022, 2024)		
	MoET	Professional development programs for PSET instructors/teachers to meet training needs	Not established (2018)	Established (2021 onwards)		
	MoET	Number of PSET instructors/teachers attending development programs to meet training needs	50 (2018)	Increases compared to baseline (2020 onward)		
	MoET	Annual performance review of PSET instructors/teachers	Not undertaken (2018)	Undertaken (2020 onwards)		
	MoET	Performance of PSET instructors/teachers	n.a. (2018)	Increases compared to baseline (2021 onward)		
That PSET Providers establish working partnerships with industry to facilitate the placement of instructors on work experience to improve their currency and gain a better understanding of industry	MoET	Number MOUs between PSET Providers and industry sectors to facilitate placement of instructors/teachers	zero (2018)	Increases compared to baseline (2020 onward)		
	MoET	Survey of industry satisfaction with	Not undertaken	Undertaken (2020		

requirements		PSET providers	(2018)	onwards)		
	MoET	Degree of industry satisfaction with PSET providers	n.a. (2019)	Increases compared to baseline (2021 onward)		
	MoET	Number of instructors placed on work experiences in private companies	n.a. (2019)	10 per year across all PSET providers		
That an Institute of Higher Education is established with each of the merged institutes becoming schools or departments of a semi-autonomous statutory authority accountable to the Minister of Education and Training through a Board of Directors	MoET	Status of legislation to establish Vanuatu Institute of Higher Education (VIHE)	Not in place (2019)	Passed in Parliament and gazetted (2020)		
That budget allocations for the effective running of the Institute of Higher Education include a performance-based component conditional on the achievement of specific targets linked to the NHRDP and national development objectives	MoET	Performance-based component for budget allocation to the Vanuatu Institute of Higher Education	n.a. (2019)	Included in legislation to establish Vanuatu Institute of Higher Education (2020)		
That funding to establish and maintain the Institute of Higher Education be derived from the sum of existing appropriations of the Public PSET Providers plus an increasing share of overall scholarships allocations for delivery of scholarships in Vanuatu	MoET	Budget of the Institute of Higher Education	VUV785m (2018)	<ul style="list-style-type: none"> • VUV 827m (2020) • VUV 903m (2022) • VUV 903m (2024) • VUV 903m (2026) 		
That the award of international and national scholarships be demand driven -	MoET	Annual reviews on alignment between scholarship awards and	n.a. (2019)	Undertaken (2020 onward)		

directly linked to the NHRDP and any emerging areas of skill shortages and gaps identified in regular labour market research undertaken by the Department of Labour		LMIS skill shortage data				
	MoET	Degree of alignment between scholarship awards and LMIS skill shortage data	n.a. (2019)	Improves compared to baseline (2021 onward)		
	MoET	Tracer studies of scholarship graduates	n.a. (2019)	Routinely undertaken (2020 onward)		
	MoET	Time needed for scholarship graduates to find employment in the chosen field	n.a. (2019)	6 months (2020 onward)		
That triennial impact evaluations of the scholarship program be undertaken to measure outcomes and to inform ongoing review of the NHRDP and adjustments to award criteria	MoET	Triennial impact evaluations of the scholarship program	n.a. (2019)	Undertaken (2020, 2023, and 2026)		
That overall PSET investments by Government, including current scholarship allocations, include performance-based funding approaches to provide incentive for public and private providers to improve their standards to the level required for scholarship award	MoET	Time needed for scholarship graduates at a PSET provider to find employment in the chosen field	n.a. (2019)	<ul style="list-style-type: none"> • Included in legislation as a criterion of the performance-based component for budget allocation to the VIHE (2020) • Introduced as a mandatory criterion for scholarship awards (2020) 		
That performance-based funding criteria have a focus on meeting access and inclusion targets – particularly in rural and	MoET	Number of students trained in rural areas (2020)	n.a. (2019)	Included in legislation as a criterion of the performance-based		

remote areas				component for budget allocation to the VIHE (2020)		
That performance-based funding criteria include revenue targets derived from sale of education and training services to the private sector through flexible workplace delivery	MoET	Share of resources derived from sale of education and training services to the private sector (2020)	n.a. (2019)	Included in legislation as a criterion of the performance-based component for budget allocation to the VIHE (2020)		
That performance-based funding criteria include targets for the accreditation and delivery of qualifications at VQF certificate level three and above	MoET	Share of accredited courses at Certificate III level and above (2020)	n.a. (2019)	Included in legislation as a criterion of the performance-based component for budget allocation to the VIHE (2020)		
CHAPTER 9: TRADE AND SUSTAINABLE DEVELOPMENT						
Strengthen the relationship between VIPA and the DEPC, by establishing an obligation for VIPA to automatically forward each foreign investment application to the DEPC	MTTCNVB	Whether automatic forwarding from VIPA is in place	Not in place (2019)	VIPA automatically forwards foreign investment applications to DEPC (2020)		
Update VIPA's investment application template to clearly inform the foreign investment applicants about the legal necessity to take environmental permits from the DEPC before beginning any project in Vanuatu	VIPA	Status of changes to VIPA's investment application template to clarify obligation to take environmental permits from the DEPC	Not in place (2019)	Introduced (2019)		
Strengthen the relationship between the Prime Minister's Office's Aid Coordination Unit and the DEPC, by establishing an	PMO	Whether automatic forwarding from Aid Coordination Unit is in place	Not in place (2011)	Aid Coordination Unit automatically forwards foreign investment		

obligation for the Aid Coordination Unit to automatically forward each project design document to the DEPC				applications to DEPC (2020)		
Strengthen capacity within the DEPC to conduct PEAs and evaluate EIAs	MCCA	Number of officers in the DEPC allocated for PEAs and EIAs - formulation plus compliance	Three officers for PEAs, and one compliance officer (2019)	Increase compared to baseline (2020 onward)		
Scale up the tourism accreditation compliance process at national level to ensure compliance with the EPC Act	Department of Tourism	Number of provinces where accreditation process complies with EPC Act	Two (2019)	6 (2025)		
Explore the option of conducting Strategic Environmental Assessments for key export sectors, through assistance from the ADB and/or the SPREP	DEPC	Status of decision as to whether or not to pursue Strategic Environmental Assessments	Not taken (2019)	Taken (2020)		
Approve the DSM policy after consultations, and amend the regulatory framework in line with the policy's recommendations	Ministry of Internal Affairs	Status of National DSM policy approved	Not in place (2019)	Approved (2020)	+	1,5
Conduct a National Forest Inventory (NFI) and National Carbon Stock Assessment by 2020	Department of Forestry	Status of National Forest Inventory (NFI) and National Carbon Stock Assessment	Not in place (2019)	Completed (2020)	+	2,5
Continue to monitor annual catch volumes for EEZ fish (e.g. tuna) and ensure they remain below the sustainable yield limits	Department of Fisheries	Difference between sustainable yield limits and annual catch volumes, by species: Albacore	3168 metric tonnes (2016)	Remains positive (2019 onwards)		
	Department of Fisheries	Difference, Bigeye	715 metric tonnes (2016)	Remains positive (2019 onwards)		
	Department of	Difference, Skipjack	2869 metric	Remains positive (2019		

	Fisheries		tonnes (2016)	onwards)		
	Department of Fisheries	Difference, Yellowfin	1523 metric tonnes (2016)	Remains positive (2019 onwards)		
Secure donor assistance (from ADB or SPC) to continue implementing the Tails program to develop a better dataset of reef and lagoon fisheries	Department of Fisheries	Status of Tails program	Tails program in place, but needs additional donor support (2019)	Donor support for continued implementation of the Tails program is secured (2020)		
Continue pursuing renewable options to increase off-grid access to electricity	Department of Energy	Percentage off-grid electricity from renewable sources	[to be confirmed] (2019)	Increases compared to baseline (2020 onwards)		
Work with bilateral donor partners and multilateral funds such as the GEF and the GCF to secure capital expenditure for establishing wind farms and solar plants	Department of Energy	Value of donor-funded energy project, 3-year moving average	USD 3.9m (2015-17)	Increases compared to baseline (2016-18 onwards)		
Work with bilateral donor partners and multilateral funds such as the GEF and the GCF to secure capital expenditure for stabilisation infrastructure, such as spinning reserves and storage systems, to ensure grid stability	See above	See above	See above	See above		
Explore options for increasing the production of coconut oil and expanding its use for generating thermal electricity	Department of Energy and Department of Agriculture and Rural Development	Percentage electricity generated from coconut oil	1.8% (April 2019)	Increases compared to baseline (2021 onwards)		
Assess the geothermal potential in Vanuatu, notably on Efate, and, if significant, facilitate a way forward to solve	Department of Energy	Status of decision on whether proceed with geothermal energy generation on North Efate	Not taken (2019)	Taken (2020)	-	1,5

land and concession-related issues preventing its commercial exploitation						
Raise awareness on the linkages between trade and natural disasters at the NTDC, and seek membership of the NAB so that trade can be further mainstreamed into climate change mitigation and adaptation, and disaster response, recovery, and resilience	NAB	Number of NAB meetings per year where linkages with trade are tabled and discussed	0 (2019)	1 (2020 onwards)		
	MTTCNVB	Number of NTDC meetings per year where linkages with climate change and disaster response, recovery and resilience are tabled and discussed	0 (2019)	1 (2020 onwards)		
Track and regularly report relevant indicators of the National Gender Equality Policy and the National Financial Inclusion Strategy to the National Trade Development Committee	Department of Women's Affairs	Number of NTDC meetings per year where indicators from the National Gender Equality Policy and the National Financial Inclusion Strategy are reported	0 (2019)	1 (2020 onwards)		
Track and regularly report the Melanesian Wellbeing Indicators ("Alternative Indicators for Well-being in Melanesia"), depending on the availability of data on these indicators	VNSO and Malvatumauri Council of Chiefs	Number of NTDC meetings per year where the Melanesian Wellbeing Indicators ("Alternative Indicators for Well-being in Melanesia") are reported	0 (2019)	1 (2020 onwards)	+	all
CHAPTER 10: TRADE MAINSTREAMING AND ITS PILLARS						
Continue devoting adequate resources the TPFU's monitoring and evaluation	MTTCNVB	Number of updated TPFIM Status Reports issued to the NTDC	3/year (2019)	3/year (2020 onward)		
Promote trade policy mainstreaming, including explicit reference to the TPFU 2019-2025 in relevant policies by the Ministries of Tourism, Trade, Commerce and Ni-Vanuatu Business (MTTCNVB), Agriculture, Livestock, Forestry, Fisheries	MTTCNVB	Number of national policies from MTTCNVB, MALFFB, MoET, MIPU, MCCE, and PMO mentioning the TPF or TPFU	4 (2019)	7 (2025)		

and Biosecurity (MALFFB), Education and Training (MoET), Infrastructures and Public Utilities (MIPU), Climate Change and Energy (MCCE), and the Prime Minister Office (PMO)						
Approve a Trade Governance Act legally establishing the NTDC, giving legal status to its recommendations, promoting stronger MALFFB-MTTCNVB cooperation, ensuring senior representation at its meetings, setting-up a procedure to establish advisory public-private working groups, and legally establishing the National Trade Facilitation Steering Committee	MTTCNVB	Status of Trade Governance Act	Draft bill (2019)	Approved by Parliament and gazetted (2020)		
Map decision-making bodies under the MALFFB, MoET, MIPU, and MCCE, and seek MTTCNVB membership in relevant ones, for example the Scholarship Board under MoET	MTTCNVB	Whether MTTCNVB is a member of the Scholarship Board	No (2019)	Yes (2021)		
	MTTCNVB	Number of decision-making bodies under MALFFB, MoET, MIPU, MCCE having MTTCNVB as member	4* (2019) [*] VQA Board, VPMU-SC, NAB, VPPA	Increase compared to baseline (2020 onward)		
Increase MTTCNVB engagement with National Advisory Board on Climate Change and Disaster Risk Reduction (NAB)	MTTCNVB	Whether MTTCNVB is a member of the NAB	No (2019)	Yes (2020)		
Use the TPFU 2019-2025 to create a unifying narrative for the MTTCNVB's New Policy Proposals (NPPs)	MTTCNVB	MTTCNVB budget appropriated	VUV 410.6m, 1.5% of total government (2019)	VUV 500m (2025)		
Use the TPFU 2019-2025's strategies and	MTTCNVB	Whether the TPFU's strategies and	n.a. (2019)	Yes (2020 onward)		

targets to inform the MTTCNVB's corporate plan and its agencies' business plans		targets are included as appropriate in the MTTCNVB's corporate plan				
	MTTCNVB	Number of MTTCNVB's business plans adopting TPFU's strategies and targets	n.a. (2019)	9* (2020 onwards) [*] DoI, DoT, ORCBDS, VIPA, VTO, VBS, VanIPO, CSU, TDD		
Undertake a capacity assessment of the MTTCNVB's staff, including recommendations on departmental structures and tailored training options	MTTCNVB	Status of MTTCNVB's capacity assessment	Not in place (2019)	Undertaken (2021)		
Formally engage World Bank, Asian Development Bank (ADB), China, and Japan to scope options for new Aid for Trade projects managed by the MTTCNVB	MTTCNVB	Total value of Aid-for-Trade projects funded by WB, ADB, CN, JP, and managed by MTTCNVB	Nil (2018)	Increase compared to baseline (2023 onward)		
Promote a donor roundtable on opportunities for blended projects managed by the MTTCNVB	MTTCNVB	Whether a MTTCNVB donor roundtable on blended trade projects has taken place	No (2019)	Yes (2023)		
Regularly monitor Aid-for-Trade to ensure it is aligned with the country needs	MTTCNVB	Number of NTDC papers on Aid-for-Trade trends, per year	None (2019)	1 (2020 onward)		
CHAPTER 11: GOODS						
Coconut						
Continue to roll out the coconut replanting programme, including by pursuing techniques such as G3PH, and strengthen capacity to establish nurseries and supply farmers with seedlings	DARD	Number of trees planted 2016-2025	n.a.	700,000 new trees (2022) 1 million new trees (2025)		
Promote research in genetic improved	DARD/VARTC	New varieties of coconut trees rolled	n.a.	One new coconut variety		

varieties (flavour and yield)		out		rolled out (2025)		
Pursue product diversification in new edible non-oil products (milk, water, sugar, etc.) and non-food products	DoI	Number of edible non-oil products and non-food products exported	Zero	One (2022) Three (2024)		
Undertake a study on Virgin Coconut Oil (VCO) and other coconut products to identify market access' opportunities and challenges, demand and supply imbalances, and reinforce linkages in the value chains	DoI	Status of study on market opportunities VCO and other coconut products	Not undertaken	Market study on coconut opportunities finalised (2020)		
Develop a pest control framework involving specific preparedness and response strategies, in line with relevant FAO's International Standards for Phytosanitary Measures (ISPMs)	DoB	Status of pest control framework	Not established	Pest control framework established (2022)		
Adopt national standards for coconut production and primary processing (Good Agriculture Practices), as well as for further processing (e.g. Codex standards) which are aligned with international standards	VBS/DARD	Status of Good Agriculture Practices	No national standard	Standard adopted (2020)		
	VBS	Status of Codex Standards for VCO	No national standard	Standard adopted (2020)		
Improve handling, transport and storage conditions of primary processed coconut products – based on the recommendations of the adopted national standard	VBS	Number of trainings carried out	n.a.	tbc once standard established		
Introduce HS8 Code for premium copra	DCIR	HS8 Code Status	No HS8 Code	HS8 Code established (2020)		
Improve the quality of copra (transition from crude copra to premium copra) and	DARD	Percentage of copra exported which is premium	20% (2019)*	30% (2022) 50% (2025)		

Virgin Coconut Oil (training in hygiene and sanitary practices, and technical support) to meet relevant international standards			[*] Based on own calculations			
	VBS	Number of farmers trained in good VCO practices	tbc	tbc		
Beef						
Increase the number of extension officers working for the Department of Livestock	DLV	Number of extension officers employed by MALFFB with Livestock training	tbc	tbc		
Increase training for pasture management	DLV	Number of farmers trained relating to pasture management	tbc	tbc		
Increase training for water management	DLV	Number of farmers trained relating to water management	tbc	tbc		
Promote alternatives to cattle as 'custom kill'	DLV	Number of pigs and goats in the country	tbc (2020 Population Census)	30% increase compared to baseline (2025)	+/-	3
Increase the calving rates, particularly amongst smallholders	DLV	Overall calving rate	55%	70% (2024)		
	DLV	Calving rate (smallholders)	36%	50% (2024)		
Continue implementing stage 2 of the Cattle Re-stocking Programme, with a focus on economic opportunities	DLV	Number of cattle distributed	tbc	tbc		
If necessary, and as part of a revitalisation program for the industry, provide temporary support to the abattoirs, to ensure they remain operating	DoI	Number of abattoirs functioning	At least one in Efate, and one in Espiritu Santo	At least one in Efate, and one in Espiritu Santo (ongoing)		
Maintain animal disease-free status, and seek international recognition for it	DoB	Status of the National Plant Pest and Disease Surveillance System	Not developed	National Plant Pest developed		

		(livestock parts)				
Pilot for chemical residue testing and beef traceability, for access into high-value markets	DoB	Status of pilot programme	Pilot not undertaken	Pilot undertaken for chemical residue testing and beef traceability (2022)		
Kava						
Register Geographical Indication for Kava	VanIPO	Status of GI for kava	GI not registered	GI for kava registered internationally (2020)	+	2
Improve data of the kava markets: domestic supply	DARD	Data on kava supply	No good data	Kava supply included as population census (2020) Kava supply included in agriculture census (2023)		
Improve data of the kava markets: domestic demand	Dol	Status of study on domestic demand	Not undertaken	Completed (2021)		
Improve data of the kava markets: international demand	Dol	Status of study on international kava market	Not undertaken	Completed (2021)		
Ensure, as far as possible, that the European market remains open for kava exports	[tbc]	Status of market in Europe	Open (2019)	Open (2020 onwards)		
Develop a promotion strategy to boost global kava demand and stimulate FDIs	Dol	Status of kava promotion strategy	No strategy	Kava promotion strategy developed (2022)		
Improve the governance mechanisms: Support the Vanuatu Kava Industry Association to find a long-term funding mechanism	Dol/DARD	Whether VKIA is self-funded	No	Yes (2023)		

Improve the governance mechanisms: Continue to run annual Kava Forums	DARD	Frequency of Kava forums	Annual (2018 and 2019)	At least bi-annual (2020, 2022, 2024)		
Improve the governance mechanisms: Revive Pacific Kava Council under Vanuatu leadership	DoI	Status of Pacific Kava Council	Council is defunct	Pacific Kava Council meets and agrees a ToR (2020)		
Improve quality: Complete the FAO/WHO Codex Alimentarius standards	DoB	Status of Codex Standard for kava	Kava Codex Standard is at stage 5	Kava Codex standard agreed and published (2021)		
Improve quality: Establish quality traceability criteria and mechanisms	DARD	Status of kava traceability criteria	No traceability criteria	Traceability criteria established (2022)		
Improve quality: Develop and enforce domestic standards for the municipal areas	VBS	Status of Nakamal standards	No standards	Standards established (2021)		
	PVMC/LMC	Number of tests on kava bars annually	n.a.	200 tests of kava bars in Port Vila and 100 tests of kava bars in Luganville (annually, from 2022)		
Improve quality: Develop kava product labelling standards	VBS	Status of kava product labelling standards	No standards	Established (2021)		
Improve the testing capability of relevant Government authorities	VBS	Whether VBS has regular access to High-Performance Thin Layer Chromatography test	No	Yes (2024)		
Fruits and vegetables						
Consider establishing a national commodity exchange platform	ORCBDS/DARD	Status of study into feasibility of this proposal	Not undertaken	Undertaken (2021)		
Improve and define Vanuatu Cooperatives Business Network's institutional capacity	ORCBDS	Status of building renovation for VCBN	Not completed	Completed (2020)		

and scope	ORCBDS	Status of VCBN Business Plan	Not started	Completed (2021)		
Reduce reliance on imported food where products can be grown domestically	DARD	Value of imported F&V falling under HS 07 and HS 08 in DCIR data	VUV 530 million (2017)	VUV 480 million (2022) VUV 420 million (2025)	+	3
Improve skills, at both farming and processing level	DARD/Dol	Number of trainings carried out	n.a.	tbc		
Improve storage facilities and cold rooms at strategic locations	ORCBDS	Number of storage facilities improved/established	n.a.	At least one in the Shefa province (2021); At least one in one or more of the other provinces (2024)		
	ORCBDS	Number of cold rooms improved/established	n.a.	At least one in the Shefa province (2021); At least one in one or more of the other provinces (2024)		
Design and establish a grant facility to provide finance to smallholders developing innovative products and generating employment	Dol/ORCBDS	Status of grant facility for smallholders	n.a.	Established (2021)		
Improve research and extension systems (improve the use of technology) – soil laboratory, hydroponics, irrigation, covered structures (greenhouses), and practices to extend fruiting seasons	DARD	Number of trainings carried out	tbc	tbc		
Use improved and proven crop varieties	DARD	Number of crop varieties distributed	tbc	tbc		
Promote technical assistance and training in agro-processing practices and marketing	DARD/Dol	Number of trainings carried out	tbc	tbc		

Establishing quarantine treatment facilities and protocols where a robust business case exist for export of certain fruits and vegetables	Biosecurity	Number of facilities and protocols established	n.a.	tbc		
Strengthen pest controls to maintain low pest prevalence	Biosecurity	Status of pest controls strengthening	Not undertaken	tbc		
Develop/review relevant national standards for Fruits and Vegetables	VBS/DARD	Status of national standards for Fruits and Vegetables	No national standard	tbc		
Forestry products						
Create unique HS codes for sandalwood and sandalwood oil	DCIR	Status of HS codes for sandalwood and sandalwood oil	Not developed	Developed (2020)		
Commission an independent sandalwood value chain study in Vanuatu. The study objectives would be twofold: 1) review and assess the sandalwood supply chain and its regulatory framework (replanting plans, quota, licenses, royalties, minimum pricing) vis-à-vis potential improvements (auction pricing, limiting licenses, resource base aggregation), and 2) assess the economic rationale behind encouraging domestic processing of sandalwood	DoF	Status of study on the sandalwood value chain	Not undertaken	Undertaken (2021)		
Cocoa						
Establish a cocoa nursery and replant cocoa trees using genetically productive varieties of seedlings	DARD	Status of cocoa nursery	No nursery	Cocoa nursery established (2021)		
	DARD	Cocoa replanting programme rolled out using genetically improved	n.a.	tbc		

		varieties				
Improve quality consistency by providing post-drying facilities such as storage and cold rooms at key ports of entry	DARD/ORCBDS	Number of storage facilities and cold rooms established	n.a.	At least one storage facility for cocoa established in the Malampa province (2024) At least one storage facility for cocoa in one or more of the other provinces (2024)		
Promote and improve Vanuatu's visibility as a cocoa producer and chocolate manufacturer	DoI/VCCI	International (chocolate) fairs attended by Vanuatu manufacturers	n.a.	5 (2025)		
Fisheries						
Continue to monitor annual catch volumes for EEZ fish (e.g. tuna) and ensure they remain below the sustainable yield limits	See Chapter 9					
Monitor fish processing plant and fish markets performances, including financial viability	DFS/DoI	Annual performance report presented at the NTDC on Q1	n.a.	Annual presentation to NTDC regarding the progress of the fish industry (ongoing)		
CHAPTER 12: TOURISM SERVICES						
Increase tourism arrivals by air and by sea and ensure the sustainable development of the sector through enhanced sector management and planning	VTO/DoT	Air arrivals	109,170 (2017)	2019 - 119,519 2020 - 134,739 2021 - 144,923 2022 - 154,508 2023 - 166,391 2025 - 205,765		

	VTO/DoT	Cruise passengers	223,551 (2017)	2019 – 263,655 2020 – 286,329 2021 – 310,953 2022 – 337,695 2023 – 366,737 2025 – 398,276		
	DoT	Status of Vanuatu Sustainable Tourism Plan implementation	[tbc]	[tbc]		
Increase the value of the VTO marketing funds through a combination of levy and government grant to fully implement the Vanuatu Tourism Market Development Plan (VTMDP)	VTO	VTO Budget	VUV 250m (2018)	2019 - 657m 2020 - 735m 2021 - 727m 2022 - 731m 2023 - 757m 2025 - 887m		
Provide the necessary support and develop mechanisms to broaden the application of the Tourism Marketing Development Fund (TMDF) to all businesses who are direct or indirect beneficiaries of tourism.	VTO	Annual contributions to the TMDF	VUV 30 (target 2018)	VUV 110m (2025)		
Expand training provision to meet increased demand for skilled tourism and hospitality workers domestically and internationally.	VIT	VIT Tourism and Hospitality graduates	[to be confirmed] (2018)	Increases compared to baseline (2019 onwards)		
	APTC	APTC Ni-Vanuatu graduates <ul style="list-style-type: none"> • Cert III Hospitality • Cert III Tourism • Cert IV Hospitality 	<ul style="list-style-type: none"> • 27 (2017) • 10 (2017) • 17 (2017) 	57 (2025) 32 (2025) 34 (2025)		
	Vanuatu Skills Partnership	Tourism business clients supported through Vanuatu Skills Partnership in the four provinces	130 (2018)	260 (2025)		

Continue to invest in infrastructure maintenance and upgrading to facilitate tourism growth including wharfs, airports, roads, waste management and sewage systems.	AVL	AVL budget for operations and maintenance of international airports	[to be confirmed] (2019)	[to be confirmed] (2025)		
Continue to facilitate dispersal of tourists away from Port Vila by marketing the outer island attractions and dispersing cruise visitors around Efate and to Espiritu Santo.	VTO/DoT	Visitors travelling to outer islands	27,348 (2017)	2023 - 46,027 2030 - 87,872	+/-	1,2, 5,6
	VTO/DoT	International air visitor arrivals beyond Efate/Espiritu Santo and Tanna	4,874 (2017)	2023 - 11,492 2030 - 21,937	+/-	1,2, 5,6
	VTO/DoT	Percentage of cruise ship calls outside of Efate	49% (2017)	60% (2023) 64% (2025)	+/-	1,2, 5,6
Implement the Vanuatu Agritourism Plan of Action (VAPA) including building stronger linkages between tourism and the productive sectors including agriculture, livestock, poultry and fisheries through increased local production.	DARD	Percentage of imported fresh fruit and vegetables used by hotels	54% (2015)	48% (2025)		
Review the Vanuatu Strategic Action Plan (VSTAP) and facilitate enhanced public/private sector dialogue, to formulate a new overarching tourism sector plan (VSTAP II) to provide an updated roadmap for sector development beyond 2018.	DoT	Review of VSTAP	No (2017)	Yes (2018)		
	DoT	New Tourism Sector Plan Developed (VSTAP II)	Not in place (2017)	Drafted and endorsed by GoV (2019)		
CHAPTER 13: OTHER SERVICES (OFFSHORE AND ICT)						
Set-up an Offshore Financial Centre Working Group (OFCWG) under the	VFSC	Status of the OFCWG	Not established (2019)	Established (2020)		

National Trade Development Committee (NTDC) to spearhead innovation in the sector and structure dialogue with the industry						
OFCWG to commission a study on new services that can be realistically exported and technologies that can realistically be adopted within a regulatory framework which meets international standards	VFSC and FCA	Status of independent study on emerging opportunities for export of offshore new offshore services	Not undertaken (2019)	Undertaken and submitted to NTDC (2020)		
OFCWG representatives to undertake study trip in leading OFC to better assess options for innovation	VFSC and FCA	Status of the study trip by OFCWG delegation to better assess options for innovation	Not undertaken (2019)	Undertaken and submitted to NTDC (2020)		
	VFSC and FCA	Status of the mission report by OFCWG delegation	Not undertaken (2019)	Undertaken and submitted to the NTDC (2020)		
Review resourcing of VFSC to ensure it has adequate financial ability and autonomy to promote the OFC	VFSC	Status of the review to assess adequacy of VFSC resources to promote OFC	Not undertaken (2019)	Undertaken (2020)		
Move registration functions for online gaming to VFSC to better promote a sector which shares features with the offshore industry	VFSC, RBV and MFEM	Entity with the mandate of registration for online gaming	DCIR (2019)	VFSC (2021)		
Study relevant overseas country experiences on e-Government services and present recommendations to emulate its good practices	OGCIO	Status of the study relevant overseas countries e-Government services	Not undertaken (2019)	Undertaken and submitted to the NTDC (2020)		
Approve a Privacy and Data Protection Act	OGCIO, SLO, TRBR	Status of Privacy and Data Protection Act	Not in place (2019)	Passed in Parliament and gazetted (2020)		

Approve a Consumer Protection Act, including online and offline protection (or update existing regulations to include online consumer protection and redress mechanisms for online consumers)	OGCIO, SLO, TRBR	Status of Consumer Protection Act	Not in place (2019)	Passed in Parliament and gazetted (2020)		
Update the 2013 National Cybersecurity Policy and develop corresponding Cybersecurity Act	OGCIO, SLO, TRBR	Status of National Cybersecurity Policy / Cybercrime Act	Outdated / Not in place (2019)	Updated / Passed in Parliament and gazetted (2020)		
Establish a “digital governance roadmap” to drive development of a digital government platform in Vanuatu	OGCIO	Status of the digital governance roadmap	To be drafted (2019)	Drafted and approved by CoM (2020)		
Establish a digital government (e-Government) platform to: <ul style="list-style-type: none"> provide better government services support the move away from paper-based data collection to electronic data digitise and automate payments generate opportunities for content, application, and website development 	OGCIO	Status of the digital government platform serving as entry point for the supply of digital government services	Not in place (2019)	In place (2021)		
As part of the establishment of the e-Government platform: <ul style="list-style-type: none"> identify government agencies directly involved with trade in ICT and ITC-enabled services, secure funding, and kick start the process leading to the online provision of 	OGCIO	Number of government agencies providing integrated online services to citizens and businesses, including payments or issuance of license/permits online	3* (2019) [*] DCIR, TRBR, VFSC	Improves compared to baseline (2021 onward)		
	OGCIO	Number of online services provided by government agencies (including	3* (2019)	Improves compared to baseline (2021 onward)		

<p>their services to citizens and businesses</p> <ul style="list-style-type: none"> prioritise digitalisation of Financial Intelligence Unit, Reserve Bank of Vanuatu, Vanuatu Financial Service Commission and Lands Department in term of data information collection and payment 		payments or issuance of license/permits online)	[*] 1 TRBR (radio frequency) 1 DCIR customs clearance 1 VFSC (registration)			
	OGCIO, FIU	Number of online services provided by FIU, including payments or issuance of license/permits online	0 (2019)	Improves compared to baseline (2021 onward)		
	RBV	Number of online services provided by RBV, including payments or issuance of license/permits online	0 (2019)	Improves compared to baseline (2021 onward)		
	DOL, OGCI	Number of online services provided by Department of Lands, including payments or issuance of license/permits online	0 (2019)	Improves compared to baseline (2021 onward)	+	1
<p>Incentivise the use of mobile payments (e-wallet, mobile wallet) for business and citizens through studying the costs of handling cash and promoting e-payment campaign, in line with National Financial Inclusion Strategy 2018-2023</p>	RBV	Status of the study on the cost of handling cash as opposed to mobile payment	Not undertaken (2019)	Undertaken and submitted to NTDC (2020)		
	RBV	Status of the national e-payment campaign	To be launched (2019)	Launched (2020) and repeated annually (2021 onward)		
	RBV, TRBR	Percentage of population with access to mobile financial services (PFIP/UNCDF)	Not measured (2019)	Measured (2021) More than 50% (2025)		
<p>Work towards accreditation of more certificates and graduate diplomas in ICT related matters, with more focus on coding, programming, and content</p>	MoET (VQA), OGCI, VIT, VSP	Number of accredited qualifications at level 1-6 in ICT related matters	6* (2019) [*] 5 Certificates in computing and 1 Advance Diploma in	Improves compared to baseline (2021 onward)		

development, in line with industry needs			Information Systems		
	MoET (VQA), OGCIO, VIT, VSP	Number of accredited qualifications at level 7-10 in ICT related matters	0 (2019)	Improves compared to baseline (2021 onward)	
Develop and implement e-Trade Strategy	MTTCNVB	Status of e-Trade Strategy	To be drafted (2019)	Drafted and approved by CoM (2020)	
Assess costs and benefits of supporting the establishment of a private data centre	OGCIO	Status of costs/benefit analysis to establish a private data centre	Not undertaken (2019)	Undertaken and submitted to the NTDC (2020)	

ANNEX 1: LESSON LEARNT FROM OFF-TRACK RECOMMENDATIONS IN THE TPF 2012

TPFU off-track recommendation	Target	Lessons Learnt	TPFU strategy to improve upon implementation
Support truly infant industries, including through performance-based import-substitution	Increase in share of manufacturing GDP compared to 2010	The TPF 2012 did not include a sectoral chapter on manufacturing, and this undermined the ability of the NTDC to closely monitor the sector and make recommendations for its development	The TPFU includes a sectoral chapter on goods, with specific directions on agro-processing, which is the manufacturing sub-sector where the country enjoys a comparative advantage Inclusion of a sectoral chapter will help the NTDC monitoring the sector more closely, and facilitating consensus on policy options to promote manufacturing The TPFU's recommendations are aligned with the current industry policy
Implement the Act establishing a Chamber of Agriculture	Chamber of Agriculture established and self-funded	The Chamber of Agriculture was piloted with donor funding, but never really owned by the Government. A Primary Producers Authority was established in 2018 taking over the functions of the Chamber of Agriculture	The TPFU welcomes MTTCNVB's membership to the Board of the Primary Producers Authority and recommends continuous engagement with that body with the view of further mainstreaming trade
Liquidate and close the Vanuatu Commodity Marketing Board	The VCMB ceases its operations	The NTDC was instrumental to promote open discussion on this issue and avoid decisions to being made behind closed doors. The NTDC reiterated the recommendation to close VCMB, however, the lack of legal status for the NTDC and for its decisions reduce the effectiveness of the body's determinations	The TPFU recommends urgent approval of a Trade Governance Act giving legal status to the NTDC and to its decisions
Establish analytical tools to estimate labour demand and current/prospective supply	Data-collection of labour demand and current/prospective supply are carried out by relevant	The TPF pioneered this issue, however, the lack of reference to this priority in the relevant sectoral policy undermined the chances of implementation	The TPFU's chapter on skills was drafted by the same expert who drafted the new Vanuatu's Human Resource Development Plan, and the

	Departments and coordinated by the VNSO		recommendations of the two documents mirror each other. One TPFU's recommendation reiterates the TPF's recommendation to establish a system for the collection of labour data. Now that the NHRDP is approved by CoM, there is a better chance to implement this recommendation
Amalgamate/rationalise tertiary education providers	Establish a tertiary education institution merging the existing providers	The TPF pioneered this issue, however, the lack of reference to this priority in the relevant sectoral policy undermined the chances of implementation. Despite the recommendation has yet to be implemented, this issue got traction and a number of preparatory steps were undertaken during the period 2012-2018	The TPFU's chapter on skills was drafted by the same expert who drafted the new Vanuatu's Human Resource Development Plan, and the recommendations of the two documents mirror each other. One TPFU's recommendation reiterates the TPF's recommendation to establish an institute of tertiary education amalgamating existing providers. Now that the NHRDP is approved by CoM, there is a better chance to implement this recommendation

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- ³³ Global Environment Facility (2018)
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- ³⁶ United Nations Committee for Development Policy and United Nations Department of Economic and Social Affairs (2015)
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- ⁴⁰ World Trade Organization (2018a)
- ⁴¹ Asian Development Bank (2017)
- ⁴² World Trade Organization (2018b)
- ⁴³ United Nations Economic and Social Commission for Asia and the Pacific (2017)
- ⁴⁴ Melanesian Spearhead Group (2005)
- ⁴⁵ Pacific Island Countries (2001)
- ⁴⁶ Australian Department of Foreign Affairs and Trade (2018a)
- ⁴⁷ World Bank Group (2018a)
- ⁴⁸ Melanesian Spearhead Group (2005)
- ⁴⁹ Parliament of Vanuatu (2014a)
- ⁵⁰ Parliament of Vanuatu (2009a), (2011), (2012), (2014b)
- ⁵¹ Ministry of Finance and Economic Management (2014a)
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⁵⁵ World Trade Organization (2011c)
⁵⁶ Vanuatu Investment Promotion Authority (2018)
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⁶⁰ Australian Department of Foreign Affairs and Trade (2019a)
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⁷⁴ United Nations Department of Economic and Social Affairs (2019a)
⁷⁵ European Council (2009)
⁷⁶ New Zealand Ministry of Foreign Affairs and Trade (2019)
⁷⁷ World Trade Organization (2019a)
⁷⁸ Australian Department of Foreign Affairs and Trade (2019b)
⁷⁹ United Nations Conference for Trade and Development (2019a)
⁸⁰ Australian Department of Foreign Affairs and Trade (2019c)
⁸¹ Luff (2013)
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⁸⁴ United Nations Economic and Social Commission for Asia and the Pacific (2018)
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⁸⁸ Ministry of Climate Change and Energy (2016b)
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⁹⁰ Utility Regulatory Authority (2018)
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