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Executive brief



# Pacific: Agricultural trade policy debates and developments

## 1. Introduction and overview

### Agricultural production

Primary industries (agriculture and fisheries sectors) remain the economic mainstay of most Pacific ACP countries (PACPs), although in larger countries forestry also plays an important role. These primary sectors are of critical importance to ensuring food security through subsistence farming and rural income generation. However the dominant realities for most PACP countries are their limited land area, small populations, distance from markets and poor transportation links.

Papua New Guinea (PNG) is the most notable exception, accounting for 87.7% of the total land mass of PACP countries and approximately 70% of the population. The next largest country by land area, the Solomon Islands, has only 6.2% of the land area of PNG, while the next largest country by population, Fiji, has less than one fifth of the population of PNG.

With the exception of the Marshall Islands and Palau, PACP countries can be seen as largely rural, with between 47% (Fiji) and 87% (PNG) of the population living in rural areas. The agriculture sector is an important sector for Pacific countries and accounts for between 12% and 39% of the national GDPs, apart from Palau, where it contributes only 3%. Agricultural crops are mainly grown by small-scale producers, with some big estates growing cash crops such as palm oil, coffee, cocoa and coconut. In the smallest islands, production is constrained by the land area, and a strong import dependence exists. In addition, urbanisation is changing food consumption patterns and further boosting imports.

Apart from sugar in Fiji, coffee and palm oil in PNG, and cocoa in Vanuatu and the Solomon Islands, few cash crops are produced in large quantities in the region. Food crops produced include mainly coconuts, small livestock (cattle, pigs, chickens), and fruit and vegetables.

In terms of the value of commercialised agricultural production, PACP countries can be divided into three categories: medium, small and micro (see Table 1).

Table 1: Ranking of commercial agricultural production in PACP Countries

| Value of top 5 commercial market products | Country |
|---|---|
| **Medium**<br>Above US$100 million | Papua New Guinea; Fiji |
| **Small**<br>US$10 million – US$60 million | Solomon Islands; Vanuatu; Timor-Leste; Kiribati; Tonga |
| **Micro**<br>Under US$7 million | Federates States of Micronesia; Marshall Islands; Cook Islands; Niue; Nauru; Palau; Tuvalu |

Source: FAO

Among the PACP countries, PNG and Fiji dominate agricultural production and trade. PNG is by far the largest agricultural producer, where the sector is made up mainly of subsistence or semi-subsistence farmers, producing both food and cash crops (palm oil, coffee, cocoa). Although coffee production is stagnating, palm oil production has grown rapidly (from 32,000 tonnes in 2003 to 446,000 tonnes in 2008).

In Fiji, sugar dominates (accounting for over 30% of agricultural GDP and 40,000 jobs), although a range of traditional root crops and fruit and vegetables are produced alongside a livestock sector.

Other island states mainly produce subsistence crops, a limited amount of commercial production and very limited volumes of exports. The relative importance of semi-subsistence agriculture is also acknowledged, particularly in the context of domestic markets, especially where the tourism industry represents substantial local demand.

## Agricultural trade

Some PACP countries are heavily dependent on imports. The FAO estimates that 90% of food in the Marshall Islands is imported. Other PACPs are actively seeking to promote greater national food self-sufficiency.

Agricultural products represent 7.21% of the PACP countries' total imports. See Table 2.

Table 2: PACP agricultural product imports

| Product | As proportion of imported agricultural products (%) |
|---|---|
| Cereals and cereal products | 28.6 |
| Meat and fisheries products | 21.4 |
| Dairy products | 6.6 |
| Sugar and sugar confectionery | 5.4 |
| Animal and vegetable fats | 4.87 |
| Beverages and spirits | 4.62 |
| Edible vegetables | 3.4 |
| Agricultural products as percentage of total PACP imports (%) | 7.21 |

Source: FAO

Many of the region's countries are not self-sufficient in basic foods. For example, as highlighted by the World Trade Organization (WTO): 'Fiji imports some 95% of its dairy requirements, especially powdered milk and cheese.'

PACP countries import agricultural products mainly from Australia (26%), New Zealand (18%), the USA (10%) and Asian countries, with PNG accounting for nearly half of PACP agricultural imports. The European Union (EU) is a very minor source of agricultural imports (1.67%).

In terms of exports, agriculture and fisheries products are an important source of export earnings (around 23.85% of the value of total regional exports). The region exports mainly fisheries products, fats and oils, sugar, cocoa, coffee, tea and spices. The lack of competitiveness of these products is a policy area that is receiving increased attention.

In contrast to the pattern of imports, and despite the disadvantage of distance, the EU is the biggest market for PACP agricultural exports, with 40% of agricultural exports targeting the EU markets (mainly Fijian sugar exports). The USA, Thailand and Japan are also important markets for PACP agricultural products, accounting for 15%, 13% and 8% respectively of PACP agricultural exports.

The main PACP agricultural exporters are PNG, Fiji and Vanuatu, with 52%, 27% and 7% respectively. PNG exports mainly palm oil (45% of agricultural exports), cocoa (17%) and coffee, tea and spices (collectively 18%). Fiji mainly exports sugar (36% of agricultural exports).

### Situating agricultural trade policy

Meeting domestic food needs is the foundation of agricultural trade policy in the Pacific, and the promotion of greater food self-sufficiency is an important policy objective. This means promoting whatever basic foodstuffs can be produced locally (e.g. fruits, vegetable root crops and small livestock) while importing other food requirements.

In terms of exports, larger economies in the region have traditionally exported undifferentiated commodities (such as sugar, palm oil and coffee). Increasingly, however, efforts are under way to develop exports of value-added food and agricultural products, for example by developing sophisticated marketing strategies that target quality-conscious consumers. Indeed, given the scale of production possible in most PACP countries, the distances to market and the logistical constraints on trade, the export of high value, low volume, value-added products is seen as increasingly the most relevant long-term option.

Overall, however, despite the attention paid to sustainable natural resources management and long-term support for the rural sector from major regional donors and organisations, average annual agricultural growth rates over the last decade have generally been poor.

This reflects both the inherent constraints on competitiveness and problems spanning the entire supply chain, from production, post-harvest handling and downstream processing through packaging, marketing and distribution systems, to the presentation of products at point of sale. This extends to a general lack of awareness of export market production requirements, standards and market opportunities (with notable exceptions). This problem is then compounded by increasingly strict bio-security requirements for exports, in the face of poorly developed national trade infrastructure.

To address these constraints, major stakeholders have identified the need to:

- consistently meet the technical requirements for market access, including sanitary and phytosanitary standards;
- maintain an evolving understanding of changing consumer preferences and requirements in target export markets;
- improve consistency of supply.

Traditional approaches to delivering assistance through national government agencies to help overcome these constraints appear to no longer be up to the task. Regional initiatives launched with support from the European Development Fund (EDF), designed to augment national efforts, appear a logical progression towards Pacific regionalism. This would appear to carry important implications in terms of defining 'aid for trade' priorities under the Pacific 'Aid for Trade' Strategy.

## 2. Regional agricultural trade policy developments

### Agriculture in the national context

In PNG, the government accords a high priority to food security in terms of self-sufficiency and the promotion of value-added processing. Average tariff protection for agricultural products at 12.8% is higher than for non-agricultural products. In addition, some non-specific duties hide relatively high tariff rates. With a bound tariff rate averaging 32.8%, the government retains scope for raising tariffs within its WTO commitments.

However, there is a trend towards trade liberalisation, with the notable exception of the poultry sector. Tariff protection has allowed self-sufficiency to be almost attained in sugar, pork and chicken. Tariff protection for the sugar sector is being reduced (from 70% to 40% in 2011), and this could raise viability problems for the sector. Nevertheless, the government sees agriculture as 'a key sector in promoting export-driven growth, rural development, and poverty reduction'. In this context, a commitment exists to using tariff protection selectively to support specific industries. Overall, the government of PNG makes only limited use of import quotas and import licensing arrangements (see *Agritrade* article 'WTO Papua New Guinea trade policy review', March 2011).

With the exception of palm oil, major export crops are marketed through statutory bodies, which, the WTO Secretariat maintains, 'may have impeded agricultural development through inefficiency and over-regulation'. Statutory bodies in various ways control the issuing of export licences, and this often favours firms with strong local participation. In certain sectors (e.g. coffee), efforts are under way to work with private sector companies, substituting for statutory bodies, to improve coffee quality and target 'luxury purchase' markets.

In Fiji, agriculture is seen as 'vital for subsistence livelihoods, especially in rural areas'. The Fijian government sees agriculture as 'fundamental to reviving the economy and promoting food security through self-sufficiency (e.g. in rice and milk). In this context tariffs are 'used selectively to protect industries', often in association with sector-specific import licensing arrangements (e.g. in the sugar sector).

Fiji also has extensive price controls on food items and several statutory agricultural marketing arrangements, which have generated considerable public debt. The government of Fiji favours flexibility in any agricultural liberalisation process, so as to accommodate 'capacity constraints and vulnerability as well as policy goals and development needs'. The Fijian government favours the use of infant industry protection measures with no binding of tariffs in these products. Agricultural trade is seen as 'a key factor in achieving higher incomes and sustainable development'. Tariffs remain 'the principal trade policy instrument and an important source of tax revenue'. Applied MFN tariffs are 'well below bound rates'. Since 2003 for agricultural products, Fiji's 'applied MFN tariff rates have continuously edged upward' (from an average of 12% to 12.7% by 2008). Fiji also applies an extensive range of 'non-transparent tariff concessions' and makes extensive use of an export licensing system, with a view to promoting 'domestic downstream processing'.

According to the WTO Secretariat, 'trade reforms are seen as integral to Fiji's economic priorities of developing an efficient, and therefore competitive, open economy to promote export-led growth' (see *Agritrade* article 'Agricultural dimensions of Fiji's WTO trade policy review', October 2010).

In the Solomon Islands, the framework for state regulation of agricultural trade largely remains in place, including a statutory body with extensive powers to regulate agricultural trade. However, following extensive civil strife, these powers have not been actively used since 2002, with the role of the statutory body is now largely restricted to the enforcement of quality standards for copra and cocoa exports. While previously the government played an extensive role in plantation-based agriculture, it has now largely divested its holding.

According to the WTO, while 8% of the national budget is devoted to agriculture, current donor-supported government policy initiatives are limited to support for extension and research services, and the rehabilitation of palm oil and rice plantations, as well as the cattle sector. Price stabilisation schemes for exports have been abandoned, but a system of domestic price controls for basic foodstuffs, based on landed cost-plus formulas, remains in place. Export taxes are used extensively as a simple means of raising government revenues, but this largely affects fisheries and forestry products. Average import tariffs for agricultural products are largely comparable to average tariff levels (9.3%). Where import bans are used, this is exclusively on SPS grounds.

The policy adopted by the Cook Islands can be taken as indicative of the agricultural policies of the smaller PACP countries. A process of privatisation, liberalisation and redefinition of the role of government in the agricultural sector has been taking place over the past decade. During this period, the agriculture sector has been struggling to 'regain its position as a key economic driver'. Overall the main government priority for the agricultural sector is the promotion of greater self-sufficiency in food and livestock production. Tariff protection is the main policy tool, in a context where 76% of the population is involved in subsistence farming and 9% in commercial production.

Land constraints, shipping costs and competition from international producers are all seen as constraints on agricultural development. The Cook Islands nevertheless maintains a liberal tariff regime, with duties ranging from 0 to 10% and falling. Despite the inherent constraints faced, the government believes that potential exists for the revival of agriculture, and government policy is focused on 'developing niche markets for viable crops and commodities for domestic use, import substitution; and/or export'.

The main export market for the Cook Islands is New Zealand, to which low volumes of specific fruit and vegetable products are exported. Developing organic production in these areas is seen as offering some prospects for addressing the logistical constraints faced, given the better returns on these quality-differentiated products. However, SPS and food safety standards, as well as general certification, can be challenging for exporters, and there is scope for regional responses to these.

The expanding tourism market is seen as offering first-world market opportunities closer to home. Supporting improved market information systems to link producers to commercially attractive markets is given priority, given the limited human resource base available.

## Agriculture and agricultural trade in the Pacific Island Countries Trade Agreement (PICTA)

Within the framework of the Pacific Island Countries Trade Agreement (PICTA), PACP governments have launched a regional integration process among the island economies of the Pacific. This is based on a commitment to establishing free trade among the 14 Pacific Forum Island Countries (FICs).

The PICTA process initially aimed to establish a free-trade area (FTA) over a 10-year period. However, the implementation of tariff reduction commitments only began in 2007 for developing country members, and in 2009 for least developed country (LDC) members. The initial aim to remove all import tariffs by 2017 is now delayed. Seven PICTA signatories have announced their readiness to trade. However, a handful of those are still setting in place their national regulatory frameworks for the implementation of commitments entered into. A commitment is made to removing non-tariff barriers to trade immediately upon entry into force of the agreement.

Currently, the level of trade between PACP countries is low due to the geographical and logistical constraints (e.g. (poor transport links) on trade. It is recognised that even with an FTA in place it will be difficult to overcome these constraints. Some analysts have suggested that only PNG and Fiji will really be in a position to exploit PICTA trade preferences.

A 2010 analysis of Pacific Islands trade negotiations by the United Nations University argued that intra-regional trade agreements (such as PICTA and MSGTA) could only make a limited contribution to the economic development of PACP countries (see *Agritrade* article 'Review of relevance of different trade agreements to Pacific Island Countries', March 2011).

## Agriculture and agricultural trade under the Melanesian Spearhead Group Trade Agreement

The Melanesian Spearhead Group (MSG) Trade Agreement was signed in July 1993, with Fiji acceding in April 1998. It provides for the progressive elimination of tariffs and the removal of non-tariff restrictions on imports and exports between signatory countries. Provisions exist for infant industry protection and the temporary suspension of obligations. Fiji is the only member which fully implements agreed concessions on free trade, with no negative list of exclusions (although certain sensitive products are listed, including alcohol and tobacco).

According to Wikipedia, after revision in 2005, some 180 articles are now accorded duty-free treatment under the agreement, including food and agricultural products. Fijian officials considered the 2005 revision a missed opportunity for deeper economic integration. PNG officials viewed the MSG FTA as being largely irrelevant in terms of national economic development; and Solomon Islands – and to a lesser extent Vanuatu – have questioned the benefits on offer from the agreement. A study financed under the *Trade.com* programme was launched in 2010 to look at implementation issues under the agreement and provide a 'road map' for the way ahead. The recommendations of the study were reviewed and broadly endorsed at a ministerial meeting in March 2011.

## Recent developments in PACP countries' agricultural trade

### A challenging situation in the sugar sector

In terms of the future of Fijian sugar exports to the EU, the main challenges faced arise from inefficiencies in domestic production and processing. These have been compounded by the process of EU Common Agricultural Policy (CAP) reform and the corporate restructuring processes that have been initiated in preparation for these reforms (see *Agritrade* Special Report, 'Corporate restructuring in the EU sugar sector: Implications for the ACP', May 2010). Fiji's traditional trade partner, Tate & Lyle, can be seen as one of the most vulnerable EU companies within this process of corporate restructuring. The recent purchase of Tate & Lyle Sugar by American Sugar Refiners has simply shifted the challenges faced by the company from its former British owners to its new American owners (see *Agritrade* articles 'Tate and Lyle sugar division sold to US company', August 2010 and 'Tate & Lyle seeking long term sugar supply arrangement', July 2011).

In the context of the termination of price guarantees for ACP sugar exports, the process of growing concentration of ownership and the progressive opening up of the EU sugar market to expanded access for non-ACP suppliers potentially has important implications for the process of price formation. This will place the nature of the corporate alliances established between ACP suppliers and EU importers at centre-stage in terms of the future basis for ACP–EU sugar sector trade relations.

The changing pattern of global sugar demand, with Asia's share of global consumption set to increase from 40 to 49% by 2030, potentially has important implications for the Fijian sugar sector. Future opportunities for a restructured Fijian sugar sector are likely to lie much closer to home. Efforts are currently under way to expand the network of bilateral and regional agreements, with an eye to rejuvenating earlier trade links with the Asia–Pacific region. Such a trade restructuring, however, will be critically influenced by the ability of the Fijian sugar sector to mobilise and effectively utilise the required investment financing to fundamentally restructure the sector. For prospective financiers, grappling with Fiji's political status of being suspended from the Pacific Forum and from the Commonwealth also constitutes an important hurdle. Elsewhere in the ACP (notably in Jamaica), new investment relationships – initially with Brazil and subsequently with China – have been sought to assist the restructuring of the sugar sector (see *Agritrade* article 'Ambitious plans for Jamaican sugar sector', June 2011). The Mauritian experience highlights what can be achieved in terms of value-added processing (see *Agritrade* article 'Mauritius completes move to refined sugar exports while other countries face variable prospects', August 2011). These experiences may hold relevant lessons for the Pacific sugar sector.

### The move to sustainably certified palm oil

Recent analysis suggests that the PNG palm oil sector is in a good position to capitalise on expanding demand for sustainably certified palm oil. The PNG market component is growing faster than the 30% expansion in global palm oil demand projected over the next 10 years. Palm oil producers in PNG also have strong corporate relations with dedicated processing facilities for sustainably certified palm oil in the UK. This brings real advantages in terms of market positioning to the PNG sector. In the past 15 years, 'palm oil has recorded the greatest increase in real income out of major crops such as cocoa, copra and coffee'. However, problems of land degradation, management of smallholders and pest infestations need to be addressed (see *Agritrade* article 'Palm oil prospects looking good in PNG', June 2011).

### Aspirations for differentiated commodity production

The difficulty of making the transition to higher value, quality-differentiated commodity exports in the Pacific is illustrated by the example of coffee production in PNG. While this challenge is receiving increased policy attention (given that around a third of the population gains employment from the coffee sector), serious constraints are faced at the levels of production, processing, transportation and marketing. These constraints are reflected in the decline in both the volume and quality of coffee production in recent years.

However, given that 85% of production takes place on smallholder farms, where producers face difficulties in sourcing farm inputs, the scope for developing fair-trade, organic and other forms of sustainably certified coffee production would appear to be considerable. At present only 4 to 6% of PNG's coffee is sold as speciality coffee, with the bulk of PNG's arabica production sold for blending purposes. Better handling and grading of coffee would appear to offer scope for a rapid expansion of higher priced, quality-differentiated coffee marketing. Indeed, industry experts maintain that there is considerable scope for moving PNG coffee towards serving the gourmet market segment. This includes the production of single-origin coffee, and initiatives are already under way (e.g. Sigiri coffee).

However, as in other sectors across the Pacific, these efforts come up against institutional and organisational capacity constraints at the level of both governments and producers. There are serious problems with quality-based certification, and with quality verification to defend the integrity of a product brand once it has been developed. This arises in part from the institutional constraints in governments, and in part from the capacity constraints of producer groups and private sector bodies.

There is a considerable agenda for organisational and institutional capacity building at both the private sector level and in terms of redefining the role of government. Only if these basic issues are addressed can long-term partnerships with organisations and companies in target markets be built to develop both demand for and consumer recognition of quality-differentiated production from the Pacific.

### The FACT approach to developing higher value exports

Traditionally development assistance in the primary sectors has targeted national government agencies. However, this approach has failed to improve trade performance. Testing out a new approach, the EU funded a pilot project, Facilitating Agricultural Commodity Trade (FACT), which ran from 2008 and is due to finish in 2011 (see *Agritrade* article 'EU support helps Fijian farmers reach international markets', December 2010). This project aimed to transform selected commercial ventures into export-oriented, demand-driven enterprises consistently supplying overseas markets with competitive agricultural and forestry products. It sought much closer involvement of the private sector by providing technical assistance, funds for the implementation of feasibility and marketing studies, and funds for capital investment to improve post-harvest and value-added processing on a cost-sharing grant scheme basis. This cost-sharing grant scheme approach mirrors the highly successful programme implemented in support of the Caribbean rum sector.

# 3. Wider trade negotiations and developments

## The EPA negotiations

The EU has two bilateral Interim Economic Partnership Agreements (IEPAs) in place in the Pacific, with PNG and Fiji. The governments of PNG and Fiji, having initialled their agreements in 2007, signed the agreements in July 2009 and December 2009 respectively. The European Commission (EC), on behalf of the EU, remains committed to a process of negotiations for a full Economic Partnership Agreement (EPA) involving all 14 PACP countries. In October 2010, PACP ambassadors to Brussels called for a speeding up of the regional negotiations. However, given the extremely limited trade between many PACP countries and the EU, and the wider trade policy implications of any FTA with the EU in the PACER-Plus context, many governments seem reluctant to conclude the process. The EC has recognised the diverse realities of Pacific Island countries, and has stated its willingness 'to look at other formats as well'.

In parallel with the EPA negotiations, the EC continues to roll out its regional trade-related assistance programmes. As part of this process, at the end of December 2010 the EC approved a €30 million project for 'Strengthening Pacific Economic Integration through Trade' (SPEITT). Some €9m of this allocation is to be deployed under the 'Increasing Agricultural Commodity Trade' (IACT) project. This builds on the FACT programme. (See *Agritrade* article 'EC approves €30m regional trade project to boost Pacific trade', March 2011).

The WTO Secretariat has noted that IEPA provisions linked to quantitative restrictions, import and export licensing, and internal quantitative regulations on the mixture, processing or use of domestically sourced products potentially limit the use of these policy tools (see *Agritrade* article 'Agricultural dimensions of Fiji's WTO trade policy review', October 2010) and thus continue to be a point of contention. In addition, there are concerns about the implications of the EPA process for the PACER-Plus commitments of PACP countries.

## The SPARTECA, PATCRA and FATERA processes

The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which came into effect in 1981, provides non-reciprocal duty-free and quota-free access to the markets of Australia and New Zealand for virtually all products originating from developing island members of the Pacific Forum. However, analysis suggests that stringent rules of origin and SPS requirements have worked against the trade creation effects of the agreement.

An FTA agreement exists between Papua New Guinea and Australia (the Papua New Guinea–Australia Commercial Relations Agreement – PATCRA). In terms of the treatment of agricultural products, eggs, canned meat, poultry, pork, fresh vegetables, fruit and sugar were all excluded from the coverage of this agreement by PNG. On the Australian side, sugar, tobacco and certain beverages were also excluded from the FTA commitments. There is another agreement, the Fiji–Australia Trade and Economic Relations Agreement (FATERA), but this is essentially an economic framework agreement whose specific trade creation effects are minimal.

## PACER-Plus negotiations

The PACER agreement provides the framework for the future development of trade relations between PACP countries and Australia and New Zealand. It provides for the establishment of an FTA, but is not itself an FTA agreement. Negotiations on the FTA have started, and these go by the name of PACER-Plus. Negotiations were triggered off by the trade negotiations under the EPA. PACER-Plus will operate alongside the existing PICTA arrangement. Fiji is currently suspended from the PACER-Plus process, resulting from its suspension from the Pacific Forum. The PACER-Plus process is expected to yield additional benefits for PACP countries via:

- the relaxation of rules of origin;
- the provision of assistance with marketing initiatives;
- the provision assistance with quarantine obligations and SPS approvals for market access.

## Other trade negotiations

Analysis by the United Nations University (UNU) in 2010 argued that the focus on negotiations with traditional trade partners through the PACER and the EPA processes had limited the attention paid to trade with the rapidly growing economies of East Asia. As a consequence, the Pacific Island Countries (PICs) 'are facing progressively increasing discrimination' following the conclusion of multiple trade agreements by governments of the East Asia region. The UNU analysis argued that PICs should increasingly look to economic integration with the more rapidly growing economies of Asia, rather than focusing on processes which in the case of the EPA have not been concluded after eight years, and in the case of PACER-Plus have just been launched. It is noted that PACP countries have, in the recent past, discussed possibilities of trade agreements with Japan, China and USA.

At the bilateral level (which still provides the main framework for trade negotiations in the Pacific), there is evidence that this process is already under way, with Fiji exploring the possibility of renewed exports of sugar to Singapore and the development of sugar exports to Japan.

# 4. Current agricultural trade policy debates and issues

## Dealing with EPA-related contradictions

Two questions arise with regard to the EPA provisions:

- Will the prohibition on the use of import and export licences will be taken up in other trade agreements, and *de facto* come to apply to all products, not only those traded with the EU under the (I) EPA?
- Closely related to this, what impact will these prohibitions have on the operation of statutory bodies that issue import and export licences in line with government policy objectives?

In the case of PNG, the government may need to amend its import licensing arrangements, which potentially has implications for the use of this tool to promote greater local value-added processing. However, since few imports would be affected, the EC may raise no objection to the continued use of these tools. A review of non-tariff commitments would appear necessary to ascertain whether existing regulations and policy measures need to be reconciled with the IEPA commitments, or whether apparent inconsistencies can simply be left to stand.

However, as far as PACP countries are concerned, the prohibition on the use of import and export licenses is not a closed matter. This issue is in the list of 'contentious issues' going forward to the comprehensive EPA negotiations, which have yet to be concluded.

## Market diversification: matching products to markets

The case for paying greater attention to the potential of trade with East Asian economies within the overall development of the Pacific's trade relations would appear to be strong. In the sugar sector, the focus of global consumption is shifting east. This is likely to be the case across a range of food and agricultural products, in some of which Pacific countries could develop niche exports. This consumption growth relates not only to 'necessity purchase' bulk commodities where price competitiveness is the key, but also to 'luxury purchase' products where quality-based production is required. It is in these latter areas where Pacific countries could potentially develop niche markets for processed, quality-differentiated products. The process is in fact well in progress for water and skin-care products, for example, and for certified products under sustainable fair-trade or organic labelling schemes. Current evidence also points to market access opportunities beyond East Asian economies.

## Effectively utilising 'aid for trade' support

Considerable 'aid for trade' support is being extended to the Pacific. However, it is important that the lessons from existing programmes be fully taken on board in effectively utilising available resources in supporting the transition to high value, lower volume, processed and quality-differentiated exports. Based on the experience under the EU-financed FACT programme, a number of lessons can be drawn:

- the central importance of sound business planning;
- the need to address the difficulties faced in accessing bank credit;
- the importance of staying market focused when developing investment plans;
- the centrality of quality-based product differentiation;
- the scope for the development of food product ingredient supply chains, particularly in the organic sector;
- the need for sound adaptive research and development programmes to give Pacific island businesses a comparative advantage;
- the increasing importance of quality assurance and certification (e.g. the Hazard and Analysis Critical Control Points – HACCP – process);
- the need to diversify geographic sources of production to cope with periodic natural disasters which would otherwise undermine hard-won market positioning benefits;
- the opportunities for improved collaboration and information sharing between exporters and between government and the private sector; and

- the need to accommodate the particular needs of small-scale producers in design and implementation of support programmes.

The Pacific 'Aid for Trade' Strategy, currently undergoing a renewal and refreshment process, appears set to attract more funding and to contribute in substantive ways to trade reforms and adjustment costs arising from trade liberalisation.

## Promoting movement up the value chain

While the move over to sustainability certification is bringing commercial advantages in the short term, in the longer term if these sustainability standards become the industry norm, then any price advantages currently enjoyed could be eroded. This is particularly the case for palm oil, given the high level of price competition between palm oil and other oil crops in the food processing sector.

Given the relatively small growth in refined palm oil imports into the EU compared to imports of crude palm oil, the scope for investment in value-added palm oil refining in ACP countries such as PNG should be noted, and this could be leveraged by strategies for optimisation of returns through increasing total output and long-term market supply contracts (see *Agritrade* article 'Trends in EU oil crop production and trade', June 2011). This may offer one area for the longer-term consolidation of the palm oil industry in PNG. However, the close integration of the operations of New Britain Palm Oil with palm oil processing facilities in the UK may make such a transition difficult to engineer, unless favourably priced markets closer to PNG begin to emerge.

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It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

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