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Enhancement of trade and investment opportunities for EU businesses in Papua New Guinea (PNG) and other EPA countries in the Pacific

Report on Opportunities for Increased Trade and Investment between the EU and Pacific EPA states under the Provisions of the iEPA

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Abbreviations and acronyms

ACP	African, Caribbean and Pacific Group of States
BSO	Business Support Organisations
DG	Directorate General
EC	European Commission
EPA	Economic Partnership Agreement
EU	European Union: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden
HACCP	Hazard Action Critical Control Point
HS	Harmonised Commodity Description and Coding System
ICT	Information and Communications Technology
iEPA	interim Economic Partnership Agreement
ITC	International Trade Commission
IUU	Illegal, Unreported and Unregulated
LDC	Least Developed Countries
MFN	Most Favoured Nation
MSME	Micro, Small & Medium Enterprises
NTDC	National Trade Development Council
PACER	Pacific Agreement on Closer Economic Relations
PACLII	Pacific Islands Legal Information Institute
PACP	Pacific Members of the ACP
RoO	Rules of Origin
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TOR	Terms of Reference
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
US	United States of America
USD	US Dollars
VCO	Virgin Coconut Oil
WTO	World Trade Organisation

Acknowledgement

This report was written and compiled by Daniel Lui, Chakriya Bowman and Robyn Ekstrom with later revisions by Kristian Schnack in May 2023. The report was informed by a series of consultations with the government officials and business communities covering the key areas, which were held in June to September 2022, followed by a one-day technical workshop held virtually and in Port Moresby in October 2022. All errors remain the responsibility of the authors.

● Background Note

This report has been produced under the project '*Enhancement of trade and investment opportunities for EU businesses in Papua New Guinea (PNG) and other EPA countries in the Pacific*', financed with funding from the Foreign Policy Instrument of the European Union (EU).

Following the project terms of reference, the aim was to produce a report on economic opportunities for increased and expanded trade and investment relations between business communities in the European Union and in Papua New Guinea (PNG) and the other Pacific EPA States (Fiji, Samoa, Solomon Islands) under the provisions of the EPAs. The report focuses on the four countries individually but will also take into account relevant regional dynamics. The report includes descriptions of economic sectors with major (potential) EU business interest. The report covers EU-Pacific trade relations (including elemental statistical data, the Economic Partnership Agreement and other trade-related regulatory issues).

The study aims to be as non-technical and accessible as possible, while noting that trading across borders is a complicated process, and compliance for example with technical requirements requires at least some basic level of understanding of concepts and procedures involved.

The report may be particularly useful for **potential exporters** who are looking to start exporting goods to the EU or Pacific markets, or for **existing exporters** looking to for example to shift more value-added processed products. It may also help those in official positions – for example from Departments of Biosecurity, Health, Fisheries, Customs, Commerce and Trade and other support organisations – that are likely to involve either **implementing, certifying or advising exporters** on identifying opportunities for trade with the EU or elsewhere.

The report was informed by desk research and a series of consultations with Pacific Islands and EU companies, government officials and other key stakeholders business communities conducted in July to September 2022, followed by one-day technical workshops held in October 2022. See Annex 1 for details.

This report draws together a range of publicly available source materials, including official guidance from government authority websites, documents and legislation; reports by various institutions working on trade and export issues; and trade statistics. These sources are acknowledged wherever necessary, with links provided back to the original source. The source material is complemented with additional analysis, guidance and commentary aimed at helping EU and Pacific Islands firms understand and navigate the information available.

The rest of this Study is structured as follows:

- Section 1 outlines the Pacific-EU Interim Economic Partnership Agreement (iEPA) and summarises the key benefits it offers.
- Section 2 gives an analysis of potential opportunities for EU-Pacific trade with a focus on existing and potential Pacific products, and practical steps for doing so.
- Section 3 focuses on potential market opportunities for trade and investment in Papua New Guinea.
- Section 4 focuses on potential market opportunities for trade and investment in Fiji.
- Section 5 focuses on potential market opportunities for trade and investment in Samoa.

- Section 6 focuses on potential market opportunities for trade and investment in Solomon Islands.
- Section 7 looks at how to strengthen partnerships for enhancing opportunities in EU-Pacific Islands trade and investment.

Annex 1 also gives information on recent market trends and opportunities for Pacific Islands exporters in the EU at the level of specific products.

Note on Usage

This report does not replace a thorough reading of relevant regulations for export to or from the Pacific Islands and import into destination markets. It can however serve as a key reference, initial information source, or background material for training on identifying potential market opportunities for enhancing EU-Pacific trade under the iEPA. Exporters and implementing agencies alike should ensure that they consult official legislation and texts before sending goods.

Furthermore, this report reflects the current rules in operation at the time of publication (October 2022). Since both trade rules and their implementation can evolve and change over time stakeholders should ensure they consult relevant up-to-date information.

1 Introduction: Enhancing Opportunities for Trade and Investment under the EU-Pacific Interim EPA

1.1 Introduction

Initially concluded in 2007, four of the largest Pacific Islands – Fiji, Papua New Guinea, Samoa and Solomon Islands – have to date acceded to the Pacific-EU interim Economic Partnership Agreement (the iEPA), following a lengthy set of negotiations, technical preparations and careful assessments of the potential costs and benefits of participation.

Joining the interim EPA represents the beginning of a new trade relationship between the Pacific Islands with the European Union (EU). The agreement offers a number of legally secure and long-term advantages, including duty-free access to the EU market, and improved rules of origin (RoO) in key areas such as fisheries. With a population of 450m people and a GDP per capita of roughly €30,000, successfully cracking the export potential of the €13 trillion EU market – alongside other key markets such as those in the neighbouring Asia-Pacific region – can potentially yield significant long run benefits for the Pacific Islands in terms of income, employment and economic development.

This section briefly outlines the history and background to the Pacific Islands accession to the iEPA (section 1.2), gives an overview of the iEPA and other market access schemes (1.3), summarises the iEPA text and explains it key features, before looking at the key features and benefits on offer to exporters and investors.

1.2 Background to the interim EPA

The process for the Pacific Islands' accession to the iEPA took in some cases more than 15 years, with negotiations between the EU and more than seventy-five African, Caribbean and Pacific (ACP) countries kicking off in September 2004 to replace the trade provisions of the existing Cotonou Agreement. Those trade provisions within the Cotonou Agreement were due to expire at the end of December 2007, and the agreement foresaw their replacement by new WTO-compatible trade agreements.

The EU-Pacific EPA was ratified by the European Parliament in January 2011 and by Papua New Guinea in May 2011. The government of Fiji started applying the agreement in July 2014. Samoa acceded to the Agreement in December 2018 and is applying it since then. Solomon Islands also acceded to the Agreement in May 2020 and is applying it since then.

Tonga and Timor-Leste have informed the European Commission that they intend to join the EPA.

In preparation for pending graduation from the LDC category, Solomon Islands, in March 2017, indicated to the parties of the EPA its intent to accede to the agreement. During 2017 and 2018 Solomon Islands updated its schedule of commitments on goods, discussions with the European Union on Market Access Offer concluded in October 2018. In preparation for accession, Solomon Islands conducted in-country consultations with relevant stakeholders including private sector, line ministries and civil society. Consultations were conducted with the support and presence of a visiting team from the European Union in July 2017. In December 2019, Solomon Islands accession towards the EPA was approved by the EU Parliament and the EU Council adopted its decision approving the accession on 17 February 2020. Solomon Islands acceded to the EU-Pacific Interim EPA in May 2020.

1.3 The interim EPA vis-a-vis other market schemes currently available to Pacific Islands exporters

At present, Pacific Islands exporters can send their goods to the EU market under a number of different trade arrangements, which may have different benefits and conditions, including with respect to tariff rates and rules of origin. In summary, the different options currently available to Pacific Islands exporters when exporting to the EU currently include the following:

- **GSP and the Everything But Arms (EBA) arrangement for Least Developed Countries.** The Generalised System of Preferences is available to a wide range of low and lower-middle income countries offering reduced (but not always zero) tariff rates. The EBA scheme is part of the GSP 'family' of arrangements available only to Least Developed Countries who are not party to an iEPA and offers duty free access to the EU market for all goods except arms. Solomon Islands for example has been exporting until recently under the EBA scheme (with 'Form A' origin certificates filled in via the online Registered Exporters or REX system). However, it is important to note that now that Solomon Islands has signed an interim EPA agreement with the EU, it will **lose access** to the EBA *as well as* the broader GSP scheme once it graduates from LDC status[1], currently scheduled for Dec 2024.

- **Interim Economic Partnership Agreement (iEPA).** The interim Economic Partnership Agreement is a free trade agreement between the Pacific States and the European Union. It was originally negotiated at a regional level from 2004 until December 2007 and was signed originally by Papua New Guinea and Fiji on the Pacific side. The agreement was ratified by the European Parliament in January 2011 and by Papua New Guinea in May 2011. The government of Fiji started applying the agreement in July 2014. Samoa acceded to the EPA on 21 December 2018 and Solomon Islands on 17 May 2020 and are applying it since then.[2] Amongst other provisions, the agreement offers duty free and quota free access for Pacific Island exports to the 27 EU member states. PACPS have also committed to liberalising their tariffs on EU goods: for example, Solomon Islands has also committed to eliminate tariffs on 83 per cent of imports from the EU, on gradual basis over 18 years[3].

- **WTO or MFN ('non-preferential') rates.** Members of the World Trade Organisation can also export to the EU under conditions set out in the WTO's trade agreement (the GATT). Rules of origin compliance is likely to be less onerous, but tariffs may apply in many cases. If however

[1] Countries are only eligibility for GSP if: (1) they are classified as having an income level below "upper middle income" by the World Bank and (2) do not benefit from another arrangement (like a Free Trade Agreement) granting them preferential access to the EU market. However Least Developed Countries are automatically granted the benefits of the 'Everything But Arms' arrangement, even if they have another arrangement in place. See: https://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/

[2] See https://ec.europa.eu/trade/policy/countries-and-regions/regions/pacific/. The full text of the iEPA agreement can also be accessed through this site.

[3] 'EU-Pacific States Economic Partnership Agreement (EPA): Creating opportunities for EU and Pacific businesses' (2020) https://trade.ec.europa.eu/doclib/docs/2020/october/tradoc_158988.pdf

there are no tariffs – i.e. the EU has already set its MFN tariff for a product at zero – there would probably be little additional advantage in sending this product under any of the other arrangements, if the latter require additional certification.

As the above highlights, the different arrangements are likely to change over coming years, with some expiring, so exporters should follow any developments and pay careful attention to how their market access could be affected as these changes take place. **A major advantage of the iEPA is that it maintains guaranteed access to the EU market, and the without tariffs that would apply under MFN-based trade.** At present as a rough guide, when choosing which scheme to use, exporters should consider the following:

- The tariff rate applied under the preferential scheme in use
- The rules of origin applicable to the product (and wherever these are easier to meet or offer other beneficial opportunities compared to other schemes)
- The administrative burden of compliance
- Potential future changes (firms may wish to switch to using the iEPA for example if other schemes are expiring or ending)

1.4 The iEPA Agreement in a Nutshell

The interim EPA is a complicated legal text. The main text of the iEPA agreement is made up of 5 sections (Parts) consisting of 82 Articles covering, *inter alia* arrangements for trade in goods, safeguard measures, trade facilitation, technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) requirements, dispute settlement and institutional arrangements (for governing the functioning and evolution of the agreement).

It also contains several annexes and protocols covering the parties' tariff liberalisation commitments and schedules (annexes I and II), priority products with respect to TBT and SPS measures (annex IIIA and IIIB), mutual administrative assistance in customs matters (Protocol I) and rules of origin (Protocol II).

The specific section on Trade in Goods (Part II of the iEPA text) covers, *inter alia*:

- the establishment of a free trade area (iEPA Article 1)
- tariff reduction commitments and schedules (iEPA Articles 11-12, Annex 1)
- circulation of goods, including circulation within the EU for PACP exports (iEPA Article 15)
- special provisions on administrative cooperation for the implementation and the control of the preferential treatment (iEPA Article 17)
- management of administrative errors (iEPA Article 18)
- rules of origin (iEPA Article 8), which states:

  - 'originating' means qualifying under the rules of origin set out in Protocol II to this Agreement.

- a review of the rules of origin within five years of the entry into force of the agreement 'with a view to further simplifying the concepts and methods used for the purpose of determining origin in the light of the development needs of the Pacific States'.[4]

Overall with respect to rules of origin, the body text of the main iEPA in Article 8 essentially states that the rules of origin that need to be met in order to for goods to qualify for tariff preferences are to be found in Protocol II. More information on the iEPA Rules of Origin and their implementation are available for example in various national guides or on EC websites.

Cumulation in trade agreements allows for the accumulation of value across participating countries or regions in a regional value chain. It means that inputs or components from one country can be considered as originating from another country within the same region. This promotes collaboration, specialization, and efficiency within the region. Specific rules and criteria are agreed upon to determine when cumulation applies, including factors like processing, regional value added, and integration levels. Cumulation aims to foster regional economic integration, cooperation, and competitiveness by leveraging the strengths of different countries or regions to create higher-value products.

1.5 Key Features and Advantages of the EPAs in General

Economic Partnership Agreements (EPAs) and interim EPAs have been completed in several regions in Africa, the Caribbean and Pacific. According to the EC[5], in general EPAs:

- *Are "tailor-made" to suit specific regional circumstances;*
- *Are WTO-compatible agreements, but go beyond conventional free-trade agreements, focusing on ACP development, taking account of their socio-economic circumstances and including co-operation and assistance to help ACP countries benefit from the agreements;*
- *Open up EU markets fully and immediately, but allow ACP countries long transition periods to open up partially to EU imports while providing protection for sensitive sectors;*
- *Provide scope for wide-ranging trade co-operation on areas such as sanitary norms and other standards;*
- *Create joint institutions that monitor the implementation of the agreements and address trade issues in a cooperative way;*
- *Are also designed to be drivers of change that will help kick-start reform and contribute to good economic governance. This will help ACP partners attract investment and boost their economic growth.*

Table 2.1 summarises 'Ten Benefits of EPAs' according to EC:

Table 2.1 The Ten Benefits of EPAs

Benefits	***Means***
EPAs create new business opportunities	*Firms from countries covered by an EPA can freely export to the EU—no duties to pay at customs, and no quotas*
	They can import the inputs they need, such as machinery or components, at lower prices
EPAs help countries	*EPAs are permanent, with no end date. That gives potential investors, whether local or foreign, the long-term stability they look for.*

[4] It is important to note that Rules of Origin are dynamic: both rules and procedures can change over time if iEPA parties agree. See for example the amendment in 2020 in the ESA iEPA: https://ec.europa.eu/taxation_customs/news/amended-rules-origin-eu-esa-interim-epa_en

[5] https://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/

attract more investment	*EPAs also signal that the countries involved are serious about attracting businesses and giving them good prospects to set up or expand*
EPAs generate more and better jobs	*EPAs help countries to compete. That helps them expand their economies. New industries spring up, creating jobs*
	EPAs also encourage governments to work with trade unions and NGOs to improve labour standards
EPAs cut the costs of exporting and importing	*Along with every EPA the EU provides Aid for Trade. This helps countries adapt their customs procedures and reduce paperwork*
	That means less hassle for exporters and importers—and greater incentives to tackle corruption, too
EPAs protect local producers	*EPAs enable ACP countries to protect their local producers that might otherwise struggle to compete against EU imports*
	ACP countries keep tariffs on sensitive goods, such as foodstuffs. And if imports of some goods suddenly surge, they can apply safeguards, like import quotas
EPAs encourage industrializatio n	*EPAs help ACP countries produce and export higher-value processed goods instead of just unprocessed, lower-value commodities*
	EPAs do so thanks to highly flexible rules that determine where products are from
EPAs support ACP farmers	*EPAs support ACP farmers in meeting the EU's high standards in food safety and animal and plant health*
	EPAs also enable ACP countries to respond if problems arise—for example, to ensure food supplies are stable
	And they ban EU subsidies on exports of agricultural products to ACP countries, meaning higher revenues for local producers
EPAs promote closer relations between neighbouring countries	*Regional EPAs build on the existing efforts of groups of countries to work more closely together and integrate their economies*
	EPAs also promote regional value chains. One country can process inputs from neighbours and still benefit from duty-free access to Europe
EPAs promote shared values	*In every EPA the EU and its partners agree to promote labour standards and environmental protection, good governance, and human rights*
	And to put the EPA into practice, they involve everyone from officials and Members of Parliament to business groups, NGOs and trade unions
EPAs help us respond together to global challenges	*EPAs are partnerships. In the past, the EU offered some access to its market, which it could withdraw at any time. Now both sides make binding commitments to each other*
	EPAs also create joint institutions. These mean ACP countries and the EU can reach decisions together
	And EPAs come with EU development aid. This helps ACP countries make the most out of the agreements.

Source: EC.europa.eu/trade

With respect to the Pacific Interim EPA the EC notes that:

> *'Under the Pacific interim EPA, all exports of goods from these countries have duty-free and quota-free access to the EU Market. In addition, specific concessions on rules of origin for fishery products, the "global sourcing provision", were granted to these countries under the EPA. Hence, the Agreement facilitates the Pacific States' integration into the global economy through gradual trade liberalisation and improved rules of origin and trade-related cooperation.*
> *The EPA with the EU has been playing an important role in facilitating the countries' further economic development. The business communities from the EU and the five Pacific EPA countries*

should take further advantage of preferential trade with the EU and the liberalization of EU imports to these countries. This action is mainly in the interest of the Pacific EPA countries as it will improve the understanding of conditions for accessing the EU, hence, contribute to the expansion of economic opportunities for Pacific businesses.'

1.6 Key Benefits and Advantages of the iEPA for Trade with the Pacific Islands

1.6.1 Continuous and Guaranteed Market Access

A key benefit of the iEPA for the Pacific Islands is the guarantee of continued duty-free market access to the EU. For some countries, duty-free trade with the EU would otherwise have been threatened: for example, Solomon Islands is set to lose its access to the alternative EBA duty-free scheme once it graduates from LDC status, which is anticipated in 2024. This would have had significant consequences for key goods, notably tuna exports but potentially extending also to products such as virgin coconut oil.

Summary of Potential EU Tariffs for Pacific Products under Different Trade Regimes

	Product - Indicative HS and Description	**Tariff Regime**			
		iEPA	*GSP*	*GSP+*	*MFN*
Fish, Fresh and Frozen	*0303xx Frozen tuna for manufacture of 1604*	**0**	**0**	**0**	**0**
	0303xx Frozen tuna not for onward processing (except frozen tuna of 0304)	**0**	**18.5**	**0**	**22**
	0304xx Fresh, chilled or frozen fish	**0**	**14.5**	**0**	**18**
	0305xx Fish dried, salted, smoked or in brine for onward processing	**0**	**0**	**0**	**0**
	0305xx Fish dried, salted, smoked or in brine	**0**	**9.5**	**0**	**13**
Palm Oil	*15111010 – Crude palm oil, for technical or industrial uses (excl. for manufacture of foodstuffs)*	**0**	**0**	**0**	**0**
	15111090 – Crude palm oil (excl. for technical or industrial uses)	**0**	**0**	**0**	**3.80**
Coconut Oil (as input)	*1513111090 – Crude coconut oil, for technical or industrial uses (excl. for manufacture of foodstuffs)*	**0**	**0**	**0**	**2.50**
Coconut Oil (consumer)	*1513119100 – Crude coconut oil, in immediate packings of <= 1 kg (excl. for technical or industrial uses)*	**0**	**4.40**	**0**	**12.80**
	1513119900 – Crude coconut oil, in immediate packings of > 1 kg or put up otherwise (excl. for technical or industrial uses)	**0**	**2.20**	**0**	**6.40**

Prepared Fish	*160414 – Prepared or preserved tuna in various forms (see sub-tariff codes)*	**0**	**20.50**	**0**	**24.00**

Source: ITC Market Access Map

Case Study: The Importance of Duty-free Access to the EU for the Solomons Islands Tuna Industry

A major study looking at the impact of losing duty-free access for tuna fisheries products from the Solomon Islands to the EU was carried out by the Commonwealth Secretariat in 2018. While the ComSec study looked at the implications of graduation from LDC status (which was due then to take place imminently in 2021), the analysis is relevant to understanding the benefits of the iEPA. The study made the following conclusions:

- 'In the absence of any actions to secure continued market access at current levels in end markets such as the European Union (EU), firms predominantly in the export orientated canned tuna sector will need to adapt to a major increase of trade costs. This is because the estimate cost of graduation from LDC status is estimated to be around **€15 million** as a result of movement from zero tariffs and duties under the EUs Everything But Arms regime available to LDCs, to Most-Favoured-Nation tariff rates and duties.' (ComSec 2018, p.5)
- 'All five buyers agreed that **tariff preferences are essential** to tuna processing in small island economies in general and to the Solomon Islands in particular. It is worth reporting verbatim buyers' views on this issue:
    - "Losing duty free access would likely result in closure of the factory."
    - "For a commodity like tuna, duty can be a big cost and [the tariff preference] plays a big role in buyers' decision making."
    - "Solomon Islands needs this [duty free access to the EU] to compensate for their higher costs of operation. It will never become competitive with its scale of processing volume."
    - "Duty is an important consideration in sourcing loins and canned tuna. Buyers are interested in the duty-paid cost of the loins or canned tuna. The duty on loins and canned tuna for the EU is generally 24%. If buyers have to pay 24% on the imports of tuna loins or canned tuna from the Solomon Islands, they wouldn't source from Solomon Islands. It's as simple as that."
    - ''SolTuna is built on the EU export market. It would have to close in the absence of the EU preference. The loss of LDC/EBA would be a disaster for Solomons. The EU market is the lynch pin of tuna processing in Solomons. Yes – there is a local and regional market for canned tuna, but it is also very competitive, and SolTuna couldn't operate viably as a local canner only."
    - "Solomons needs the duty-free privileges in order to offset its higher costs of conversion, supplies and logistics."

  The view on the issue of a lost preference for export-oriented tuna processing in the Solomon Islands is unequivocal.' (p.24)

- ‘Based on the stakeholder interviews both in the domestic tuna fishing, processing and canning industry, and the perspective sought from international buyers, a loss of tariff preferences to the EU market through LDC graduation, provided that no other arrangement was put in place, such as the IEPA or GSP+, would result in the closure of SolTuna and a significant scale back of NFD operations. The cost incurred is deemed too great for both the local firms and international buyers to absorb, due primarily to the higher costs of production in Solomon Islands compared to competitors in South East Asia and the Indian Ocean.’ (p,26)

Accession to the iEPA therefore preserves and guarantees duty free access for tuna fisheries products and others.[6] The timing of the accession in May 2020 ensures continuity and a smooth transition ahead of the expected 2024 graduation from LDC status, thus giving a level of protection to existing investments and encouraging new investment (see below).

1.6.2 Improved Rules of Origin for Fisheries Products

Beyond simply preserving existing levels of market access, a major expected improvement on existing conditions in the Pacific iEPA comes in the form of a more relaxed rule of origin for fisheries products of HS heading 1604 and 1605 (notably canned tuna), found in Article 6(6) of the iEPA Protocol II on Rules of Origin.

The provision recognises that, over the years, previous rules of origin have not succeeded in helping the Pacific Islands to meet their goal of building national fleets and developing fully their tuna industries to take advantage of the large opportunities it offers.

Following the completion of certain administrative requirements[7], the key provision in Article 6(6)(b) states that:

‘…when circumstances are such that wholly obtained products as defined in Article 5 paragraphs 1(f) and 1(g) cannot be sufficiently utilised to satisfy the on-land demand and following the prior notification to the European Commission by a Pacific State, processed fishery products of headings 1604 and 1605 manufactured in on-land premises in that State from non-originating materials of Chapter 03 that have been landed in a port of that State shall be considered as sufficiently worked or processed for the purposes of Article 2.’

When these provisions are applied, in operational terms they essentially mean that any tuna can be landed in the Pacific Islands and canned (exported as a product of heading 1604 and 1605) in order

[6] It should be noted that the study also highlights the current and future threat to the tariff preference enjoyed by Solomon Islands under the iEPA in the form of preference erosion as the EU strikes agreements with other providers such as Ecuador (this is covered in section 5 below)

[7] On 18 May 2020 (the day after starting to apply the agreement) Solomon Islands made a notification to the European Commission of its intention to make use of the provisions of Article 6(6), in accordance with the Agreement. The provisions of this paragraph therefore apply to imports from Solomon Islands from 18 September 2020 (see OJ C 308, 17.9.2020, p.2). https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/countries-africa-caribbean-pacific-acp_en

to qualify the export as an originating product. Given that the provisions allow tuna to be sourced from any vessel, they are often referred to as ‘**global sourcing**’.[8]

The provisions are subject to a report after three years on their implementation and it should be noted that the Pacific Islands and its exporters still need to comply with SPS requirements, conservation and stock management commitments and those related to IUU fishing.

The global sourcing provision offers significant advantages to Pacific producers’ other competitors in other countries. Such provisions exist only in the Pacific iEPA, so is not available to fishing industries for example in the Indian Ocean or other African states. As noted in ComSec (2018, 29):

> *‘Global sourcing relaxes the originating rules enabling tuna which has been processed on-share in [Pacific] Islands to qualify for DFQF entry to the EU regardless of the vessels’ flag and ownership, subject to that vessel complying with SPS and IUU regulations. This will increase the availability of qualifying raw material, reduce fluctuations and smooth out the supply of tuna to the loining plant which can then be exported to the EU market.’*

1.6.3 Increased Investment, Already Taking Place in the Tuna Sector

The combination of preserving the tariff preference (for as long as it remains) and the relaxation of rules of origin highlights the potential for increased investment. Indeed, according to EC (2020) this has had significant impact in recent years in Papua New Guinea:

> *‘Under the Pacific EPA’s rules of origin, Papua New Guinea has obtained a derogation for ‘global sourcing’, meaning Papua New Guinea can source fish from third-country vessels and then process [them]. It takes into account the Pacific countries’ own limited fishing capacity and promotes the development of an onshore processing capacity to create local jobs, skills transfer and income. At the same time, strong monitoring provisions ensure long-term sustainability of fish stocks.*
>
> *Since the conclusion of the EPA, there have been five major onshore investment projects in Papua New Guinea, leading to an increase in direct and indirect employment, mainly for women. By 2014, Papua New Guinea had reported 50,000 extra jobs in tuna canning, 90 % of them held by women. Exports of processed tuna to the EU have increased by almost 300 % since 2009. They reached €163 million in 2018, accounting for 18.5 % of Papua New Guinea’s total exports to the EU that year.’*

For the Solomon Islands, ComSec (2018, p.17) noted the significant potential for increasing productive capacity in the Solomon Islands tuna industry and the government’s intention to increase investment:

> *‘The recognition of the tuna industry’s importance to the local economy, in terms of employment and growth, is driving the government’s commitment to boosting onshore investments, particularly outside the capital, Honiara. The government recognises the success achieved in Noro, which it would like to replicate in other areas. Current operations are below capacity; NFD reports between 25,000 to 30,000 metric tonnes are landed per year at the processing plant and cannery in Noro, but according to the Ministry of Fisheries and Marine*

[8] Since 2012 Mauritius, Seychelles and Madagascar have had a derogation from rules of origin covering 8000 tonnes of canned tuna and 2000 tonnes of canned tuna loins imported into the EU, with the current decision in place until 2022. See: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:271:FULL&from=EN

Resources (MFMR), Solomon Islands has the capacity to supply 100,000 – 170,000 metric tonnes per year[9]*, based on the annual tuna catch in the Solomon Islands' EEZ.'*

However, it also noted that need to overcome obstacles to investment notably in respect of dealing with land issues:

'Two sites were identified for their potential a number of years ago and investors had expressed interest to develop onshore operations in exchange for access licenses and other concessions from the government. However, these investments fell through, due primarily to the challenges of acquiring the land. The majority of land in Solomon Islands is customarily owned, which creates often insurmountable challenges when identifying property rights. One site in particular, however, is considered to be worth the time and effort required to secure, provided the land issues can be resolved. Bina Harbour, located in Malaita has long been recognised as an ideal location to build a canning and processing plant, given the natural harbour and location along the major shipping routes. It would provide much-needed employment in the Province and create value addition opportunities through processing to the local market, as well as competition for SolTuna, which would lead to further gains.'

1.6.4 Continued Engagement with EU actors in Expanding and Benefiting from Market Access and Trade-related Development Assistance

The iEPA contains a range of provisions for a continued and deeper level of engagement between the Pacific iEPA parties and EU on trade matters, including:

- institutional arrangements
- settling dispute
- monitoring the agreement
- notification of any changes to trade legislation or regulations (contained in various places in the agreements)
- cooperating in on trade matters in international fora such at the WTO
- the provision of development cooperation and technical assistance

These measures combine to embed the agreement within a framework of continued and evolving engagements to ensure that the agreement delivers on its promise as a tool for development.

So far ten meetings of the Pacific-EU iEPA Trade Committee have taken place, discussing matters including for example developments on rules of origin certification. These meetings have been accompanied by side events that have involved civil society (such as the 2 October 2019 on involving civil society and private sector in EPA implementation) and events dedicated to encouraging greater business-to-business linkages. In October 2022, the third EU-PNG Business to Business Trade and Investment Conference was organized by the EU in Port Moresby. The conference encouraged the development of new business contacts and opportunities and new collaboration partners between the EU and PNG, Fiji, Samoa, Solomon Islands, Tonga and Timor-Leste with particular attention to trade and investment aspects of sustainable development.

[9] Feedback from Ministry of Fisheries and Marine Resources, SIG, Honiara.

It will be important for the government and private sector in the Pacific Islands to take advantage of these opportunities as an important factor in whether the country reaps significant benefits from the iEPA. Recommendations for doing so are discussed in more detail in the final section of this study.

BREAKOUT BOX: ***An Interim versus a Comprehensive EPA?***

Like other ACP regions, the Pacific ACP States were engaged in negotiations for a comprehensive EPA with the European Union since 2004. In 2007 only one region – the Caribbean countries – achieved agreement with the EU on a 'Comprehensive EPA' that covers trade in goods, services, investment and intellectual property for example. The Pacific interim EPA covers only trade in goods in detail.

Pacific ACP Leaders agreed in September 2016 with the EU Commissioner's recommendation to suspend the negotiations for 3 years and directed PACP countries to explore alternative market access and trade arrangements with the EU. A comprehensive EPA could yet however yield additional benefits to the Pacific states in the areas of services and investment, and in particular an extension of the global sourcing rule of origin to fresh and frozen fish products of HS0304/05, if this can be agreed.

2 Enhancing EU-Pacific Trade: Opportunities for Bringing High-Quality Pacific Products to the EU Market

The iEPA offers new opportunities for EU and Pacific partnerships in both directions. EU producers will be looking to export their goods to the Pacific, while buyers will be looking at importing high quality Pacific-sourced goods to enhance their supply chains and consumers ranges. Investors from the EU are likely to be particularly interested in investing in Pacific-sourced products that they can then import back to the EU. Pacific countries can leverage their low use of pesticides and genetically modified products to supply high-quality certified agriculture products, in alignment with the EU's Green Deal objectives.

2.1 The EU Market

The EU market offers a huge long-term opportunity for existing and potential exporters from the Pacific Islands. According to Eurostat (2020), the EU-27's share in total global GDP (expressed in Purchasing Power Standards) in 2017 was 16.0%, just behind China and the US but with a level of GDP per capita almost three times that of China and a population around one-third larger than the US, thus highlighting **the formidable size of its consumer market**.

As an example, one company out of four in Europe is active in the retail and wholesale sector, which boasts around 5.4m companies in the EU employing 29.4 m people and with a turnover of EUR 8.73tn (2016, pre-Brexit). Retail and wholesale remain one of the main job providers in the EU with the sector thriving on fierce competition, keeping prices low and boosting innovation in the supply chain.

The EU also is a **highly sophisticated** consumer market: consumers are fashion conscious and lead consumption trends elsewhere. Key current consumer trends include: an increased sensitive to environmental sustainability (for example in recycled and recyclable packaging or sustainable sourcing), supply chain traceability and security (which is at the heart of EU's General Food Law), and corporate social responsibility concerns (for example products that are certified as fair trade).

Consumer Trends – snapshot 2020, EU27 consumers

Consumer Trend	Percent of consumers
Shopped online	70.9%
Confident buying online in home country	63.0%
Confident buying online from another EU country	42.7%
Considered environmental impact of at least one purchase	56.4%
Considered environmental impact of most or all of their purchases	22.7%
Bought products that are better for the environment even if they cost more	67.4%
Trust retailers and service providers to respect their rights	80.0%
Trust public authorities to protect their rights	70.2%
Know their rights very well	27.4%
Shopped closer to home and supported local businesses	81.3%
Used grocery delivery services	15.7%
Used pick-up services	13.3%
Concerned about paying next month's bills	37.9%
Considered delaying a major purchase	41.8%

Won't make travel plans until the situation is back to normal in their country	79.1%

Source: EC Consumer Conditions Scoreboard 2020

Due to the EU's global reach as a rule-setter for global trade, meeting high standards demanded for entry into the EU market virtually guarantees export to other important markets. There are direct 'gateway opportunities' into growing neighbouring markets - in addition to the EU 27, the EU provides so-called gateway access to Northern Africa from its southern members such as Spain and access to non-EU former Soviet Communist States via Estonia, Finland, Sweden and Denmark. Spain has strong trading links with Morocco and close-by African countries which could be exploited by Pacific Island exporters.

Demographically, important shifts are taking place in the EU and consumer preferences are driven mainly by age group. Broad market segments include: the over-80s who are estimated to increase from 5 per cent of the total population to 12 per cent by 2060; wealthy so-called 'Baby Boomers' (born between 1946 and 1964) who are currently around 55 to 75 years of age; and 'Millennials' (born between 1980 to 2000) aged 16-36. The COVID Pandemic has also accelerated shifts in the EU consumer landscape including buying online, while more than two thirds of consumers have bought products that are better for the environment even if they cost more (see table 4.1.).

2.1.1 The EU Customs Union

Key: EU Customs Union Non-EU Countries within the EEA or other agreements

The EU is a Customs Union - its 27 member countries form a single territory for customs purposes. This means that:

- no customs duties are paid on goods moving between EU Member States
- EU Member States apply a common customs tariff for goods imported from outside the EU
- goods that have been legally imported can circulate throughout the EU with no further customs checks.

Businesses in and outside the EU benefit from:

- a market for their products of over 400 million consumers
- easier access to a wide range of suppliers and consumers
- lower unit costs
- greater commercial opportunities.

2.1.2 Diversity across the EU Market

It is important to note while the EU market operates under a common legal framework, the EU is at the same time a highly diverse market of 27 countries, each with very different consumption patterns and consumer preferences, notably for Pacific Islands products such as tuna. Geographically speaking, the sub-regions of Western Europe, Southern Europe and Eastern Europe can sometimes serve as useful sub-markets when comparing consumption patterns and purchasing power, but buyers from individual countries will often have distinct requirements and existing supply chain networks.

At the national level there are also significant differences in purchasing power and market size. It can be clearly seen from the above that there are 27 significant markets to be exploited in the EU where there are only a few countries with population's smaller than the Pacific Islands, such as Malta and Luxembourg. However, it is worth noting that the GDP of Malta is still many times that of the smaller Pacific Islands and the GDP of Luxembourg is even greater. This emphasizes the market power in the EU in terms of population and spending power.

Population and GDP per Capita by EU Member State 2019[10]

EU Member	GDP per cap 2019	Population (m) 2019	EU Member	GDP per cap 2019	Population (m) 2019
EU 27	31,250	446.4	Slovenia	23,170	2.1
Luxembourg	102,200	0.6	Czechia	21,140	10.6
Ireland	72,360	4.9	Estonia	20,930	1.3
Denmark	53,370	5.8	Portugal	20,800	10.3
Netherlands	46,880	17.3	Lithuania	17,470	2.8
Sweden	46,390	10.2	Slovakia	17,220	5.5
Austria	44,780	8.9	Greece	17,110	10.7
Finland	43,480	5.5	Slovakia	17,220	5.5
Germany	41,800	83.0	Lithuania	17,470	2.8
Belgium	41,460	11.5	Latvia	15,900	1.9
France	36,050	67.2	Hungary	14,950	9.8
Italy	29,980	59.8	Poland	13,900	38.0
Malta	27,830	0.5	Croatia	13,340	4.1
Spain	26,430	46.9	Romania	11,510	19.4
Cyprus	25,270	0.9	Bulgaria	8,780	7.0

[10] Eurostat at https://ec.europa.eu/eurostat

2.2 General Requirements for Export to the EU

Before considering exporting new products to the EU market, potential exporters should carry out their export readiness audit, work through the export checklist and create a clear export plan as indicated below.

Once exporters are confident in beginning to export, a good guide to some of the general requirements for sending goods to the EU can be found at: https://trade.ec.europa.eu/access-to-markets/en/content/eu-market-0#eu_customs_territory (click on the "EU ↓" tab to reach "*European Union - Overview of Import Procedures*".

2.2.1 Preliminary Steps

Aside from the general food safety, standards, labelling and packaging requirements (which are all covered in detail below), some of the key procedures include:

- Checking the correct Tariff Code for the product being exported. It is important to identify the correct tariff code for the product(s) being exported as this carries information on duty rates and other levies on imports and exports, any applicable protective measures (e.g. anti-dumping), external trade statistics, import and export formalities and other non-tariff requirements. The EU classification system follows the Harmonized System (HS) a nomenclature developed by the World Customs Organization (WCO) comprising about 5,000 commodity groups, organised in a hierarchical structure by sections, chapters (2 digits), headings (4 digits), sub-headings (6 digits) and then 8-digit (or more) product codes.

- Checking the applicable Tariff Rate (under the iEPA between the Pacific Islands and the EU, or another market access arrangement such as the Everything But Arms arrangement.

- Checking the Rules of Origin and obtaining the relevant RoO certificate (either though relevant Customs authorities or through the REX system.

- Obtaining all necessary administrative and customs clearance procedures including the Entry Summary Declaration (ENS) generally submitted by the carrier, the SAD import declaration generally submitted by the importer (consignee or agent), plus any required accompanying documentation including commercial invoice, rules of origin certificate, inspection certificates and transport documents (e.g. bill of lading, packing list). See: https://trade.ec.europa.eu/access-to-markets/en/content/customs-clearance-documents-and-procedures
https://trade.ec.europa.eu/access-to-markets/en/content/guide-import-goods

2.3 Meeting Standards and SPS requirements

The terms '*standards*' and *'requirements'* encompass a potentially wide array of different rules, regulations and systems that need to be met at different points in the supply chain. 'Standards' therefore may refer in this guide to a number of different things:

- **Mandatory legal requirements**, without meeting which, products can be stopped from being exported or imported into a destination market. These in turn may consist of different types of legal requirements: food safety, labelling, packaging (see subsection 2.5 below for different categories).
- **Additional product-specific standards** relating to quality or other areas that are not

mandatory but required or preferred by buyers.

- **Assurance Systems and Certification Systems**. These can help companies comply with mandatory requirements (or are explicitly mentioned within regulations, making them also *de facto* mandatory). They also include other quality or sustainability marks and certifications: additional optional or voluntary measures that buyers again demand, or producers may wish to comply with in order to boost their products' chances of success.

Such requirements and standards can be hugely **diverse in their aims**: they can cover for example food safety, product safety, quality certification, animal welfare, efficient management, sustainable production, environmental protection and workers' rights. As such, some of the key categories of standards exporters are likely to encounter include:

- **Sanitary and Phytosanitary (SPS) requirements** refer to those aimed at the protection of human, plant or animal health. These can include general requirements (e.g. have in place a HACCP system) or specific requirements (e.g. maximum residue tolerances for various metals or chemicals). It is worth noting that meeting SPS measures will be required for exporters of food and food inputs, but also potentially for any exporters of goods that may face a risk of contamination (for example wood carvings, products packed in wood, paper or plant-based packaging, or from soil on machinery).
- **Technical requirements** and **product safety** requirements. Compliance with technical and product safety standards (or TBT) is highly important for many manufactured and industrial goods, and is another complex area where policies, legislation and systems are in place to monitor goods sold on various market. A distinction is often made between technical requirements for industrial products (TBT-related, such as electrical safety standards, pharmaceutical or safety standards), and for health and hygiene requirements for food and agricultural products (SPS-related). Given the Pacific Islands' recent and potential exports, the latter may be more relevant for exporters in the short-to-medium term.
- **Quality standards** (mandatory or optional) that give information on the quality (or grade) of the product
- **Labelling requirements**, including lists of ingredients and nutritional breakdowns for food.
- **Traceability requirements**: the EU's General Food Safety Law place strong emphasis in this area (see next chapter). At the product level, this may extend to identifying the precise source of inputs, for example within regulations on IUU Fishing. At the high end of some markets, traceability is also becoming more and more sophisticated, with the incorporation of QR codes and even new blockchain technology for some niche and high-value products.
- **Packaging requirements**, especially for food products or those products coming into contact with food, but also including newer requirements for sustainability in packaging.
- Similarly, **storage standards** are likely to apply to exporters, transporters and shippers, and be built into the logistical arrangements for export.
- **Voluntary Sustainability Standards** (VSS): these aim mainly 'to:
    - Eliminate negative impacts of economic activity on the environment (e.g. Global G.A.P., ProTerra, certification by the Global Sustainable Tourism Council)
    - Protect basic human rights, such as work and living conditions (e.g. Ethical Trading Initiative, Business Social Compliance Initiative Code of Conduct
    - Improve the economic situation of producers (e.g. Fairtrade International, UTZ)'[11]

[11] ITC (2016) *ITC SME Competitiveness Outlook 2016: Meeting the Standard for Trade* (Geneva: ITC)

Standards and SPS requirements are covered in much greater detail both at the general and product level in national level. See for instance the EC's guide on '*EU import conditions for seafood and other fishery products'* https://food.ec.europa.eu/system/files/2018-06/ia_trade_import-cond-fish_en.pdf

2.4 The Green Deal

As noted above, the EU is a global standard setter and has a particular focus on climate change and environmental impact through trade. The implementation of the Green Deal,[12] the EU's program to transform member economies through the implementation of measures to reduce carbon footprints and stop climate change. The Green Deal encompasses measures in agriculture, fisheries and energy that have both positive and negative impacts for trade partners, including Pacific Island countries.

There are two key impacts for trade with the Pacific. The first is the Green Deal's focus on the reduction of fossil fuel use and its potential impact, positive and negative, on international energy markets. The second are actions in agriculture and fisheries, and particularly the Farm to Fork strategy.[13]

The Farm to Fork strategy has 27 actions that can be summarised into four pillars:

- Consumer demand, with a focus on labelling to identify nutrition, climate, environment and social aspects of food production;
- Food production, with targets to reduce the use of fertilisers, pesticides and feed additives and improvements for animal welfare;
- Industry behaviour, requiring commitments from agribusiness to improve health and sustainability of their products. This will include a code of conduct on the development of business and marketing practices and require agribusiness to integrate sustainability into their corporate strategies;
- Trade policy, including requiring commitments from trading partners on the use of pesticides, animal welfare, IUU fishing and fisheries management.

The Green Deal represents an opportunity for EU investment in clean, certified agricultural products from Pacific Island countries, but will also increase compliance costs. Previous reforms have proven extremely difficult for Pacific Island countries to implement and have acted as non-tariff barriers to trade. Issues related to IUU fishing are a case in point, where countries like Solomon Islands have implemented expensive programs to meet EU requirements.[14]

The EU provides grant support to Pacific Island countries to assist them in implementing reforms and meeting the requirements set forth in initiatives like the Green Deal. These grants aim to address capacity building, technical assistance, and infrastructure development, enabling countries to adopt sustainable practices and comply with environmental regulations. Such support recognizes the importance of these reforms for both the countries and the environment.

[12] A European Green Deal | European Commission (europa.eu) accessed 6 October 2022

[13] https://food.ec.europa.eu/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf accessed 6 October 2022

[14] Solomon Islands' strong IUU fishing stance assures EU market | FFA's TunaPacific: Fisheries news and views accessed 8 October 2022.

For instance, in the context of addressing IUU fishing, the EU has provided substantial financial assistance to countries like the Solomon Islands. As an example, the EU supported the Solomon Islands with a grant of €11.5 million through the European Development Fund to implement the Pacific-European Union Marine Partnership (PEUMP) program. This program focuses on improving fisheries governance, enhancing sustainability, and combating IUU fishing. The grant has helped the country strengthen monitoring, control, and surveillance systems, implement sustainable fishing practices, and enhance capacity in the fisheries sector.

Additionally, the EU has allocated significant funding for various projects aimed at promoting sustainable agriculture and reducing deforestation. Through initiatives like the European Development Fund and the European Union Development Cooperation Instrument, grants have been provided to support activities such as reforestation, agroforestry, and sustainable farming practices in Pacific Island countries. The specific grant amounts may vary depending on the project and country, but they demonstrate the EU's commitment to assisting countries in their efforts towards sustainable development.

These grants go beyond just addressing trade barriers. They emphasize the importance of implementing reforms that protect the environment, conserve natural resources, and promote sustainable livelihoods in the Pacific Island countries. By supporting these initiatives, the EU recognizes that the reforms are not merely trade barriers but crucial steps toward ensuring the long-term well-being of both the countries and the environment.

New and emerging markets for carbon-responsive products have particular potential in Papua New Guinea, which is home to 5 percent of the world's biodiversity but is under increasing threat from logging.[15] Carbon credit programs and green energy are already being explored with global companies. The Pacific's extensive oceans are also opportunities for blue-green product development.

The EU's new Deforestation Regulation, which came into effect in December 2020, is an important development with significant trade implications. The regulation aims to combat deforestation and forest degradation associated with the production of agricultural commodities, particularly soy, palm oil, beef, and timber.

Under this regulation, EU traders and importers of these commodities are required to conduct due diligence to ensure that the products they import are produced in compliance with sustainable practices and do not contribute to deforestation. The regulation places the responsibility on traders to prove that their supply chains are free from deforestation. Failure to comply with the regulation may result in penalties or even exclusion from the EU market.
The impact of the Deforestation Regulation on trade with Pacific Island countries can be twofold. On the one hand, it presents challenges as these countries may face difficulties in meeting the stringent sustainability requirements due to limited resources, technical capacity, and infrastructure constraints. Implementation costs can also pose a burden on these countries, potentially acting as non-tariff barriers to trade.

On the other hand, the regulation also offers opportunities for Pacific Island countries that can demonstrate their commitment to sustainable production. By adopting sustainable practices and ensuring traceability in their supply chains, these countries can access the EU market with certified

[15] Report on the state of biodiversity for food and agriculture in Papua New Guinea, FAO 2016

products, attracting environmentally conscious consumers and potentially benefiting from higher market prices.

To navigate the impact of the Deforestation Regulation, Pacific Island countries may need support in capacity building, technical assistance, and access to sustainable financing mechanisms. Collaborative efforts between the EU and Pacific Island countries, along with initiatives promoting sustainable agriculture and forestry practices, can help mitigate the potential trade challenges while leveraging the market opportunities arising from the regulation.

The EU's new Deforestation Regulation, implemented in December 2020, has trade implications for Pacific Island countries. The regulation aims to combat deforestation linked to commodities like soy, palm oil, beef, and timber. It requires EU traders and importers to ensure sustainable sourcing and avoid contributing to deforestation. While it presents challenges for Pacific countries in meeting requirements and implementation costs, it also offers opportunities for those adopting sustainable practices to access the EU market with certified products. Support in capacity building and collaboration can help navigate the regulation's impact and leverage market opportunities.

2.5 Strategies for Identifying Trade Development Opportunities in the EU and Overcoming Obstacles

While the EU offers enormous market opportunities, identifying and accessing new market opportunities is difficult, time-consuming and risky. Strategies are likely to differ by product and firm size. This section will seek to give potential exporters, business support organisations and other stakeholders in the Pacific Islands (government officials) a clear framework for identifying and exploiting new trading opportunities in the EU.

The section will cover the various export development strategies available (5.1), a SWOT analysis of strengths, weaknesses, opportunities and threats as well as key obstacles (5.2.), and tips for overcoming challenges for successful export development. The next Section 6 will cover key trends opportunities and market trends by individual product.

2.5.1 Broad Strategies for Growing Exports

Essentially there are four broad strategies for growing exports.

		Product	
		Existing	*New*
Market	*Existing*	**(1) Market Penetration**	**(2) Product Development**

	New	**(3) Market Development**	**(4) Diversification**

These in turn refer to:

- Exporting more existing products to existing markets – which is deepening **Market Penetration** and involves the use of linkages, contacts, strategic alliances and product quality in existing markets to sell more existing product. For example, exporters of Organic Virgin Coconut Oil (VCO) could intensify their marketing efforts and sell more to EU markets.
- Exporting a new product to an existing market – this is called **Product Development** and the aim is to use the links, networks and strategic alliances in existing markets to launch and promote new products. A company that is already exporting VCO to Germany, for example, could do this by firstly obtaining EU Standards certification for VCO-based cosmetics (new product) and selling these also in Germany. However, a company that is only exporting VCO could help another company that is producing cosmetics or noni, etc. to penetrate their existing market by sharing links, networks and strategic alliance partners – this may redound to their mutual benefit because later they may be able to share shipping, marketing and other costs.
- Exporting an existing product to a new market – this is termed **Market Development** and is where a company may try to penetrate a new market with a product that has been successful in an existing market but there may be limited scope for growth or changing trends in the existing market or there may be favourable emerging trends in a new market. Exporters should constantly examine sources of business and market intelligence in order to gain information about trends and developments in existing and new markets. For example, fresh pineapples are rare in some EU countries that were former Soviet states.
- Exporting a new product to a new market – this is referred to as **Diversification** and may occur when a new company or an existing company develops a new product but for strategic reasons or based on market intelligence would prefer to exploit a new market.

When breaking into markets and over the long term, a large literature points to the importance of **innovation** as the key driver of export growth. New production or marketing breakthroughs have been achieved by Pacific firms. For example, part of Fiji Water's success has been attributed (alongside their product quality, transparent labels and strong marketing) to square bottles, making transport 30 per cent less expensive.

New techniques of production – for example for shelling copra, or ultra deep-frozen tuna fillets – can bring new technology to an existing industry; introducing or making use of more efficient existing technology is also considered an important part of innovation. As has been highlighted above, meeting and responding first to new consumer trends and standards – for example incorporating new sustainability features in production or packaging – can play an important role in Pacific Islands' export success. As such **product improvement** should be a constant goal.

2.6 Assessment of Strengths, Weaknesses, Threats and Opportunities of Pacific Islands as Exporter

Summary of SWOT Analysis of Pacific Islands Export Potential	
Strengths	**Weaknesses**
• **Market Access** • **Natural Resources and Pristine Environment** • **Strong 'Story' behind Product** • **Potential for Brand Building** • **High Quality**	• Geographical isolation • Small scale • Limited productive capacity • Resource constraints on government • Poor infrastructure • Limited market intelligence • Lack of access to low-cost capital
Opportunities	**Threats**
• **Expanded market access (global sourcing)** • **Shifting (EU) consumer trends** • **Opportunities from local and international strategic alliances**	• Tariff preference erosion • High and rising standards • Climate change/natural disasters • Dependence on few export products

2.6.1 Key Strengths of Pacific Islands Exports to the EU

While it is difficult to generalise about the potential strengths of Pacific Islands products, common features include:

- Market access: duty free access to the EU and improved rules of origin for fisheries products (as discussed elsewhere in this study)
- Natural resources and pristine environment, including the tuna resource (see below)
- An excellent 'story' behind many products, even for commodity products such as cocoa and coconut products especially where smaller-scale farmers are involved. Such product stories link with food traceability and other standards requirements, but at the level of buyers and individual consumer such stories are increasingly valued in the EU and other developed markets who are more and more interested in how and who produces their (food) goods.
- Potential for brand building: linked closely with story development at the product level, a lack of knowledge about Pacific Islands – many EU residents have not yet heard of Pacific Islands Countries – this means there is strong potential to develop the Pacific Islands 'brand'. Beyond a national brand, the Pacific Islands also consists of island provinces with diverse range of cultures: these attributes need to be promoted and used to build the Pacific Islands brand.

- High quality: linked closely to its pristine environment, the high quality of Pacific Islands products is increasingly recognised. Pacific Islands exporters have been quick to obtain important certifications for their products including relevant Voluntary Sustainability Standards and organic status. A good marker here is that several products from the Pacific iEPA parties are recognised for their superior quality and sought after both in regional and international markets. This indicates the opportunity to build a growing reputation in regional and international markets for high quality produce.

Many of these key strengths fit in well with emerging consumer trends in developed markets and opportunities discussed below. Capitalising on Pacific Islands' strengths building brand recognition implies continued investment and coordination, potentially through building capacity within a dedicated agency responsible for export promotion to promote and build the Pacific Islands brand.

2.6.2 Key Weaknesses and Obstacles to Pacific Islands Exports

While there are clear benefits of achieving a successful export market in the EU, the challenges facing Pacific Islands firms should not be overestimated. Some of the Pacific EPA states have per capita GDP levels of around US$2500 per annum, with sizeable proportions of the labour force engaged in subsistence farming and fishing.

The weaknesses faced by Pacific Islands are those typically faced by Small Island Development States (SIDS). These include:

- Small size of the population and the trained labour pool – Pacific Islands will need to engage in strategies that encourage their diaspora to participate more in development e.g., by online work and training initiatives, temporary assignments back in Pacific Islands to transfer technology and knowhow, investment back in Pacific Islands, etc.

- Geographical isolation and high costs of transport. The distance from the EU markets is more than 11,500 kilometers; the remote location of the PACPS from the international markets result in high freight and transportation costs for exports and high distribution and marketing costs.

- Limited productive capacity and resource constraints on government, for example in the areas of Quality Assurance infrastructure, economical access to ILA accredited laboratory services and export development.

- Inadequacy of key infrastructure for trade such as roads and electricity – it is necessary for Pacific Islands to continue programmes to improve roads and access to markets by farmers and other producers in order to facilitate development of the country.

- Limited market intelligence of the EU market – given that the EU market is likely to become an area of greater focus for the Pacific, it is important that both the public and the private sector tap all sources of business and market intelligence that will help to guide them in the greater penetration of the EU market such as the Pacific Trade and Invest (PTI) Europe office and online resources including the European Commission (EC) Access2Markets site and My Trade Assistant – https://trade.ec.europa.eu/access-to-markets/en/home – the ITC Trade Map – https://www.trademap.org/Index.aspx and, Global Trade Help Desk https://globaltradehelpdesk.org/en.

- Lack of access to low-cost capital – the Pacific must continue efforts to make low cost funds available to MSME exporters and potential exporters so they can lower their average costs of production and improve their standards. Properly set up business incubators could play a major role in such efforts.

- Lack of mechanization – lack of mechanization is often a challenge in SIDS where there is already a shortage of labour and/or low productivity which leads to low wages.
- Small Diaspora population in Europe – with respect to trade with the EU, having a very small diaspora does not give the Pacific Islands as much of a competitive advantage or kick-start as their African and Caribbean counterparts.

2.6.3 Key Threats to Pacific Islands Exports

There is a number of threats that Pacific Islands exporters face with respect to doing business with the EU; these include:

- Tariff preference erosion: in spite of acceding to the iEPA to guarantee market access for Pacific Islands products, exporters face a threat of tariff preference erosion particularly for tuna. As noted in ComSec (2018):
    - 'Solomon Islands is already suffering from tariff preference erosion, which is only going to worsen as the EU signs more free trade agreements with competitor countries. Many major competitors, both in the region and globally, are also able to export tuna products to the EU duty free – Papua New Guinea signed the Interim Economic Partnership Agreement (IEPA) with the EU in 2007 to retain access following the expiry of Cotonou Agreement; Madagascar, Mauritius and Seychelles have been a party to the East and Southern Africa EPA since 2009, granting it zero duty on canned tuna and tuna loins; and Ecuador joined the EU's Trade Agreement with Colombia and Peru in 2017 granting it zero duty on tuna products.[16]'
- High and rising standards in the EU – the EU is rightly concerned about the safety of its citizens, so it goes to the full extent to ensure that standards are very high. This means that exporters will need to stay abreast of any changes or have a strategic alliance with an EU counterpart that can assist them in meeting and maintaining EU standards.
- Climate change/natural disasters – these are factors that Pacific Islands must keep a close eye on and work with International Partners to build resilience. It may be necessary to introduce a few cyclone/tsunami-proofed business incubators that are set in locations that are less vulnerable and built out of materials that are more resistant to wind and water. There would also be a need to include underground cabling, back-up generators and renewable energy options that will stay up and running or can be brought into operation during or after the natural disaster. These incubators could be used to ensure business continuity during and after a natural disaster not only for occupants of the incubator but also for other businesses (including Government) which may have suffered extensive damage.
- Dependence on relatively few export products – this is a classical feature that creates a major vulnerability for SIDS, which is why it is necessary to diversify as well as develop good agricultural and manufacturing practices that will minimize the devastating impact of a disease, infestation, natural disaster or any other threat to key products.

[16] Ecuador represented 21 per cent and 28.2 per cent of total extra-EU imports of canned tuna, respectively, between 2013 and 2015.

2.6.4 Key Opportunities for Pacific Islands Exports

With income from some industries (such as forestry and carbon-based mineral fuels) most likely set to fall in coming years it will be vital for Pacific Islands to manage the transition to other export industries. Although weaknesses and obstacles should not be ignored, there are opportunities in the global market for Pacific Islands exporters, including:

- Expanded market access for key products within the iEPA: as already noted above, the iEPA not only guarantees duty-free access but offers a competitive advantage to tuna producers in the Pacific Islands through the global sourcing provisions in the Rules of Origin. Combined with the Pacific Islands industry's core strengths (see above), there is an opportunity for Pacific Islands – following the example of Papua New Guinea above – both to expand existing production and attract investment in new plants.
- Shifts in consumer trends in the EU: particularly for foodstuffs (which make up a significant share of Pacific Islands' non-resource exports), there is a huge shift underway in consumer preferences in the EU and other products towards increasing awareness of product provenance, high quality, greater attention to sustainability standards, alongside shifts in purchasing patterns and new opportunities from online commerce. While small island states cannot compete on price with imports from larger producers, they have a potential competitive advantage in marketing products that meet these standards given that their products are often:
    - Natural
    - Made by MSMEs
    - Artisanal (hand-made or hand grown)
    - Grown/produced by families or communities
    - Fairtrade

  Further analysis of these shifts is given at the level of specific products in the next Section.
- Opportunities from local strategic alliances: private sector alliances are key to successful export: such alliances can lead to mutual gains in terms of economies of scale, economies of scope, business and market intelligence. These opportunities help to build the critical mass necessary to reduce average costs and utilize better production technologies. These strategic alliances could be forged with partners from the same industry or those from a different industry depending on the needs, location, and benefits. Some of these opportunities include:
    - Sharing packing centres to minimize idle and excess capacity – this could even include a small entity working a deal with a larger entity to share packing or refrigerator facilities.
    - Share containers when shipping – the average cost of shipping is significantly reduced when several partners fill a container rather than each shipping a container that is not full because the cost is levied per container and not by weight or degree to which the container is full. Similarly, shipping smaller amounts by palettes in order to reduce the cost of a container is still more costly on average than sharing a container. In order to achieve these gains from sharing and collaboration requires

planning, trust, and contractual relations amongst partners in case anything goes wrong or there are disagreements.

  - Sharing market intelligence – it would work out cheaper if firms form strategic alliances in the quest for market intelligence, for example to hire the services of an EU market intelligence firm would work out cheaper if shared amongst two or three entities or a Chamber of Commerce or other BSO rather than being undertaken by a single MSME. The market intelligence obtained could be about a product, a market, promotional opportunities, EU Standards, costs, etc. and could end up leading to significant profit generation for all concerned.
  - Sharing promotion costs – this can come in many forms from sharing costs of advertising in the media, sharing marketing skills that one partner may have and the other does not e.g., design of brochures, business cards, labels, packages, etc. These competencies can be traded between partners for other services such as transport services, office space, etc. i.e. one partner may have no marketing skills while the other has no proper accommodation – the two together are likely to benefit as long as they set up an agreement to govern their terms of engagement.

- If an entity wishes to export successfully, it will be necessary to have a strategic alliance with someone or an entity in the export market who understands the nuances of the market, understands the business culture, understands the Standards requirements, knows the language/vernacular, etc. Often these characteristics can be found in either:
  - Buyers/Dealers – an entity that buys directly from the exporter and retails directly with payment terms set accordingly.
  - Distributors – an entity that typically buys from the exporter and sells to buyers/dealers.
  - Agents – an entity that acts as a go between and typically works on commission.
  - A Responsible Person (RP) – this is an Agent that will represent you in a market such as the EU by ensuring that Standards are met, that safety assessment are carried out and up to date and maintains your product information file.

  It is important when exporting to select the appropriate one of the first three outlined above and whichever is selected that a character reference is provided. In addition, a proper legal agreement should be drawn up to define the terms of engagement, roles and responsibilities. It is also important to select a reliable and respected RP, however there will be a cost associated which can sometimes be negotiated.

Further analysis of opportunities at the level of specific Pacific Islands products is given in Section 6.

2.7 Overcoming Obstacles to Export: Putting in Place a Robust Export Plan

Exporting is both difficult and risky: the best way to avoid loss of investment and pitfalls is to put in place a well thought out plan for export for your goods that covers the entire range of steps you need to consider before attempting to export. A typical '**export audit** or '**checklist**' might include a number of different steps that potential exporters need to take when looking to export goods. These include[17]:

- **Market research and market identification**: select the target market and assess whether customers will buy your product. Assess competition in the market and range of existing products.
- **Understand the relevant distribution system** for your product and **identify potential buyers.**
- **Registering with local authorities** and **business support organisations** as an exporter may also open access to information, support, advice and networks.
- **Review the ease of importing**, which includes understanding and assessing ability to comply with all entry requirements in destination markets:
    - Ensuring knowledge and ability to fulfil relevant administrative and documentation procedures.
    - Understanding if tariffs or other restrictions on market access (quotas, safeguards) are applied, and whether your product can benefit from provisions of a free trade agreement. For the Pacific Islands, goods are likely to qualify for tariff-free entry under either the Everything But Arms scheme (until LDC graduation) or the interim Economic Partnership Agreement.
    - Ensuring product meets relevant rules of origin (see the accompanying *Guide to Rules of Origin* produced under this project) including for the above-mentioned schemes.
    - Ensure product meets relevant SPS requirements and other standards (the focus of this guide). This may first require an assessment of *how* products can be certified for compliance. Meeting mandatory requirements and SPS regulations (e.g. certain levels of acidity or chemical residues) will obviously be a sine qua non for exports to occur from the start. Meeting other (more optional) standards may be a longer-term goal (e.g. achieving certification in ISO, organic certification or a sustainability mark). Nevertheless, voluntary standards will also be important for Pacific Islands given that, for many of their key export products, a main competitive advantage lies in telling 'the story behind the product'.
- **Assess the ease of transportation**, which has been cited as one of the main challenges faced by Pacific Island exporters. Naturally, very large and heavy goods will be expensive to transport over longer distances, which will have their impact on the pricing in the target market. Small items or high value are less expensive to transport especially when the relation between weight/volume and price favours the latter. In both cases you should ensure that the packaging is strong enough to withstand rough handling and the hazards of transportation. You will need to have some idea about potential customers in your target markets and whether your product can be shipped there and roughly at what costs.
- **Determine your pricing points.** The most critical factor to check is the pricing as this determines everything. One starting point may be the market price, i.e. the selling price to the end-customers. For most consumer goods this can be found simply by checking websites for prices of competing products in the target country. However, the market price includes the total set of margins, costs and duties that added to your production costs - try to make

[17] The steps here are only one possible list - a number of export readiness guides and checklists are available online. See for example: https://trade.ec.europa.eu/access-to-markets/en/content/guide-import-goods

https://thisisprofound.com/2021/05/05/export-readiness-assessment/

the rough calculation and if your prices result higher, your product will need to be much better than the present products available. You should ideally be able to match or underbid the current market price. If your prices are far too high, you might need to forget about the operation entirely at this time or find a different product to export.

- **Securing finance:** Exporting is a complicated and expensive process. It requires time, considerable planning, extensive research (much of it overseas), highly skilled staff, product adaptations, international travel, expensive international promotions and management involvement. Your payment terms may mean that you only get paid in 30, 60, 90 or 120 days. Together, this translates into high expenses and slow income. Cash-flow is often a major problem facing the smaller exporter.
- **Plan and Undertake Promotion of your Product:** this includes all activities to support and promote the actual selling in the target market abroad. Marketing should start with comparing the present communication strategy (advertising, printed instructions and information brochures etc.) with the market habits or requirements and even translating them into the appropriate language.

These above steps are not necessarily sequential: they can take place in a different order to the one presented above, or concurrently, or the process might be an iterative one (e.g. promotion activities to locate markets before tailoring or refining products to consumer preferences).

Following these steps will help you to think about various requirements you need before exporting, assess costs of compliance, and take appropriate action. You will also know where to look for new developments and be aware of any that are taking place that could affect your exports. A good export plan is essential to maximise chance of success and minimise risk to the investment made.

3 Papua New Guinea: Market Opportunities for EU Firms

3.1 Overview

Papua New Guinea represents a dynamic and fast-growing frontier economy that is ripe for new trade and investment partnerships with EU firms. The country possesses a rich diversity of geographic and natural resources: according to the World Bank, PNG's growth trajectory and abundant resource potential provides a strong platform for greater economic engagement with Asia and beyond. While the last 20 years have seen economic growth driven by very large investments in mining, oil and gas projects, this growth has not translated into significant development outcomes.

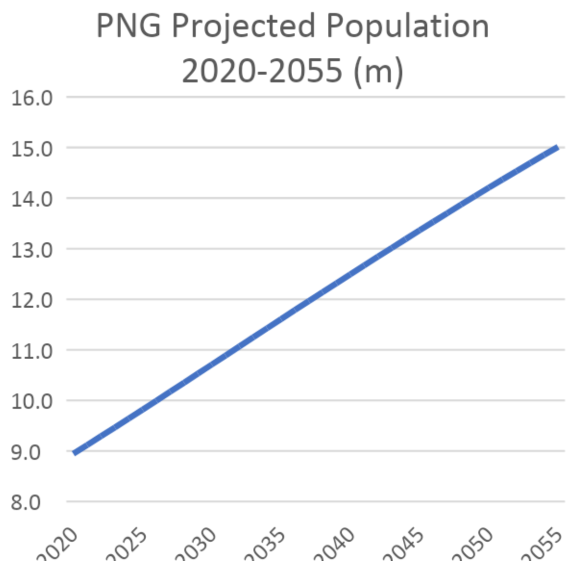
For this reason, the Government intends to invest more in sustainable economic growth based on the renewable resources sector of agriculture, fisheries, forestry, environment and tourism. Key commodities – coffee, cocoa, vanilla, and coconut are the mainstay of the renewables sector, they face the usual Pacific challenges of geography and volume, compounded by post-COVID interruptions in international freight services. Nice products and services from Europe, including specialised machinery for manufacturing, construction and mining, continue to be the mainstay of EU exports but there are opportunities as internet penetration improves and service provision moves into online and cloud platforms.

https://www.worldatlas.com/maps/papua-new-guinea

Location and Geography

Papua New Guinea (PNG) is located on the eastern half of the island of New Guinea in the southwest Pacific Ocean together with surrounding islands of the Bismarck Archipelago. PNG maintains a land border with Indonesia and is closely connected to major the Australian centres of Townsville, Cairns and Brisbane. Philippines lies to the north, and Solomon Islands and Fiji to the east. PNG is an extremely geographically diverse part of the world with beautiful coral reefs and beaches, as well as rainforest and mountains. The country covers around 462,840 km^2 of area; it also possesses a nautical Exclusive Economic Zone of around 2.4m km^2, which includes some of the world's most abundant fishing grounds.

Population, Demographics & Key Business Hubs[18]

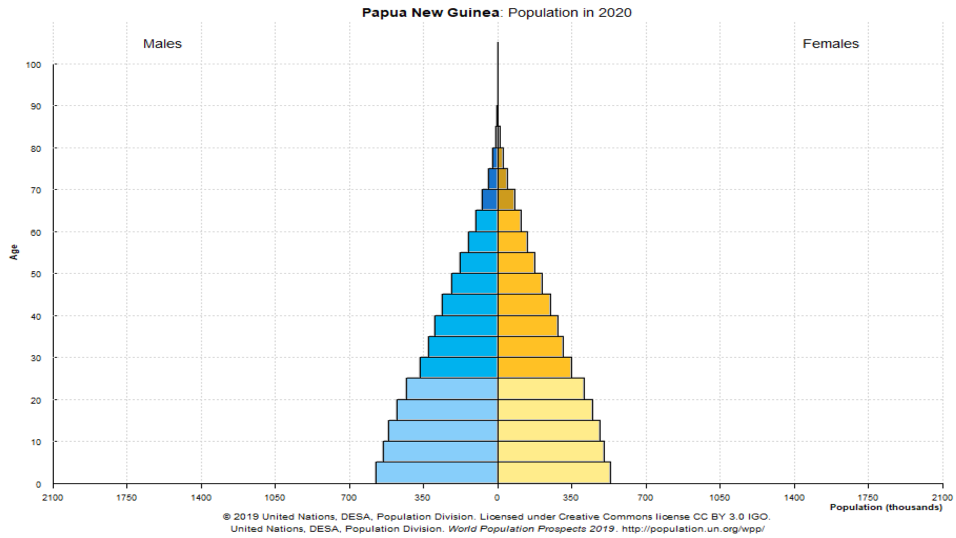


PNG's long term market growth prospects benefit from a young and growing population. PNG's population has grown from 5.8m in 2000 to 9.3 million in 2022 and is projected to reach 12m within the next 15 years, and 15m by 2055.[19] Note however that the statistical reliability of population data is relatively low due to data collection issues.

Papua New Guineans are resourceful and adaptive in the face of large generational shifts that have seen the sons and daughters of traditional rural villagers enter the modern workforce in sectors such as mining and aviation. With the average age in PNG currently just 23.1 years, there is potential for a rich pool of labour in years to come. However, education standards are low and more needs to be done to train and provide international opportunities to young Papua New Guineans to reduce reliance on skilled expatriate workers. Access to international jobs is available, and Australia and New Zealand have low and semi-skilled employment programs that, if used well, will help build the skill base for PNG industry into the future.

[18] https://worldpopulationreview.com/countries/papua-new-guinea-population

[19] UN Population Data

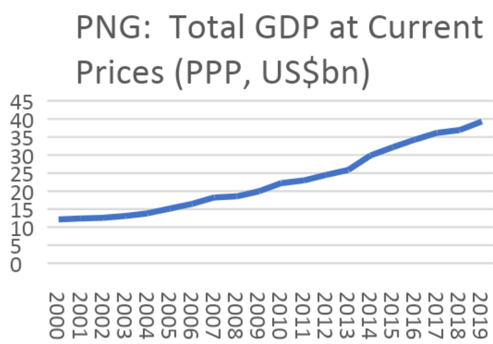


https://population.un.org/wpp/Graphs/DemographicProfiles/Pyramid/598

Centre	Province	Population
Port Moresby	National Capital District	283,733
Lae	Morobe	76,255
Arawa	Bouganville	40,266
Mount Hagen	Western Highlands	33,623
Popondetta	Oro	28,198
Madang	Madang	27,419
Kokopo	East New Britain	26,273
Mendi	Southern Highlands	26,252
Kimbe	West New Britain	18,847
Goroka	Eastern Highlands	18,503

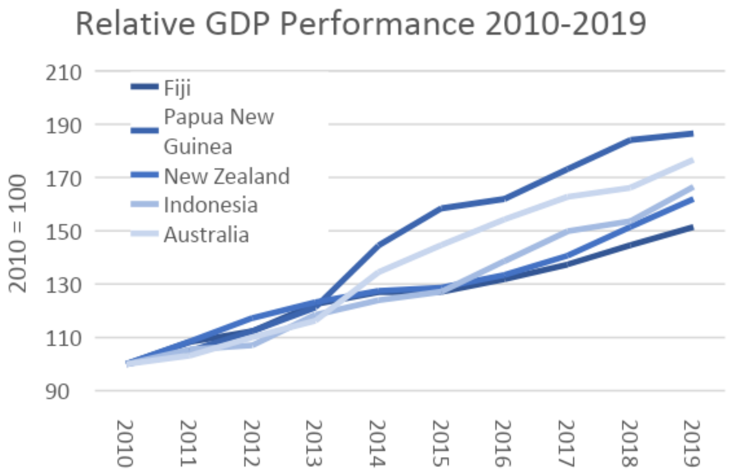
PNG is one of the least densely populated countries in the world, with a population density around 17.5 people per square kilometre. The population remains overwhelming rural and PNG is amongst the least urbanised countries in the world, but urbanisation is growing as people move to hubs for service provision in key cities. Major commercial centres include the capital Port Moresby, which is a modern administrative centre and business services hub, and is the largest urban centre in the Pacific Islands. PNG's second city Lae is the recognised industrial and export hub of the country.

Economy and Recent Growth Performance



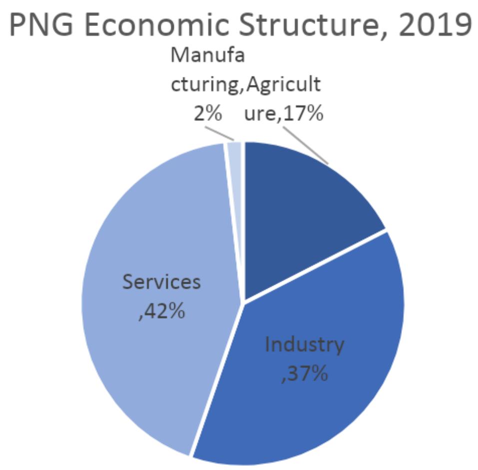
PNG is a US$40bn economy that alongside other Asian tigers is enjoying an era of rapid growth. GDP more than doubled in nominal terms between 2000 and 2019, with acceleration during the 2010s fuelled by major foreign investments in the Liquified Natural Gas (LNG) and broader extractive sector.

This has meant that over the last decade, PNG's overall GDP growth performance has been higher (on a PPP basis) than many Asian-Pacific peers including Australia, New Zealand and Indonesia.



As in other countries, recent economic performance has been affected by the Covid-19 pandemic, although despite its low rates of vaccination has been affected PNG less than other, tourism-reliant Pacific economies. Latest economic projections foresee a rebounding annual growth rate of 3 to 4 per cent for the 2022-24 period.

Economic Structure and Key Industries



As a lower middle-income developing country, PNG maintains a strong industrial base centred on its extractive industries. Key sectors include LNG and minerals. The fisheries (canned tuna) industry has grown in recent years due to concessions provided under the EU-PNG interim Economic Partnership Agreement (iEPA). The majority of the population (around 85%) remain in the informal sector, primarily subsistence or smallholder agriculture. Key agricultural exports by value are palm oil, coffee, cocoa, coconut oil and vanilla. Services, including tourism are relatively underdeveloped with high potential for inward foreign investment, innovation and skills. Industry is primarily infrastructure/construction and mining.

Trade and Investment Linkages

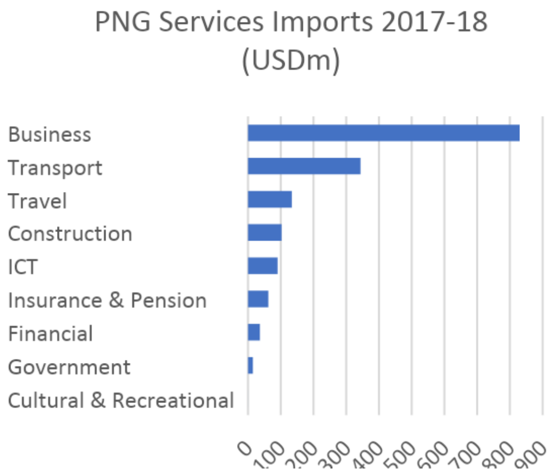
At its last WTO Trade Policy Review in 2019, PNG was praised for adopting its first ever National Trade Policy for the period 20172032. Members hoped that, together with the newly established National Trade Office, it would help to make PNG's business environment more competitive. Members also noted PNG's general openness to foreign investment and its recognition of the important impact it can have on economic development. It is important to note that not all sectors are open to foreign investors.

As an APEC Member state is occupies a strategic location as a key gateway between Asia, Australia and New Zealand and as a hub to the other Pacific Islands, with whom it shares a strong cultural and political tie. PNG is open to trade and foreign investment: at 3.9 per cent, PNG's applied tariff rates are low compared to countries at similar levels of development. At the last WTO trade policy review WTO members noted 'PNG's general openness to foreign investment and its recognition of the important impact it can have on economic development'. The interim EPA with the EU has already borne benefits in terms of increased trade and investment, with exports from PNG to the EU of close to US$1bn in 2020.

A growing cadre of European companies already operate in PNG, led by the Total Group's Papua LNG investment, which is the second largest LNG project in the country.

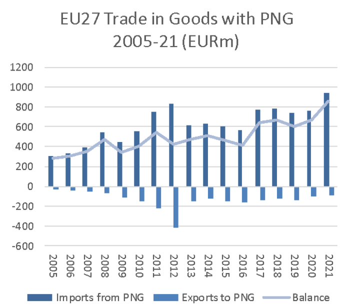
Services

On average between 2017-18, PNG imported over US$800m in Business Services (excluding financial and insurance services). Transport (including air transport), travel services and construction remain important potential targets for increased foreign investment; EU firms have been highly active in the ICT market in PNG over the last decade.



Trade between the EU and PNG

Fuelled by its exports of mineral resources and tuna under the iEPA, the balance of goods trade with the EU is very much in PNG's favour. Annual exports from PNG to the EU reached almost €1bn in 2021, and currently outweigh EU exports to PNG by a factor of 10:1.

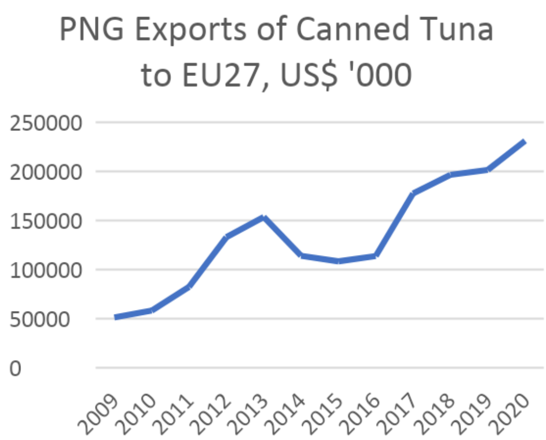


Minerals are not directly covered under the Interim Economic Partnership Agreement (iEPA) between the EU and Pacific Island countries. The iEPA primarily focuses on trade in goods, services, and development cooperation. It aims to promote regional integration, enhance trade relations, and support sustainable development in the Pacific region.

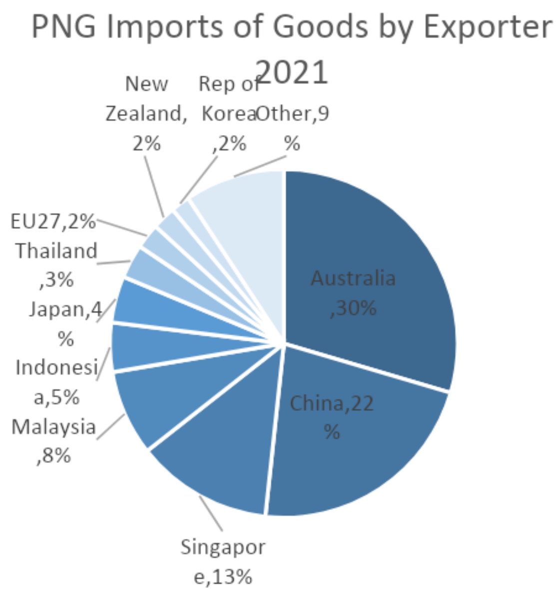
However, it's worth noting that minerals, such as ores, metals, and gemstones, can indirectly be part of the trade between the EU and Pacific Island countries outside the scope of the iEPA. If minerals are exported from the Pacific islands to the EU, they would generally be subject to the relevant trade regulations and agreements between the exporting country and the EU.

It is important to consult specific trade agreements, regulations, and trade statistics to gain a comprehensive understanding of the trade in minerals between the EU and Pacific Island countries.

Contributing to this growth has been the success of PNG's tuna industry under the iEPA with the EU. Under the enhanced, Pacific-only Rules of Origin regime, exports of canned tuna have grown more than 400 per cent over the last decade, from around US$50m in 2009 to $230m in 2021. This growth of the industry is estimated to have created in excess of 50,000 mostly female jobs in the country.

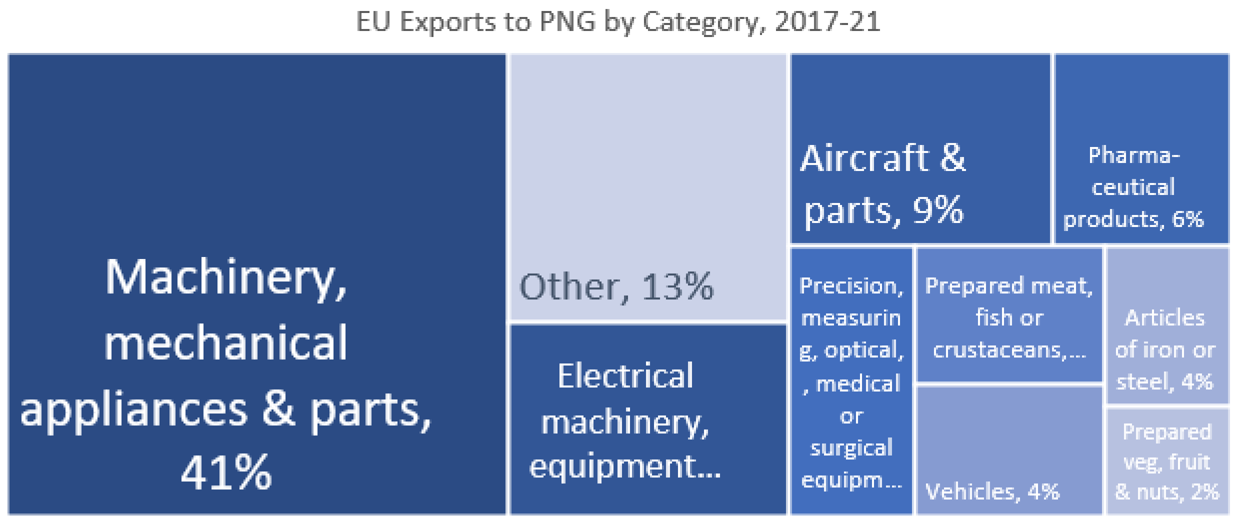


Nevertheless, importers looking to partner with PNG suppliers should note that comparative advantage analysis by ITC suggests that several existing PNG products have additional unrealised export potential in EU markets, including PNG cocoa beans, frozen tuna, coconut oil and vanilla.



While PNG exports to the EU have grown in recent years, exports from the EU to PNG have declined. EU exporters face competition in exporting to PNG from regional suppliers in neighbouring Australia, China and the broader Asia-Pacific region. In addition, a significant portion of EU exports, particularly plant and equipment, are onsold from Australia and hence may not be registered in these statistics.

Exports from the EU to PNG are dominated by machinery (electrical and mechanical), aircraft, vehicles and precision devices: together these make around **70 per cent** of EU exports to PNG by value. Other main EU exports to PNG include pharmaceuticals (even pre-Covid-19), iron and steel products, and prepared foodstuffs (the latter averaging US$8 to 10m per year in total).



Looking ahead: Challenges and Long Term Growth Potential

Over the long term, successive PNG governments have looked to capitalise on new development opportunities, including for example hosting major international events such as the South Pacific Games in 2015, the Rugby League World Cup in 2017 (jointly with Australia) and the APEC Leaders'

Summit in 2018. PNG has recently started to invest in neighbouring Pacific islands and is keen to become a logistical hub and gateway for its Pacific neighbours.

Realising PNG's ambition to become a modern Asian economy will depend on continued high levels of investment in improved connectivity, social infrastructure (such as education and health) and private sector job creation. This will mean making the best use of its vast mineral resource wealth while at the same promoting diversification and modernisation of the economy.

Outside of the extractive sectors, the uniqueness of the PNG market lies, as ever, in **its huge unrealised potential.** Meeting PNG's growth challenge in trade and investment presents a significant opportunity for EU firms in a number of sectors. These range from traditional sectors such as mining, fisheries, agriculture and tourism infrastructure development, to newer investment activities in infrastructure and construction, green energy, mining support, aviation and technology, as well as high-quality business and industry support services. PNG's hunger for foreign investment and expertise makes it ripe for new trade and investment partnerships with EU firms in the years ahead.

3.2 Opportunities in Key Sectors[20]

3.2.1 Agriculture, Fisheries and Forestry

The agriculture, fisheries and forestry sectors now account for around 17.0 percent of GDP[21] and provide subsistence and livelihoods for approximately 85 percent of the population living in rural and remote areas. Most families in PNG, even in urban locations, participate in gardening, fishing and/or livestock rearing. Cocoa, coffee, coconut, vanilla and palm oil are the main cash crops, most farmed through smallholders and with a limited number of plantations still in operation, primarily oil palm. Tuna processing has increased under the iEPA and there are now six operating processing factories that account for almost 10% of the EU's canned tuna imports.

Agriculture has potential for growth and investment, with a focus on higher value commodities for specialty markets in the EU. Vanilla, kava, cocoa, palm and coconut oil all have the potential for growth in the EU market, although competition with African exports means exporters need to focus on quality and certification; PNG coffee and cocoa, for example, is used to improve the flavor of globally procured bulk product. Volume is required to make exports cost-effective given the high cost of international freight from PNG.

Agriculture is productive and organic in most of the country, but poor infrastructure restricts what is sold and by whom. When prices are high, it becomes more cost-effective to bring in produce from more remote locations. As infrastructure improves under the Government of PNG and multi-donor Connecting PNG program, access to market will improve and volumes are likely to increase. However, much of the agriculture sector is in need of renewal, particularly where affected by plant pests and disease. Kava is a nascent product that has enormous potential for production in Papua New Guinea, where it can naturally crop alongside coconut and shade trees and provide a diversified and valuable source of income.

[20] All data from UNCOMTRADE (mirror data) except where footnoted.

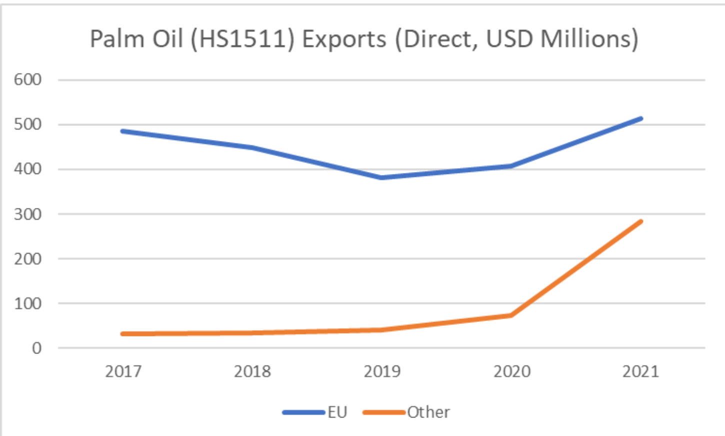
[21] Mid-Year Economic and Fiscal Update 2021, Government of Papua New Guinea

Relative returns for input in key commodities in Papua New Guinea[22]

Crop	Product	Years to 1st harvest	Yield (kg/ha)	Farmgate price (PGK/ha)	Gross returns (PGK/ha)	Cash Outlays	Net returns (PGK/ha)	Labour inputs[3] (p-days/ha)	Returns (PGK/p-day)
Vanilla[4]	Cured pod	1	240	150.00	36000	200	35800	290	123
Kava	Dry root	5	2500	10.00	25000	3000	22000	295	75
Galip nut	Nut-in-kernel	7	4000	1.00	4000	400	3600	60	60
Cocoa (improved)	Dry bean	3	600	5.70	3420	150	3270	60	55
Balsa	Round log	5	200 m^3	35.00/m^3	7000	1200	5800	115	50
Nutmeg	Dried nuts	4	1000	5.50	5500	140	5360	130	41
	Dried mace		200	1.00	200		200		
Sweet potato	Tubers	0.3	12000	0.80	9600	100	9500	350	27
Oil palm	Fresh fruit	3	6000	0.17	1020	100	920	38	24
Cocoa (traditional)	Wet bean	3	800	1.00	800	150	650	40	16
Rubber	Cup lump	5	650	1.80	1170	100	1070	100	11
Turmeric	Wet root	2	10000	0.40	4000	800	3200	330	10
Cardamom	Dry capsule	2	250	6.50	1625	350	1275	200	6
Pepper	Dry corms	2	800	2.50	2000	350	1650	325	5
Robusta coffee	Parchment	3	900	1.60	1440	140	1300	275	5
Coconut	Copra	7	500	0.75	375	100	275	65	4
Rice	Paddy	0.25	1300	0.80	1040	140	900	215	4
Patchouli	Dry leaf	1	700	1.25	875	150	725	200	4

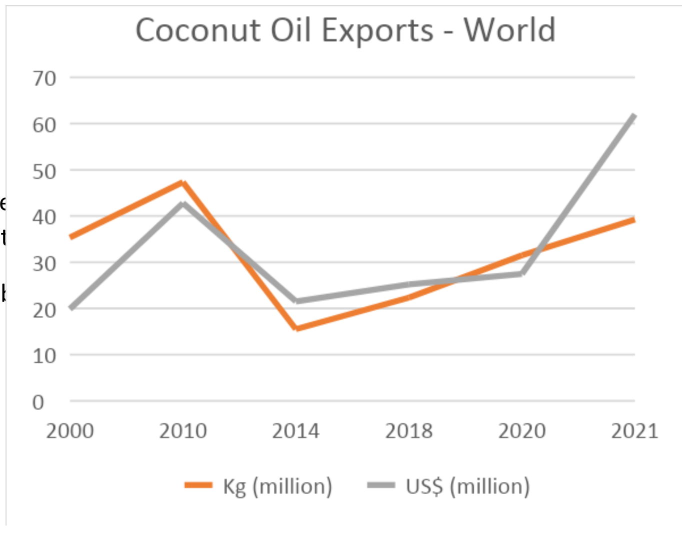
3.2.1.1 Coconut and Palm Oil

Agricultural oil exports from Papua New Guinea comprise coconut and palm oils. PNG is the third largest palm oil producer with almost USD800 million exported in 2021.[23] The EU is the major export destination. Asia is a growing market and foreign investors have entered PNG focused on key countries including Korea and India.



Coconut oils (crude and fractionated) have been significant export product for Papua New Guinea since colonial times. The last decade has seen a decline in production and a fall in their relative importance against substitutes (specifically palm oil), but in 2020 Papua New Guinea remained the sixth largest exporter in the world. Until the mid-2000s, coconut oils made up around 60% of PNG's agricultural oil exports. Growth in demand for palm oil reduced that to a low of 3% by 2014. But negative publicity around palm oil has led to more recent growth and exports have recovered to around 10% of exports in 2021. By volume, this has fallen from around 60 million kg in the early 2000s to a low of just under 16 million kg in 2013, before recovering to almost 40 million kg in 2021.

Growth in coconut oil, as a substitute for palm oil, is driving demand internationally. PNG is well place to



[22] Ben Mullen, Matthew B. Kanua and R. Michae
Development in Kavieng and Namatanai Distric

[23] Some palm oil is still traded through HS1513 l

respond to this demand but is hampered by poor quality (senescent) coconut trees, weak plant pest and disease management, lack of coordinated procurement and limited domestic refining facilities, which are centred around plantations still operating in Madang and New Britain. Copra yield in PNG is around 33% lower than comparable countries.[24] There are three major exporters of crude coconut oil (CNO): Global Manufacturing Ltd (Madang, over 60% of exports), Markham Farming Ltd. (Lae, owned by New Britain Palm Oil Ltd, 25-30% of exports), and Pristine Co.101 Ltd. (Madang, and a related entity to Markham Farming Ltd, around 10-15%). New investments in coconut production and refining will be needed to expand export supply and produce higher quality virgin coconut oil for the international market.

Most palm is organically grown and can be certified to add value. There is potential for increased certification in coconut, and quality improvements in drying for white copra and refining for virgin coconut oil, which is currently only a niche product. Smallholder growers will require aggregation points but with investment in technology it would be possible to significantly increase PNG's production of virgin coconut oil. There is one plant scheduled to open in Kokopo (Oceania Coconuts), while there is potential for facilities based in Madang. Both locations offer connections to suppliers and established shipping routes.[25]

3.2.1.2 Coffee

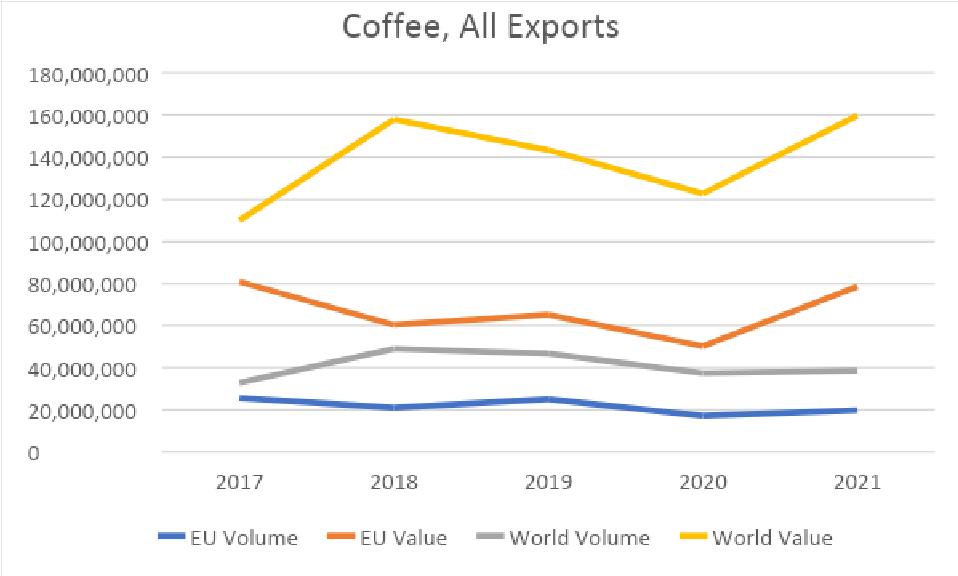
Coffee is PNG's second highest-valued agricultural commodity export (after palm oil) and has been grown in PNG since the 1920s. Growers are primarily shareholders, with only a few plantations remaining. PNG exports between 80,000 – 100,000 60 kg bags per year. PNG's production focuses on quality and its flavour profiles are highly regarded internationally. 95% of PNG's production is arabica, grown in the highlands; the rest is lowland-grown robusta. While the industry was dominated by plantations prior to the 1980s, smallholder coffee is now dominant and supplies over 85% of production[26]. In the highlands, smallholder coffee can be grown under shade trees in jungle areas, minimising the environmental impact. But poor infrastructure means farmers carry coffee out of remote regions on foot, making them price-sensitive to movements in international prices. Despite this, PNG's coffee is in high demand and farmers receive a higher percentage of the sale price than in other producing countries (up to 80% of the world price).[27] Major international coffee houses including Europe's ED & F Man Ltd, Neumann Kaffee Gruppe and Olam have sizable PNG operations.

[24] Coconut Industry In PNG Economy – Kokonas Indastri Koporesen News & Events (kik.com.pg)

[25] Author's interviews with Kokonas Indastri Koporesen and growers/aggregators.

[26] Australian Centre for International Agricultural Research (2009) Assessing and extending schemes to enhance the profitability of the PNG coffee industry via price premiums for quality. Final report, project no. ASEM/20004/042, Canberra.

[27] Author's interviews with buying houses, August 2022.



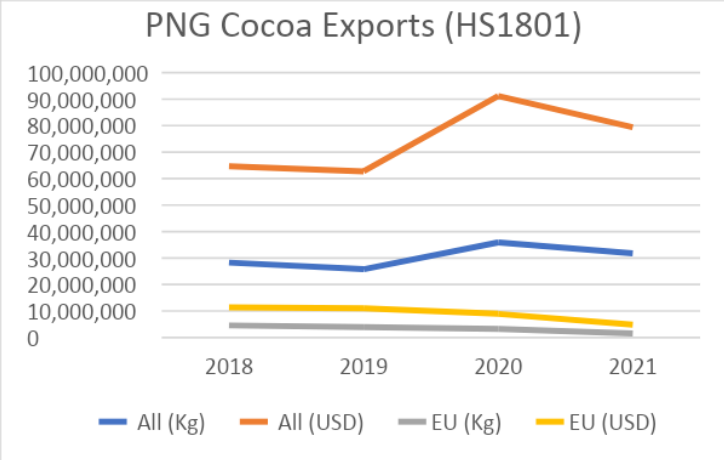
There is a growing specialty coffee market, focused particularly on roasted beans. While the scale of this business remains small, there are advantages in supplying niche product to higher value markets. Noting the international interest in boutique roasting, there is also potential to market small-batch single-origin beans, as New Guinea Highlands Coffee Exports Ltd. (part of Neumann Kaffee Gruppe) is increasingly doing.

BREAKOUT BOX: Coffee: Sustainably Produced, Demanded Worldwide

Coffee is an important source of livelihoods for PNG women and men. It is estimated that over 3 million people earn an income from coffee,[28] either through production, processing or trading. European coffee trading houses have a long history of operation in Papua New Guinea, including Neumann Kaffee Gruppe, trading as New Guinea Highlands Coffee Exports Ltd. PNG has a particular reputation for high-quality arabica, which is increasingly sought out for branded and specialty blends. General Manager Joeri Kalwij has been supporting high-quality smallholder farmers by packaging and promoting small-batch single-origin blends for the international specialty market. "By highlighting the story of the farmers, the land on which the coffee is grown and its journey to market, we can provide coffee enthusiasts with a unique experience," he said. "This allows us to reward the farmer for their efforts to improve quality and helps promote PNG's coffee as a high-quality product for discerning consumers."

[28] *Struggling or in transition: Small household growers and the coffee industry in Papua New Guinea*, Benedict Y. Imbun, Asia Pacific Viewpoint April 2014

3.2.1.3 Cocoa



While PNG exports just over 1% of the world's cocoa beans, it is still a significant export commodity, returning USD60–100,000,000 per annum. The majority of PNG's cocoa is exported to Malaysia, Singapore and Indonesia, where it is processed for re-export to Asian and EU markets. Belgium, Germany and the Netherlands are the largest European importers of PNG cocoa. The US is also an increasingly important buyer.

Like coffee, PNG cocoa is highly regarded for its flavour profile and has strong potential as a single-origin specialty export. Most of PNG's exports go to large cocoa butter producers in Asia as the cost of freight makes PNG cocoa more competitive than African exports, which dominate the EU market due to high volume and lower freight costs. In the EU, PNG cocoa is used as a flavouring component added to cocoa butter produced from African cocoa. While there is some single origin chocolate being produced, the volume is very small and it has not reached the same level of demand or recognition as, for example, single origin coffee. Bougainville cocoa is held in particularly high regard and investments in production and processing could significantly improve the value proposition for direct exports to Europe. Value-adding (cocoa butter, chocolate for export) in PNG is possible but will require production far in excess of current volumes.[29]

With compound annual growth rates of around 4.5 percent, and with the highest growth rates in nearby Asia,[30] there is a natural synergy between investments in cocoa for the bulk market coupled with high-quality specialty cocoa for the niche EU markets.

[29] A typical production facility in Asia processes over 100,000kg of cocoa per annum – in excess of PNG's entire production. Source: Nigel Foster, Eden Associates.

[30] Chocolate Market Size, Share | 2022 - 27 |Trends (mordorintelligence.com) accessed 5 September 2022.

BREAKOUT BOX

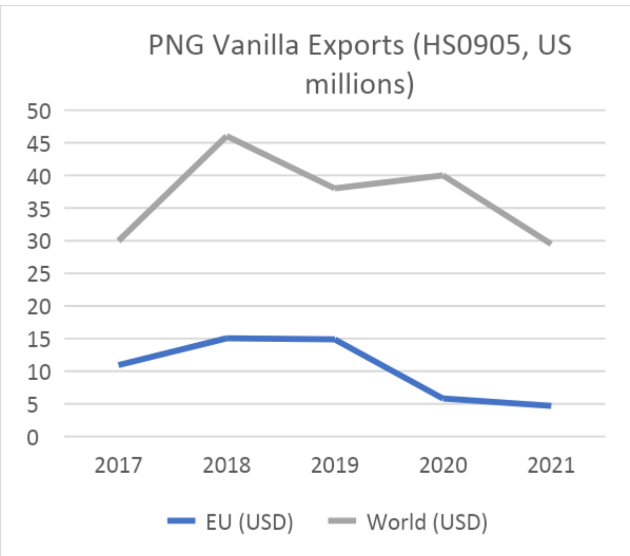
SEQ Table * ARABIC 2Agmark's processing facilities in Kokopo, East New Britain / C. Bowman

As one of the largest cocoa exporters in Papua New Guinea, Agmark wanted to form direct relationships with European buyers of its highly sought-after cocoa. For over 20 years, Agmark has partnered with Britain's Eden Associates, who market and help manage exports to Europe. This has eliminated the need for an intermediary buyer and forged long-term relationships with key purchasers.

Agmark's cocoa operations are based in East New Britain, and cocoa is sourced primarily from New Britain and Bougainville islands. They export around 10,000 tonnes per annum, roughly 30 percent of PNG's total exports. Agmark provides extension services, logistics and shipping services to ensure they have a reliable supply of cocoa for export.

Higher prices are paid for better quality cocoa, traceability and certification. PNG has a high level of traceability built into its systems, but as yet certification programs (such as Rainforest Alliance) have not been widely adopted. Eden Associates Managing Director Nigel Foster believes well-recognised certifications like Rainforest Alliance could boost the volume and value of sales to Europe. Investments with a focus on single-origin and certified cocoa could yield high returns in the specialty market.

3.2.1.4 Vanilla



PNG is the fourth largest vanilla producer in the world, exporting between 300 – 500 tons per annum. Varieties grown are bourbon (vanilla planifolia) and Tahitian (v. tahitensis), primarily along PNG's northern coast of East and West Sepik and Madang. Production is smallholder driven and vanilla can be grown alongside coconut or other shade crops. As a non-perishable commodity, it is often stored while world market prices are less favourable, to be sold when prices rise.

Vanilla is a quickly growing market with compound annual growth rates estimated at around 5.5 percent with most vanilla bought as extracts by the food industry. However, retail is a growing area for sales with value-adding in pastes, extracts, powders and beans seeing growth at around 9 percent per annum.[31]

At this time there is little value-adding industry in PNG and there is no national branding, quality control or marketing underway. Investments in this space would benefit from the high brand and quality recognition of PNG vanilla, and economies of scale with processed product. Examples from elsewhere in the Pacific show the value of investing in branded high-quality product and its demand in international markets (see Samoa). An investment in branding and value-adding, coupled with certification programs, would maximise the return for investors from vanilla production.

Several European companies operate in Papua New Guinea across various sectors. Here are a few examples:

TotalEnergies: TotalEnergies, a multinational energy company based in France, is involved in oil and gas exploration and production activities in Papua New Guinea. They have participated in major energy projects in the country, including the Papua LNG project.

Nestlé: Nestlé, a Swiss multinational food and beverage company, has a presence in Papua New Guinea. They are involved in the production and distribution of a wide range of food and beverage products, including coffee, dairy products, and confectionery.

Puma Energy: Puma Energy, a global energy company headquartered in Switzerland, operates in Papua New Guinea's energy sector. They are engaged in the import, distribution, and retailing of petroleum products, including fuels, lubricants, and aviation fuel.

Kamapim: Kamapim is a subsidiary of Belgian owned Envirium Life Sciences. Kamapim trains small-holder farmers to produce high quality vanilla. Papua New Guinea has been producing organically grown vanilla for some 50 years.

Italpreziosi South Pacific Ltd.: In Papua New Guinea, Italpreziosi South Pacific provides integrated and quality services to the local gold mining community.

Neumann Kaffee Gruppe: This German company owns and operates the New Guinea Highlands Coffee Exports Ltd., Papua New Guinea's leading coffee exporter, committed to responsible sourcing and sustainable supply chains. The company collaborates with coffee growers around the country to develop certified coffee chains.

3.2.1.5 Kava

Kava is a beverage or powdered extract made from the kava (piper methysticum) plant, a plant from the pepper family, which is indigenous to the Pacific islands. Kava is a natural analgesic and is used as a beverage or in capsules to relax and relieve pain. The beverage has been traditionally used throughout the Pacific, and particularly in Polynesia, for centuries. It is now becoming popular in Tiki-style bars in the US, and there is growing interest and demand from the EU, Australia and New Zealand. Global kava exports are difficult to assess as it has no distinct HS code, but it is estimated that the global market will grow from US$1.8 billion in 2022 to $3.4 billion in 2029, with year-on-year growth of around 15%.[32]Production is primarily located in the Pacific island countries (Tonga, Samoa,

[31] https://industrygrowthinsights.com/report/vanilla-market, accessed 15 September 2022.

[32] Kava Root Extract Market Size, Share, Growth | Forecast [2029] (fortunebusinessinsights.com)

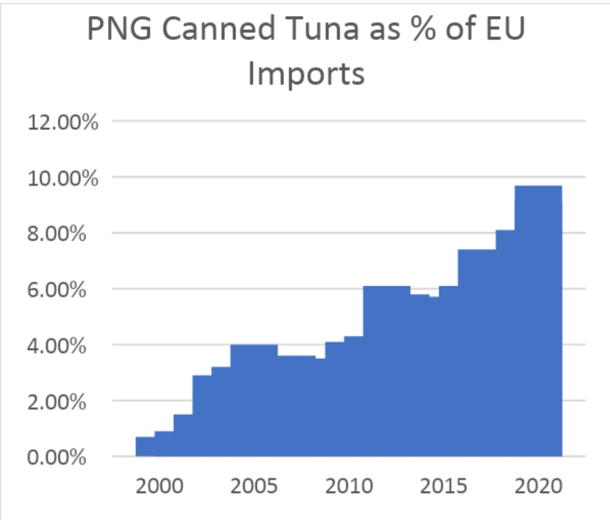
Fiji, Vanuatu) and Hawai'i. Production in other Pacific Island countries has little room for growth, making Papua New Guinea, where it is mostly uncultivated, a potential source of production growth over the next decade.

PNG is a small but growing kava exporter. PNG's kava cultivation is based around Madang Province. There are two main types of kava cultivated in Madang: Madang Tall and Madang Short, and both are regarded as "tudei [two-day] kava." The highest kavalactone content comes from Madang Short, and this variety is the one most sought-after for cultivation. PNG's kava export industry is led by one major company, Niugini Kava, which has a high-quality US FDA certified value-adding facility in Port Moresby and which exports to Europe and the US; the other major exporter is Ocean Kava, which focuses on dry root exports to Fiji.

As noted, data for kava is difficult to obtain due to the different aggregation points in international statistics. Data collected from companies and PNG Customs shows that around 20,000 kg of kava is exported from PNG annually in both raw and refined form, including to EU customers. Growth in the EU is currently led by the pharmaceutical industry, but there is potential for instant kava in the beverage market.[33]

3.2.1.6 Fisheries

Fisheries, and specifically tuna fisheries, are a major contributor to Pacific Island economies, both in returns from the Vessel Day Scheme which licenses fishing fleets in Pacific waters, and in value-adding (primarily canning, with some loining). Canning operations in PNG commenced in the late 1990s with a focus on exporting to the EU under Cotonou, and subsequently the iEPA.



The value of PNG's canned and loined exports to the EU has grown during this time from around US$4 million in 2000 to over US$230 million in 2021. PNG's share of the EU market for canned tuna has grown from less than 1% of EU imports in 2000 to almost 10% in 2020. PNG is now the second largest exporter to the EU, although it still has less than a third of the share of leading exporter Ecuador. Around 90% of PNG's exports go to the EU. The majority of the remainder is exported to Fiji.

While this is promising, two key factors have shaped PNG's share of the EU market. The first is the maintenance of tariff barriers on key competitor countries Philippines and Thailand, making them less competitive.[34] The second is the provision of incentives to land and process fish onshore by the PNG Government, a policy in place

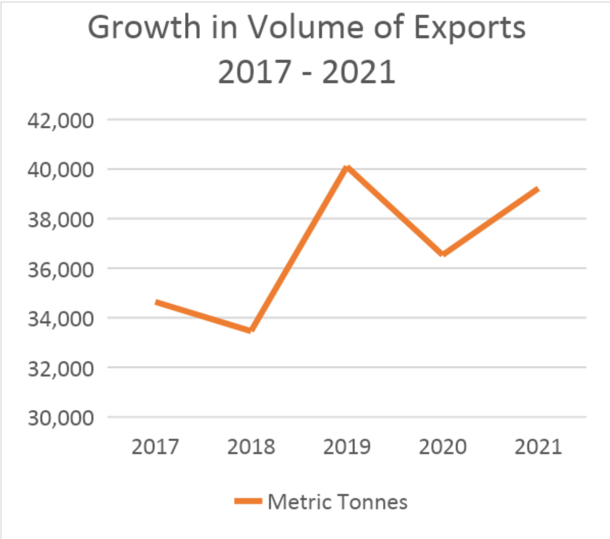
[33] Authors estimates, sourced from PNG Customs data and private company data provided for aggregated use only.

[34] Note that Philippines and Thailand have the largest share of exports to Australia, which has tariffs of 5% and 0% on tuna respectively. PNG and the other Pacific Island countries have zero tariffs on all exports to Australia but have not penetrated the Australian market to date.

since 2018 that has seen landed catch rise 26% and was responsible for the dramatic increase in production in 2019 and 2020.[35]

The tuna rebate program was successful but came at a significant cost to the Government of PNG (K505 million). The program will cease in 2022 and Fisheries officials anticipate a decline in production once it has ended. PNG has considerable ability to increase production given its current capacity of 1,110 metric tonnes per day. Overall, factories are running at 65% capacity. There is clearly plenty of room for expansion within the existing industry before additional processing plants can be justified.

While the majority of PNG's exports are canned tuna, there has been recent growth in loined and flaked tuna. National Fisheries Authority notes that "frozen whole round tuna is exported to Japan, Thailand, Fiji, Taiwan, Philippines and Korea mainly to supply their processing plants. Fish meal, a by-product of tuna from our processing plants are exported to Australia, Japan, Philippines, Saudi Arabia, Sri Lanka and Taiwan. Fresh chilled tuna is exported to Japan, Philippines and Spain while fish oil from processed tuna is exported to Malaysia, New Zealand, Peru and Philippines." In addition, more than 100,000 metric tonnes of canned tuna are sold on the domestic market.[36]



Tuna Exports from PNG, 2017 - 2021[37]

Year	Canned (metric tonnes)	Loined and Flaked (metric tonnes)	Whole Round Tuna (metric tonnes)	Other (metric tonnes)	Value (USD million)
2017	34,644	15,326	85,093		417
2018	33,464	19,475	93,067		477
2019	40,100	19,061	163,961	8,235	634
2020	36,534	16,163	153,454	14,198	448
2021	39,220	47,259	101,590	10,825	416

PNG's other major fisheries export is sea cucumber, which is supplied primarily to the Asian market and is worth around USD8-10 million per annum.[38] There is good potential for export of lobster, crab and prawns, but significant industry investment is required and at this time exports are small. Live

[35] National Fisheries Authority Conference 2022

[36] National Fisheries Authority Conference 2022

[37] National Fisheries Authority Conference 2022

[38] National Fisheries Authority Conference 2022

shellfish exports will be most profitable to Asia and Australia; some small production exists for frozen picked meat, again currently directed toward Asian markets.

3.2.1.7 Forestry

Papua New Guinea is one of the world's largest exporters of tropical timber and timber exports remain an important source of export earnings. China is the primary purchaser, purchasing around US10 million of PNG sawn log exports in 2020 and 2021. While the industry has been challenged by illegal and unrecorded exports, there is also significant opportunity for legal and certified forestry activity, particularly in regions such as Oro where a push toward green and sustainable timber industry is being led by Governor Gary Juffa. This includes the potential for internationally recognised carbon credit projects.

China is by far the largest buyer for PNG's forestry products. Despite a policy shift to self-sufficiency, China increased its share of PNG's exports from 40 percent in 2017 to 70 percent in 2021. China remains one of the largest purchasers of sawn wood by value and volume, and even this makes up less than 0.5% of China's total sawn wood imports.

The EU has strong ethical sourcing policies that mean PNG would benefit from greater involvement by EU purchasers both through increased prices for premium product and investment in sustainable forestry management. On 17 November 2021, the EU published a legislative proposal for a Regulation on deforestation-free products. The proposal aims to reduce deforestation by setting targets for commodities linked to a high risk of deforestation such as soy, beef, palm oil or coffee. EU policies can point the way for improved forestry management by PNG.

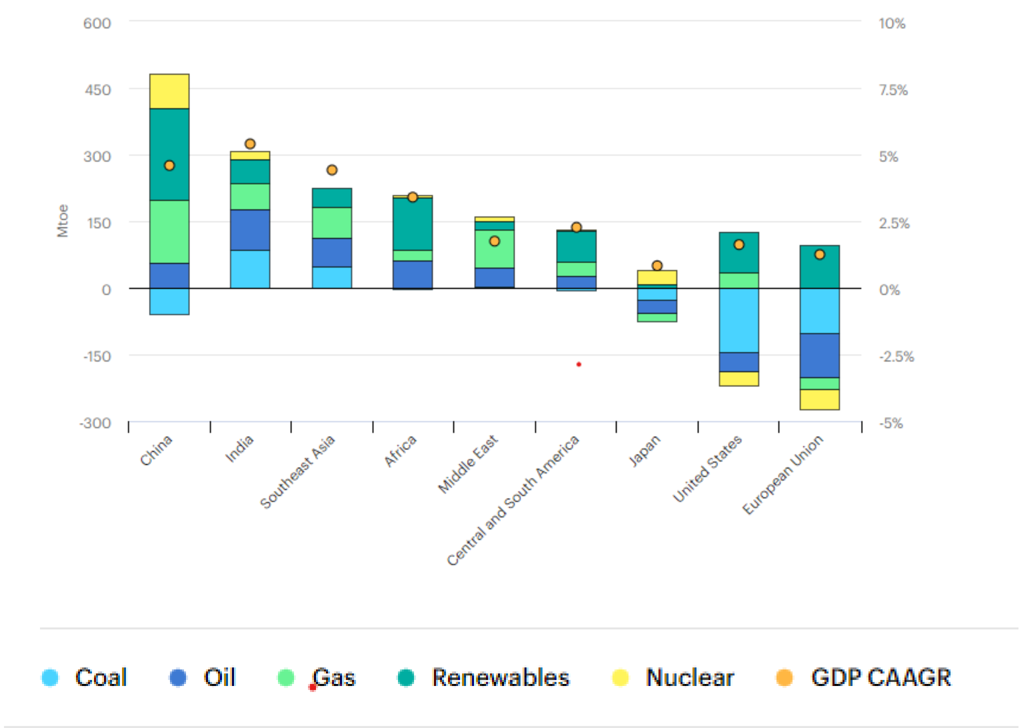
Forestry, and particularly the poor management of the forestry industry to date, provides an opportunity for EU companies to invest in ethical market products to protect biodiversity. PNG is currently developing a stronger legal framework governing carbon credit scheme and there is strong international interest in establishing carbon credit programs in provinces such as Oro.

Breakout: Oro's Green Carbon Market (for completion after mission)

3.2.2 Energy

Papua New Guinea's abundant natural resources and geography make it a major potential supplier of energy. While already home to multiple major LNG investments, including with Europe's Total Energies, investment in renewable and green energies is only just commencing. Papua New Guinea offers potential for investors and suppliers in two key areas: renewable energy products for domestic electrification projects, and green energy for international markets. With the targets set out in the Green Deal, there is potential for Papua New Guinea to also supply Europe's needs as it moves away from reliance on fossil fuels.

Forecast Global Energy Demand by Region, 2019 - 2030[39]



BREAKOUT BOX: *Clean Energy for a Sustainable Future*

In an interview with Business Advantage PNG, FFI's CEO Julie Shuttleworth said "We believe PNG can be at the forefront of developing hydropower and geothermal resources for the emerging global green hydrogen industry."[40]

Electrification is nascent in Papua New Guinea, with only 10-15 percent of the population estimated to be connected to grids, and those grids being unreliable and inadequate for most industrial purposes. The Government of PNG has ambitious targets to provide electrification to 70 percent of the population by 2030, which is being supported by development partners. There is significant potential for EU companies with expertise in the supply of green energy generation equipment, from large-scale to household use. Of particular interest is the US Government's flagship USAID-PNG Electrification Partnership, in which an initial USD57 million will be used as seed funding to leverage private sector investment into PNG's electricity sector. The project aims to generate investment worth around US$200 million. European companies are particularly strong in the area of renewable energies notable solar, wind and geothermal. For European investors, PNG represents interesting opportunities.

[39] IEA, Changes in primary energy demand by fuel and region in the Stated Policies Scenario, 2019-2030, IEA, Paris
https://www.iea.org/data-and-statistics/charts/changes-in-primary-energy-demand-by-fuel-and-region-in-the-stated-policies-scenario-2019-2030

[40] What is Fortescue Metals Group doing in Papua New Guinea? Business Advantage PNG, 25 August 2021

3.2.3 ICT

With the introduction of the Coral Sea Cable, Port Moresby, the business capital, now has a stable internet connection that can facilitate the growth of e-government, e-commerce and digital finance. Regional access is dependent on VSAT or mobile networks, but while still not at international standards it is able to provide services to parts of the country that previously had no chance of supply. This has opened opportunities in e-government, e-commerce and digital finance. There is growing interest from companies in Estonia, Romania, Finland and other tech hubs in bringing AI training, advanced transactions and identity management software to meet PNG's digital needs, which will significantly increase as economic growth accelerates.

In particular, software that supports the training and development needs of the mining community will be in high demand, as will software-as-a-service that is able to provide low- to no-cost solutions to Government that reduce corruption and increase traceability of financial transactions.

3.2.4 Others

Other sectors in PNG include tourism, education, cultural goods and tele-health but these are either relatively small or there is no reliable data available.

Working with PNG

The Investment Promotion Authority (IPA) www.ipa.gov.pg is the key contact point for international business and investment. A statutory body, the IPA houses Investor Servicing and Export Promotion Division and the Companies Office of PNG (Business Registration, Regulation and Certification Division) in addition to the Intellectual Property Office of Papua New Guinea and Securities Commission of Papua New Guinea (SCPNG).

The IPA has a mandated role to provide information on investment opportunities in PNG; trade opportunities to international partners and markets; facilitate, coordinate and regulate registrations, permits and processes; and provide support and introductions through its database of foreign and domestic investors and networking partners.

Business and Investment Procedures

All foreign enterprises intending to operate in Papua New Guinea must firstly register under the Companies Act 1997, which is administered by the Companies Office (Business Registration, Regulation and Certification Division of the IPA before they conduct business in the country.

A foreign enterprise is classified as a business entity which is wholly owned or that is 50 percent or more owned or controlled and managed by non-citizens.

Investors must be aware that there may be other specific laws, regulations and licencing requirements which may also affect their activities. These include laws of the National Government on areas such foreign exchange, taxation and customs and licenses and permits for mining and petroleum exploration, agriculture, fisheries, forestry and industrial activities; and Provincial Government and/or urban authority issue of various licenses or approvals.

Taxation

Taxation in PNG is implemented by the Internal Revenue Commission (IRC). There is a resident corporate tax of 30% and a non-resident rate of 48%. Personal income tax is payable on a sliding scale up to 42%. Goods and services tax (GST) of 10% applies to most goods and services supplied in Papua New Guinea.

Papua New Guinea has numerous tax incentives for major investors. It has an ambitious plan to create 12 free trade zones to attract foreign investors,[41] including a marine industrial zone in Madang Province. Other exemptions and direct and indirect taxation incentives have been provided to major investments.

Information on PNG's taxation system can be found at the IRC website www.irc.gov.pg and at Deloitte | tax@hand (taxathand.com)

Doing Business in PNG Guides

Several excellent guides for overseas companies on doing business in Papua New Guinea have been published. See;

PWC – Doing Business in PNG – May 2022;
https://www.pwc.com/pg/en/publications/doing-business-in-png/doing-business-in-png-2022.pdf

KPMG – Doing Business in PNG – February 2022;
https://assets.kpmg.com/content/dam/kpmg/pg/pdf/insights/20200224KPMG_Doing_Business_in_PNG_Guide.pdf

Business Advantage International – Doing Business in PNG;
https://www.businessadvantagepng.com/doing-business-in-papua-new-guinea/

Representation

Whilst some products and services can be delivered to the market without local representation, for many products a local presence/representation is recommended. Local partner selection is one of the most important factors that determines success in the PNG market. Companies considering appointing a local representative or seeking current and professional investment advice, business establishment facilitation and trade assistance should contact the Investment Promotion Authority.

Legal, Accounting and Financial Services

The Papua New Guinea Business Directory provides easily accessible listings of professional service companies via a free searchable database www.pngbusiness.directory/directory/A. Major international firms including Deloittte and PWC have regional headquarters in PNG and can provide advice, services and referrals for businesses wishing to enter the market.

There are four international banks operating in the PNG market that offer a wide range of retail banking, business banking and investment banking options:

- Bank of South Pacific – www.bsp.com.pg
- ANZ - www.anz.com
- Kina Bank - www.kinabank.com.pg
- Westpac Banking Corporation - www.westpac.com.pg

[41] https://news.pngfacts.com/2022/09/japan-ready-to-help-papua-new-guinea.html accessed 10 October 2022

Key partners and useful links:

- PNG Customs Service www.customs.gov.pg
- PNG-Europe Business Council https://www.pngeubc.org.pg/
- Business Council of Papua New Guinea www.bcpng.org.pg/
- Papua New Guinea Chamber of Commerce and Industry - www.pngcci.org.pg/
- Business Advantage PNG - www.businessadvantagepng.com/
- Mineral Resources Authority - https://mra.gov.pg/
- National Fisheries Authority - https://www.fisheries.gov.pg/
- Tourism Promotion Authority - www.papuanewguinea.travel/
- KPMG – www.kpmg.com

4 Fiji: Market Opportunities for EU Firms

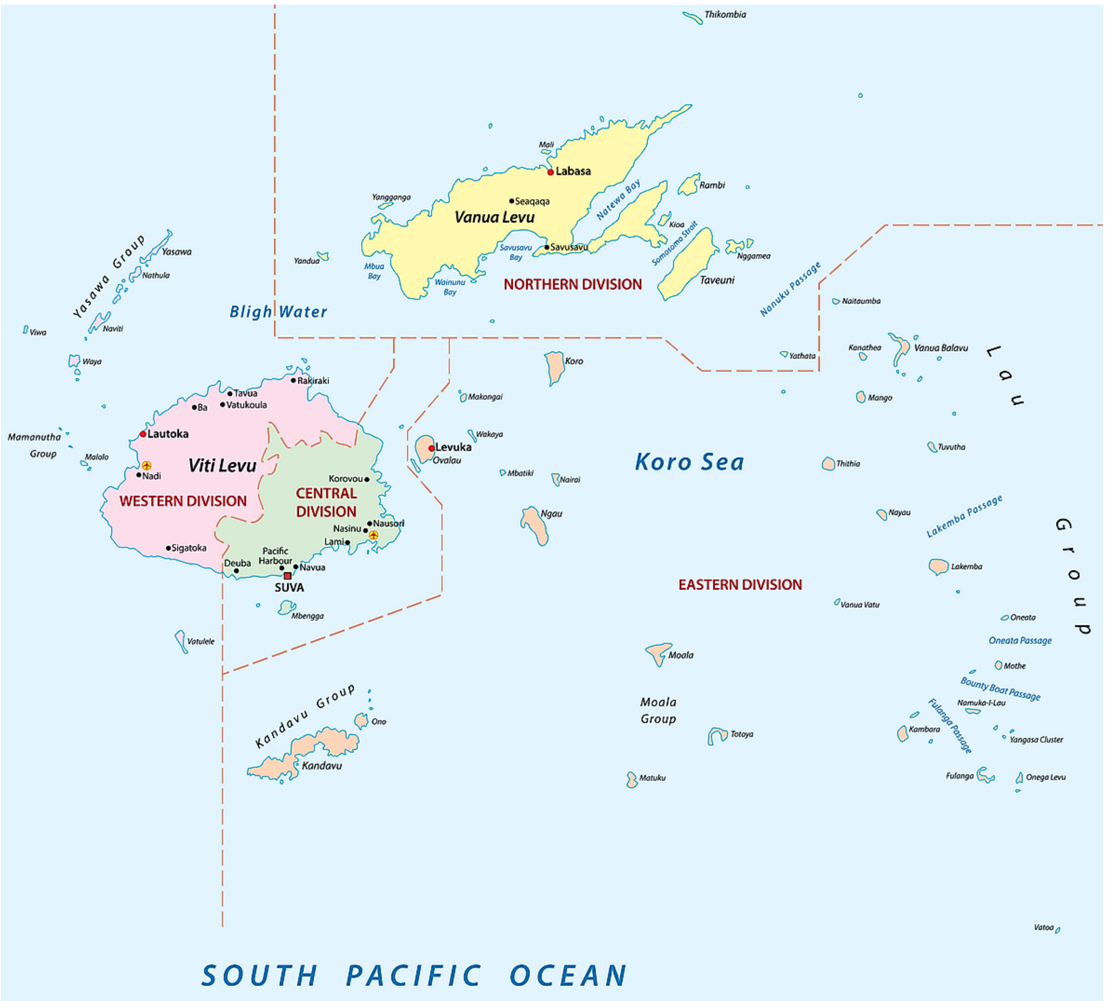
4.1 Economic Overview

4.1.1 Overview

Fiji is one of the most stunning locations in the world to do business. Larger and more developed than most of its neighbours, Fiji's openness to becoming a leading international tourism and to broader economic growth has seen it achieve strong economic success in its 50 years since independence.

Drawing on its natural beauty, Fiji couples traditionally high standards for quality and service with exciting new products and services that retain genuine global brand recognition. The economy continues to evolve towards innovative practices and business models that combine with an efficient and educated workforce to make it an highly attractive trade and investment destination for partners from the EU, Asia and the Pacific.

4.1.2 Location and Geography



https://www.worldatlas.com/maps/fiji

Covering an area of 18,300 km^2, the Republic of the Fiji Islands is an archipelago of more than 330 islands and 500 islets, with Viti Levu and Vanua Levu being the two largest and the most populated islands. Most of the islands were formed by volcanic activity going back about 150 million years. Located on the southeastern coast of Fiji's principal island of Viti Levu is Suva – the capital and the largest city of Fiji, as well as one of the largest urban centers in the South Pacific islands.

Fiji's **renowned and stunning natural beauty** has helped it build a world class-tourist infrastructure that has established over successive decades as a major international tourist destination. Prior to the COVID pandemic, international tourism arrivals grew by 95 per cent between 2007 and 2019. A major recent investment in Nadi International Airport has followed the expansion of passenger routes to Asian markets. Fiji's tourism industry maintains a broad offer that caters range of market segments from adventurers to romantic couples to families to a highly organised events, conferences and corporate rewards sector. Beyond tourism, Fiji is a traditional agricultural exporter of sugar and producer of fruits and vegetables destined for local and international markets, as well as an exporter of fisheries products together with significant mining and forestry sectors.

4.1.3 Population, Demographics and Key Business Centres

Centre	Population (2007)
Suva	77,366
Lautoka	52,500
Nadi	42,284
Labasa	27,949
Ba	14,596
Levuka	8,360

With a current population of around 930,000, Fiji is the second largest of the Pacific Islands after Papua New Guinea. Fiji is much more urbanised that many of its Pacific neighbours, and more than three quarters of Fijians live on the coasts of the main island Viti Levu. The terrain makes the interior parts of the island sparsely populated.

The UN classes Fiji as having a 'high' human development level (with a HDI of 0.743 in 2019), ranking it above neighbouring Asia-Pacific countries including Vietnam, Philippines and Indonesia. Fiji scores particularly highly with respect to education indices, with 14.4 expected years of schooling and 10.9 mean years of schooling, both of which are above the average levels seen across East Asia and the Pacific. Around one-third of Fijians are under 15 years of age, a figure that is some way in excess of the worldwide average.

The main economic and business centres are found on Viti Levu: Suva is the administrative capital, with Lautoka as Fiji's industrial heartland, and Nadi as the international gateway and tourism infrastructure hub. As Fiji's capital and largest city, Suva has a city population of 87,000, although wider conurbation including bordering cities - Lami, Nausori, and Nasinu - have a combined population of 330,000, or around one out of every three Fijians.

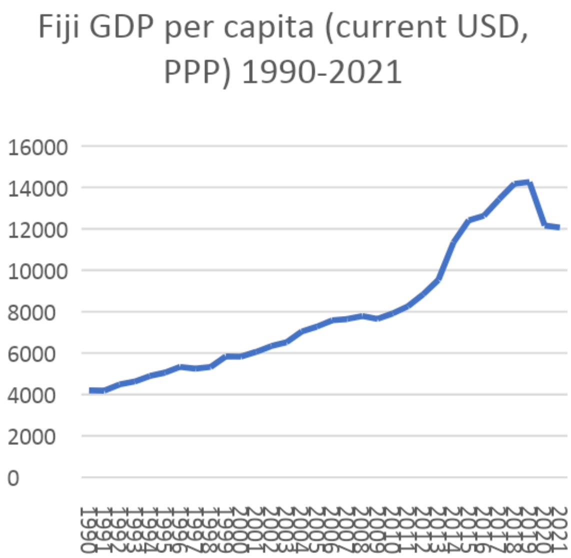
4.1.4 *Fiji as an International Hub for the Pacific Islands*

Fiji's location means that it serves a key trade, business and political hub for the entire South Pacific, particularly neighbouring Pacific Island markets. Suva is home to the headquarters of many of Pacific's main regional political institutions and bodies including the Pacific Islands Forum, the Pacific Community, South Pacific Tourism Association and the University of the South Pacific (USP). Suva is also home to key diplomatic missions including the EU's Regional Delegation to the Pacific which covers 13 Pacific Island countries. Meanwhile the main USP campus draws talented students from across the Pacific, providing the local workforce with a steady supply of graduate-level recruits with strong English language skills.

Amongst other things, this has allowed recently allowed Fiji to build economic foothold beyond its tourism base, towards the digital economy including in cultural and audiovisual services and the IT sector. Fiji's openness as an investment destination over many decades has resulted in and vibrant, enthusiastic and motivated expat business community, notably from leading regional economies Australia and New Zealand.

4.1.5 *Recent Economic Performance*

Fiji's economy suffered a major short-term hit from the COVID-19 pandemic due its position as a key tourism destination, following the imposition of international travel restrictions worldwide.

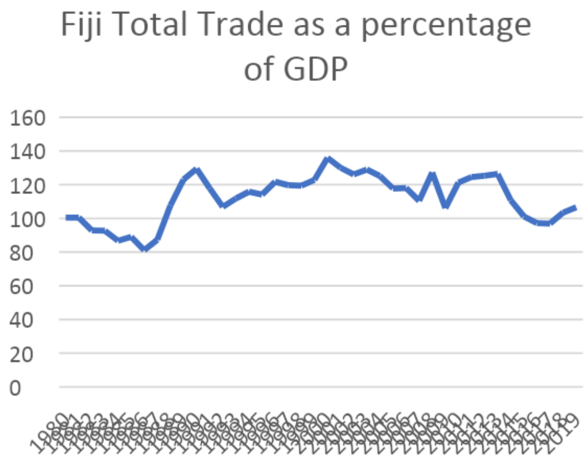


Nevertheless, in the years prior to COVID-19 the Fiji economy, particularly in the 2010s when GDP per capita grew from USD 7,900 at the start of the decade to USD 14,200 in 2019 [current USD in PPP]. This makes it one of countries with the highest per capita income in the East Asia and the Pacific region.

The most recent assessment by the World Bank noted that 'the reopening of Fiji's borders to tourism in December 2021 marked a major step towards economic recovery' and 'the economy is expected to reach the pre-pandemic level by 2024, supported by private consumption and investment'. Tourist arrivals were larger than expected after the reopening of borders, with more than 23,000 arrivals in January 2022, which is about one-third of the number of arrivals in January 2019.

[source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=Z4]

4.1.6 Trade and Investment Linkages



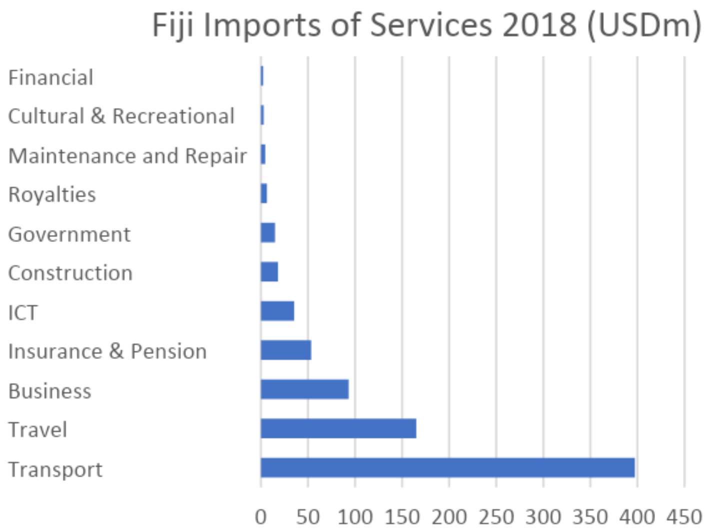
Fiji is an highly open economy and society: excluding the recent pandemic, trade as a whole has averaged around 115 per cent of GDP since the 1980s – more than twice the global average.

Prior to the Covid-19 pandemic, Fiji's total exports worldwide averaged US$1bn. Key exports globally include its pristine water (US$127m in 2020), processed fish (US$84.8m), gold ($62.3m), raw sugar (US$56.5m), and fuel wood (US$27.3m). The main export markets were the United States (US$244m), Australia (US$131m), New Zealand (US$41.8m), the United Kingdom (US$30.8m), and Japan (US$27m).

Trade in Services

Fiji's overall exports are dominated by travel and tourism as its main foreign exchange earner. Investment in the sector has been traditionally strong.

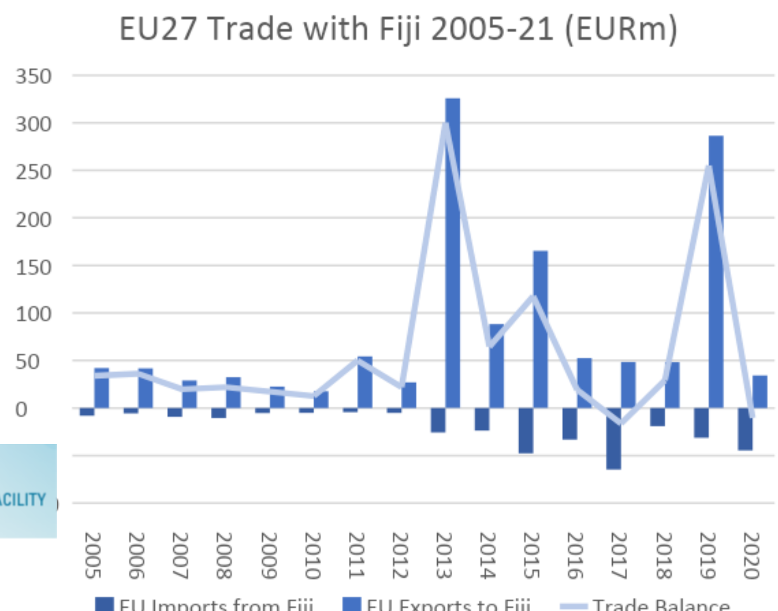
However as in other Pacific Islands, opportunities also exist for EU exporters interested in the supply of essential services that help the economy run smoothly. Prior to the COVID-19 pandemic, Fiji imported nearly USD 800m in services ranging from business services to insurance to ICT services to construction.



Recent Trade with the EU

Aside from large aircraft orders and under normal conditions, imports from the EU make up around only 3 per cent of Fiji's total imports.

Exports from Fiji to the EU are similarly small. Fiji exported around US$40m per year to the EU over the 2017-19



period, two-thirds of which was the main traditional agricultural crop, sugar. Given that overall Fiji exported around US$1bn of goods around the world, there is high potential to exploit the EU market for high-quality Fiji products.

Key Fiji Goods Exports to the EU27 2017-2019 (average annual)

Export	Exports (US$m)	Share
Sugar (HS17)	27.5	67.7%
Fresh/Chilled Fish (HS03)	7.0	17.1%
Electrical equipment & parts (HS85)	2.4	5.9%
Coffee, tea & spices (HS09	1.0	2.4%
Prepared vegetables fruit & nuts (HS20)	0.7	1.7%
Water (HS22)	0.4	0.9%
Other	1.8	4.3%
Total	**40.6**	**100%**

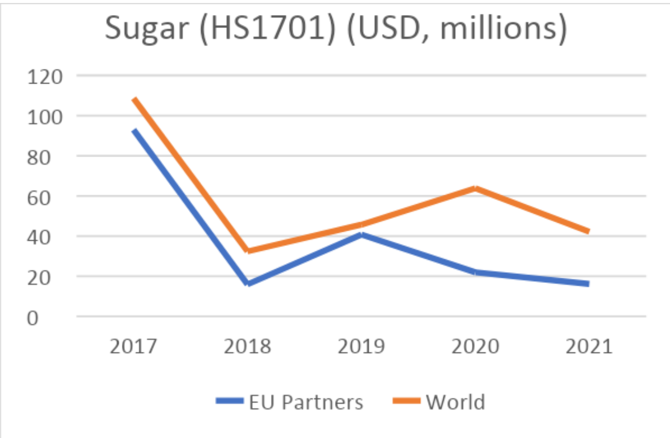
4.2 Opportunities in Key Economic Sectors

4.2.1 Agriculture, Fisheries and Forestry

Agriculture remains the main source of livelihood for nearly half of rural Fijians, contributing approximately eight percent of GDP prior to COVID-19. Around 28 percent of its land is under agricultural use, including timber, copra and sugar plantations. Sugar is the main export crop, with Fiji's sugar primarily directed to the EU. Spices, kava and coconut oil are the other agricultural exports, with a focus on gourmet and specialty products. Fiji also has the demonstrated industry capability for value-adding, meaning a range of products could be packaged in Fiji that meet the expectations of high-end consumers. Tuna is exported to the EU, but unlike in other iEPA countries it is primarily whole and loined fish caught by domestic fleets. While there is canning in Fiji, it is directed almost exclusively to the US market.

Agriculture has potential for growth and investment, with a focus on higher value commodities for specialty markets in the EU. Vanilla, kava, and coconut oil all have the potential for growth in the EU market, although it will necessarily be small volume, specialty and certified.

4.2.1.1 Sugar



Sugar remains one of Fiji's most significant exports, anchored by exports to the European Union. While the volume of sugar exported by Fiji makes it a relatively small player in the global market, it is still Fiji's most important agricultural export. But the volume of sugar exported fluctuates yearly due to climactic pressures with cyclones affecting the volume produced. Volume is also declining as plantations age and are not renewed. While most sugar went to the EU, the USA and Asia are also export markets.

Sugar presents a unique opportunity for value-adding industry. The success of rum industry development in the Caribbean illustrates the potential for diversification away from raw sugar exports, and companies are establishing themselves in the beverage industry to take advantage of Fiji's potential for low-cost organic sugar production. Sugar is also used as a raw ingredient in cosmetics, which are a growing niche specialty industry.

4.2.1.2 Kava

As noted in PNG's analysis (4.2.1.5), kava is a growing Pacific export and it is estimated that the global market will grow from US$1.8 billion in 2022 to $3.4 billion in 2029, with year-on-year growth of around 15%. Fiji, with its ancient traditional and ceremonial use of kava, is a leading exporter of kava products to the international market and has a sophisticated domestic market including premix beverages and nutritional supplements. In 2020 Fiji exported around USD18.5 million of kava and kava products to growing markets including the EU and USA.[42]

[42] Fiji Times, https://www.fijitimes.com/fijis-kava-exports-net-43-6m-in-2020/ accessed 1 October 2022

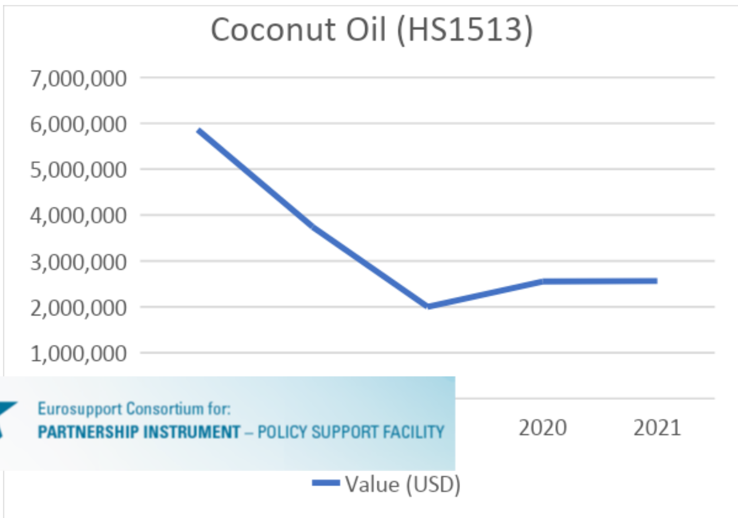
Fiji has a strong traditional kava market and imports root and ground kava from other Pacific Island countries. Investment focusing on high-end kava products including bottled drinks and chews could be considered.

4.2.1.3 Spices[43]

Fiji exports a range of spices including turmeric, ginger, black pepper, cardamom, cinnamon, nutmeg and vanilla, earning collectively around US7 million per annum. Fiji has invested in market access and biosecurity standards and has successfully entered challenging markets, such as the Australian fresh ginger market. While niche, there is the potential to brand and market high-value spices into the European specialty market. Much of this agriculture has low or no pesticide use, and there are opportunities for organic and fair trade certification.

Commodities	Export		Import	
	Quantity ('000kg)	Value ('000FJD)	Quantity ('000kg)	Value ('000FJD)
Cardamoms	0.432	2.392	25.605	424.901
Celery other than celeriac	0.275	0.776	505.884	1324.944
Cinnamon	0.964	8.591	18.115	85.327
Cloves	0.313	0.752	21.454	245.502
Ginger	1275.514	8058.282	74.500	331.580
Ginger preserved by sugar	342.047	2595.414	2.710	19.488
Mace	0.040	0.110	0.475	4.458
Mixtures of Spices	559.061	3235.941	253.172	1251.279
Mustard Seeds	0.741	0.282	48.846	110.245
Nutmeg	0.160	0.262	15.014	155.375
Pepper	1.196	8.008	59.373	488.842
Poppy Seeds	4.862	27.308	18.772	61.804
Saffron	–	–	0.587	10.743
Seeds of anise, badian, caraway or fennel	2.949	21.559	50.959	254.958
Seeds of cumin	0.602	2.947	93.464	576.691
Tumeric	633.183	3043.625	133.850	511.004
Vanilla	1.483	40.133	2.145	60.269
Total	**2730.458**	**16589.122**	**1305.735**	**5843.772**

4.2.1.4 Coconut Oil



Coconut oil exports from Fiji are directed to Asia and the USA and are being used in the bulk and specialty markets. For the EU, the specialty

or the agriculture development in the era

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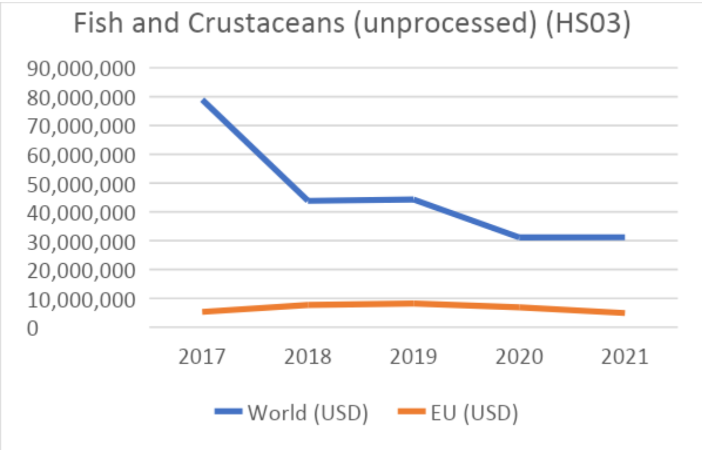
market in coconut oil provides the most likely investment potential. Again, certification and labelling compliant with the Green Deal could offer potential in specialty markets, and Fiji has the capability to produce high-end packaged products.

4.2.1.5 Fisheries



The fisheries industry is Fiji's third largest natural resource-based sector behind sugar and subsistence agriculture and contributes around 1.8 percent of GDP and 12 percent of total export earnings.[44] Fiji is primarily an exporter of whole fresh or chilled fish to the EU, unlike other iEPA partners. While annual canned tuna exports are around 11.5 million kilograms per annum, around 99 percent of exports go to the USA. Fish are caught by local fishing fleets, with 60 licensed in 2022.[45] Exports are mainly tuna, but niche markets exist for sea cucumber and other fish species. The EU is now importing about 18 percent of Fiji's total fish (HS03) exports. Canned tuna (HS1640414) production has been consistent in exporting around USD67 million per annum since 2017.

Fisheries can also be expanded to include pearls, a niche but highly valuable export for Fiji. Fijian pearls are coloured and cater to the high-end specialty market. Fiji exports around USD400,000 of pearls annually, about half of which are for the EU market. Exports declined during COVID, likely reflecting buyer's preferences to select pearls individually and in person. As a unique and sustainable resource, opportunities exist to significantly grow Fiji's pearl sales to Europe, and branding can substantially lift values, as has been seen in Australia.[46]

4.2.1.6 Forestry

It is estimated that Fiji is covered by approximately 1.1 million hectares (ha) of forests, representing 56 percent of the total land area. This includes 0.5 million ha of native forest, over 76,000 ha of pine forest and 54,000 ha of mahogany forest. Fiji's major forest commodities include mahogany, pine & woodchips, sandalwood and teak. The forestry and logging sector's share of total GDP is around 0.6 percent, increasing to 1.3 percent when value-adding is included.[47] Fiji's forestry is plantation-based and there has been investment, both domestic and foreign, in higher-value woods replacing

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[44] InvestmentFiji, https://www.investmentfiji.org.fj/ accessed 2 October 2022

[45] About 30,000 metric tonnes of fish expected to be exported in this financial year, FijiVillage.com, 25 August 2022

[46] Paspaley strings a long, pearly success, Australian Financial Review, 17 April 2002

[47] Reserve Bank of Fiji, 2017

lower-value plantations. Two major companies dominate the market: Tropik Woods Fiji Limited, focused on pine log production for woodchips to Asian markets including Japan and China. Fiji Hardwood Corporation Ltd is focused on mahogany logs.

4.2.2 Energy

Unlike other Pacific Island countries, Fiji has a robust energy infrastructure that supplies grid-based power to over 90 percent of its population from a variety of sources, both renewable and non-renewable. Fiji's 20-year National Development Plan calls for all power to be generated from renewable sources by 2030 and will require an additional 120MW of renewable energy to achieve this target. Renewable grid energy generation is primarily hydropower from the 83 MW Monasavu Hydro Scheme, which supplies around 50 percent of Fiji's energy. Four 5MW solar farm projects are currently in progress. The State-majority-owned Energy Fiji Ltd. has a $900 million (FJ$1.97 billion) 10-year Power Development Plan to invest in new generation transmission and distribution.

Investment in electrification in Fiji is driven primarily by the Government of Fiji, with development partners financing smaller rural electrification programs. Small-scale hydro, wind, biomass, solar, and geothermal have potential for development, alongside the supply of off-grid solar solutions for remote locations. With its reliable energy supply, opportunities also exist to replacing fossil fuels used in ground and marine transport through hybrid and electric vehicles.

4.2.3 Tourism, Hospitality and Culture

Fiji's economy runs on tourism, with around 900,000 tourist arrivals per annum prior to COVID contributing to around 40 percent of GDP. Hit hard by COVID lockdowns, tourism is expected to rebound strongly and contribute to anticipated high growth rates over the next decade. Tourism is a combination of luxury, environmental and cultural tourism, offering everything from large international resorts, luxury islands and village homestays. Cruise tourism is also normally strong and will likewise rebound in 2022-23. Fiji has made investment in tourism attractive to international investors and has better frameworks for land ownership and use than other Pacific Island countries, although this still needs to be navigated carefully.

Opportunities exist for EU companies to build and manage hotels, and companies such as Sofitel have a presence in key tourism hubs. The Government of Fiji is formulating a new tourism plan which will identify regions to be redeveloped into tourism hubs, which will create opportunities for EU hotel and construction industries and suppliers.

4.2.4 Infrastructure

Fiji's infrastructure industry is well developed and is serviced by mid-size companies, both domestic and international. The Asian Development Bank has road transport infrastructure projects underway, and the government itself has a range of post-COVID developments planned as noted above, focusing on expansions to tourism and energy supply. This construction activity provides opportunities for EU companies selling equipment, services and inputs to the construction industry, particularly in specialised machinery.

4.2.5 ICT and Outsourcing

ICT and business process outsourcing (BPO) are areas of focus for the Government of Fiji, drawing on the COVID experience and the clear need to evolve from an economy reliant on tourism. Already an outsourcing hub in the Pacific, Fiji's outsourcing industry is valued at around USD60 million and employs over 7,000 people,[48] providing a range of services from back-end banking, administration and call centres. Fiji is an ideal destination for outsourcing, offering a workday between the US and EU timezones, good internet connectivity, literate and technology-savvy young educated population and fluency in English. Companies including ANZ and Westpac banks, Vodafone, iSelect, and NN.

The Government of Fiji has supported the establishment of a new entity, Outsource Fiji,[49] to promote Fiji as a destination for BPO and is offering increased support and incentives for companies to open centres in Fiji, including a 20-year tax holiday, duty free equipment, investment allowances and tax deductions for a range of employer obligations. Outsource Fiji has attended recent BPO trade events and can provide a range of support to prospective investors or service importers including service matching with existing BPO suppliers or experienced advisers for those wishing to open a BPO.

The growth of the industry also provides opportunities for companies supplying specialised services, software or telecommunications equipment to the BPO industry.

Breakout Box: An EU Company in this sector (TBD)

In ICT, Fiji has opportunities for e-government and digital identity solutions, e-commerce and digital financial services; software and technology solutions for the energy and infrastructure sectors; and software and technology to the hotel industry.

4.3 Working with Fiji

Fiji has an established business infrastructure with facilitative laws and policies. Business structures recognised in English law – sole proprietorships, partnerships, limited liability companies, joint ventures and trusts (including unit trusts) – are all recognised in Fiji. The Companies Act, the Partnership Act, and the Trustee Act regulate these structures. Republic of Fiji laws are accessible and freely available on www.laws.gov.fj. Government policy actively encourages trade and foreign investment, recognising their critical role as a means of growing Fiji's economy and employment base. The BizFiji (www.bizfiji.com) online business and investment registration portal and the realigned mandate and function of Investment Fiji (www.investmentfiji.org.fj) from foreign investment regulator to premier promotion agency for facilitation of trade growth and international investment.

Business and Investment Procedures

Business and investment procedures have been streamlined. Investors and business simply have to legally register their business online with the Registrar of Companies, in line with the Companies Act 2015 and register for a tax number. All procedures, processes and links are available on BizFiji www.bizfiji.com

Taxation

Fiji has a fixed corporate tax of 20%. Listing on the South Pacific Stock Exchange provides a tax rate concession of 10%. Value-added Tax (VAT) is 9% or 15% depending on goods or services. Some items are zero-rated for VAT purposes i.e. basic food items. Tax free regions and a range of tax incentives are available to investors whose proposals meet requirements and Government investment

[48] A-G: Outsourcing sector a $140 million industry, Fiji Times, 15 February 2022

[49] https://outsourcefiji.com/, accessed 5 October 2022

objectives; principally export growth, employment generation and housing. For information on contact Investment Fiji for details or investigate options at the Fiji Revenue and Customs Service www.frcs.org.fj and at Fiji - Overview (pwc.com)

Representation

Whilst some products and services can be delivered to the market without local representation, for many products a local presence/representation is recommended. Local partner selection is one of the most important factors that determines success in the PNG market. Companies considering appointing a local representative or seeking current and professional investment advice, business establishment facilitation and trade assistance should contact the Investment Promotion Authority.

Legal, Accounting and Financial Services

International and reputable highly regarded local firms are present in the Fiji market. The Chambers Asia-Pacific guide and rankings provide the most in-depth and reliable recommendations on the best law firms and lawyers working across the legal market in Asia-Pacific.[50] Firms can also be found on listings including www.hg.org (global network platform), www.fastfind.com.fj or www.yellowpages.com.fj

The Fiji Institute of Accountants (www.fia.org.fj) has a list of accountancy firms at www.fia.org.fj/Members/Members-in-Practice

There are five international banks operating in the Fiji market that offer a wide range of retail banking, business banking and investment banking options.

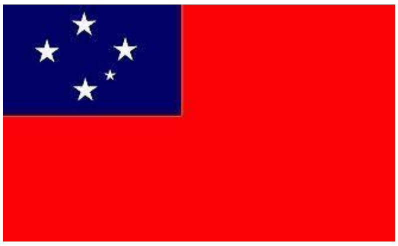
- ANZ - www.anz.com
- Bank of Baroda – www.bankofbaroda-fiji.com
- Bank of South Pacific – www.bsp.com.fj
- Bred Bank – www.bred.com.fj
- Westpac Banking Corporation - www.westpac.com.fj

Useful links

- Digital Fiji - https://mobile.digital.gov.fj/MainNA - Comprehensive directory with links to Government, Government Agencies & Institutions and Foreign Offices & Missions Overseas.
- Fiji Revenue and Customs Service - www.frcs.org.fj
- Fiji Institute of Accountants – www.fia.org.fj
- Fiji Hotel and Tourism Association – www.fhta.com.fj
- Fiji Chamber of Commerce and Industry - www.fijichamber.com
- Tourism Fiji – www.fiji.travel
- Investment Fiji – www.investmentfiji.org.fj
- Outsource Fiji - https://outsourcefiji.com/

[50] www.chambers.com/legal-guide/asia-pacific-8 accessed 1 October 2022

5 Samoa: Market Opportunities for EU Firms



5.1 Economic overview

5.1.1 Overview

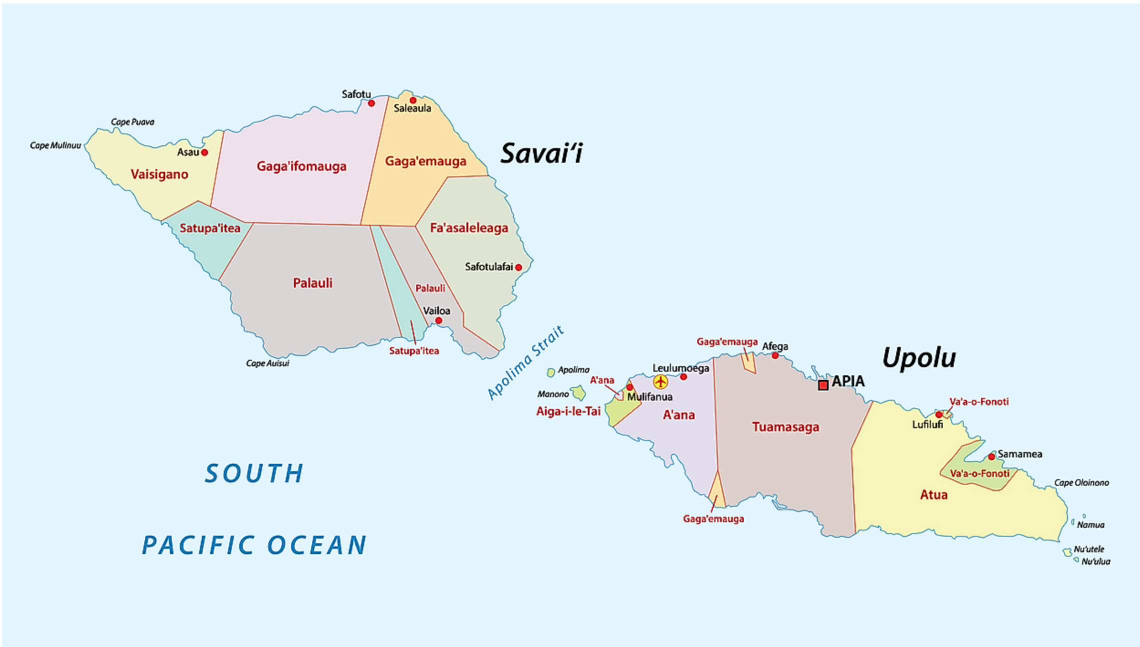
For EU firms, Samoa offers opportunities as a high-performing boutique Pacific Islands economy that has gained a deserved reputation for good governance and openness to trade, business and investment over several decades. Samoa's strong economic growth over past decades allowed it in 2014 to become only the fourth country to have graduated to UN developing country status.

5.1.2 Location and Geography

Compared with most of the other Pacific Island countries, Samoa has the distinct advantage of compactness, with its population centred on the two main islands of Savai'I and Upolu.

Samoa is situated roughly halfway between Hawaii and New Zealand; it is located around 160km to the west of the United States territory of American Samoa.

Polynesia Samoa maintains strong cultural linkages with New Zealand

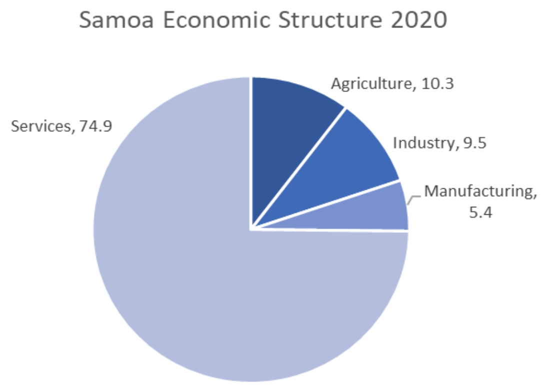


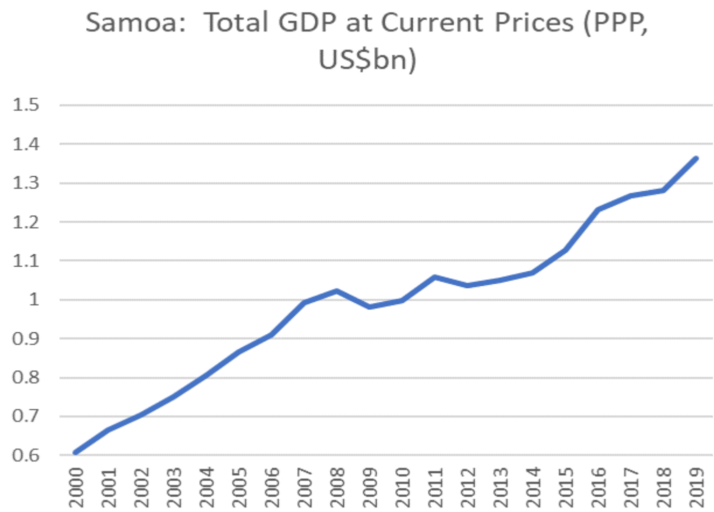
5.1.3 Population, Demographics and Key Business Centres

Samoa's population of around 222,000. Around one-fifth of the population resides in the capital and commercial centre Apia.

Links with New Zealand. There were around 182,500 people identifying as being part of the Samoan ethnic group at the 2018 New Zealand census, making up around 4 per cent of New Zealand's population. There are also significant populations of Samoans in Australia and the United States. It is estimated that that Samoa's population would be closer to 400,000 if overseas diaspora were added.

5.1.4 Economic Structure and Recent Performance





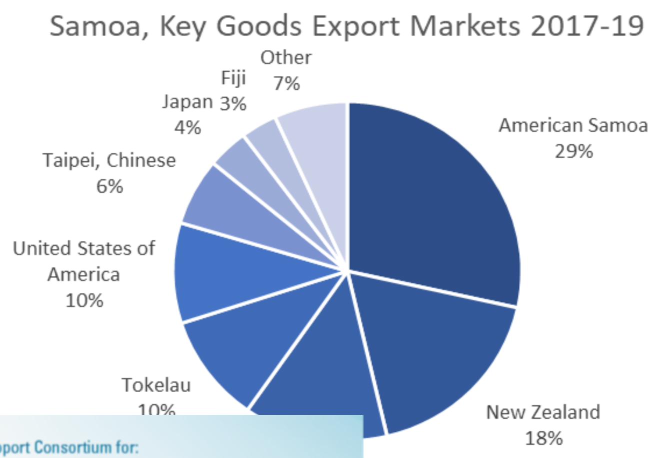
Samoa's economic structure resembles that of a modern post-industrialised economy, being overwhelmingly dominated by services sector, notably tourism.

Over the long run, Samoa's economic performance has been impressive: Samoa's GDP has more than doubled in PPP terms in the two decades prior to the Covid-19 pandemic.

While the pandemic hit Samoa hard as a tourism-reliant economy, the latest projections from the Asian Development Bank point to a modest rebound in 2022 (0.4 per cent growth) and 2023 (2.2. per cent growth) as the country reopens its borders.

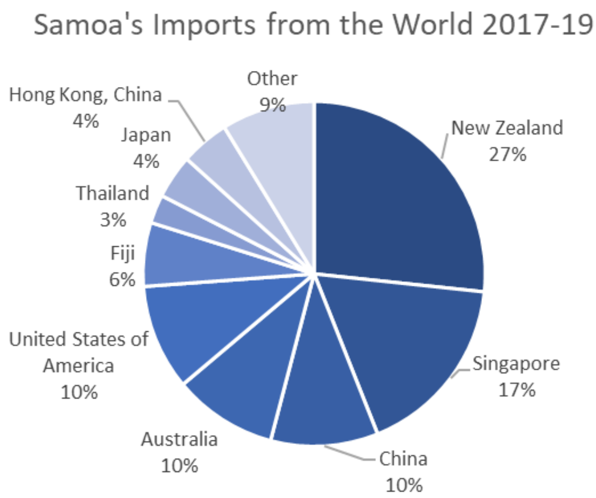
Source: Asian Development Bank. Asian Development Outlook (ADO) 2022 (April 2022)

5.1.5 Trade and Investment Linkages

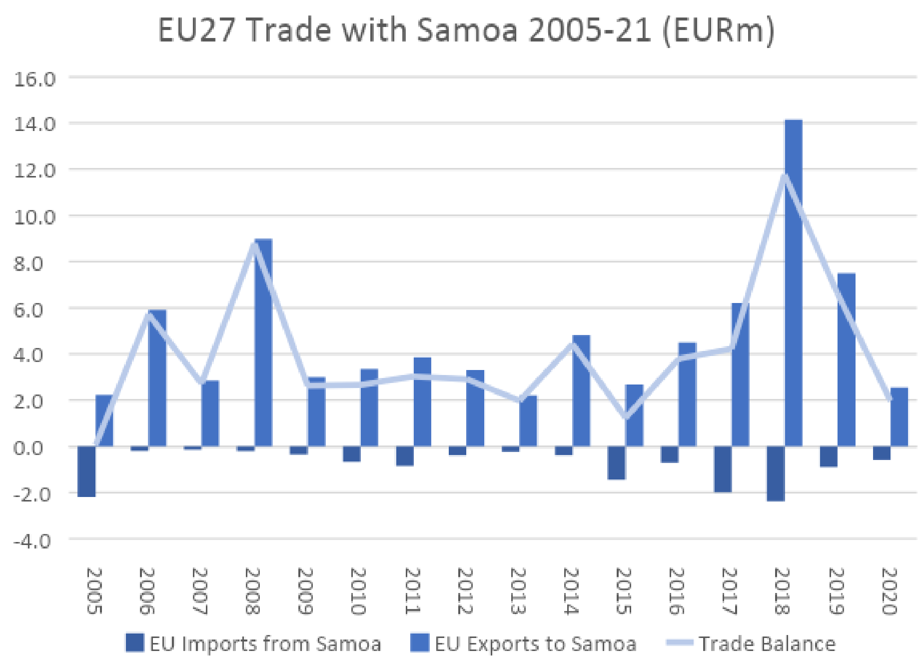


Goods exports from Samoa neared US$50m in 2019. Samoa's key exports included frozen fish products (HS0303), coconut products (HS1513), noni and other fruit juice (HS2009), and prepared root vegetables (HS0714).

The key markets for Samoan products were nearby American Samoa, New Zealand and Australia followed by Tokelau, the US, Taiwan, Japan and Fiji. Exports to the EU countries were negligible at less than USD0.5m, suggesting significant potential for expansion for Samoan products into EU markets.



As a result of its limited capacity for domestic supply, Samoa imports significant amounts of goods from overseas. Over the 2017-19 period imports to Samoa averaged US$370m per annum. Again, its imports sources are dominated by New Zealand and Asia-Pacific economies, with EU-sourced goods at relatively low levels, suggesting an opportunity for EU firms with an eye on Pacific markets.

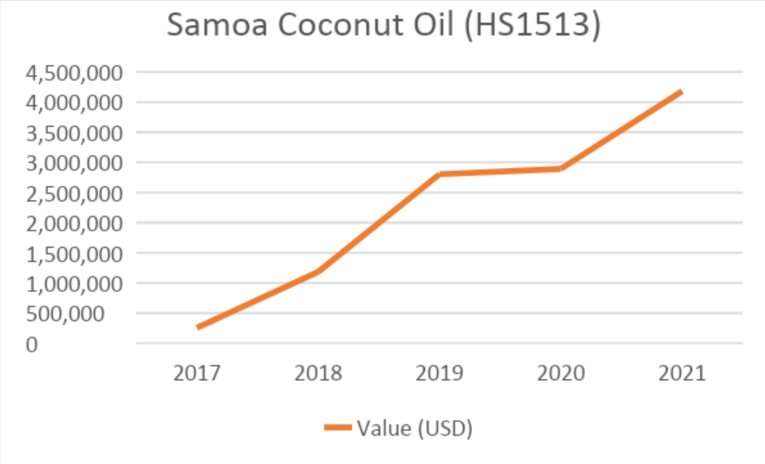


Eurosupport Consortium for:
PARTNERSHIP INSTRUMENT – POLICY SUPPORT FACILITY

5.2 Economic Sectors

5.2.1 Agriculture, Fisheries and Forestry

The primary sector (agriculture, forestry, and fishing) employs nearly two-thirds of the labor force and contributes to 17 percent of GDP. Fish and coconut products are the primary exports, with other products for domestic use or for niche market exports. Due to its small size, natural disasters, particularly cyclones, can have a devastating effect on Samoan agriculture industry, and account for often dramatic fluctuations in the volume of exports between years.



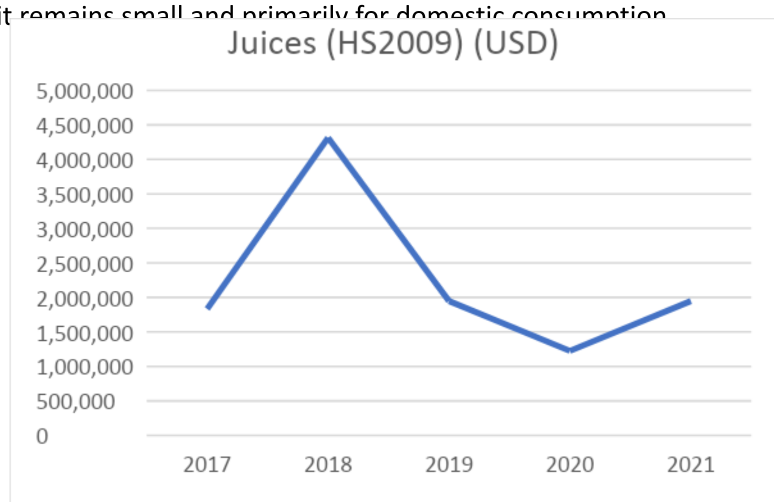
Copra oil exports have grown in the last five years and are now almost exclusively exported to the USA. Still, the volume remains small and investment in this industry would focus on niche, quality branded and certified products. Coconut oil from Samoa is highly regarded in the cosmetics industry, including a line of products marketed by The Body Shop.

BREAKOUT BOX: ***From the village to the boutique: Samoan Coconut Oils and the Body Shop***

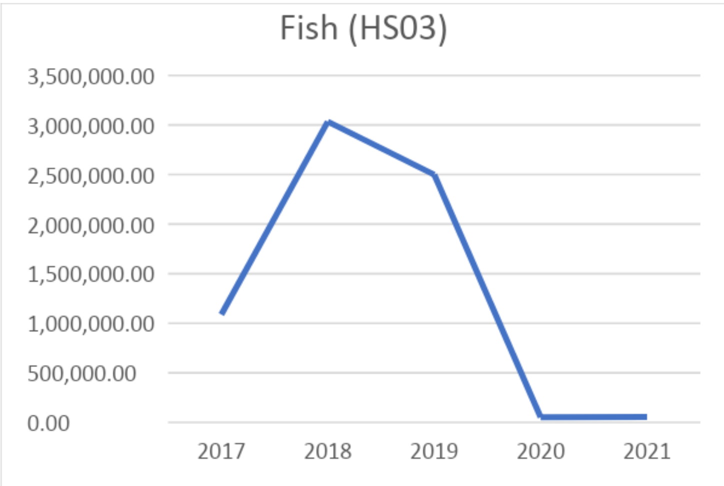
Samoan coconut oil is a staple ingredient in many body care products made by The Body Shop, a British skincare, perfume and cosmetics company owned by Brazillian parent company Natura with a focus on ethical sourcing and natural ingredients. Samoan virgin coconut oil is sourced from partner Women in Business Development Inc. (WIBDI), a not-for-profit founded in 1991 to help rural women, who were facing devastation after two successive cyclones swept the islands. WIBDI now has over 1,000 member families across roughly 200 of the 300 villages in Samoa and continues to grow. All production is organic certified with a focus on high quality, attracting international buyers seeking out a high-quality, ethically sourced product.

For the women farmers, the difference certification and a reliable, high-quality purchaser makes is huge. Organic certification means farmers are paid up to five times more per coconut than they would have received in the low-value bulk market. This has made rural farming more viable for families and encouraged children to stay in farming rather than seeking work in cities or overseas.

Vanilla is another high-value niche product increasingly sought out on the international market. Fairtrade and organic vanilla will be in increasing demand in Europe as the Green Deal encourages food manufacturers to shift to traceable products. The Government of Samoa has sought to develop the vanilla industry but at this time it remains small and primarily for domestic consumption.



Juices, specifically noni juice, is a specialty export primarily focused on the Asian market. Noni is a small fruit native to Australia, parts of Asia and the Pacific islands which is eaten and used in traditional medicine. It is believed to stimulate the immune system and detoxify the body. Noni juice is popular in Asia and among health food enthusiasts. It is also used in some skincare and cosmetic products and as a nutritional supplement. There is potential for noni to be cultivated for export for high quality skincare, similarly to coconut oil.



Like Fiji, Samoa is an exporter of frozen and chilled fish, primarily big eye and yellow fin tuna. Catches fell due to Samoa's COVID lockdown but are expected to rebound as fishing activity resumes. Samoa has one major fish exporter, Island Fisheries, that has struggled to get supplies from local fishers to meet international demand. There is significant potential for investment in Samoa's industry, and capacity for the development of tuna canning, a significant industry in neighbouring American Samoa.

Forestry was a sizeable industry in the 1960s but a combination of natural disasters and lack of forest maintenance saw Samoa's forest cover reduced to unsustainable levels by the 2000s. There are currently minimal forestry exports, but some regeneration has taken place.

5.2.2 Energy

Samoa's economy has long been highly dependent on imported fuel, importing around USD35 million per annum as Samoa's single largest regular import. Imported fuel is used for transport and energy, and volatility in fuel prices has always challenged Samoa's economy. About 95% of Samoan households have access to grid electricity, and the rest are connected to small diesel generators or solar energy systems. In 2012, Samoa consumed about 90 gigawatt-hours (GWh) of electricity, out of which about 60% was produced from diesel generation and 40% from renewable energy sources (of this 38.9% hydropower, 1.0% biofuel, and 0.1% solar). Electricity generation is around 65 percent diesel, with 35 percent hydro and the rest solar.[51] In 2012, Samoa's sole power utility, the Electric Power Corporation (EPC), imported about 95 million litres of fuel, at a cost equivalent to 10% of Samoa's gross domestic product. This prompted Samoa to announce a plan to move to 100 percent renewable energy generation by 2025 – a target which will not be achieved but remains an objective and new energy generation projects will focus on renewables.

Development partners, including the ADB, have been working with the Government of Samoa to rehabilitate existing hydropower projects and build new renewable supplies. Solar, wind and hydro have all been piloted, and there is the potential for public-private power generation projects. As the push to renewables accelerates, European technology in wind and solar will be increasingly in demand. There is also interest in exploring the feasibility for geothermal energy generation.

5.2.3 Tourism

Samoa's primary services export is tourism. Prior to COVID, tourism accounted for around 20 percent of Samoa's GDP, with around 130,000 tourists arriving annually. Samoa promotes itself as a destination for ecotourism and cultural tourism and has primarily small boutique hotels and homestays. There are no major international hotel companies in Samoa, although there are small regional ones. Niche tourist operations have significant potential, as do services supporting the cruise tourism industry. Software, telecommunications and maintenance infrastructure can all be used to service the tourism industry, and there is significant potential for e-commerce and electronic transaction services.

5.3 Working with Samoa (regulations, key agencies, contact points)

The Ministry of Commerce, Industry and Labour has responsibility for promoting investment in Samoa. It publishes an annual investment guide which provides key information about the business environment and promotes preferred sectors for domestic and international investment. There is also a Citizenship by Investment scheme for individuals with a minimum net worth of WST2.5 million (USD0.89 million) and willing to invest more than WST4 million (USD1.38 million).

The Government of Samoa maintains open trade and investment policies and has demonstrated a commitment to creating an attractive trade and investment climate via the establishment of formal ongoing collaborative partnerships with the Private Sector; facilitating open and enhanced access to trade intelligence and investment information; and channelling resources into the creation of a range of online business portals and publicly accessible tools targeting trade and investment facilitation.

The Ministry of Commerce Industry and Labour (MCIL) www.mcil.gov.ws provides advice and assistance to international businesses and investors, as well as access to the Business Registration roadmap and the comprehensive Samoa Investment Guide 2022**.**

It is recommended that international businesses and potential investors establish contact with MCIL via the website contact page, direct email mpal@mcil.gov.ws or by telephone (+685) 20 441 / 20 442.

Business and Investment Procedures

provides step by step guidance, detailed information and forms as well as links to the relevant portals and sites that international investors need to access to establish operations in Samoa. To start the process, visit the Homepage www.mcil.gov.ws and simply select: Business Registration.

[51] Accessed at SESP-2017-2022-English-version.pdf (mof.gov.ws) 15 September 2022

There are five (5) basic steps, all of which are accessible from MCIL - www.mcil.gov.ws

- **Company Registration** – links with www.businessregisteries.gov.ws
- **Foreign Investment Certificate (FIC)** - Foreign Investment information, links to legislation and reserved lists, application, and renewal forms. Completed forms are lodged with the MCIL and require annual renewal.
- On approval of the FIC, investors then need to obtain a **Business Licence**. The link will connect to relevant forms as well as information on prohibited activities, required documents, fee schedules etc.
- **Employment Permits** – links to forms, a downloadable brochure and access to the Labour and Employment Regulations Act 2013.
- **Residence Permit** – once all the documentation listed above has been acquired, the foreign investor then can apply for a permit to reside in Samoa.

Taxation

A resident company is subject to a tax rate of 27% (global taxable income). A non-resident company is charged at the rate of 27% on taxable income derived from the part of its operation carried out in Samoa.

Personal tax is calculated on a progressive scale from 20% to a maximum of 27%. VAGST (value added goods and services tax) of 15% is added on most goods and services supplied in Samoa by a registered business. It also applies to most imported goods and certain imported services.

A range of tax incentives and fee waivers are available to foreign investors including capital gains tax, stamp duties, dividends, earnings or interests from outside Samoa.

For details, see the Ministry of Customs & Revenue (MCR) www.revenue.gov.ws

Professional Advice and Services

Representation

Whilst some products and services can be delivered to the market without local representation, for many products a local presence/representation is recommended. Companies considering appointing a local representative or seeking current and professional investment advice, business establishment facilitation and trade assistance should contact the Ministry of Commerce Industry and Labour.

Legal, Accounting and Financial Services

When doing business or investing in Samoa it is advisable to consult relevant professionals.

The Samoa Legal system has its foundations in English and Commonwealth statutory and common law as well as Customary law. Professional listings and contact details are available on the SIFA website www.sifa.ws or the global Legal Network www.hg.org Alternatively contact the Samoa Law Society for advice on email saoalawsociety@samoaonline.ws or telephone (+685) 29 291.

Contact details for international and well-established local accounting firms are available from the Samoa Institute of Accountants (www.sia.org.ws/) or from the SIFA website www.sifa.ws.

The Samoa International Finance Authority (SIFA) www.sifa.ws is a provider of international financial services is a quasi-government corporation thus its operation is governed by its principal Act namely, the Samoa International Finance Authority Act 2005 and abides by government policies and guidelines.

There are four commercial banks operating in the Samoan market that offer a wide range of retail banking, business banking and investment banking options.

- ANZ - www.anz.com
- Bank of South Pacific – www.bsp.com.ws
- National Bank of Samoa - www.nbsamoa.com
- Samoa Commercial Bank - www.scbl.ws

Useful sites and links:

- Official web portal for the Government of Samoa - www.samoagovt.ws
- Ministry of Commerce, Industry and Labour – www.mcil.ws
- Ministry of Customs & Revenue - www.revenue.gov.ws
- Samoa Association of Manufacturers and Exporters (SAME) www.same.org.ws
- Samoa Trade Portal www.samoa.tradeportal.org
- Samoa Tourism Authority - www.samoa.travel
- Annual investment guide: Samoa-Investment-Guide-2022-FINAL-27-05-22-1.pdf (mcil.gov.ws)

6 Solomon Islands: Market Opportunities for EU Firms

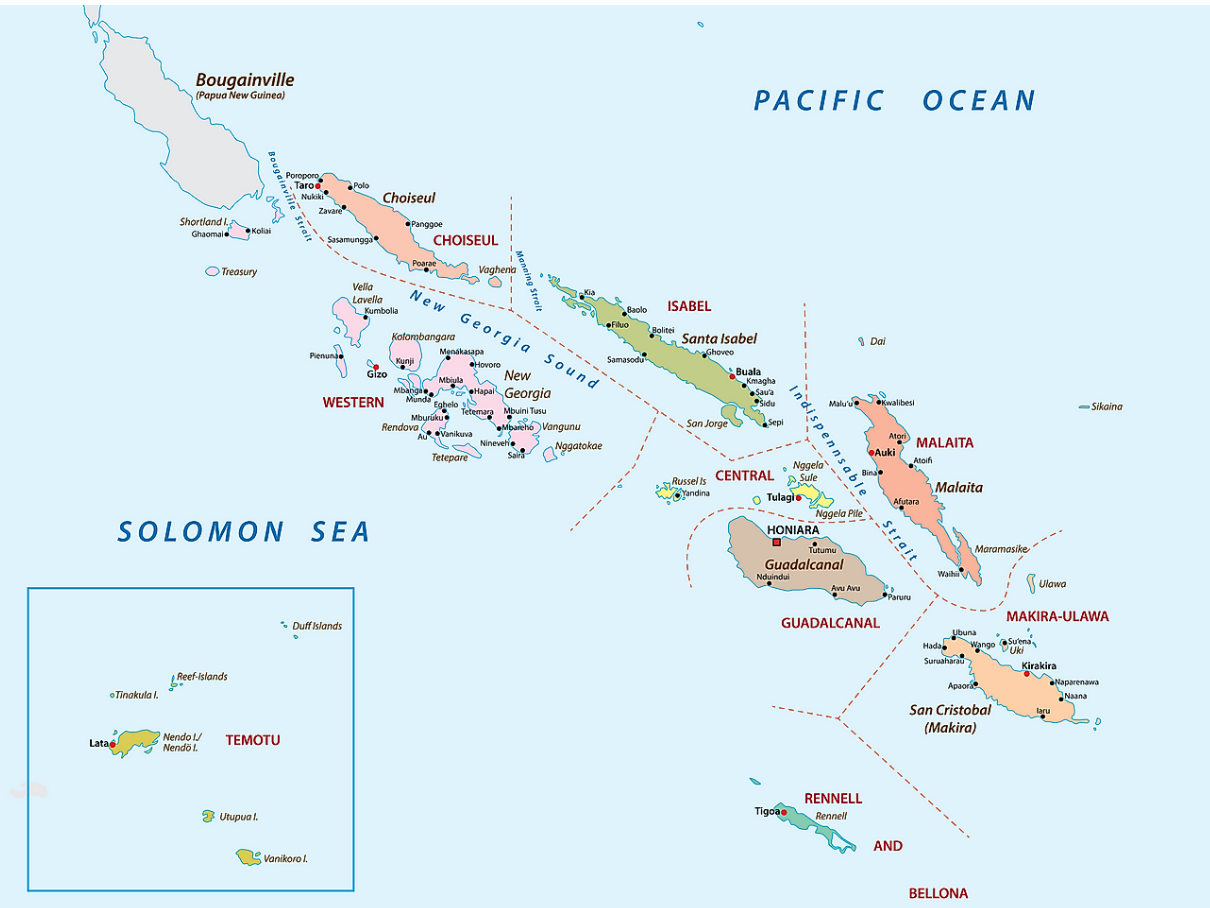
6.1 Economic Overview

6.1.1 Overview

Opportunities for long term growth abound in Solomon Islands, as the country looks to an era of growth and prosperity as it makes the historic leap from least developed to UN developing country status. Like its neighbours, Solomon Islands offers a wealth of natural resources and pristine beauty, but with the chance over the coming years to shift away from a decades-old reliance on forestry towards newer industries such as agri-business and tourism as a largely undiscovered part of the world.

For EU firms, this means opportunities not just to invest in productive sectors but also in required development infrastructure, including green energy, transport and professional support services. There are also chances to take advantage of opportunities to increase the export of EU goods, which have traditionally been at low levels.

6.1.2 Location and Geography



Covering an area of 28,400 sq.km (11,000 sq mi), Solomon Islands is an archipelagic state comprising of a double chain of 992 volcanic islands and coral atolls in Melanesia, located in southwest Pacific Ocean. Extending about 900 miles (1,448km) in total length, the Solomon Islands are a wide-spread archipelago of mountainous, heavily forested volcanic islands (some active) and a few low-lying coral atolls. Solomon Islands lies at a distance of around 2,000km from Australia's east coast and at the heart of Melanesia, with Papua New Guinea to the north-west, Vanuatu to the south and Fiji to the east.

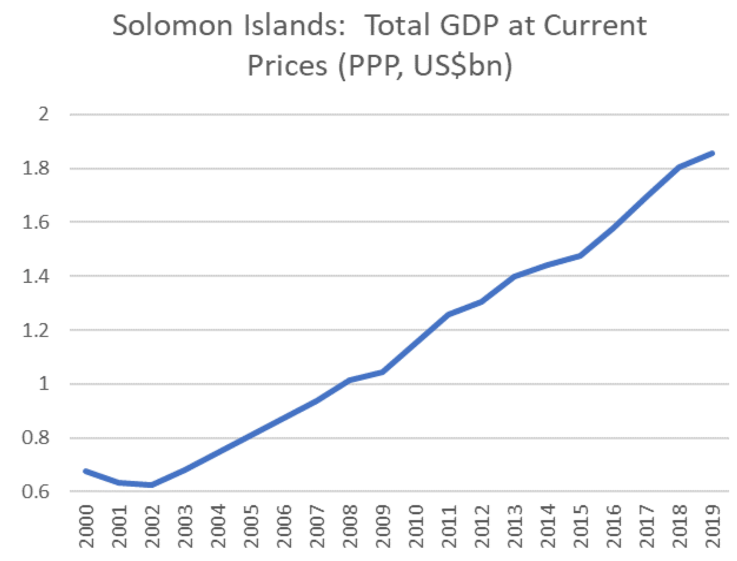
6.1.3 Population, Demographics and Key Business Centres

Solomon Islands' current population is estimated at around 725,000. The population is relatively dispersed across six major islands amongst a total of approximately 1,000 islands. Around 56,000 Solomon Islanders live in the country's administrative capital of Honiara on the island of Guadalcanal.

Malaita has long been seen as a potential industrial hub for the Solomon Islands, with potential for increased tourist particularly in the north-west of the country around the existing bases of Munda and Gizo, together with a rapidly growing tuna fishing industry is based in Noro in Western Province.

6.1.4 Recent Economic Performance

Solomon Islands has been growing steadily since the 2002; total GDP in PPP terms is around US$1.8bn or approximately US$ 2300 per capita.



Solomon Islands recent economic performance has meant that it is been assessed as eligible for gradation in coming years from the UN's list of Least Developed Countries, a major achievement for the country after four decades of independence.

Given its relative lack of reliance on tourism, the Solomon Islands economy was less affected by the Covid-19 pandemic than some of its neighbours. The pandemic has also been slow to reach Solmon Islands; the latest forecasts from the Asian Development Bank suggest that after contracting by 3 per cent in 2022 the economy is expected to rebound by 3 per cent in 2023.

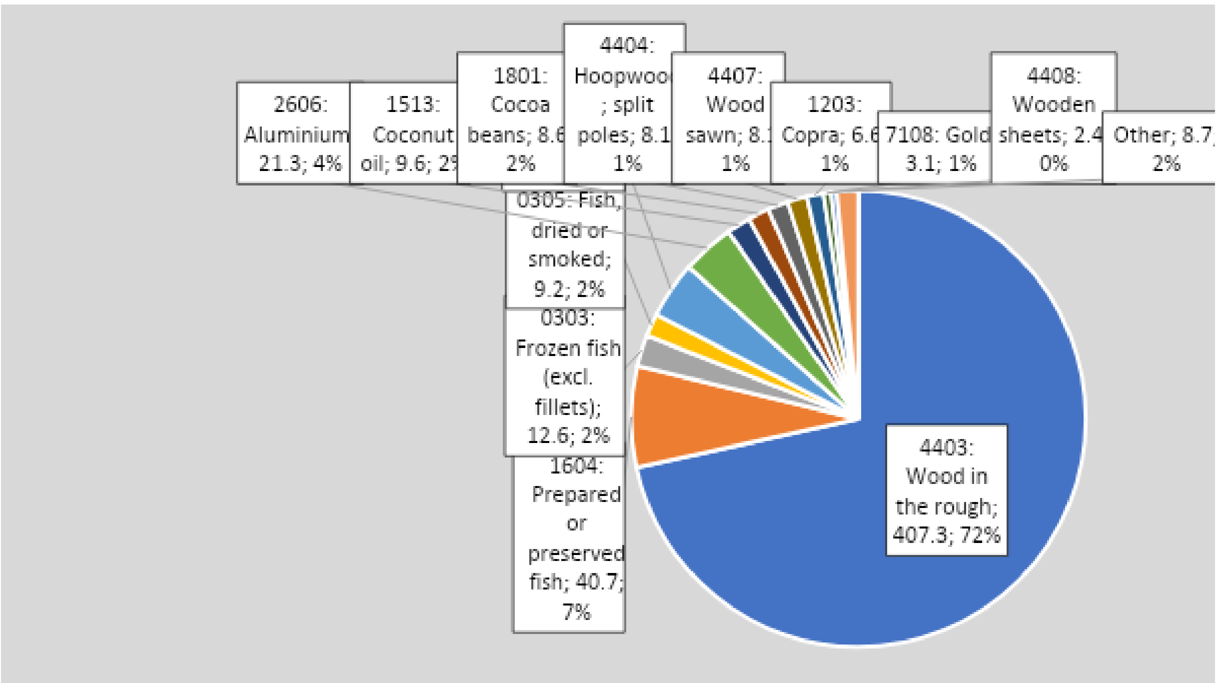
6.1.5 Trade and Investment Linkages

In recent decades Solomon Islands' global exports have been dominated by only a small number of commodities, particularly timber products. Solomon Islands exports to world totalled US$569m in 2018, equivalent to around one-third of GDP, which consisted of:

- US$427m was timber (logs) and wood products (e.g. sawn timber) flowing mostly to China and other Asian markets.
- Fish products (canned, frozen and dried/smoked fish totalling around US$62m),
- Palm oil (US$23m),
- Aluminium (US$21m),
- Coconut oil (US$10m),
- Cocoa beans (US$8m),
- Copra (US$6.5m), and
- Gold (US$3m).

Timber products continue to dominate Solomon Islands exports. Nevertheless, it should be noted that the decline of timber exports has been long predicted due to the declining resource.

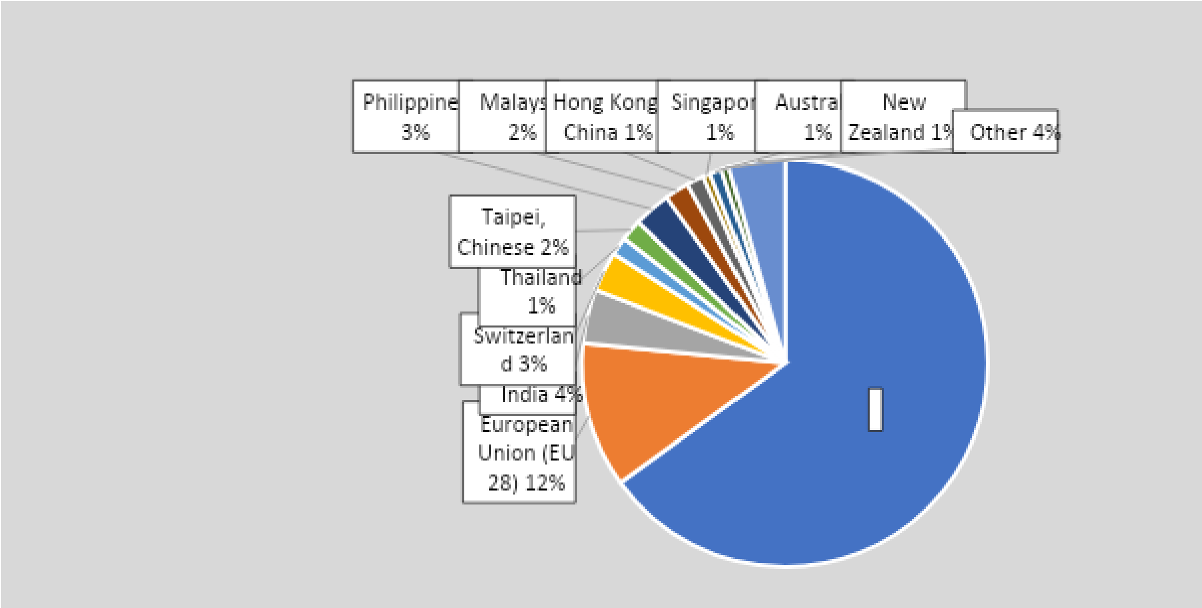
Solomon Islands Exports to World (HS Code and Description, Export Value in US$m, share in total)



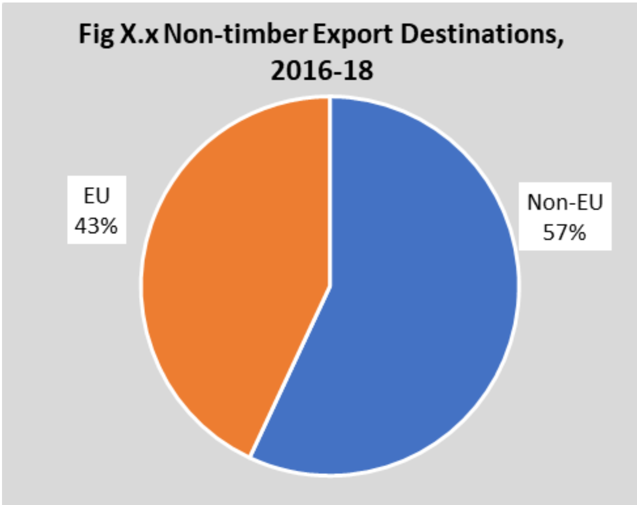
Source: ITC TradeMap

The main export destinations for Solomon Islands products also clearly reflect the dominance within overall trade of timber products, which are mainly exported to China and other Asian countries.

Solomon Islands' Export Destinations (all goods), 2016-2018



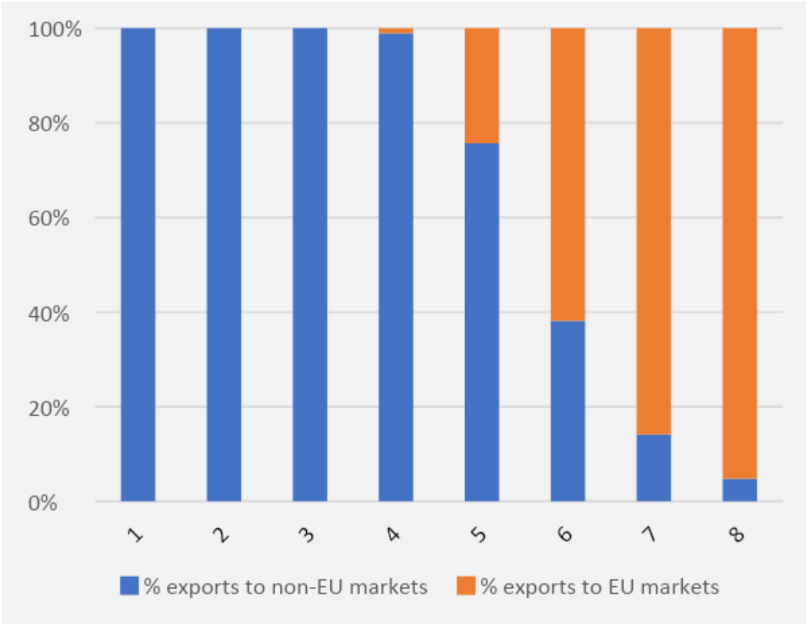
Recent Trade with the EU



While exports to the EU made up 11.5 per cent of Solomon Islands' overall exports in 2016-2018, this rises significantly to 43 per cent for exports of non-timber products (i.e. 43 per cent of Solomon Islands' non-timber exports went to the EU in 2016-2018). If timber exports decline as expected, this suggests that the EU share in overall exports is likely to become much more significant in coming years.

At the product level, it is clear that the EU market is key for some products, notably palm oil and fish. While commodity and mineral products (i.e. timber and aluminium) were shipped to non-EU markets, more than 85 per cent of Solomon Islands prepared fish (1604) and dried/smoked fish (0305) were exported to the EU in 2018.

EU Market Dependence by Specific Export, 2018



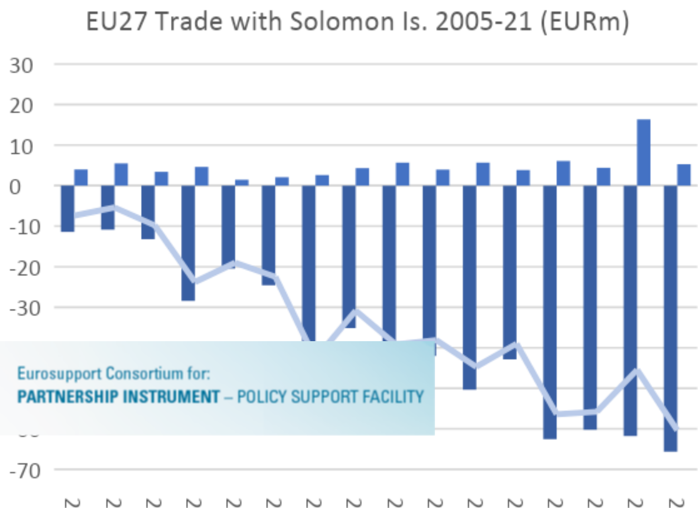
Dynamic growth of EU Non-timber Exports over last decade

The heavy reliance on a small number of products makes analysis of overall export trends difficult. Nevertheless, excluding timber, Table X.x shows that Solomon Islands' total exports to the EU have been **growing a faster rate during the last decade than exports as a whole**. Non-timber exports to non-EU markets grew by 26 per cent over the period from 2008-10 to 2016-18, while non-timber exports to the EU grew by 67 per cent.

Solomon Islands export trends from 2008-2018 for non-timber exports (US$m)

	2008-10 (average)	2016-18 (average)	Change
Total non-timber Exports	95.8	234.1	40.7%
-- to non-EU markets	61.1	170.4	25.7%
-- to EU markets	34.7	63.7	67.2%
Share (EU in Total)	36.2%	43.0%	

Source: ITC TradeMap



Imports from the EU to Solomon Islands are heavily outweighed by flows in the oppsite direction. Solomon Isalnds sources most of its non-energy imports from neghbouring Australia, suggesting potential for EU exporters to increase their presence as elsewhere in the region.

Special Focus: Identifying Solomon Islands Future Trade Potential

A number of methodologies exist for examining the micro-level trade data to identify potential export opportunities. These are generally based on analysis of the current export profile of the country, share of the world market, and measures of global demand. It should be noted that analysis of Solomon Islands' potential exports is made difficult by the small number of existing export industries. Neverthless, tools such as UNCTAD's Revealed Comparative Advantage and the International Trade Centre's Export Potential Map and Prodcut Diversification Index (see below) can yield useful insights into potential exports or product groups upon which Solomon Islands may wish to focus.

Revealed Comaparative Advantage Index, Solomon Islands 2019

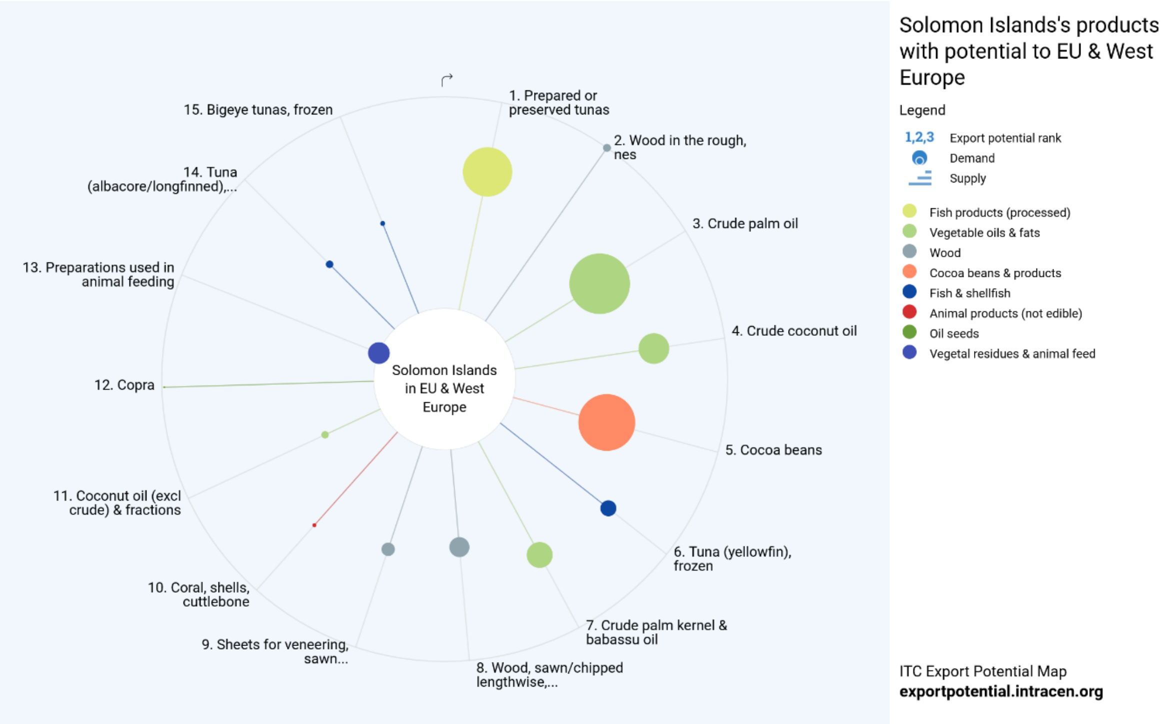
Product Description	RCA Index
Wood in the rough or roughly squared	816.8
Aluminium ores and concentrates (incl. alumina)	105.8
Oil seeds & oleaginous fruits (incl. flour, n.e.s.)	80.5
Fish, dried, salted or in brine; smoked fish	40.0
Fixed vegetable fats & oils, crude, refined, fract.	27.1
Fish, aqua. invertebrates, prepared, preserved, n.e.s.	26.9
Fuel wood (excluding wood waste) and wood charcoal	25.9
Cocoa	10.9
Fish, fresh (live or dead), chilled or frozen	10.5
Coin (other than gold coin), not being legal tender	6.6
Wood simply worked, and railway sleepers of wood	5.4
Veneers, plywood, and other wood, worked, n.e.s.	3.8
Crustaceans, mollusks and aquatic invertebrates	1.0

Source: UNCTAD

Aside from wood and mineral exports, the UNTCAD Revealed Comapartive Advantage index lists fish, crude vegetable oils, coca and crustaceans as key potential export products for the Solomon Islands.

ITC Analysis of Solomon Islands Export Potential to the EU and West Europe

Using a different methodology that examines existing products in terms of the total projected EU demand for Solomon Islands exports in 2025, alongside existing supply and market access conditions, the Geneva-based International Trade Centre (ITC) maps Solomon Islands' export potential to the EU and Western Europe to rank potential export growth opportunities by specific product line, as well as giving an estimate of potential 'untapped' demand.



Here the non-timber key products for potential growth are established export products including preserved or prepared tuna (1604), crude palm and coconut oil, alongside products where there there is hardly any current export to the EU, notably cocoa beans (with an EU market of USD$5.8bn and current SI exports of just US$40,000), fresh and frozen tuna and non-crude coconut oil.

Solomon Islands Products with potenial for export to the EU and Western Europe

Rank	HS Code	Description	Export Potential	Actual Exports	Untapped Potential	EU Imports (m)	% realised
1	160414	Prepared or preserved Tuna	40.6	42.4	12.1	3,700	70%
2	4403xx	Wood in the Rough, nes	17.2	0	17.2	924	0%
3	151110	Crude Palm Oil	11.6	17.7	8.2	3,100	29%
4	151311	Crude Coconut Oil	7	6.9	4.6	769	34%
5	180100	Cocoa beans	5.9	0.04	5.9	5,800	0%
6	030342	Tuna (yellowfin), frozen	3.3	0.05	3.3	327	0%
7	151321	Crude palm oil	2.5	4.2	1.2	566	52%
8	4407xx	Wood, sawn lengthwise >6mm	1.2	0.02	1.2	1,600	0%
9	4408xx	Sheets for veneering, sawn <=6mm	0.68	0	0.684	1,200	0%
10	050800	Coral, shells, cuttlebone	0.09	0.037	0.050	37.1	42%
11	151319	Coconut oil (ex crude & fractions)	0.06	0.011	0.055	407	1%

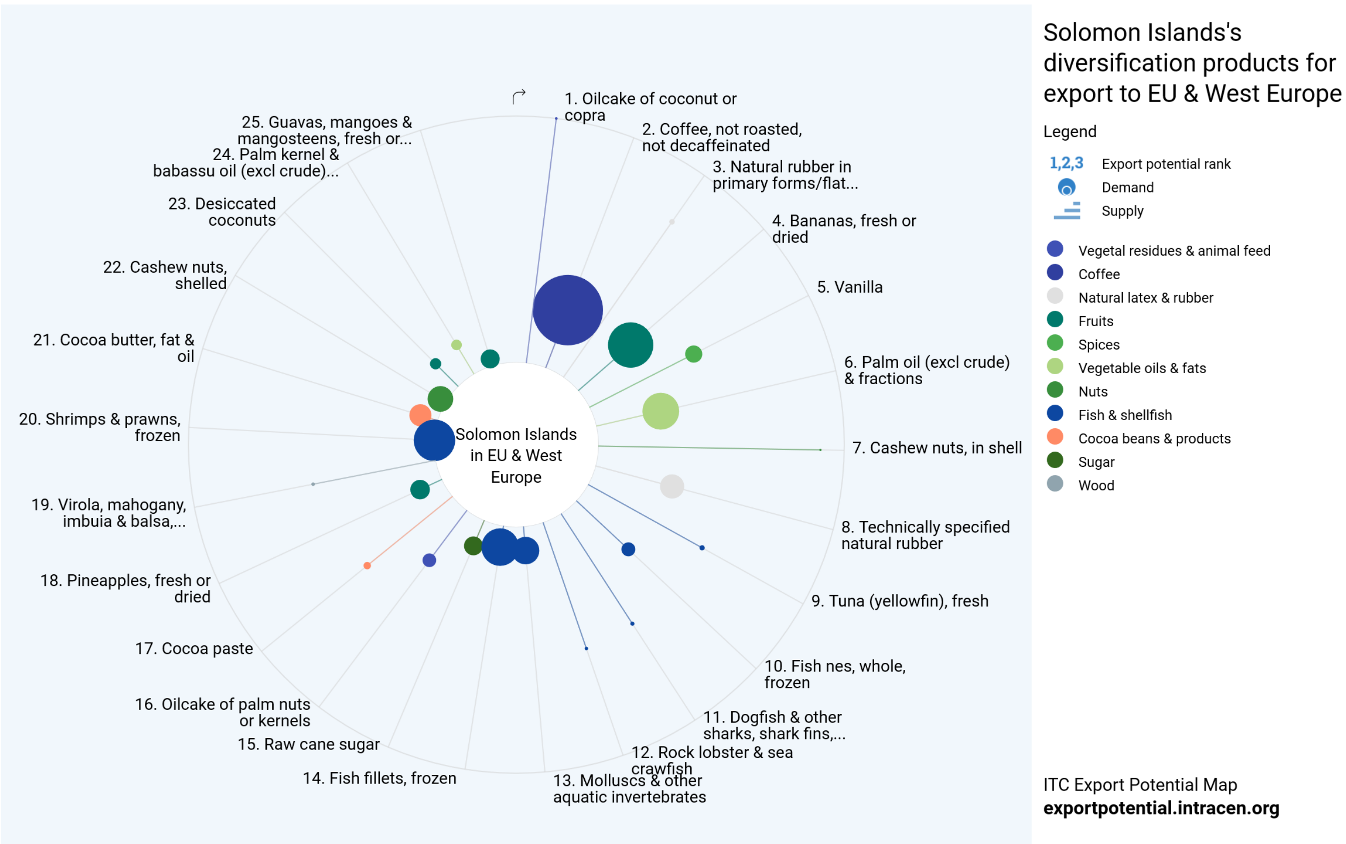
12	120300	Copra	0.03	0	0.033	0.7	0%
13	230990	Preparations of animal feed	0.02	0	0.02	6,600	0%
14	030341	Tuna (Albacore/longfinned), frozen	0.01	0	0.01	51	0%
15	030344	Tuna, Bigeye, frozen	0.01	0	0.01	30	0%
		Totals	**90.2**	**71.4**	**54.6**	**-**	**40%**

Source: ITC Export Potential Map

Overall based on a comparison of current export and potential export levels, this analysis suggests that there may be some US$54m in untapped trade potential with the EU and Western Europe, or a potential increase of more than 80 per cent on existing export levels.[52]

Product Diversifcation Analysis

In additon to the examining the future growth potential of existing Solomon Islands exports to the EU, the ITC database also provides an analysis of product diversification. Given the extremely small export base (in terms of number and range of currently exported products), these are products where additional long-term potential lies.



[52] Data can be found at: https://exportpotential.intracen.org/en/products/analyze?fromMarker=i&exporter=90&toMarker=r&market=3&whatMarker=k

ITC's Product Diversification Map for the EU and West Europe suggests that Solomon Islands's best options for export diversification in the EU & West Europe are: (1) Oilcake of coconut or copra, (2) Coffee, not roasted, (3) Natural rubber in primary forms/flat shapes (non-smoked) with other potential products include cocoa products, fruits, seafood products, nuts and spices.

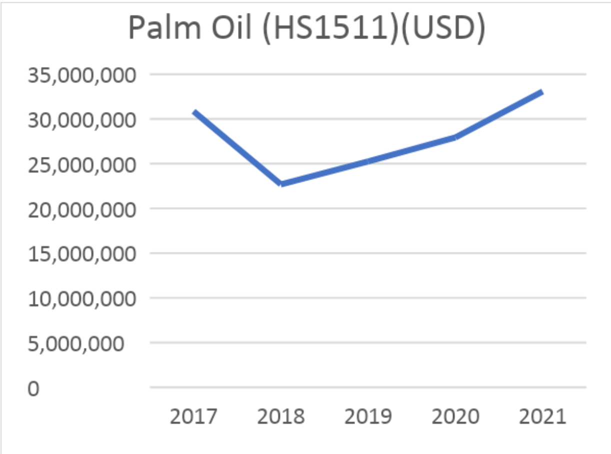
Looking at demand and supply specifics, on the supply side Solomon Islands would be able to most easily increase supply of Oilcake of coconut or copra.

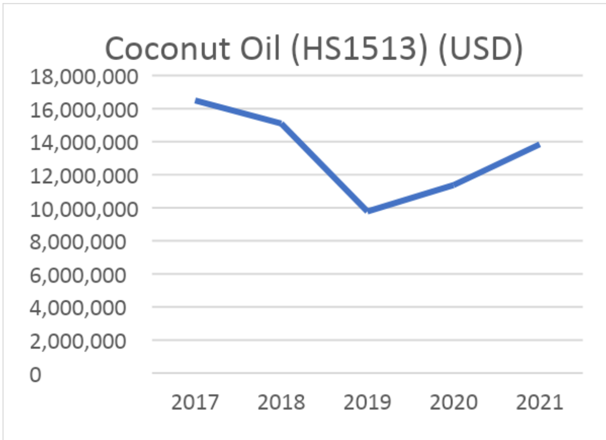
6.2 Economic Sectors

6.2.1 Agriculture, Fisheries and Forestry

The Solomon Islands economy is poorly diversified and heavily dependent upon the agriculture, forestry and fisheries sector. Together, these sectors account for about 40 percent of Solomon Islands' GDP.[53]

6.2.1.1 Coconut and Palm Oil





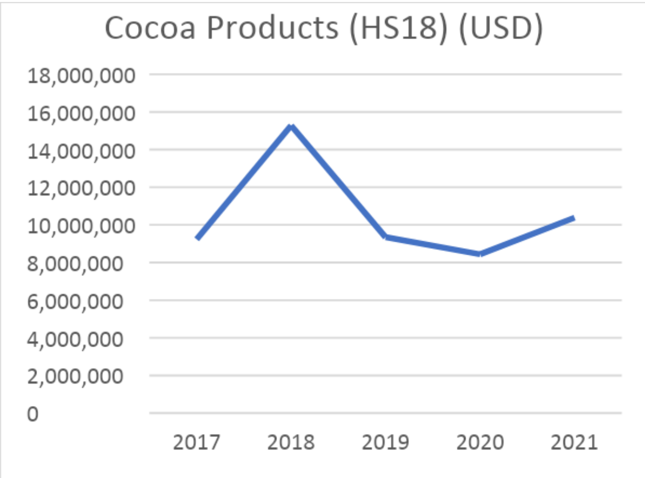
Coconut and palm oils account for the majority of agricultural exports from PNG. Almost all Solomon Island's palm oil exports go to the EU market, with occasional exports to Asia. Like PNG, this is certified and sustainable palm oil and attracts a premium. Coconut oil exports are slightly lower in overall return but are higher quality, with most directed to specialty markets in Europe. Unlike PNG, there is little copra entering the Asian markets.

Solomon Islands has successfully tapped the specialty markets in Europe with these two products. While low volume relative to international demand, there is potential growth for renewal in plantations and branded product. Pathways to export markets are in place and, like Samoa, there are opportunities for virgin coconut oil to enter the skincare and cosmetics markets with little investment required in-country, as is required in PNG.

[53] FAO, 2019

BREAKOUT BOX: ***This is the oil that changes lives***

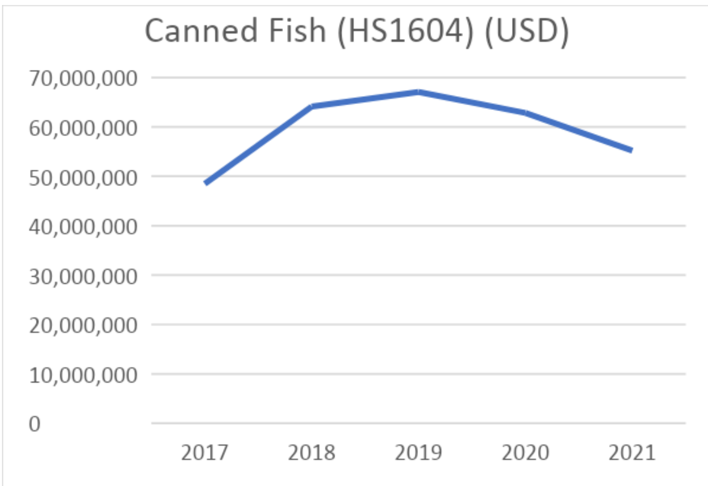
Dr Dan Etherington was an engineer working in the Pacific when he saw the potential for village-based production of virgin coconut oil. He designed a system he called Direct Micro-Expelling (DME) to produce high-quality virgin coconut oil within hours of the coconut being harvested. Villages are encouraged to form production teams to produce the oil using DME, resulting in a high-quality virgin coconut oil. This is then exported to Australian company, Niulife, which has grown its market to supply niche markets including keto diet products (Medium-Chain Triglycerides, or MCT), coconut butters and vinegars. Niulife brands its products as "The [oil] that changes lives" and sells the products as high-quality, innovative products with a strong development back-story. The success of Niulife in Australia shows the potential for a high-quality, niche and organically branded product in EU markets.



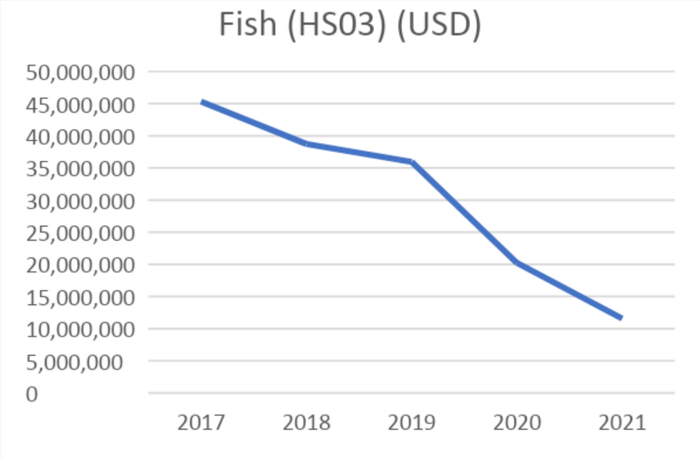
Cocoa has potential growth as a key agricultural export. At this time, cocoa is primarily exported to the bulk market in Asia. However, cocoa has potential for high-quality branded and certified markets in Europe if investment is made into certification and tracing programs. With the Green Deal, certified cocoa products will experience growing demand and the success of Solomon Islands in the certified and branded coconut oil industry shows the potential for cocoa in key regional markets.

6.2.1.2 Fisheries

Fisheries are Solomon Islands major agriculture export. There is one long-established canning factory, SolTuna, which has used the iEPA to build its operations. Most of SolTuna's exports are done to Spain and Italy, and it is regarded as a high-quality product. Chilled and frozen fish (HS03) are also a major export, the majority going to Thailand and other Asian countries.



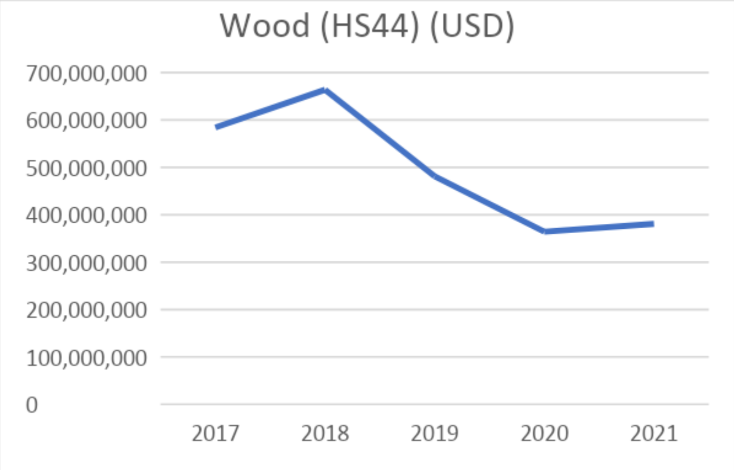
Solomon Islands has, with partner IFC, initiated development of a new tuna canning facility at Bina Harbour in Malaita.[54] The plant is estimated to employ 1,600 people, mostly women, and will drive foreign investment of up to USD40 million. Under the proposed Public-Private Partnership, fishing rights will be given to the operator of the plant, and it is anticipated that expected that the facility will be able to charge a premium through sustainability and labour certification.



Growth is also likely in the whole fish sector during the COVID recovery phase. In whole or minimally processed fish, the majority is tuna for the Thai market. With the entry of the new processing plant, it may be possible to redirect these exports into the domestic industry base.

6.2.1.3 *Forestry*

Forestry products are Solomon Island's major export. From 2015 to 2020, it contributed on average to 68 percent of the country's total exports, 46 percent of its foreign exchange revenue, and 7 percent of GDP. However, it has struggled to do this sustainably and exports are now falling as forestry reserves are depleted. The majority of exports go to India and China, mostly as round logs and sawn timber.



The EU has strong ethical sourcing policies that could benefit Solomon Islands through the introduction of sustainable management, traceability and increased prices for premium product. EU policies can point the way for improved forestry management by Solomon Islands.

Forestry, and particularly the poor management of the forestry industry to date, provides an opportunity for EU companies to invest in ethical market products.

6.2.2 *Energy and Mining*

Solomon Islands, like other Pacific Island countries, has relied primarily on diesel for energy for many decades. Fuel is Solomon Islands' largest import, approaching USD100 million per annum, and this provides over 90% of Solomon Islands' energy requirements. This far outweighs any single export and fuel price volatility has a major impact on the Solomon Islands economy. Renewables are limited, mostly household solar and mini-hydro projects. Solomon Islands has a strategy to convert the main grid, Honiara, to 100% renewable energy by 2030, but this will require significant development

54 https://www.rnz.co.nz/international/pacific-news/466421/solomons-tuna-plant-could-establish-thousands-of-new-jobs, accessed 1 October 2022

partner resources which are not currently committed. Small projects by the World Bank will develop hydro and solar mini-grids for remote areas. But given geopolitics, it is likely that new projects will be initiated in coming years. Large-scale and mini-hydro schemes, solar and geothermal are all options for investment in power generation where EU companies have technological advantage and collaboration with development partners could provide significant opportunities.

Mining is also a major industry for Solomon Islands, with gold and bauxite, silver, lead, zinc, nickel and phosphate all produced from operations and with the potential for future growth. But Solomon Islands has a complex mining business environment and the sector has been a source of controversy and challenge. Any investor wishing to enter Solomon Islands will need to seek high-quality advice and enter with reliable partners that are able to help navigate a complex political and legal environment.

6.3 Working with Solomon Islands (regulations, key agencies, contact points)

The Solomon Islands Government considers the private sector to be the engine for economic growth and development and actively encourages foreign businesses and investment that focus' on long term engagement, trade creation and opportunities, value-adding of local raw materials, employment creation, and technology and skills transfer.

The coordination and implementation of the national Government's investment policies including requirements made under the Foreign Investment Act 2005 and its subsidiary legislations is managed by InvestSolomons www.solomonbusinessregistry.gov.sb (formerly the Foreign Investment Division), a division of the Ministry of Commerce, Industries, Labour and Immigration (MCILI).

InvestSolomons is not only the national investment agency (IPA) responsible for promoting, facilitating and monitoring foreign investment, it also:

- facilitates introductions and liaison between prospective investors and relevant offices and departments;
- Is responsible for assisting prospective investors with investment application and procedures, business licensing processes, and registration and of investment activities; and
- evaluates all foreign investment applications and ensures foreign investors abide by their terms of registration.

In addition to Government assistance, the Solomon Islands Chamber of Commerce & Industry (SICCI) www.solomonchamber.com.sb provides advice and information on trade, opportunities and business, starting up a business, investing in the Solomon Islands, sourcing services and local expertise. Contact via the website, email services@solomonchamber.com.sb or telephone (+677) 39542 / (+677) 39543 / (+677) 39544

Business Procedures

It is recommended that international investors contact the national investment promotion agency for individual advice and assistance with applications, processes, procedures and registration of investment activities as well as any relevant incentives or introductions to specialist divisions or offices. Contact is available via the website, www.solomonbusinessregistry.gov.sb or email registrar@solomonbusinessregistry.gov.sb

Taxation

A flat Corporate Tax of 30% is payable on the worldwide income of a locally registered company. A non-resident company or branch of an international company is taxed 35% on income accrued in or derived from the Solomon Islands. Company tax is collected by the Inland Revenue Division (IRD) www.ird.gov.sb and the financial year is a calendar year.

Domestically produced goods are subject to 10% tax, imported goods 15%.

The Deloitte International Tax Source (DITS) database (https://dits.deloitte.com/#TaxGuides) includes the Solomon Islands. In depth information available includes corporate income tax; domestic withholding tax; withholding tax on dividends, interest, and royalties under tax treaties; value added tax/goods and services tax/sales tax.

Solomon Islands' Income Tax Act provides a range of incentives and exemptions intended to encourage investment in Solomon Islands including tax holidays and duty exemptions. Exemption is be obtained by application and recommendation by the Exemption Committee and approval granted by the Commissioner of Inland Revenue. For further information visit the Foreign Investment page at the Inland Revenue Division www.ird.gov.sb or discuss with InvestSolomons.

Professional Advice and Services

Representation

Whilst some products and services can be delivered to the market without local representation, for many products a local presence/representation is recommended. Local partner selection is one of the most important factors that determines success in the Solomon Islands market. Companies considering appointing a local representative or seeking current and professional investment advice, business establishment facilitation and trade assistance should speak to a reputable international firm in the first instance.

Legal, Accounting and Financial Services

When doing business or investing in the Solomon Islands it advisable to consult relevant professionals.

Legal listings and contact details are available via a localised web search, the SoloGUIDE contact portal www.sologuide.com.sb/, South Pacific Lawyers Association (Fiji / PNG / Solomon Islands) www.southpacificlawyers.org or Pacific Legal Network (Fiji / PNG / Solomon Islands) www.pln.com.au/

Contact details for accounting firms and individual specialists are available from the Institute of Solomon Islands Accountants (https://isia.org.sb/) or SoloGUIDE contact portal www.sologuide.com.sb

There are three (3) commercial banks operating in the Solomon Islands market that offer a wide range of retail banking, business banking and investment banking options.

- Bank of South Pacific – www.bsp.com.sb
- BRED Bank – www.bred.sb
- ANZ - www.anz.com

Useful sites and links:

- Solomon Islands Government www.solomons.gov.sb

- Ministry of Commerce, Industry, Labour and Immigration www.commerce.gov.sb
- South Pacific Lawyers Association www.southpacificlawyers.org
- Pacific Legal Network www.pln.com.au
- Solomon Islands Chamber of Commerce & Industry www.solomonchamber.com.sb
- Solomon Islands Tourism
- www.visitsolomons.com.sb

7 Strengthening Partnerships for Enhancing Opportunities in EU-Pacific Islands Trade and Investment

As already noted above, the success of the iEPA for the EU and the Pacific Islands over the coming years will ultimately be judged in terms of:

- sustained increases in exports from the EU to the Pacific and vice-versa
- diversification and development of new export products
- increased investment, wealth generation, job creation
- higher levels of development seen in meeting the Sustainable Development Goals.

As with any trade agreement, achieving these goals will however require a proactive approach to ensuring the opportunities and benefits are taken full advantage of. This final section seeks to offer advice and recommendation on modalities for doing so, together with clear recommendations and an action plan at the end.

7.1 Dissemination of Information Resources from the Current Project

Aside from this *Report*, several resources are being produced under the project for potential exporters and investors from the EU and Pacific to use and refer back to in future. These outputs, including the information contained in this guide, represent a valuable set of resource and 'institutional knowledge' for example for firms wishing to assess whether or how to start exporting. It will be important to ensure for example they are made widely available, incorporated in guidance by to exporters provided by various departments and Business Support Organisations, and adapted and updated in future as necessary.

7.2 Ensuring Full and Active Implementation of iEPA Commitments

In order to continue enjoying the full range of benefits and opportunities offered by the iEPA (including market access), Pacific Islands needs to make sure they fulfil all of their own commitments under the agreement. This requires a full and proactive implementation of the iEPA provisions, which include (but are not limited to:

- Ensuring that Pacific Islands' tariff-related commitments (e.g. schedule of liberalisation) are reflected in legislation and implemented
- Ensuring that the latest version of the HS system is used and swiftly adopted and incorporated within relevant legislation
- Ensuring notification systems are in place
- Ensure that any iEPA amendments (e.g.to Rules of Origin procedures) are adopted and practices and/or legislation adjusted were necessary
- Putting in place institutional mechanisms for participation in various committees under the agreements and participating in any continued negotiations (see 7.3 below)

- Ensure compliance with broader trade rules and best practices (e.g. relevant WTO agreements such as on customs valuation, trade facilitation practice such as single windows and e-documentation)

Various legal reviews on the implementation of iEPA have been conducted under previous projects, containing relevant information with respect to recommendations and actions that need to be taken by each of the Pacific Islands in order to meet their iEPA obligations.

7.3 Continued Engagement with the Parties on iEPA-related Issues

As noted above, the iEPA contains a range of provisions for a continued and deeper level of engagement between the Pacific iEPA parties and EU on trade matters, including:

- institutional arrangements
- settling dispute
- monitoring the agreement
- notification of any changes to trade legislation or regulations (contained in various places in the agreements)
- cooperating in on trade matters in international fora such at the WTO
- the provision of development cooperation and technical assistance

These measures combine to embed the agreement within a framework of continued and evolving engagements to ensure that the agreement delivers on its promise as a tool for development.

To date, far ten meetings of the Pacific-EU iEPA Trade Committee have taken place, discussing matters including for example developments on rules of origin certification. These meetings have been accompanied by side events that have involved civil society (such as the 2 October 2019 on involving civil society and private sector in EPA implementation) and events dedicated to encouraging greater business-to-business linkages.

The Pacific Islands should play an active role in all iEPA-related discussions and meetings. This will include putting in place institutional mechanisms for participation in various committees under the agreements (such as the Specific Customs Committee on Rules of Origin) and participating in any continued negotiations. The extent to which government and private sector stakeholders in the Pacific Islands can take advantage of these opportunities as an important factor in whether the country reaps significant benefits from the iEPA.

Box 2: Towards a possible Comprehensive EPA?

Like other ACP regions, the Pacific ACP States were engaged in negotiations for a comprehensive EPA with the European Union since 2004. In 2007 only one region – the Caribbean countries – achieved agreement with the EU on a 'Comprehensive EPA' that covers trade in goods, services, investment and intellectual property for example. The Pacific interim EPA covers only trade in goods in detail.

Pacific ACP Leaders agreed in September 2016 with the EU Commissioner's recommendation to suspend the negotiations for 3 years and directed PACP countries to explore alternative market access and trade arrangements with the EU. A comprehensive EPA could yet however yield additional benefits to the Pacific states in the areas of services and investment, and in particular an extension of the global sourcing rule of origin to fresh and frozen fish products of HS0304/05, if this can be agreed.

The signature of a similar 'comprehensive' free trade agreement with Australia and New Zealand-PACER-Plus which covers commitments services and labour mobility amongst other trade-related areas – should influence thinking going forward on a possible comprehensive EPA. Such an agreement should protect and build on gains already achieved in the iEPA – particularly the 'global sourcing' rule of origin.

7.4 Maintaining Awareness of Evolving Technical Requirements for Exports

Technical workshops are regularly held through various projects on key issues such as Rules of Origin) and SPS Requirements and Standards.

Some key recommendations emerging from these workshops include:

- ensuring relevant authorities and exporters were able to access information about the current rules and procedures and receive training for example on certification procedures (including new developments)
- Seek advice and technical assistance on putting in place Authorised Exporter systems to enable companies to self-certify by invoice declaration under the iEPA

With respect to compliance with Customs Requirements or SPS Requirements and Standards for export, various needs assessment exercises have been carried out in most countries, which often include specific recommendations and action plans.

7.5 Making Full Use of Aid for Trade

Efforts at continuous sharing of iEPA benefits will be enhanced through tailored Aid for Trade (AfT) support to government departments and exporters. It will be important to secure required technical assistance, investment (e.g. in trade-related infrastructure) and training into the future.

Aid for Trade covers a wide range of trade-supporting investments and interventions including 'hard' and 'soft' infrastructure, support at the level of sectors (for example in agriculture, fisheries or tourism), training, and assistance focused on improving trade-related policies and reforming and improving the business environment.

This is particularly important in the context of Pacific Islands such as Solomon Islands that are graduating from LDC status. Since one of the main costs of graduation will be the loss of some of the concessional finance arrangements that are no longer available to lower middle-income countries, ensure investments are made now. In other areas transitional arrangements may be put in place – the EIF for example allows countries to continue to access funding up to five years after graduation.

As shown in fig 7.1. and table 7.2 below, overall Aid for Trade to the Solomon Islands for example has increased significantly in recent years, driven by several large infrastructure projects (which due to their size tends to dominate AfT figures).

Fig 7.1. Aid for Trade to Solomon Islands (US$m) 2010-19

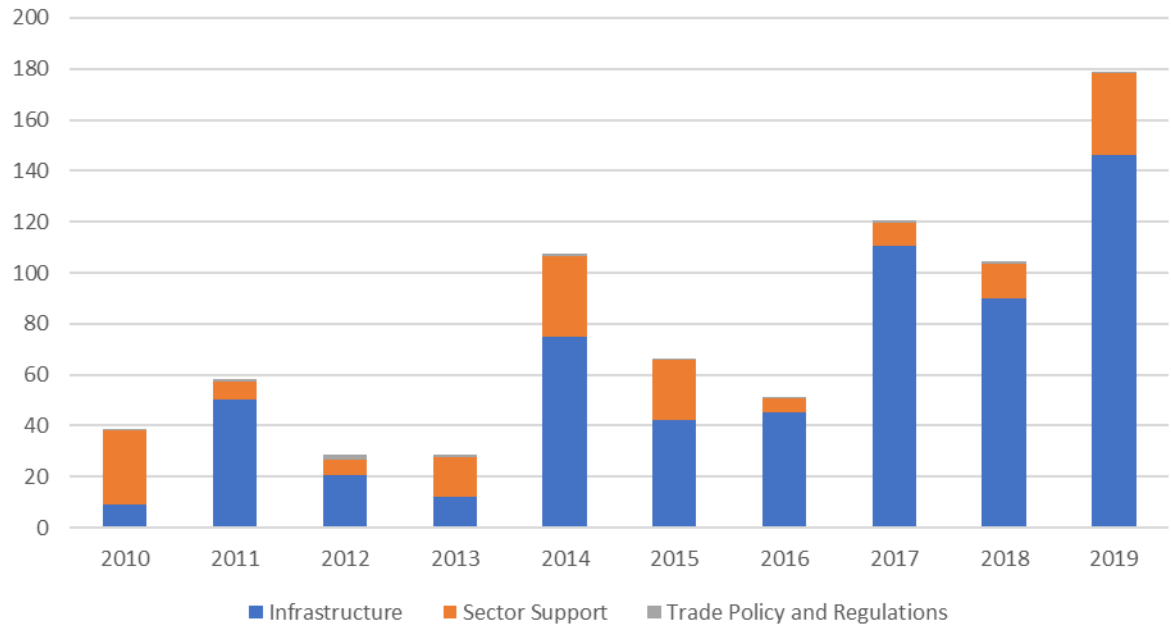


Table 7.2. Aid for Trade to Solomon Islands (US$m) 2010-19

Sector(s)		2011	2012	2013	2014	2015	2016	2017	2018	2019
Transport & Storage	2.7	48.3	8.4	4.8	49.6	34.4	38.0	12.5	53.0	56.7
Communications	6.2	1.7	11.1	7.1	0.1	0.1	0.0	0.0	15.9	43.1
Energy	0.0	0.0	1.1	0.0	25.3	7.6	7.1	97.9	21.1	46.7
Financial Services	..	0.3	1.3	1.0	3.6	1.5	0.4	0.8	1.1	2.1
Business Services	1.9	1.4	0.3	1.3	2.2	2.7	1.6	3.2	7.4	3.6
Agriculture	11.4	3.8	2.9	4.0	3.9	18.4	1.2	2.8	2.3	10.4
Forestry	0.4	0.3	0.1	7.5	0.3	0.2	0.5	0.8	0.4	3.9
Fishing	6.3	1.1	1.3	1.4	18.0	1.0	0.6	1.2	1.1	10.9
Industry	9.2	0.1	0.4	0.1	2.6	0.1	1.1	0.1	0.3	0.3
Mining	0.0	0.0	0.0	0.3	0.9	0.0	0.1	0.1	..	0.1
Trade Policy & Regs	0.6	1.3	1.6	1.0	0.9	0.4	0.4	0.8	0.9	0.2
Tourism	0.1	0.0	0.0	0.1	0.0	..	0.2	0.0	1.0	0.6
Total	**38.9**	**58.4**	**28.4**	**28.6**	**107.5**	**66.4**	**51.3**	**120.4**	**104.5**	**178.5**

7.5.1 Key Existing and Upcoming National and Regional AfT Programmes

Making use of Aid for Trade will involve engaging through different channels:

- bilateral assistance from development partners at the national level
- exploiting opportunities on regional programmes; and
- key multilateral programmes such as the UN Enhanced Integrated Framework (EIF).

For their part, the **European Commission** highlights a range of upcoming regional programmes focused on trade and economic development in the Pacific, including:

- Pacific Regional Integration Support Programme (PRISE) EUR 37 million signed with PIFS
- Strengthening Pacific Intra-Regional and International Trade (SPIRIT) implemented by PIFS
- Safe Agriculture Trade Facilitation (SAFE) implemented by SPC
- Improving Pacific Islands Customs and Trade (IMPACT) implemented by UNCTAD
- Pacific Private Sector Development Initiative (PSDI) to be implemented by ADB
- The Investment Facility for the Pacific (IFP)
- Pacific MSME Finance Project (EUR 12 million) implemented by ADB

At the national level, key AfT programmes include:

- Past support to establish the Competent Authority for Fisheries Exports
- Activities under the Enhanced Integrated Framework for Least Developed Countries, whose current portfolio of activities includes for example support for HACCP training for exporters and the upgrading the National Public Health Laboratory
- New Zealand-funded Mekem Strong Fisheries programmes
- DfAT initiatives in the area of partnerships to lower the cost of transport (e.g. the LCL project in Solomon Islands)

At the regional level, a number of other existing projects are relevant:

- PHAMA-Plus support focused on SPS issues and Agricultural Exports, financed by Australia and New Zealand (with national presence)
- World Bank Regional Oceanscape Programme (PROP)
- Pacific-EU Maritime Partnership Programme

7.6 Effective Business Support

As highlighted in this study, making the most of export opportunities in the EU requires a good understanding of the target markets and a structured tailored approach to beginning exports and achieving export growth.

Although responsibility ultimately rests with exporters, strong support by relevant stakeholders can assist them in achieving success. At the least, business support organisations should be able to provide, source or refer companies to tailored and effective market intelligence to help them understand the EU market:

- Maintain an understanding of market access requirements for export from the Pacific Islands to the EU. This includes having knowledge of key information sources (e.g. EC websites, market intelligence resources) as highlighted throughout the TC-II project outputs.

- Effective and purposeful monitoring and evaluation of key data: for example, on trade flows, investment flows, number and profile of businesses exporting to the EU. This in turn will enable easier identification, response and effective lobbying on additional needs for specific businesses.

- Monitor market access developments such as new EU free trade agreements (with third parties) or changes to existing arrangements (e.g. quotas) that threaten Pacific Islands exports – especially with relation to important tariff and market access preferences for fish products.
- Attain the ability to assist businesses with all aspects of developing an export plan (see above), advice on finding buyers, etc.

7.7 Export Development and Promotion

In light of the dominance of resource exports and the fisheries sector, broader export development and promotion does not always feature significantly as a policy priority in national Trade Policy Frameworks.

Export development is a naturally broad term, but could include for example in the Pacific Islands context:

- Brand-building activities
- Seeking (new) ways to foster greater business-to-business linkages overseas
- Local partnerships that benefit participating firms for example by pooling resources and bringing down costs
- Partnerships with various existing trade support agencies in target markets

Current responsibilities for export promotion are often dispersed and under-resourced. Pacific Islands may therefore need to consider their needs and means in order to upgrade their export development and promotion operations over the long term. Regional solutions such as working through and strengthening the Pacific Trade Invest (PTI) office in Geneva should be explored.

ANNEX 1: Market Trends and Opportunities in Specific Products for EU-Pacific Islands Trade

Source Acknowledgement and Further Reading: The information provided in this section is drawn from the various market research reports and articles, most notably those from the Centre for Promotion of Imports from Developing Countries (CBI), part of the Netherlands Ministry of Enterprise, for use by Pacific Islands exporters and Business Support Organisations. The CBI is recommended a highly valuable, free-to-use resource for potential developing country exporters.

The full studies on all commodities covered below are available at: https://www.cbi.eu . Exporters are encouraged to consult the original reports relevant to their industry, which are regularly updated.

Export data in introductory sections comes from www.oec.world/en .

Other sources are also used and are acknowledged with links in footnotes.

1 Specific Products of Interest

1.1 Fish Products including Tuna

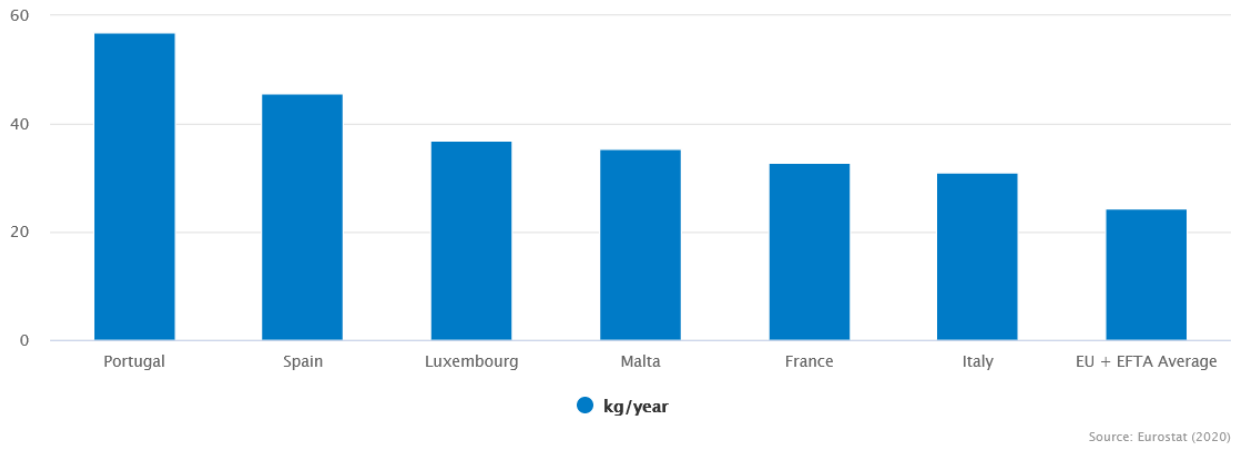
Fish (processed and frozen tuna) is Pacific Islands leading current export to the EU.

1.1.1 The EU Market for Fisheries Products

Despite the impacts of COVID-19 on both sourcing markets and the European Market, Europe continues to be a major market for seafood from developing countries. Europe is the world's number two seafood importer – taking into account imports for consumption and further processing and export - and hosts major trade hubs for distributing products in the region. Looking specifically at seafood imports from developing countries however, in 2020 Europe imported the most, importing $14.4 billion from developing countries. The US imported $13.1 billion. Japan and China imported $7.2 billion and $6.2 billion, respectively. This illustrates that Europe is a key market for seafood from developing countries.

It is important to note however that the European Market is a diverse and varied group of countries. The EU is a market with different consumption patterns, ranging from its highest per capita consumption in Portugal at 57 kg (double the European average), to 5.2 kg per capita in Hungary. Success in the European arena depends on an understanding of the needs of the different target markets and audiences. Looking at the graph below, you will see that most of the top seafood consuming countries in 2017 are from Southern Europe, namely Portugal, Spain, Malta, France and Italy. The main products consumed are tuna (mostly canned), cod, salmon, Alaska pollock, shrimp, mussel and herring (EUMOFA, 2019).

Figure 1: Europe's average apparent consumption in 2017



While there is still a lot of uncertainty looking forward, due to the impact of the pandemic both in sourcing countries and the main markets in Europe, Europe remains a major market for fish and seafood from developing countries. On top of a diverse range of consumption behaviour, many major European importing countries are also seafood processors that process more than they can produce, so they import raw material.

1.1.2 Impact of COVID-19

The impact of COVID-19 on the economies of the Pacific island region has been severe, with a contraction of 5.4% between 2019 and 2021. This is higher than other regions or groups of countries, which either remained stable or experienced growth despite the pandemic. The tourism-dependent countries in the Pacific, such as Fiji, Palau, and Samoa, suffered significant double-digit losses in growth due to COVID-19. While other Pacific countries did not experience such extreme contractions, most of them still recorded negative or no growth.

The International Monetary Fund (IMF) projects that the Pacific region will grow at an average rate of 5.3% over the next two years, which would bring the region close to its pre-pandemic GDP level. However, this means that the Pacific will have regressed in per capita terms and will have been outperformed by the rest of the world. It is important to note that there is no guarantee that the projected growth will be realized.

The Pacific economies have managed to contain debt increases and maintain strong external positions over the past two years, thanks to factors such as remittance flows, growth in fishing fees, and increased foreign aid. However, these economies remain vulnerable to exogenous shocks from potential COVID-19 outbreaks, inflationary pressures, and the possibility of a global slowdown.

The low vaccination rates in some Pacific countries, such as Papua New Guinea, Solomon Islands, and Vanuatu, put a significant population at high risk of further community outbreaks. Recurring outbreaks and COVID-19 policies outside the Pacific could also disrupt tourism recovery in the region.

Inflationary pressures have started to be reflected in domestic price levels in the Pacific, with the prices of major commodities skyrocketing due to global stimulus policies and geopolitical tensions. While some Pacific countries benefit from rising resource prices, most are commodity importers and, therefore, suffer from these price increases. Global inflation and other disruptions could lead to a global slowdown as central banks raise interest rates to combat inflation, which would negatively impact Pacific trade, tourism, and remittances.

Major organizations such as the World Bank, IMF, OECD, and ADB have downgraded their growth forecasts and warned of a global recession. The biggest risk to post-COVID economic development in the Pacific is a return to slow growth. Projections show no real growth in per capita income in the Pacific from 2019 to 2027, indicating the possibility of a "lost decade" for many Pacific countries.

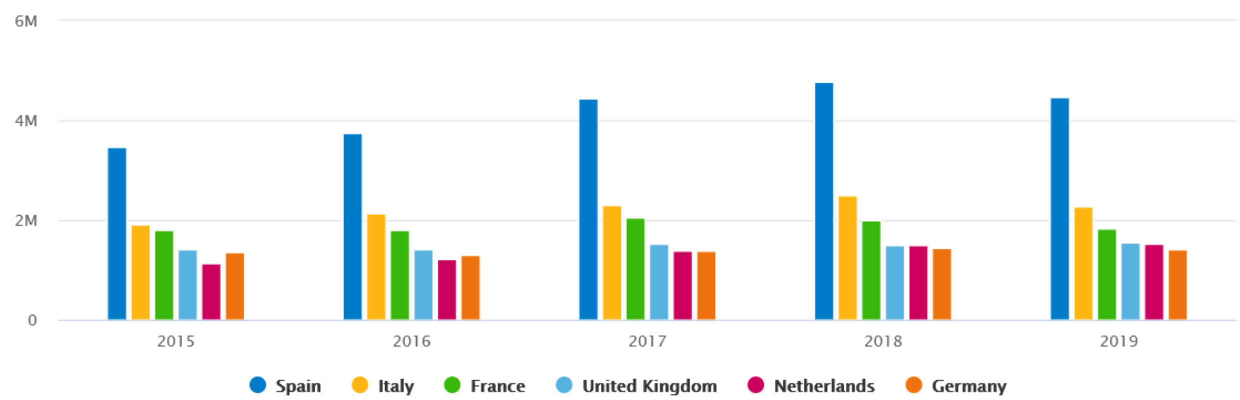
Given this outlook, aid directed to households will be crucial in mitigating the ongoing impact of COVID-19, and labor mobility strategies will continue to be important. However, the longer-term challenge for the Pacific is to increase trend growth rates through domestic economic reform and sound public investment. This has become more important than ever for the region's policy makers.

1.1.3 Which EU Markets offer the most opportunities for fish and seafood?

Since the start of 2020, the COVID-19 pandemic has been particularly hard on the food service industry, closing bars and restaurants, first in the south of Europe, followed by the north of Europe. It has also closed food markets, events and other large gatherings of people. Seafood sales via these segments have dropped drastically. With the European food service industry closed, European importers had a high level of inventory due to the low market demand.

Figure 3: Europe's top importers from developing countries

value in €'000



Source: Trademap (2020)

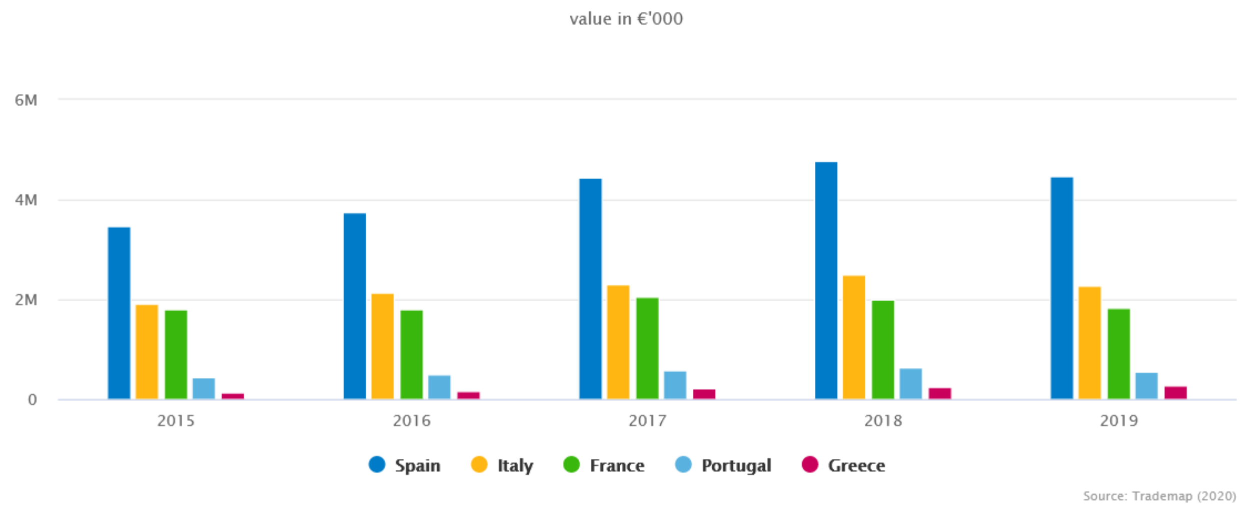
Southern Europe: Europe's biggest consumer and producer

Southern Europe represents the biggest opportunity in terms of exporting seafood products. Apart from the high seafood consumption rate in this block, Spain, Italy and France are also the major processing nations in Europe. Southern Europe consists of countries along the Mediterranean Sea. In this study, Southern Europe consisted of five leading importers, which are Spain, France, Italy, Portugal and Greece.

Overall, Southern Europe imported $9.3 billion worth of seafood products from developing countries, which represents 82% of its total imports from outside the European Union ($11.4 billion). Four product groups dominate Southern Europe's imports from developing countries. These consist of molluscs (mainly squid and cuttlefish) at $2.3 billion, crustaceans like shrimp at $2.1 billion, prepared and preserved fish such as tuna loins and canned tuna at $1.8 billion and fish fillets such as pangasius at $1.1 billion.

Spain, Italy, France, Portugal and Greece are the Southern European countries that import the most from developing countries. In 2019, Southern Europe's imports represented 60.2% of Europe's total imports from developing countries. Spain led the pack at $4.4 billion, followed by Italy at $2.2 billion and France at $1.8 billion.

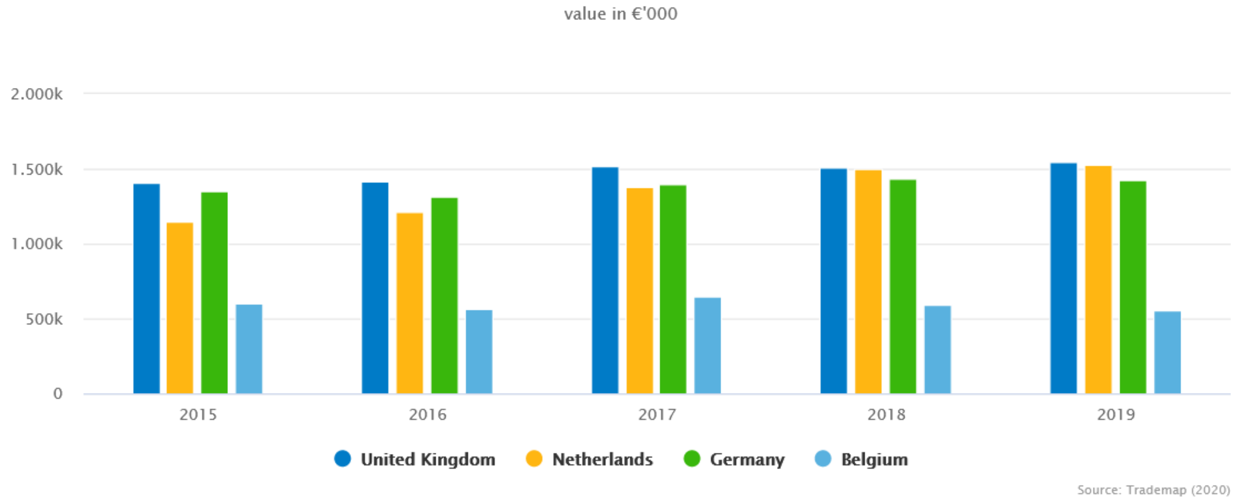
Figure 4: Export from developing countries to the main markets of Southern Europe



Northwestern Europe: Consumers and traders

Besides Southern Europe, there is also much opportunity in Northwestern Europe. Northwestern Europe, in this study, includes top importing countries like the Netherlands, Belgium and Germany. Overall, Northern Europe imported over $5 billion worth of seafood products from developing countries, which represents 72.4% of its total imports from outside the European Union ($6.9 billion).

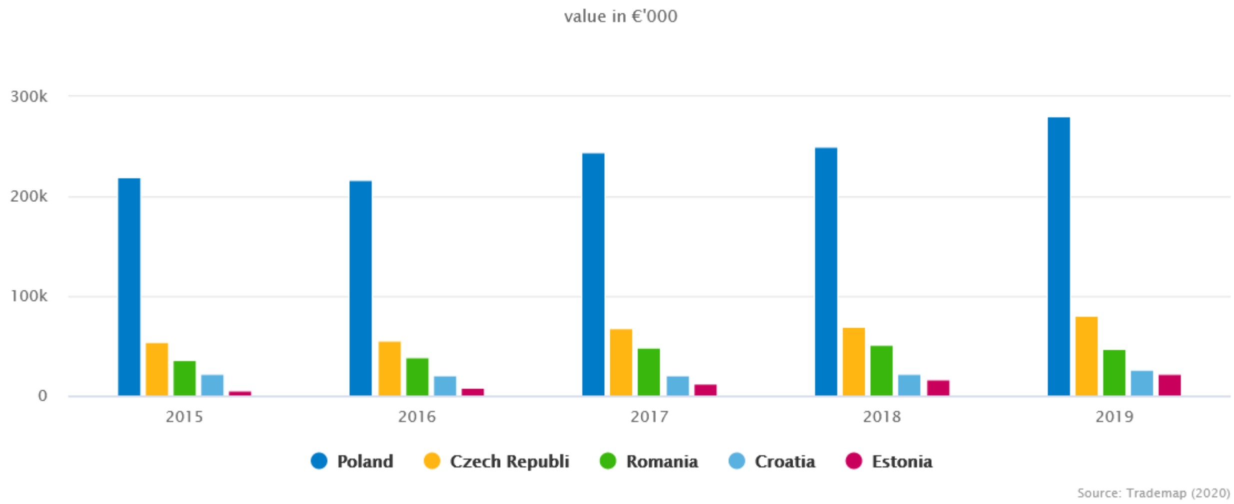
Figure 5: Export from developing countries to main markets of Northwestern Europe



Eastern Europe: a smaller, but growing, market

Eastern Europe consists of a group of 11 countries: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The biggest markets in Eastern Europe are Poland, Czech Republic, Romania, Croatia and Estonia. Together, they import a total of $458 million worth of seafood from developing countries. Overall, Eastern Europe import $550 million worth of seafood products from developing countries, which represents 52% of its total imports from outside the European Union ($1 billion).

Figure 6: Export from developing countries to main markets of Eastern Europe



1.1.4 Which products from developing countries have the most potential on the European fish and seafood market?

The most important product groups that Europe imported in 2019 are HS0306 (crustaceans), HS1604 (prepared and preserved fish), HS0307 (molluscs) and HS0304 (fish fillets and other fish meat).

Together, they represent over 80% of total import value. Within these groups, the most important products are shrimp, tuna, cuttlefish and squid, and a broad variety of fish fillets.

Prepared and preserved fish in the EU Market

Prepared and preserved fish is the second largest product type that Europeans consumed in 2019, next to crustaceans. And understandably so, since consumers want to eat simple, ready-to-eat and convenient food. With the increasing demand for processed seafood, the global canned fish market is rising. In 2019, Europe purchased a total of $3.3 billion worth of prepared and preserved fish from developing countries, which was slightly higher than the value imported in 2017, reported at $3.1 billion.

It is important to remember that, although this segment consists of varied species and products, tuna is king among them all. Tuna is the most consumed marine species in Europe, according to a study by the European Market Observatory for Fisheries and Aquaculture Products (EUMOFA). Tuna comprises 76.1% of all prepared and preserved products imported to Europe by developing countries, equivalent to $2.5 billion. This consists of, of course, canned tuna, but also tuna loins (pre-cooked and frozen), which are usually used as raw material for the European canning industry.

According to Eurostat data, canned tuna had the most demand among canned fish in Europe in 2016, followed by sardines, mackerel and anchovies. A 75% share of the canned tuna imported into Europe consists of skipjack tuna, while the remainder are yellowfin and other tuna species, such as albacore. Non-European suppliers deliver 64% of the imported volume of canned tuna, the remainder coming from suppliers within Europe. These non-EU suppliers come from Ecuador, Seychelles, Philippines, Mauritius and Ghana. The top European countries importing canned fish from non-EU suppliers are Germany, France, Italy and the Netherlands.

Europe's tuna canning industry is concentrated in Southern Europe, particularly in Spain, Italy and France. Spain leads Europe's production of canned seafood with more than 343,000 tonnes of product weight produced, valued at €1.5 billion. Spain produces 70% of the canned tuna processed in Europe.

Next to tuna loins and canned tuna, the main seafood species consumed in this segment are prepared and preserved anchovies ($211 million), sardines ($189 million) and mackerel ($25 million). Among these species, tuna would be your best bet. Not only is it the largest consumed species in Europe, but Europe also, historically, feeds a large part of its hunger for tuna by importing it from non-European countries.

1.1.5 What trends offer opportunities in the European canned fish market?

What's the story behind the can?

Storifying products and businesses has become one of the bases of marketing campaigns, including stories about people, environmental stewardship and animal welfare, among others. The new generation of European consumers in particular care about the story behind the products they buy.

To appeal to European consumers, exporters must consider what kind of stories add value to their products. It can be about recipes that can be created with a simple can of tuna or a story of a fisherman who catches fish using artisanal methods in the Pacific. European consumers are interested in authentic, healthy and sustainable products. Storytelling may prove a huge competitive advantage.

Social media such as Instagram, Facebook and LinkedIn can be powerful tools to propagate those stories and engage consumers, especially millennials or those born between 1981 and 1996.

Dutch company Fishtales' story includes working closely with local communities, sourcing from MSC-certified fisheries and using responsible fishing methods such as pole and line to curb overfishing in the world's oceans and support sustainable fishing.

Italy's largest canned fish processor, Rio Mare, focuses storifying efforts on the health benefits of its products. The company has a wellness section on their website, indicating nutritional benefits, calorie and nutritional values, health benefits and even doctors' opinion on their products. Traditional, more experimental and new recipes are also a staple feature in the company's online materials, encouraging the consumers to tag and hashtag their recipes on social media for better promotion or exposure.

Europe wants more certified-sustainable canned fish

European countries are among the largest markets for seafood products sourced from sustainable fisheries. A recent consumer survey in various European countries showed that the MSC label is gaining in recognition and importance in most of Europe, though Friend of the Sea (FOS) certification is more popular in Southern Europe.

According to a study by the MSC GlobeScan, sustainably sourced and environmentally friendly seafood products are ranked just above price as a purchase motivator — a consideration that is unique in the European Market. Awareness is strong in Europe, particularly in Austria, Germany and the Netherlands. A 47% share of European consumers recall seeing the MSC label, up from 43% in 2016. The prices of MSC-labelled products versus those which do not have the seal, however, can still affect purchase behaviour.

The MSC certification is increasingly recognised as a benchmark of sustainability, especially in European retail organisations. The blue seal and other such sustainability certifications ensure the sustainability of fisheries and compliance with the rules. This upwards trend is forecasted to continue.

If your fishery is not yet MSC certified or doesn't have another certification system accepted by your customers, consider the possibility of starting a fishery improvement project (FIP), which many of your clients accept as evidence that you are focused on sustainability and that your fishery may be on the way to MSC certification.

In 2018, 16 tuna fisheries were MSC certified, with seven fisheries in assessment. MSC-certified tuna is mainly caught in the Pacific Ocean. Albacore, yellowfin and skipjack are the most caught tuna species by MSC-certified fishing companies. European companies including Sainsbury's, Lidl, Carrefour, Aldi and Ahold Delhaize have restructured their supply chains to allow them to commit to MSC-certified seafood.

The MSC certification for mackerel has been suspended. According to the MSC website, mackerel caught on or after 2 March 2019 cannot be sold as MSC-certified or bear the blue MSC label as all mackerel fisheries are currently suspended from the programme. The suspension affects all four certificates for fisheries across eight countries and comes after mackerel stocks in the northeast Atlantic dropped below a warning level, while catches remain far higher than advised by scientists, according to a report published by MSC.

There are currently two MSC-certified anchovy fisheries: the Cantabrian Sea purse seine anchovy fishery and the Argentine anchovy. For sardines, there are three MSC-certified fisheries: South Australia, Cornwall in the UK, and Gulf of California fisheries. Two anchovy fisheries are under suspension: Bay of Biscay in Spain and South Brittany in France.

Aside from certifications and FIPs, another growing trend in the canned fish sustainability sector is the type of fishing method used to catch the fish. Unlike purse seine, which uses FADs or longlining, both of which yield a high percentage of bycatch, the pole-and-line method is considered environmentally friendly because of its selective fishing technique.

Pole and line refers to an ancient, artisanal fishing method that supplies approximately 10% of the world's canned tuna today, mostly from the western and central Pacific and the Maldives in the Indian Ocean. Some of the European brands that distribute pole-and-line caught tuna are Fishtales, Fish4ever, Frinsa and Jealsa.

Another method deemed to be more sustainable is the FAD-free purse seining or catching free schools of tuna. Currently, the Netherlands-based global tuna marketing company Pacifical has an agreement with eight of the Parties to the Nauru Agreement (PNA) countries (Papua New Guinea, Solomon Islands, Kiribati, Tuvalu, Nauru, Federated States of Micronesia, Palau, Marshall Islands) to promote FAD-free sustainable tuna.

Fishing methods for other species such as mackerel, anchovies and sardines usually involve purse seine and mid-water trawl nets. As consumer awareness of fishing methods impacts grows, companies have adapted to become increasingly more transparent about their fishing methods. For example, Princes, John West and Rio Mare have dedicated website pages explaining their practices. It is important for these companies that the nets used in purse seine or trawling operations avoid the destruction of marine life in the ocean and decrease unnecessary bycatch.

Expansion of product ranges

In Europe, canned fish with easy-open lids remain popular and are the most widely used packaging style. However, product ranges have been expanding to include pouches, easy-open cups and plastic cups, in addition to new and more interesting flavours, sauces and complimentary sides, particularly for preserved and processed tuna. It is important for exporters to monitor new products and trends in the European Market, Innovation is also an important aspect of the market — companies should always be up to date.

Consumers want no-drain products with no preparation needed, thus product lines such as warm meals infused with sauces and flavours becoming a popular hit among brands.

For example, John West has introduced its tuna Infusions and Steampots line with ready-to-eat meals. Flavours in tuna pouches have also been tried to match the changing European consumer taste with the inclusion of Asian, Moroccan and Indian style cuisines. Rio Mare has also introduced its Insalatissime, ready-to-eat product line, which includes pre-cooked tuna with pasta and vegetables.

1.1.6 What requirements must fish and seafood comply with to be allowed into the European Market?

There are important requirements that need to be met when exported seafood to the EU: these include having a recognised and accredited Competent Authority, meeting regulations on illegal, unreported and unregulated fishing (IUU), meeting rules of origin and traceability requirements.

There are also a wide range of private and voluntary sustainability standards that are increasingly mandatory for buyers to consider your products.

Fish and seafood exported to the European market need to comply with specific requirements related to food safety, hygiene, and quality standards. The import requirements fall under the framework of the European Union's (EU) sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) regulations. Here is an overview of the requirements:

1. Sanitary and Phytosanitary (SPS) Measures:
    - Health Certificates: Exporters must obtain health certificates issued by the competent authority of the exporting country, certifying that the fish and seafood products meet EU health and hygiene standards.
    - Veterinary Controls: The products must undergo inspections by competent veterinary authorities to ensure they are free from diseases, contaminants, and residues, and meet EU microbiological criteria.
    - Residue Limits: Fish and seafood must comply with EU regulations on maximum residue limits (MRLs) for veterinary drugs, pesticides, and other chemical contaminants.
    - Quality and Safety Standards: Products must meet EU standards for freshness, temperature control, labeling, and packaging, including proper storage and transportation conditions.
2. Technical Barriers to Trade (TBT) Measures:
    - Labeling and Traceability: Fish and seafood must be properly labeled, providing accurate information about the product, its origin, catch area, and fishing methods used. Traceability systems must be in place to track the product throughout the supply chain.
    - Quality and Size Specifications: The products must meet EU standards regarding quality characteristics, including appearance, size, color, texture, and freshness.
    - Packaging and Presentation: Proper packaging, presentation, and labeling must be ensured to meet EU market expectations and regulatory requirements.

It is important for Pacific exporters to work closely with their national competent authorities and adhere to EU import regulations. They should have comprehensive knowledge of the specific SPS and TBT requirements applicable to their fish and seafood products. Engaging in dialogue with EU importers, seeking assistance from industry associations, and participating in capacity-building programs can also help exporters understand and meet the quality standards demanded by the European market.

1.2 Cocoa Products

The European Market for bulk/specialty cocoa, meeting the requirements of sustainable, ethical trade and a strong growing consumer desire for high quality, premium products provides a solid foundation for making Europe one of the fastest growing demand markets for premium cocoa. Countries such as Belgium, France, Germany, Italy, Spain, Switzerland and the Netherlands are major consumer markets for premium cocoa.

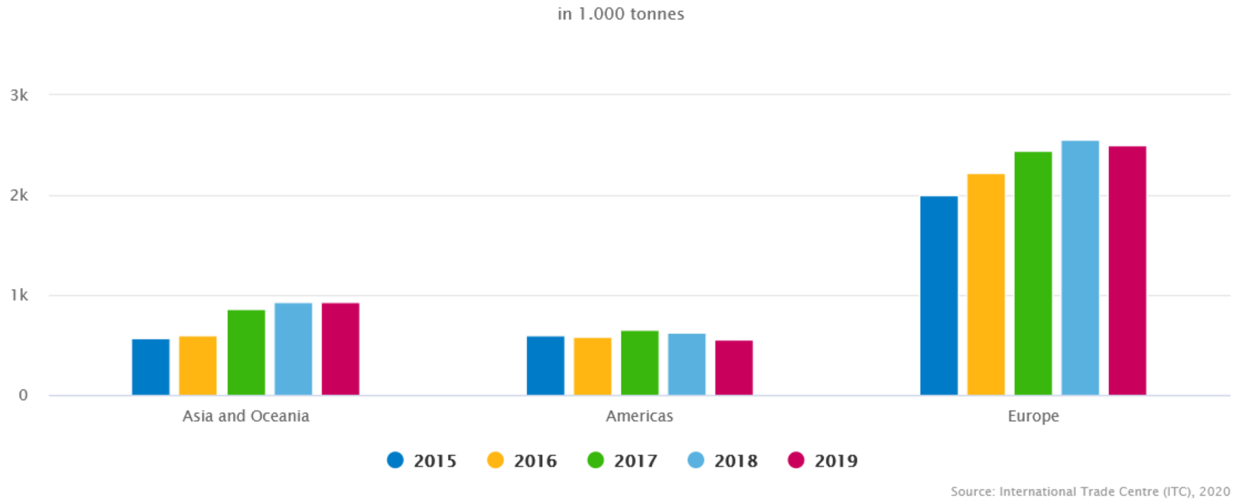
1.2.1 The EU Market for Cocoa

- **Europe is the main global destination for cocoa bean exporters**

  https://www.cbi.eu/market-information/cocoa/trade-statistics

Total imports of cocoa beans (HS-code 1801) by Europe amounted to nearly 2.5 million tonnes in 2019. Between 2015 and 2019, the import volume increased by an average 6.4% per year. Of total European imports, 82% of cocoa beans were sourced directly from producing countries in 2019, amounting to 2 million tonnes in volume, at a value of €4.2 billion. Intra-European trade of cocoa beans accounted for 18% of supplies, amounting to 434 thousand tonnes in 2019, at a value of more than €1 billion.

Figure 1: Global imports of cocoa beans per region



- ***Market segments in the European Market having the most potential for suppliers in developing countries***

The European cocoa market is vast and diverse, offering opportunities for suppliers of different sizes and profiles. Europe is world's largest chocolate manufacturer and exporter market. Its chocolate processing and manufacturing industry is strong, requiring high volumes of cocoa beans. As such, the most interesting market segments for different suppliers will depend highly on your product quality, whether you provide bulk or specialty cocoa, for example, and volume capacities, as well as your willingness or ability to subscribe to certification schemes.

- ***Bulk Cocoa in the European Market***

In general, the bulk market for commodity cocoa beans, which makes up more than 90% of the total chocolate market, is highly price-oriented, following international prices and offering limited possibilities for value addition. The bulk market suits exporters that can supply large volumes at standard product qualities. Certification is increasingly used in this market as an entry requirement, mostly Rainforest Alliance/UTZ, because of stricter sustainability protocols of manufacturers and retailers in Europe.

According to one recent market research report 'the European chocolate market is expected to reach USD 52.7 billion by 2023, witnessing a healthy growth over the forecast period. Chocolate consumption volume in the region surpassed 3754m Kg in 2017, with molded chocolate registered the largest volume sale. Innovation in products and packaging, impulse purchasing, and rising interest in premium and seasonal products are driving the market. Growing demand for organic chocolate further accelerated the premium chocolate market. Germany dominates the chocolate sale market, followed by France.'[55]

1.2.2 Which European countries offer most opportunities for specialty cocoa?

In Europe, growing demand for specialty chocolate can be found in traditional consuming countries such as Belgium, France, Germany, Italy, Spain, Switzerland and the Netherlands. Consumption in this segment is associated with higher incomes, but also to consumer awareness and market exposure. However, mainstream chocolate companies, such as Ferrero, Mars and Mondelez, are increasingly investing in premium lines, and retailers are also developing higher-end private label products. This makes specialty chocolates accessible to all types of consumers, at different price levels.

Switzerland is a large importer of specialty cocoa for a high-quality chocolate industry

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Switzerland is a large importer of specialty cocoa for a high-quality chocolate industry

About a third of all Swiss imports is sourced from countries that export a high share of fine flavour cocoa. Total Swiss cocoa bean imports reached an estimated 49 thousand tonnes in 2019. The main supplier of fine flavour cocoa to Switzerland is Ecuador. Total Ecuadorian cocoa bean supplies to Switzerland reached well over 11 thousand tonnes in 2019. Madagascar is the second-largest fine flavour supplier, with an estimated 2 thousand tonnes of specialty cocoa in 2019. Both countries saw their export shares to Switzerland increase between 2015 and 2019; Ecuador by 1.4% and Madagascar by 6.3%.

Switzerland has many cocoa importers active in the specialty, organic and fair trade segments. Examples of Swiss chocolate manufacturing companies that source cocoa directly from origin are Chocolats Halba and Stella Bernrain. Examples of trading companies are Pronatec, Minka SCS and Walter Matter.

The Netherlands has a growing market for specialty chocolate

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[55] www.wfm.com>story>europe>chocolatemarket-2020

The Netherlands is the world's largest cocoa bean importer, with cocoa imports amounting to 1,081 thousand tonnes in 2019. About 7.7% of cocoa imports are estimated to be sourced from fine flavour producing countries. Imports come from a wide variety of producing countries, of which the largest are Ecuador, Peru and the Dominican Republic.

Examples of specialty importing companies in the Netherlands are Daarnhouwer, Cocoanect, Tradin Organic and Dietz Cacao Trading. Examples of specialised chocolate (bean-to-bar) makers in the Netherlands that use fine flavour cocoa are: Alexandre, Lovechock, Heinde & Verre, Mesjokke and the Chocolate Makers.

Belgium has a large market for specialty chocolate

Total cocoa bean imports by Belgium reached 281 thousand tonnes in 2019, of which an estimated 12% of were sourced from fine flavour cocoa producing countries. The largest suppliers are the Dominican Republic, Ecuador and Peru. Compared to other European countries, Belgium imports a relatively large share from Papua New Guinea, an estimated 8.5% of all of its fine flavour imports.

Many players are active on the Belgium market for specialty chocolate. Examples of specialty trading companies in Belgium include Le Cercle du Cacao and Silva, which source fairly traded and sustainably produced high-quality cocoa beans from various origins.

France is among the largest specialty chocolate markets in Europe

France is the fourth-largest European cocoa bean importer, and sources from a wide variety of cocoa origins, including Grenada, Belize, Vietnam and Guatemala. Total French imports reached nearly 157 thousand tonnes in 2019, of which an estimated 4.6% was sourced directly from fine flavour producing countries.

The focus on cocoa origin has become very important in the French high-end chocolate market, as most high-end brands offer a line of single-origin chocolates. French fair trade trading organisations Alter Eco and Éthiquable are good examples; their packages make a reference to origin, and the cooperatives they work with. Specialty chocolate makers such as Bonnat Chocolatier and Chocolaterie A. Morin are other examples – they also developed direct trade relationships with their suppliers in producing countries.

Italy and Spain: other interesting European countries on the specialty cocoa market

Other interesting countries on the European specialty market are Spain and Italy, given their relatively high share of fine flavour imports. Both Spain's and Italy's imports from fine flavour producing countries reached an estimated share of 11% of total cocoa imports.

There are only very few Italian companies solely specialised in trading, and they tend to be smaller-sized. Examples are Cacao Dominicano, which has an exporting branch in the Dominican Republic, and Aurea Tradings, which is based in Italy and El Salvador. An example of a specialised cocoa importer in Spain is Cacao Venezuela Delta.

The specialty chocolate market in Italy is marked by a strong preference for dark chocolate, which makes up 40% of all chocolate consumed in the country.

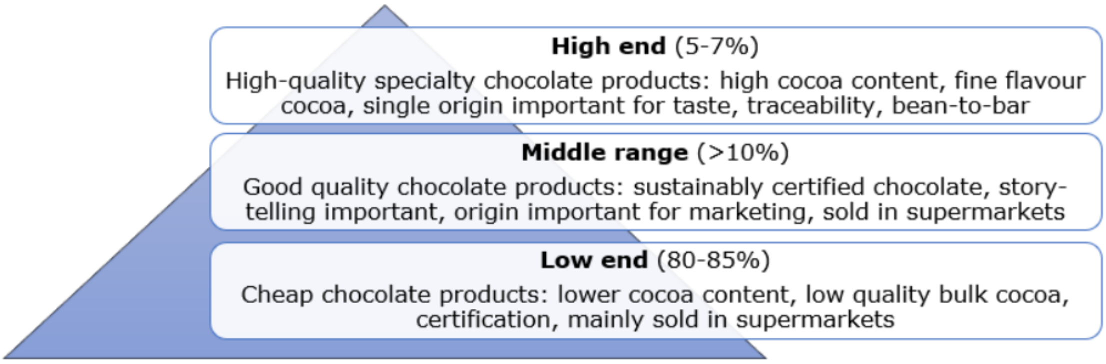
1.2.3 *Through what channels can specialty cocoa be introduced into the European Market?*

- **How is the end market segmented?**

Mainstream cocoa beans and cocoa products are used for processing in four different industries: confectionery, food, cosmetics and pharmaceutical. Specialty cocoa beans are mainly used for the production of middle-range and high-end chocolate products. In the high-end segment, specialty cocoa is usually used without blending, whereas specialty cocoa in the middle-range segment is often in blends with other cocoa, to standardise and stabilise the chocolate's flavour and aroma.

The figure below shows the general segmentation of the chocolate end-market. The high-end market is the smallest but fastest growing segment, with an estimated share of around 5-7%.

Figure 3: Segmentation of the chocolate market based on quality



- ***Through what channels does specialty cocoa reach the end market?***

The market for specialty cocoa is relatively small and highly specialised, with its own characteristics of supply and demand. In general, the specialty value chain is short and transparent, unlike the longer value chain for bulk cocoa/chocolate.

The different channels to enter the European Market for specialty cocoa are:

Importers: There are several importers active in the specialty cocoa segment. They usually handle smaller quantities, and often work directly with producers and producer cooperatives. Examples of specialty cocoa trading companies are Bohnkaf Kolonial (Germany), Silva (Belgium) and Tradin Organic (the Netherlands). They distribute specialty cocoa in their own country, or elsewhere in Europe. These importers do their own quality checks, and sometimes engage in processing as well. Bear in mind that many specialised importers prefer to work directly with producers and/or cooperatives and not through exporters.

Medium-sized and larger (private label) chocolate manufacturers: Barry Callebaut (Belgium) is the largest industrial chocolate manufacturer worldwide, mainly dealing with bulk cocoa but also processing specialty cocoa. Other chocolate manufacturers sourcing specialty cocoa beans for their chocolate manufacturing are Lindt & Sprüngli (Switzerland) and Valrhona (France). Both companies have their own importing departments and source their cocoa beans directly from producing countries.

As it becomes more common for large brands to outsource their production to specialised private label manufacturers, private label companies can also be an interesting entry point for your specialty cocoa beans. Dillicious (Germany) and Felchlin (Switzerland) are examples of companies offering high-quality private-label manufacturing. Chocolate Naïve (Lithuania) also offers private label, while also producing its own bean-to-bar brands.

Small chocolate makers: in the specialty cocoa segment, cocoa beans are increasingly traded directly from farmers (or farmers' associations and cooperatives) to chocolate makers. Examples of bean-to-bar makers in Europe that source part of their cocoa directly from producing countries are Blanxart (Spain), Mesjokke, Original Beans (the Netherlands), Domori (Italy), Friis Holm (Denmark) and Georgia Ramon (Germany).

Although direct trade is growing, it still represents a very small part of the cocoa market. Not all chocolate makers are able to sustain direct trade, since responsibilities that are usually outsourced to traders (such as logistics, documentation and pre-financing) now need to be handled by the chocolate maker.

In this sense, direct trade can also have an importer as intermediary (such as Daarnhouwer, in the Netherlands), acting as a service provider and contact point in the transactions between the source and the end market. Such importers can also guarantee traceability and communicate the story of the cocoa beans accurately along the chain.

An example is Kokoa Kamili, a social enterprise which distributes Tanzanian specialty cocoa to several European bean-to-bar makers, such as Krak Chocolade (the Netherlands) and Svenska Kakaobolaget (Sweden). Other examples of such specialty cocoa intermediaries are Uncommon Cocoa and Cocoanect.

1.2.4 What requirements must cocoa beans comply with to be allowed into the European Market?

There are important requirements that need to be met when exported seafood to the EU: these include requirements around food safety and contaminants, labelling and packaging and traceability requirements.

There are also a wide range of private and voluntary sustainability standards that are increasingly mandatory for buyers to consider your products. These include:

- Quality criteria
- Food safety certification
- Corporate Social Responsibility
- Sustainability certification

1.2.5 Current Key Trends in the Cocoa Market

Puratos conducts the world's largest consumer survey in the bakery, patisserie and chocolate industry – Taste Tomorrow. In-depth insights into behaviors, attitudes and choices have been gathered from over 17.000 consumers in 40 countries. It highlights the following trends for 2020[56]:

[56] www.puratos.com/blog/the-latest-chocolate-trends

- ‘Taste

Taste clearly comes out as the most important factor for consumers when buying chocolate. That is why it remains key to use the best quality chocolate for the applications you’re creating!

- Ethical Lifestyle

Food, lifestyle and ethics are closely linked. Consumers increasingly want to make ethical food choices, taking into account their personal values and the interests of the planet and the people living on it.

53% of consumers around the world look for food for which farmers receive a fair price. 24% of consumers already buy on a weekly basis food for which farmers receive a fair price. And 31% of consumers expects to do this even more in the future.

- Health

Consumer expectations around health continue to evolve. People want less and more at the same time. In food it is important to highlight power ingredients which provide both health & taste. Cocoa is such an ingredient. When buying chocolate, the % of cocoa is the most important criteria. 36% of consumers look for it. It is an ingredient that consumers recognize as being close to nature and full of goodness. The higher the % of cocoa, the greater a chocolate product’s benefits for a healthy body and mind. Health in food is not only about adding ingredients, but also about reducing ingredients that are undesirable for certain reasons. Reducing sugar for example makes food and chocolate healthier.’

1.3 Virgin Coconut Oil

According to World Bank (2014), ‘the global trade in coconut products is dominated by copra and coconut oil. Coconut is a low maintenance, low technology crop with favorable growing conditions in the Pacific Islands

Coconuts are the most widely distributed crop in the Pacific Islands and represent a fundamental part for rural farming in the provinces. More than 40,000 rural households produce coconuts for their own consumption, to produce fuel and building materials, and to generate cash income. Copra is the most important coconut product and is a vital source of cash income for rural households, especially those in the more remote areas.

The coconut industry is a significant contributor to small, rural livelihoods and national economy earnings. Coconuts are both a food crop, a cash crop and used to produce a large number of end products for local and export.

The Philippines is by far the largest copra importer and is the destination of most Pacific Islands copra.’[57]

[57]http://documents1.worldbank.org/curated/en/455191468115141729/pdf/860450WP0P08920Value0Chain0Analysis.pdf

1.3.1 Virgin Coconut Oil

The European Market for virgin coconut oil has grown significantly over the last years. This is mainly because of growing consumer attention to healthier diets. Initially, virgin coconut oil was only available at health shops. Virgin coconut oil has now become popular in mainstream supermarkets and its industrial applications are growing.

Across the global arena, the shift to healthier vegetable oils is becoming more evident as health and wellness trends become more predominate. Coconut oil has a great advantage: it does not contain trans-fatty acids, has a high level of lauric acid and is not refined. At present, the European food industry main industrial application for virgin coconut oil is in premium health snacks.

VCO buyers will look at two main factors to determine the quality of your product: 1) moisture content, which should not exceed 0.5%; 2) lauric acid content, which should range between 45 and 50%.

Market segments

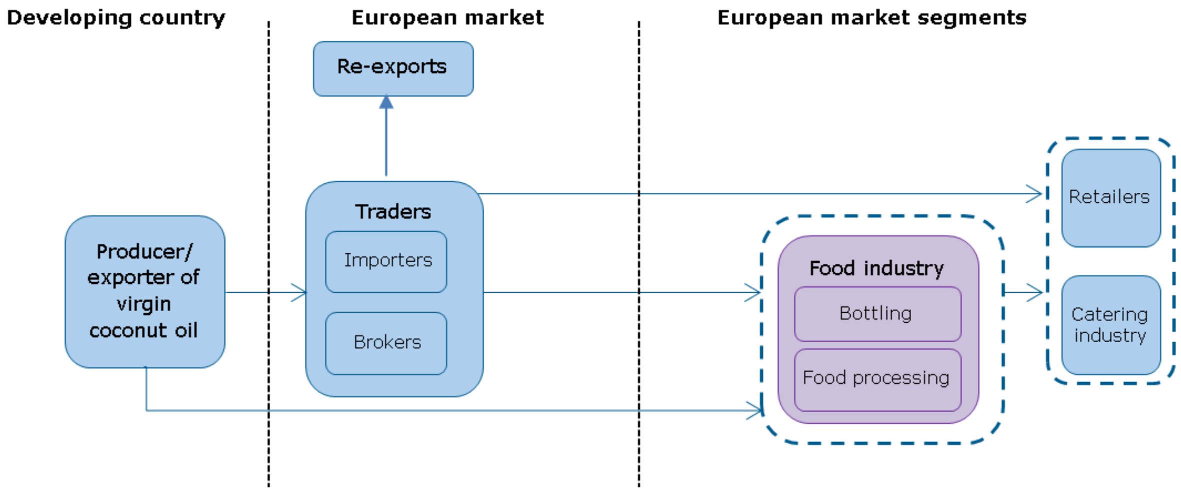
Virgin coconut oil for edible uses has two distinct market segments: the consumer market and the food industry.

- The *consumer market* is the largest market segment. This is where the oil is packed for direct consumption as cooking oil and butter. The product was initially available through health shops, but nowadays most mainstream supermarkets in Western Europe have virgin coconut oil in their assortment.
- In the *food industry*, virgin coconut oil is increasingly used as an ingredient in health snacks and food supplements. Examples of these products are given in the trends section of this document.

Apart from the food market, virgin coconut oil is also used in cosmetics (anti-ageing creams, lip gel, make-up remover), luxury soaps and other industrial applications.

Trade channels for virgin coconut oil in Europe

www.cbi.eu/market-information/vegetable-oils/virgin-coconut-oil#which-european-markets-offer-opportunities-for-exporters-of-virgin-coconut-oil



Differentiation and regionalisation within the European Market

Emerging markets for vegetable oils are very different to the European Market, but different European countries also have their particularities:

- The Netherlands plays an important role with respect to the most significant vegetable oils, especially palm oil and coconut oil. It has an important function as a trade and refining hub; vegetable oils enter the country through the port of Rotterdam and are then shipped to other European countries via inland vessels or stocked and handled by storage companies at the port.

1.3.2 Coconut Oil in the Cosmetic Industry

The beauty and cosmetic market worldwide presents advantageous opportunities for exporters of natural ingredients from developing countries due to the ongoing demand for natural ingredients from the worldwide and specifically the European beauty/cosmetics market sector as it responds to the Green Deal requirements, encouraging cosmetics companies to replace synthetic ingredients with certified natural alternatives.

Valued at €79.8 billion at retail sales price in 2019, the European cosmetics and personal care market is the largest in the world. Within the EU, the largest national markets are Germany (€14 billion), France (€11.4 billion), Italy (€10.5 billion), Spain (€7.1 billion) and Poland (€4.1 billion).[58]

Many buyers of personal care products remain loyal to brands they have used in the past. But they are willing to switch to product lines that are regarded as natural, clean (free from chemical compounds regarded as potentially dangerous) and sustainably produced.[59]

Coconut oil's emollient properties make it an understood and accepted choice for beauty products used to moisturize and soften skin and hair. Coconut oil has a vast variety of uses in a significant number of beauty products: hair products (effective in treating dandruff, dry and itchy scalp, dull hair, deep conditioning etc.), skin/body products (add a productive layer to the skin, hydrates, retains moisture, and is used in many anti-aging skincare products). It also has effective lathering properties and is often used by cosmetic and soap makers.

Studies show that coconut oil—which is extracted from the meat of mature coconuts—may improve skin barrier function and repair, has anti-inflammatory and antibacterial properties, fights the signs of skin aging, and makes an effective moisturizer, per a 2018 review of research published in the *International Journal of Molecular Sciences*.[60]

[58] https://cosmeticseurope.eu/cosmetics-industry

[59] https://www.forbes.com/sites/pamdanziger/2019/09/01/6-trends-shaping-the-future-of-the-532b-beauty-business/?sh=6e63ed09588d, accessed September 2022

[60] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5796020/

Figure 3: Leading European markets for cosmetics

in € billion

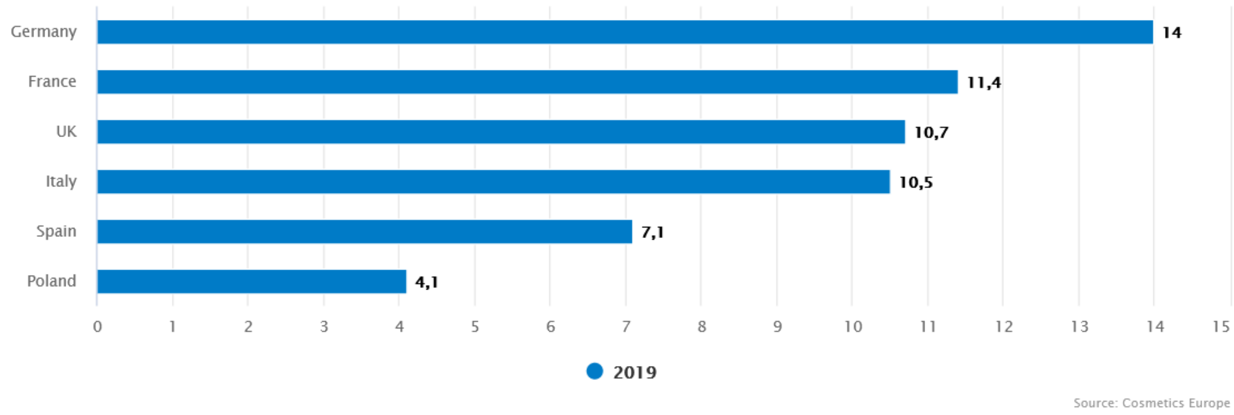
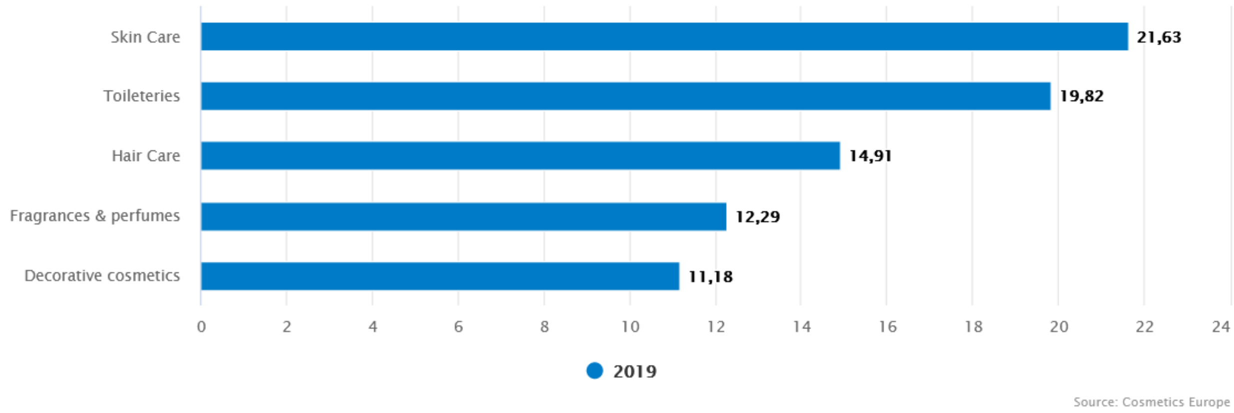


Figure 4: Leading product categories in the European cosmetics market

in € billion

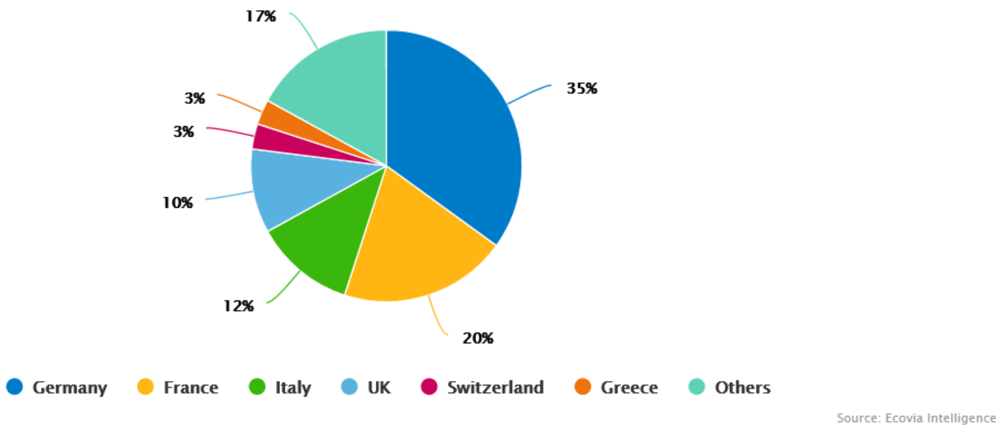


Skincare is the most important product category, in which a wide range of products use natural ingredients.

The **haircare** product category is the third-largest product category in terms of value and is the second-most important category for natural ingredients. Vegetable oils and botanicals in this category offer opportunities because of their active properties. Argan oil, **coconut oil** and *Aloe vera* are used in haircare products because of their nourishing and emulsifying properties.

Natural ingredient exporters should target producers of skincare products, toiletries and haircare products. These three categories represent 70% of total cosmetics sales in Europe.

Figure 5: European natural cosmetics market by country in 2018



Which EU markets offer the most opportunities for natural ingredients for cosmetics?

Germany and France are considered the best prospective EU markets for exporters of natural ingredients. These two countries have the largest consumer markets for cosmetics in Europe and are also major production centres. Many conventional and natural cosmetics companies are based in **Germany** and **France**. After these two countries, **Italy** is the most attractive country market.

Spain has the fifth-largest personal care products market in Europe; it is also a leading importer of natural ingredients for cosmetics. The **Netherlands** is a significant entry point for raw materials to Europe. The six most prospective country markets for exporters of natural ingredients from developing countries are the leading importing countries of natural ingredients and not necessarily the biggest markets.

Germany has a robust processing sector for cosmetics. Beiersdorf is the most important cosmetics company. Important natural and organic cosmetics companies include Lavera, Logona (L'Oréal), Dr. Hauschka and Primavera Life. The Swiss natural cosmetics company Weleda also has a manufacturing facility in Germany.

Which products from developing countries have most potential on the European natural ingredients for cosmetics market?

Demand for natural ingredients from the cosmetics sector in Europe is growing. A wide range of natural ingredients are used in cosmetic applications, the top six of which in terms of opportunities are shea butter, **coconut oil**, mango butter, frankincense essential oil, patchouli essential oil and liquorice extract.

Apart from other applications, shea butter and **coconut oil** can be used as alternatives for palm kernel oil.

- **ANNEX 2: Consultation List: Samoa, Solomon Islands & Fiji**

Name	Surname	Meetings (Yes / No answer)	Ministry / Business / Organisation	Country
Fio Jacinta Malie	Matulino	Yes	Ministry of Commerce, Industry and Labour (MCIL)	Samoa
Theresa	Penn	Yes	Ministry of Foreign Affairs and Trade (MFAT)	Samoa
Dorothy	Ah Ching	Yes	Ministry of Foreign Affairs and Trade (MFAT	Samoa
Henry	Tunupopo	Yes	Ministry of Foreign Affairs and Trade (MFAT)	Samoa
Stefan		Yes	Treasure Box	Samoa
Raymond	Voigt	Yes	Voigt Ind	Samoa
Donald	Narayan	Yes	Pacific Technologies	Samoa
Ron	Keil	Yes	Keil Noni	Samoa
Taulapapa Maria	Leota	Yes	Samoa Biotech CEO (SAME)	Samoa
S	Sagato	Yes	Samoa Association of Manufacturers and Exporters (SAME)	Samoa
K	Palemene	Yes	Samoa Association of Manufacturers and Exporters (SAME)	Samoa
Lisa	Carruthers	Yes	SAME	Samoa
Tagaloa Eddie	Wilson	Yes	Wilex Samoa	Samoa
Tailani	Salanoa	Na	Meilelani Samoa	Samoa
Kukika	Mupani	Yes	Kukila Mupani	Samoa
		Yes	Vaoala Vanilla	Samoa
Adi & Seusu		Yes	Women In Business	Samoa
Gina		Yes	CCK Samoa	Samoa
Dwayne		Yes	Samoa Marketing Co.	
Managing Director		Yes	Natural Foods Samoa	
CEO		Yes	Samoa Pure Water	Samoa
Director		Yes	RMR Foods	Samoa
Director		Yes	The Print Company	Samoa

Shane	Yoshida	Yes	Yoshida Ent	Samoa
Victoria		Yes	Sleep Well	Samoa
CEO		Yes	Ministry of Commerce, Industry and Labour (MICIL) Commerce Unit	Solomon Islands
L	Dawheyal	Na	MICIL – Trade / Commerce	Solomon Islands
Cornelius	Donga	Na	MICIL – Trade / Commerce	Solomon Islands
Richard	Pauku	Na	Richard Pauku	Solomon Islands
Shane	Tutua	Yes	Shane Tutua	Solomon Islands
Diana	Yates	Yes	Diana Yates	Solomon Islands
James	Kana	Yes	James Kana (LCL / Exp Cocoa)	Solomon Islands
Agnes	Pilopaso	Na	Agnes Pilopaso	Solomon Islands
Janet	Setiano	Yes	Janet Setiano - Sol Products	Solomon Islands
John	Bimana	Yes	John Bimana - C-Corp Solomon Islands	Solomon Islands
Patrick	Mesia	Na		Solomon Islands
Bevin	Vollrath	Na		Solomon Islands
Vernon	Smith	Yes	Dr Vernon Smith - Coconut Bioenergy	Solomon Islands
Bob	Pollard	Yes	Bob Pollard	Solomon Islands
Scholar	Aitora	Na		Solomon Islands
Diana	Koelau	Na		Solomon Islands
Simon	Chottu	Na		Solomon Islands
Ezra	Tan	Yes	Islands Own	Solomon Islands
Jerry	Siota	Yes	University of Solomon Islands – Business / Commerce	Solomon Islands
Natalina	Hong	Yes	Solomon Islands Chamber of Commerce and Industry (SICCI)	Solomon Islands
Ronnie	Golopitu	Yes	SICCI	Solomon Islands
Fantasha	Lockington	Yes	Fiji Hotels and Tourism Association	Fiji
Litia	Mario	Yes	Fiji Hotels and Tourism Association	Fiji
Cheryl	Fong	Yes	Fiji Hotels and Tourism Association	Fiji
Glen	Vavaitamana	Yes	Fiji Hotels and Tourism Association	Fiji
Jacinta	Lal	Yes	Ministry of Commerce, Trade, Tourism and Transport (MCTTT)	Fiji
Seema	Sharma	Na	Ministry of Industry Tourism and Trade	Fiji
Tala	Sima	Na	Made in Fiji	Fiji
Kamal	Chetty	Yes	Invest Fiji	Fiji

Musarat	Ali	Yes	Invest Fiji	Fiji
Lisala	Dyer	Na	Invest Fiji	Fiji
Siteri	Tagilala	Na	Invest Fiji	Fiji
Alejandro	Matos- Lopez	Yes	Programme Mgr Economic Cooperation and Agriculture - EU Delegation to the Pacific	Fiji
Massimo	Diomedi Camassei	Yes	EU Delegation to the Pacific – EU PRISE / SAFE Pacific / IMPACT /	Fiji
Shaleshni	Prasad	Yes	Programme Mgr Economic Cooperation and Agriculture Sectors Samoa - EU Delegation to the Pacific	Fiji
Chris	Wyllie	Yes	Tavulomo Coconut Processors	Fiji
Rusila	Vere	Yes	Conut Products	Fiji
Gary	Pickering	Yes	Islands Style	Fiji
Tomo	Zukoshi	Yes	Adi Chocolate / Fijiana Cacao	Fiji
Cate	Pleass	Yes	VaiWai	Fiji
Warwich	Pleass	Yes	Pleass Global	Fiji
Gerhard	Stemmler	Yes	Herbex / Pflanex	Fiji
Zane	Zane Yoshida	Yes	Fiji Kava	Fiji
Sapai Moana	Matariki	Yes	Pacific Islands Forum (PIFS) – SPU Trade	Fiji
Noah	Kouback	Yes	Pacific Islands Forum – Trade	Fiji
Isireli	Vulaca	Yes	Pacific Islands Forum - Trade	Fiji
Anuragh	Narayan	Yes	Pacific Islands Forum - Data	Fiji
Joeli	Fahai'ono	Yes	Pacific Islands Forum	Fiji
Atenasia	Atenasia	Yes	Forum Secretretariat EU SPIRIT / PTI Coord	Fiji
Setaita	Tupua	Yes	PIFS – EU Program EU SPIRIT	Fiji
Julie	Tuikubulau	Yes	PIFS – EU SPIRIT Rep	Fiji
Jillatieno	Juma	Yes	PIFS – EU SPIRIT Vanuatu	Fiji
Stephen	M	Yes	PIFS – EU SPIRIT – Samoa	Fiji
Dr Nur	Bano Ali	Na	Fiji Chamber of Commerce	Fiji
Alvin	Sharma	Na	Punjas Fiji	Fiji
Donnie	Yee	Yes	Lami Kava	Fiji
Jemima	Daveta	Yes	PKF Aliz Pacific/ FCCI	Fiji

Sunil	Sharma	Yes	PKF Aliz Pacific / FCCI	Fiji
Kameli	Batiweti	Na	Fiji Employers Federation	Fiji
Chris	Cocker	Yes	CEO South Pacific Tourism Organisation (SPTO)	Fiji
Bejamin	Shaw	Yes	South Pacific Tourism Organisation (SPTO)	Fiji
Christina	Leala Gale	Yes	SPTO Market Development	Fiji
Zaheer	Hassan	Yes	SPTO Marketing Manager	Fiji
Sanfred	Smith	Yes	Pacific Community - Safe Agricultural Trade Facilitation through Economic Integration (SAFE)	Fiji
Sam	Malankar	Yes	Foods Pacific	Fiji
		Na	Fiji Retailers Association	Fiji
Calvin	Qiu	Na	Kaiming Agro Processing / Ginger	Fiji
Mereseini	Ratabua	Na	Vanua Chocolate	Fiji
James	McGoon	Na	Market Development Facility	Fiji
		Na	Nadi Chamber of Commerce	Fiji
		Na	Fiji National University	Fiji
		Na	Fiji Manufacturers Association	Fiji
		Na	Green Valley Fresh	Fiji
Rajesh	Chandra	Na	University of the South Pacific (USP)	Fiji
Ramesh	Solanki	Na	United Apparel (Fiji) Limited	Fiji
Chrishantha	Fernando	Na	Valley Fresh	Fiji
Bhan Pratap	Singh	Yes	Pacific Fishing Company Limited	Fiji
Litia	Kirwin	Na	Loving Islands & Matuku Organic Farmers Association	Fiji
Bhavesh	Kumar	Na	Manubhai Industries Limited	Fiji
Michael	Brown	Na	Nature's Way Cooperative (Fiji) Limited	Fiji
Srinath	Dolage	Na	Vision Energy Solutions	Fiji