



SOLOMON ISLANDS TRADE POLICY FRAMEWORK

BUILDING PRODUCTIVE CAPACITY FOR
TRADE AND QUALITY OF LIFE ¹



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FOREWORD

Solomon Islanders have been trading across villages, provinces and indeed Melanesia for millennia. As an isolated archipelago nation, trade has helped us overcome inherent vulnerabilities and opened up new possibilities. In recent decades a more globalised world presents new challenges and opportunities for Solomon Islands. Our first Trade Policy Framework (TPF) describes the way forward as to how we will tackle these challenges and harness trade to achieve our development aims.

The very title of the TPF, “Building Productive Capacity for Trade and Quality of Life”, underlines the vision we hold for trade policy in Solomon Islands. Trade policy should not be created in a vacuum but should consider the wider aspects of Solomon Islands’ culture and society. With the application of the TPF we aspire for trade to promote human development, reduce poverty and improve living standards. This vision highlights that trade is not a means in itself but merely a vehicle for achieving other goals. As also indicated by the title, a common theme across the TPF is the need to enhance the productive sector by targeting supply side constraints to trade. A dynamic and diverse productive sector will enable Solomon Islands to substantively participate in multilateral and regional trading arrangements.

As a small island developing state, Solomon Islands faces inherent limitations when it comes to integrating with the global economy. While it is the private sector that ultimately trades, the government plays an essential role in putting in place policies to facilitate and oversee trade. It is the government’s role to ensure that all stakeholders have an equal opportunity to participate in trade and to maximise the benefits to the country from trade. The TPF outlines the direction which the government will pursue in order to effectively carry out this role. It is intended to be a living document that will evolve over time alongside the country and economy.

A central premise from the offset was that a successful preparation of the TPF would require the involvement of all stakeholders. Therefore this document builds on the collective input of numerous contributors from across government, the private sector and civil society. Their input ensured that the TPF presents a representative snapshot of current policies and provides informed recommendations on the way forward.

The National Trade Development Council deserves special commendation for the effort they have invested in this document. It was under their guidance that the TPF was drafted and they will breathe life into it through ensuring its recommendations are implemented. We are also immensely grateful to Dr. Daniel Gay and Dr. Chris Noonan who prepared the document, and the Pacific Islands Forum Secretariat who provided support throughout.

With the TPF to guide us, the real work now begins.

Tagio Tumas

Hon. Milner Tozaka
Minister for Foreign Affairs and External Trade, Solomon Islands



EXECUTIVE SUMMARY

The long term **vision** of the Trade Policy Framework (TPF) is to:

‘Build the productive capacity of the Solomon Islands economy via sustainable trade and investment. The resulting creation of wealth and employment opportunities is aimed at promoting human development, reducing poverty and improving living standards for Solomon Islanders.’

This TPF lays out the main principles that will guide trade policy over the forthcoming five years and beyond. Its main aims are to integrate the trade-related aspects of existing sectoral policies and to put in place the broad institutional and policy guidelines and priorities to support policymakers in enhancing the role of trade in the economy as a means to reducing poverty and raising the level of human development.

A national trade policy framework helps to avoid ad hoc decision-making and conflicts between rules and policies. A prosperous trade and investment climate needs a comprehensive policy applied consistently to ensure certainty, predictability and credibility among trading partners. Frequent policy changes hamper trade development. The trade policy framework also helps with identifying constraints on production and exports and recommends solutions.

Whilst the Ministry of Commerce, Industries, Labour and Immigration (MCILI) and MFAET are the primary institutions involved with trade policy, the National Trade Development Council (NTDC) is mandated as the locus of cross-ministerial trade activity, involving all the main trade-related ministries and agencies. One of its advantages is that it improves the mainstreaming of trade. Trade is a crosscutting issue which involves a considerable number of government ministries and agencies, and in the past most have been insufficiently involved in trade policy. The NTDC meets increasingly regularly and is developing a detailed and proactive work programme. The NTDC needs to continue improving its organisational capacity, as well as its ability to effect change. Solomon Islands has a number of experienced trade negotiators. It is important that the government continues to invest in building the capacity of existing personnel within the Department of External Trade to meet the demands of ongoing and future trade negotiations.

ECONOMIC PERFORMANCE

Economic performance since independence in 1978 has been mixed and volatile, with economic growth falling short of the regional average. Trade and economic growth have performed poorly at a time of lower tariffs, restrictions on government spending and the limited availability of credit. The problem of slow growth and trade development largely concerns weak demand and underinvestment rather than insufficient domestic liberalisation or access to foreign markets.

Solomon Islands represents an example of the ‘resource curse’. As a ready source of economic activity, logging reduced the incentives for diversification and value-addition. A reduction in output from the logging sector has undermined growth, and this trend is expected to continue in coming years. The sustainability of the logging industry is the most worrying macroeconomic trend in

coming years. A sharp economic shock is on the horizon with the potential loss of 60% of exports within 5-10 years.

Human development includes per capita income, education and health and income, a broader measure of country performance than simple economic growth. On the latest Human Development Index (2014) Solomon Islands was classified as having 'poor' human development, at 157th out of 187 countries. Approximately 22.7% of people suffer basic needs poverty according to the UNDP, while food poverty is 10.7%. Urban households around Honiara suffer from disproportionate levels of poverty, with almost one in three people unable to afford a basic minimum standard of living. In rural areas 19% of people are poor. Trade is capable of contributing to an improvement in human development and economic progress, but only if supported by an active and coherent policy. Human development similarly has an important role in boosting economic growth and incomes.



TRADE BACKGROUND

The three largest export commodities are timber, gold and fish. Timber and fish exports have a long-term history although gold is a relatively new export. Logging comprises 60% of exports, 15% of government revenue and 32% of foreign exchange earnings. It is also the largest source of formal employment other than the government, providing 5,000 jobs. The likelihood that natural forest resources will soon be exhausted means that other sources of export growth will need to be found in addition to mining. Almost all exports are unprocessed commodities. Value-addition must form an integral part of export strategy. An industrial strategy does not yet exist but should be put in place.

Services account for roughly a third of total trade. Transportation and travel account for about half of total services imports, a reflection of the country's geographical isolation and dispersion. The tourism sector is at an earlier stage of development despite abundant natural attractions and the proximity to Australia. Solomon Islands is formally included in the New Zealand Recognised Seasonal Employer (RSE) scheme and Australia's Seasonal Worker Programme (SWP). Such programmes could become an important form of services exports.

By country, China is Solomon Islands' top export partner. Australia was a distant second at 16.7% in 2012. The main outstanding export trend has been a major shift toward developing Asia and China away from the European Union over the past decade or more.

Imports are more diversified, with more than half a dozen countries accounting for the bulk of imports. One of the biggest trends has been the increase in imports from Singapore and developing Asia over the previous 15-20 years. Singapore now accounts for 26.9% of all imports (mostly probably re-exported products which originate elsewhere, including items such as mineral fuels) and developing Asia 29%. Imports from Australia are the second largest by individual country, at 25.5%, followed by China at 7.1%.

The economy suffers from a shortage of supply capacity to be able to export in sufficient quantities and consistency to international markets. The difficulties in responding to changes in the world economy and a lack of diversification undermine the country's ability to export. Participants in consultations for the trade policy framework almost unanimously agreed that the building of productive capacity should assume a higher priority than it has done until now, and that it should receive greater focus than existing trade negotiations.





BUILDING PRODUCTIVE CAPACITY

In Solomon Islands the principle ingredients required to build productive capacity are linkages, infrastructure, finance, land, energy and water. Within the parameters permitted by international trade commitments, an industrial policy will be developed in order to tackle some of these challenges.

The decline in the logging industry is the most pressing macroeconomic and environmental challenge facing the country. Agriculture and fisheries will remain major contributors to economic and trade growth. In both industries the enhancement of processing remains a priority. Mining has the potential to be the major contributor to foreign exchange and government revenues, possibly replacing the logging industry as the mainstay of the economy. Whilst land is a challenge to the expansion of the industry, a lack of policy guidance is also critical. An updated mining policy urgently needs to be developed and put in place. Environmental management also remains very important, as does the social impact of mining.

FOREIGN INVESTMENT AND SERVICES

Foreign investment can make an important contribution to economic development and may help increase productivity, especially when it is of an appropriate type and quality. An investment policy was under preparation at the time of writing with the support of the World Bank. It is important that the investment policy is integrated into the broader trade policy framework.

Services account for more than half of GDP. In 2012 Solomon Islands exported a total of SI\$1,038 million worth of services, mostly travel and transportation. Tourism is among the smallest sectors but is growing, based on natural advantages such as pristine tropical ecosystems, beautiful scenery and diverse cultures. Growth is constrained by limited human resources, weak marketing, and poor infrastructure and services – roads, airports, shipping, communications, electricity, water supply and sanitation, waste disposal – compounded by value for money concerns relating to tourism standards. As a long term strategy Solomon Islands should seek to tap into the Chinese tourism market and leverage the direct air links between Fiji and Hong Kong and in turn Fiji and Solomon Islands.

Information and Communications Technology (ICT) is under-prioritised, and ICT infrastructure is amongst the poorest in the Pacific region. Yet ICT, together with tourism, is the area of the services sector with the most potential to contribute to economic diversification and growth. It may also contribute to broad social objectives through e-government and e-education initiatives. The development of an ICT strategy is an important priority.

Increased labour mobility access to the Australia and New Zealand labour markets represents a significant opportunity for improving the living standards and productivity of Solomon Islanders. Labour mobility will form a key pillar of the macroeconomic strategy to improve the level of economic and human development. A National Labour Mobility Strategy will be formulated in addition to measures aimed at enhancing Solomon Islands' ability to benefit from labour access.

Solomon Islands will continue to review older legislation that may affect trade, including the legislation aimed at the domestic market, to ensure that the legislation achieves its policy objectives and operates in a WTO compatible manner.

The introduction of the Automated System for Customs Database (ASYCUDA World) represents an opportunity to improve trade statistics. Solomon Islands will publish statistics on trade flows and tariff revenue, including on the granting of full and partial duty exemptions, to improve transparency and certainty for traders and investors. Institutions need to be strengthened so that they can use and interpret ASYCUDA data; officials trained in the generation and analysis of data; and data disseminated to relevant government departments and international institutions.

Solomon Islands has made preferential tariff commitments under the MSGTA and PICTA. In 2017, Solomon Islands will be required to provide duty free access to all but a few exempt products, including alcohol and tobacco products, from the MSG countries and products from Solomon Islands will continue to have duty free access to the markets of other MSG countries. The MCILI will lead development of an action plan to assist exporters to promote and market products in other Pacific Island Countries in order to effectively benefit from PICTA and the MSGTA.

The Comptroller of Customs is empowered to impose prohibitions and quantitative restrictions on imports under the Customs and Excise Act. The broad power needs to be administered in a manner that is compatible with the international obligations of Solomon Islands. The legislation prohibiting or restricting the importation of products will be reviewed to ensure that it is achieving the policy objectives of keeping undesirable products off the market and doing so in a manner consistent with the international obligations.

More tax revenue comes from export taxes (on logs) than import tariffs. Solomon Islands should consider whether an appropriate set of alternative policy measures can achieve broadly the same outcomes as the current export tax regime or negotiate sufficient policy space to allow the continued use of export taxes. If alternative means of raising equivalent revenue are not practical or politically possible, the entry into a trade agreement that restricts the right to impose export taxes should be avoided. It may be appropriate to study this issue further in the context of broader tax reforms.

Solomon Islands should coordinate its negotiation of trade facilitation commitments in preferential trade agreements with its strategy in the WTO. Solomon Islands needs to ensure a high level of inter-agency coordination to achieve its objectives in relation to customs modernization, including between the Customs and Excise Division and other divisions within the Ministry of Finance and Treasury and the Ports Authority.

Sanitary and phytosanitary measures (SPS) constrain the export of a number of agricultural and fisheries products from Solomon Islands. Solomon Islands should negotiate provisions or chapters on SPS measures and TBT in its trade agreements based on the obligations it has accepted in the WTO. More should be done to build capacity to deal with SPS and TBT issues at the WTO.

Solomon Islands quarantine administrations are severely capacity and resource-constrained, and standards and conformance bodies in Solomon Islands are either non-existent or at the early stages. Further assistance may be required to enhance export potential in relation to agricultural and fisheries products. Problems also existed for the competent authority for fish exports, which had to receive emergency funding from AUSAID in 2013. Continued underfunding for the competent authority is of great concern as this could potentially risk the suspension of tuna exports to the EU.

TRADE-RELATED ISSUES

Trade policy is no longer restricted to trade in goods and services. Solomon Islands' trade policy must deal with the full range of matters that may be the subject of the WTO and preferential trade arrangements. In addition to government policies and measures directly addressed in trade agreements, many other government policies and laws and regulations are affected by the integration of Solomon Islands into the regional and global trading system. Other issues now coming under trade agreements include competition, government procurement, intellectual property and the environment. Each of these issues must be negotiated sensibly according to the interests of Solomon Islands.

TRADE AGREEMENTS AND MARKET ACCESS

Aside from the current round of negotiations, Solomon Islands should remain engaged with the WTO because members make important decisions that can affect their interests. Current negotiations under the Doha Development Agenda (DDA) are unlikely to present significant challenges for Solomon Islands as a WTO member. Solomon Islands will remain involved in the LDC Group, the ACP Group and the Group of Small and Vulnerable Economies. It also has an important stake in the rules negotiations insofar as they concern fisheries subsidies. Solomon Islands should continue to monitor WTO fisheries negotiations: a sound balance has to be struck between prohibitions with appropriately designed exemptions. Solomon Islands should ensure that the development agenda is placed at the heart of the DDA and this includes addressing specific special and differential treatment proposals for LDCs.

Solomon Islands is a party to a number of preferential trade arrangements and is in the process of negotiating further arrangements. These are both reciprocal and non-reciprocal. While 9% of Solomon Islands imports came from MSG countries in 2007, only 2.3% of exports went to MSG markets. This is partially due to bigger manufacturing bases in Papua New Guinea and Fiji, and their more proactive utilisation of the trade agreement. Nevertheless, this also reflects general supply-side constraints in Solomon Islands, and the (indirect) relatively high cost of utilisation of the MSGTA for its producers and exporters.

The volumes of trade under the MSGTA are never likely to be significant but it has cultural, strategic and political importance and it may provide a strategic basis for improving access to East Asia. In 2017 Solomon Islands will provide duty free access to all but a few exempt products from the MSG countries and products from Solomon Islands will have duty free access to the markets of other MSG countries. The plan to extend the coverage of the MSGTA to trade in services, investment and labour mobility may have a greater impact. Other MSG countries are an increasing source of foreign investment and skilled workers in Solomon Islands and a destination for Solomon Islanders seeking higher education and employment opportunities.

Under the Pacific Island Countries Trade Agreement (PICTA), which was signed in 2001, Solomon Islands has made reciprocal commitments on trade in goods to the other Forum Island Country members. Apart from 16 products on its Negative List and alcohol and tobacco products, Solomon Islands is obliged to eliminate tariffs on products from other Forum Island Countries by 2021. The major concerns in relation to the PICTA (including the PICTA TIS) are the potential difficulties with the implementation of the agreements.

The Pacific Agreement on Closer Economic Relations (PACER) provides a broad framework for regional integration among the Forum Island Countries and Australia and New Zealand. It has

potentially further-reaching implications than any other trade agreement. Solomon Islands as the lead spokesperson on PACER Plus negotiations will continue to base negotiations on the following principles: labour mobility will form a key offensive interest in PACER Plus negotiations. SIG will continue to argue that labour mobility must be within the PACER Plus agreement, with improved quotas and additional sectors in which labour shortages exist. SIG will continue to highlight in PACER Plus negotiations the quadruple win nature of labour mobility, for employers, workers and sending and receiving countries. SIG will continue to negotiate for additional development assistance that is commensurate with PACER Plus specific obligations, adjustment costs and to address supply side constraints.

With the other Pacific members of the Group of African Caribbean and Pacific States (PACPS), Solomon Islands is negotiating an Economic Partnership Agreement (EPA) with the European Union (EU). Solomon Islands will continue negotiating the comprehensive EPA with the other PACP States as a single region. The government will conduct a cost benefit analysis at the end of the comprehensive EPA negotiations on whether to sign and ratify the agreement. The EPA is likely to lead to a number of significant obligations for Solomon Islands and specific commitments and the costs of implementation of those obligations at a time when revenue from mining or logging activities may also be reduced. This may require the introduction of a VAT. The financial, practical and political difficulties of the introduction of such a tax need to be weighed against the potential benefits of investment, employment and tax revenue from fish processing made possible by global sourcing for canned fish and cooked loins and potentially fresh, frozen and chilled fisheries products.

Exports from Solomon Islands have preferential, but not necessarily duty free access, access to the markets of China, Chinese Taipei, Japan and South Korea under the Generalized Systems of Preferences operated in these countries. In relation to access to the markets in ASEAN and China, exports from Solomon Islands are at a disadvantage relative to exports from a number of other countries. ASEAN and China have negotiated a number of preferential trade agreements with countries that export products that may compete with the products exported by Solomon Islands. For example, some ASEAN countries have MFN duties on copra and logs. Solomon Islands trade policy needs to consider and respond to developments relating to preference erosion as well as the other issues highlighted above. On a regional basis with other Pacific Island Countries, or on a sub-regional basis with the MSG Countries, the government will seek to negotiate improved access to Asian markets. In light of the outcome of the EPA and PACER Plus negotiations, the government will develop a strategy to mitigate trade diversion costs.

AID FOR TRADE

Aid for trade should be a key component of trade policy. It can supplement the investment that Solomon Islands will make in economic reform and development. Aid for trade represents an important mechanism to enhance the benefits Solomon Islands could receive from greater integration in the international economy as well as to mitigate some of the adjustment costs that may result from greater openness.

The increase in aid for trade assistance over the past few years should help Solomon Islands to benefit from greater integration into the international economy. The aid for trade will not address all significant short and medium-term costs as integration proceeds. Solomon Islands should develop procedures to ensure that aid for trade assistance is directed to the highest priority areas and maximum value is derived from the assistance and its ownership of the process.



1 | INTRODUCTION

1.1. Rationale

The rationale for the TPF is as follows. Apart from isolated references to trade policy issues in the National Development Strategy 2011-20 and in individual government policy documents, Solomon Islands does not have a comprehensive framework to guide trade. As a result the National Trade Development Council (NTDC) supported the production of a trade policy with broad government support.

One of the challenges to Solomon Islands' effective participation in international trade is poor coordination between government departments, the private sector and civil society. The institutional support for trade is weak, hindering the formulation, negotiation and implementation of trade policies and agreements. A TPF helps to avoid ad hoc decision-making and sometimes conflicting rules and policies. A prosperous trade and investment climate needs a comprehensive policy applied consistently to ensure certainty, predictability and credibility among trading partners. Frequent policy changes hamper trade development. The trade policy also helps with identifying constraints in the production and export sector and recommends solutions on how to address production and supply-side constraints.

The framework lays out the main principles that will guide trade policy in Solomon Islands over the forthcoming five years and beyond. Its main aims are to integrate the trade-related aspects of existing sectoral policies and to put in place the broad institutional and policy guidelines and priorities to support policymakers in enhancing the role of trade in the economy as a means to reducing poverty and raising the level of human development. It is not a development policy in itself, nor is its primary purpose analytical. The document aims to mainstream trade into development policy and to guide the actions of trade and other policymakers. The object of the report is not only to inform trade-related Ministries of trade policy but to ensure that the Ministry of Foreign Affairs and External Trade (MFAET) becomes fully aware of sectoral priorities and incorporates them in its actions and strategy.

This document draws together existing policy direction from trade related ministries and connects to trade policy rather than attempting to influence policy direction in different sectors.

More specifically the objectives of this TPF are to:

1. Mainstream trade into the national development strategy including future agreed national priorities.
2. Improve the medium to long term performance of the Solomon Islands economy in the areas of trade and foreign direct investment.
3. Establish a policy platform that builds upon and coordinates sectoral priorities for the ultimate purpose of enhancing human development.
4. Support the effective operation of the National Trade Development Committee (NTDC).
5. Articulate the trade interests of Solomon Islands and ensure that these are reflected in trade negotiations.

6. Facilitate increased inflows of Aid for Trade (AfT) for the purpose of implementing trade policies and helping use the opportunities offered by trade agreements.

The Trade Policy should not be created in a vacuum but should consider the wider aspects of Solomon Islands culture and society. Trade is not a means to itself but merely a vehicle for achieving other goals, such as increased employment, enhanced human development and eradication of poverty.

1.2.

Vision

The long term vision of the trade policy is to:

'Build the productive capacity of the Solomon Islands economy via sustainable trade and investment. The resulting creation of wealth and employment opportunities is aimed at promoting human development, reducing poverty and improving living standards for Solomon Islanders.'

The framework, completed in consultation with the Ministry of Foreign Affairs and External Trade (MFAET) and the Pacific Islands Forum Secretariat, is based on three consultation missions during 2013 and 2014, during which workshops were undertaken with a range of stakeholders in Auki, Buala, Gizo, Honiara, Lata and Noro. The framework also builds on and updates existing earlier work, where necessary, mainly the Diagnostic Trade Integration Study (DTIS), National Development Strategy 2011-20 and the ODI/ DfID work conducted on trade negotiations during 2013.

1.3.

Institutional Framework

Whilst the Ministry of Commerce, Industries, Labour and Immigration (MCILI) and MFAET are the primary institutions involved with trade policy, the National Trade Development Council (NTDC) is mandated as the locus of cross-ministerial trade activity, involving all the main trade-related ministries and agencies. One of its advantages is that it mainstreams trade, avoiding the perception that the MCILI or MFAET solely drives the trade agenda. Trade is a crosscutting issue which involves a considerable number of government ministries and agencies, and until now most have been insufficiently involved in trade policy. Some of the challenges thus far have been that the NTDC has not met regularly enough and that it has not developed a detailed and proactive work programme. The organisational capacities of the institution need to improve, as well as its capacity to effect change in a positive direction.

Solomon Islands has a number of experienced trade negotiators and it is important that it continues to invest in building the capacity of existing personnel within the Department of External Trade (DET) to meet the demands of ongoing and future trade negotiations. The role of Chief Trade Negotiator is of particular importance as Solomon Islands is considered a leading country amongst the Pacific Island Countries in various trade negotiations. Their skills and knowledge must be entrenched within the system as far as possible so that future trade negotiators can build on the current accumulated experience and effectively promote and defend the interests of Solomon Islands in these negotiations. Currently there is a lack systems in place to capture trade-related information and the accumulated tacit knowledge, and to make trade negotiations expertise available over the long-term when officials leave the DET.





There is a need to build the experience of junior staff in negotiations and to increase practical learning opportunities. Practical experience in negotiations is crucial in addition to formal capacity-building and learning activities. Funding constraints tend to result in the concentration of experience in a limited number of senior individuals. Knowledge can be entrenched in the system in a number of ways. A formal monitoring and evaluation system can act as a repository of information. Officials returning from overseas need to be encouraged to brief staff on the outcome of their mission. Solomon Islands should lobby for negotiations and meetings to be held in Honiara so that younger and less experienced officials can learn by taking part. Overall, the division of labour and internal organisation of the DET should free up officials with technical responsibilities from administrative tasks, allowing them more time to concentrate on the build-up and transfer of knowledge.

A coherent internal communications strategy could tackle some of these shortcomings and put in place a mechanism to make future knowledge sharing more systematic. External communications also need to be much more considered and programmatic. The drafting of the external component of the communications strategy should involve target audience segmentation and development of target-specific key messages. The MFAET website could provide more information, including trade-related laws and activities. MFAET and other key institutions should implement a coordinated series of communications and public relations (PR) initiatives including press briefings and media events. Materials should be developed to enhance communications and PR skills for staff in the MFAET and other key trade-related ministries and agencies. Any strategy, even if facilitated by an external agency, must originate with government officials, who must feel ownership of its content.

Monitoring and evaluation systems within DET need to be strengthened. Accountability is not currently perceived as being weak, yet more can be done to ensure that services are delivered and initiatives are followed up. Expertise from the Enhanced Integrated Framework (EIF) National Implementation Unit (NIU) can be applied to the rest of the DET to set up and implement such a system. This should include a clear distinction of roles and responsibilities and how staff will be connected in terms of management structure and technical support.

For trade policy to be successful, trade-related data needs to improve through developing the government's capacity to generate, analyse and disseminate statistical information. Currently inter-Ministerial coordination of data is lacking and several sources of data conflict. Resolving this data conflict should be a priority as it severely undermines attempts to monitor and generate policy. Legal work, capacity-building and institutional strengthening in other LDCs has been supported by international agencies such as the World Bank, IMF and UNCTAD in their respective areas. In order to perform a full and comprehensive trade data-strengthening programme it will be necessary to solicit long-term support. Support should be along several dimensions including institutional strengthening, infrastructure development, training of officials, and dissemination of data.

In order to fulfil the objective of building productive capacity, policy needs to be well coordinated between the various trade-related institutions. One of the challenges in recent years has been the tendency of various ministries to work in isolation from each other, with the MFAET being in some cases unaware of sectoral priorities, and the sectoral ministries often failing to act in accordance with

the priorities of the MFAET. Key government agencies such as MoFT and MCILI now attend the NTDC meetings, ensuring that trade-related policies or regulations are presented to the NTDC and carried out effectively. Coordination between the MFAET, MoFT, MCILI and the policy unit within the Prime Minister's Office could also improve. The MCILI should continue to assume overall responsibility for industrial and investment policy and trade and investment promotion in both domestic and international markets, promoting the use of trade agreements and preferential market access. It should also work closely and proactively with relevant cross-cutting and sectoral ministries and take charge to address the supply-side constraints to trade and export development, as well as securing market access for Solomon Islands products overseas working closely with the Pacific Islands Forum Secretariat's Pacific Trade and Invest (PT&I) network of offices around the world. During consultations outside of Honiara, participants felt that they should be consulted and involved more closely in trade-related decision-making, including representation on the NTDC.

The Ministry of Development Planning and Aid Coordination (MDPAC) is also critical for trade development, as are the Ministries working on infrastructure development. Considerable effort in coalition- and awareness-building must be made to ensure buy-in among the various ministries. Often this is on an informal level, but in future reporting lines, procedures and processes need to be formalised and standardised in writing.

The various stakeholders are as follows:

- MFAET deals with international trade policy;
- MDPAC is responsible for the Medium Term Development Strategy (MTDS) and the National Development Plan;
- MCILI is responsible for investment policy and promotion, industrial development policy, consumer affairs including consumer protection, metrology and price control, labour and immigration;
- Ministries and authorities which deal with cross-cutting issues relevant to productive sector development are the MoFT (financial reform, tax structure and incentives, Government finance), Ministry of Infrastructure and Development (trade infrastructure), Ministry of Aviation and Communication (fair and competitive air transport and telecommunication services), Ministry of Provincial Government (ensuring inclusive policy development), the Central Bank of Solomon Islands (CBSI) (macroeconomic stability) and utility boards (Solomon Water and the Solomon Islands Electricity Authority);
- The sectoral ministries should be responsible for market-based research and development, knowledge transfer, efficient and sustainable production technology. These include:
 - The Ministry of Agriculture and Livestock (MAL),
 - Ministry of Fisheries and Marine Resources (MFMR)
 - Ministry of Forestry and Research (MFR)
 - Ministry of Mines, Energy and Rural Electrification (MMERE)
- Trade facilitation is the responsibility of: Customs and Excise Division (MoFT), Quarantine services (SIQS), Competent Authority for Fisheries (MHMS), Standards and Conformance including metrology (Consumer Affairs Division), Marketing and Export Promotion Division, foreign investment registration (FID), Labour, Immigration and the Trade Dispute Panel (MCILI);



- Non State Actors are also important in developing productive capacity. These include: Private Sector Associations including SICCI, SMEC, ASIM and SIWIBA, financial institutions (commercial banks and credit unions), NGOs, women's groups, consumer groups (none exist at the moment), trade unions, producers' associations, academia and regional networks.

Full and continuous consultation with stakeholders will be critical to the success of trade policy. Only if trade policy closely reflects the interests and priorities of the government, private sector and civil society is it likely to be successful.

It is suggested that the Director of Trade remain the principal government focal point. Full and early consultation of Department of External Trade (DET) officials will help ensure ownership and coordination.

The following government agencies and ministries have an interest in trade beyond the Ministry of Foreign Affairs and External Trade (MFAET) including the NSC and NIU:

- Ministry of Commerce, Industry, Labour and Immigration (MCILI)
- Ministry of Finance and Treasury (MoFT)
- Ministry of Fisheries and Marine Resources (MFMR)
- Ministry of Infrastructure Development (MID)
- Ministry of Forestry and Research (MFR)
- Ministry of Agriculture and Livestock Development (MALD)
- Ministry of Mines, Energy and Rural Electrification (MMERE)
- Ministry of Education and Human Resource Development (MEHRD)
- Ministry of Culture and Tourism (MCT)
- Central Bank of Solomon Islands
- Private sector bodies to be consulted include the:
- Solomon Islands Chamber of Commerce and Industry (SICCI)
- Pacific Islands Private Sector Organisation (PIPSO)

Regional, sub-regional and international bodies that can be consulted where appropriate include:

- All members of the Council of the Regional Organisations of the Pacific (CROP) including: Pacific Islands Forum Secretariat, Pacific Islands Forum Fisheries Agency (FFA), Secretariat of the Pacific Community and South Pacific Tourism Organisation.
- Office of the Parties to the Nauru Agreement (PNA)
- Oceania Customs Organisation (OCO)
- Office of the Chief Trade Adviser (OCTA)
- Melanesian Spearhead Group Secretariat (MSG)
- UN agencies such as UNCTAD, ILO and UNESCAP as well as the WTO and ITC

Individual private-sector representatives should be consulted separately where appropriate.

The Pacific Island Association of NGOs (PIANGO) and Oxfam constitute the main civil society organisations with input into trade.

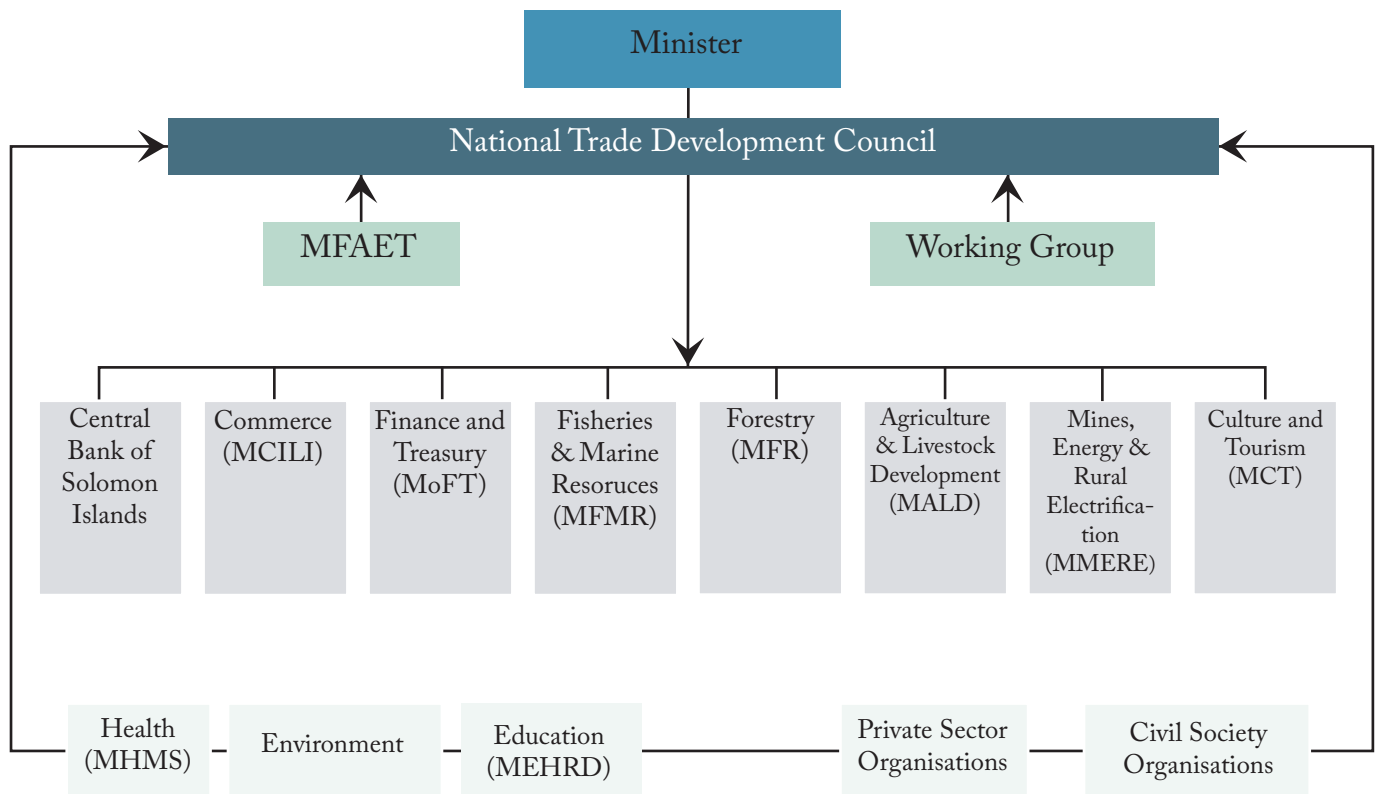
The NTDC needs to seek and maintain support from broad cross-section of officials in trade-related organisations, institutions, agencies and Ministries.

POLICIES:

POLICY ONE	Develop a work programme and agenda for the NTDC including high-level goals to allow flexibility, along with cross-sectoral targets and specific goals. For example high-level goals might include ensuring that the TPF vision is implemented and that trade contributes to human development. A more specific goal might be to finalise a certain project, such as the construction of a Vapour Heat Treatment Facility to treat exportable fruit and vegetables. The work plan and agenda will be developed and driven by members. If written by outside consultants or specialists it will lack ownership and commitment.
POLICY TWO	Build awareness and support for the work plan and agenda at Cabinet level. After the work plan and agenda are endorsed by Cabinet, the TPF will be presented to the Members of Parliament to build awareness and support among the legislature.
POLICY THREE	Specific technical working groups in key negotiation areas such as labour mobility, agriculture and agro-processing, fisheries, development co-operation can be formed based on the stakeholders' areas of competence. In the medium term, the Trade Policy Framework and DTIS with necessary amendments can also be used to assist in formulating positions for trade negotiations. Adequate budget resources will be allocated for preparations for negotiations. Issues such as tariff liberalisation strategy, identification of sensitive or exempted goods, identification of services sectors and sub-sectors, current limitations on MFN and national treatment, and the quid pro quo must be thoroughly discussed at the NTDC before the trade delegation begin negotiation talks. The delegation can then be given the mandate with sufficient guidelines to negotiate in the best interests of the country.
POLICY FOUR	The NTDC is chaired by the Honourable Minister for Foreign Affairs and External Trade. The SICCI CEO is vice-chair alongside the CBSI Governor.
POLICY FIVE	The NTDC will meet at least four times a year – i.e., every three months – with additional meetings when required. Working groups can meet more often.
POLICY SIX	The NTDC will broaden its membership to include other key trade related ministries such as environment and health.
POLICY SEVEN	Improve trade-related data and capacity to generate, analyse and disseminate statistical information, including better coordination of data between MoFT, CBSI and MFAET. Support should cover: institutional strengthening; infrastructure development including training and implementation; the training of officials; and dissemination of data.
POLICY EIGHT	Put in place a trade-related communications strategy including development of an internal communications strategy; regular updating of the MFAET website; development of an external communications strategy including segmentation of target audience and developing target-specific key messages; implementing communications and PR initiatives; enhancing staff communications and PR skills.
POLICY NINE	Develop monitoring and evaluation for trade, including through: the clear assignment of roles and responsibilities; developing and adopting a results framework, a monitoring plan, a data management system and an evaluation plan; development of monitoring and evaluation capacities; and the allocation of future resources for monitoring and evaluation.

Proposed structure and relation of NTDC to other agencies

The diagram below shows some of the main bodies which may wish to designate focal points dealing with trade. MFAET would be the key ministry with input into the NTDC as its Secretariat. The Minister would oversee the NTDC, which would aim to meet every three months. The views of other private and NGO stakeholders and regional/international organisations should also be sought.



1.4. Institutional Framework

The proposed institutional framework for the trade policy formation and implementation needs to be understood and placed within its constitutional and legal context.

The legal framework for trade policy in Solomon Islands has two components – domestic and international. The domestic legal framework for trade policy is built on the Constitution of Solomon Islands and the legislation enacted by the National Parliament of Solomon Islands. The laws provide a framework for the development and implementation of a trade policy by the government of Solomon Islands. Many laws and governments measures affect international trade and investment in Solomon Islands. Some laws directly regulate the international trade or commerce of Solomon Islands, such as laws providing for import duties and export taxes. Other laws may be primarily directed at regulating domestic activities but may nonetheless affect trade and investment flows. For example, laws regulating who may practice law in Solomon Islands may be intended to ensure that the people of Solomon Islands are protected from lawyers that are not competent or of doubtful character, but one consequence may be restrictions on the ability of foreign lawyers to supply legal services to people and businesses in Solomon Islands.

Modern trade agreements have broad coverage. They may extend to every conceivable type of cross-border transactions, involving the movement of goods, services, investment, money, intellectual property, and people etc. Section 9.1 details the issues that are dealt with in the WTO. A very broad range of domestic laws and policies may therefore affect cross-border transactions.

The legislative reform programme in Solomon Islands has seen the revision of a number of these laws in recent years. Work on legislative reform in other areas is underway. Ongoing review and revision of legislation affecting trade and investment is an essential component of trade policy. Review should take place periodically and not be driven solely by the negotiation or conclusion of new trade agreements.

The Constitution of Solomon Islands affects how trade policy is developed and implemented in Solomon Islands. The Constitution determines which person or body can do the various acts that make up the trade policy. Solomon Islands is a constitutional monarchy with the Queen as the Head of State, represented in Solomon Islands by the Governor-General. The legislative power in Solomon Islands is vested in the National Parliament of Solomon Islands. The Prime Minister is elected by the Members of Parliament. The Governor-General appoints the other Ministers on the advice of the Prime Minister.

The negotiation of trade, investment and other international treaties and agreements is an important component of the development of Solomon Islands' trade policy. The Constitution does not address the treaty making power of Solomon Islands. Under the Westminster system the power to negotiate and enter treaties is vested in the Executive. Ratification of treaties by Parliament is not formally required for the treaty to create an international obligation for Solomon Islands. However, an international agreement would not become part of the legal system and binding on individual persons or Provincial Governments without the enactment of legislation by the National Parliament. Trade agreements would normally only affect the legal rights and obligations of individual persons and business once the Government takes measures or Parliament enacts legislation to give effect to the agreement.

Nine provincial governments were set up under the Provincial Government Act 1981. While the Provinces are able to legislate for their respective territories, the provincial governments are subordinate to the central government, which legally retains ultimate power. Under section 31(4) of the Provincial Government Act 1997, the Provincial Assemblies have no power to make laws affecting the international obligations of Solomon Islands, including trade and commerce with countries outside of Solomon Islands. Under section 33(4) a Provincial Executive cannot in the exercise of its functions establish or conduct any relations of a diplomatic nature with any foreign country; conduct or establish any relation of a business or economic nature with any foreign country without first obtaining the approval of the Minister; or seek to obtain, or accept, any financial assistance from funds outside Solomon Islands, except in accordance with the Central Bank of Solomon Islands Act. While the Provincial Legislature and Executives are not able to conduct a foreign trade policy, a number of legislative and executive actions could have implications for the trade policy of Solomon Islands. For example, the Provincial regulation of service activities may affect the ease with which foreign service suppliers may enter the market. Provincial Legislatures and Executives do not appear to have the legal right to enact legislation that is inconsistent with the international obligations of Solomon Islands. As a consequence, the actions of Provincial Legislatures and Executives may be limited by trade agreements signed by the central Government of Solomon Islands.

Solomon Islands is undertaking a constitutional review. One issue that has been discussed is whether Solomon Islands should adopt a federal system of government. A federal system would affect the functions and powers of national and provincial governments in relation to the development and implementation of trade policy. Greater powers given to provincial governments may complicate the formation of trade policy and lengthen the process by which Solomon Islands may enter into international commitments to other countries.

In order to benefit from greater integration into the global economy, Solomon Islands needs to be able to efficiently adopt and revise trade-related laws and other government measures. The Constitution should clearly identify decision-making power in relation to international trade agreements and actions, as well as the domestic legal relationship between the national and provincial laws and government measures and international trade agreements. Where legislative or governmental actions by different levels of government may affect trade or investment, institutional arrangements may need to be established to permit collective decision-making and consultation and participation in national decision-making.

At the international level the trade policy of Solomon Islands is shaped by, and implemented through, the international treaties to which Solomon Islands is a party. Under an international treaty, states accept obligations to other states in the exercise of their sovereignty, generally on a reciprocal basis. International agreements cannot be invoked before the courts in Solomon Islands until incorporated by legislation. The provisions of the WTO and regional trade agreements cannot be invoked directly before national courts. International agreements are the responsibility of the Ministry of Foreign Affairs and External Trade, together with the Office of Prime Minister and Cabinet.



2.1. Economic Performance

The economic performance of Solomon Islands since independence in 1978 has been mixed and volatile, with economic growth falling consistently short of the regional average. The economy grew at around 4.5% per annum for the first decade, slightly lower than the 5% average recorded during the previous 10-year period. Annual growth declined further in the nineties to the disappointing rate of around 3.5%, little higher than the rapid annual population growth of 2.9%. Toward the end of the decade, economic reforms and an upturn in Asian economies after the regional crisis led to a short-lived improvement. During the Tensions, the economy shrank by a quarter, with a drastic effect on many people's livelihoods. As revenue collection dwindled and the currency devalued by 20%, the government defaulted on domestic and foreign debt and became unable to finance its operations.

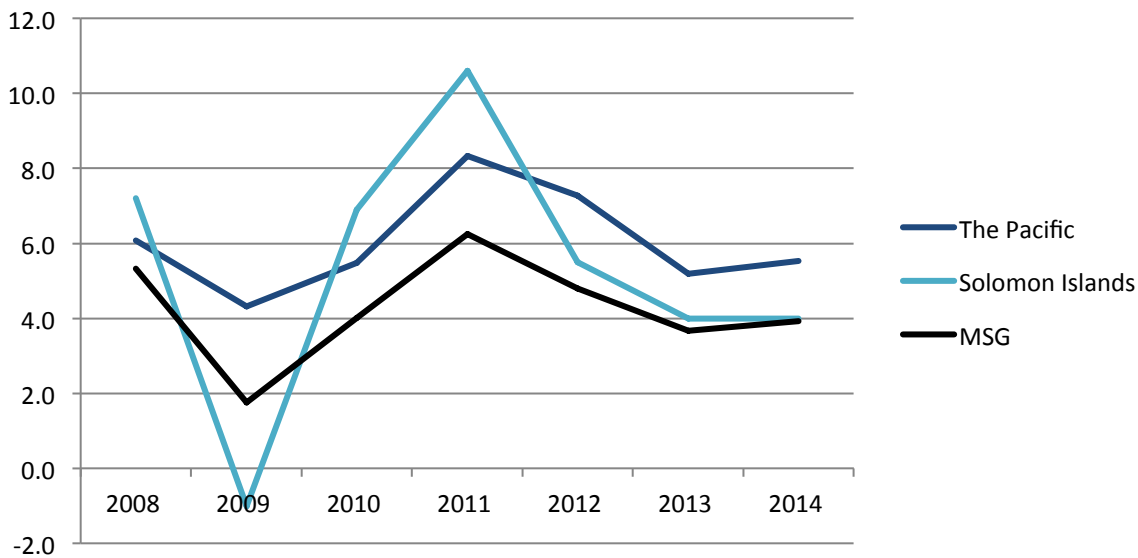
With the stabilisation of the security and political situation from 2003 onwards, the economy expanded rapidly for the next five years, rebounding quickly from a downturn in 2009 during the global economic crisis. By 2012, growth of 5.5% still lagged the regional average of 7.3%, being below that of neighbouring Papua New Guinea but higher than that of Vanuatu, Fiji, Samoa, Kiribati, Micronesia and Tonga. A reduction in output from the logging sector has undermined growth, and this trend is expected to continue in coming years. The sustainability of the logging industry is possibly the most worrying macroeconomic trend in coming years. A sharp economic shock is on the horizon with the potential loss of 60% of exports within 5-10 years. An FAO report states that at the current rate resources could be exhausted by 2015.² Agricultural output has also declined, particularly in cocoa and copra. Agricultural value added is 39% of GDP, considerably smaller than services value-added, which is 55% of GDP, with manufacturing a very small 3.8%.³

The closure of the Gold Ridge mine in 2014 and its offering for sale to foreign investors is another worrying trend, although a number of other prospects are in the pipeline, notably in nickel. Figure 1 shows that GDP growth has been middling compared with other Pacific Island states although Solomon Islands was hit harder by the global economic crisis and rebounded faster. Whilst growth has been reasonable, figure 2 shows that in real terms, per capita income started from a lower level and lost ground on the other Pacific island small states between 2003 and 2012.

2 See: <http://www.fao.org/docrep/014/am626e/am626e00.pdf>

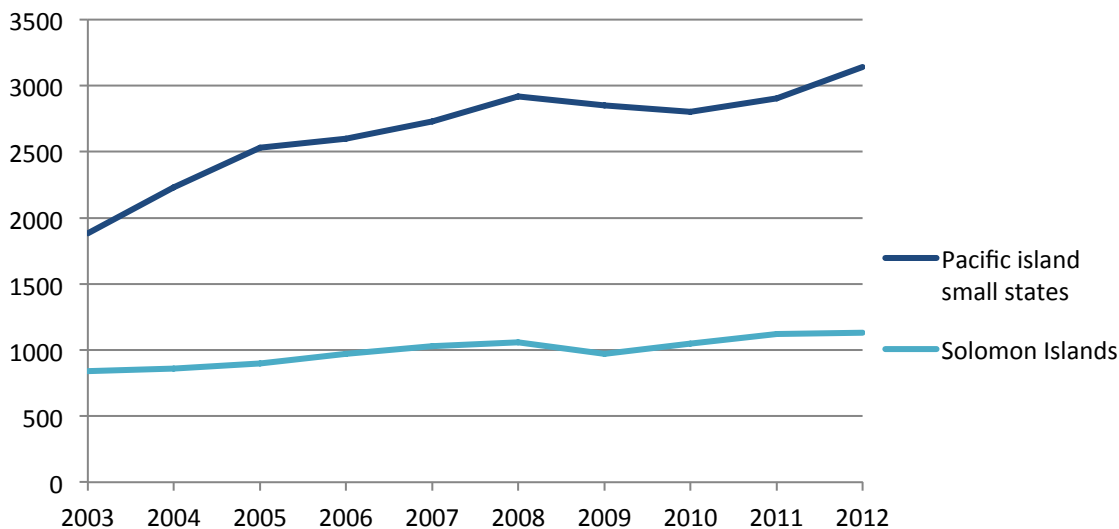
3 There is a misperception that the Solomon Islands cash economy is primarily agricultural. Not only is the services sector considerably bigger, but according to the World Development Indicators arable land, estimated at 18,000 hectares, represents only 0.64% of total land area. Subsistence output, however, is important for most peoples' livelihoods, and agriculture remains an important source of employment, particularly in the outer islands and rural areas.

Figure 1: GDP growth rate, Pacific, MSG and Solomon Islands, 2008-14



Source: Asian Development Bank (ADB)

Figure 2: Growth in real gross national income per capita, USD



Source: World Bank Atlas method (taking inflation into account and averaging three years of exchange rate data so as to iron out short-term fluctuations).

*NB. The World Bank Pacific island small states category includes Kiribati, Fiji, Tonga, Marshall Islands, Federated States of Micronesia, Palau, Samoa, Solomon Islands, Tuvalu and Vanuatu.

According to the Asian Development Bank economic growth moderated to 2.9% during 2013 from 4.8% the previous year.⁴ The forecast at the time of writing was for the economy to shrink in 2014, following the floods in Honiara and the closure of the Gold Ridge mine. Caution is warranted over these forecasts. In 2008 when the DTIS was written, GDP growth was forecast at 5%, 2% and 7.5% in 2008, 2009 and 2010 respectively. The actual figures were 7.2%, -1% and 6.9%, a major deviation in values if not in trend.

4 <http://www.adb.org/sites/default/files/ado2014-solomon-islands.pdf>

As a result of this moderate growth performance, and from a low base alongside high population growth, per capita GNP remains among the lowest in the Pacific, at US\$1,110, below that of Papua New Guinea and less than half that of Vanuatu. One of the most disturbing statistics is that per capita GDP shrank by a third in constant Solomon Islands dollars from 1995 to 2002 and only recovered its 1990 level by 2007. In effect this amounts to 17 years of decline. Per capita income is expected to grow at only about 1.5% each year over the next two years, approximately half the rate of the Pacific region.

Solomon Islands' GNI per capita has increased from about US\$800 in 2003 at the end of the tension to slightly over US\$1,100 in 2012, but has yet to recover to the level of US\$1,450 reached in the late 1990s (World Bank 2013)

2.2. Inflation

Inflation has been relatively high, at an average of 7.75% from 2008-13, one percentage point above the average of the rest of the region, and with a disproportionate impact on the poor in the form of higher food prices. This relatively high rate of inflation is largely the result of higher world prices, rapid money supply growth and donor expenditure. Solomon Islands has the fourth-highest ratio of Overseas Development Assistance to GDP of any country, according to the World Bank. As a result of the modification of the exchange-rate regime in 2012 the currency strengthened slightly and is forecast to continue strengthening in the coming two years, a trend which could help moderate inflationary pressures but undermine export growth.

2.3. Human Development

Consultations for the trade policy framework revealed widespread national support for a vision of trade and development as more than about simple material gains. Human development is about capabilities and the freedom to make choices that can lead to life satisfaction. Translated to the UN Human Development Index (HDI) it includes per capita income, education and health and income, a broader measure of country performance than simple economic growth. On this measure Solomon Islands has performed poorly. The absolute HDI value increased slightly over the past half-decade but at a lower rate than the regional average. The country's relative international ranking has deteriorated. In the 2008 DTIS report Solomon Islands ranked 128th out of the 177 countries on the HDI, classifying the country as having 'medium' human development. Solomon Islands ranked above Papua New Guinea (which was in 139th place) but below Vanuatu (119th) and Fiji (90th). Although the criteria for measurement of the index changed, and more countries were added, six years later Solomon Islands was classified as having 'poor' human development, at 157th out of 187 countries, dropping 29 places. Comparators Vanuatu (131st) lost 12 places whilst Papua New Guinea (157th) dropped 18. Fiji improved by 2 places to 88th. Of the three main indicators that make up the index, Solomon Islands performs worst on education and better on health and income. As pointed out in the DTIS, trade is capable of contributing to an improvement in human development and economic progress, but only if supported by an active and coherent policy.

A better education system is critical in order to improve the skills required to drive industrialisation and build productive capacity. Human development similarly has an important role in boosting economic growth and incomes.



Approximately 22.7% of people suffer basic needs poverty according to the UNDP, while food poverty is 10.7%. Urban households around Honiara suffer from disproportionate levels of poverty, with almost one in three people unable to afford a basic minimum standard of living. In rural areas 19% of people are poor. As Honiara expands, land pressures are creating large squatter settlements. In the provinces it is the most remote and most densely populated areas which have the highest proportion of poor households.

2.4.

Reasons for economic underperformance

As noted in the DTIS, Solomon Islands represents an example of the ‘resource curse’ (see box). As a ready source of economic activity, logging reduced the opportunity for diversification and value-addition. Export duties on logs were a reliable source of fiscal revenue independent of direct and indirect taxes on citizens. Rather than embark on industrial reforms and diversification, it was easier for various Government administrations to persist with a readily available fiscal revenue stream than to diversify into new products and to impose new and potentially controversial forms of taxation. Taxation was always likely to present challenges in a predominantly subsistence society. Only four-fifths of adults of working age are involved in the cash economy.

The fiscal and economic gains from logging were not used to build infrastructure and productive capacity. Rather than actively promote diversification and the development of the supply-side of the economy through investment in infrastructure the government has, perhaps not as part of a purposeful or explicit strategy, over the past years enacted policies of increased trade openness and domestic liberalisation alongside fiscal rectitude and tight money. In 2007 import tariffs were lowered to three bands, with a maximum of 10%. The average applied tariff rate fell from 14.58% in 2006 to 9.18% in 2011, a five-year period during which goods and services exports fell from a proportion of 36% of GDP to 25% of GDP, resulting in a low level of trade integration by global standards.⁵ The average applied tariff remained the same in 2014. Trade integration has fallen since the completion of the DTIS in 2008/9.

Box 1: Resource rent

Economic rent is defined as the difference between the price at which an output from a resource can be sold and its extraction and production costs, including normal returns. For natural resources such as minerals, it is usually known as resource rent. Rent-seeking is the extraction of rent by manipulating the social or political environment in which economic activities occur, rather than by adding value.

There is often a risk that natural resource companies manipulate the institutional environment to gain protection from foreign or domestic competition, and that they continue to supply traditional customers rather than diversifying markets with secondary benefits to the domestic economy.

The resource curse

The entrenchment of resource-rent seeking activity is often associated with the so-called resource curse, whereby the export of an abundant commodity becomes a burden to the domestic economy, suppressing other activities.⁶ Opportunities to extract rent can generate corruption as businesses

5 The source for this and the following data, unless stated, is the World Bank’s World Development Indicators. It should be noted that data are often inaccurate and alone may misrepresent the true macroeconomic picture. Every effort has been made to support the observations made here with anecdotal background, interviews and on-the-ground observation.

6 For example see Sachs, J. and A. Warner (2001) ‘The Curse of Natural Resources’ European Economic Review Volume 45, Issues 4-6, May 2001: pp 827-838

seek political favour and regulatory change. Amid an atmosphere of corruption and regulatory laxity, many countries experience environmental damage. The resource curse can also reduce the investment in more sustainable activities and inflate the value of the currency, damaging other export industries.

Papua New Guinea, a country rich in gold, oil and other minerals, is an example of the resource curse, having experienced major corruption and governance failures. Several mining operations have caused widespread environmental damage and the economy remains undiversified. Malaysia, on the other hand, is often considered one of the most successful examples of development owing to its successful diversification away from the export of tropical agricultural products into higher value-adding activities such as manufacturing and information technology.

Fiscal conditions have tightened over recent years. Government expenditure is reported by the ADB as 42% of GDP in 2012, reasonably high by global standards but the fifth-lowest of the 12 Pacific island states for which data is available. The fiscal deficit was small, at -1.9% during the same year according to ADB data. Although the data are different, UNESCAP ranks Solomon Islands as having the biggest fiscal surplus of any of the 30 Asia-Pacific states between 2010 and 2011.⁷ The debt:GDP ratio had declined to the very low level of 11% by 2013 and was projected to fall to 8% by 2015. Such a low government debt:GDP ratio allows policy space for increased infrastructure spending. Expenditure on roads, bridges, wharves and inter-island transport is low and could be increased, with a corresponding macroeconomic impact in the form of job-creation and the associated multiplier effect. Increased infrastructure spending clearly needs to be accompanied by enhanced procurement and governance practices.

Although money supply growth is high, largely reflecting the high sums of incoming aid since the Tensions together with foreign investment in the minerals industry, credit disbursed by the banking sector is very low. Interest rate spreads remain high, at around 10 percentage points.

An assumption that economic flexibility, fiscal rectitude, tight money and the removal of market distortions would alone generate efficiency gains and the correct allocation of resources has been proven misplaced. Over the period concerned there was no discernable increase in per capita GDP trend growth and, as noted above, the standing of Solomon Islands on the Human Development Index declined.

2.5. Importance of productive capacity

Several development economists have recently begun to emphasise the importance of strategic government interventions aimed at raising domestic productive capacity, especially in small, isolated economies.⁸ This is particularly true in predominantly subsistence societies. Whilst subsistence has a number of advantages including food security, the relatively small number of people operating in the cash economy reduces demand. Inequality also tends to reduce consumption. In Solomon Islands, the Gini coefficient based on the most recent household income and expenditure survey is 0.39, around the average for the Pacific region (the closer to 1, the more unequal). This aggregate measure hides other manifestations of inequality such as power, access to government services and the divide between men and women. More than 80% of people earn less than half of average national income.⁹

7 <http://www.unescap.org/stat/data/syb2013/G.2-Fiscal%20balance.asp>

8 Winters, A.L. and Martins, P.M.G. (2004), 'When comparative advantage is not enough: business costs in small remote economies', *World Trade Review*, Vol. 3, No. 3; Chang, H.J. (2007), *Bad Samaritans*. New York: Random House; Chang, H. J. (2002) *Kicking away the ladder*. London: Anthem Press; Rodrik, D. (2007) *One Economics, Many Recipes*, Princeton, Princeton University Press

9 http://www.undppc.org.fj/_resources/article/files/solomon%20report%20final%20LOW.pdf



This recent emphasis on demand-deficiency reflects a longer-standing recognition that most developing economies suffer a perpetual shortfall of demand and governments and donors must act to counteract this shortfall, something to which they can contribute by building productive capacity. This requires investment in infrastructure – Vanuatu’s Millennium Challenge Account is a good example – and pursuing an expansionary rather than a contractionary strategy.¹⁰ Trade will not increase simply through the standard recipe of openness to international markets and tight fiscal and monetary policy. This strategy has been followed more or less for many years in Solomon Islands and elsewhere with inadequate results. The government must diversify and build the domestic economy as well as boost investment and domestic demand.¹¹ Trade diversification away from unsustainable logging and boosting domestic demand should form the central components of the macroeconomic strategy.

A number of statistics support this picture of underinvestment and low demand. Unsurprisingly the Solomon Islands economy features a negative savings rate. Gross domestic savings shrank by an annual average of 6.4% between 1997 and 2006 (the latest data available, although it is likely that the savings rate has since remained negative). The negative savings rate is partly a reflection of the low returns on offer in savings accounts, which in turn result from the weakness of the banking sector and poor provision of financial services.¹² Lending is similarly low. Gross fixed capital formation as a proportion of GDP stagnated at only 6-9% from 1998 to 2003 and grew to only 13% by 2006, one of the lowest levels in the world, half the rate of neighbouring Vanuatu and particularly low for developing countries, where the rate usually tends to be higher. The global average for all countries is 23%.

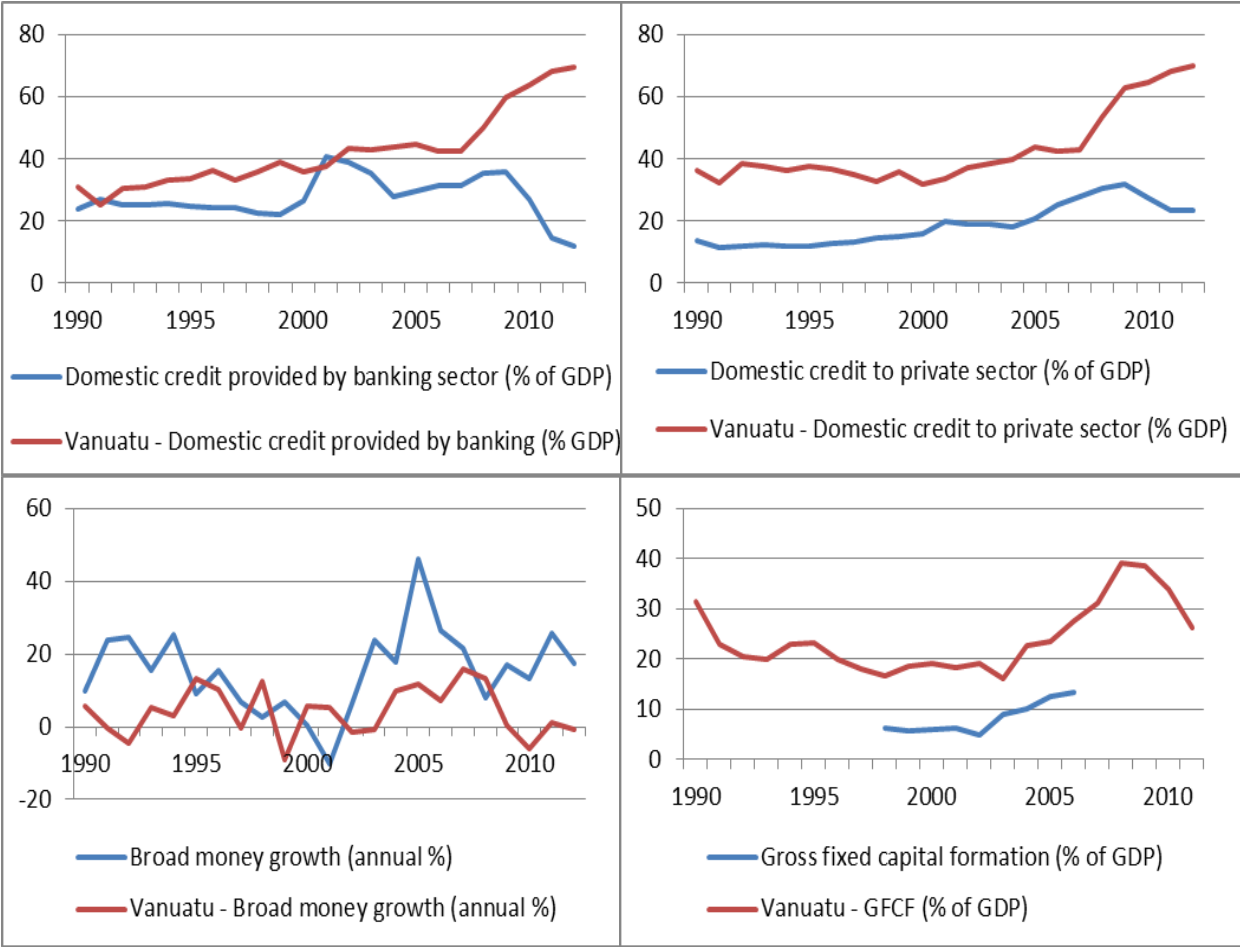
Neighbouring Vanuatu is a useful comparator. As the following graphs show, in recent years there has been a marked divergence between domestic credit provided by the banking sector as a proportion of economic output in Solomon Islands compared with Vanuatu. Domestic credit to the private sector overall has long lagged that of Vanuatu, and the divergence has increased in recent years. Broad money supply growth in both countries has been more similar, although Vanuatu has registered a lower rate in recent years, adding to evidence of poor financial services development in Solomon Islands. The data are incomplete, but domestic investment appears significantly lower in Solomon Islands, with Vanuatu’s rate of gross fixed capital formation (GFCF) reaching 40% of GDP in 2008 compared with the last known rate of only 13% in Solomon Islands.

10 See the writings of Albert Hirschman and Michal Kalecki.

11 Participants at the Trade Policy Framework consultation workshop mostly emphasised the need to develop productive capacity vis-à-vis market access.

12 See DTIS pp. 82-99.

Figure 3: Selected indicators, Vanuatu and Solomon Islands, 1990-2012



Source: World Development Indicators



The Solomon Islands economy features a low labour force participation rate, tight monetary conditions and low fiscal spending, manifested in weak demand. Although foreign currency inflows are high due to aid and resource-seeking foreign investment, and money supply growth has been rapid in recent years, the low level of development of the banking sector and weak financial disintermediation is reflected in low levels of formal domestic investment. The problem of slow growth and trade development, therefore, largely concerns weak demand and underinvestment rather than insufficient domestic liberalisation or access to foreign markets. Domestic supply is clearly limited, and however open are international markets, the domestic economy struggles to generate enough supply to meet the significant potential market access that exists for Solomon Islands products. This shortage of domestic supply is partly linked to insufficient levels of domestic demand. The low levels of investment via the banking sector must be addressed either by attracting more foreign investment, improving the operation of the banking industry and the provision of financial services or using some other means of credit dispersal. Given that FDI, particularly in minerals, is already reasonably high, and that the banking sector is relatively undeveloped and savings rates low, the second option looks second-best and the third option preferable. Following the example of Vanuatu, and given the high sums of donor expenditure, the grant-funded construction of infrastructure appears a priority. Additional measures to stimulate demand and reduce inequality are critical, via government and donor spending rather than tax cuts, which are unlikely to have much effect in a partly subsistence economy at a time of long-term economic stagnation.¹³ What is clear is that impediments to trade development are based partly on a shortage of productive capacity rather than only on market access for Solomon Islands products and services.

13 The 2009 tax reform failed to reduce prices. Perhaps unsurprisingly in a monopolistic environment, businesses appropriated a sum equivalent to the value of the tax cuts.

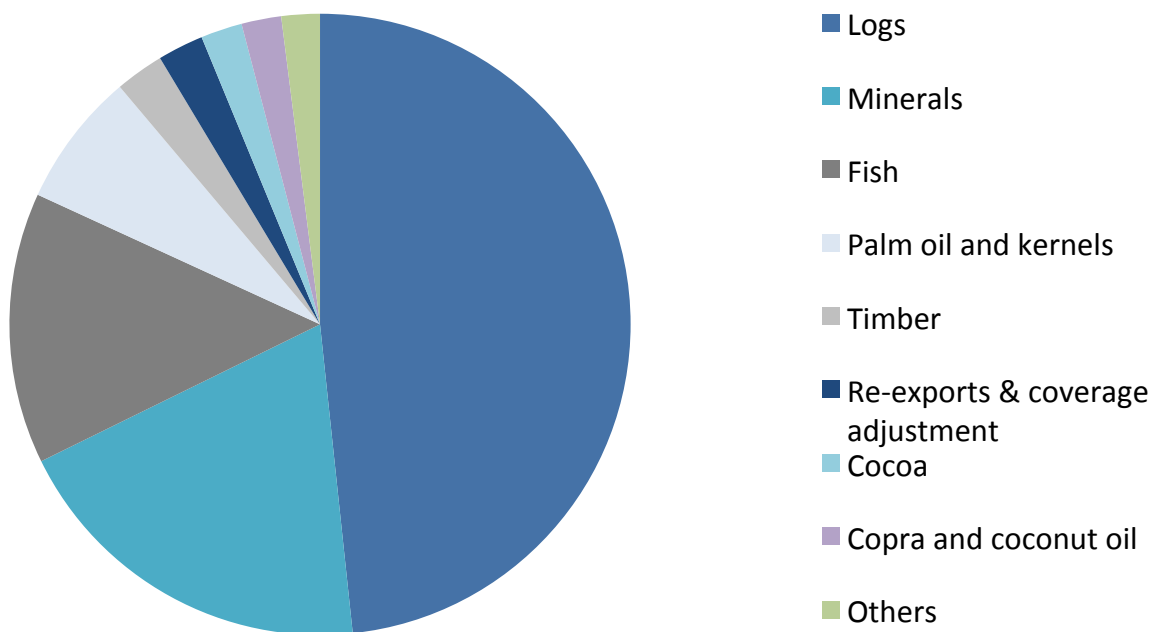
3 | TRADE COMPOSITION AND TRENDS

The three largest export commodities are timber, gold and fish. Timber and fish exports have a long-term history although gold is a relatively new export – exports of gold increased by about 11,000% between 2005 and 2012. Logging comprises 60% of exports, 15% of government revenue and 32% of foreign exchange earnings. It is also the largest source of formal employment other than the government, providing 5,000 jobs. Some estimates suggest that natural forest resources will be exhausted by 2020, which means that other sources of export growth will need to be found in addition to mining. As the following table shows, almost all exports are unprocessed commodities. Value-addition must form an integral part of export strategy.

As the figure below shows, the largest single group of imports is machinery and transport equipment, then mineral fuels, followed by food and live animals then basic manufactures. According to Central Bank of Solomon Islands (CBSI) data, in 2013 fuel accounted for 27% of total imports, machinery 30%, food 21.5%, and basic manufactures 15%. Clearly the country relies heavily on imports of processed and manufactured goods as very little is produced domestically. The emphasis in trade policy on building productive capacity is aimed partly at helping with import substitution in selected industries.

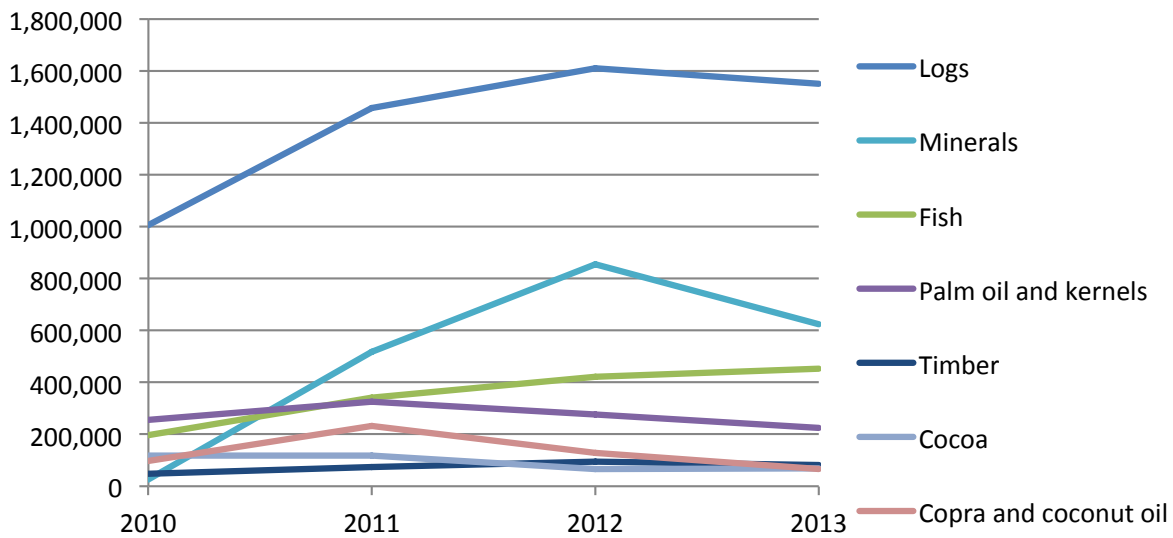
Goods exports expanded rapidly following the global economic crisis, reaching an annual growth rate of 84.6% in 2011, the highest in the region.

Figure 4: Exports by product (FOB), 2013, S\$000



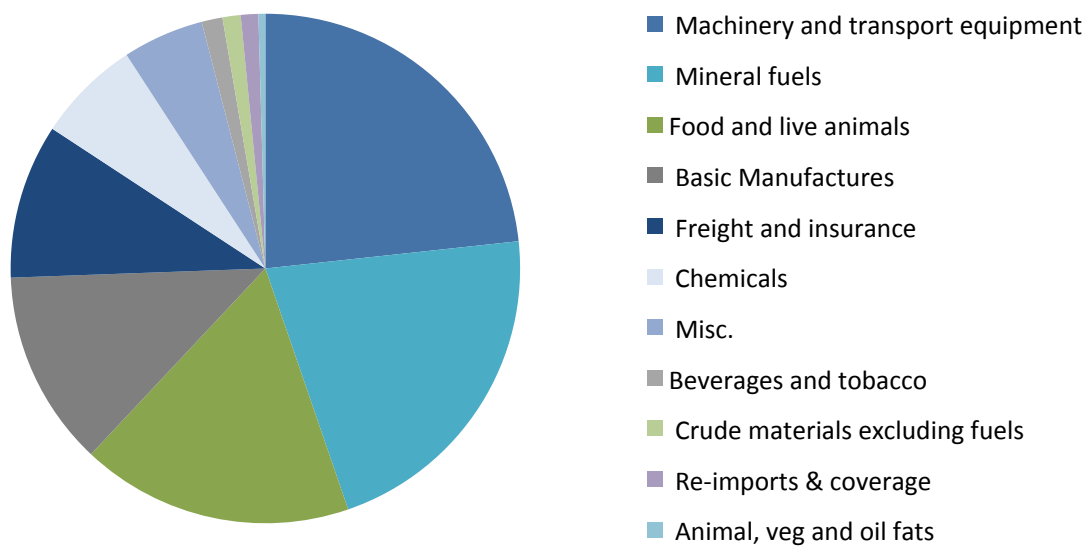
Source: CBSI

Figure 5: Exports by product (FOB), 2010-2013, S\$000



Source: CBSI

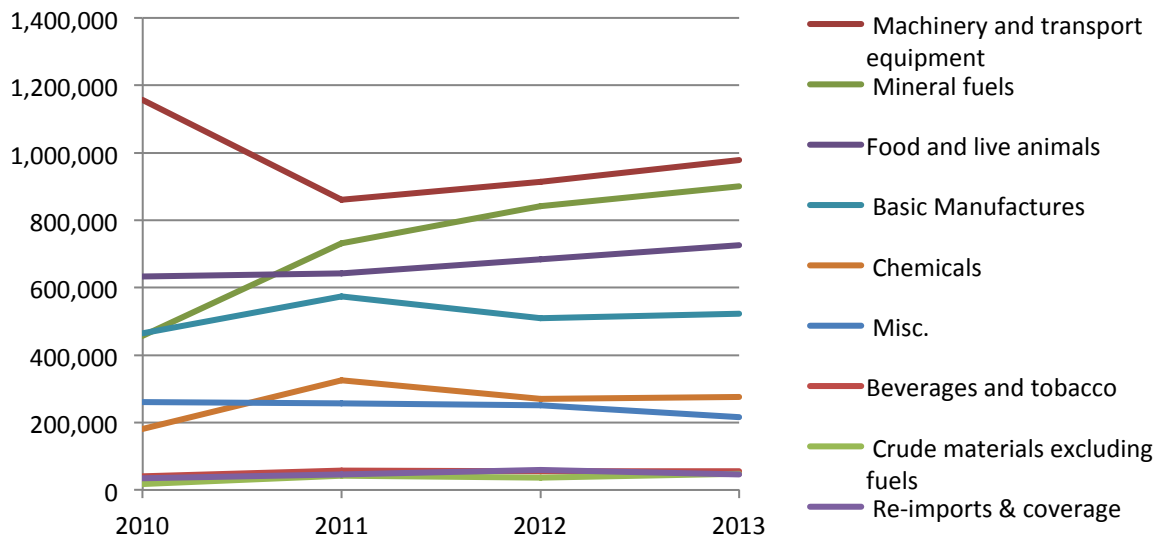
Figure 6: Imports by product (FOB), 2013, S\$000



Source: CBSI

Services account for roughly a third of total trade. The data on services exports has in the past been too aggregated to allow for detailed analysis, although trade data show that transportation and travel account for about half of total services imports, a reflection of the country's geographical isolation and dispersion. The tourism sector is at an earlier stage of development despite abundant natural attractions and the proximity to Australia. Solomon Islands is formally included in the New Zealand Recognised Seasonal Employer (RSE) scheme and Australia's Seasonal Worker Programme (SWP). Such programmes could become an important form of services exports.

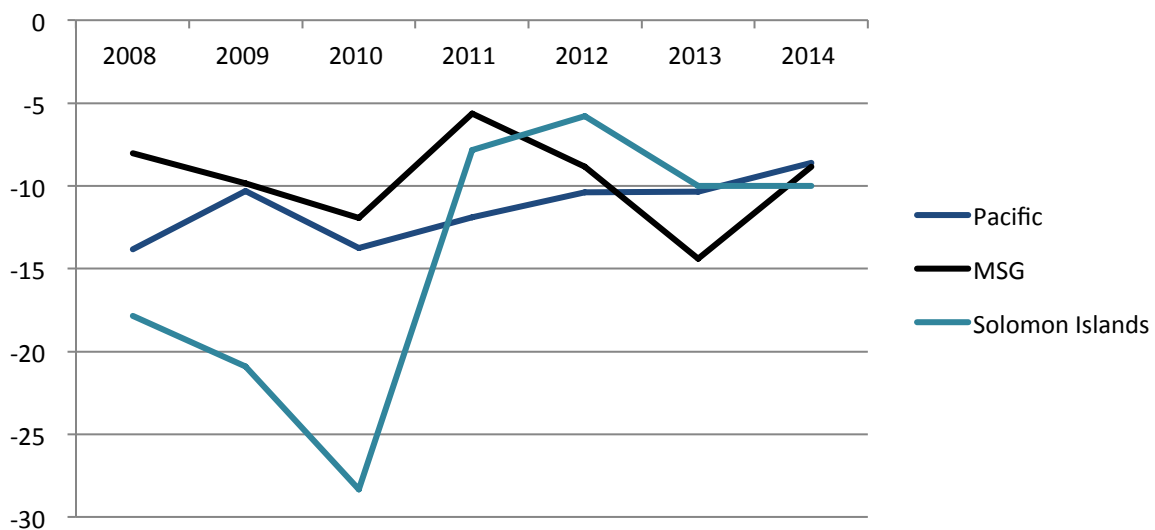
Figure 7: Imports by product (FOB), 2010-2013, S\$000



Source: CBSI

Solomon Islands has for many years run a trade deficit, although the current account deficit fell to 6% of GDP in 2012 from 8% in 2011 as higher grants from development partners offset declining export revenues. Higher fishing license revenues were also a significant source of foreign currency inflows in 2012. Seen regionally, Solomon Islands rank in a middle position, with a slightly bigger current-account deficit than Tonga but smaller than Vanuatu. Palau is the only regional country running a current-account surplus. The following figure shows that the Solomon Islands current account deficit was estimated to be slightly worse for than for the MSG and the Pacific as a whole and that it significantly underperformed both regions during the global economic crisis, reaching a low in 2010.

Figure 8: Balance of payments on current account, %, Solomon Islands, MSG and Pacific Islands, 2008-14



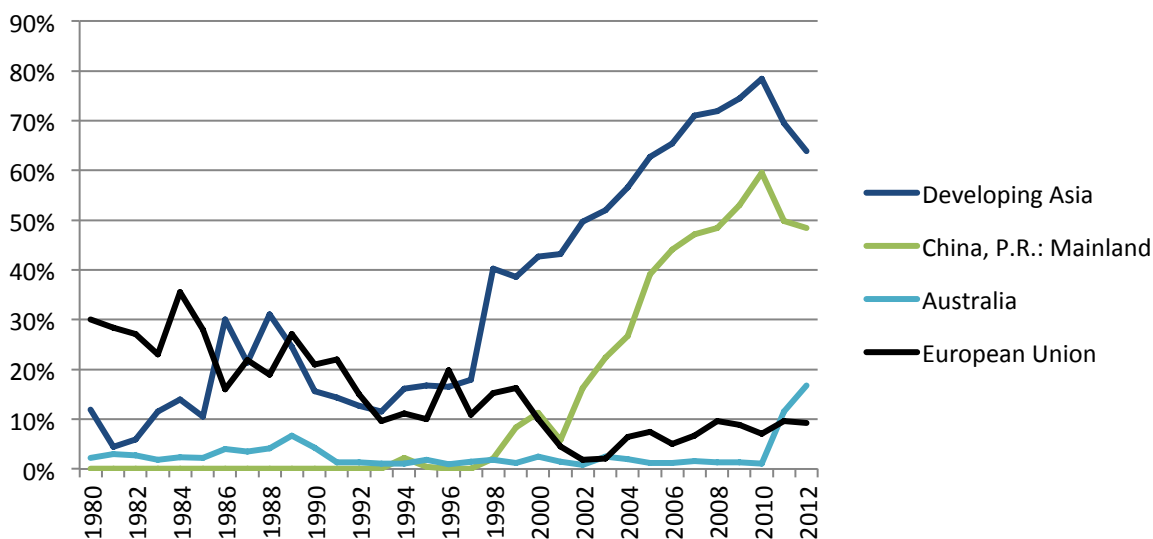
Source: ADB (Figures for 2014 are based on an estimate.)



By country, China is Solomon Islands' top export partner according to the IMF Direction of Trade Statistics, accounting for 48.4% of all exports in 2012 (mostly logs). Australia was a distant second at 16.7% in 2012, although it should be noted that the data may be unreliable. Exports to Australia are reported to have jumped by nearly double in 2012 due to the increase in gold exports from the Gold Ridge mine, a significant diversion from the long-run trend, although the closure of the mine has since reduced exports. Cross-referencing the data with mirror statistics shows a 10% discrepancy between declared Solomon Islands' exports to Australia and Australia's reported imports from Solomon Islands. The same problem occurs with China, with a 10% difference between mirror and actual data. The quality of trade statistics in general presents a challenge in the formulation of trade policy, and this issue will be addressed as part of the trade policy and negotiations frameworks. Exports to developing Asia and China fell by almost exactly the same amount as exports to Australia rose in 2011 and 2012. This is explained largely by logging and mining export trends.

According to the same IMF data exports to the EU were 9.3% of the total in 2012. Exports to the EU are mostly palm oil, and fluctuate according to demand for this product and individual commercial relationships. Exports to Thailand and South Korea dropped to 3.1% and 1.4% of the total, respectively, largely as a result of a decline in fisheries exports, whilst exports to India appear to have jumped in the past two years, reaching 2.6% of the total. Statistical problems aside, the main outstanding export trend has been a major shift toward developing Asia and China away from the European Union over the past decade or more.

Figure 9: Solomon Islands exports by destination as % of total exports, 1980-2012

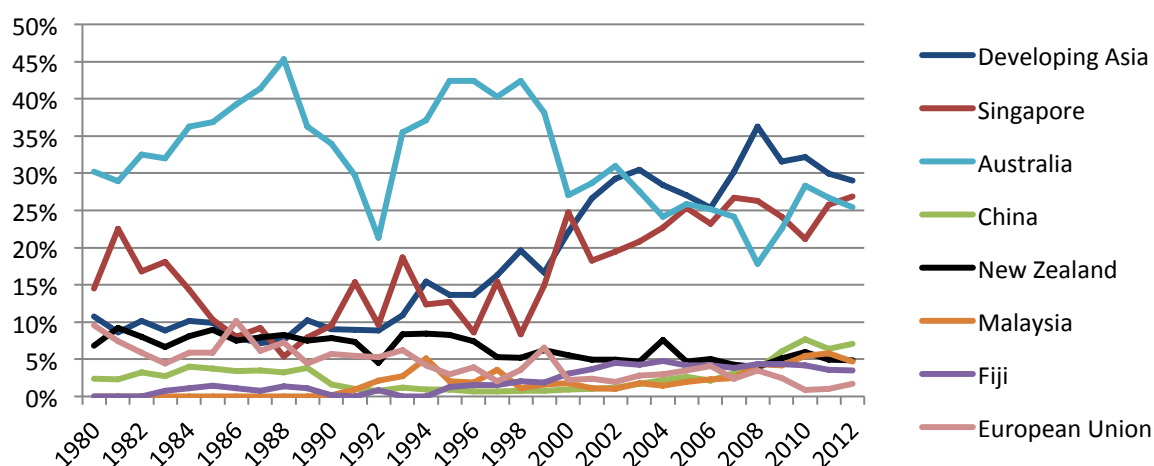


Source: IMF Direction of Trade Statistics

*NB total does not add to 100% because of overlaps between country groupings.

Imports are more diversified, with more than half a dozen countries accounting for the bulk of imports. One of the biggest trends has been the increase in imports from Singapore and developing Asia over the previous 15-20 years. Singapore now accounts for 26.9% of all imports (mostly probably re-exported products which originate elsewhere, including items such as mineral fuels) and developing Asia 29%. Imports from Australia are the second largest by individual country, at 25.5%, followed by China at 7.1%. The European Union now accounts for only 1.7% of imports, compared with as much as 10% in the 1980s.

Figure 10: Solomon Islands imports by source country as % of total imports, 1980-2012



Source: IMF Direction of Trade Statistics

*NB. Total does not add to 100% due to composition of official categories

Table 1: Summary of top ten import and export destinations, 2013, US\$m

Exports		Imports	
1. China	367.7	1. Australia	155.9
2. Australia	90.3	2. Singapore	138.3
3. Italy	28.3	3. China	40.4
4. Thailand	20.1	4. New Zealand	23.9
5. Korea, Rep. of	12	5. Malaysia	23.3
6. Philippines	10	6. Fiji	21
7. Spain	3.2	7. Papua New Guinea	20.5
8. Malaysia	8.1	8. Japan	19.4
9. India	3.7	9. Indonesia	14.6
10. United Kingdom	3.9	10. Thailand	12.5

Source: ADB





4 | BUILDING PRODUCTIVE CAPACITY

Productive capacity can be seen as the set of capabilities available in a country to produce and market its output of goods and services in a competitive manner. These capabilities include resource endowments (i.e. labour, physical capital, human capital, land), productivity, mechanisms for the allocation of these endowments to specific uses, and any other factor that contributes to maximizing the output of the economy, including trade and transport integration, institutions, policies and regulations.¹⁴ Output maximisation, however, should not be the sole aim of development. A human development approach recognises that the fulfilment of human capabilities is more important than simple enrichment, and that income distribution is critical to ensuring a sustainable long-term development path.

The economy suffers from a shortage of supply capacity to be able to export in sufficient quantities and consistency to international markets. The difficulties in responding to changes in the world economy and a lack of diversification undermine the country's ability to export. A number of other factors including transport, finance, land ownership and utilities further constrain productive capacity and trade – not only exports but imports and the possibility of import substitution. Participants in consultations for the trade policy framework almost unanimously agreed that the building of productive capacity should assume a higher priority than it has done until now, and that it should receive greater focus than existing trade negotiations.

The following brief sectoral discussions summarise policy in each area rather than attempting to provide new policy directions. The point of this section is to bring together the main various sectoral strategies in the same place and to emphasise the importance of building production as a means of developing trade, rather than focusing only on market access. In Solomon Islands the principle ingredients required to build productive capacity are linkages, infrastructure, finance, land, energy and water.

4.1. Linkages

Linkages include backward linkages with suppliers, linkages with technology partners, forward linkages with customers and other spill over effects. One important example of linkages in Solomon Islands is between the hospitality industry and agriculture. Farmers may supply fruits, vegetables and meat to hotels. The mining industry in time may also develop additional backward linkages with suppliers of food and transport. Linkages are often lacking because local firms cannot meet international production standards, as well as corporate requirements in terms of consistency, continuity and volumes of production. Linkages can be improved through government policy, although Solomon Islands currently has no explicit linkages programmes in place. Backwards and forward linkages are key to industrialisation – specific policy interventions are required to promote this.

Linkages are crucial to the development of productive capacity and in turn the export effort. Many successful development experiences – notably that of South Korea – were partly a process of learning

14 Freire, C. (2011) 'Productive capacities in Asia and the Pacific', Bangkok, UNESCAP <http://www.unescap.org/pdd/publications/workingpaper/wp-11-17.pdf>

via diversification of the domestic economy, rather than exclusively by buying technology or capital from abroad or attracting FDI. Given the likelihood of continued new foreign investments in Solomon Islands in the near future it will be doubly important to develop linkages both between large and small domestic companies and between foreign companies and local companies. Many of the foreign businesses in Solomon Islands import a large majority of their foodstuffs and processed items, operating in something of an enclave with limited connection to the domestic economy.

There is particular potential for linkages between the tourism and agriculture sectors, in both of which Solomon Islands has a comparative advantage. There is considerable opportunity for farmers to supply food to hotels, tour agencies and restaurants.

Table 2: Specific measures by governments (of host and home countries) to promote linkages

Technology upgrading	Training
<ul style="list-style-type: none"> • Partnership with foreign affiliates. • Incentives for R&D cooperation. • Home country incentives. • Promote suppliers' associations. 	<ul style="list-style-type: none"> • Collaborate with private sector on one-stop service. • Support private sector training programmes. • Collaborate with international agencies.
Information and matchmaking	Financial assistance
<ul style="list-style-type: none"> • Provide relevant information. • Maintain updated electronic databases. • Act as honest broker in negotiations. • Support suppliers' audits. • Provide advice on subcontracting. • Sponsor fairs, exhibitions and, conferences. • Organize meetings and visits to plants. 	<ul style="list-style-type: none"> • Legal protection against unfair contractual arrangements and other unfair business practices. • Guarantee recovery of delayed payments. • Indirect financing to suppliers through their buyers. • Tax credits and other fiscal benefits to firms providing long-term funds to suppliers. • Co-finance development programmes with private sector. • Directly provide finance to local firms. • Home country measures: <ul style="list-style-type: none"> • Two-step loans. • Using official development assistance.

Source: UNCTAD (2001) table VI.1, p. 210.

An explicit linkages development programme may be the best way of achieving this objective. In several countries – notably Haiti and Guatemala – the UNDP has conducted or is undertaking an initiative known as the Supplier Development Programme, which aims to identify a suitable large company which currently sources inputs from abroad, such as a large supermarket or food manufacturer, and to identify and coach suitable local firms to supply that company. In Haiti a group of 33 local consultants, of whom fewer than 20 are expected to pass exams, were selected for training in business and supply chain management in order to help the small firms service the large company.



Two consultants will be assigned to each supply chain. Eventually it is expected that the project will become self-sustaining. Under these programmes in other countries some local firms have subsequently developed into exporters themselves.

In addition the UNDP and other agencies have established one-stop centres where entrepreneurs have access to business development services and inputs (i.e. entrepreneurship training, information, finance, quality control, networking and business counselling). Thailand established a unit dedicated to the development of linkages (see box below).

Box 3: Thailand – The Board of Investment’s Unit for Industrial Linkage Development (BUILD)

BUILD has been established to provide a wider range of investment-related services. BUILD functions as a “middleman” to forge links between customers and suppliers. The objectives of the programme are to use technology transfer to reduce the import of parts and components, linking Thai suppliers with large companies and strengthening part makers in Thailand. BUILD promotes industrial linkages and stimulates domestic subcontracting of parts and components. The unit analyzes parts and components needed by both Thai and foreign assemblers planning to start production in Thailand. BUILD then surveys existing supplier industries in order to identify companies that are capable of producing competitively. The programme also collaborates with other government agencies and private firms to help these potential suppliers to upgrade.

BUILD consists of several programmes, e.g. the Vendors Meet Customers Program was established to promote industrial linkages and stimulate domestic subcontracting of parts and components. Visits of manufacturers to factories are organized under this programme; the main role of the monthly Parts & Components Marketplace is to match customers and suppliers. Every month, BUILD invites 10-20 large companies and 200-300 potential qualified suppliers from a computerized database of supporting industries that includes about 800 companies believed to be capable of producing parts for parent firms. The marketplace consists of a morning seminar on different issues, e.g. increasing efficiency, a presentation by the potential customers on their supply demands, an exhibition of the parts needed, open discussions and opportunities for informal meetings. Subcontracting Seminars provide SMEs with information on how to overcome difficulties in supplying large companies; The Association of Southeast Asian Nations (ASEAN) Supporting Industry Data-base includes all important industries in the fields of mould-and-die, electronics, auto-motive, and chemistry in Asia and aims at facilitating matching in the ASEAN region.

Source: UNCTAD

4.2.

Infrastructure

As noted in the DTIS, infrastructure is key to stimulating economic activity, improving trade and reducing poverty. Quality infrastructure which extends across the whole country facilitates the movement of agricultural and other inputs into the productive areas and helps producers bring goods and services to market, and consumers to travel to markets. Good roads, air and sea transport are essential for development of the tourism industry. Solomon Islands has the lowest number of kilometres of roads per square kilometre in the Pacific Islands, as well as the lowest level of paved roads at 2.4% of the length of the total road network.¹⁵

A number of exporters express dissatisfaction with domestic communications, and improvements will reap major rewards. Infrastructure building also has a macroeconomic impact – the implementation

15 Pacific Regional Infrastructure Facility, Pacific Islands Performance Indicators, 2011.

of new projects can raise demand, with potential inflationary consequences unless outweighed by the long-term impact on potential output.

Trade strategy, particularly trade negotiations strategy, has a key role to play in supporting the development of infrastructure. For example in PACER Plus as well as the EPA negotiations a key request for development assistance should involve grant support to fund the priority initiatives identified in the National Transport Plan (2007-2026) and the National Infrastructure Investment Plan (2013).

The aim of the National Transport Plan is to ensure that roads, bridges, ports, wharves and airfields are well maintained and that adequate funding is available for rehabilitation and maintenance. A considerable proportion of the work is already funded by donors, with the promising initiatives in recent years including the upgrading of Munda and Gizo airstrips as well as the new road from Noro to the airport. As part of the trade negotiations with the EU on the Economic Partnership Agreement (EPA) Solomon Islands has submitted an Aid for Trade Matrix. An infrastructure project to relieve the congestion problems within Honiara connecting the key industrial areas of Guadalcanal and the international port remains a central component. In total there are 1751km of public roads with 188 bridges spread over 30 islands, mostly in Guadalcanal and Malaita. The road network is still in need of major funding in order to bring it to a proper standard and for it to cover the whole country. Until recently the government had insufficient funding to build new roads, and could only carry out maintenance activities. The road network is small compared with the land area. The road network only covers approximately half of the main island of Guadalcanal, with a major impact on transport from one side of the island to the other, and a resulting effect on economic activity. Quite apart from the social benefits, trade development will be impossible without proper infrastructure.

Objective 6 of the National Development Strategy is to: “Develop Physical Infrastructure and Utilities to Ensure all Solomon Islanders have Access to Essential Services and Markets”. A high priority is assigned to improvement of water supply and sanitation infrastructure.

The port in Honiara is fully owned and operated by a government agency. About 90% of all international freight arrives in Honiara, of which about half is cleared and received by importers and then sold through wholesalers to trade stores on other islands. Domestic shipping service has deteriorated. Some 35 ships, 20 to 50 years old, operate services but information is limited and coordination is poor. Maritime infrastructure has deteriorated and is often damaged and defunct.

Despite liberalisation of the airways the continuing low number of international flights into Honiara Airport limits financial viability and reduces financing options for maintenance and development. The airport and sector struggle to meet International Civil Aviation Organization (ICAO) standards.

Domestic aviation is hindered by institutional issues. Use of larger, more economical aircraft is hampered as most provincial airstrips cannot handle such aircraft or operate in all weathers and a number of strategic airstrips are held under customary land ownership, constraining upgrades and maintenance. Solomon Airlines, the only domestic carrier and government owned, must use profits from international routes – now facing competition from Pacific Blue – to subsidise domestic routes.



One of the main contributions of the DTIS was to recognise the importance of financial services for productive capacity and trade development. As the document states, “it is vital that any intervention of the state or donors must consider the impact on existing informal intermediation, and take measures not to undermine functioning systems. It also means that, if the goal is to promote trade and private sector capacity, interventions should specifically target those financial services which promote productive activity and are poorly provided by traditional social systems.”¹⁶ The increase in competition following the launch of Pan Oceanic Bank in Solomon Islands is a move toward the improvement of access to finance. The bank’s lower interest rates and allowance of the use of the National Provident Fund funds as collateral has resulted in a very large uptake of loans. However risks remain, such as the difficulties borrowers face in assessing their ability to repay and the possibility of heightened rates of default.

The DTIS highlights the importance of remittances as a source of finance for the development of productive capacity. This finding was supported by consultations for the Trade Policy Framework. Additional labour access to Australia and New Zealand, and possibly other markets, should remain a key priority of trade policy.

The DTIS also highlights the problems of accessing credit, particularly for start-up businesses. Interest-rate spreads are high and banks particularly risk-averse. Other mechanisms for credit dispersal exist, such as credit unions and informal lending, but these methods are imperfect and the frequent absence of financial records or credit history restricts the growth of formal finance. The important point is made that formal financial services may not be a better option than traditional communal risk-sharing. Currently, individuals temporarily enjoying a high income lend to others within the community facing difficult financial conditions, in the expectation that in the future if they experience a downturn in income they may similarly receive support in return. The dissaving seen in the data is a manifestation more of the dysfunctionality of the banking system than of the profligacy of Solomon Islanders. Given the low interest rates available, it makes more sense to invest in a community business than a bank.

For the purposes of building productive capacity with a view to trade development, it will remain important to provide the full range of different financial institutions, including conventional banking, microfinance, travelling banks and banking by mobile telephone. The financial literacy campaign run by the Central Bank of Solomon Islands is also important. The National Financial Inclusion Taskforce achieved its goal of having 70,000 new bank accounts opened in 2014.

As the cost of mobile handsets and text messages falls, the mobile banking solution becomes increasingly attractive. Nevertheless, the problem of withdrawing and depositing cash will remain for as long as rural areas continue to regularly engage in cash transactions: in all likelihood for a very long time. In addition, while the use of a personal handset certainly improves convenience, it does not really improve an individual’s ability to access financial services at an acceptable cost, compared to the use of an agent—provided the agent does not have the market power to charge a monopoly mark-up for his intermediation.¹⁷

Bank South Pacific (BSP) and the Australia and New Zealand Bank (ANZ) have recently introduced mobile banking in Solomon Islands. Similar models for mobile transactions are Celpay in Zambia and the Democratic Republic of Congo, where the customer has a Celpay account and

16 DTIS: 82

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a Celpay SIM card which generates a menu-driven user interface which can be used to initiate transactions. Money can be paid into the Celpay account either from an ordinary bank account or by depositing cash at the branch of a partner bank. The customer can then make payments to any Celpay-enabled bank account (such as that of a shop) via SMS by entering the amount to be paid into the phone and authorising the payment with a PIN.

In the Philippines, remittances can be made via a system known as G-Cash. After registering via text message, customers (who must be GTel subscribers) can then transfer money into a G-Cash account by depositing cash at GTel offices or G-Cash affiliates. Transfers from one customer to another can then be initiated by SMS.

Also in the Philippines, international remittances can be made via SMART cash via partners in other countries. The customer has a SMART Money account and a SMART Money card, like a bank card. Money can be transferred into the account from an ordinary bank account, and then the card can be used to make purchases and withdraw cash from ATMs as with a normal debit card. However, customers can also transfer money from one card to another via SMS. Further, overseas workers in any of partner countries can deposit cash with remittance partners, which can be instantly credited to any SMART Money account and notified to the account-holder by SMS.

The Development Bank of Solomon Islands failed and was placed under court administration after running up a significant and unsustainable loan book. Solomon Islands' experience has been typical of various development banks in the Pacific and elsewhere. The Vanuatu development bank failed in the 1990s and its counterpart in Tuvalu has lost money consistently since 1993, continuously relying on outside funding for its survival. There is no easy way to design a development bank that would escape the perverse incentives so common in Government-funded credit providers. It would be unwise to consider pursuing this option in the current Solomon Islands context.

Alternatives programmes to facilitate access to business finance have been established, including a guarantee scheme operated through the commercial banks. However, the schemes have not had significant take-up. During consultations, the need to review the existing schemes was frequently expressed.

4.4. Land

Clear property rights are critical to market-based economic development, yet in Solomon Islands this has proved a particular challenge. Land is mostly owned by the community rather than on an individual private, freehold basis. Approximately 87% of land is customarily owned, 9% owned by government, 2% owned by individual Solomon Islanders and 2% leased by foreigners. In many cases land was historically not 'owned', but used by different groups for different purposes, such as water, grazing or growing crops. It is therefore virtually impossible to determine 'ownership' in the western sense.

Conflict over land ownership has been widespread and has in some cases held back economic development – land-based mining operations being cases in point. According to the Investment Division of the MCILI, land is cited by foreign investors as the biggest challenge to doing business, followed by infrastructure. Insecurity of tenure is a major obstacle to both domestic and foreign investment, infrastructure development and even geographical development. Malaita has suffered a particularly high level of land disputes. Another consequence of the insecurity of land tenure has been the unwillingness of financial institutions to lend money. It can be difficult to use land as collateral.



Traditions and custom are also closely tied up with land ownership, which therefore must be addressed in a sensitive way and not totally subordinated to the needs of the business environment or private sector. The DTIS suggests that one avenue might be the Family Tree approach, which is a method of recording genealogies using traditional community-based techniques.

A number of other promising initiatives have taken place, including the passing of a land reform act and the setting up of a customary land reform unit in the Department of Lands. As noted in the AUSAID Pacific 2020 report, cited in the DTIS, four areas should receive priority: (i) recording land rights; (ii) facilitating land dealings; (iii) establishing dispute resolution machinery; and (iv) improving land administration services.

4.5. Energy and water

Water supply and energy are major challenges, with the infrastructure for each remaining somewhat outdated and old. Both are critical to the development of productive capacity for trade. Electricity blackouts remain common, and the diesel bill has been particularly high, with a consequent effect on the balance of payments. A number of schemes aimed at tackling these problems are under operation including the Tina River Hydropower Development Project. The feasibility, tender and preparatory phases are financed by World Bank (with Australian funding). The project itself will be financed by the private firm that wins the tender, which will recoup the cost over 30 years. The National Energy Strategy also aims to provide regional centres with hydro schemes; encourage import substitution by increasing the use of biofuel; and promote the use of solar power.

Solomon Islands Water Authority (SIWA), which operates under the Ministry of Mines, Energy and Rural Electrification, monitors the quality and management of water supply and the sanitation system. Underinvestment is due to a lack of managerial capacity and shortage of funding. Water quality, reliability and coverage needs to improve, including upgrading of pipes, tanks, underground plants, new treatment facilities, pipelines and metering.

The Japanese Government is conducting a major overhaul of SIWA infrastructure, replacing old pipes and identifying new water sources. Access to land is the main obstacle to project implementation. SIWA also aims to increase water distribution while reducing operating costs by reducing reliance on electric water pumps, which consume large amounts of electricity.

4.6. Industrial policy

Solomon Islands has no industrial policy. Given that the enhancement of productive capacity with a view to promoting exports is a high priority, consideration should be given to putting an industrial policy in place based on the insights of the trade policy framework, DTIS and other relevant documents. Features should include targeted interventions aimed at improving economic diversification and domestic value addition; improvement of linkages between sectors; and increasing the contribution of agriculture and manufacturing to merchandise trade.

The policy should acknowledge that in the face of international market volatility, reliance on primary exports will fail to bring about sustainable benefits for Solomon Islands. Moving up the value-added ladder would increase mark-ups and target more predictable and stable international markets. An industrial policy should enhance the nation's international competitiveness through marketing and product differentiation. Trade protection should be orientated only toward the performance of the productive sector and the gains from trade. A key challenge will be to implement the policy

effectively and to selectively apply support based on actual and potential comparative advantages. Lessons may be learnt from Vanuatu, which is implementing its own industrial policy and drafting a Trade Act, seen as the next logical step following approval of the TPF. In Vanuatu, it is felt that a Trade Act should formally allocate responsibilities for Trade Agreements, propose changes to the ownership of some trade-related Acts which are currently under the remit of other Ministries and give legal status to the NTDC.¹⁸

POLICIES:

POLICY ONE	Develop an industrial policy including targeted interventions aimed at improving economic diversification and domestic value addition; improvement of linkages between sectors; and increasing the contribution of agriculture and manufacturing to merchandise trade. The policy will enhance competitiveness and diversification, and aim at moving Solomon Islands up the value-adding ladder. The policy, which is a high priority, should be driven by the MCILI through the NTDC.
POLICY TWO	Promote policies that induce backward and forward linkages, particularly tax and investment policies, as outlined in Section 4.1. Promoting smaller-scale enterprises that are linked to the large enterprises can play a critical role in achieving inclusive growth.

18 Vanuatu Government (2012) ‘Trade Policy Framework’, Ministry of Trade, Commerce, Industry, and Tourism, Port Vila



5.1. Agriculture

Some 84% of Solomon Islanders engage in subsistence smallholder farming. Agriculture is a key economic sector and an important source of rural employment and livelihoods. Other areas include market production and commercial export crops. Domestically marketed production is an increasing source of cash income for rural villagers.

Commercial export crops have grown to a larger scale to increase cash income for rural households and are now the main contributors to the economy. Crops include: cocoa, coffee, kava, vanilla, copra, coconut oil, palm oil and honey. The main agricultural export earnings are from cocoa, palm oil, copra and coconut oil. Around 17% of export earnings come from cocoa and copra.

An agricultural strategy exists, promoting amongst other things transport, quarantine and access to finance. As with a number of such sectoral policies, however, implementation has remained challenging. A range of challenges face the agricultural sector beyond the well-known physical obstacles of geographical dispersal and distance from major markets. Political and policy instability has hindered investment and agricultural extension services have been generally underfunded. Finance remains difficult to access, particularly for smallholders. Land tenure is a challenge to the establishment of larger-scale plantations. Larger commodity exports such as palm oil has been successful because of the existence of high demand in destinations such as Europe and because of the history of the product in the country.

A considerable amount of activity is funded by donors, particularly in recent years the Australian-funded Pacific Horticultural and Agricultural Market Access (PHAMA) programme, which has amongst other things conducted work on fisheries, cocoa, copra, value-added timber, and cut flower and foliage exports.¹⁹ Other possible export products include chillies and seaweed. Alongside coconuts, chilli has been assessed by PHAMA as presenting a high margin and low volume opportunity which could serve the Brisbane wholesale market in the winter-spring period. Prospects are best for the smaller and hotter varieties such as birdseye and habanero. Solomon Islands has a natural comparative advantage due to seasonality and the labour intensive nature of production. Chillies are therefore considered high priority but would require substantial investment to develop the production base and collection, grading and packing facilities.²⁰

Although PHAMA expires in 2015 its work has formed a key part of trade development, and it may be possible to integrate the PHAMA market access working group with the NTDC. In general, agriculture has been underfunded and the government may itself wish to consider funding some of the activities carried out under PHAMA beyond its expiry date. Beyond PHAMA, priorities include a Vapour Heat Treatment Facility to treat fruit and vegetables with a view to supporting

19 These studies are available at: <http://www.phama.com.au/Reports.aspx>

20 'Technical Report 43: Feasibility Study on Developing Exports of Selected Products from Solomon Islands to Australia' http://www.phama.com.au/DesktopModules/Bring2mind/DMX/Download.aspx?Command=Core_Download&EntryId=321&PortalId=0&TabId=96

exports as well as a Food Safety and Product Quality facility for Livestock Products, again with the idea of facilitating exports.

A National Coconut Strategy and a National Cocoa Policy also exist. The Coconut Strategy aims to commercialise and process 370 million nuts worth approximately US\$210 million per year (FOB). Crude coconut oil should be produced for export sale in bulk; processing for cooking oil; and blending with diesel for ships and electricity generators.

The strategy also targets Virgin Coconut Oil (VCO) and coconut flour production as well as husk utilization for coir and pith; shell use for energy, charcoal and activated carbon, and production of higher value lower volume coconut milk for export.²¹ A key challenge to the realistic achievement of these goals in the past has been funding and organisation, with the failure to achieve ambitious targets often a source of demotivation amongst staff and officials. For example, production of copra and coconut oil declined after the launch of the strategy. Copra production in 2010 was 25,389 metric tonnes, whilst by 2013 it was 13,922 tonnes. Coconut oil production increased from 123 tonnes in 2010 to 470 tonnes in 2011 before falling to 192 tonnes in 2013. The value of exports also fell over the period, partly influenced by a decline in international prices. Some of the other explanations for the decline in production are the ageing of trees and a decline in yield, as well as shortcomings in management, organisation and strategy.

The Cocoa Policy aims to establish an effective enabling environment to govern and coordinate the cocoa industry. It also targets an increase in total national production from 6,000 metric tonnes in 2011 to 20,000 metric tonnes by 2020, which would be worth around SBD500 million. As for copra and coconuts, this objective appears somewhat unrealistic in that the value of cocoa exports fell from SBD119.4 million to SBD69.3 million by 2013.

The Cocoa Policy aims to increase yield per hectare of existing plantings by at least 50% by 2020 and to reach a point where at least 60% of rural households are growing and engaged in other cocoa enterprises. The Cocoa Policy also aims to improve marketing and to identify niche markets as well as to improve the availability of credit; human resources and institutional capacity; research and development; and quality.²²

The difficulties in exporting agricultural products from Solomon Islands reflect a number of issues including infrastructure limitations, biosecurity issues, capacity of private sector to export non-traditional commodities and absence of institutions to provide technical support. One response has been to suggest increased tourism could drive increased agricultural production. An important potential linkage exists between agriculture and the tourism industry. Hotels currently source most of their production from overseas, and considerable import substitution possibilities exist in this regard.

Other Pacific island countries have had some success in promoting linkages, and Solomon Islands can learn from their experience. In Tonga and Samoa, for instance, the highest value products used by the tourism sector are generally meats, dairy, seafood and beverages. With the exception of seafood, the capacity of local producers to meet the needs of the tourism industry for meats, dairy and beverages remains limited.²³ In addition to fruit and vegetables, several processed agricultural

21 'Coconut Sector Strategy Solomon Islands', All ACP Agricultural Commodities Programme, International Trade Centre, European Commission

22 Government of Solomon Islands (2012) 'Solomon Islands Cocoa Industry Policy and Strategy 2012 – 2020'

23 FAO (2012) 'Agriculture And Tourism Linkages In Pacific Island Countries' <http://www.fao.org/docrep/015/an476e/an476e00.pdf>



products are successfully supplied to the hospitality industry including root crop chips, sauces/ chutneys, jams, soaps, massage oils, vanilla beans, coffee, cocoa, kava, nonu juice and craft items. There is also potential for increased livestock production.

Where these successes are due to policy rather than occurring naturally, it is mostly because of the mainstreaming of linkages policy into development planning. Solomon Islands should follow this example. Policy objective six of Samoa’s Trade, Commerce and Manufacturing Sector Plan (TCMSP) is to: “Enhance linkages and spillovers in the productive sector”. A number of associated strategies are outlined in the TCMSP. One of four key areas of the Samoa Tourism Support Programme is “Tourism economic linkages strengthened” and a short term outcome is “Tourism and Agriculture linkages strengthened through marketing collateral” including the publication of a guide to local cuisine. A number of initiatives in both countries aim at boosting the supply of and demand for agricultural products.

POLICIES: ²⁴

POLICY ONE	The government will move towards the elimination of unprocessed copra exports and toward higher-value added processing, as was the government policy before 2000. Production targets will be reassessed and made more realistic based on current trends, and will include concrete intermediate actions aimed at achieving these realistic targets.
POLICY TWO	Implement a programme, including overseas study tours and quality standards assurance, on knowledge and capacity-building of high value food processing and marketing techniques for private sector entrepreneurs. Encouraging value addition in the food sector, including coffee, nuts, spices, fruits and kava, is particularly appropriate for support in this context. Other countries in the region, particularly PNG, Vanuatu, and Fiji have accessible expertise in these areas. The government will seek the necessary technical assistance from development and international partners to help carry out all of the prioritised reforms in partnership with ministries.

5.2.

Fisheries

Solomon Islands is located within rich tuna fishing grounds. The wider Western Central Pacific Ocean area produced a record high of 2.6 million tons of tuna in 2012, representing over 60% of the world’s tuna catch. Roughly half of this tuna catch was taken from the waters of PICs. There is significant potential for the fishery to contribute to the economic development of Solomon Islands over the longer term if the fishery is sustainably managed.

Of the total catch in Solomon Islands’ Exclusive Economic Zone (EEZ) some 11% (24,000 tonnes) is processed in-country. This processing generates 1,795 jobs with a potential value-added of US\$16 million and exports valued at US\$59 million.

Solomon Islands with the other Parties to the Nauru Agreement (PNA) countries have established the Vessel Day Scheme (VDS) to manage effort in the regional tuna fishery. In 2012, Solomon Islands generated around US\$26.8 million from licence fees for the right to fish in its EEZ. With improvements to the VDS it has been suggested that Solomon Islands could potentially increase access fee revenue to as much as US\$45m. The full implementation of the VDS across the region

24 See DTIS (2009)

would also ensure the sustainability of the fishery.

The major income earning activity from commercial fisheries are processing at the Soltuna base in Noro, and the licensing of Foreign Fishing Vessels, which pay license fees to exploit the country's tuna resources. Development potential is substantial and tuna is a major export with numerous distant water fishing nations operating in the EEZ. Government aims to encourage foreign processing and value addition. The prospect of the building of two fish processing plants on Guadalcanal (and/or other plants at Noro and a potential site identified on Malaita) has the potential to further increase fisheries output and exports.

The continuation and expansion of the processing of tuna in Solomon Islands probably requires some form of subsidy, whether from reduced licence fees or tax exemptions. Soltuna and the potential processing facilities are also dependent on maintaining preferential access to the EU market. A detailed analysis of the costs and benefits to Solomon Islands of these forms of subsidisation, as well as the full implementation of the local crewing requirement under the current tuna management plan, should be undertaken.

The prospect of an Economic Partnership Agreement (EPA) with the European Union is one of the main issues facing the industry at the time of writing. With the other Pacific members of the Group of African Caribbean and Pacific States (PACPS), Solomon Islands is negotiating a Comprehensive EPA with the EU. As the ACP trade preferences in the EU market under the Cotonou Agreement came to an end on 23 November 2007, two PACP non-LDCs (PNG and Fiji) initialled the Interim EPA (IEPA) to maintain their market access for tuna and sugar. Solomon Islands together with all other PACP LDCs opted instead to use the Everything But Arms (EBA) provision, which provide the same level of market access to the Cotonou Agreement although with more restrictive rules of origin (RoOs). The remaining non-LDC PACPS opted not to sign due to the remaining contentious issues in the IEPA, and instead to export to the EU under the standard GSP preferences extended to all developing countries. Negotiations have been challenging because of EU demands for PACPS to change their fisheries conservation and management measures as well as a number of controversial issues, including the so-called 'global sourcing rule' for fish and fish products, export taxes, and whether the EPA will cover trade in services (although this matter has been resolved) and several trade-related matters.²⁵

Solomon Islands should also prioritise the maintenance of Competent Authority status in both health and in Illegal, Unreported and Unregulated (IUU) catch in order to be able to maintain market access for its processed fisheries products to the EU. In 2013, AUSAID had to give emergency funding to the competent authority. In addition to the problems of 2013, in 2014 the EU stepped in to provide further emergency funding. There is an ongoing debate on the institutional structure of the competent authority. Currently, the health competent authority is situated in the Health Ministry, and there are concerns the competent authority is not high on the priority list especially if there is a significant health scare as there was in 2013 with the outbreak of dengue fever. However, staff within the Ministry of Health and Medical Services who work in the competent authority double up and work on other projects within the Ministry and are crucial resources in other areas. Ideally, funding and resources should be ring fenced so that staff are not working on other areas. The status of the competent authority is particularly important as without competent authority status all fish exports to the EU can be suspended.

25 These issues are discussed more fully under the trade negotiations strategy and in the cost-benefit analysis (ODI (2013)).



For inshore and coastal fisheries, most Solomon Islands villages are on the coast and rely heavily on marine resources for food and cash incomes. There are serious concerns relating to the future sustainability of the coastal fisheries resources in Solomon Islands and urgent attention should be given to this issue. Coastal fisheries are an essential supply of protein and need to be better managed.

The canning operation at Noro is important in an economy where most people work in the informal sector or live a subsistence existence. Most of the canned tuna is exported to Europe, although the unit cost of canned tuna when compared to competitors in Thailand is high due to the domestic prices of fuel, poor electricity and water supply.

POLICIES

POLICY ONE	Continue to engage in the Comprehensive EPA negotiations, signing only if benefits clearly outweigh the costs. The continued travel time, analysis and associated effort must be considered a cost. A new and detailed empirical cost-benefit analysis will be conducted once the negotiations have been finalised.
POLICY TWO	Continue to support the development of fisheries canning and tuna processing in Noro and elsewhere. Place rural fisheries and aquaculture development within an integrated rural development strategy and ensure that a proportion of the income from the tuna industry is allocated to support the rural development strategy. This may best be achieved by ring-fencing the funds in a trust fund.
POLICY THREE	Increase focus on value-addition and reduce reliance solely on fisheries access revenue in order to encourage job creation and retention of benefits by prioritising the granting of fisheries access to those companies that make considerable investments in onshore fish processing in Solomon Islands.
POLICY FOUR	Continue to ensure that conservation and the sustainable management of fisheries remain core principles governing actions and policies in this sector.
POLICY FIVE	Ensure that the competent authority that deals with food safety including sanitary and phytosanitary issues within the Ministry of Health and Medical Services is provided with adequate funding allocation on an annual basis in the national budget. This will remove the uncertainty from relying on donor funds in this vital area and ensure continued trade of fisheries products with the EU.

5.3.

Mining

Mining has the potential to be the major contributor to foreign exchange and government revenues, possibly replacing the logging industry as the mainstay of the economy. As in a number of other industries, land ownership has proven a particular challenge. When the DTIS was completed in 2009, the Japanese managers of Sumitomo Metal Mining were confident that the planned nickel mine on Choiseul and Isabel would be operational by 2014, producing 30,000 tonnes of nickel a year for 30 years starting in 2014. Initial production would be of unprocessed ore worth US\$150-200 million per annum, but if a refinery was built, exports could be worth US\$460 million and create 1,000 jobs. Sumitomo has since commenced a Court challenge for a key Isabel tenement

against an Australian mining company, Axiom. Sumitomo stated that they would not develop any nickel mine unless they secured the disputed tenement. An appeal against a judgment in favour of Axiom was likely to be heard in early 2015. At the time of writing only one was proceeding and the commencement of nickel mining was not imminent.

The Gold Ridge mine on Guadalcanal also faced challenges, where land disputes cost significant sums and delay operations. The quantity and quality of gold extracted were lower than expected, and in April 2014 the mine finally closed and was later put up for international sale.

Whilst land is part of the problem, a lack of policy guidance is also critical. At the time of writing, the proposal for a resource rent tax had been submitted to cabinet and was due for approval, although some uncertainty surrounded the proposal. A mining policy exists but it is not implemented, and guidance is taken from the Mining Act. An updated mining policy needs to be developed and put in place as a matter of urgency. Value addition to mineral resources is key to industrialisation and to avoid dependence on international commodity prices. Linkages to the rest of the economy remain critical. Demand for goods and services generated by the large mining and electrical energy projects can support the development of offshoot industries from which local and national sourcing of products and services occur. In mining, the largest ongoing operating expenses are for fuel used in machinery and equipment; earth moving machinery; utilities; food services; and machinery and maintenance services. Fuel supplies are currently all imported, as are earth moving and other machinery. Most food supplies are also imported. In the short to medium term the best opportunities for the development of domestic activities to service the mining companies are machinery maintenance services and training of technical personnel in business services, accounting and safety standards. Over the longer run, there are possibilities in high value agricultural activities like organic fruits and vegetables and agro-processing industries whose products are in demand by local mining companies.

Environmental management remains very important. The Sumitomo development is of low-grade nickel ore, which will require excavations in a very large area of the islands of Choiseul and Isabel, areas of intrinsic natural beauty. This would potentially have an impact on other industries such as tourism. Lessons from the region must be learned, including the examples of environmental disasters such as Ok Tedi in Papua New Guinea and Freeport in West Papua and Nauru. Solomon Islands does not have any mining-specific environmental guidelines although it is a member of the Extractive Industries Transparency Initiative. The quality of environmental impact assessments for mining varies considerably and the capacity to monitor and enforce environmental conditions is limited.

The risk of rent capture and corruption by elites is also a critical issue and risks contributing to social and economic inequality. The rent from resources is generally easier to appropriate than for other sectors. Mining operations can be more concentrated in terms of ownership and geography, making them vulnerable to requests for illicit payments.



POLICIES:

POLICY ONE

Update and implement the mining policy and put it into practice. The policy must among other things promote beneficiation and value addition. Ensure that a variety of government ministries have the necessary technical expertise to ensure that regulations are appropriately set and implemented.

POLICY TWO

Build linkages between the mining sector and other industries including utilities; food services; maintenance services; machinery maintenance services; training of technical personnel in business services; accounting and safety standards.

POLICY THREE

Place emphasis on the reduction of legal obstacles to mining development, improve transparency and continue to adhere to international best practice, while ensuring that mining activities are sustainable and land-owners and the community fairly share in the benefits. Make environmental considerations paramount.

5.4.

Forestry

The decline in the logging industry is the most pressing macroeconomic and environmental challenge facing the country. As mentioned elsewhere in the Trade Policy Framework, natural logs are expected to disappear as an export product by 2020 or sooner. An FAO report states that at the current rate, resources could even be exhausted by 2015, although this may be premature.²⁶ As the following graph shows, the international price reached a peak in 2011 before falling consistently. Export volume was slightly higher in the final quarter of 2013 but subsequently declined.

Figure 11: Export volume and average price of logs, 2010-14



Source: CBSI

To a large extent the main macroeconomic challenge facing the government is how to manage the decline and how to mitigate the social and economic impact, particularly as mining is not expected to emerge as a substitute as quickly as originally anticipated. Dialogue and planning for

26 See: <http://www.fao.org/docrep/014/am626e/am626e00.pdf>

the loss of forestry as a major export has begun, and should continue to be included as part of the budget planning process. A detailed impact study together with possible strategies would be a useful platform for discussions.

The majority of exports and government revenues come from the industry. The industry is a major employer and supports a number of important areas of economic activity, such as stevedoring. Plantation forestry, at an estimated 7% of total logging output, will be insufficient to compensate for the forthcoming decline in the logging of natural forests. Forest resource governance has been inadequate, both economically and environmentally, while girls and women tend to suffer social problems and to benefit least. The important activities of the Ministry of Forestry and Research have been allocated unrealistic and insufficient budgets. As a result, the Ministry has been restricted in its functions. Yet agencies like the Ministry of Lands and Housing, Ministry of Finance and Treasury, Ministry of Environment, Climate Change, Disaster Management and Meteorology, Ministry of Public Service and Ministry of Women Youth and Children all have a role to play in environmental and economic governance.

During consultations, some expressed the view that the current regulatory and tax regime was not being fully implemented or was abused. Concerns were raised that only 35-40% of the export taxes due on logs were being collected, legal requirements for local processing of a portion of the logs harvested were not being met and that the regulatory regime could be circumvented. Significant differences exist between declared Solomon Islands exports and Chinese imports. Addressing implementation issues and closing any loopholes in the existing regimes could mitigate some of the adverse effects of logging.

Non-monetary forestry concerns include maintaining biodiversity conservation, watershed protection, carbon sequestration and protection of air quality, control of land degradation or desertification, and protection of landscape and scenery. Government priorities include reforestation, carbon trading and climate change, and downstream processing.

POLICIES:²⁷

POLICY ONE	Ensure the tax and regulatory regime is fully implemented and modified to address any loopholes.
POLICY TWO	Work with sawmill operators and local timber companies and develop downstream processing among domestic companies and produce a long-term strategy on downstream processing. Establish a Value-added Timber Association (VATA) producer’s organization. Work on removing obstacles to the export of timber that has been undertaken under the auspices of PHAMA should continue to be supported.
POLICY THREE	Continue to inform resource owners about reforestation and plantation establishment. Awareness for plantation establishment will prioritise landowners in plantation or woodlot establishment on their land, followed by community plantations, then joint ventures with existing Solomon Islands based companies, and finally, joint ventures with foreign investors. Mechanisms for property rights and rentals should be clarified, especially understanding of land registration and joint venture arrangements.
POLICY FOUR	Formulate a policy position on carbon finance. A national carbon monitoring system needs to be established, which would be followed by undertaking a national carbon stock assessment.

²⁷ Based on outstanding recommendations from the DTIS (2009).



Box 4: Value-addition in Malaysian forestry

As a result of active industrial policy Malaysia's wood-based industries have developed from primary processing (sawmilling and plywood mills) into a diversified value-added industry with products including furniture, builder's carpentry and joinery materials and engineered wood products such as medium density fibreboard and particleboard.

The development of both the forestry- and forest-based industries in Malaysia started as early as 1900. Early development involved mainly primary activities such as logging, sawmilling and plywood and veneer production. The basic products, such as sawn timber and plywood/veneer, were mostly consumed locally rather than exported. In 1959 forestry and forest-based industries started to expand as the Malaysian Government placed more emphasis on manufacturing.

To ensure the development of the manufacturing sector in general and of forestry and forest-based industries in particular, the Investment Incentive Act was introduced in 1968. All sectors involved with manufacturing activities were given a variety of incentives including export allowances and investment tax credits. Accompanying this was a policy known as the Aggressive Export Strategy. Free Zones were introduced in 1971, a period when plywood/veneer mills started to expand.

Another package of incentives, instituted through the Promotion of Investment Act, was introduced in 1986. Foreign investors were allowed up to 100% share of equity in any newly established company. To further encourage the development of the manufacturing industries in general, the Industrial Master Plan 1 was introduced, covering the period 1986 to 1995. Twelve sub-sectors were identified as having potential for development. These include seven resource-based industries (rubber products, palm-oil products, food processing, wood-based/forest-based products, chemicals and petrochemicals, nonferrous metal products and nonmetallic mineral products) and five non-resource-based industries (electrical and electronics, transport equipment, machinery and engineering products, iron and steel and textiles/apparel). The strategies of the Industrial Master Plan 1 successfully changed the structure of the Malaysian economy from the production of primary to high value-added products.

A slightly different approach was adopted in the Industrial Master Plan 2. A cluster approach was seen as another step towards strengthening the growth not only of the manufacturing sector but also of existing supporting industries, including the services sector. Indeed, along with the manufacturing sector, the services sector was identified as the next engine of growth for the Malaysian economy.

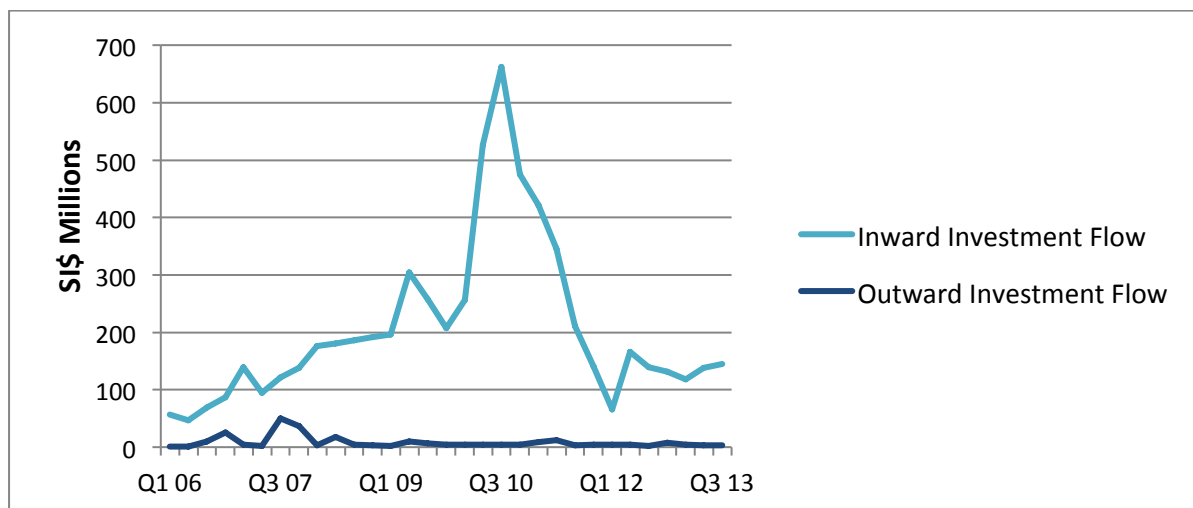
Source: Weng-Chuen Woon and Haron Norini (2002) 'Trends in Malaysian Forest Policy', Forest Research Institute Malaysia Policy Trend Report 2002:12-28 http://pub.iges.or.jp/modules/envirolib/upload/371/attach/02_Malaysia.pdf

6 | FOREIGN INVESTMENT AND SERVICES

6.1. Foreign Investment

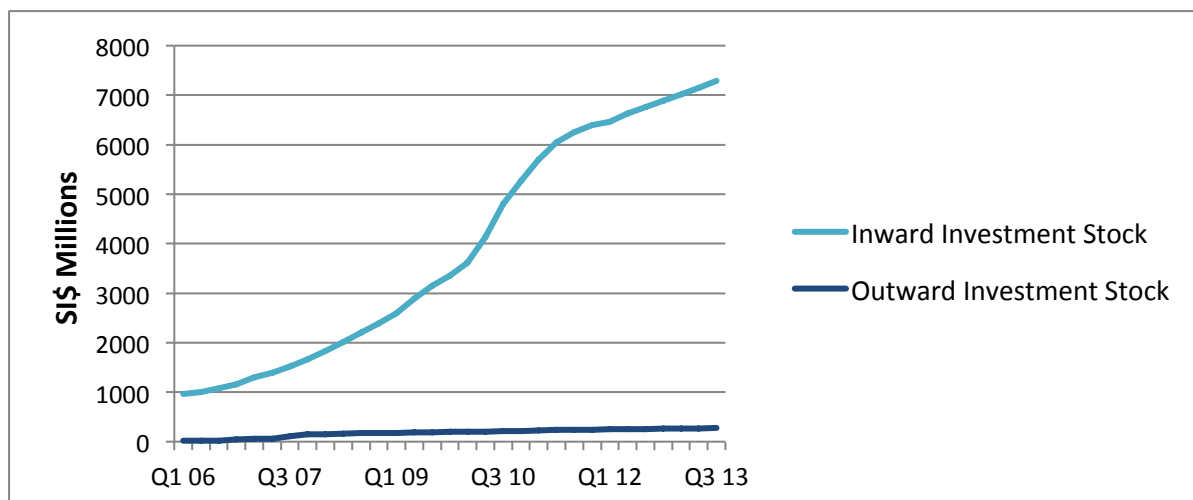
The government recognises that foreign investment can make an important contribution to the economic development of Solomon Islands. Foreign investment is likely to be critical to increasing productivity. An investment policy is being finalised at the time of writing with the support of the World Bank. It is important that the investment policy be integrated into the broader trade policy framework.

Figure 12: FDI Financial Transaction Flows (SI\$ millions)



Source: Central Bank of Solomon Islands

Figure 13: FDI Stocks (SD\$ millions)



Source: Central Bank of Solomon Islands

There is a negligible outflow of foreign investment from Solomon Islands. Total outward investment stock was estimated at SI\$273 million as at the third quarter of 2013. By contrast Solomon Islands is the destination of significant inward investment. The total inward investment stock is estimated at SI\$7,297 million as at the third quarter of 2013.

The Foreign Investment Act 2005 (with the Foreign Investment (Amendment and Validation) Act 2009) governs foreign investment in Solomon Islands. The Foreign Investment Regulations 2006 contains a list of 14 reserved sectors, meaning relatively few sectors are reserved for domestic investors. These laws regulate the areas where foreign investment can be made and the procedures governing the review of proposed foreign investments. Other statutes restrict opportunities for foreign investment in specific sectors, in particular where the sector is reserved for a state enterprise.

Table 3: Investments by Sector 2006-2013

Sector	Investments
Other services	213
Forestry	189
Wholesale	174
Mining	101
Tourism	84
Fisheries	79
Transport / Communications	67
Construction	61
Consultancy	44
Agriculture	39
Manufacturing	34
Electrical	16

Source: Investment Division, MCII

Box 5: Foreign Investment Regulations, Schedule 2, Reserved List

1. Cultivating plant crops exclusively for sale on the domestic market.
2. Timber milling operations producing not more than 2,500 m³ sawn timber per year.
3. Retail trading of household goods and services on premises with an area of less than 200m².
4. Producing handcrafts and cultural artifacts.
5. Operating buses, taxis and hire car services.
6. Farming of livestock for sale exclusively for domestic market.
7. Gathering of wild forest products for sale exclusively for domestic market.
8. Laundry services not part of hotels.
9. Restaurants, cafes and other eating and drinking business other than specialty business, and operating within an area of less than 25m².

10. Market vending and roadside stalls.
11. Domestic help services.
12. Static guarding services for offices and domestic dwellings with an employment of less than 20 employees.
13. Office and lawn cleaning services not associated with hotels.
14. Customs clearing agent.

Table 4: FDI Registrations by Source Country

	2006	2007	2008	2009	2010	2011	2012	2013	Total
Australia	43	46	65	23	69	72	63	57	438
Malaysia	32	23	40	27	80	86	83	41	412
China	5	16	37	12	40	36	44	72	262
New Zealand	12	6	11	6	5	8	5	23	76
Papua New Guinea	4	7	10	2	15	6	4	9	57
Taiwan	5	6	8	2	9	4	3	6	43
Hong Kong		4	2	1	5		11	9	32
Philippines	1	3	1		3	9	6	8	31
Fiji	2	1	3	1	4	1	15	3	30
United Kingdom	4	1	7		3	3	1	2	21
Singapore		4	1			3	3	5	16
USA		1	1	1	2	4	1	4	14
Korea	4	1	1		3	1	1		11
Japan	1	1	2			1	1		6
New Caledonia						3	3		6
Canada	2		1				1	1	5
Sri Lanka			1				3	1	5
Vanuatu					1	1	1	2	5

Source: Foreign Investment Division

A number of obstacles to increasing investment have been identified. These include: political instability, in particular that arising from the post-conflict settling; high cost of doing business (but low wages); poor infrastructure; high tax rates; land ownership/registration; inconsistencies between different pieces of legislation; distance from markets; and lack of knowledge about country and investment opportunities.



At number 87 out of 189 in the World Bank's 2014 Ease of Doing Business Rankings, Solomon Islands' ranking is in the middle of the rankings for the Pacific Islands and the top quartile of the rankings for Lower Middle Income countries. Solomon Islands ranking was strongly affected by its score in the areas of property registration and enforcing contracts.

Efforts have been made to improve the general business and investment climate in recent years, including measures to facilitate investment in land-based activities in a manner consistent with continued customary ownership of land. Some incentives are available to foreign investors. However, scope remains to improve the procedure for review of foreign investment and other regulatory approvals required.

Solomon Islands is a member of the International Centre for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency, but is not party to any investment protection treaties. Solomon Islands is, however, currently negotiating a bilateral investment treaty with Papua New Guinea and an investment chapter as part of the PACER Plus negotiations.

Investment protection treaties contain a number of commitments by a host state to other states party to the treaty and to foreign investors. These treaties primarily regulate the conduct of the host state after the foreign investment has been made, rather than the conduct of the host state in deciding whether to permit foreign investment. The host state is required to provide certain level of treatment to foreign investors, which have generally a right to financial compensation from the host state should this level of treatment not be provided.

The Foreign Investment Act may not be consistent with most investment protection treaties. In recent years, a number of free trade agreements have incorporated investment protection chapters. The Foreign Investment Act mandates that disputes with foreign investors be settled under the law of Solomon Islands. The guarantees included in the Act are not enforceable under international law. On the other hand, investment treaties commit states to, inter alia provide foreign investors with a minimum standard of treatment, to not expropriate investments without compensation and to not discriminate between foreign investors and local investors. In most cases foreign investors can seek to arbitrate disputes against the host state. Arbitral tribunals can order the state to pay compensation for a breach of the broad standards of the investment treaty. In some cases very large awards have been made against the state, such as the USD 50 billion awarded against Russia in 2014.

The rationale for entering investment treaties is to encourage investment by guaranteeing investors a level of protection. However, empirical studies have not been able to show that investment treaties in fact increase the level of investment. Most investments in Solomon Islands are on a relatively modest scale. Investment treaties are more likely to be invoked by large investors.

There are significant risks involved in committing to investor-state arbitration. The standards in treaties, especially older treaties, are not always clear and Solomon Islands would likely need to employ specialist lawyers to advise on and defend an investment claim. The uncertainty about the meaning of the treaty may discourage Solomon Islands from adopting certain measures or enable foreign investors to extract settlements for alleged treaty breaches. Large-scale investments, such as frequently in the mining or minerals sector, may gain similar protection through contractual promises for disputes between the investor and state to be settled through arbitration.

Some trade agreements incorporate investment protection chapters. In addition to investment protection, some trade agreements also include commitments on the rights of foreigners to invest. Under the GATS, Solomon Islands and other WTO Members have made a number of commitments in relation to foreign investment in specified service sectors. Other agreements, such as the Cariforum-EU EPA, extend a similar approach to investments in virtually all sectors, not just service sectors. Commitments made to permit foreign investment in Solomon Islands need to be consistent with the laws relating to, inter alia, foreign investment review, land ownership, immigration and work permits as well as sector specific legislation.

Solomon Islands also needs to ensure that foreign investment takes place in an appropriate regulatory environment so the investment promotes the sustainable development of Solomon Island. For example, investment in mining might have negative effects without adequate environmental safeguards, and investment in insurance services have negative effects without adequate prudential regulation in place.

Foreign exchange is regulated under section 16 of the Central Bank of Solomon Islands Act 2012. While not closely linked with trade policy, other laws affect international money transactions, including the Money Laundering and Proceeds of Crime (Amendment) Act 2010 and the Counter-Terrorism Act 2009. The EU has also sought to have commitments to address such problems in the EPA.

POLICIES:

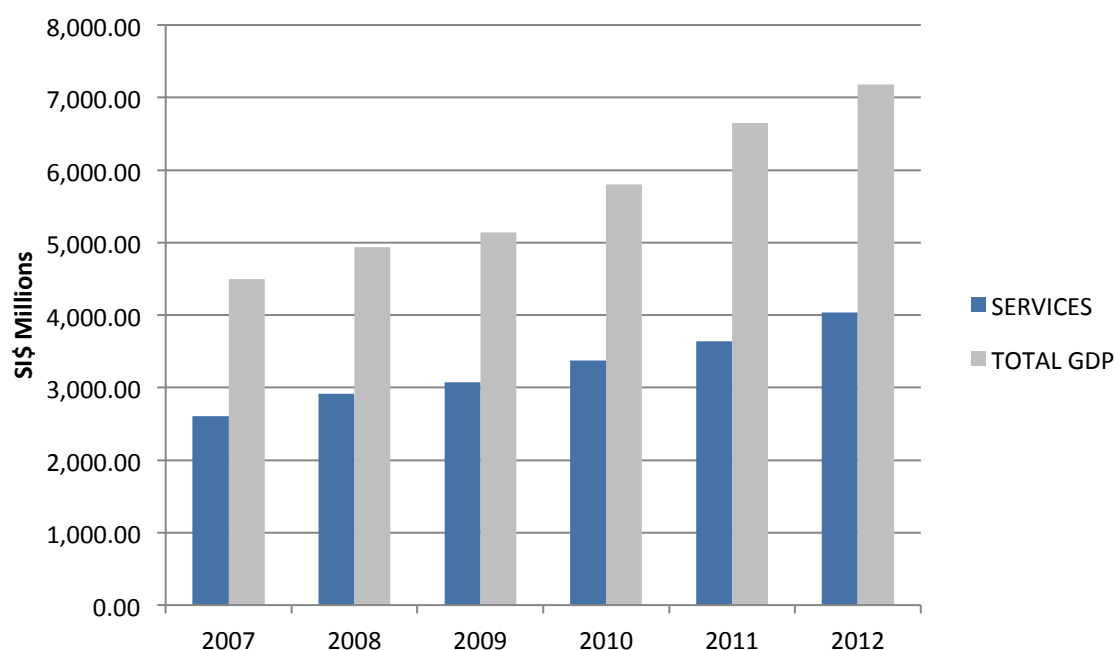
POLICY ONE	Seek to enhance the transparency of the legislative and policy environment governing foreign investment, including the conditions and procedures governing investment and business operation in key sectors of the economy, such as fisheries, forestry and mining.
POLICY TWO	Seek assistance to better promote opportunities for quality investment, especially in the productive sectors. The investment policy should incorporate the incentives to attract investment in specific sectors. ²⁸ Incentives should be targeted and time-bound and the benefits and costs should be regularly assessed. Further incentives may be required if foreign investment approval is conditional on technology transfer arrangements such as obligations to provide training for local staff.
POLICY THREE	Exercise great caution before concluding an investment protection treaty that contains provision for investor-state arbitration of investment disputes. An investment treaty that did not provide for investor state dispute settlement, and was drafted to retain appropriate regulatory and policy space, could, however, be one of a series of measures that would signal to investors that Solomon Islands is a secure location to invest.
POLICY FOUR	Ensure appropriate regulatory regimes are in place, especially in sectors where commitments to liberalise access to foreign investment might be made in a treaty.

²⁸ See, for example, Christopher A. Hartwell, Starting a Tourism Business in Solomon Islands: A Guide for Foreign Investors, Prepared for the Tourism Task Force and the International Finance Corporation (IFC), November 17, 2010.



Services account for more than half of GDP. Between 2007 and 2012, services have been between 55 and 60 percent of GDP. In 2012, services accounted for SI\$4,039 million of the SI\$7,178 million total GDP. In the same year, Solomon Islands exported a total of SI\$1,038 million worth of services. Approximately three quarters of the total were made up of travel (SI\$492 million) and transportation (SI\$251 million). In the same year, travel (SI\$500 million) and transport (SI\$378 million) services also dominated the importation of services, but with a significant amount of other business services imported (SI\$287 million). There has been a persistent deficit in trade in services over the past decade.

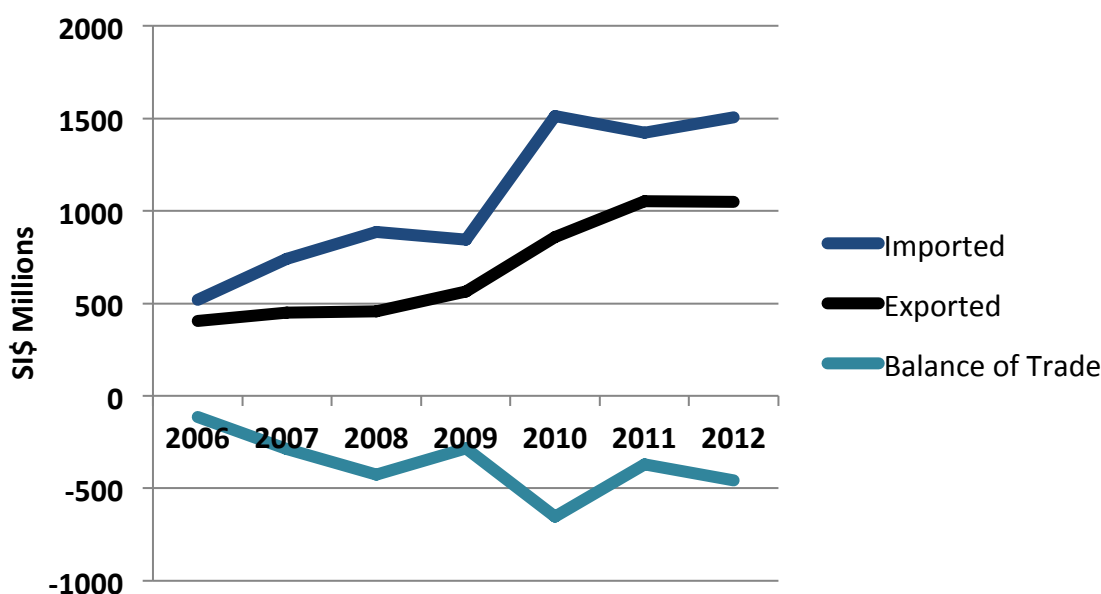
Figure 13: Services compared to GDP (Current Prices, SI\$ Millions)



Source: Central Bank of Solomon Islands

Trade in services covers a broad array of commercial activity. Trade in services is governed by many pieces of legislation. In addition to controls on foreign investment and the movement of people discussed below, most regulation of trade in services is contained in sector-specific legislation. The legislation is generally intended to regulate the quality of the service for the protection of consumers or other public policy goals. Relevant legislation includes the Ports Act 1956; Credit Unions Act 1986; Insurance Act 1986; Legal Practitioners Act 1987 (as amended 2003); Solomon Islands Water Authority Act 1992; Electricity Act 1992; Solomon Islands Postal Communication Act 1996; Financial Institutions Act 1998; Shipping Act 1998; Civil Aviation Act 2008; Telecommunications Act 2009; Valuers Act 2009; Accountants Act 2010, and the regulations made under these Acts.

Figure 14: Balance of Trade in Services 2006-2012



Source: Central Bank of Solomon Islands

Regulatory legislation may restrict trade in services in a number of ways. Trade restrictions are usually the result of legislation limiting the number of service providers permitted to operate in a particular sector or area or legislation imposing different requirements or limitations on foreign service providers to those applicable to local service suppliers. The consistency of international trade with the sectoral policy objectives should be considered in the design and review of legislation regulating service sectors.

In some sectors a legislative regime is absent or inadequate. A number of professional service providers do not appear to be currently regulated in Solomon Islands. Substandard services could be supplied. Telecommunications or electricity markets may be monopolised by a single supplier without appropriate regulation. Different services will pose different risks of consumer or economic harm. Consideration must be given to whether the liberalisation of a sector would expose the public to undue risk without the establishment or modernisation of an appropriate regulatory regime. In many sectors regulatory reform may be required independently whether or not a sector is opened to the cross-border provision of services or foreign investment. In other cases, liberalisation may increase the level of risk or expose the public to new types of risk.

Solomon Islands has made relatively modest commitments under the WTO in only 29 of the 160 subsectors. In its review of Solomon Islands' trade policy, the WTO Secretariat has suggested that Solomon Islands' regulation of some services in a few respects might not be consistent with its GATS commitments. A review of the consistency of national legislation with current and proposed commitments in relation to trade in services should be undertaken.



Table 5: Services Accounts, Imports and Exports of Services (SI\$ millions)

Balance on Trade in Services	(113.8)	(288.3)	(426.9)	(282.5)	(653.1)	(371.2)	(458)
Services Credit	403.5	451.2	457.6	563.3	858.9	1,051.2	1,047
Transport	135.0	132.2	54.6	111.3	292.9	204.5	251
Sea transport	7.7	8.3	9.5	24.0	158.2	50.0	106
Air transport	127.3	123.8	45.0	87.3	134.7	154.4	145
Travel	194.3	209.2	286.4	354.9	434.2	542.6	492
Business	109.4	113.2	140.2	169.9	216.2	249.4	198
Personal	84.9	96.0	146.2	185.0	218.0	293.3	295
ICT	46.1	53.1	55.1	20.2	21.6	23.1	25
Construction	0.2	0.2	3.6	0.2	3.4	10.1	6
Insurance and pension	0.5	0.7	0.6	0.1	0.1	-	0
Financial	11.2	8.6	14.8	43.5	66.4	72.9	63
Intellectual property	0.1	0.1	0.1	0.1	0.1	0.8	2
Other business services	1.7	23.0	1.9	0.3	17.6	22.5	0
Personal, cultural, and recreational services	-	0.0	-	-	1.6	106.8	174
Government goods and services n.i.e	14.5	24.1	40.6	32.6	21.0	68.0	33
Services Debit	517.3	739.6	884.6	845.8	1,512.0	1,422.4	1,505
Maintenance and repair services n.i.e.	2.4	2.5	5.3	1.7	7.1	12.4	13
Transport	192.4	268.7	310.0	286.6	362.0	382.3	378
Sea transport	126.2	177.8	203.2	172.2	269.8	300.6	304
Air transport	66.2	90.8	106.9	114.4	92.2	81.6	74
Travel	168.6	222.1	263.7	255.8	381.0	493.7	500
Business	76.1	90.1	97.5	102.5	152.1	201.1	217
Personal	92.5	132.1	166.3	153.4	228.9	292.6	283
ICT	17.3	22.3	65.9	18.9	24.8	28.5	122
Construction	2.0	6.3	16.7	4.6	317.1	34.3	11
Insurance and pension services	19.7	27.6	38.9	40.3	54.3	58.7	60
Financial services	14.5	15.1	21.8	23.4	33.1	26.0	10
Intellectual property	5.7	8.6	11.2	9.6	6.0	10.2	9
Other business services	81.8	151.5	126.2	168.2	241.1	340.4	287
Personal, cultural, and recreational services	0.5	0.4	2.2	4.3	21.6	9.5	5
Government goods and services n.i.e	12.5	14.4	22.7	32.5	64.1	26.3	110

Source: Central Bank of Solomon Islands

In addition to making modest commitments under the WTO, Solomon Islands has also signed the PICTA Trade in Services Protocol (PICTA TIS). Under the PICTA TIS, the FICs would be required to liberalise four of seven identified sectors. The sectors where commitments would be made are legal services; accounting, auditing and book keeping services; architectural services; engineering services; telecommunications services; general construction for buildings; general construction work for civil engineering; insurance; banking; hotels and restaurants; travel agencies and tour services; maritime transport services; and air transport services. Solomon Islands would maintain the right to review foreign investment approval, prohibit foreign ownership of land, and limit entry of natural persons to managers and specialists where employees are not available locally.

The service sector provides some opportunities for Solomon Islands to increase its exports and increase the level of productive capacity and value addition. These issues are addressed in several sections of the TPF, which contain additional recommendations. Section 4.1 discusses the importance of building forward and backward linkages between key sectors of the economy, including mining and tourism, and local supplies of goods and services. Sections 4.2, 4.5 and 6.2.2 address how infrastructure, transport, utility and information technology services can assist in building the productive capacity of the economy. Section 6.2.1 examines the prospects of increased exports from the tourism sector and the enhancement of the benefits from tourism.

POLICIES:

POLICY ONE | A review of the consistency of national legislation with current and proposed commitments in relation to trade in services should be undertaken.

6.2.1. Tourism

Tourism is among the smallest sectors but is growing, based on comparative advantages in this area, with pristine tropical ecosystems, beautiful scenery and diverse cultures, mostly found beyond Honiara. Solomon Islands offers a range of products including dive tourism, adventure tourism related to nature and culture, kayaking, game fishing, village stay tourism and World War II heritage tourism. Visitor arrivals were an estimated 24,431 in 2013, a limited rise from 23,918 the previous year, 22,941 in 2011 and 20,521 in 2010. Only a about a quarter of total visitors were tourists, which is very low compared with the more than 300,000 tourists and day visitors seen during a single year in neighbouring Vanuatu. The challenge is to build the sector in these areas to an extent that it can support a sufficient critical mass of visitors to make operations sustainable as well as encourage greater investment in tourism related infrastructure.

Tourism has been an important driver of economic growth in many small island countries and has considerable potential in Solomon Islands. An increase in tourist numbers could help to off-set the expected loss of export revenue from logging over the next 5-10 years. It could also provide employment for many young people.

Growth is constrained by limited human resources, weak marketing, and poor infrastructure and services – roads, airports, shipping, communications, electricity, water supply and sanitation, waste disposal – compounded by value for money concerns in the absence of tourism standards.

Development of tourism experiences – such as attractions and tours – depends on private sector SMEs to provide services which can increase tourism yields. Data on tourism remains poor, and



there is a need to create tourism satellite accounts in order to better understand the composition of the sector and to improve policy.

The enhancement of opportunities for Solomon Islanders to work in the hospitality and tourism sectors in other countries would enhance the skills of workers in the hospitality and tourism industries in Solomon Islands and enhance the experience of tourists. Labour mobility is discussed in Section 6 below.

A draft tourism policy is under development, focusing particularly on yield improvement, linkages and enhancing the domestic tourist experience.²⁹

Box 6: The rise of China's middle class and tourism potential in the Pacific

'The emerging markets in Asia could become a major source of tourists in PICs. The Chinese market deserves special attention in this regard, both for its large population and rapid income growth. Since 1995, China's travel departures have increased at an annual rate of 15½ percent per year. It is likely that Chinese tourists will continue to grow at a rapid rate, perhaps at least as fast as China's projected average medium term GDP growth of around 7 percent per year (based on IMF WEO April 2014 forecasts). However, household spending is likely to grow significantly faster than GDP as China rebalances its growth toward greater reliance on consumption, which would also lead to real exchange rate appreciation over time and hence more affordable overseas travel. (IMF)

The challenge for PICs is to sustain this strong growth into the future. In this regard, the Maldives provides a benchmark for PICs as it has managed to attract Chinese tourists at an astonishing growth rate of 53 percent per year since 2005 (Data sourced from Ministry of Tourism, Arts and Culture, Republic of Maldives). By 2012, Chinese tourists reached nearly 230 thousand, accounting for more than a quarter of total arrivals and becoming the largest source group. (IMF)

In 2012, Fiji received 26,000 Chinese tourists, up from just over 4,000 in 2009. If Chinese tourist arrivals grow at 7 percent per year in the period up to 2030 – a scenario that can be regarded as the baseline (business as usual) – and tourists from other destinations grow at the rate of the past decade, then total tourist arrivals in Fiji would be just under 1.2 million by 2030. However, if Fiji can manage to increase Chinese tourists by 15 percent per year, its total tourist arrivals could reach over 1.4 million by 2030. At a 20 percent growth rate of Chinese tourist arrivals, total tourist arrivals in Fiji could reach 1.8 million by 2030. Based on industry estimates for average tourist spending of about U.S. \$120 per day, a retention rate of about 44 percent and average length of stay of about 7 days, each tourist produces retained earnings of about U.S. \$370. A 20 percent growth in Chinese tourists compared with 7 percent growth will result in higher annual earnings of about U.S. \$220 million a year by 2030, equivalent to more than 2 percent of 2013 GDP.' (IMF)

For Solomon Islands opportunities may exist to try and tap into the Chinese tourist market in the long run. However, for Solomon Islands its poor infrastructure and services – roads, airports, shipping, communications, electricity, water supply and sanitation, waste disposal – compounded by value for money concerns in the absence of tourism standards create significant challenges. These issues will need to be addressed before Solomon Islands can take advantage of these opportunities.

(Source IMF 2014)

29 Hong Chen, et al, "Pacific Island Countries: In Search of a Trade Strategy, IMF Working Paper, August 2014.

There is evidence from the IMF that the rise in China’s middle class will create significant opportunities for Melanesian neighbour Fiji. As a long term strategy, Solomon Islands should seek to tap into the Chinese tourism market and leverage off the direct air links between Fiji and Hong Kong and in turn Fiji and Solomon Islands (see Box 6 above).

POLICIES³⁰

POLICY ONE	Finalise and implement the tourism policy and allocate sufficient funding. Increase funding into tourism marketing and promotion outside of the country. Tourism strategy will be based on yield enhancement rather than an absolute increase in tourism numbers.
POLICY TWO	Commit additional resources to outside marketing and promotion using the regional tourism bodies.
POLICY THREE	Improve access for local tourism enterprises to business start-up or expansion funding, including microfinance.
POLICY FOUR	Use the internet to tap into high-yield markets and make it a major focus for future marketing. The strength of Solomon Islands lies in the mix of experiences that it can offer visitors.

6.2.2. Information Communications Technology

Information and Communications Technology (ICT) is under-prioritised, and ICT infrastructure is amongst the poorest in the Pacific region. Current communications development focuses on telecommunication services. There are no significant regulatory barriers to entry. Solomon Islands has indicated its willingness to make significant commitments in this sector in the PICTA Trade in Services negotiations. Mobile banking has begun operating and a universal access policy remains under development.

The benefits of increased competition and outside investment can be seen in the telecommunications sector. The introduction of the Bemobile Telecommunications Company led to Our Telekom decreasing its airtime charge from the initial SBD\$3 per minute to 99cents per minute. This example was used as a key reason in the Cabinet endorsement of PICTA TIS. A 2011 report showed that Solomon Islands had one of the lowest tele-densities (fixed and mobile subscribers per 100 people) and one of the highest service prices as a percentage of the average monthly income among the PICs.³¹ The situation is changing rapidly with the arrival of Bemobile. Solomon Islands also has a very low number of internet users and international internet bandwidth relative to other PICs.

Media services are relatively neglected and regulatory enforcement is lacking. The Telecommunications Act 2009, which requires increased capacity for enforcement, seeks to increase competition by having extra mobile services whilst there is still no competition in internet and landline services, which remain exclusively with Our Telekom. Internet services are growing and a local NGO (PFnet) operates 24 email stations in the provinces. There is the opportunity to improve internet speeds and coverage as experienced with the arrival in January 2014 of the high-

30 DTIS (2009). See also IFC, Tourism Impediments Diagnostic: State of Play Assessment for Solomon Islands, December 2009; Ministry of Culture and Tourism, Solomon Islands Tourism Taskforce Action Plan, 2011-2015, November 2010.
 31 Pacific Regional Infrastructure Facility, Pacific Islands Performance Indicators, 2011.



speed fibre optic cable in Port Vila, Vanuatu. Together with the governments of Solomon Islands and New Zealand, the ADB is funding a high speed underwater internet cable, which aims to be completed in 2015. This could transform internet provision in Honiara and possibly other towns. ICT, together with tourism, is the area of the services sector with the most potential to contribute to economic diversification and growth. It may also contribute to broad social objectives through e-government and e-education initiatives. ICT is especially significant in the context of PACER Plus negotiations: Australia and New Zealand are Solomon Islands' biggest trade partners, and each country has a sophisticated ICT infrastructure and e-business community. Australia and New Zealand can provide a source of know-how and inward investment, and might even in future become markets for the export of services via the internet. ICT should remain at the forefront of negotiations (although it is not suggested that an individual ICT agreement is included within PACER Plus).

E-business is often neglected by policymakers in many developing and Least Developed Countries because it is perceived as a high-tech activity which takes place only in sophisticated economies. Yet broadband should be seen as essential new infrastructure just as many developed countries saw railways and roads as the backbone of development over a century ago. In this sense, ICT offers an opportunity to leapfrog a number of stages of development, bringing LDCs into the contemporary era. ICT-driven business is not just for the educationally-advanced; it represents an opportunity even for low-skilled workers (see box below) and may even lead to skills development in the longer term. Information technology, in the right institutional setting, can also enable access to educational courses and materials that would otherwise be too specialised to provide to small population centres. Solomon Islands should aim to create a situation where all citizens have access to high-speed broadband and where young people see the internet as a normal part of the economy and everyday life.

Box 7: IT services in Haiti

In Haiti, a small very low income island LDC emerging from a recent earthquake which devastated much of the capital, several Business Process Outsourcing (BPO)-type activities have already started on a small scale. In 2009, an Irish company, Taxback.com, opened an office and has created a few jobs in a call centre to provide tax documentation assistance to international customers. Samasource, a non-profit organization based in San Francisco, started operations after the earthquake, employing disadvantaged people to translate text messages related to the emergency. Digital workers have since been hired by Samasource for long-term microwork which is expected to range from creating digital handicrafts such as online greeting cards or flower bouquets, to data entry, Google-map analysis and transcriptions. These are relatively low-skilled operations which can create much-needed employment. It is also reported that Digicel, the largest mobile telephone operator in the Caribbean, has moved its call centres to Haiti. The lessons for Solomon Islands – a more developed economy with more sophisticated workforce and human resources – should be clear. IT services are not only a source of employment for the minority with high-end training in technology, but with suitably available and priced internet access can be a source of employment for significant numbers of lower-skilled workers and may be a step on the ladder to higher value-adding activities.

Source: Draft Haiti DTIS

ICT particularly suits Solomon Islands given its smallness, physical distance from major markets and its geographical fragmentation. ICT also provides more cost efficient and effective ways to preserve and promote local culture. The costs of economic and social activities can fall when ICT replaces transport and postal services. Furthermore, it opens new business opportunities.

Internet access in Solomon Islands has for many years been too slow and expensive. Even if there is no immediate increase in direct services exports, the benefits to the economy through ease of doing business and the attraction of FDI may have secondary trade-related effects. ICT in archipelago states can address the effects of economic fragmentation, allowing the central authorities to communicate quickly and effectively with the outer islands and for outlying areas to be included in overall economic growth. Communications technology can reduce the need for international and domestic travel and freight. Access to international scholarship is necessary for the development of greater domestic research capacity, and Solomon Islands’ small population precludes the creation of high-quality traditional libraries. Cheaper and more advanced international communications technology also enables stronger connections – including economic links – between resident and overseas communities. ICT can also fuel the development of the financial sector through technologies such as mobile payments. Finally, a good ICT infrastructure is critical for attracting FDI, particularly outside the tourism sector, which will be important in the coming years.

POLICIES:

POLICY ONE	Develop an ICT policy which devotes attention to trade, exploring opportunities to provide a variety of services over the internet. Lessons will be learnt here from the Vanuatu ICT Policy, finalised in 2014, which includes 1) Access to ICT in Education; 2) Access to ICT Infrastructure and Devices; 3) E-Government; 4) Integration of ICT into Sectoral Policies; 5) Building Trust (Mitigating Risks and Threats related to the ICT Development); 6) Locally Relevant Content; 7) Capacity Building; and 8) Platform for Multi-Stakeholder and Multi-Sector Coordination and Collaboration. ³²
POLICY TWO	In light of the imminent availability of undersea high bandwidth fiber-optic cabling, formulate an ICT regime that is designed to attract greater investments in the area of business process outsourcing (BPO), call centres and other forms of back up operations which Solomon Islanders from different education backgrounds and qualifications can benefit from.

6.2.3. Business Travellers

Trade in services and investment is frequently dependent on the ability of foreign business people to enter Solomon Islands with relative ease. Foreign investors, naturally, usually wish to have one of their own people manage the business. In other cases the managerial or technical skills required in a particular business may be in short supply in Solomon Islands. These people tend to be highly skilled.

The objectives of increasing foreign direct investment and ensuring Solomon Islands’ nationals have access to greater employment opportunities in Solomon Islands, in particular in technical and managerial roles, must be carefully balanced. Solomon Islands has a fast track process that facilitates the initial entry of persons connected to foreign investment. During consultations, the approach to granting of visas for investors was viewed as quite liberal.

The Immigration Act 2012, and regulations made under that Act, governs the movement of people into and out of Solomon Islands. The commencement of the new Act should enhance the ability of Solomon Islands to regulate immigration. During consultations, the need to deal with a degree of irregular migration on a timely basis in some resource sectors was identified, in particular the absence of pre-screening of potential entrants. In addition to visas granted to visitors for business

32 Republic of Vanuatu (2014) National Information and Communication Policy, Port Vila, Vanuatu



purposes and visas to enter and reside, separate approval is required for a permit to work.

Under the GATS, WTO members can make commitments in relation to the movement of natural persons. These are normally business travellers, including managers, technical experts and professionals. In trade negotiations, developed countries frequently seek commitments on business travellers. This can be beneficial to both the sending and receiving countries. Many developing countries are more interested in gaining access to employment opportunities abroad for low- and semi-skilled people. The movement of these people is usually not linked to trade in services or foreign investment. Access to employment markets falls outside the commitments made in relation to trade in service or investment in the WTO.

6.2.4. Labour Mobility And Remittances

Improved access to employment opportunities in higher-income economies represents a significant opportunity for improving the living standards and productivity of Solomon Islanders. Indeed, the World Bank report entitled 'Well-being from Work in Pacific Island countries' released in May 2014 begins with the statement: "In the Pacific island countries, which are small and far from world markets, labour mobility represents the most significant opportunity for overcoming geographic constraints on employment."

Participation in schemes providing temporary or seasonal work abroad and other forms of labour mobility offer the potential for access by Solomon Islands' people to better employment opportunities. Two types of labour mobility need to be distinguished: permanent migration and temporary migration. Workers who permanently migrate to another country frequently send significant remittances home, but otherwise become part of the community of the receiving country. Workers who temporarily migrate may work in a host country for a period of months or even years, but return to the sending country. The focus of the next sections is on temporary migration. Some comments on permanent migration are necessary to set the scene.

Global flows from remittances are rising toward \$400 billion per year. The gains from eliminating barriers to international migration dwarf the gains from eliminating the remaining barriers to international trade and investment by an order of magnitude of two. For labour mobility, the gains have been estimated to be an increase between 67 and 147.3 per cent in global GDP. Even small reductions in the barriers to labour movement could bring enormous gains. Much research has shown that labour mobility benefits the migrants and their families, the sending countries and the receiving countries in the Pacific region.

Permanent migration can have positive effects for individuals and families. The effects on the sending and receiving countries have been extensively studied. Significant portion of the GDP of some PICs comes from remittances from nationals that have permanently migrated to developed countries; more than 25% in Samoa and more than 30% in Tonga, but much less than 1 % in Solomon Islands. The experiences of Samoa and Tonga following the global financial crisis and recession in 2009 suggest that there are economic risks for an economy that is dependent on remittance flows. Solomon Islands has significantly lower levels of remittances than these countries.

In 2010, the World Bank and the IFC, under the name the Pacific Payment, Remittances and Securities Settlement Initiative (PAPRI), began a collaborative effort to assist with reforms to the National Payments System (NPS) in Fiji, PNG, Samoa, Solomon Islands, Tonga and Vanuatu. The objective of the PAPRI was to identify strategies to improve the safety, efficiency and integrity of

the individual NPSs. The project also seeks to promote policies and actions for the harmonization of payment systems throughout the region and in line with international standards and best practices. PAPRI, combined with associated technical assistance to improve transparency of remittance costs in the Pacific (with information now available at www.sendmoneypacific.org) has helped to reduce the average cost of sending remittances to the Pacific islands from Australia and New Zealand by a third. Given the rapid increase in mobile phone use in the Pacific, PAPRI will help to provide a foundation for innovative new financial transaction methods, including the use of mobile money. Given the importance of temporary labour mobility to Solomon Islands going forward and significant development benefits that this can bring, the reduction in costs of remittances could be a significant development. The strain on the main banks in Honiara is due to the lack of banking services in the rural provinces. Mobile banking could be transformative in helping to solve these issues.

One estimate is that only 2,000 Solomon Islanders live in Australia or New Zealand. A very small number of Solomon Islanders live in high-income countries compared to other Pacific Islands. Solomon Islanders do not have any preferential access arrangements for permanent migration to high-income countries. By contrast, Cook Islanders and Niueans have full rights to reside and work in New Zealand. New Zealand provides a total of 1,500 Pacific Island nationals under a Samoan Quota and the Pacific Access Category the ability to permanently reside and work in New Zealand each year. Negotiation of a new arrangement for Solomon Islanders would be difficult. Most Solomon Islanders are likely to have difficulty permanently migrating under the points-based systems operated by many high-income countries, because the particular skills and qualifications favoured are scarce in Solomon Islands, the costs involved in applying to immigrate is prohibitive to most Solomon Islanders and few Solomon Islanders have relatives in the high-income countries.

Solomon Islands could seek inclusion in the New Zealand Pacific Access Category or the establishment of a similar immigration category in Australia.

6.2.5 Regional integration and labour mobility

Freedom of movement of labour is a core element of the economic integration between Australia and New Zealand and the European Union. Increased labour mobility among Pacific Island Forum Members, in particular increased access for PIC workers to the Australia and New Zealand labour markets, has long been an objective of Pacific Island political leaders. Forum members committed to the objective of a high level of integration of regional labour markets in art 2 (a) of the PACER, which provided for the gradual establishment of a single regional market among Forum members. Labour mobility may be a central element – politically and economically – to meaningful and beneficial economic integration between the Forum members under PACER Plus. Similarly labour market access, especially for unskilled workers, is a central (but not realised) component of the vision for regional economic integration under the Pacific Plan. It also appears likely that this goal will be retained by Pacific leaders in the recast of the Pacific Plan in the form of the Framework on Pacific Regionalism that was approved at the Pacific Islands Forum in Palau in 2014.

Meaningful commitments on labour mobility could make PACER Plus economically more beneficial to Solomon Islands and individual families within Solomon Islands. Without such commitments to offset clear costs, the ratification of PACER Plus may not be politically possible for some PICs. Solomon Islands needs to conduct a thorough cost benefit analysis once the content of PACER Plus becomes clear, distinguishing between labour mobility commitments that arise as a direct result of the PACER Plus negotiations and other opportunities for Solomon Islanders to work abroad.



At the Special Forum Trade Ministers' Meeting held in October 2009, Ministers agreed that regional labour mobility (beyond Mode 4) is a common priority issue for the PACER Plus negotiations. The qualification "beyond mode 4" reflects the fact that PIC nationals are unlikely to be able to benefit significantly from GATS mode 4 commitments,³³ as well as the desire to avoid becoming entangled with the WTO rules relating to regional trade in services agreements and the most-favour-nation obligations in some of Australia and New Zealand's trade in services agreements.

Solomon Islands should continue to emphasise that regional integration must also involve labour mobility.

The parties to the Pacific Islands Countries Trade Agreement (PICTA) sought to negotiate a scheme for the temporary movement of natural persons at the time that the PICTA trade in services negotiations were underway. The FICs decided that the time was not ripe for the scheme and the temporary movement of natural persons component was dropped. Solomon Islands has signed the PICTA. As part of the PICTA negotiations it was agreed that a chapter on Temporary Movement of Natural Persons (TMNP) would be negotiated at a later stage which aims to help fill high skilled labour shortages in the country from the region. During consultations, businesses highlighted particular shortages in accountants and other high skilled professionals. Preparatory work on the negotiation for a PICTA TMNP protocol is currently being undertaken with labour market assessments being carried out for PICs. The labour market assessment for Solomon Islands was completed in 2012 through an ACP/PIFS commissioned project and will be reviewed in 2015.

6.2.6.

Recent experience with seasonal worker schemes

In recent years the debate on the merits of labour mobility has been dominated by the New Zealand Recognised Seasonal Employer Scheme (RSE). In 2006, New Zealand introduced the RSE to assist employers in horticulture and viticulture industries wanting to hire seasonal workers. Priority was given to migrants coming from the Pacific with the idea of encouraging a mutually beneficial relationship where employers have access to a secure labour supply and workers gain entrance into the New Zealand labour market. Five FICs were selected to kick start the programme and resulted in concluding the Inter-Agency Understandings (IAU) with New Zealand. Solomon Islands did not originally participate but after the signing of the IAU in 2010 adopted a private sector recruitment approach which allows approved recruitment agents to be licensed, select and recruit workers from a pool subject to the demand and requirements of the employer. Solomon Islands under the RSE has nine private sector approved recruitment agents and are providing workers for 13 employers (farmers) in six regions in the North and South Island of New Zealand.

The RSE provides for the temporary entry of up to 9,000 workers. In the 2007/2008 season 83 per cent and in the 2008/2009 season 73 per cent of the workers came from five FICs, predominantly Vanuatu, Tonga and Samoa. A 2010 AusAID and World Bank funded study on the New Zealand RSE concluded "this seasonal migration program is one of the most effective development interventions for which rigorous evaluations are available." The number of workers from Solomon Islands has been increasing slowly to 423 workers in the 2012/13 season.

³³ Mode 4 is one of the four modes of trade in services recognised in the GATS. It refers to the temporary movement of natural person across country borders. Commitments under mode 4 do not permit foreign nationals to access the employment market in another country, but are linked with the cross-border supply of services or commercial presence in another country. Mode 4 commitments often are confined to the categories of business visitors; installers and servicers; executives of a business headquartered in a Party establishing a branch or subsidiary, or other commercial presence of that business in another Party; intra-corporate transferees; and contractual service suppliers. Labour mobility, on the other hand, refers to the ability of nationals in one country to access the employment markets in another country. These people need not be highly skilled or associated with a foreign enterprise.

Higher wages and the expected gains for households through remittances are supported with the significant empirical evidence. Gibson and McKenzie (2011) estimate for participating Tongan households the gain per participating household to be approximately A\$2,600, which is a 39% increase in per-capita annual income.³⁴ Similar data is not yet available for Solomon Islands, but Table 11 records the gross earning and employment duration of Solomon Islands' workers in the RSE scheme. With a lower GDP per capita in Solomon Islands than Tonga, participation in the scheme might lead to an even greater increase in the per-capita annual income of a participating household.

Table 6: Solomon Islands Gross earnings and employment duration of RSE workers 2007/2008 and 2009/10

RSE Season	Seasonal earnings (\$) (mean)	Employment duration (mean)
2007/8	8,930	4.5
2008/9	11,430	4.9
2009/10	10,750	5

Source: RSE return workers Report 2012 NZ Department of Labour 2012

Gibson and McKenzie looked in detail at Tonga's experience in the SWP and conclude 'the workers that have participated in the programme have benefited by reasonably large amounts, increasing annual incomes for their households by almost 40 percent.' They go on to conclude that workers were satisfied with their experiences and would recommend the programme to other workers in their villages.

The strong empirical evidence from various sources on the New Zealand RSE programme shows broader positive impacts on household durable asset acquisition, subjective standard of living, and, in Tonga, secondary schooling attendance.

Both the RSE and SWP are demand driven schemes. Over time, the scarcity of unskilled labour will continue to increase and more opportunities will arise for labour sending countries in the region, including Solomon Islands, to send unskilled workers abroad. The sector where the most potential exists will be in care giving as the populations of Australia and New Zealand get older.

The equivalent Australian scheme to the RSE has been until recently somewhat smaller and less successful. In December 2011, the Australian government announced a "Seasonal Worker Programme" (SWP) for farm workers from the Pacific and East Timor, as well as a small-scale, three-year trial with accommodation providers in the tourism industry. The scheme has been dominated by Tongans who accounted for 81 percent of the participants in FY 2012-2013. There were 42 Solomon Island workers in FY 2012-2013 and only 8 up until January in FY 2013-2014. The greater size and better transport connections with Australia rather than New Zealand mean that the participation of Australia is central to the success of any regional labour mobility scheme.

There are a number of reasons for the low up-take of the Australian SWP programme. First, the demand for Pacific seasonal workers is constrained by the large number of people (primarily from developed countries) that arrive in Australia under the Working Holiday Maker visas. Second, the administrative processes surrounding the SWP in Australia might have increased the costs and

³⁴ John Gibson and Davi McKenzie, "Australia's Pacific Seasonal Workers Pilot Scheme: Development Impacts in the First Two Years" (2011), *Asian Pacific Viewpoint* 52(3): 361-370.



processes involved in the employment of Pacific workers. Third, government and private sector capacity in Solomon Islands to coordinate participation in seasonal worker schemes as well as provide the necessary pre-departure training are missing. Fourth, employers have tended to favour the re-employment of workers who have had previous experience in a seasonal worker programme and workers from source markets they are familiar with. Solomon Islands needs to put in place systems to enhance the productivity and reputation of workers as well as the predictability of supply of such workers.

A recent World Bank report entitled ‘Well-being from Work in Pacific Island countries’ released in May 2014 highlights that if Australia were to offer as many seasonal worker places as New Zealand relative to its population, total remittances from Seasonal workers in the scheme could reach U.S. 390 million dollars by 2025 or the equivalent of 10% of GDP of participating countries – 60% of current aid flows. They conclude that the expansion of the successful New Zealand Scheme and improvements to the Australian Scheme could generate development impacts that are significant on the macro scale. They also recommend a focus on poorer countries, such as Solomon Islands, which can benefit more from increased labour mobility.

6.2.7. Increasing labour mobility opportunities and enhancing benefits

The National Development Strategy states it is an official policy to “Enhance the ‘Temporary Movement of Natural Persons’ programme through bilateral, regional and multilateral arrangements, and improve relevant knowledge and skills to create employment opportunities and increase remittances to beneficiaries.”³⁵ Solomon Islands has been at the forefront of efforts to negotiate commitments on labour mobility in PACER Plus.

Labour mobility needs to be included within PACER Plus otherwise there might be little or no benefits from the agreement for Solomon Islands. If this continues to be a sticking point in negotiations, Solomon Islands should seek similar opportunities bilaterally. The establishment of Solomon Islands first High Commission in Wellington in March 2014 should help build stronger relationships with New Zealand and help seek those bilateral opportunities. There a number of opportunities that should be simultaneously pursued.

A PACER Plus labour mobility scheme could help address some of the labour shortages in Australia and New Zealand, especially for low and semi-skilled workers. Australia and New Zealand already use immigration to address labour market issues, including temporary migration to fill vacancies in a number of lower-skilled occupations, including through the development of working holiday programmes. A PACER Plus scheme could reduce the risk of social unrest from the growing young un- or under-employed populations in Solomon Islands, enhancing regional stability. Economic growth is constrained in Australian and New Zealand by significant labour shortages in some sectors and the empirical evidence of the benefits to both sending and receiving countries is strong.

Australia does not have the same range of preferential immigration policies for FIC nationals as New Zealand. The SWP has been less successful than the RSE. However, access to the larger and better-paid Australian labour market would be more valuable than access to the New Zealand market. While Wellington may appear more willing than Canberra to support regional labour mobility at times, effort should continue to be focused on securing access to the Australian market.

Australia and New Zealand have an interest in regional labour mobility for business persons and professionals; areas where Solomon Islands have skill shortages. Importantly, Australia, New

35 Solomon Islands National Development Strategy 2008-11, p. 28

Zealand and Solomon Islands are each both sending and receiving countries when it comes to labour mobility. Access to the Australia and New Zealand labour market would mean access is effectively reciprocal, assisting to ensure the longer-term stability of any PACER Plus scheme.

The possibility of extending the RSE scheme to other agricultural sectors and to caregivers, which has been suggested on a number of occasions, might be beneficial to Solomon Islands. Similarly, New Zealand has suggested in the PACER Plus negotiations that there is a possibility the scheme could be extended to assist with the continued reconstruction of Christchurch. Empirical evidence from the New Zealand Ministry of Business, Innovation and Employment suggests that 23,900 construction related workers will be required at the peak of the rebuild of Canterbury.³⁶ The most in demand construction-related occupations are carpenters, joiners, paint trade workers, concreters and plasters. General labourers also will be in high demand. This work is suitable for some beneficiaries who have not previously worked in construction. This could provide opportunities for the high levels of unemployed low and semi-skilled workers in the FIC's. However, significant benefits might require additional investment in skills training and the recognition of qualifications.

In addition to the more traditional sectors, Solomon Islands should also seek improved access for its sports people, musicians and artists for work and study opportunities in Australia, New Zealand and other countries. The Cariforum-EU Economic Partnership Agreement provides a precedent for the facilitation of the movement of natural persons in recreational sectors.

New Zealand has also suggested the possibility of an 'early harvest' on labour mobility in the PACER Plus negotiations, which could see an increase in the number of workers and sectors from the current RSE scheme. An early harvest allows those benefits to come to fruition without having to wait until the entire trade agreement has been finalised, which could still face considerable delays. Such an 'early harvest' might do little more than maintain the status quo with the addition of further countries to the scheme.

Each year New Zealand permits a specified number of people from select PICs to work and reside in New Zealand. Solomon Islands could seek to have the Pacific Access Category visa extended to Solomon Islanders.

In addition, Solomon Islands could seek preferential access to the labour markets of other countries. Solomon Islands should be searching for and evaluating potential opportunities in all other countries, including the other PICs under the MSG Skills Mobility Scheme and bilateral arrangements. Solomon Islands should develop a national strategy to guide its efforts in this area. Solomon Islands should develop the best practice institutional arrangements to support current and future opportunities for Solomon Islands' nationals to work abroad.

The Labour Mobility Unit (LMU) within the Ministry of Foreign Affairs and External Trade is currently staffed by two people and is under resourced. Increased funding for resources, staffing, technical support and capacity building is needed. LMU's activities need to be expanded; there has been little or no funding for outside marketing of Solomon Islands workers to potential employers in Australia and New Zealand. During our consultations, private sector agents have consistently reported that many farmers had not heard of the scheme. A 2014 World Bank report 'Well Being at Work in the Pacific Island countries' reports that 50% of farmers in Australia have not heard of the SWP scheme. Additional marketing and promotional activities is needed to convince farmers to move away from competing foreign sources of labour such as European backpackers under the Working Holiday visa scheme. This should be a key strategic part of trying to expand the number

36 <http://www.dol.govt.nz/publications/research/employment-opportunities-canterbury/06.asp>



of workers going to Australia. Solomon Islands should advocate in PACER Plus negotiations and on a bilateral basis that the Australian government should look to encourage farmers from moving away from backpackers towards Pacific workers. It should seek the elimination of mandatory use of recruitment agencies, which add considerably to costs of recruitment for employers and stifle demand.

The number of people permitted to enter and work in Australia and New Zealand under their working holiday schemes is very large. The total number of Working Holiday Maker visas granted in Australia in FY 2013/2013 was 258,248.³⁷ In FY 2009/2010, 43,265 people were approved under 34 Working Holiday Schemes in New Zealand.³⁸ Some limitation on the number of working holiday makers permitted to enter Australia and New Zealand or the use of those numbers as a benchmark for a Pacific Island scheme would be valuable for Solomon Islands.

For temporary labour mobility to deliver widespread development benefits the number of participating workers would need to be increased. There may be room for increasing the number of workers under the current arrangements, in particular the Australian SWP. This would involve increased capacity building, staff and resources including for promotional activities for the LMU. The LMU has received some technical support from the World Bank in 2013, which was very useful for the duration of the project but more assistance to permanently build capacity and resources of the Unit is needed. As well prioritising LMU nationally within government with increased funding and an independent budget, Solomon Islands should seek additional assistance from the World Bank and the Pacific Unit of the International Labour Office. The process of job search and matching in labour markets nationally has involved a long history of government intervention, through job centres and other labour market interventions. Doing this internationally is even harder. Building the capacity of the LMU must be a priority going forward.

Box 8: The 'Vanuatu Model' in the NZ Recognised Seasonal Employer Scheme

In Vanuatu, a number of proactive initiatives were taken in addition to New Zealand's own guidelines. Chief among them was that following internal consultations over the best way to manage recruitment issues, the government agreed in 2006 to a framework in which only approved and licensed private recruitment agencies would be permitted to recruit and supply workers overseas. While Vanuatu still has licensed recruitment agents, this is no longer the only way in which NZ employers can recruit RSE workers from Vanuatu.

In 2007 legislation was adopted to that effect covering all aspects of the licensing, regulation, and disciplinary procedures of approved seasonal worker recruitment agencies. In this respect, Vanuatu had a history of bad experiences in relation to labour mobility schemes, particularly one which involved millions of dollars of 'lost' wages for workers recruited onto commercial fishing boats during the 1980s, as well as several cases of con-men within Vanuatu who are able to exploit people's desire to seek employment opportunities overseas.

At least 11,000 workers have used the scheme, with overall income estimated at around US\$41 million. The net gains per individual are estimated at a 35 per cent rise in annual income, with a number of additional spin-off benefits.³⁹ This is largely as a result of a pro-active approach to responding to the opportunities of the RSE scheme, they are the most represented PIC in terms of workers.

37 <https://www.immi.gov.au/media/statistics/pdf/working-holiday-report-dec13.pdf>.

38 <http://www.dol.govt.nz/publications/research/migration-trends-1011/04.asp>.

39 <http://dev3.cepr.org/meets/wkcn/2/2429/papers/McKenzieFinal.pdf>

Recruitment agencies, although not the only way that workers can be recruited, play an important role in the scheme, and are envisaged to provide individual services in a number of areas:

- Designing application and selection procedures. One method currently being used is to combine an initial screening of application forms with an interview as well as a nomination submitted by, for example, a chief or pastor
- Arranging medical tests, police clearances and visa applications for successful applicants
- Contacting or receiving requests from employers, and fixing contracts
- Giving workers a pre-departure briefing on what to expect on arrival in New Zealand and their rights and duties
- Being involved with authorities in monitoring workers' welfare, and also liaising with employers to monitor performance
- Doing this at competitive and minimal cost and without charge to workers, if the scheme is to be successful.

To benefit most from opportunities for labour mobility, in particular under any future schemes that embrace semi-skilled workers, Solomon Island workers need to have the requisite skills and qualifications that are recognised in Australia and New Zealand. Labour mobility can valuably be linked to broader development strategy and development cooperation activities. First, work should continue on having Solomon Islands qualifications recognised in Australia and New Zealand. Second, labour mobility may be paired with opportunities for formal or on the job training of Solomon Islanders. Third, development cooperation can be sought to increase the number of Solomon Islanders receiving training in areas where there are labour mobility opportunities. Fourth, labour mobility opportunities can then be pursued in sectors where Solomon Islands has a skill shortages. The prospect of high paid overseas employment will encourage people to become trained. Both Solomon Islands and Australia and New Zealand recognise the importance of appropriate skills development in the country and the link with migration. Here, PACER Plus should be linked with broader development cooperation initiatives in the Pacific. Australia and New Zealand recognised importance of supporting education and vocational training in the Pacific.



POLICES:

POLICY ONE	Labour mobility will form a key pillar of the macroeconomic strategy to improve the level of economic and human development in Solomon Islands. Introduce labour mobility to the Core Economic Working Group's action matrix to build awareness and support in key economic Ministries and amongst Parliamentarians.
POLICY TWO	Formulate a National Labour Mobility Strategy.
POLICY THREE	Labour mobility will form a key offensive interest in PACER Plus negotiations. Solomon Islands will continue to argue that labour mobility must be within the PACER Plus agreement, with improved quotas and additional sectors in which labour shortages exist.
POLICY FOUR	Continue to highlight in bilateral discussions with partner countries that labour mobility is advantageous for employers, workers and sending and receiving countries. Seek to expand market access opportunities for Solomon Islanders in foreign markets, and streamlining of administrative processes, in particular with Australia and New Zealand. Opportunities under existing schemes should be expanded, while seeking additional opportunities in fields where Solomon Islanders are likely to receive additional training and skill development abroad in fields in demand in Solomon Islands. Administrative processes can reduce access to foreign markets and are frequently the subject of trade negotiations. Solomon Islands should discuss options for the streamlining of administrative processes in receiving countries for seasonal workers.
POLICY FIVE	A marketing and promotion strategy will be developed to promote Solomon Islands workers for the RSE and SWP and other seasonal worker opportunities.
POLICY SIX	Strengthen the Labour Mobility Unit to facilitate increased mobility under the RSE and SWP schemes and future labour mobility schemes and liaise with the Department of Labour, MCILI, to review legislation and design a broader framework for labour mobility.
POLICY SEVEN	Build long term capacity to provide enhanced administrative support and coordination, pre-departure training, care and monitoring of workers abroad, and ensuring predictability of supply of seasonal workers. Consider the Vanuatu model on labour mobility.
POLICY EIGHT	Solomon Islands will pursue initiatives to reduce the cost of remittances, in particular to rural communities.
POLICY NINE	Link labour mobility to the broader national development strategy, in particular in relation to vocational training. Where opportunities for labour mobility are available, Solomon Islands should seek donor support for the enhancement of the skills and qualifications and recognition of skills and qualifications of Solomon Island workers in such sectors, including through vocational training, such as courses provided by the Australian Pacific Technical College.
POLICY TEN	Solomon Islands should discuss options with its partners to ensure that its people have effective and equal opportunity of access to opportunities for workers compared with people from other countries, most notably under working holiday schemes and seasonal worker schemes.



7 | TRADE POLICY AND BUSINESS ENVIRONMENT

7.1. Unilateral trade liberalisation and priority sectors for trade development

Solomon Islands is a party to a number of preferential trade arrangements, both reciprocal and non-reciprocal, and is in continuing negotiations in relation to further arrangements. In these agreements and negotiations Solomon Islands has been, and is being, asked to open its markets further to foreign goods, services, investment and people.

The greatest changes in the level of the openness of the economy of Solomon Islands to international trade and investment have, however, taken place through unilateral liberalism rather than in the context of trade negotiations. Liberalisation has occurred in relation to goods, services, investment and foreign investors and workers. The direct barriers to trade and investment in Solomon Islands created by government measures are generally low. This is consistent with the National Development Strategy 2011 to 2020, which sees an important role for the private sector in economic development, and the experience of many countries. Multilateral liberalisation is likely to be more beneficial to Solomon Islands than preferential liberalisation. To support the National Development Strategy 2011 to 2020, Solomon Islands trade policy should consider a policy of unilateral liberalism where it is likely to benefit from openness, rather than through the demands of negotiating partners. Difficulties exist with regards to the enforcement and monitoring of consumer laws and limited competition in some sectors, which reduce the potential benefits of liberalisation. Some stakeholders also question the impact of open trade policies on domestic infant industries.

There are a number of benefits from allowing unilateral actions to determine the pace and areas of trade and investment liberalisation. Consumers and businesses will benefit from cheaper goods and services and greater choice. Manufacturers need to have access to low cost goods and services if they are to be competitive. Efforts to liberalise can be focused on the priority sectors that are most likely to benefit the people of Solomon Islands. Liberalisation can take place at a pace appropriate for Solomon Islands, in particular the more vulnerable members of the community. Sectors need not be liberalised if there are policy reasons for not doing so. Liberalisation need not outpace the development of appropriate regulatory regimes to address risks from liberalisation. Unilateral liberalism also can be halted or modified if it has an adverse or unexpected impact. If and when Solomon Islands concludes trade agreements, previous unilateral liberalisation may mean Solomon Islands may be able to implement such agreements without extensive legislative and policy changes.

The National Development Strategy (NDS) 2011-2020 details five main priority sectors: agriculture, forestry, fisheries, tourism and mining. These are discussed in Sections 5 and 6 above. This report seeks to integrate the sectoral development strategies into a broader trade policy framework.

The NDS emphasises “trade development as the core of economic growth by mainstreaming international and internal trade development into national and sectoral development strategies.”⁴⁰ One major shortcoming of the NDS is that it fails to mention the DTIS completed two years earlier. This kind of policy fragmentation must be avoided in future planning. Lessons need to be

40 Solomon Islands National Development Strategy 2011-2020, P.28

learnt with respect to the Trade Policy Framework (TPF). The TPF needs to be mainstreamed into the NDS as a key government policy initiative. Efforts should be undertaken to ensure the buy in of all ministries, politicians and stakeholders including the private sector and non-state actors. Only then are the objectives and recommendations of the TPF likely to be implemented.

One argument against prioritising industries is that the government’s task is to provide a stable and open business environment, leaving market forces to decide which industry or industries grow the fastest or contribute most to the economy. The problem is that in Solomon Islands this industry has been logging, which is clearly unsustainable. Many other countries have successfully put in place the conditions for growth, targeting sectoral areas without ‘picking winners’. Secondly, the business environment is already somewhat unregulated, and, although government bureaucracy is problematic in some critical areas, it is not always the primary obstacle to doing business. The government has historically been laissez-faire (by default rather than design), and the problem nationally is often a lack of regulation rather than too much regulation. In the islands furthest from the capital there is too little government rather than too much. Certain transactions costs, land rights, and access to finance are bigger challenges than regulatory barriers.⁴¹ Active measures aimed at supporting particular industries may therefore be appropriate, and it may make sense to target certain sectors for support.

During consultations for the Trade Policy Framework stakeholders were asked to prioritise the main existing industries according to future importance for the economy and sustainable development.⁴² Agriculture was unanimously given the highest priority, followed mostly by fisheries but with some stakeholders favouring the tourism industry. Labour mobility was largely cited as the next most important issue, followed by mining and logging. The perception of most participants was that mining was unsustainable, had few linkages to the rest of the economy and that land issues had a high chance of retarding investment in this area (apart from undersea mining). However mining doubtless has a critical role to play in future economic growth. Information and communications technology (ICT) is not generally considered a major contributor to the economy although it has significant future potential, for the reasons outlined in Section 6.2.2.

POLICIES:

POLICY ONE	The level of openness of Solomon Islands will be primarily determined by its unilateral policy actions based on an assessment of the interests and needs of the people of Solomon Islands rather than be driven by trade negotiations.
POLICY TWO	The diversification and development of the export trade of Solomon Islands should be built on a series of consistent, well-designed and coordinated sector policies.

7.2.

Domestic legal framework

The Customs and Excise Act 2002 (as amended) provides the legislative basis for customs procedures and the imposition of duties on imports and exports. The Customs Valuation Act 2009 and Customs Valuation (Amendment) Act 2010 have been enacted to give effect to the WTO Customs Valuation Agreement.

41 World Bank Doing Business Indicators

42 See annex A.

The Biosecurity Act 2013 is intended to prevent the entry and spread of animal and plant pests and diseases in Solomon Islands. Biosecurity legislation will restrict or prohibit the importation of products that pose a risk to human, animal and plant life and health in Solomon Islands.

A number of other laws regulate product standards, including the Weights and Measures Act 1982 and the Consumer Protection Act 1990. Product standards, including packaging requirements, may restrict or prohibit the importation of products into Solomon Islands. The WTO and preferential trade agreements permit measures to restriction or prohibition on importation of products for a number of policy reasons, but seek to ensure that these measures are not adopted for protectionist purposes.

The Consumer Protection Act 1990 contains broad powers to regulate goods and the Weights and Measures Act 1982 contains broad power for the regulation of metrology. The Pure Food Act 1996 and the Environmental Health Act 1980 permit the regulation of the quality of foodstuffs. The compatibility of these measures with the WTO Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures, and analogous obligations included in many preferential trade arrangements, should be continually reviewed.

Other laws that regulate domestic trade, such as the Price Control Act 1982, could also affect international trade flows. Some of this legislation is need of reform. Varies reform initiatives are underway. The Department of Commerce, for instance, has begun discussion with the ADB on development of a general competition law for Solomon Islands.

The Protected Industries Act 1954 permits the granting of orders to restrict imports that may affect particular industries. The Commodity Export Marketing Authority governs trade in specific agricultural commodities, including copra and cocoa, through export licensing, quality inspection and commodity development.

Tax exemptions and deductions can affect investment decisions, as well as trade lows in goods and services. The Income Tax Act 2002 (as amended) provides for income tax exemptions on the basis of domestic-value-added criteria, as well as exemptions for specific sectors. There are also deductions of more than 100% for certain activities, such as training and education and domestic transport costs. The Goods Tax Act provides for a number of goods tax exemptions. The 2006 Guidelines provide for tax exemptions for capital goods imported by new or expanding businesses or for the development of rural communities.

POLICY:

POLICY ONE	Solomon Islands will continue to review older legislation that may affect trade in products, including the legislation aimed at the domestic market, to ensure that the legislation achieves its policy objectives and operates in a WTO compatible manner.
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Solomon Islands' tariffs have fallen significantly over the past decade. The simple average applied MFN tariff rate in 2008 was 9.1%, while the average effective tariff rate was 5.7% in 2007. About 82% of ad valorem tariff lines have a rate of an applied tariff of 10%; 17% of items have a rate of 5%; 33 items are duty free; and 6 items have a rate of 15%. The Minister may also grant full and partial exemption from import duties on specific products. While data is limited, anecdotal evidence indicates that this power appears to be frequently exercised in relation to capital goods, significantly reducing the overall revenue collected from tariff duties.

Solomon Islands has bound all of its tariffs under the GATT, mostly at 80%. As a consequence, Solomon Islands would be able to significantly raise most of its tariffs on imported products if it decided to do so. At present Solomon Islands' ability to raise tariffs is further restricted only in relation to the parties to the MSGTA and PICTA, which covers only a small volume of imports into Solomon Islands. The conclusion of the EPA and PACER Plus negotiations would result in a significantly created volume of trade being subject to lower bound rates. This issue is discussed in more detail below.

Lower bound rates apply on wheat, malt, margarine, sugar, pharmaceuticals, and fertilisers. The bound rates for a few products, including meat, processed fish, soap, prepared foods, bottled water and photocopying machines, are between 90% and 150%. Several items are subject to non-ad valorem or compound rates, including beer, wine, spirits, tobacco products, fuels, explosives, media for sound recording and cinematographic film. For several products the applied rate may exceed the WTO bound rate, including video tapes; plants used primarily in perfumery, pharmacy or insecticidal purposes; infant preparation; certain spirits; motor spirits; gas; and certain cinematographic film. These tariffs should be reviewed.

Under the Goods Tax Act, the goods tax is 15% for imports and 10% for domestic products. On the other hand, imported beer, tobacco and cigarettes are not subject to excise tax. Discriminatory taxes may not be consistent with the obligations of members under the GATT. The goods tax should be reviewed to ensure its implementation is compatible with the obligations of Solomon Islands under the WTO and its preferential trade agreements.

The current regime governing import duties provides for a great deal of flexibility. Flexibility can produce uncertainty, which provides a disincentive for investment. On the other hand, flexibility may permit Solomon Islands to deal with a number of circumstances and contingencies for which a legislative framework is not available but where the WTO and other trade agreements may permit the imposition of restrictions on imports. High bound rates permit the raising of tariffs in response to situations that might be subject to antidumping, countervailing duty or safeguard measures in other countries. The gap between bound and applied rates creates the space that may be necessary for Solomon Islands to implement an industrial policy.

POLICIES:

POLICY ONE

From the introduction of ASYCUDA World, Solomon Islands will publish statistics on trade flows and tariff revenue, including on the granting of full and partial duty exemptions, to improve transparency and certainty for traders and investors.

POLICY TWO

Ensure that the use of ASYCUDA World is consistent with the recommendations under the section of the TPF on the institutional framework. This means strengthening institutions so that they can use and interpret ASYCUDA data; the training of officials in the generation and analysis of data; and the dissemination of data and the training of government officials.

Solomon Islands has made preferential tariff commitments under the MSGTA and PICTA. In 2017, Solomon Islands will be required to provide duty free access to all but a few exempt products, including alcohol and tobacco products, from the MSG countries and products from Solomon Islands will continue to have duty free access to the markets of other MSG countries. The MSGTA may have increased bilateral trade between members by 49%.⁴³ The MSGTA however contains provisions permitting the liberal use of tariffs to facilitate the development of new industries.

Solomon Islands is yet to announce its readiness to trade under PICTA. PICTA seeks to reduce ad-valorem tariffs to zero by the year 2015 for developing countries and 2017 for least developed countries and small island states. For products on the negative list and non-ad-valorem tariffs, tariffs will be reduced to zero by 2020 and 2021 for developing and LDCs and small island states, respectively. Alcohol and Tobacco products are excluded from liberalisation under PICTA. The trade and revenue effects of PICTA are likely to be modest.

PICTA has a broader membership and product coverage than the MSGTA. Little trade is likely to have preferential access to Solomon Islands under PICTA that would not have preferential access under the MSGTA.

PICTA was intended to be a steppingstone for the Forum Island Countries to participate in the global economy, in particular the negotiation of preferential trade agreements with the EU and Australia and New Zealand. Under the regional integration clause of the EPA being negotiated, Solomon Islands would also be required to extend the same preferences it extends to the EU to the other Forum Island Countries. If Solomon Islands concluded preferential trade agreements with the EU and/or Australia and New Zealand, preferential duty access will have a more substantial impact on government revenue and the flexibility Solomon Islands possesses to modify its tariffs. Solomon Islands may need to consider the form that any industrial policy it may wish to implement and take into account the negotiation of preferential trade agreements.

During consultations it was suggested that the larger Pacific Island Countries benefits more from the MSGTA and PICTA and few products from Solomon Islands were exported to other Pacific Island Countries. The sense of trade imbalance might potentially affect broader attitudes to trade and economic integration and should be addressed through actions to assist local producers take advantage of the opportunities provided under the MSGTA. The MSGTA and PICTA are discussed further in Sections 9.4 and 9.5.

POLICIES:

POLICY ONE

The MCILI will lead development of an action plan to assist exporters to promote and market products in other Pacific Island Countries in order to effectively benefit from PICTA and the MSGTA.

The Comptroller of Customs is empowered to impose prohibitions and quantitative restrictions on imports under the Customs and Excise Act. The broad power needs to be administered in a manner that is compatible with the international obligations of Solomon Islands. The WTO, consistent with good policy, has a preference for import competition to be regulated with tariffs rather than quotas, because tariffs are more transparent and less distortionary. Under the WTO, members are generally prohibited from imposing prohibitions and quantitative restrictions on the importation

⁴³ Hong Chen et al., "Pacific Island Countries: In Search of a Trade Strategy, IMF Working Paper, August 2014.

and exportation of products. The rule has a number of important exceptions.

Solomon Islands, like all other countries, also prohibits the importation of a number of products and imposes a requirement of import licences for public order, public morals, health, biosecurity and environmental reasons. Relevant legislation includes the Biosecurity Act 2013; Pure Food Act 1996; Dangerous Drugs Act; Pharmacy and Poisons Act; Firearms and Ammunition Act; Fisheries Act 1998; Wildlife Protection and Management Act 1998. Provided they are not discriminatory or a disguised restriction on trade, such measures are generally compatible with the WTO and preferential trade arrangements.

The broad powers to prohibit, restrict or regulate products reflect an undeveloped legislative framework and resource constraints. The absence of detailed rules to address specific policy concerns has required broad discretionary power be given to the responsible minister or agency. The recent Biosecurity Act 2013 was enacted to prevent the entry and spread of animal and plant pests and diseases in Solomon Islands. Solomon Islands should seek to adopt comprehensive legislative frameworks for the regulation of other areas.

POLICY:

POLICY ONE

The legislation prohibiting or restricting the importation of products, as well as the implementation of legislation that empowers a government agency or Minister to prohibit or restrict imports, will be reviewed to ensure the legislation is achieving the policy objectives of keeping undesirable products off the market and doing so in a manner consistent with the international obligations of Solomon Islands.

7.6. Export taxes and controls

The Minister of Finance and Treasury appears to have discretion to prohibit exports under the Excise and Customs Act. Further restrictions on export are contained in the Dangerous Drugs Act and the Wildlife Protection and Management Act 1998. While export restrictions are generally prohibited under the GATT, the restrictions imposed by Solomon Islands would appear to be justified under the general exceptions provisions of the GATT.

Export taxes are levied on fish, minerals and timber. In 2012 and 2013, approximately 14% of government revenue came from export taxes (largely on logs), as opposed to approximately 8% of government revenue from import tariffs. The expected drop in quantity of logs exported from 2014 is likely to see a significantly smaller percentage of government revenue coming from export taxes. With the suspension of mining at Gold Ridge in 2014, the inability to use export taxes to raise revenue would put a high level of strain on the government's fiscal position.

Export taxes provide an important source of revenue, provide a practical means of capturing some of the economic rents from natural resources, and may encourage some downstream processing. With the possibility of restrictions on the use of export taxes being introduced into the WTO and the EPA, Solomon Islands should consider whether an appropriate set of alternative policy measures can achieve broadly the same outcomes as the current export tax regime or negotiate sufficient policy space to allow the continued use of export taxes.

Under the Income Tax Act and the Guidelines for Incentives under Part III of the Income Tax Act, 27 June 2006, income tax exemptions and deductions are available for certain export activities. While such exemptions may be export subsidies under the WTO Agreement on Subsidies and Countervailing Measures, flexibility is provided to LDC developing countries. Under Article 27 of the Agreement on Subsidies and Countervailing Measures Solomon Islands should be able to provide export subsidies. The selective use of export subsidies has received recent support from a World Bank study.⁴⁴

POLICIES:

POLICY ONE

If alternative means of raising equivalent revenue (such as stumpage charges, a VAT or a resource rent tax) are not practical or politically possible, the entry into a trade agreement that restricts the right to impose export taxes should be avoided.

POLICY TWO

The availability of income tax exemptions and deductions will be reviewed and aligned with the sectoral development and industrial policies of Solomon Islands.

7.7. Customs procedures and cooperation

Many studies have shown that non-tariff barriers to trade, including customs delays and inefficiencies, impose significant costs on countries around the world. A World Bank Study estimated that one day of pre-shipment delay reduces trade volume by one percent. A widely quoted study in 2001 estimated that a one-day delay is equal to a 0.5 percent ad valorem tariff in trade in manufactures. Three years later this estimate was increased to 0.8 percent. The impact is greater for trade in perishable (time-sensitive) products, such as agricultural or fisheries products. A significant share of trade facilitation costs still come from customs-related delays. A survey conducted by the World Bank found that thousands of companies around the world still find customs a major obstacle to trade. An APEC Study showed that Asia Pacific businesses singled out customs as the single more serious trade impediment ahead of administrative regulations and even tariffs. Furthermore, small and medium enterprises are more likely to find customs regulations difficult and costly to comply with. This is a worrying fact given that small and medium enterprises form the vast majority of Solomon Islands' private sector. These costs may be disproportionately higher for developing countries, especially for remote small economies such as Solomon Islands. On average, the costs from customs delays are estimated to be higher than delays caused by port/terminal handling and inland transportation.

The modernisation of customs procedures is a worthwhile objective. Improved customs procedures may allow consumers to purchase products at cheaper prices, but as discussed latter the reality will depend on many other factors in small less developed economies. While there may be improved access to cheaper imported inputs for some firms, the benefit will be smaller if the countries in question have a small production and manufacturing base. The benefits from effective customs reform will extend to foreign traders. Customs modernisation takes time and resources; often significant resources that might not be available without donor assistance in the short to medium term. Whilst it can be argued that some of these costs would be recovered through the increase in government revenues from more efficient collection, the benefits are likely to come only at the end of the implementation period. Customs modernisation in Solomon Islands will require upfront and significant funding.

⁴⁴ R Newfarmer, W Shaw and P Walkenhof (eds), *Breaking into New Markets – Emerging Lessons for Export Diversification* (Washington, DC: The World Bank, 2009).



The benefits from customs reform will also greatly depend on how the reform is designed, sequenced, funded and supported. To ensure effective customs modernisation, the design, development and implementation of the reform programme should be informed by the unique circumstances of and state of play in Solomon Islands. As the Nathan Associates' 2007 Report on PACER stated "the FICs need to set priorities based upon trade facilitation assessments that involve government and private sector input, and capability to resolve the greatest problems that are within their capacity and which are most important for their traders."

In an attempt to show the magnitude of the costs of inefficient trade facilitation in Solomon Islands, custom-related time delays are converted into ad valorem tariff equivalents. Table 7 shows the results of the calculation. In addition to the tariff equivalents of trade time delays for Solomon Islands, the table also shows those of FICs, Australia, New Zealand, and selected ASEAN economies. Selected ASEAN economies refer to those with more similar level of development to the FICs, excluding Singapore (a developed country), Brunei (a small but oil rich economy), and Malaysia (a high middle income country).

Several conclusions can be gleaned from the study of customs modernisation. First, piecemeal reform of customs is a second-best approach. Second, successful customs modernisation must start with good diagnostic work to identify shortcomings and reform initiatives underway, define a strategy for reform, and mobilise stakeholder support. Third, the benefits of customs modernisation will be enhanced if other government agencies involved in inspecting goods are also included in the reform strategy and programme, perhaps as part of an integrated border management system. Fourth, the reform must be realistic and take account of Solomon Islands' capacity to implement reform, the time required, and the level of stakeholder and political support. Of critical importance is that funding matches the scope of the reform proposed. One of the problems Solomon Islands currently faces is the difficulty of hiring and retaining qualified staff. Fifth, the World Bank has observed that customs modernisation programmes are often driven by donors rather than being demand driven; are often not well coordinated with existing programmes; and are costly to developing countries even if substantial assistance is provided. Political support for reform is essential to ensure the success of reform programme. The last two decades have shown that unless customs reform is desired and owned by the implementing country, reforms are unlikely to be successful.

Table 7: Tariff (Ad valorem) Equivalent of Trade Time Delays in 2009 (percent)

Country	Total delays	Delays at customs	Customs % total
Imports			
FIC average ^b	12.92	5.04	38.99
Solomon Islands	12.66	5.43	42.89
Australia	3.73	1.60	42.86
New Zealand	4.43	0.55	12.50
ASEAN selected ^c	7.56	3.24	42.88
Exports			
FIC average	10.02	2.46	24.53
Solomon Islands	10.37	4.61	44.44
Australia	4.00	2.00	25.00
New Zealand	6.25	1.25	20.00
ASEAN selected	4.29	1.13	26.45

Source: Calculated from World Bank Doing Business Indicators, 2010

a For better data coverage region rather than country weights are used.

b FICs average from 10 reported FICs, which exclude: Cook Islands, Nauru and Niue

c Average from selected (comparable) ASEAN economies, exclude high and middle-income ASEAN members, Myanmar (data unavailable), and Lao PDR (a landlocked and relatively closed economy, hence an outlier).

Many trade agreements contain chapters on customs procedures or cooperation. These provisions are intended to facilitate trade by reducing some of the procedural obstacles that exports from one jurisdiction to another may face. Solomon Islands is negotiating or has agreed to negotiate trade agreements containing chapters on customs procedures and cooperation, including EPA, PACER Plus and the draft legal text of the MSGTA3.

Solomon Islands should coordinate its negotiation of trade facilitation commitments in preferential trade agreements with its strategy in the WTO. The new WTO Agreement on Trade Facilitation, WT/MIN(13)/W/8, Geneva, 6 December 2013, comprises two sections: Section I, dealing with trade facilitation measures and obligations; and Section II, focusing on flexibility arrangements for developing and least developed countries (otherwise known as 'special and differential treatment'). Despite the 'win-win' outcome that most commentators consider will flow from the agreement, Member States that are developing or least developed countries have sought enhanced flexibility in implementing it. To help developing countries and LDCs to implement trade facilitation reforms, therefore, the agreement provides for staged implementation, over long periods where necessary. This will be based on national needs assessments to determine assistance needs and costs, and a scheduling of commitments at individual Member State level. Developing countries and LDCs will be able to link their commitments to the receipt of technical assistance and support for capacity building, monitored by WTO. Research findings suggest that the greatest contributions to reducing trade costs are likely to come from measures to streamline procedures and from advance rulings.

The adoption of such provisions may require the amendment of legislation and modification of administrative procedures. Some of the parties may require assistance to introduce these measures. The measures generally cannot be implemented on a preferential basis, but will be implemented in relation to all imports. There are clear costs involved in the implementation that need to be weighed against the benefits in light of the development priorities of each party.

The Agreement on Trade Facilitation provides a useful benchmark for Solomon Islands. When still in the form of a Draft Consolidated Negotiating Text, Solomon Islands determined that of the 45 different measures listed in the Draft it is in full compliance with 7; substantial compliance with 8; partial compliance with 11; and does not comply with 9 measures.⁴⁵ For half of these 35 measures that Solomon Islands has determined that it will need both additional time and technical assistance to implement the measures. The number of measures for which each type of assistance required is as follows: legal/policy 26; procedures 19; institutional framework 13; human resources 18; communication and information technology 9; and equipment 10.

Solomon Islands has a number of initiatives underway to modernise its customs administration. A key priority has been the enactment of new customs legislation. At the time of preparation of this document, a bill was still being drafted and had yet to be sent to the Attorney General's office and the Cabinet. Secondly, Solomon Islands is in the process of implementing ASYCUDA World. The project has entered the second phase, with a prototype having been completed. Third, Solomon Islands is planning to implement the 2012 version of the Harmonized System from 2015. The new tariff classification was scheduled to be gazetted at the time of the preparation of this document. Solomon Islands will benefit from the implementation of rules to facilitate trade. Solomon

45 SIG, Trade Facilitation Needs Assessment Summary Report, 12-15 May 2014.



Islands needs to match the international commitments on trade facilitation it undertakes with the assurance of adequate resources and national political commitment to modernise customs. Treaty provisions will provide a basis for seeking support from third parties with customs modernization. Box 9 identifies the priorities for modernisation and key technical assistance requirements. The identified Priorities for technical assistance as developed with the assistance of the World Trade Organization as part of the Trade Facilitation consultations

Box 9: Identified Priorities for Technical Assistance

- 1 Article 7.5 Post Clearance Audit – Extra staff, training, office space, equipment to perform the functions of the Audit team. Recent experience with technical assistance from Australian Custom proved effective but effort not sustained after they left.
- 2 Article 7.4 Risk Management – Staff training required.
- 3 Article 1.2 Information available through the Internet – No internet webpage. No intranet system for customs officials in place. E-training and dedicated communication officials required.
- 4 Article 7.1 Pre-Arrival Processing – No clearly defined procedures in place. Customs Act currently is reviewed and is before parliament, subsequent rules and regulations to be defined. Ensure that information is available on website.
- 5 Article 3. Provision of Advance Rulings – No legal and Policy Framework in place. Staff training required.
- 6 Article 10.4 Single Window – Current infrastructure and set up do not allow for effective coordination among different agencies. There is no harmonisation of documentation.
- 7 Article 7.3 Separation of Release – Current Act does not provide for function. Need Training as well as space.
- 8 Article 7.7 Authorized Operators – Not in current Act. Lack of expertise. Need for training.
- 9 Article 7.2 Electronic Payment – Need for policy and legislation to allow for electronic payment to facilitate revenue collection.
- 10 Article 14 National Committee on Trade Facilitation – Sustainability of such a body to facilitate coordination among agencies.

Solomon Islands needs to ensure a high level of inter-agency coordination to achieve its objectives in relation to customs modernisation, including between the Customs and Excise Division and other divisions within the Ministry of Finance and Treasury and the Ports Authority.

POLICIES:

POLICY ONE	Commit to implementation of a programme of customs modernisation consistent with the available resources and adopt a policy of continuous improvement.
POLICY TWO	Seek the necessary technical assistance to carry out all of the prioritised reforms as part of a multi-year programme.
POLICY THREE	Establish a Trade Facilitation Committee under the National Trade Development Council.
POLICY FOUR	Ensure better resourced border control in ports outside of Honiara.

7.8. Sanitary and phytosanitary measures and standards and conformity assessment

Sanitary and phytosanitary measures (SPS) constrain the export of a number of agricultural and fisheries products from Solomon Islands. The WTO SPS Agreement imposes controls on the SPS measures that countries importing products from Solomon Islands can apply, primarily to ensure the measures are based on science and they are not a disguised form of trade protection. The same controls apply to SPS measures Solomon Islands might apply to imports. The SPS Agreement may be used to improve or allow market access. The kava ban by the EU, and specifically Germany, had a significant impact on the exports of neighbouring Vanuatu before being overturned in 2014. It is not impossible that a similar challenge may impact key export products from Solomon Islands in future. For example, vigilance is required to ensure that competent authority for fisheries products retains its technical capacity and is adequately funded to ensure fisheries products can be exported to the EU.

Solomon Islands also has a stake in using the notification mechanism of the SPS Agreement to get advance information on SPS standards and measures of partner countries relating to the production and exportation of its agricultural and processed foods products. This would require the monitoring by the National Notification Authority of the SPS notifications circulated by WTO Secretariat through the DDF or the SPS NSS,⁴⁶ and further disseminating them among domestic stakeholders (producers, exporters, laboratories etc.) either for comments as allowed by the SPS Agreement or simply to prepare for compliance with the proposed regulations.

Likewise, Solomon Islands should actively make use of the Technical Barriers to Trade (TBT) Committee and TBT notifications to get advance information on TBT measures and foreign standards and technical regulations.

46 The SPS NSS is an alternative to the traditional notification method, and allows for more accurate and complete notifications, and a substantial reduction in the time required for the WTO to process and circulates them. The system has been available to WTO Members since 1 June 2011 upon request. If Solomon Islands were interested in using use this channel the Department of Trade should send an e-mail to the WTO Secretariat (spscommittee@wto.org) to ensure that the National Notification Authorities receive login names and access passwords.



A number of trade agreements have sought to include additional elements that go beyond the scope of the WTO SPS Agreement. These fall into three general categories. (1) Deeper and more institutionalised cooperation, such as through SPS Committees. (2) Expansion in the breadth and depth of information sharing obligations. (3) Mechanisms that provide that instead of specific products being tested at the border or banned, the exporting country agrees to a range of regulatory measures designed to reduce the risk of the unsafe product being produced or exported.

Solomon Islands should negotiate provisions or chapters on SPS measures and TBT in its trade agreements based on the obligations it has accepted in the WTO. Without specific information about trade barriers related to SPS measures and the agreement of the parties as to the appropriate solution, Solomon Islands will need to focus on the first two types of SPS+ provision. They would provide a treaty basis for the Parties to cooperate on SPS and TBT matters over time, rather than significant additional commitments that must be implemented as soon as any new preferential trade agreement enters into effect.

Solomon Islands quarantine administrations are severely capacity and resource-constrained, and standards and conformance bodies in Solomon Islands are either non-existent or at the early stages. A number of donor funded projects have sought to assist Solomon Islands improve its ability to comply with the SPS and TBT measures in its trading partners. Further assistance may be required to enhance export potential in relation to agricultural and fisheries products.

The Department of Agriculture and Quarantine will need to be provided with the necessary resources to address issues relating to fruit flies and other pests that are a hindrance to fresh fruits and vegetable exporters. Work is currently being undertaken by the PHAMA project in this area. During the Aid for Trade consultations, the view was expressed that a vapour heat treatment system for fresh produce would be necessary to resolve in the sanitary and phytosanitary problems when trying to export agriculture goods into the Australian market.

As already noted, problems also existed for the competent authority for fish exports, which had to receive emergency funding from AUSAID in 2013 and the EU in 2014. Continued underfunding for the competent authority is of great concern as this could potentially risk the suspension of tuna exports to the EU.

In consultations, we heard from some exporters of coconut oil and fruits that in their opinion they faced unnecessary conditions and delays over sanitary and phytosanitary measures, when trying to export into the Australian market. While donor funding is available in some cases to assist exporters meet foreign biosecurity and health and safety requirements, donor funding is not usually available to advise on or test the WTO legality of foreign SPS and TBT measures.

The liberalisation of trade may expose Solomon Islands to the risk that some of the imported goods may be harmful to the health of people, animals or plants. This concern was raised during consultations. Liberalisation needs to be accompanied by adequate regulation. As noted above, the legislative framework for standards and conformity assessment may need to be reviewed. Some assistance projects have sought to improve the ability of Solomon Islands to regulate and assess imports from its trading partners. Further assistance is required.

POLICIES:

POLICY ONE | Include provisions modeled on the WTO SPS and TBT Agreements in preferential trade agreements that are negotiated.

POLICY TWO | Building on existing studies and initiatives identify priority areas that will assist exporters and protect the local people and environment and seek assistance for the realisation of these objectives in a coordinated manner under the post-Bali Work programme and bilateral arrangements.

POLICY THREE | Sufficient funds for the operation of the competent authority charged with providing quality assurance of tuna exported to the EU will be allocated in the budget of the Solomon Islands Government.

POLICY FOUR | Review health and safety regulations and enforcement bodies to ensure that Solomon Islands people and environment are not exposed to harmful imported products.



Trade policy is no longer restricted to trade in goods and services. Solomon Islands' trade policy must deal with the full range of matters that may be the subject of the WTO and preferential trade arrangements. In addition to government policies and measures directly addressed in trade agreements, many other government policies and laws and regulations are affected by the integration of Solomon Islands into the regional and global trading system. Those policies, laws and regulations will also affect the extent to which the individual people of Solomon Islands and the country as a whole are affected by increasing economic integration.

8.1.**Competition policy**

At its broadest, competition policy is anything that protects or promotes competition. Competition regulation can help ensure that competition is fair and effective. During the consultations some stakeholders highlighted that although the tariffs were reduced in Solomon Islands a few years ago the net benefits did not accrue to consumers due to a lack of regulation and retailers and wholesalers continued to charge the same price for goods and services. In a small economy like Solomon Islands, which is also a LDC, there may be a higher risk of market failure due to non-competitive behaviour.

Trade agreements addressing competition policy generally require the parties to adopt laws and policies to prevent firms hindering or undermining competition between firms as well as prohibiting state owned enterprises operating with an advantage over other enterprises. Competition policy can help a country benefit more from trade liberalisation.

While some restrictive trade practices are regulated by the Consumer Protection Act 1990, the law is not enforced. Many basic commodities are subject to price control under the Price Control Act 1982 rather than subject to market competition. The Telecommunications Act 2009 regulates a number of issues that could have been seen as competition law issues in other jurisdictions. The Telecommunications Commission of Solomon Islands has conducted its first investigation into anticompetitive conduct. At the time of writing, the MCILI is discussing with the Asian Development Bank the development of a competition law for Solomon Islands.

Trade agreements normally impose only relatively general commitments in relation to the adoption of a competition law, leaving it up to each party to decide on the appropriate rules. The enactment and effective implementation of a competition law has resource implications. Cooperation with Papua New Guinea, which has an established competition authority, and seeking assistance from other countries would be desirable.

State owned enterprises dominate a number of key sectors of the economy in Solomon Islands, including airlines, broadcasting, electricity, ports, post, and water. The State Owned Enterprises Act 2007 is intended to regulate the conduct and improve the performance of state enterprises. The Investment Corporation of Solomon Islands Act 1988 and the Commodities Export Marketing Authority Act are also relevant. Trade policy in this area (and trade in goods and services) should be driven by the role that state enterprises are seen in national economic and social development policy.

Trade agreements normally address the exclusive rights and conduct of state enterprises, without requiring the privatization of the enterprises. The introduction of competition into some sectors may be consistent with the objectives in relation to physical infrastructure and utilities set out in the National Development Strategy 2011-2020. Trade policy could encourage foreign investment in these sectors. However, careful consideration needs to be given to the appropriate regulatory framework, in particular to protect the more vulnerable members of the community. Difficulties under trade agreements are possible where a state owned enterprise has ‘social’ functions as well as being obliged to run as a profitable business and where it has a statutory monopoly in relation to certain types of business activity.

Solomon Islands could also consider the adoption of a comprehensive corporate governance framework for its public enterprises. There are many examples that can be adapted to the circumstances of Solomon Islands.

POLICIES:

- POLICY ONE** | Establish a general competition law and an enforcement agency that is applicable to all sectors of the economy, building on the activities of existing agencies within Solomon Islands and successful experiences in other Pacific Islands.
- POLICY TWO** | Review the scope of any statutory monopolies with a view to enabling greater competition and private sector activity. Ensure consistency with the development strategy of Solomon Islands.

8.2. Government Procurement

Government procurement of goods and services constitutes a not insignificant portion of government expenditure (14%) and GDP (5%) in Solomon Islands. The strengthening of government procurement systems, and ensuring compliance, can lead to better use of scarce government resources and assist economic development. Strong procurement systems can also lead to greater flexibility in the use of donor assistance. The Public Financial Management Act 2013, ss 72-75, provides legislative backing for rules and regulations on government procurement.

During consultations, some officials suggested that, while needing to ensure transparency and value for money, government procurement could have a greater impact on development. Broader consultation between government agencies may be valuable when reviewing the existing government procurement regulations.

International commitments on government procurement can assist a government achieve its reform objectives in relation to procurement by making the reforms more credible and procurement more open to outside scrutiny. On the other hand, government procurement may be used to promote development by providing a preference to local firms and advance other government policies. These can be done in a manner that is consistent with a transparent and competitive procurement system. Some international agreements on government procurement contain procedural obligations in relation to procurement that may be difficult to fully implement in a small LDC.

Many trade agreements contain chapters on government procurement. The WTO contains an agreement on government procurement, but it applies to only a minority of members, mostly



the larger and/or wealthier members. Solomon Islands has committed to liberalising government procurement under art 15 of PICTA, which was the subject of the report to the Pacific Islands Forum Secretariat Study on Procurement Policies and Practices in FICs and Recommendations on the inclusion of Government Procurement in the Pacific Island Countries Trade Agreement, January 2010. The issue also has been discussed in other trade negotiations in which Solomon Islands has or is participating.

Solomon Islands should determine the appropriate system of government procurement and seek to avoid international commitments that would be incompatible with that system. A careful national study may be required. A number of broad issues must be considered, including: the thresholds for goods, services and construction covered; the range of entities covered; whether discrimination in favour of local firms is permitted; whether exceptions for national security or other purposes should be permitted; and relationship to regional joint procurement proposals.

POLICY:

POLICY ONE

Before undertaking international commitments on government procurement, review the role that government procurement can play in development in Solomon Islands and the type of disciplines on procurement.

8.3.

Intellectual property

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation. Specifically, TRIPS requires WTO members to provide copyright rights, covering content producers including performers, producers of sound recordings and broadcasting organizations; geographical indications, including appellations of origin; industrial designs; integrated circuit layout-designs; patents; new plant varieties; trademarks; trade dress; and undisclosed or confidential information. TRIPS also specifies enforcement procedures, remedies, and dispute resolution procedures. The obligations under TRIPS apply equally to all member states, however developing countries were allowed extra time to implement the applicable changes to their national laws, in two tiers of transition according to their level of development. The transition period for LDCs to implement TRIPS has been extended, but will expire soon without coordinated actions from LDCs at the WTO. The intellectual property laws in Solomon Islands are dated and not in compliance with its obligations under the WTO.

Many preferential trade agreements, in particular those negotiated by developed countries, include chapters on intellectual property. Often these chapters contain additional commitments over and above those contained in TRIPS, which are referred to as TRIPS Plus. In the EPA negotiations, the EU has sought to include substantive commitments on intellectual property.

The Anti-Counterfeiting Trade Agreement (ACTA) is a multinational treaty for the purpose of establishing international standards for intellectual property rights enforcement. The agreement aims to establish an international legal framework for targeting counterfeit goods, generic medicines and copyright infringement on the Internet, and would create a new governing body outside existing forums, such as the WTO, the World Intellectual Property Organization (WIPO), or the United Nations. The agreement was signed by Australia, Canada, Japan, Mexico, Morocco, New Zealand, Singapore, South Korea, and the United States, and the European Union as well as

the 22 countries that are member states of the European Union. The ACTA provides an indication the type of TRIPS Plus provisions that developed countries may seek in trade negotiations. The European Parliament declined to ratify the treaty, exercising its Lisbon Treaty power for the first time to reject an international trade agreement.

Many of the commitments to provide minimum levels of protection for intellectual property have their origin in other international treaties. The WIPO administers many of these agreements. Unlike the WTO, WIPO does not compel all of its members to be party to all of its treaties and does not have effective enforcement mechanisms. Solomon Islands is not a member of WIPO.

Some intellectual property protection is necessary to encourage foreign investment and domestic innovation and entrepreneurship. International organisations and donors are willing to assist developing countries to modernise and reform their intellectual property laws. Solomon Islands, like most small developing countries, is a net importer of intellectual property. Extensive international commitments on intellectual property protection in all areas are not necessarily in its interest. The interests of Solomon Islands are best advanced by detailed consideration of the type of intellectual property protection that is consistent with its development plan. If the intellectual property protection in Solomon Islands is driven by the outcome of trade negotiations, the resulting law is less likely to be consistent with the interests of Solomon Islands. International cooperation on intellectual property matters may be valuable to Solomon Islands if a mechanism can be developed to reduce the burden of operating registration systems for patents and trademarks, such as the Regional Trademarks Application System endorsed by Forum Trade Ministers in 2013.

Solomon Islands has an interest in the protection of its traditional biological resources and traditional knowledge and cultural expression. These interests are not well protected under traditional intellectual property systems and *sui generis* legislation is often seen as necessary. In 2002, the Model Law on Traditional Knowledge and Expressions of Culture (TKEC) was completed. It was subsequently endorsed for adoption by member countries by the Secretariat of the Pacific Community sponsored meeting of Ministers for Culture followed by Forum Trade Ministers in 2003. A regional framework on Traditional Biological Resources, Innovations and Practices is presently in draft form. Mainly due to lack of resources, progress with regard to the implementation of the Model Law on TKEC and the finalization of the draft framework on Traditional Biological Resources, has been slow. In spite of this, some six countries have taken steps to implement the Model Law on TKEC, with two countries, Fiji and Palau, now having draft TK Bills in place for public consultations with the view to consideration and legislative enactment.

Protection of traditional knowledge is more valuable if it is protected in other countries that may wish to take advantage of that knowledge. Developed countries have been reluctant to recognise such rights at national, regional or multilateral levels. In the EPA negotiations, the EU was unwilling to consider binding commitments in this area. Australia and New Zealand are also unlikely to accept such commitments in PACER Plus. The reasons for this are connected with domestic interests and the fact that commitments made to Solomon Islands may need to be extended to all other WTO members.



POLICES:

POLICY ONE	Develop intellectual property laws that are consistent with Solomon Islands' interests outside of trade negotiations.
POLICY TWO	Where appropriate seek cooperation from other countries to reduce cost and technical obstacles.
POLICY THREE	Seek to have bio-diversity, traditional knowledge and cultural expressions that are protected in Solomon Islands protected in other jurisdictions.

8.4.

Environment

The promotion of trade without regard for the environment will not lead to sustainable development. Positive measures need to be taken to ensure that the environment is not harmed. This might involve the regulation of exploitation of natural resources central to key export industries, such as forestry, fisheries, and mining. A failure to regulate may harm other export industries, such as tourism, or prevent eco-certification that may be important for the maximisation of the return from some industries.

Where an economy is heavily dependent on a single resource sector for export earnings, as Solomon Islands has been dependent on logging, economic development may be given priority over environmental harm. There are similar risks associated with mining. Solomon Islands needs to ensure it has robust regulatory frameworks in place to ensure renewable resources are sustainably managed and that environmental harm is minimised.

Sustainable development may also require the restrictions on the importation of goods and services that are environmentally damaging. Conversely, the importation of environmentally friendly goods and services may be facilitated through reduced trade barriers and taxes. There are proposals in the WTO to this effect.

Many developed countries have committed themselves to carrying out environmental assessments of preferential trade agreements. Preferential trade agreements are also increasingly deal with environmental issues. Provisions dealing with environmental issues may take the form of preambular statements; a few provisions; a whole chapter; or a side agreement. Provisions dealing with the environment may be enforceable through dispute settlement; legally binding but not subject to dispute settlement; or represent political commitments.

Many preferential trade agreements require that environmental standards should be maintained, or not relaxed, and that they should be enforced. Some promote the strengthening or harmonization of standards. The general exceptions provisions in most preferential trade agreements also permit the parties to take measures to protect the environment even where the measure may affect trade.

Provisions on the environment may seek to regulate the relationship between the preferential trade agreement and other international commitments, such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora, the Montreal Protocol on Substance that Deplete the Ozone Layer, and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal. Solomon Islands has laws that enable it to control trade

in endangered species and dangerous substances. Further consideration should be given to the relationship between trade and measures intended to address climate change.

The development of a general approach to the issue may be of some importance to Solomon Islands in the light of the attempt by the EU to negotiate provisions regulating fisheries conservation and management measures in the EPA as well as a general chapter on trade and the environment. Trade policy should seek to support fisheries policy and not undermine it.

In an effort to combat the flow of IUU fish into the EU market, in September 2008 the EU adopted a regulation establishing a system to prevent, deter and eliminate illegal, unreported and unregulated (IUU) fishing (referred to as the 'IUU Regulation'), which entered into force on 1 January 2010. The IUU Regulation establishes a scheme for catch documentation to enhance the traceability of fisheries products through the various stages of the supply chain, from fishing vessels onwards. This regulation affects Solomon Islands as it applies to fishing vessels (both Solomon Island-flagged and distant water fishing vessels operating in Solomon Islands' EEZ) and Solomon Island processors/exporters involved in trade with the EU.

While the IUU Regulation offers significant potential in reducing IUU fishing and in turn, enhancing fisheries sustainability, there are several issues of concern including: first, the administratively burdensome nature of the scheme for catch documentation; second, concern that the text of the IUU regulation has been poorly drafted, with a number of unclear provisions; third, the potential for the regulation to be used as a non-tariff barrier to trade (especially in terms of SPS compliance); and, fourth, the potential WTO incompatibility of some aspects of the regulation. Pacific Island Countries have concerns about the role of coastal and flag states in validation of catch documentation and believe that responsibility should rest with the coastal state, not flag states, as is currently the case under the IUU Regulation.

While greater controls on IUU fishing is in the interests of Solomon Islands, efforts should be made to ensure that such controls are structured and administered in a manner compatible with the interests of Solomon Islands.



9.1.

World Trade Organization

Solomon Islands is a member of the World Trade Organization (WTO). Under the Agreement establishing the WTO, Solomon Islands has made commitments on the customs duties and other barriers that may affect goods and services exported from other WTO members as well as a number of trade-related matters. The other members have also made commitments on the duties and other barriers that may affect goods and services exported from other WTO members as well as a number of trade-related matters to Solomon Islands. A broad range of complex issues is regulated by the WTO. Other trade agreements may regulate the same issues as the WTO. Some trade agreements have narrower coverage, while others address an even broader array of issues than the WTO. Through a series of rounds of negotiations the WTO members have added to the commitments they have undertaken. The current round taking place under the name the Doha Development Agenda has been at an impasse for some time, with a modest agreement on a small number of issues in Bali in December 2013. Under the negotiating proposals currently being considered, Solomon Islands would be unlikely to be required to make significant new commitments, because it is a LDC. Solomon Islands should continue to monitor developments, in particular in relation to negotiations on proposed disciplines on fisheries subsidies.

Aside from the current round of negotiations, Solomon Islands should remain engaged with the WTO, because members make a number of important decisions that can affect the interests of Solomon Islands. An example is the General Council Decision of 6 December 2005 on the Amendment of the TRIPS Agreement, WT/L/641, which confirmed earlier decisions to permit certain actions designed to improve access to pharmaceuticals in developing countries. A recent example is the WTO Work Programme for the Least-Developed Countries (LDCs) adopted by the Sub-committee on Least-Developed Countries on 28 June 2013, WT/COMTD/LDC/W/57. The resources and influence of Solomon Islands can best be used in the WTO in cooperation with other like-minded members, in particular other Pacific Islands and the Group of Small and Vulnerable Economies.

Solomon Islands will benefit from continued engagement in the on going discussion on the implementation of the outcome of the WTO Ministerial held in Bali in December 2013 and related decisions by the General Council in November 2014. A number of areas are of importance, including the implementation of the Trade Facilitation Agreement and the mobilisation of resources to assist with implementation.

The WTO also regulates the establishment of preferential trade arrangements. A preferential trade arrangement provides one party more favourable access to the market of another party than is provided to other WTO members. Preferential trade arrangements may cover both trade in goods and trade in services. Understanding the rules of the WTO is essential background for the negotiation of preferential trade arrangements.

As noted above, current negotiations under the Doha Development Agenda are unlikely to present significant challenges for Solomon Islands as a WTO member. This is because in non-agricultural market access (NAMA) negotiations LDCs are not expected to make any tariff reduction commitments, although they are expected to substantially increase their bindings. The current Draft NAMA modalities (TN/MA/W/103/Rev.3/Add.1) foresee special treatment for small, vulnerable economies, LDCs and recently acceded members. As an LDC, Solomon Islands would be exempt from tariff reductions commitments. Solomon Islands has already bound 100% of its tariff lines.

Another specific task to be undertaken is to identify on the basis of the current agriculture modalities and alternative proposals being made for the likely future market access conditions of Solomon Islands' the most important export products, such as copra, palm oil, cocoa beans, and timber. Solomon Islands should and remain involved in the Group of Small and Vulnerable Economies. Recognition of the special circumstances faced by such economies is only likely to occur in the context of co-ordinated action. Individually, these countries rarely possess the negotiating capacity to advance their interests satisfactorily.

Solomon Islands has an important stake in the rules negotiations insofar as they concern fisheries subsidies. In the fishery subsidies negotiations at present there is little convergence on even the technical issues, so Solomon Islands still has the opportunity to meaningfully add its voice to the discussions. A senior Solomon Islands trade official in Geneva has championed the issue of fisheries subsidies on behalf of the Pacific Island countries.

Solomon Islands should continue to monitor WTO fisheries negotiations: a sound balance has to be struck between prohibitions with appropriately designed exemptions. The fishing practices of subsidised distant water fishing fleets operating in Solomon Islands' Exclusive Economic Zone (EEZ) may be unsustainable on a long-term basis, and care needs to be taken over the high incidence of illegal, unregulated and unreported fishing.

Resource-based economies dependent on a single resource for their livelihood cannot afford to exploit the very basis of their existence in an unsustainable manner. For this reason, Pacific Island Countries have always been supportive of a strong level of prohibition in the fisheries subsidies negotiations and accepted the prohibition suggested in the November 2007 proposed agreement on fisheries, by the then Chairman of the Negotiating Group on Rules (fisheries subsidies). Simultaneously, the Group has attempted to carve out appropriate and meaningful special and differential treatment provisions suitable for Small and Vulnerable Economies. Creating policy space would be an important objective to meet the development needs of Solomon Islands. Domestic development will also help reduce the dependence of on access fees revenue obtained from foreign fleets operating in Solomon Islands waters. To ensure sustainability of fish resources, Pacific Island Countries have also been supportive of the idea of conditioning the use of special and differential treatment provisions on the existence and operation of effective fisheries management systems. The island states have been constructive in these discussions by proposing for a cascade approach in the design of fisheries management conditions for different types of fisheries, with zero-binding conditions on the subsistence sector, fewer conditions for the small-scale sector and higher disciplines for managing the activities of industrial fishing fleets. The proper functioning of these rules, however, will also depend on the availability of technical assistance.⁴⁷

47 Source: Trade Negotiations Insights, Vol. 10, Number 8, November 2011, ICTSD, Geneva



POLICY:

POLICY ONE

Active engagement in WTO issues of critical relevance to Solomon requires a physical presence in Geneva. Even if the Doha Round of negotiations is unlikely to result in significant new obligations, Solomon Islands has important interests at stake in the WTO in the discussion of fishing subsidies, aid for trade, special and differential treatment pending expiry of the transition period of LDCs under TRIPS, and the implementation of the Trade Facilitation Agreement.

9.2.

Preferential trade arrangements

Solomon Islands is a party to a number of preferential trade arrangements and is in the process of negotiating further such arrangements. These are both reciprocal and non-reciprocal. This section provides a brief overview of the agreements and negotiations to which Solomon Islands is a party. Non-reciprocal preferential trade arrangements provide exports from Solomon Islands with preferential or duty free access into the markets of other countries. Exports of goods from Solomon Islands receive non-reciprocal market access preferences under the Generalized Systems of Preferences (GSP) operated by Australia, Canada, China, Chile, Chinese Taipei, the European Union, Iceland, India, Kyrgyz, Morocco, New Zealand, Norway, the Russian Federation, Belarus, Kazakhstan, South Korea, Switzerland, Turkey, and the United States.⁴⁸ These arrangements contain a number of conditions and can be unilaterally modified by the country providing preferential access. They do not create any legal obligations on Solomon Islands at either the international or domestic level.

9.3.

South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)

Australia and New Zealand provide non-reciprocal preferential access under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which entered into force on 1 January 1981. Under SPARTECA Australia and New Zealand made commitments to provide duty free access of products from Solomon Islands (and other Forum Island Countries) to their markets. The restrictive rules of origin mean it is likely to remain of limited value in relation to processed or manufactured exports. While the status of SPARTECA may be somewhat at odds with WTO rules, the agreement does not seem to be under threat. Solomon Islands has duty free access to the Australia and New Zealand markets, regardless of whether PACER Plus is concluded or whether Solomon becomes a party. Challenges related to quarantine and productive capacities have further made it difficult for FICs to take advantage of the agreement.

9.4.

Melanesian Spearhead Group Trade Agreement (MSGTA)

The original Melanesian Spearhead Group Trade Agreement (MSGTA) was signed in 1993 as a trade treaty governing the three Melanesian States of Vanuatu, Papua New Guinea and Solomon Islands. Fiji signed the agreement in 1998, after joining the MSG the previous year. The MSGTA used a positive list approach whereby 180 goods were traded duty free among members. The revised version of this agreement, the MSGTA2 (2005), established a free trade agreement among members. Tariffs were to be eliminated on all products exported from other parties with the exception of individual members' negative lists.

48 See <http://ptadb.wto.org/ptaList.aspx>.

While 9% of Solomon Islands imports came from MSG countries in 2007, only 2.3% of exports went to MSG markets. This is partially due to bigger manufacturing bases in Papua New Guinea and Fiji, and their more proactive utilisation of the trade agreement. Nevertheless, this also reflects general supply-side constraints in Solomon Islands, and the (indirect) relatively high cost of utilisation of the MSGTA for its producers and exporters.

The volumes of trade under the MSGTA are never likely to be huge but it has cultural, strategic and political importance and it may provide a strategic basis for improving access to East Asia.

In 2017 Solomon Islands will provide duty free access to all but a few exempt products from the MSG countries and products from Solomon Islands will have duty free access to the markets of other MSG countries. PICTA has a broader membership but slightly narrower product coverage. Very little trade is likely to have preferential access to Solomon Islands under PICTA that would not have preferential access under the MSGTA2.

The MSG Leaders' Summit has endorsed the use of a draft legal text as a basis for negotiations to revise the MSGTA2. The negotiations are intended to consolidate the progress made towards economic integration among the MSG countries as well as provide a platform for broader and deeper economic integration over time. The draft contains substantive chapters on trade in goods, customs, sanitary and phytosanitary measures, standards and conformance and dispute settlement, together with supporting institutional arrangements. The specific commitments on trade in goods will confirm and clarify commitments made under the current MSGTA2 and the WTO. The chapters on sanitary and phytosanitary measures, standards and conformance and dispute settlement incorporate substantially similar provisions to those agreed by the MSG countries under the WTO. The rules of origin would involve a departure from the rules of origin under other preferential trade arrangements to which Solomon Islands is a party. The chapter on customs would involve a number of commitments to facilitate trade between MSG countries.

The parties have indicated a willingness to negotiate trade in services, investment and labour mobility and have begun work in this area. The revised MSGTA could be simply adapted to incorporate the obligations agreed by the MSG countries under the PICTA TIS negotiations and the Melanesian Spearhead Group Skills Mobility Scheme Memorandum of Understanding (MSG SMS). The Skills Movement Scheme, which came into force in 2012, permits workers in certain occupations, such as teaching, to move temporarily between MSG countries without duties, fees or work permits.

The expansion of the MSGTA3 to trade in services, investment and labour mobility is likely to be beneficial to Solomon Islands. New investments in Solomon Islands from other MSG countries create employment opportunities and increase competition to the benefit of consumers. Bemoile is an illustration of these benefits. Labour mobility will also benefit Solomon Islands by providing skilled workers from other MSG countries in areas where there are skilled shortages in Solomon Islands and opportunities for Solomon Islanders to work abroad where wages are higher.



POLICIES:

POLICY ONE	Continue to support the economic integration of the MSG countries and seek funding from development partners for that purpose.
POLICY TWO	Work with other MSG countries to address trade issues that are common to MSG.
POLICY THREE	Support the negotiation of a modern comprehensive trade agreement with the MSG countries that includes trade in goods, trade in services, investment and labour mobility that supports its sustainable development.

9.5.

Pacific Island Countries Trade Agreement (PICTA)

Under the Pacific Island Countries Trade Agreement (PICTA), which was signed in 2001, Solomon Islands has made reciprocal commitments on trade in goods to the other Forum Island Country members. Apart from 16 products on its Negative List and alcohol and tobacco products, Solomon Islands is obliged to eliminate tariffs on products from other Forum Island Countries by 2021. The Agreement has entered into effect between some of the signatories. However, Solomon Islands has not yet indicated its readiness to trade under the agreement.

The PICTA is not as comprehensive or precise as many modern preferential trade agreements. The dispute settlement and institutional provisions are notably underdeveloped. Apart from preferential tariff commitments and associated rules of origin, the PICTA imposes limited additional commitments on Solomon Islands.

Negotiations of the PICTA Trade in Services Protocol (PICTA TIS) were completed in 2012. Ten of the fourteen Forum Island Countries have signed, including Solomon Islands, but the Protocol has not yet entered into force. Solomon Islands is yet to ratify the Protocol. When the Protocol enters into force, it will provide for preferential trade in services among the parties, albeit on a fairly narrow range of services (in the area of professional, telecommunications, construction, financial, tourism and transportation services) and with more expansive safeguards provisions than are found in many trade in services agreements.

Developments under PICTA may affect the future of the MSGTA. The PICTA TIS negotiations initially included a scheme for regional labour mobility but the issue was not included in the final Protocol. The MSG SMS was based on the provisions in an early draft of the PICTA TIS. The benefit that Solomon Islands is likely to receive from labour mobility among the Pacific Island countries may be largely satisfied by the MSG SMS and the MSGTA in the future. Negotiations within the smaller MSG group have tended to progress faster than within the broader Forum Island Countries.

Some concern has been expressed in relation to the potential difficulties with the implementation of the PICTA (including the PICTA TIS). The successful conclusion of the PACER Plus negotiations is likely to reduce the interest in implementation of PICTA and PICTA TIS.

POLICIES:

POLICY ONE	Continue to engage with the parties to PICTA and PICTA TIS without allowing it to draw too many resources away from significant regional negotiations that are likely to be implemented.
POLICY TWO	Undertake preparation for the legislative and policy work needed for the implementation of PICTA TIS with expectation that similar steps would be required to implement other trade agreements.

9.6.

Pacific Agreement on Closer Economic Relations (PACER)

The Pacific Agreement on Closer Economic Relations (PACER) provides a broad framework for regional integration among the Forum Island Countries and Australia and New Zealand. The Agreement contains no obligations on market access, but in certain circumstances required the parties to commence negotiations on a free trade agreement. Those negotiations have commenced under a process known as PACER Plus. The EPA and the PACER Plus are being negotiated simultaneously. Commitments offered in one set of negotiations will affect the outcome in the other. While there is no obligation on market access in the PACER, initial discussions have taken place between the parties and New Zealand has made it clear that what happens in the EPA negotiations will set a precedent for PACER Plus. When ultimately concluded, the EPA and PACER Plus are likely to require Solomon Islands to undertake a number of specific commitments, including ones over and above those undertaken in the WTO.

At the time of writing, texts existed on several of the priority issues in the PACER Plus negotiations. Four negotiating groups had been established: on SPS and TBT, Customs Procedures and Rules of Origin, Labour Mobility and Development Assistance. In July 2013 Forum Trade Ministers in Samoa established new groups on Trade in Goods and Trade in Services and Investment. Preliminary high level discussions on market access have taken place. The direct link between EPA and PACER Plus on market access have been made clear by the New Zealand negotiators. The extent to which labour mobility and development cooperation will be dealt with is uncertain. Papua New Guinea raised the prospect of withdrawing from the PACER Plus negotiations because it could see few benefits. Without Papua New Guinea, PACER Plus may not be sustainable in its current form.

While some increase in trade from Solomon Islands is possible through addressing quarantine measures and restrictive rules of origin, success in the negotiations is not assured and the gains are likely to be modest at best because Solomon Islands' exports are wholly obtained products. The prospect of increased market access for goods and services exported from Solomon Islands to Australia or New Zealand will not drive the PACER Plus negotiations. The normal mercantilist logic of trade agreements does not apply to trade in goods and services in PACER Plus, because Solomon Islands does not need to provide market access commitments in exchange for market access commitments from Australia and New Zealand.

Exports of goods and services from Australia and New Zealand to Solomon Islands are likely to increase from Solomon Islands liberalisation under PACER Plus much more than exports of Solomon Islands' goods and services. In the short term, Solomon Islands is likely to face adjustment and implementation costs, which may create economic or political obstacles to securing the longer-term benefits. Certain adjustment costs are likely as domestic industries are required to face



competition from imports. The level of adjustment costs will depend on the precise liberalisation commitments made by Solomon Islands in PACER Plus, in particular the range of products subject to tariff elimination commitments and the speed at which tariffs must be eliminated will affect the adjustment costs. Furthermore, Solomon Islands remains reliant on tariff revenue for a significant part of government revenue. The loss of government revenue from tariff liberalisation could increase the strain on the finances of Solomon Islands government and possibly affect the provision of government services. At the time of writing an accurate assessment of the loss of government revenue from reduced tariffs is impossible. However, preliminary studies indicate that it would be significant, particularly in the context of reduced revenue from forecast reductions in revenue from logging and mining over the medium term.

As a key priority, Solomon Islands should seek to integrate commitments on development cooperation in PACER Plus to offset the expected adjustment and implementation costs. Any commitments should be additional to existing development assistance and not to the detriment of funding in other areas, such as health and education. Without securing additional assistance, Solomon Islands is likely to need to introduce a VAT. The financial, practical and political difficulties of the introduction of such a tax need to be weighed against the potential benefits under PACER Plus. The greatest benefits are likely to accrue from improved access to the Australia and New Zealand labour markets.

There are also real but harder to quantify costs from a loss of policy and regulatory space, which may flow from the country-specific commitments on goods or services or general disciplines in trade agreements. Solomon Islands should seek to retain sufficient policy flexibility under PACER Plus to be able to implement an industrial policy. Areas such as tariffs, subsidies and trade related investment measures may require particular scrutiny.

Solomon Islands is likely to face significant financial and technical and domestic political constraints in the implementation of a comprehensive preferential trade agreement without significant external technical and financial assistance. There may also be limits on the number of reform projects Solomon Islands can undertake at any one time. The implementation of many detailed requirements of a preferential trade agreement could result in Solomon Islands being diverted from the optimal sequence and prioritisation of reform projects, or lead to piecemeal reform. Among others, these matters will affect whether PACER Plus as a whole is considered to be beneficial and need to be considered in structuring the PACER Plus process. Solomon Islands should seek to align its commitments under PACER Plus with the priority policies and reforms identified in the National Development Strategy and sectoral plans.

Other WTO consistent options for PACER Plus exist that could better promote economic integration and liberalisation of Solomon Islands economy. More may be achieved through specifically addressing identified obstacles to reform and liberalisation in Solomon Islands rather than simply mandating liberalisation under a trade agreement. Options for flexibility include lower initial requirements for the proportion of goods on which tariffs need to be eliminated, or agreeing to commitments to reduce if not eliminate tariffs on a most-favoured nation (MFN) basis and so avoiding the strictures of GATT Article XXIV, or agreeing to Asia Pacific forum for Economic Cooperation (APEC)-style aspirational commitments. All of these options can be broadened and deepened at a later stage if the parties so desire. This was the experience of Australia and New Zealand under the Close Economic Relations Trade Agreement (ANZCERTA). The agreement, which came into force in 1983, did not provide for the elimination of all tariffs between the parties, but within a few years that built confidence the parties were able to agree to eliminate tariffs on all bilateral trade. Indeed, if the preferential trade agreements of Australia and New Zealand with

thirds states are examined as a group, it is evident that the approach has evolved over the years, with the agreements becoming increasingly sophisticated and comprehensive. Safeguard mechanisms and assistance could be provided under PACER Plus to help Solomon Islands overcome any obstacles to reform.

Services commitments under preferential trade agreements are frequently modest. The minimum legal requirement of the GATS can be met without scheduling many, if any, market access commitments of commercial value. In other words, WTO compliance is possible without effective liberalisation. The value of the exercise of the negotiation of such agreements can be questioned. Furthermore, beneficial liberalisation of services will frequently involve regulatory reform. Difficulties with implementation mean that Solomon Islands could propose liberalising a limited number of strategically important sectors as part of a general reform of that sector.

The outcome of the PACER Plus negotiations needs to be compared with the situation under current arrangements. Solomon Islands' products have duty free access to Australia and New Zealand market and Solomon Islanders have limited access to their labour markets under non-binding arrangements. Solomon Islands is able to unilaterally liberalise trade and investment. There are challenges in terms of access to development assistance to improve infrastructure and productive capacity as well as risk of reversal of labour market access.

PACER Plus without significant new labour market access or commitments on development assistance (to offset adjustment and implementation costs and build productive capacity and infrastructure) would pose a number of challenges for Solomon Islands. These include the loss of government revenue from reduced tariffs, especially if PACER Plus was required to cover at least the same tariff lines as the EPA; loss of policy space; significant implementation costs, especially if PACER Plus covered trade in services and investment. While commitments on in relation to biosecurity and improved rules of origin are possible, significant improvements in exports from Solomon Islands are unlikely to result.

Other possible offensive interests for Solomon Islands, but which are not yet officially 'on the table', include:

- Development assistance in the form of a small and medium enterprise finance facility. Access to financial services was identified in the DTIS as a key obstacle to the development of productive capacity. However any such scheme would need to be operable in a difficult domestic environment with few banking facilities on the outer islands and would have to avoid duplicating existing schemes.
- Informal discussion has revolved around the possibility of a PACER Plus travel card which would allow Pacific workers to travel more easily to Australia and New Zealand along the lines of the APEC system.
- Labour mobility for areas other than fruit-picking, including other agricultural workers; mining workers; hotel and tourism workers; carers and nurses; construction workers. The other sectors in which Solomon Islands should try to open in these negotiations are areas in which labour shortages exist in Australia and New Zealand. As the empirical work in this area suggests filling labour shortages is both beneficial to Solomon Islands and to Australia and New Zealand – this should be emphasised in negotiations.
- Preferential access for students as well as a working holiday scheme.



POLICIES:

POLICY ONE

Commit to undertaking a robust assessment of the benefits and costs of the PACER Plus agreement upon the conclusion of the negotiations with a view to ensuring that decisions on signature and ratification are in the interests of Solomon Islands. This will involve a comparison between the outcome of the negotiations and the current situation.

POLICY TWO

Labour mobility will form a key offensive interest in PACER Plus negotiations. Solomon Islands will continue to insist that labour mobility must be within the PACER Plus agreement, with improved quotas in sectors covered by existing arrangements and quotas in additional sectors in which labour shortages exist.

POLICY THREE

Solomon Islands will insist that additional development assistance that is commensurate with PACER Plus specific obligations, adjustment costs and to address supply side constraints is necessary for PACER Plus to be a balanced, reciprocal agreement.

9.7.

Economic Partnership Agreement with the European Union (EU)

With the other Pacific members of the Group of African Caribbean and Pacific States (PACPS), Solomon Islands is negotiating an EPA with the EU. As the trade preferences in the EU market under the Cotonou Agreement given to the African, Caribbean and Pacific States (ACP) came to an end, on 23rd November 2007 two PACP non-LDCs (PNG and Fiji) initialled the Interim EPA (IEPA) to maintain their market access for tuna and sugar. Solomon Islands together with all other PACP LDCs are trading with the EU under the Everything But Arms (EBA) arrangement, which provides the same level of market access as the Cotonou Agreement did albeit with more restrictive rules of origin. The remaining non-LDC PACPS are exporting to the EU under the standard GSP preferences extended to all developing countries. Most PACPS opted not to sign the IEPA and elected to continue negotiations on a comprehensive EPA in order to resolve the outstanding contentious issues and ensure additional benefits for the region.

Negotiations have been challenging mainly due to EU demands for PACPS to change their conservation and management measures, as well as a number of contentious issues, including 'global sourcing' rules of origin for fisheries products, export taxes, the most-favoured nation clause and development cooperation assistance. The conclusion of the negotiations was complicated by the parallel negotiations with other ACP regions, in particular concerns that concessions given to the PACPS would need to be given to other ACP regions that have greater importance to the EU.

Now it is clear that labour mobility will not form a part of the EPA at this stage, the benefits (to the extent the negotiations are successful) to Solomon Islands would come from improved access to the EU for exports of its fisheries products as well as possibly securing additional development cooperation assistance to address adjustment costs arising from the EPA negotiations. Less concrete foreign policy benefits may arise from the on going cooperation between the EU and Solomon Islands. The benefits are dependent on the successful negotiation of 'global sourcing' rules of origin for canned and cooked, as well as enhancing the competitiveness and commercial focus of the fish processing industry in Solomon Islands. The costs of the EPA need to be set against any benefits.

Fisheries are an important part of the EPA. See Section 5.2 of the TPF.

There are several key costs from signing a comprehensive EPA: implementation of the EPA; loss of revenue from the elimination of export taxes; loss of revenue from the elimination of tariffs on imports (and its effect on the PACER Plus negotiations); and a restriction on the use of a number of government policy measures that Solomon Islands might wish to use to implement relating to its development and other policies. This is particularly important in the area of export taxes where the EU is seeking restrictions on the imposition of export taxes, which could set a negative precedent for other trade negotiations. Export taxes constitute a significant proportion of government revenue for Solomon Islands economy and the issue requires careful and thorough consideration in the EPA negotiations.

A cost-benefit analysis of the EPA has been conducted separately as part of Solomon Islands' Trade Advocacy Fund programme. This analysis also makes an attempt to quantify some of the effects of the agreement. Of all the trade negotiations in which Solomon Islands is involved, the likely outcome of the EPA is the most clear.

Three possibly scenarios were considered. Under the first scenario Solomon Islands continues to export to the EU under the EBA. While there will be limited implementation or adjustment costs, Solomon Islands will not benefit from improved rules of origin for fisheries products. To increase exports to the EU increased investment in fishing boats will be required, but there is not a legal guarantee the EU cannot unilaterally change the rules of origin.

Under the second scenario Solomon Islands might sign and ratify the Interim EPA with the EU. The major benefit of which would be the global sourcing rule of origin for fisheries products in canned fish and cooked loins. This rule could assist SolTuna and help to attract investment in two new canneries, with possibly 3-4,000 new jobs, but the intentions of new investors are unclear. On the other hand, government revenue losses will flow from concessionary fishing licences need to attract investment in on shore processing, reduction and elimination on tariffs on products from the EU (and follow on reductions and elimination on tariffs on products from Australia and New Zealand under PACER Plus), limitations on the right to use export taxes and implementation of customs and trade facilitation chapters. The treatment of 'contentious issues' and non-discrimination under Interim EPA would also constrain the policy space of Solomon Islands. It is noted that the global sourcing rule is not critical for growth in exports of fresh and frozen tuna to US and Japan.

The third scenario involves the completion of the negotiations of the Comprehensive EPA. At the time of writing the outcome of the negotiation is uncertain, but the Comprehensive EPA is likely to retain many of the features of the Interim EPA. Potentially negative outcomes of the negotiations could include: modification of the global sourcing rule for fisheries products; linkage between fisheries market access in the EU to access to fisheries resources or the fisheries conservation and management measures in Solomon Islands and established by the Parties to the Nauru Agreement; implementation of chapters on competition and state owned enterprises; provisions that increase scrutiny of the environmental and labour laws and regulations in Solomon Islands; provisions on current payments and capital movement reduce ability of Central Bank to use exchange controls when needed; and an agreement to negotiate on investment, services and E-commerce in the future.

On the other hand improvements on the text of the Interim EPA are possible in several contentious areas including: export taxes; infant industry; detailed provisions on customs cooperation and SPS/TBT; a chapter on trade and development cooperation to assist in addressing implementation and structural adjustment costs; and a longer transitional period for liberalisation.



POLICIES

POLICY ONE | Solomon Islands will continue negotiating the comprehensive Economic Partnership Agreement with the other PACP States as a single region.

POLICY TWO | Solomon Islands will conduct a cost benefit analysis at the end of the comprehensive EPA negotiations on whether to sign and ratify the comprehensive agreement. The EPA is likely to lead to a number of significant obligations for Solomon Islands and specific commitments and the costs of implementation of those obligations at a time when revenue from mining or logging activities may also be reduced. This may require the introduction of a VAT. The financial, practical and political difficulties of the introduction of such a tax need to be weighed against the potential benefits of investment, employment and tax revenue from fish processing made possible by global sourcing for canned fish and cooked loins and potentially fresh, frozen and chilled fisheries products.

9.8.

East Asia

Exports from Solomon Islands have preferential, but not necessarily duty free, access to the markets of China, Chinese Taipei, Japan and South Korea under the Generalized Systems of Preferences operated in these countries. In relation to access to the markets in ASEAN and China, exports from Solomon Islands are at a disadvantage relative to exports from a number of other countries. ASEAN and China have negotiated a number of preferential trade agreements with countries that export products that may compete with the products exported by Solomon Islands. For example, some ASEAN countries have most-favoured-nation duties on copra and logs.

The ability of Solomon Islands to export to some countries is affected by the preferential trade arrangements that country may enter with a third country. For example, the ability of Solomon Islands exports to be competitive in many markets in East Asia has been undermined by the preferential trade arrangements that link most East Asian countries. Solomon Islands trade policy needs to consider and respond to developments relating to preference erosion as well as the other issues highlighted above.

A recent IMF Working Paper argues that “The emergence of Asia as a center of global economic activity further reinforces the rationale for unilateral liberalization in PICs. Australia and New Zealand will remain major sources of imports for PICs for a long time to come, but the rapidly growing importance of Asian imports has increased the chances of trade diversion arising from the PACER Plus agreement.”⁴⁹ Solomon Islands needs to factor in to the cost of trade diversion when making tariff commitments under the EPA and/or the PACER Plus. If the costs are significant, unilateral liberalisation on a most-favoured-nation basis may be the best policy. The alternative is to negotiate trade agreements with Asia, but the considerations relating to the loss of revenue may make this difficult without tax reform.

Solomon Islands should, in conjunction with either other Pacific Island Countries or other MSG countries, seek to reignite the proposal of improved access to the Chinese market through its Generalized System of Preferences or an arrangement under the Enabling Clause. Preliminary discussions for such access was had with China, but have not been pursued in recent years. The

49 Hong Chen, et al, “Pacific Island Countries: In Search of a Trade Strategy, IMF Working Paper, August 2014.

advantage of pursuing improved access through a renegotiated GSP is that the arrangement will be non-reciprocal. Solomon Islands would therefore not face the same risk of revenue loss from reduced customs duties than would be the case under a GATT article XXIV compatible preferential trade agreement.

Solomon Islands should, in conjunction with other MSG countries, seek to negotiate a free trade agreement with ASEAN or admission to ASEAN. Such trade negotiations are likely to be more straightforward than negotiations with the EU and Australia and New Zealand. ASEAN and China are less likely to insist on the inclusion of trade in services and investment and a number of 'new' trade-related matters. The commencement of negotiations with East Asia appears to be of higher priority than negotiations with the United States or any other region.

POLICIES:

- POLICY ONE** | On a regional basis with other Pacific Island Countries, or on a sub-regional basis with the MSG Countries, seek to negotiate improved access to Asian markets.
- POLICY TWO** | In light of the outcome of the EPA and PACER Plus negotiations, develop a strategy to mitigate trade diversion costs.



10.1. Importance of Aid for Trade

Aid for trade should be a key component of the trade policy of Solomon Islands. It can supplement the investment that Solomon Islands will make in economic reform and development. Aid for trade represents an important mechanism to enhance the benefits Solomon Islands could receive from greater integration in the international economy as well as to mitigate some of the adjustment costs that may result from greater openness. Aid for trade has assumed a greater international prominence following the launch of the WTO Aid for trade initiative following the December 2005 Hong Kong Ministerial Conference. While donors and international organisations have made more Official Development Assistance commitments in the area of aid for trade over the last decade, funding for projects that might today be classified as aid for trade have a longer history.

The WTO states that Aid for Trade is about helping developing countries, in particular the least developed, to build the trade capacity and infrastructure they need to benefit from trade opening. It is part of overall Official Development Assistance — grants and concessional loans — targeted at trade-related programmes and projects. Because trade is a broad and complex activity, Aid for Trade is broad and not easily defined. It includes:

- **Technical Assistance** — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes.
- **Infrastructure** — building the roads, ports, and telecommunications that link domestic and global markets.
- **Productive capacity** — investing in industries and sectors so countries can diversify exports and build on comparative advantages.
- **Adjustment assistance** — helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade.

Aid for trade represents one of the main tools available to the government to address barriers to trade. Over the last decade donor partners came to increasingly appreciate the importance of eliminating barriers to trade. This is demonstrated by the fact that the steady increase in Official Development Assistance was mostly due to additional aid for trade funds – currently standing at around 50% of Official Development Assistance. Whilst aid for trade has so far privileged infrastructural projects it is recommended that donor partners be asked to consider providing additional funds to the macro-area of productive sectors.

However aid for trade has fallen short of its objectives on building supply-side capacity. As pointed out in Basnett (2013, p.7) just producing more of the same products is not developmental.⁵⁰ Without attending to the issues of diversification and value-addition, Solomon Islands will not build enough

50 <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8740.pdf>

governance capacity to attract investment or to encourage the acquisition and learning of new technologies. Developing countries need help to build the capacity to produce better and higher value products. The international upturn in aid for trade for industrial policy and development initiatives since 2011 must be maintained.

Basnett (2013) recommends a number of measures that are relevant to Solomon Islands:

- Identifying value - chain bottlenecks that undermine incentives to invest, trade and that block economic transformation.
- Addressing market failure to increase productive capabilities.
- Improving learning by doing. In the absence of transferable blueprints a lot depends on learning from trial and error.
- Making markets work by removing governance failure.

10.2. Aid for Trade in Solomon Islands

In Solomon Islands net ODA receipts (in million USD) for the years 2007 to 2011 were 246, 224, 206, 340 and 334. Solomon Islands has benefited from a number of aid for trade initiatives. These include at the regional level the work to establish the Pacific Trade and Development Facility by the Pacific Islands Forum Secretariat; the Pacific Regional Economic Integration Programme and its successor programme funded by the EU; the now expired Regional Trade Facilitation Programme established under the PACER. Solomon Islands was a beneficiary of the Enhanced Integrated Framework that resulted in the Diagnostic Trade Integration Study finalised in January 2009 and it also participated in technical assistance activities of the WTO. Solomon Islands has benefited from bilateral aid for trade assistance from a number of countries, including Australia, the EU and New Zealand.

The WTO-led Aid for Trade initiative seeks to mobilise resources to address supply-side and trade-related infrastructure constraints identified by developing and least-developed countries. While donor assistance is not provided by the WTO, the WTO provides the forum where Solomon Islands can raise aid for trade requests and issues. The role of the WTO in this area is limited to encouraging aid for trade flows from bilateral, regional and multilateral donors to support requests for trade-related capacity building from beneficiary countries, operating within the OECD the aid for trade monitoring framework, and channeling requests to the Advisory Group members, namely the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, IMF, Inter-American Development Bank, Islamic Development Bank, ITC, OECD, UNCTAD, UNDP, UNECA, UNIDO, World Bank and the World Customs Organization.

As part of Aid for Trade Solomon Islands National Implementation Unit established under the Enhanced Integrated Framework has been able to leverage funds beyond Enhanced Integrated Framework (including the current project) and using the DTIS is for the first time trying to link trade negotiations to development issues. A number of actions on the DTIS action matrix have been completed so far, and the MFAET with the help of a technical assistant plans to continue enacting the measures contained in the DTIS. The MFAET should continue to mobilise funds from other sources in addition to the EIF. In the short to medium term the DTIS will need to be updated, for which funds are available under the EIF.



Table 8: Aid for Trade in Solomon Islands (ODA receipts in US\$ millions)

Time Period	2006	2007	2008	2009	2010	2011
Sector(s)						
II.1. Transport & Storage	24.907	0.013	8.430	0.302	2.894	55.647
II.2. Communications	0.006	..	0.485	0.047	6.618	2.236
II.3. Energy	6.615	..	4.092	0.092	0.032	0.027
II.4. Banking & Financial Services	0.313	..	0.344
II.5. Business & Other Services	0.451	0.022	0.055	0.078	2.062	1.917
III.1.a. Agriculture	0.507	2.454	1.141	0.964	12.750	4.936
III.1.b. Forestry	4.719	0.141	0.532	0.284	0.487	0.358
III.1.c. Fishing	3.348	1.547	2.862	2.913	6.092	1.466
III.2.a. Industry	0.257	0.026	..	0.018	11.282	0.154
III.2.b. Mineral Resources & Mining	0.167	0.042	..	0.010	0.016	0.020
III.3.a. Trade Policies & Regulations	0.085	0.101	0.600	1.391	0.716	1.771
III.3.b. Tourism	0.038	..	0.023	0.015	0.071	0.002
V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)	230.135	258.669	276.841	261.733	344.387	313.184

Data source: OECD

10.3. Aid for Trade Needs and Priorities

The increase in aid for trade assistance over the past few years should assist Solomon Islands benefit from greater integration into the international economy. The aid for trade will not address all of significant short and medium-term costs Solomon Islands will need to bear as integration proceeds. Nor do existing projects or proposals alleviate all obstacles to enhancing competitiveness and exporting that Solomon Islands faces. A considerable amount of work has already taken place to document the trade-related needs of Solomon Islands, including the Study on Aid for Trade and Project Formulation in the Pacific Island Countries, 2010; the on-going work on the Consolidated Pacific Aid for Trade Matrix; Solomon Islands Diagnostic Trade Integration Study, 2009; work of the ADB on infrastructure, energy and public sector management; Pacific Horticultural and Agricultural Market Access (PHAMA); sector-specific national policy frameworks. After analysing these earlier reports and documents, identify if there are significant gaps, and renew and update any relevant conclusions of earlier reports through in-country consultations. The draft Consolidated Aid for Trade Matrix, prepared for the Pacific Islands Forum Secretariat, captures many of the aid for trade needs of Solomon Islands.

The report identifies trade-related needs in relation to (a) implementing, and (b) benefitting from, the existing trade agreements or agreements that may be concluded in the near future. Following

further study of the potential for value added industries in Solomon Islands, and the steps that should be taken to facilitate the establishment or growth of those industries, further projects should be identified.

Table 9: Aid for Trade Priorities Identified for Pacific Islands Forum Secretariat Consolidated Aid for Trade Matrix

Project	Cost (Euro)
Implementation of PICTA	400,000
Implementation of MSGTA2	560,000
Implementation of EPA (customs procedures, rules of origin, export tax, fiscal implications, trade remedies, TBT and SPS, competent authority for export of marine products, dispute settlement)	6,017,722
Technical assistance for service negotiations	250,000
Establishment of competition authority	2,000,000
Construction of Honiara Port coastal bypass ⁵¹	15,500,000
Vapour heat treatment system for fresh produce	1,159,848
Study of potential value added industries	249,546
Cold storage and handling facilities for export of marine products	5,449,000
Technical assistance for Attorney General	355,080

10.4. Aid for Trade Commitments

Attempts by Solomon Islands, together with other Pacific Island countries, to negotiate aid for trade commitments with developed countries in trade agreements have met with limited success. The EU has steadfastly refused to commit to additional resources on development assistance in the EPAs. The EU has provided aid for trade assistance under the European Development Fund. Development assistance was one of the priority negotiating issues identified by the Trade Minister prior to the commencement of the PACER Plus negotiations. However, Australia and New Zealand have resisted binding commitments on the level of assistance or the means of delivery.

Two major consequences flow. First, while developed country trading partners are likely to be the major source of aid for trade assistance, trade agreements will not guarantee the aid for trade necessary to mitigate adjustment costs or to fully benefit from the trade agreement will be forthcoming. Solomon Islands should consider the implementation and adjustment costs likely to flow from any new trade commitments with a view to coordination of its trade commitments and aid for trade assistance likely to be forthcoming during the implementation period. Without significant aid to cover the implementation and adjustment costs it is likely that the costs associated with both the EPA and PACER Plus will outweigh the benefits. Second, aid for trade assistance will need to be sought through the established processes. Solomon Islands should develop procedures to ensure that aid for trade assistance is directed to the highest priority areas and maximum value is derived from the assistance and its ownership of the process.

⁵¹ Surveying and technical work (led by the Japanese International Cooperation Agency – JICA) has subsequently commenced to upgrade the main thoroughfare in Honiara.



POLICIES:

POLICY ONE

The TPF will be used to secure Aid for Trade from its trade and development partners to address the trade and development needs identified in the TPF, including the Aid for Trade Priorities identified for the Pacific Islands Forum Secretariat Consolidated Aid for Trade Matrix.

POLICY TWO

The TPF will be implemented over a long period of time and Pacific Islands Forum Secretariat shall play a vital role in mobilising the resources required for implementing the TPF. Pacific Islands Forum Secretariat and SIG shall organise a donor conference to present the TPF and mobilise funding.

POLICY THREE

Solomon Islands should develop procedures to ensure that aid for trade assistance is directed to the highest priority areas and is supportive of Solomon Islands trade policy and that maximum value is derived from the assistance.

ANNEX 1 : NOTE ON PROCESS

The first phase of the project involved desk-based research using the principal background literature including the Diagnostic Trade Integration Study (2009), Solomon Islands National Development Plan and other key government and donor documentation.

The first national consultation mission was coordinated alongside the Overseas Development Institute/UK Trade Advocacy Fund project on trade negotiations strategy. From 2-13 September 2014 consultations were conducted with all key trade officials in the MFAET, as well as the Investment Division, the Ministry of Forestry, the Director of Business, the Economic Reform Unit in the Ministry of Finance, a number of Chamber of Commerce members, the Central Bank, Ministry of Mining, Ministry of Agriculture, Department of Tourism, Department of Customs, the Forum Fisheries Agency, Solomon Islands Tuna association, Ministry of Fisheries, the Pacific Horticulture and Agricultural Market Access (PHAMA) project, Soltai, the GPPOL palm oil company and the UK High Commissioner.

During this time a mission was also conducted to Gizo and Noro, where consultations were held with a total of 37 stakeholders. A final consultation workshop in Honiara involved 21 representatives from business, government and civil society, in some cases the same as those consulted individually. At the conclusion of the mission the Director General and Director of Trade were debriefed and their views sought on the preliminary findings from the mission.

A follow-up mission was held in May and June 2014, including visits to Auki, Buala, Honiara and Lata where further consultations were held with government officials and other stakeholders, including at the National Trade Development Council on 4 June 2014. On the basis of feedback received during the mission the report was revised.

The final report was then shared with Solomon Islands trade officials and presented at the National Trade Development Council on 24 February 2015, chaired by the Minister of Foreign Affairs and External Trade. At this session the final report was endorsed.

Amongst other sessions during the first national consultations workshop in Honiara, participants were asked to form groups and rank existing industries in order of importance, taking into account growth potential and sustainability. The results are as follows:

Group A	Group B	Group C	Group D
Agriculture	Agriculture	Agriculture	Agriculture
Fisheries	Water	Tourism	Tourism
Tourism	Gold	Fisheries	Fisheries
Labour mobility	Fuel	Labour mobility	Labour mobility
Mining	Tourism	Logging	Mining
Logging	Mining	Mining	Logging

List of Participants, Trade Policy Framework Consultation Workshop, Noro, 10 September 2013

	Name	Organization
1	Thomas Ruge	Soltuna Ltd
2	Joseph Liokolo	Noro Town Council
3	Riko Gadepeta	Noro C.H. School
4	Stephen Kwalemanu	Min. Lands, Housing & Survey
5	Jones Boliki	Noro Police
6	Sonter Rodger	Volbross Beekeeping Suppliers
7	Gordon Poloso	Western Timber Traders
8	Chris Gabb	Western Timber Traders
9	Mark Hoala	Agriculture Quarantine Services

List of Participants, Trade Policy Framework Consultation Workshop, Gizo, 9 September 2013

	Name	Organization / Ministry
1	Angikinui Francis Tekatona	Tourism, Culture and Sports (WPC)
2	John Sogabule	Privates Sector- Paradise Lodge
3	Robert Mamipitu	Inland Revenue Division
4	Kele Hano	Representative of SDA Church
5	William Bako	Works Division
6	Mockson Aaron	Privates Sector - Solo International
7	Dick Abel	SINPF
8	Eric Kikolo	Province
9	Judy Basi	MHMS - Social Welfare Division
10	Samuel Rogers	Province
11	Nasario Maena	Youth Division
12	Dobson Aseri	Gizo Town Council (Local Govt)
13	Giblin Nijam	Private Sector (Gewina's Motel)
14	Bernard Otana	Private Sector (S.R & Co Ltd)
15	Joshua Loko	Police / Youth Division
16	Benham Ifuto'o	Public Solicitor's Office
17	Tom Oli	MCILI - Industrial Development Div
18	John Alenia	Police
19	Hopeful Piosasa	Education
20	Adrain Tony	Permanent Secretary (WP)
21	Salome Topo	WWF SI Programme
22	Arvin Tutuo	Lands
23	Rendy Solomon	WPCW(President / EHD Gizo Hosp
24	Delwin Dokese	WPCW Gizo
25	Hon. Richard Tefefuno	

26	Rose Tasa	Immigration Gizo
27	Narety Bulehite	Quarantine

List of Participants, Trade Policy Framework Consultation Workshop, Buala, 28 May 2014

	Name	Organization
1	Culwick Togamae	Tholana Village
2	Hugo Meimana	MPA and Private Entrepreneur
3	H. Ragoso	Business Entrepreneur
4	Eddie Alezine	Education
5	Moira Dasipio	Mothers Union
6	Grace Hebala	Isabel Provincial Government
7	Fr. Joseph Kusa	Diocese of Isabel (COM)
8	Emily Termita	Diocese of Isabel (COM)
9	Japhet Vara	Business Entrepreneur
10	Charleen Mazini	CRC church
11	Paul Hingei	MHMS Buala Hospital
12	Robert Tarimana	Business Entrepreneur
13	Edward Tadarea	Youth division
14	George Trevor	Lands department Buala
15	Jerry Rofomana	PPC Buala
16	Lyndon Bako	Department of Community Affairs
17	Clement Rojumana	Traditional Chief
18	Sylvester Rogi	Sports division
19	William leguvaka	Jejevo CHS
20	Oliver Hiromana	NDMO
21	Silas Hiromana	Phipirina village
22	Justin Rathamana	Togasalo Village
23	Gilbert leamana	Business Entrepreneur
24	Dudley Vunagi	IPG

List of Participants, Trade Policy Framework Consultation Workshop, Auki, 10 June 2014

	Name	Organization
1	Allan Tinoiu	Community rep
2	Eddie Tolo'o	Community Rep
3	Simon Mannie	MPh-Project
4	Dr Huddie Namu	Malaita Provincial Health
5	Adrian Tani	Talau Association (Forestry)
6	Dickson Warakohia	Fisheries Dep-Malaita
7	Martha Rurai	Malaita Council of Women
8	Gloria Ripiapu	Environmental Health Division
9	Jean Tito	Save the Children
10	Rebecca Awa	Save the Children
11	Rony Aiwewe	Forestry Dept



12	Pius Itea	ADO Association (Reforestation)
13	Simon Suku	Labour Division MCILI
14	Dudley kumuau	Talau Farmers Association
15	David Toifai	MCDA
16	Jonathan Malai	Self-employed
17	Daniel Lulutaloa	Education Division
18	Richard Irosaea	Provincial Assembly
19	George Tasra	Provincial Office
20	Hon. Evenet Kairi	MPG
21	Barnabas Lagwai	Central Malaita Coffee Growers Ass

List of Participants, Trade Policy Framework Consultation Workshop, Lata, 16 June 2014

	Name	Organization
1	George suhara	Agriculture Division
2	Ambrose Nixon	Chief-Community Rep
3	Patteson Palapu (Fr)	Diocese of Temotu- (COM)
4	John Robinson	School chairman
5	John Ini lapli (Fr)	RDP/Team Leader
6	Tom Olu	Community Rep
7	Alton W. Mebuta	NETA Elect-Solar Service
8	Malachi Mekano	Community Leader
9	M. Tropa	Fresh Ward Point
10	Hon. Simon Peter Meioko	MPG
11	Luke Paul Taula	Fisheries Division
12	Hon. Noah Mepaseli	MPG
13	John Gordan Mealue	Local Farmer
14	Bridgette Niabo	WDO-TPG
15	Rose Nelson	Hospital Secretary/MHMS
16	Samuel K	Ps/ag
17	John Mealue	Fisherman

List of Participants at the Donor Consultation on the Trade Policy Framework, Honiara, 3 June 2014

	Name	Organisation
1	Matt Alexander	Australian High Commission
2	Mike Ketchen	New Zealand High Commission
3	Suliana Tai'atu Ata'ata	ADB
4	Lorena Elvira-Ayuso	EU
5	Taiji Usui	JICA
6	Luis Alton	World Bank

List of Participants at Consultation on Trade Policy Framework with the National Trade Development Council, Honiara, 4 June 2014

	Name	Organization
1	Antonio Lee	Tuna Association of Solomon Islands
3	Derrick Aihari	Foreign Investment Division, MCILI
4	Morris Rapaai	Industry Division, MCILI
5	Cornelius Donga	Marketing and Export Promotion, MCILI
6	Nathan Kama	Customs and Excise, Ministry of Finance
7	Selwyn Takana	Economic Reform Unit, Ministry of Finance
9	Noel Roposi	Ministry of Agriculture
10	Barnabas Bago	Ministry of Development Planning and Aid Coordination
11	Sylvester Diake	Ministry of Fisheries and Marine Resources
12	Savita Nandan	Ministry of Culture and Tourism
14	Jeffrey Wickham	Office of the Prime Minister
15	Harry Rini	Ministry of Infrastructure Development
16	Jerry Tegemoana	Solomon Islands Chamber of Commerce and Industry
17	Leliana Firisua	Small and Medium Enterprises Council
18	Joe Sika	Association of Solomon Islands Manufacturers
19	Ethel Saelea	Solomon Islands Women in Business Association
20	Ben Nginabule	Development Services Exchange
21	Alfred Ramo	Commodity Export Marketing Authority
22	Denton Rarawa	Central Bank of Solomon Islands
23	John Wate	Ministry of Education and Human Resource Development
29	Joseph Maahanua	Ministry of Foreign Affairs and External Trade
30	Moses Mose	Ministry of Foreign Affairs and External Trade

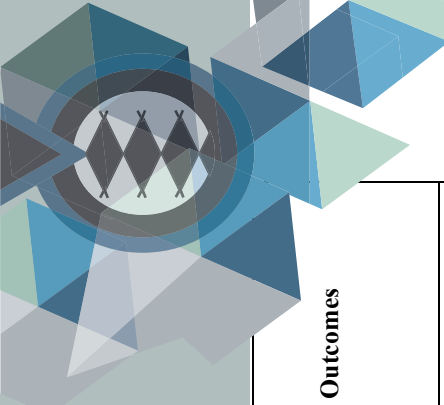


List of Participants at Consultation on Trade Policy Framework with the National Trade Development Council, Honiara, 24 February 2015

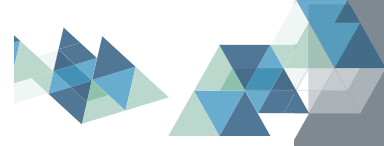
	Name	Organization
1	Tom Nanau	Environmental Health Division - MHMS
2	Rose Abana	SICCI
3	Noel Roposi	MAL
4	Selwyn Takana	MoFT
5	Patterson Siliota	Commodities Export Marketing Authority
6	Morris Rapa'ai	Industry Division - MCILI
7	Benedict Kausua	TVET
8	Joe Sika	ASIM
9	Leliana Firisua	Small Medium Enterprise Council
10	Nancy Jolo	Development Services Exchange
11	Nicola Kaua	MDPAC
12	Jack O'oi	MFAET
13	Jimmy Nuake	MID
14	Gabriel Titiliga	PMO
15	Michael Kiliolo	CBSI
16	Joseph Ma'ahanua	MFAET
17	Lynette Dawa	Foreign Investment Division - MCILI
18	Niuniu Oligao	NIU / Ministry for Tourism
19	Calvie Bambu	MFAET



ANNEX 2: TRADE POLICY IMPLEMENTATION MATRIX

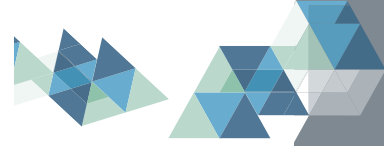


Trade Policy	Lead Agencies Responsible	Time Frame	Potential Source of Funding	Priority	Measurable Indicators	Output	Outcomes
INSTITUTIONAL FRAMEWORK							
National Consultative and Coordination Mechanism							
(i) The NTDC will be chaired by the Honourable Minister for Foreign Affairs and External Trade. The SICCI CEO will be vice-chair alongside the CBSI Governor.	Minister of MFAET, Cabinet, NTDC, SICCI, CBSI Governor	2015	SIG	1	Chair and vice-chairs appointed.	Reports of NTDC meetings convened and chaired.	NTDC functioning properly and the Chair and Vice Chairs are able to show leadership and promote the interests all the stakeholders.
(ii) The NTDC will meet at least four times a year – i.e., every three months – with additional meetings when required. Working groups can meet more often.	Cabinet, NTDC	2015	SIG	1	Meetings of NTDC and committees convened appropriately.	Reports of NTDC and committee meetings convened.	NTDC and committees able to effectively coordinate government action and provide guidance on trade policy formulation and implementation.
(iii) The NTDC will broaden its membership to include other key trade related ministries such as environment and health.	Cabinet, NTDC, other relevant ministries	2015	SIG	1	Reports of participation of representatives of additional ministries.	Participation of representatives of additional ministries, the activities of which impact on or are	Views and interests of a greater range of stakeholders considered.



<p>(iv) Develop a work programme and agenda for the NTDC including high-level goals to allow flexibility, along with cross-sectoral targets and specific goals.</p>	<p>NTDC</p>	<p>2015</p>	<p>SIG, PIFS, development partners</p>	<p>1</p>	<p>Funding secured to develop and coordinate trade policies.</p>	<p>The NTDC has adequate technical and financial resources to meet regularly and formulate sound trade policies.</p>	<p>NTDC and committees able to effectively coordinate government action and provide guidance on trade policy formulation and implementation.</p>
<p>(v) Build awareness and support for the work plan and agenda at Cabinet level. After the work plan and agenda are endorsed by Cabinet, the TPF will be presented to Members of Parliament to build awareness and support among the legislature.</p>	<p>NTDC, Cabinet, Members of Parliament</p>	<p>2015</p>	<p>SIG, PIFS</p>	<p>1</p>	<p>Number and quality of reports and presentation.</p>	<p>Reports and presentations to Cabinet and Members of Parliament.</p>	<p>Cabinet and Members of Parliament briefed and sensitised on key trade policy matters to enable them to make sound trade laws and policies.</p>
<p>(vi) Specific technical working groups in key areas such as labour mobility, agriculture and agro-processing, fisheries, tariff liberalisation strategy, development co-operation can be formed based on the stakeholders' areas of competence. Adequate budget resources will be allocated.</p>	<p>NTDC</p>	<p>2015</p>	<p>SIG, PIFS, development partners</p>	<p>1</p>	<p>Number of committees established and meetings held.</p>	<p>Relevant committees deal with technical issues.</p>	<p>Robust technical and political analysis by committees used to formulate country-specific, evidence-based and pragmatic trade policies.</p>
<p>Information, Analysis, Communication and Evaluation</p>							

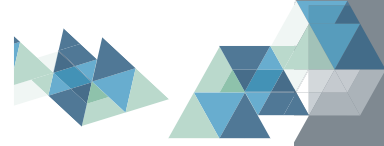
(i) SI will improve trade-related data and its capacity to generate, analyse and disseminate statistical information, including inter-Ministerial coordination of data and address sources of data conflict. Support should be along several dimensions including: institutional strengthening; infrastructure development including installation, training and implementation; the training of officials in the generation and use of data; dissemination of data and training of relevant government officials.	MFAET, CBSI, MCILI, MoFT	2015	SIG, IMF, PFTAC, World Bank, UNCTAD, ADB, SPC	1	Regular reports containing accurate statistics.	Resources secured to continue strengthening trade-related statistics. Gathering and dissemination.	Institutional capacity of SI to generate, analyse and disseminate credible and reliable statistics and improved measures put in place to ensure sustainability.
(ii) From the introduction of ASYCUDA World, MFAET will publish statistics on trade flows and tariff revenue, including on the granting of full and partial duty exemptions, to improve transparency and certainty for traders and investors.	MFAET	2015	SIG, UNCTAD, development partners	1	Regular reports containing accurate trade statistics.	Accessible trade data and statistics.	Better informed policy decisions.
(iii) MFAET will ensure that the use of ASYCUDA World is consistent with the recommendations under the section of the TPF on the institutional framework. This means strengthening institutions so that they can use and interpret ASYCUDA data; the training of officials in the generation and analysis of data; and the dissemination of data.	MFAET	2015	SIG, UNCTAD, development partners	1	Regular reports containing accurate trade statistics; qualified staff trained, hired and retained.	Capacity developed to extract and publish trade statistics from ASYCUDA.	Better informed policy decisions.
(iv) SI will put in place a trade-related communications strategy, including to develop an internal communications strategy; update website; create external communications strategy including segmentation of target audience; develop target-specific key messages; implement communications and PR initiatives; enhance staff communications and PR skills.	MFAET, NTDC and other relevant ministries	2015	SIG and development partners	1	Regular internal and external communications on trade-related matters.	Capacity developed to increase the level and quality of internal and external communications on trade.	Better informed governmental and non-governmental stakeholders.
(v) SI will develop monitoring and evaluation for trade, including: the clear assignment of roles and responsibilities; developing and adopting a results framework, a monitoring	NTDC	2015-2016	SIG and development partners	1	Reports on the affects of trade policy actions.	Reports on trade policy actions and developments improves trade	Better informed trade policy actions.



<p>plan, a data management system and an evaluation plan; improved data analysis and reporting arrangements; development of monitoring and evaluation capacities; and the allocation of future resources for monitoring and evaluation.</p>					policy decision making.	
<p>TRADE POLICY ORIENTATION</p>						
<p>(i) SI will determine the level of openness of the economy primarily by its unilateral policy actions based on an assessment of the interests and needs of the people of Solomon Islands rather than be driven by trade negotiations, and continue with the policy of general openness to trade and investment.</p>	NTDC, Cabinet	2015	SIG	1	National trade policy determined by NTDC and Cabinet.	Trade used as a tool to promote inclusive, sustainable economic growth and development.
<p>(ii) SI will diversify and develop the export trade of Solomon Islands based on a series of consistent, well-designed and coordinated sector policies.</p>	NTDC, Cabinet, relevant ministries	2015-2017	SIG, development partners in selected sectors	1	Trade considerations built into sector policies and development policies factored into trade negotiations and decisions on trade policy measures.	Diversified and expanded export trade, and coordinated national policy framework.
<p>(iii) SI will develop an industrial policy including targeted interventions aimed at improving economic diversification and domestic value addition; improvement of linkages between sectors; and increasing the contribution of agriculture and manufacturing to merchandise trade.</p>	NTDC, MCILL, MFAET, Cabinet	2016	SIG	1	Number of measures adopted that improve economic diversification and domestic value addition, etc.	The policy will enhance competitiveness and diversification, and aim at moving Solomon Islands up the value-adding ladder.
<p>(iv) SI will promote policies that induce backward and forward linkages, particularly through tax and investment policies, thereby promoting smaller-scale enterprises that are</p>	NTDC, MCILL, MFAET, Cabinet	2015	SIG	1	Number of measures adopted that improve linkages.	The policy will increase investment and economic

linked to the large enterprises.									activity.
BUILDING PRODUCTIVE CAPACITY IN KEY SECTORS									
Agriculture									
(i) SI will move towards the elimination of unprocessed copra exports and toward higher-value added processing. Production targets will be reassessed and made more realistic based on current trends, and will include concrete intermediate actions aimed at achieving these realistic targets.	Ministry of Agriculture	2016	SIG, development partners	2	Quantity/value of agricultural products exported.	Increased production of high value coconut products.	Increased production and trade of high value coconut products.		
(ii) SI will implement a programme, including overseas study tours and quality standards assurance, on knowledge and capacity-building of high value food processing and marketing techniques for private sector entrepreneurs. Encouraging value addition. The food sector, including coffee, nuts, spices, fruits and kava, is particularly appropriate for support in this context.	Ministry of Agriculture, MCILJ	2016	SIG, FAO, UNDP, SPC, Fiji, PNG, development partners	2	Quantity/value of agricultural products exported.	Technical skills provided to farmers, wholesalers and processors, quality input material provided, post-harvest storage facilities provided and transportation facilities improved.	Increase in production and trade of high value food and food products.		
Fisheries									
(i) SI will continue to engage with the Comprehensive Economic Partnership Agreement (EPA) negotiations, signing only if benefits clearly outweigh the costs. A new and detailed empirical cost-benefit analysis will be conducted once the negotiations have been finalised.	Ministry of Fisheries, MFAET, MFAET, NTDC	2015	SIG, PIFS	1	Conclusion of EPA negotiations, and cost-benefit analysis completed.	Informed decisions on signature and ratification of EPA.	Improved access to EU market without unduly comprising other important interests.		

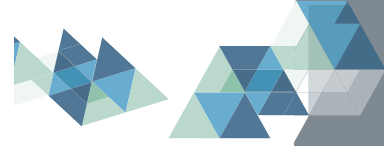




(ii) SI will continue to support the development of fisheries canning and tuna processing in Noro and elsewhere. Place rural fisheries and aquaculture development within an integrated rural development strategy, and ensure that a proportion of the income from the tuna industry is allocated to support the rural development strategy.	Ministry of Fisheries, MCILL, NTDC	2015	SIG, PNA, FFA, SPC, EU	1	Strategy developed and measure adopted to encourage fish processing and aquaculture.	Increased number of local and foreign investors in the fisheries industry.	Increase in investment in the fisheries sector producing sustainable development and improvement of lives of people.
(iii) SI will increase focus on value-addition and reduce reliance solely on fisheries access revenue in order to encourage job creation and retention of benefits by prioritising the granting of fisheries access to those companies that make considerable investments in onshore fish processing in the Solomon Islands.	Ministry of Fisheries, MCILL, NTDC	2015	SIG, PNA, FFA, SPC, EU	1	Number of investors involved in value addition.	Increased volume of fisheries product produced and exported.	Development of the outer islands, expansion of the national fisheries industry, impacting positively on economic development.
(iv) SI will continue to ensure that conservation and management and the sustainable management of fisheries remain core principles governing actions and policies in this sector.	Ministry of Fisheries	2015	SIG, PNA, FFA, SPC, EU	1	Number of conservation and management measures adopted/enforced.	Transparent and effective conservation and management regime to ensure fishing is sustainable.	Sustainable management of SI fisheries.
(v) SI will ensure that the competent authority that deals with food safety including sanitary and phytosanitary issues within the Ministry of Health is provided with adequate funding allocation on an annual basis in the national budget.	Cabinet	2015	SIG and development partners	1	Level of funding allocated for competent authority.	Sufficient funds allocated to competent authority to operate.	No interruption of fisheries trade with EU and other export markets.
Mining							
(i) Update and implement the mining policy and put it into practice. Ensure that a variety of government ministries have the necessary technical expertise to ensure that regulations are appropriately set and implemented.	Cabinet, Ministry of Mines and Energy, MICILL, MFAET	2015	SIG and development partners	1	Quality and timeliness of output and retention of recruitment of	Mining policy endorsed by Cabinet and implemented by Ministry of Mines	Transparent policy implemented impartially facilitates new

<p>(ii) Build linkages between the mining sector and other industries including utilities; food services; maintenance services; machinery maintenance services; training of technical personnel in business services; accounting and safety standards.</p>	<p>Ministry of Mines and Energy, MICILL, Ministry of Education</p>	<p>2015-2017</p>	<p>SIG</p>	<p>1</p>	<p>Allocation of new role and resources to MICILL to promote linkages.</p>	<p>MICILL develops and implements a policy to build linkages.</p>	<p>investment in mining. Linkages between mining sector and other sectors established increasing purchases of local goods and services and building capacity of local firms.</p>
<p>(iii) Place emphasis on the reduction of legal obstacles to mining development, improve transparency and continue to adhere to international best practice, while ensuring that mining activities are sustainable and land-owners and the community fairly share in the benefits. Make environmental considerations paramount.</p>	<p>Ministry of Mines and Energy, Ministry of Environment</p>	<p>2015-2016</p>	<p>SIG and development partners</p>	<p>1</p>	<p>High quality legislative framework developed.</p>	<p>New laws and regulations enacted.</p>	<p>Important interests of all stakeholders in mining activity are addressed in a transparent framework that promotes sustainable development.</p>
<p>Forestry</p>							
<p>(i) SI will ensure the tax and regulatory regime is fully implemented and modified to address any loopholes.</p>	<p>NTDC, Ministry of Forestry, MFAET</p>	<p>2015</p>	<p>SIG</p>	<p>1</p>	<p>Increase in revenue collected and number of enforcement actions taken.</p>	<p>Measures to remove loopholes and better enforcement of laws.</p>	<p>Increase in government revenue and continuation of logging in a more sustainable manner.</p>
<p>(ii) SI will work with sawmill operators and local timber companies and develop downstream processing among domestic companies and produce a long-term strategy on downstream processing. Establish a Value-added Timber Association (VATA) producer's organization. Work on removing obstacles to</p>	<p>Ministry of Forestry, MICILL</p>	<p>2015</p>	<p>SIG, Australia</p>	<p>1</p>	<p>Increase in logs processed in SI.</p>	<p>Increase in number of logs and value-addition in SI.</p>	<p>Increase in processing of logs and value addition in SI.</p>

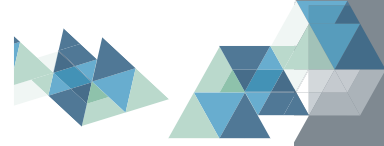




the export of timber that has been undertaken under the auspices of PHAMA should continue to be supported.										
(iii) SI will continue to inform resource owners about reforestation and plantation establishment. Awareness for plantation establishment will prioritise landowners in plantation or woodlot establishment on their land, followed by community plantations, then joint ventures with existing Solomon Islands based companies, and finally, joint ventures with foreign investors. Mechanisms for property rights and rentals should be clarified, especially understanding of land registration and joint venture arrangements.	Cabinet, Ministry of Lands, Ministry of Forestry, MCIL	2015	SIG	1	Increase in reforestation and forestry plantations.	Increase in reforestation and forestry plantations.				
(iv) SI will formulate a policy position on carbon finance. A national carbon monitoring system needs to be established, which would be followed by undertaking a national carbon stock assessment.	Cabinet, NTDC, MFAET, Ministry of Forestry	2016	SIG, UNEP, SPC	2	Reports of policy options and implementation of new policies.	More environmentally sustainable development.	Policy on carbon finance.			
Tourism										
(i) SI will finalise and implement the tourism policy, with a strategy based on yield enhancement rather than an absolute increase in tourism numbers.	Ministry of Culture and Tourism, MCIL, NTDC	2015	SIG, ADB, development partners	1	Policy agreed, policy measures taken.	Increase in tourism and sustainable development.	Tourism investment in tourism, including the development of human skills, encouraged.			
(ii) SI will commit additional resources to outside marketing and promotion, including through the use of the regional tourism bodies.	Ministry of Culture and Tourism	2015	SIG	1	Additional resources secured for marketing and promotion of tourism.	Enhanced marketing and promotion of tourism in SI.	Enhanced marketing and promotion of tourism in SI.			Enhanced marketing and promotion of tourism in SI creating greater awareness of the opportunities for

<p>(iii) SI will adopt measures to improve access for local tourism enterprises to business start-up or expansion funding, including microfinance.</p>	<p>MCILL, MFAET</p>	<p>2015</p>	<p>SIG, development partners</p>	<p>1</p>	<p>Increase in access to cheap finance for the tourism industry.</p>	<p>Loans granted to local investors to set up or improve tourism related businesses and number of tourism business operators expanded, while incentives allotted for best performing tourism businesses.</p>	<p>Establishment of a sustainable and viable tourism industry and more SI nationals involved in the tourism industry; additionally employment created for locals.</p>	<p>tourism in SI in target markets.</p>
<p>(iv) SI will use the internet to tap into high-yield markets and make it a major focus for future marketing.</p>	<p>Ministry of Culture and Tourism, NTDC</p>	<p>2015</p>	<p>SIG</p>	<p>1</p>	<p>High-end tourism visitors.</p>	<p>Quality and environmentally friendly tourism products on offer.</p>	<p>Environmentally sustainable tourism and development.</p>	
<p>Information Communications Technology</p> <p>(i) Develop an ICT policy which devotes attention to trade, exploring opportunities to provide a variety of services over the internet. Multi-Sector Coordination and Collaboration.</p>	<p>Telecommunications Commission</p>	<p>2015</p>	<p>SIG, World Bank, ADB, development partners</p>	<p>1</p>	<p>Reports prepared.</p>	<p>Development of a Policy that addresses: Access to ICT in Education; Access to ICT Infrastructure and Devices; E-Government; Integration of ICTs into Sectoral Policies; Building Trust (Mitigating Risks and Threats</p>	<p>ICT Policy that supports economic growth and international trade.</p>	

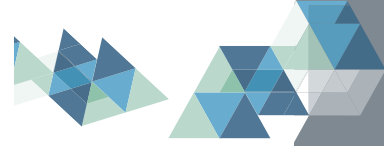




						related to the ICT Development); Locally Relevant Content; Capacity Building; and Platform for Multi-Stakeholder and Multi-Sector Coordination and Collaboration.	
(ii) In light of the imminent availability of undersea high bandwidth fibre-optic cabling formulate an ICT regime that is designed to attract greater investments in the area of business process outsourcing (BPO), call centres and other forms of back up operations which Solomon Islanders from different education backgrounds and qualifications can benefit from.	Telecommunications Commission	2015	SIG, World Bank, ADB, New Zealand, development partners	1	Reports prepared and measures adopted.	Formulation of a measures to encourage investment in the area of business process outsourcing, call centres and related businesses.	Development of measures supportive of investment in the area of business process outsourcing, call centres and related businesses.
TRADE IN GOODS							
Exports and Imports							
(i) MCILl will lead development of an action plan to assist exporters to promote and market products in other Pacific Island Countries in order to effectively benefit from PICTA and the MSGTA.	MCILl, NTDC, MFEAT and other relevant ministries (e.g. Agriculture and Forestry)	2015	SIG, MSG, PIFS, development partners	1	Increase in exports of SI products to other Pacific Islands.	Measures to promote exports of SI products	Increase in exports of SI products to other Pacific Island Countries
(ii) The legislation prohibiting or restricting the importation of products, as well as the implementation of legislation that empowers a government agency or Minister to restrict or product imports, will be reviewed to ensure the legislation is achieving the policy objectives of keeping undesirable products off	MCILl, MFAET, NTDC, and other relevant ministries (e.g. Health)	2015	SIG	1	Review of legislation proposals for amendment of laws or regulations	Clear and transparent regulations that achieve their regulatory purpose in a manner consistent with the	Clear and transparent regulations that achieve their regulatory purpose.

the market and doing so in a manner consistent with the international obligations of Solomon Islands.								international obligation of SI.	
(iii) SI will assess whether alternative means of raising equivalent revenue (such as stumpage charges, a VAT or a resource rent tax) are practical or politically possible in order to enable the entry into a trade agreement that might restrict the right to impose export taxes should be avoided.	MFAET, Ministry of Forestry, NTDC	2015	SIG, PIFS, OCTA, development partners	1		Report prepared.	Alternative proposals to raise revenue analysed.	Alternative proposals to raise revenue analysed.	Alternative proposals to raise revenue analysed.
(iv) SI will review the availability of income tax exemptions and deductions to ensure they are aligned with the sectoral development and industrial policies and trade obligations.	MCILL, MFAET, MFEAT	2015	SIG, development partners	2		Review of legislation proposals for amendment of laws or regulations.	Exemption criteria and procedure clearly outlined in a regulation/Act.	Clear and transparent rules on exemptions to minimize corruption and leakage of government revenue and promote development.	
(v) SI will continue to review older legislation that may affect trade in products, including the legislation aimed at the domestic market, to ensure that the legislation achieves its policy objectives and operates in a WTO compatible manner.	NTDC, Attorney-General, MFAET, MFAET	2015-2016	SIG	2		Pieces of legislation that affect trade and investment reviewed.	Legislation amended, if necessary, to ensure achievement of policy objectives in compliance with international compliance.	Improved legislative framework for trade and investment.	
(vi) SI shall also consider identifying a list of sensitive products that shall be exempted from trade agreements.	MCILL, NTDC, MFAET	2015	SIG, Private sector	1		List of sensitive products.	A list of sensitive products to be exempted from liberalisation.	A credible and practical list of sensitive products to be exempted from trade liberalisation.	

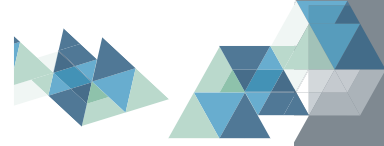




Customs												
(i) Commit to implementation of a programme of customs modernisation consistent with the available resources and adopt a policy of continuous improvement.	MFAET, NTDC, Cabinet	2015	SIG, ANZ, EU and other development partners	1	Long-term plan for modernisation of customs developed.	Continuous improvement in operation of customs service.	Continuous improvement in operation of customs service facilitating trade and collection of revenue.					
(ii) Seek the necessary technical assistance to carry out all of the prioritised reforms as part of a multi-year programme.	MFAET, MFAET	2015	SIG, ANZ, EU and other development partners	1	Additional resources secured.	Additional resources secured necessary for implementation of modernisation plan.	Implement of customs modernisation plan.					
(iii) Establish a Trade Facilitation Committee under the National Trade Development Council.	NTDC	2015	SIG	1	Committee established and meetings held.	Meetings identified priorities and policy on trade facilitation.	Trade facilitated.					
(iv) Ensure better resourced border control in ports outside of Honiara.	MFAET	2015	SIG, development partners	1	Needs for border posts identified and additional resources secured.	Additional needed resources secured.	Trade facilitated by better resourced border posts outside of Honiara.					
SPS and TBT												
(i) Include provisions modeled on the WTO SPS and TBT Agreements in preferential trade agreements that are negotiated.	MFAET, NTDC	2015	SIG, PIFS, OCTA	1	Proposals for appropriate provisions on SPS and TBT made.	Agreements contain appropriate provisions on SPS and TBT.	Obstacles to exports avoided.					
(ii) Identify priority areas that will assist exporters and protect the local people and environment.	Ministries of Agriculture, Fisheries, Forests, NTDC	2015	SIG, EU, ANZ and other development partners	1	Agreement on priorities to address supply side obstacles to the increasing exports by NTDC.	Supply side obstacles to the increasing exports identified.	Priorities for increasing exports identified.					

(iii) Review health and safety regulations and enforcement bodies to ensure that Solomon Islands people and environment are not exposed to harmful imported products	Ministry of Health, Ministry of Agriculture	2015	SIG, donor partners	1	Reviews undertaken and weaknesses in regulation and enforcement identified.	Reviews undertaken and proposals for improvement adopted.	Weakness in the regulation and enforcement of imports remedied.
INVESTMENT REGIME							
(i) SI will seek to enhance the transparency of the legislative and policy environment governing foreign investment, including the conditions and procedures governing investment and business operation in key sectors of the economy, such as fisheries, forestry and mining.	NTDC, MCILL, ministries responsible for forestry, fisheries, and mining	2015	World Bank, ADB	1	Investment laws reformed, transparent investment friendly laws.	Laws affecting investment reviewed, simplified where appropriate and transparency enhanced.	Transparent and investor friendly laws which lead to a reduction in the cost of doing business and increase in long-term and sustainable investments which contribute to job creation and sustainable economic growth and development.
(ii) SI will seek assistance to better promote opportunities for quality investment, especially in the productive sectors. The investment policy should incorporate the incentives to attract investment in specific sectors. Incentives should be targeted and time-bound and the benefits and costs should be regularly assessed.	MCILL	2015	SIG, PIFS	1	Presentations on SI investment opportunities and expression of interest in investment.	Measures taken to promote opportunities for quality investment in SI.	Greater investment in SI.

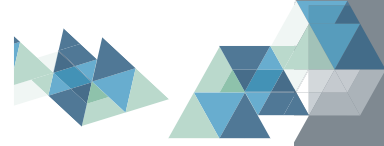




<p>(iii) SI will exercise great caution before concluding an investment protection treaty that contains provision for investor-state arbitration of investment disputes, while recognizing that an investment treaty that did not provide for investor state dispute settlement, and was drafted to retain appropriate regulatory and policy space, could, however, be one of a series of measures that would signal to investors that Solomon Islands is secure place to invest.</p>	<p>NTDC, Cabinet MFAET, 2015</p>	<p>SIG</p>	<p>1</p>	<p>Decisions providing guidance to trade negotiators on investor-state dispute settlement.</p>	<p>Provisions on investment included in treaties promote the sustainable development of SI by encouraging investment without comprising important policy and regulatory interests.</p>	<p>Treaties encourage investment without comprising important policy and regulatory interests.</p>
<p>(iv) SI will ensure appropriate regulatory regimes are in place, especially in sectors where a commitment to liberalise access to foreign investment might be made in a treaty.</p>	<p>NTDC, MFAET 2015</p>	<p>SIG and development partners</p>	<p>1</p>	<p>Reviews of regulatory regimes, regulatory regimes revised.</p>	<p>Measures taken to revise and enforce regulatory regimes in sectors where foreign investment is likely.</p>	<p>Appropriate regulatory regimes exist in sectors where foreign investment is likely.</p>
<p>TRADE IN SERVICES</p>						
<p>(i) SI will review the consistency of national legislation with current and proposed commitments in relation to trade in services and ensure that there are adequate regulations before trade in services are liberalised and that the proposed commitments do not inappropriately restrict regulatory and policy space.</p>	<p>NTDC 2015</p>	<p>PIFS, development partners.</p>	<p>1</p>	<p>Adequate regulations introduced before liberalisation.</p>	<p>Adequate domestic laws on trade in services including transportation, and port services, as well as telecommunications (particularly mobile), tourism, business, financial and environmental services; business services, including professional services enacted and a credible foreign qualification verification system</p>	<p>Adequate laws and regulations introduced to regulate trade in services before the key sectors are fully liberalized to enable SI to minimize the negative impacts of services liberalization and maximize the benefits from services liberalisation.</p>

(viii) Solomon Islands will pursue initiatives to reduce the cost of remittances, in particular to rural communities.	MFAET, NTDC	CBSI,	2015	SIG, World Bank, ANZ	1	Lower cost of remittances.	Measures undertaken to reduce the cost to workers of remitting money to SI.	Lower cost of remittances to workers.
(ix) Link labour mobility to the broader national development strategy, in particular in relation to vocational training. Where opportunities for labour mobility are available, Solomon Islands should seek donor support for the enhancement of the skills and qualifications of Solomon Island workers in such areas, including through vocational training, such as through courses provided by the Australian Pacific Technical College.	MDPAC, Ministry of Education, NTDC, MFAET		2015	SIG, World Bank, ANZ	1	Reports and increased training.	Increased resources secured to provide training in areas of supportive of labour mobility and local market needs.	Coordination of labour mobility and skill and technical training policies.
(x) Solomon Islands should discuss options with its partners to ensure that its people have an effective and equal opportunity of access to opportunities for workers compared with people from other countries, most notably under working holiday schemes.	NTDC, MFAET		2015	SIG, World Bank, ANZ	1	Increase in SI workers relative to other PICs workers utilising labour mobility schemes.	Resources or mechanisms secured to facilitate movement of SI workers.	SI workers not at a disadvantage relative to workers from other FICs.
TRADE RELATED MEASURES								
Competition Policy								
(i) SI establishes a general competition law and an enforcement agency that is applicable to all sectors of the economy.	MCILI		2015	SIG, ADB	1	Reports and proposals for reform.	Proposals for development of a general competition law and its enforcement submitted to Cabinet.	General competition law and enforcement agency created.
(ii) SI reviews the scope of any statutory monopolies with a view to enabling greater competition and private sector activity in a sector where consistent with the development	MCILI, MFAET, and other relevant ministries		2016	SIG, ADB	1	Reports and proposals for reform.	Proposals on the need for reform of state enterprises submitted to	Reform of state enterprises where appropriate.

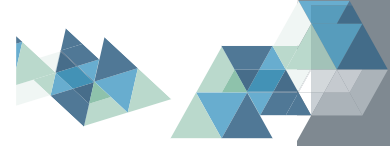




strategy of Solomon Islands.									Cabinet.	
Government procurement										
(i) Before undertaking international commitments on government procurement, the role that government procurement can play in development in Solomon Islands and review of the type of disciplines on procurement in Solomon Islands will be conducted.	MFAET, MFAET, NTDC	2015	SIG, development partners	2	Recommendations on government procurement submitted to NTDC.	Recommendations on government procurement submitted to NTDC.	SI analyses the costs and benefits of including commitments on government procurement in trade agreements and make a decision on negotiating on this issue.			
Intellectual Property										
(i) SI will develop intellectual property laws that are consistent with its interests outside of trade negotiations.	MCILL, MCT	2016	SIG, SPC, PIFS, WIPO, development partners	2	Reports reviewing intellectual property laws.	Reports reviewing intellectual property laws for consistency with plans for sustainable development.	SI has appropriate laws for intellectual property protection.			
(ii) Where appropriate, SI will seek cooperation from other countries to reduce cost and technical obstacles.	MCILL, MFAET	2016	SIG, development partners	2	Proposals and arrangements for cooperation and technology transfer.	SI negotiates for arrangements for cooperation and technology transfer.	SI negotiates for arrangements for cooperation and technology transfer.			
(iii) SI will seek to have bio-diversity, traditional knowledge and cultural expressions that are protected in Solomon Islands protected in other jurisdictions.	MCILL, MFAET, MCT,	2016	SIG, SPC, PIFS, MSG Sec, WIPO, development partners	2	SI negotiates for arrangements for protection of cultural property.	SI negotiates for protection of cultural property abroad.	SI negotiates for protection of cultural property abroad.			
Environment										

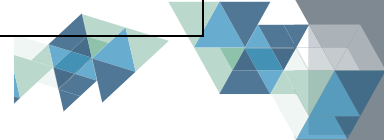
(i) SIG shall take measures to ensure that trade and investment is undertaken in a sustainable manner without damaging the environment or depleting resources.	NTDC	2015	UNEP, SIG	3	Number of laws to protect environment adopted and enforced.	National Environmental Protection Act reviewed and made more robust.	Trade is conducted in a sustainable manner without damaging the environment or depleting resources.
TRADE AGREEMENTS							
World Trade Organization							
(i) SIG will remain actively engaged in WTO issues of critical relevance to Solomon through maintaining a physical presence in Geneva and working closely with PIFS Office in Geneva.	MFAET, NTDC	2015	PIFS, SIG	2	SI's interests fully reflected at the WTO through its Geneva Office.	SI working closely with PIFS office in Geneva to ensure that its interests are addressed.	SI's interests reflected at the WTO level.
(ii) SI will continue to focus on areas of key interest in the WTO, including on fishing subsidies, aid for trade and the implementation of the Trade Facilitation Agreement.	MFAET, NTDC	2013	PIFS, SIG	3	Attendance of relevant meetings and presentation of views.	Attendance of relevant meetings and advocacy of support positions.	SI's interests reflected at the WTO level.
Melanesian Spearhead Group Trade Agreement (MSGTA)							
(i) SI will continue to support the economic integration of the MSG countries and seek funding from development partners for that purpose.	MFAET, NTDC	2015	MSG countries, development partners	1	Revision of MSGTA completed and funding for implementation secured.	Institutional arrangements and funding secured to enhance economic integration.	Greater economic integration and growth of MSG economies.

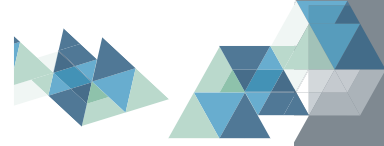




<p>(ii) SI will work with other MSG countries to address trade issues that are common to MSG.</p>	<p>MFAET, NTDC</p>	<p>2015</p>	<p>MSG countries, development partners</p>	<p>1</p>	<p>Identification and pursuit of common trade issues, including on aid for trade.</p>	<p>Identification and pursuit of common trade issues, including on aid for trade.</p>	<p>MSG able to coordinate and address issues of common interest.</p>
<p>(iii) SI will support the negotiation of a modern comprehensive trade agreement with the MSG countries that includes trade in goods, trade in services, investment and labour mobility that supports its sustainable development.</p>	<p>MFAET, NTDC</p>	<p>2015</p>	<p>SIG, development partners</p>	<p>1</p>	<p>Issues analysed and advocacy of position in MSGTA negotiations.</p>	<p>Analysis of interests of SI in trade and trade-related issues in MSGTA and new trade agreement.</p>	<p>Conclusion of revised MSGTA promoting sustainable development of SI.</p>
<p>The Pacific Island Countries Trade Agreement (PICTA)</p>							
<p>(i) SI will continue to engage with the parties to PICTA and PICTA TIS without allowing it to draw too many resources away from significant regional negotiations that are likely to be implemented.</p>	<p>MFAET, NTDC</p>	<p>2015</p>	<p>PIFS, development partners</p>	<p>1</p>	<p>PICTA TIS enters into force.</p>	<p>SI ratifies PICTA TIS and PICTA TIS enters into force.</p>	<p>SI fully participating in PICTA trade in goods and services and has access to a regional market which is good for attracting foreign investment and economic development.</p>
<p>(ii) SI will undertake preparatory work for the legislative and policy work needed for the implementation of PICTA TIS, as part of its review of the regulatory framework for service sectors, with expectation that similar steps would be required to implement other trade agreements.</p>	<p>MFAET, NTDC, other relevant ministries</p>	<p>2015-2016</p>	<p>SIG, development partners</p>	<p>2</p>	<p>Reviews of the regulation of service sectors conducted with a view to assessing compliance with existing and future trade commitments.</p>	<p>SI enacts appropriate trade agreement compatible regulatory regimes.</p>	<p>SI is able to implement trade in services obligations consistent with its regulatory objectives.</p>

<p>PACER Plus</p> <p>(i) SI will commit to undertaking a robust assessment of the costs and benefits of PACER Plus upon the conclusion of negotiations with a view to ensuring decisions on signature and ratification are in the interests of Solomon Islands. This will involve a comparison between the outcome of the negotiations and the current situation and addresses offensive and defensive interests, opportunities, adjustment costs, technical and financial assistance as well as other measures that are required to address production and supply capacity to enable the private sector to produce quality goods and services which can be traded in a consistent manner.</p>	MFAET, NTDC	2015-2016	ANZ, OCTA, other development partners.	1	A comprehensive PACER Plus study.	Report on comprehensive PACER Plus study submitted to MFAET and NTDC.	SI makes decision on ratification of PACER Plus with best available information on its impact on the sustainable development of SI.
<p>(ii) Labour Mobility will be a key offensive interest in PACER Plus negotiations. Solomon Islands will continue to insist that labour mobility must be within the PACER Plus agreement, with improved quotas in sector covered by existing arrangements and quotas in additional sectors in which labour shortages exist.</p>	MFAET, NTDC	2015-2016	ANZ, OCTA, other development partners.	1	Comprehensive commitments on labour mobility.	Comprehensive commitments on labour mobility included in the PACER Plus agreement.	SI secures legally binding and meaningful new access to employment opportunities in ANZ.
<p>(iii) Solomon Islands will insist that additional development assistance that is commensurate with PACER Plus specific obligations, adjustment costs and to address supply side constraints is necessary for PACER Plus to be a balanced, reciprocal agreement.</p>	MFAET, NTDC	2015-2016	ANZ, OCTA, other development partners.	1	Comprehensive commitments on development assistance.	Comprehensive commitments on development assistance mobility included in the PACER Plus agreement.	SI secures legally binding, predictable and adequate resources to implement the agreement, meet adjustment costs as well as to take advantage of the opportunities offered by the agreement.





Economic Partnership Agreement (EPA)									
(i) SI will continue negotiating the comprehensive Economic Partnership Agreement with the other PACP States as a single region.	MFAET, NTDC, Ministry of Fisheries, MFAET	2015	PIFS	1		Key issues analysed and EPA signed.	SI concludes negotiation of EPA.	SI signs the EPA that promotes its sustainable development.	
(ii) SI will conduct a cost benefit analysis at the end of the comprehensive EPA negotiations on whether to sign and ratify the agreement, including implementation and adjustment costs, fiscal impact, practical and political feasibility, tax reform, potential benefits of investment, employment and tax revenue from fish processing made possible by global sourcing for canned fish and cooked loins and potentially fresh, frozen and chilled fisheries products.	MFAET, NTDC, Ministry of Fisheries, MFAET, Cabinet, Parliament	2016	SIG, PIFS, MSG Sec	1		Helpful reports on the cost and benefits of EPA.	SI makes decision on ratification of EPA with best available information on its impact on the sustainable development of SI.	SI makes decision on ratification of EPA with best available information on its impact on the sustainable development of SI.	
East Asia									
(i) On a regional basis with other Pacific Island Countries, or on a sub-regional basis with the MSG Countries, explore and seek to negotiate improved access to Asian markets and deepen trade, investment, temporary movement and development cooperation.	MFAET, NTDC	2016	ASEAN, China, Japan, RoC	1		Studies of risks and opportunities for improved market access and international discussions undertaken.	Negotiation of SI products and services and closer cooperation.	Improved market access for SI products and services and closer cooperation.	
(ii) In light of the outcome of the EPA and PACER Plus negotiations, develop a strategy to mitigate trade diversion costs.	MFAET, NTDC	2016	ASEAN, China, Japan, RoC	2		Studies of risks of trade diversion and strategies to reduce.	Measures to mitigate trade diversion.	Less risk of inefficient trade diversion.	
AID FOR TRADE									

(i) The TPF will be used to secure Aid for Trade from trade and development partners to address the trade and development needs identified in the TPF, including the Aid for Trade Priorities Identified for Pacific Islands Forum Secretariat Consolidated Aid for Trade Matrix.	MFAET, NTDC	2015	Trade and development partners.	1	Technical and financial assistance secured to implement the trade development needs identified in the Trade Policy.	Value of technical and financial assistance secured to implement the trade policy.	SI has adequate resources to fully implement the trade policy.
IMPLEMENTATION							
(i) The TPF will be implemented over a long period of time and PIFS shall play a vital role in mobilising the resources required for implementing the TPF. PIFS and SI shall organise a donor conference to present the TPF and mobilise funding.	MFAET, NTDC	2015	PIFS, SIG	1	Adequate resources to implement the TPF secured.	Amount of AFT secured to implement the TPF.	Funding secured to ensure full implementation of the TPF.
(ii) PIFS shall assist SI to review its TPF after 3-5 years.	MFAET, NTDC	2018-2020	PIFS, SIG	3	TPF Review conducted no later than 2020.	TPF Report.	Report on the progress or challenges faced in implementing the trade policy.





LIST OF ACRONYMS

ACP	African Caribbean and Pacific
ACTA	Anti-Counterfeiting Trade Agreement
ADB	Asian Development Bank
AFT	Aid for Trade
ANZ	Australia and New Zealand Bank
ANZCERTA	Australia and New Zealand Closer Economic Relations Trade Agreement
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASIM	Association of Solomon Islands Manufacturers
ASYCUDA	Automated System for Customs Database
ATM	Automated Teller Machines
AUSAID	Australian Agency for International Development
BPO	Business Process Outsourcing
BSP	Bank South Pacific
BUILD	Board of Investment's Unit for Industrial Linkage Development
CBSI	Central Bank of Solomon Islands
CROP	Council of the Regional Organizations of the Pacific
DDA	Doha Development Agenda
DET	Department of External Trade
DfID	Department for International Development
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EEZ	Exclusive Economic Zone
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FFA	Forum Fisheries Agency
FIC	Forum Island Countries
FID	Foreign Investment Division
FOB	Free on Board
FY	Fiscal Year
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
GNP	Gross National Product
GPPOL	Guadalcanal Palm Plantation Oil Limited
GSP	Generalized System of Preferences
HDI	Human Development Index

IAU	Inter-Agency Understandings
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
IEPA	Interim Economic Partnership Agreement
IFC	International Finance Cooperation
ILO	International Labour Organization
IMF	International Monetary Fund
IMF WEO	International Monetary Fund World Economic Outlook
IP	Intellectual Property
IT	Information Technology
ITC	International Trade Centre
IUU	Illegal, Unreported and Unregulated
JICA	Japanese International Cooperation Agency
LDC	Least Developed Country
LMU	Labour Mobility Unit
MAL	Ministry of Agriculture and Livestock
MCILI	Ministry of Commerce, Industries, Labour and Immigration
MCT	Ministry of Culture and Tourism
MDPAC	Ministry of Development Planning and Aid Coordination
MFAET	Ministry of Foreign Affairs and External Trade
MFMR	Ministry of Fisheries and Marine Resources
MFN	Most Favoured Nation
MFR	Ministry of Forestry and Research
MHMS	Ministry of Health and Medical Services
MID	Ministry of Infrastructure Development
MMERE	Ministry of Mines, Energy and Rural Electrification
MoFT	Ministry of Finance and Treasury
MSG	Melanesian Spearhead Group
MSG SMS	Melanesian Spearhead Group Skills Movement Scheme
MSGTA	Melanesian Spearhead Group Trade Agreement
MTDS	Medium Term Development Strategy
NAMA	Non-Agricultural Market Access
NDS	National Development Strategy
NGO	Non-Governmental Organizations
NIU	National Implementation Unit
NPF	National Provident Fund
NPS	National Payment System
NSC	National Steering Committee
NTDC	National Trade Development Council
OCO	Oceania Customs Organization
OCTA	Office of the Chief Trade Advisor
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PACER	Pacific Agreement on Closer Economic Relations
PACPS	Pacific members of the Group of African Caribbean and Pacific States
PAPRI	Pacific Payment, Remittances and Securities Settlement Initiative
PHAMA	Pacific Horticultural and Agricultural Market Access
PIANGO	Pacific Island Association of Non-Governmental Organizations



PIC	Pacific Island Countries
PICTA	Pacific Islands Countries Trade Agreement
PICTA TIS	Pacific Island Countries Trade Agreement, Trade in Services
PIFS	Pacific Islands Forum Secretariat
PIPSO	Pacific Islands Private Sector Organization
PNA	Parties to the Nauru Agreement
PNG	Papua New Guinea
PT&I	Pacific Trade and Invest
R&D	Research and Development
RoO	Rules of Origin
RSE	Recognised Seasonal Employer
SBD	Solomon Bokolo Dollar
SD	Solomon Dollar
SI	Solomon Islands
SIQS	Solomon Islands Quarantine Services
SICCI	Solomon Islands Chamber of Commerce and Industry
SIEA	Solomon Islands Electricity Authority
SIG	Solomon Islands Government
SIWA	Solomon Islands Water Authority
SIWIBA	Solomon Islands Women in Business Association
SME	Small Medium Enterprises
SMEC	Small Medium Enterprises Council
SMS	Short Message Service
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPC	Secretariat of the Pacific Community
SPS	Sanitary and phytosanitary
SPTO	South Pacific Tourism Organization
SWP	Seasonal Worker Programme
TBT	Technical barriers to trade
TCMSP	Trade, Commerce and Manufacturing Sector Plan
TK	Traditional Knowledge
TKEC	Traditional Knowledge and Expressions of Culture
TMNP	Temporary Movement of Natural Persons
TPF	Trade Policy Framework
TRIPS	Trade Related aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
USD	United States dollar
VAT	Value added tax
VATA	Value-added Timber Association
VCO	Virgin Coconut Oil
VDS	Vessel Day Scheme
WIPO	World Intellectual Property Organization
WTO	World Trade Organization





Ministry of Foreign Affairs and External Trade
Solomon Islands Government



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