Multi-year Expert Meeting
on Transport, Trade Logistics and Trade Facilitation

Third Session:
Small Island Developing States:
Transport and Trade Logistics Challenges

24 – 26 November 2014

Overview of Key Challenges Affecting Transport and Trade

Presentation by

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Permanent Representative
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Session 1: Overview of key challenges affecting Transport and Trade

Presentation by
Pacific Islands Forum Secretariat
This presentation aims to:

- Provide an overview of inter-island shipping in the Pacific region with a focus on the economic context within which shipping operates;
- Identify the challenges facing the industry, both at the macroeconomic and at the micro level – such as the challenges relating to infrastructure, governance, technology, resources and natural hazards; and
- Outline possible ways of overcoming these challenges.

Introduction

PICTs
- Challenged by vast oceanic distances and isolation - a total land area of approximately 91,099 km² in a sea area covering 180 million km²
- Need reliable, efficient and affordable shipping services, to support sustainable economic growth
- Rely on cargo shipping for access to international markets for exports and to supply chains for essential goods, particularly fuel and food

Shipping providers
- Operate in a unique environment with significant constraints and challenges such as:
  - Small populations and large distances between PICTs
  - Low cargo volumes inbound, and even less outbound, making it challenging to support profitable regular services and low freight rates
  - Not able to achieve economies of scale as serving small, isolated economies is expensive, particularly at current fuel prices

Impact
- Constrained economic growth as the cost of doing business increases
- Harder to compete in international markets
- Increased cost of inputs and operating costs
Challenges in operations

- Small populations, large distances and far flung communities.
- Infrequent services and low volumes.
- Import/Export imbalance.
- State owned companies.
- Ship design and functionality.
- Variability in port design and performance.
- Differences in international and domestic shipping.

Coupled with the low populations of many PICTs, overall economies are therefore generally very small, resulting in low domestic demand.

Variation and uncertainty in growth rates may be a deterrent to investment in services by the private sector.
Export and Import (by value)

All PICTS, with the exception of Papua New Guinea, are net importers of goods.

Shows the reliance of isolated island nations on cargo flows to provide food security, fuel and other vital goods to sustain livelihoods.

However, in absolute terms import values are small, and individually smaller nations may not reach the threshold to make shipping services viable.

### Table 2 PICT net exports (2005–2009)

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Samoa</td>
<td>-146,900</td>
<td>-140,700</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>-52,100</td>
<td>-61,300</td>
<td>-123,700</td>
<td>-145,300</td>
<td>-178,800</td>
</tr>
<tr>
<td>Fed States of Micronesia</td>
<td>-104,300</td>
<td>-107,300</td>
<td>-107,600</td>
<td>-115,500</td>
<td>na</td>
</tr>
<tr>
<td>Fiji</td>
<td>-896,600</td>
<td>-1,107,700</td>
<td>-1,026,900</td>
<td>-1,338,100</td>
<td>-805,390</td>
</tr>
<tr>
<td>Kiribati</td>
<td>-72,000</td>
<td>-59,600</td>
<td>-60,400</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Republic of the Marshall Islands</td>
<td>-68,200</td>
<td>-69,500</td>
<td>-70,800</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Nauru</td>
<td>-21,900</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>-683,390</td>
<td>-827,664</td>
<td>-840,573</td>
<td>-1,868,869</td>
<td>-1,589,200</td>
</tr>
<tr>
<td>Niue</td>
<td>-8,101</td>
<td>-2,447</td>
<td>-3,977</td>
<td>-7,781</td>
<td>na</td>
</tr>
<tr>
<td>Palau</td>
<td>-143,600</td>
<td>-151,000</td>
<td>14,800</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>1,584,400</td>
<td>1,914,400</td>
<td>1,750,300</td>
<td>5,697,300</td>
<td>na</td>
</tr>
<tr>
<td>Samoa</td>
<td>-152,000</td>
<td>-154,900</td>
<td>-136,200</td>
<td>-211,100</td>
<td>-178,100</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>-81,500</td>
<td>-86,900</td>
<td>-81,900</td>
<td>185,600</td>
<td>-67,200</td>
</tr>
<tr>
<td>Tonga</td>
<td>-110,300</td>
<td>-121,000</td>
<td>-134,900</td>
<td>-147,582</td>
<td>-96,876</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>-12,839</td>
<td>-2,890</td>
<td>-15,400</td>
<td>-6,400</td>
<td>na</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>-122,600</td>
<td>-126,900</td>
<td>-180,000</td>
<td>-258,900</td>
<td>-2,766,200</td>
</tr>
</tbody>
</table>

Supportive Policy and Institutional Environment

- Trade development and facilitation.
- Port operations and efficiency.
- SOE reform and improvements in their financial and management performance.
- Infrastructure policy planning and financing.
- Training and capacity building in coastal and inter-island service providers.
Improving Performance and Access

- Regulation – liberalisation can improve level of service and affordability of transport services in the region.
- Subsidies for uneconomic services should be transparent.
- Sale of national lines should be considered.
- Maintaining port and shipping assets is important.
- Maritime capacity building, including safety.
- PICTA Trade in Services and trade facilitation.

Major Pacific ports and infrastructure

- There are about 60 international ports in the Pacific Islands region.
- Seaports play a crucial role in the Pacific economy especially in countries such as Nauru, Niue and Tuvalu where there is only one port servicing the country.
- Many Pacific Island port infrastructures were built in the 1950s and 1960s and has not been modernised since then.
- Problems persist such as wharf surfaces and aprons needing maintenance; sheds and warehouses being built for palletised cargo and not containerised cargo; and cargo handling equipment is old or in need of replacement and poorly maintained due to a lack of resources.
Main routes, regularity and frequency of shipping service

Map illustrates the following routes:

- **Australia/New Zealand – Pacific** (frequency of routes vary from 1, 2 or 3 weeks)
- **Asia – Pacific** (frequency of routes vary from 1 or 2 weeks)
- **US – Pacific** (frequency of routes vary from 1, 2 or 3 weeks depending on routes & company)
- **Europe – Pacific** (frequency of routes vary from 2, 3 or 4 weeks depending on routes & company)
- **Middle East – Pacific** (frequency of routes vary from 2, 3 or 4 weeks depending on routes & company)

Challenges and solutions

**Challenges of inter-island shipping**

- **DISTANCES** – long from markets and between islands
- **SMALL MARKET ECONOMY** - low cargo volumes inbound, less or no cargo outbound, with seasonal peaks
- **LOADS** - low imports and even less exports with seasonal peaks
- **MARKET & POPULATION** - small

**Suggested solutions/examples**

- Develop/promote export opportunities from islands (e.g. Maximise Cargo workshop)
- Adopt a hub & spoke model. Identifying Hub Ports with transshipment services (e.g. CPSC & Reef Shipping)
- Provide appropriate incentives where proven necessary (e.g. Fiji Shipping Franchise Scheme)
- Utilize smaller economical shipping services to suit (e.g. KSSL SIS Shipping Agreement)
### Challenges of inter-island shipping

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Suggested solutions/examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHIPPING RELIABILITY - Lack of reliability</strong></td>
<td>➢ Development of a critical mass through sub-regional grouping (e.g. since the inception of CPSC, there have been more regular and cost-effective shipping services to the Central Pacific SIS)</td>
</tr>
<tr>
<td><strong>SHIPPING EXPENSIVE - affecting cost of goods &amp; services</strong></td>
<td>➢ Development of a critical mass through sub-regional grouping (e.g. since the inception of CPSC, there have been more regular and cost-effective shipping services to the Central Pacific SIS)</td>
</tr>
<tr>
<td><strong>SUBSIDIES - often large (hidden) subsidies to sustain essential but non-economic services,</strong></td>
<td>➢ Subsidies to provide incentives for uneconomic but essential services through a Shipping Franchise Scheme are in operation in some PICTS. It is hoped that when the service becomes more profitable the subsidy is gradually reduced until it is withdrawn.</td>
</tr>
</tbody>
</table>
| **PORT & FACILITIES – range from adequate, limited or none (aged, low maintenance, unserviceable)** | ➢ Appropriate port development must be encouraged to facilitate shipping & trade, etc.  
➢ Aids to Navigation often limited or lacking affecting 24/7 all-weather operations  
➢ Nautical Charts – needs updating.  
➢ Hydrographic Survey training for surveyors |

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<tr>
<td><strong>INFRASTRUCTURE DEVELOPMENT – high maintenance costs, high port costs</strong></td>
<td>➢ Expensive/inappropriate infrastructural development must be avoided</td>
</tr>
<tr>
<td><strong>OPERATING ENVIRONMENT - increasingly regulated</strong></td>
<td>➢ Mandatory requirements must be complied with</td>
</tr>
</tbody>
</table>
| **TECHNOLOGY & EFFICIENCY – generally low levels** | ➢ Ongoing training of relevant personnel across the industry is essential  
➢ Introduction of appropriate technology is essential along with necessary training of personnel |
| **RESOURCES – Limited HR, Finance & institutional capacity** | ➢ Ongoing training of relevant personnel across the industry is essential  
➢ Introduction of appropriate technology is essential along with necessary training of personnel |
Challenges of inter-island shipping

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<td>POOR GOVERNANCE</td>
<td>Where appropriate, services to be handed over and run commercially with effective monitoring to ensure that the objectives are met</td>
</tr>
<tr>
<td>GOVERNMENT PARTICIPATION - high levels</td>
<td>Where appropriate, services to be handed over and run commercially with effective monitoring to ensure that the objectives are met</td>
</tr>
<tr>
<td>NATURAL HAZARDS</td>
<td>PICTs are prone to natural disasters including cyclones, sea-level rise, coastal erosion, etc affecting ports and in turn affects shipping</td>
</tr>
<tr>
<td>GLOBAL FINANCIAL SITUATION</td>
<td>Rationalisation of operations by shipping companies have resulted in mergers and/or buyout, replacing smaller ships with larger economical ones and concentrating on lucrative routes Small operators have had to reduce services or form alliance with other stronger operators or get out of business or shift to less profitable routes.</td>
</tr>
</tbody>
</table>

Framework for Action on Transport Services (FATS) developed in response to calls from Pacific Forum Leaders for improved coordination and delivery of regional transport services

• The framework provides guidance to PICTs on enhancing national efforts to achieve safe, secure and competitive transport services that are regular, reliable and affordable

Key regional initiatives:

• Kiribati Shipping Services Limited services to small island states – Tuvalu, Kiribati and Nauru
• Central Pacific Shipping Commission

PIFS working with other partners will continue to prioritize members' needs in this area and will work with stakeholders to address the challenges
Central Pacific Shipping Commission

• The CPSC is an inter-government agency for joint cooperation, coordination and regulation of international shipping services.
• Members include Kiribati, RMI, Nauru and Tuvalu.
• Aims to promote access to international markets to promote trade and guarantee supply.
• Entry Assurance Certificates allocated on merit basis.

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