

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



Baseline Study for the
National Green Export Review for
VANUATU



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I. INTRODUCTION

The transition to a greener and cleaner development path is a global imperative as recognized inter alia in the Rio+20 outcome document. It is expected to make increasing contributions to economic growth and poverty alleviation which preserving and ensuring sustainability of the environment. In this perspective, international trade can play an enabling role in reducing the environmental footprints of economic activities and ensuring sustainable use of natures' resources for improving economic welfare of peoples, especially those that depend directly on such resources. In this regard, UNCTAD has launched its national green exports reviews (NGERs).

The present discussion paper examining possible green sectors of Vanuatu has been prepared by UNCTAD to support discussions at a national stakeholder workshop which will launch a **National Green Export Review (NGER)** for Vanuatu.¹ The paper aims to present a panorama of key issues and options for selected green goods sectors, with particular attention given to enhancing their regulatory, institutional and trade-related performance. As such, the paper seeks to serve as one supporting document, among others, for a discussion among national stakeholders on strategic approaches to further the development of Vanuatu's green goods and services sectors, including within a collaborative, inter-sectoral, strategic context. Selected sectors covered in this paper include those in which Vanuatu has already achieved considerable experience, but further growth can be achieved. Based on the sectors covered in this paper and the results of a national stakeholder workshop, national consultant(s) will be engaged by UNCTAD to canvass a wide spectrum of viewpoints, and both identifying and selecting options for inclusion in a strategic plan for the development of Vanuatu's green goods and services sectors. As such the sectors sectors and the follow-up definition of action plan and implementation will be undertaken by national stakeholders.

¹ NGER are undertaken under UNCTAD's project on *Supporting Member States in developing and launching sustainable product export strategies through National Sustainable Product Export Reviews* made possible through support provided by the United Nations Development Account.

II. GREEN EXPORTS: OPPORTUNITIES AND BENEFITS

A: Transition to a greener economy and trade

Across countries, transitions to a greener economy are expected to make increasing contributions to economic diversification, employment creation, export earnings, poverty alleviation and to environmental protection and social equity. A greener economy is driven by both domestic and foreign demand for green goods and services, including more efficient and low-carbon energy and transportation, organic food, ecotourism, solid waste and water recycling, environmental consulting, and emerging categories that include green construction, sustainable harvested timber products and natural fibers. It is also a pillar of strategies to mitigate climate change and promote sustainable development as underscored, inter alia, in the Rio+20 Summit outcomes and possibly new sustainable development goals of the UN.

Many green categories represent just a small fraction of their ‘brown’ counterparts indicating a vast potential for growth. Whether in high-tech goods, commodities, basic manufactures or services, the export opportunities offered in a greening global economy are significant and expanding faster than overall world trade; a trend that is expected to continue.

There is a large un-tapped potential for developing countries to advance the development of green sectors. In this context international trade, through exports and imports of green goods and services, can facilitate the development of green sectors. There are formidable challenges, however, to undertaking the transitions successfully and engaging in international trade. Principal approaches towards this goal include the creation of an enabling environment through improved regulatory and institutional frameworks for the green economy, productive capacity building, investment and related financial services, and more open trade, with greater attention to social equity, in green goods and services to enhance market access and investment opportunities.

There is a need to raise awareness in developing countries of the largely un-tapped potential of green sectors to contribute to economic growth and, in turn to poverty reduction and sustainable development.

Renewable energy technologies such as solar panels and wind turbines, and energy efficient products such as compact fluorescent lamps are among the green technologies seeing the sharpest rise in exports. Developing countries have made significant progress in supplying global markets for these products; their share of world exports increased from 24 percent in 2002 to 55 percent in 2012, generating export revenues of \$65 billion in 2012¹. Although relatively few developing countries are participating in this trend, green technologies are often produced in developed and more industrialized developing countries using intermediate inputs originating from a wide variety of developing countries that are integrated in global supply chains. Trade in intermediate goods, which accounts for about 40 percent of world merchandise trade, is thus an important entry point for developing countries to supply green markets.² Participation in supply chains generates economy-wide gains, such as employment, improvement in technology and skills, productive capacity upgrading, and diversification into value-added exports.

While businesses in more industrialized developing countries are seizing new export opportunities for green technologies, businesses in less industrialized developing countries continue to build their

export capacities in green products such as organic food and beverages, natural cosmetics and fibers, biofuels, and sustainably harvested timber and fisheries products, and for green services such as ecotourism. In each of these sectors developing country exports are experiencing sharp growth, generating employment, advancing rural development and protecting the environment.

Green goods and services provide a wide range of export opportunities for developing countries.

In addition to green goods, green services, particularly in connection with tourism, provide a wide range of export opportunities for developing countries. Ecotourism is

projected to capture 25 percent of global tourism revenues in 2012, with international tourists spending \$240 billion in ecotourism destinations.³

Dynamic green sectors can make important contributions towards the achievement of national development objectives relating to economic diversification, investment, poverty reduction, rural development, employment generation and an overall improvement of social welfare. As such, they can also make significant contributions the future UN Sustainable Development Goals (SDGs) that would shape the UN post-2015 development framework.

Many developing countries require technical assistance to identify and construct effective policy reform packages needed to ensure development gains from a greening global economy.

B: UNCTAD’s National Green Export Reviews

NGERs respond to emerging country demand for assessments of national potential to advance the development of national green sectors to generate new production, employment and export opportunities while promoting sustainable development.

Each UNCTAD NGER is centered on a national multi-stakeholder process in requesting countries. Using UNCTAD’s green product space methodology, national stakeholders first identify green sectors with promising export prospects. The NGER subsequently guides stakeholders through an interactive review of the economic, regulatory, institutional and trade policy environments characterizing these sectors.

NGERs guide national stakeholders through a structured process to identify and develop new export opportunities in green goods and services.

NGERs aim to assist beneficiary countries to devise national strategies and action plans to advance green product export development.

National teams including two or more experts work closely with national stakeholders to coordinate and conduct the NGER activities and prepare reports. Stakeholders, including national policy-makers, are involved through direct interviews and questionnaires, and through their participation in national stakeholder workshops that serve to define each NGER's objectives and review its findings and

policy-relevant conclusions. Results of this review assist policymakers to design policy packages to support the development of productive capacity and tap external markets for green products and services in which their country has a demonstrated comparative advantage. The NGERs are published and disseminated by UNCTAD and the Government of beneficiary countries as well as other stakeholders. Through intergovernmental fora organized regionally and in Geneva, study results are also reviewed and discussed by researchers, national decision-makers and trade negotiators in the wider trade and development community. National experiences and best practices are exchanged and lessons learnt are disseminated widely.

NGERs rely on the use of various national and international databases, analytical tools and sector-specific questionnaires for use in surveys of national stakeholders.

The NGERs will assist developing countries and countries with economies in transition to improve the capacity of public and private stakeholders to:

- 1. Identify and select sectors for national production and export of green/sustainable products;**
- 2. Assess the policy, regulatory and institutional requirements for supporting the development of selected sustainable product sectors;**
- 3. Prepare and adopt recommendations and action plan for building productive and export capacity in selected sustainable product sectors.**
- 4. Mobilize financial and technical support to implement the recommendations and action plan, including by mainstreaming them into national development plans and strategies.**

In focusing a particular green sector in a national economy, and assessing the impacts of economic and market trends, and of regulatory, institutional and trade reforms on its future performance, an NGER leads national policymakers and other stakeholders – particularly businesses and entrepreneurs – to examine a range of important issues for the green sector(s) under study within the context of the overall policy framework for the sector. Issues examined include:

- National development objectives for the sector;
- Areas of effectiveness and weakness in the current policy framework for the sector;
- Regulatory and institutional challenges inhibiting sectoral development;
- Innovative approaches to strengthening backward and forward inter-sectoral linkages within the national economy;

- The role of women and youth in the sector and how employment conditions and opportunities can be improved going forward;
- The role of businesses and entrepreneurs in the sector and how to improve cooperation and build synergies along the supply- and value-chains;
- The likely impacts of sectoral reforms on access to essential services, especially for the poor;
- Prospects for trade liberalization to generate increased efficiency, employment and access to foreign markets, particularly among SMEs;
- Short-term adjustment costs and how to address them;
- The impact of trade liberalization on foreign and domestic investment;
- The overall impact of domestic reform and trade liberalization on sectoral development.

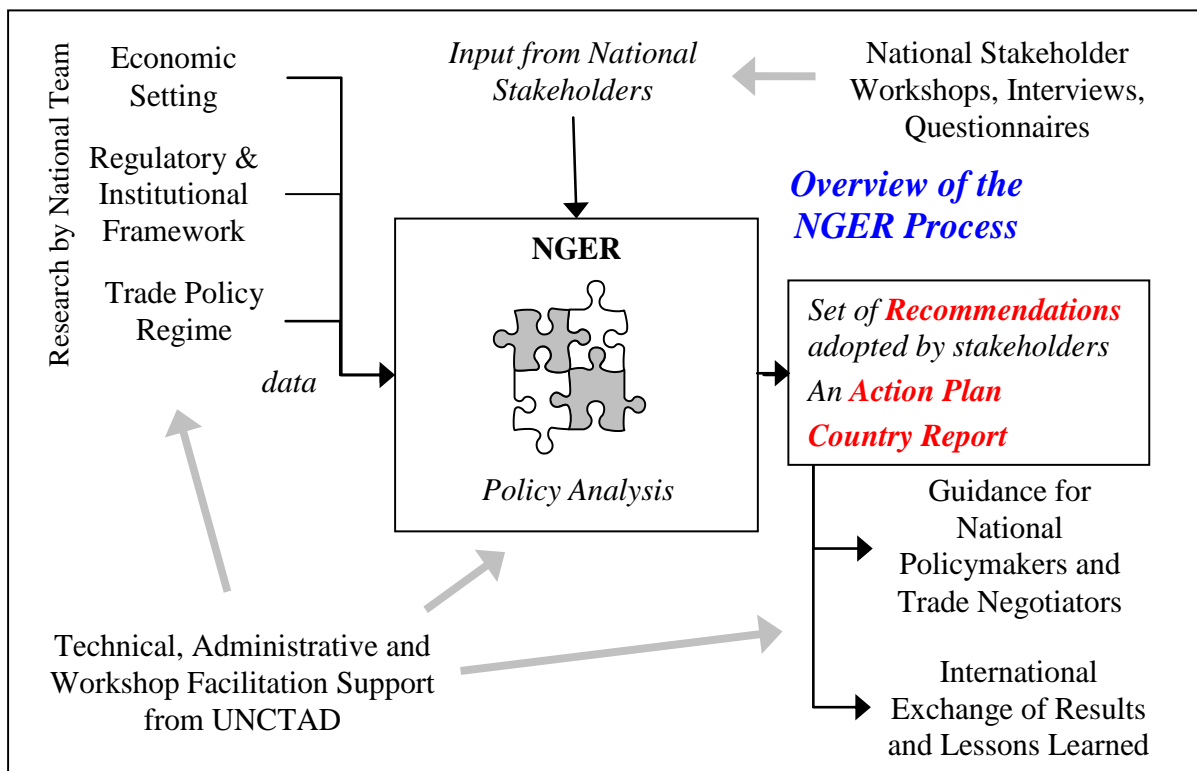


Figure 1: NGER process

C: Green Sectors in a National Economy

There is no internationally agreed definition of a green sector and product. However, it is generally agreed that environmental goods and services generally fall into one of two categories:

1. **Goods and services used to provide an environmental service** such as wastewater treatment, solid waste management, and air pollution control. Related goods include a wide variety of industrial products such as valves, pumps, compressors, etc. that can be specifically employed for environmental purposes.
2. **Goods and services whose production, end-use and/or disposal have reduced negative, or potentially positive, environmental impacts relative a traditional substitute good providing similar function and utility.** This category includes goods are generally used for purposes other than environmental ones. For example, related goods may include items such as chlorine-free paper, renewable energy technologies, energy-efficient office machines, natural fiber packaging or floor covering materials, and a wide range of products associated with sustainable forestry and fisheries, organic agriculture, and ecotourism. Such goods, sometimes referred to as environmentally preferable products (EPPs), have inherent environmentally superior qualities that compared to substitute goods. Related services include ecotourism services or renewable energy transport and electricity supply services.

It is important to note that following the logic used to identify the second category of products above, virtually any product, whatever it may be, can have a non-green and green product variant. Why? Because green products are those that have less of a negative impact on the environment than traditional equivalents. The green product variant could for example be manufactured from recycled components, be manufactured using renewable energy, be supplied to the market with less wasteful packaging, or all three.

Broadly speaking, however, it may sometimes be more practical to identify a green product following the market rather than through the rational approach as attempted above. After all, it is firms and consumers in the marketplace that will eventually purchase these goods and services, and thus their perceptions of what makes a product green should be heeded by suppliers seeking to meet market demand.

For many consumers, a green product is any product made using natural ingredients or are grown under natural conditions without artificial inputs. Typically, such products concern food, medicine, nutrition and cosmetic products made using natural or organically grown ingredients. For some consumers, products that have perceived lowered negative impacts on human health are sometimes considered as green, for example, foods without artificial coloring or preservatives. Consumers also perceive products produced by poor rural communities through fair trade schemes are considered green. This is because the income from the sale of these products generates employment in poor rural communities thereby reducing poverty and placing them in a better position to sustainably manage rural ecosystems and natural resources.

III. Green products in Vanuatu: National policy framework

Policies, laws, regulations and standards applicable to green products and sectors are very broad and, depending on the case, are spread through various sources of regulation. The types of regulations that can affect exports of green products include:

- Investment Policy in general and of the sector concerned;
- Trade policy regulations and tariffs/duties on the export of products and import of inputs;
- Permits to operate, produce, market and distribute;
- Technical, sanitary and phytosanitary regulations on inputs, ingredients, production methods, distribution and consumption;
- Incentives and/or subsidies for production or export;
- Standards and certifications, and for some harvesting and production activities, environmental impact assessments.

A. Vanuatu's Environmental Management and Conservation Act:

At the highest level, the Constitution of Vanuatu itself includes environmental protection for present and future generations of Vanuatu as a fundamental duty of all citizens. Under the Ministry of Lands and Natural Resources, the Department of Environmental Protection and Conservation (DEPC) was established in 1986 with the objective of formulating and implementing environmental policies to ensure ecologically sustainable development in Vanuatu. The Environmental Management and Conservation Act No. 12 of 2002 is the body of legislation which is now in effect and makes provisions for DEPC's authority and functions. It provides for the establishment of Community Conservation Areas and for Environmental Impact Assessments (EIAs), as per the Environmental Impact Assessment Regulations.

B. General framework for environmental policy and green growth in Vanuatu:

In close coordination with other national agencies, the Department of Environmental Protection and Conservation is responsible for the formulation and implementation of environmental policies with the aim of ensuring ecologically sustainable development.

The Government of Vanuatu considers "green growth" as one of its key priorities. Specifically, through green growth Vanuatu aims to "Enhance economic growth and development through the avoidance of loss of biodiversity and unsustainable use of natural resources, and the prevention of environmental degradation with a view to improving society's welfare".⁴

Building on the Environmental Management and Conservation Act, Vanuatu's National Environment Policy (NEP)⁵ aims to provide a roadmap for Vanuatu's long-term environmental objectives over the next 5 to 10 years. Policy goals include green growth and clean development; conservation of biological, ecosystem, genetic, human and cultural diversity; climate change; sustainable resource management; and, environmental governance. These goals shape Vanuatu's focus and priorities for environmental action over the next five to ten years. After validating the NEP in 2013, the

Department of Environmental Protection and Conservation (DEPC) has submitted the NEP to the Development Committee of Officials and then to the Council of for final adoption.

The NEP recognizes that green export opportunities exist and are growing, and it seeks to sustainably capture these opportunities, including by:

- Enabling specialization in trade areas of comparative advantage and environmental sustainability;
- Promoting and enabling environmentally friendly value added activities and businesses in agriculture/forestry/fisheries;
- Promoting and utilizing the concepts of ‘sustainable forest management’, ‘sustainable land management’ and ‘ecosystem based management’ to manage commercially exploited natural resources and maintain their potential for replenishment;
- Promoting and enabling private sector investment in environmentally sustainable business activities, including electricity generation through blending of coconut-based biofuels with fossil fuels;
- Providing economic incentives to stakeholders (private sector, investors, communities etc.) in order to encourage sound resource management;

The Vanuatu NGER aims to support these efforts.

C. Priorities and Action Agenda

Vanuatu's Priorities and Action Agenda 2006 – 2015 (PAA 2006)⁶ defines a comprehensive set of national development priorities and required actions to advance these priorities. A review of the PAA took place during 2010 and 2012 and was conducted by Government officials in consultation with stakeholders and with assistance from the United Nations. The revised plan "2011 Update: Re-committing to Reform to achieve “a Just, Educated, Healthy and Wealthy Vanuatu” includes a number of priorities and actions are directly relevant to the promotion of production and export of green products examined as a part of this NGER. Relevant elements of the PAA include:

National Strategic Priority 1. Private Sector Development and Employment Creation

There has been some progress in promoting private sector development based on Vanuatu’s comparative advantages. Lower costs of doing business have been achieved in terms of telecommunications, but utility charges remain high and public service delivery of services has been a constraint to improving services to businesses. Progress remains to be made in reviewing the tax base to make it more investment friendly. The import tariff structure remains under review in line with Vanuatu’s trade and industrial policies and pending trade negotiations and agreements.

The Government has increased access to financial services with rural banking services expanded through the National Bank of Vanuatu and the Agriculture Development Bank. The VANWODS, a micro-finance NGO that targets women, has also expanded its coverage into rural areas and increased its product range for savings and loans.

The Government has recently commenced a major land reform initiative (Mama Graon project) aimed at improving decision making on land issues, improving land management procedures and

practices, and minimizing the potential for conflict over land. This follows activities that have strengthened the administration and operational systems in the Department of Lands with the e-Land Registry now near completion. These reforms and initiatives will improve investor confidence in the security of land leases.

There have been a number of improvements in providing better support services to business including streamlining services and removing duplication. A Medium Small Micro Enterprise policy has been developed and approved by the Council Of Ministers. The cooperative movement has received support to re-establish itself and its services; the loans schemes administered have been rationalized and harmonized. However, there remains a need for better mechanisms of coordination and collaboration between the government, the department of cooperatives, and the Chamber of Commerce.

Work to improve the Vanuatu Investment Promotion Authority (VIPA) services is proceeding. It aims to streamline the foreign investment approval process needed to establish and operate businesses. The implementation of reforms will enhance the transparency of the approval process, reduce transaction costs, and reduce the average application processing time by half (from 30 working days to 15 working days).

The Government has repealed the Vanuatu Commodities Marketing Board Act with the objective of transferring marketing and commodity trading functions to the private sector. Marketing functions are now the responsibility of producer groups such as the Vanuatu Organic Cocoa Growers Association or individual private companies.

Vanuatu exporters' ability to meet biosecurity requirements is generally limited; as is the ability to adapt to changing consumer preferences in target export markets. There is need to substantially enhance biosecurity institutional capacities as well. Vanuatu is participating in a number of projects and programs to increase commodity exports including "Increasing Agricultural Commodity Trade project" started in 2011 funded under the European Development Fund 10.

A new department of industry has been created within the Ministry of Trade, Industry, Tourism and Cooperatives. The new department, however, will need capacity development. An industrial policy is currently being developed.

National Strategic Priority 4. Primary sector development, environment, climate change, and disaster risk management

Some progress has been achieved in the primary commodity sector. Increased production has been recorded in copra, cocoa and other traditional crops. However, increased copra production has been met with a decline in the world price of copra (supply excess causing prices to fall and inducing decrease in supply). On the other hand, cocoa production has been boosted by an increase in world price (demand excess causing prices to rise and encouraging increase in supply).

Enormous potential and opportunities exist in increasing production and incomes in the sector through planting of high yield and pest resistance crop varieties, adoption of modern farming practices/techniques and husbandry and the use of technology to increase farm productivity, strengthened research and development, better farm management and cropping programmes and access to microfinance and credit.

Meeting sanitary and phytosanitary (SPS) and food safety requirements for new export markets, and maintaining existing markets, will be challenging and will thus be an area for concerted capacity building support. Quality assurance and certification are important marketing tools and are becoming essential for market access of processed products. Meeting quality, consistency and more demanding sanitary and phytosanitary and food safety standards is a major challenge and is placing an increasing financial burden on the private sector and is undermining competitiveness. Finding ways to ameliorate these costs and defining an appropriate SPS and Food Safety architecture clarifying roles and responsibilities are recognized as policy priorities.⁷

Cocoa's success depends on its well-organized structure with on-going training and skills development programmes clear understanding of export requirements and ready access to expert advice. This model is being promoted for other 'cash crops' such as vanilla, pepper and coffee (in areas where coffee can be grown).

There are on-going projects to grow 'cash crops' (basically any non-traditional crop sold such as coffee, pepper, vanilla, cocoa, dried spices etc.); improve traditional farming practices (introducing modern methods and varieties); promoting food security (tending to concentrate on traditional crops); improve livestock production; and to promote modern methods such as 'agroforestry'.

There is limited information on the activities and production output of the forestry sector and economic returns. However, sandalwood production and export is being developed a major source of income. There are on-going forest conservation programmes (mostly responding to community initiatives) and donor assisted replanting programs (e.g. Sandalwood).

The Ministry of Agriculture, Quarantine, Forestry, and Fisheries (MAQFF) and the Ministry of Trade, Industry and Tourism (MTIT) are working together to develop the overarching productive sector strategy encompassing primary sector, trade, and industry.⁸ It will be important to include a workforce plan to identify the range of skills needed to support the sector as well as to effectively coordinate activities between the two ministries, and also with the the Department of Environmental Protection and Conservation .

D. Regulation and certification for organic production

Vanuatu has clear and demonstrable comparative advantages in a number of agricultural products, and converting to organic production could offer economic gains in terms of minimizing inputs costs and developing a unique brand identity. If Vanuatu can become synonymous with natural (organic) high-quality production, such as for its beef, this could considerably enhance the capacity of agricultural producers to gain price premiums on overseas markets.

The decision by the Pacific Islands Heads of Agriculture and Forestry Services and the Ministers of Agriculture and Forestry to mainstream organics into agriculture strategy development and planning also provides a solid base for the continued expansion of the organic sector in the region. The Pacific Organic Standard⁹ (based on International Federation of Organic Agriculture Movements - IFOAM - standards) covers plant production, animal husbandry, and beekeeping, collection of wild products and aquaculture, as well as processing and labeling of products derived from these activities.¹⁰ The standard has been endorsed by the Conference of Pacific Ministers of Agriculture and Fisheries, and provides a platform for further regional policy development.

In the Pacific Islands, most of the organically certified products are produced for export. The main international markets for the exported organic products are Australia and New Zealand, due to their proximity. Other markets include North America, the European Union, and Japan. Generally, the domestic markets for certified organic products are not very developed, and in some cases, are non-existent. With a boost in resources for the Pacific Organic and Ethical Trade Community to implement activities and move towards the goals articulated in the Strategic Plan 2013–2017, momentum for growth in the organic sector has increased through 2013. Moreover, with the implementation of the Pacific Organic Guarantee System, growth will continue through 2014.

Recently, the Vanuatu Sustainable Agri-Business Initiative (VASABI), launched by the government in association with a range of support organizations, including Australia Organic, is ensuring more of the Vanuatu's crops available are organic. For example, through VASABI, Vanuatu has started to convert its largest coconut plantations to organic.

In 2012, Vanuatu reported 2,664 hectares of organic agriculture but this is set to double.¹¹ Australia's leading organic certifier, Biological Farmers of Australia (BFA), reports that Vanuatu's largest coconut grove, the 1,550 hectare Plantation Russet du Vanuatu is converting to organic. Also in conversion to organic is the community grower group, Sanma Community Coconuts, with its 216 growers and 408 hectares. According to BFA: "In Vanuatu coconuts are generally already grown organically with no synthetic fertilizers because the soil is very fertile; however organic certification will require farmers to keep more records of farm practices". Organic certification is aimed at achieving a 20% increase in farmer incomes and products will include organic coconut oil and organic copra.

The Vanuatu conversions to organic are supported by the Vanuatu Sustainable Agri-Business Initiative (VASABI). This initiative has been driven by African Pacific in conjunction with the Vanuatu Government, the Vanuatu Agriculture College, World Vision Vanuatu and BFA. The processor Vanuatu Virgin Coconut Oil is already certified organic and Coconut Oil Production Santo is underway with certification.

E. Regulation and certification for Fair Trade

For Fair Trade agriculture there is no equivalent umbrella organization to IFOAM for organic agriculture, and thus there is no clear cut generally accepted definition of fair trade. However, in the Pacific islands, two types of Fair Trade certifications are being promoted - Fair Trade Labelling Organization (FLO) certification and the World Fair Trade Organization (WFTO) certification. The aim of FLO "is to connect disadvantaged producers with consumers, promote fairer trading conditions and empower producers to combat poverty, strengthen their position and take more control over their lives. This is achieved through the certification and labelling of products under the Fair Trade standards, a set of agreed environmental, labor and developmental standards".

To receive Fair Trade certification, producer organizations must meet Fair Trade minimum standards and undergo regular audits. While Vanuatu has over a decade of experience with organic certification systems, this is not true for Fair Trade certification. As of March 2012, no organization or group in Vanuatu has been Fair Trade certified.

F. National Forestry Act and sustainable forest management

The Forestry Act and the National Forest Policy (NFP) define sustainable forest management (SFM) requirements and to a certain extent detailed sustainable management requirements for all forests in Vanuatu.¹² The NFP defines SFM as “the management of a forest estate to produce a sustainable yield of timber and non-timber forest products over hundreds of years”.

The Forestry Act sets the requirements for sustainable forest management of natural forests in Vanuatu. The Act requires that all forests in Vanuatu are harvested under a Timber License. Timber harvesting in natural forests in Vanuatu is based on a selective logging system, for which certain species of timber can only be harvested when they reach or exceed the minimum diameter at breast height. Avoidance of harvesting trees of near minimum diameter limit means that the harvesting cycle could be relatively short.

An important management tool for natural forest management in Vanuatu is the ‘Vanuatu Code of Logging Practice’. The Code guides all forest harvesting in Vanuatu. The Code of Logging Practice sets the criteria for forest harvesting, aiming at limiting adverse environmental impacts, and sets guidelines to achieve SFM. The Code, adherence to which forms part of Timber License issuance conditions, sets minimum operational standards and requirements. Reforestation has become an important initiative for landowners and communities to participate in SFM activities. This sector of the forestry stakeholder group has been actively participating and taking the lead in reforestation activities over the past decade.

IV. Economic and trade environment

A. Good near-term economy-wide prospects

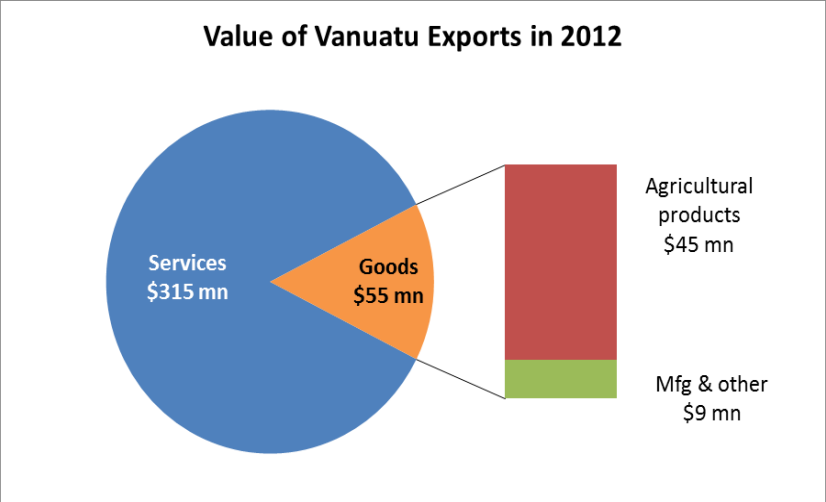
Developments in the Vanuatu economy are encouraging. Although the performance of the economy has been volatile with a slowdown in 2010-11, according to the World Bank, the economy is estimated to have grown by 2.8% in 2013, up from 2.3% in 2012, with a forecast for accelerated growth approaching 4% a year on average in 2014-15.¹³ This performance has led to a steadily increasing GDP per capita which is now situated over \$3,000. GDP growth in the next two years is expected to be driven largely by construction of infrastructure in the productive and tourism sectors. These trends in trade take place against a background of the accession of Vanuatu to the WTO in 2012.

Prospects for increasing government revenue however are limited. Traditionally, the majority of government revenue is raised by levying trade, but the recent accession to the WTO and free trade agreements are substantially reducing income from import duties. In addition, Vanuatu is free of income tax at both the corporate and individual levels. This means that most revenue is raised by the imposition of a 12.5% value added tax and by business charges and license fees, which are necessary for mobilizing fiscal revenue but together impose significant burden on small businesses.

B. Overview of Vanuatu's trade

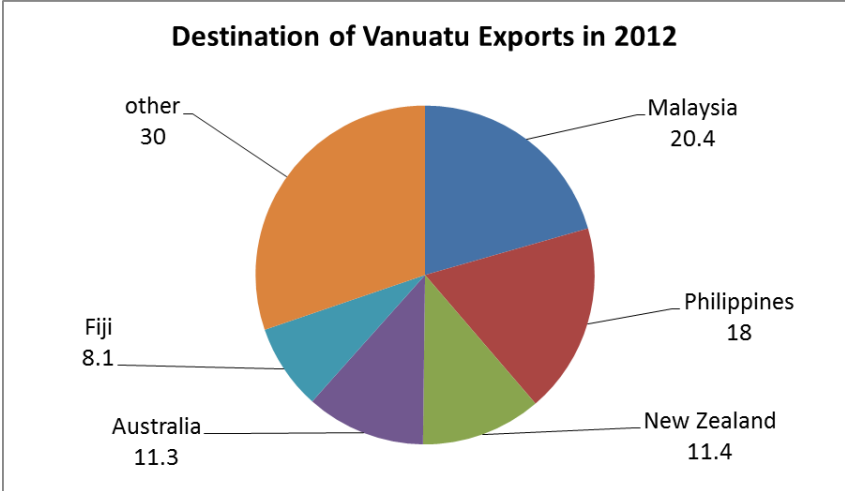
From 2010 to 2011, the value of Vanuatu's goods exports increased by 37.6 percent to amount to \$63 million in 2011 subsequently falling in 2012 to \$55 million¹⁴. Over the same period goods imports rose by 2% to \$280 million in 2011 and further increased to \$296 million in 2012. Overall, these factors contribute to a substantial and widening deficit in trade in goods, resulting largely from trade with Vanuatu's major trading partners in the Pacific and East Asian region that account for over 80% of the nation's trade. Some key figures are presented in Table 1.

However, Table 1 also shows that Vanuatu benefits from a very large services trade surplus of \$170 million in 2012, which significantly reduced the overall trade deficit (goods and services) to just over \$70 million. Trade data for Vanuatu also indicate that goods exports



are dominated by agricultural products, some 83% of the total, and that services exports are dominated by travel/tourism exports which also account for 83% of Vanuatu's total services exports.

Vanuatu trades mostly with neighboring countries in Asia and the Pacific. This is true for both Vanuatu's goods exports and imports. In terms of goods exports, Malaysia and the Philippines are its



two largest export markets for goods, followed by the Pacific's three largest economies: Australia, New Zealand and Fiji. Taken together these five countries are the destination for 70% of Vanuatu's goods exports.

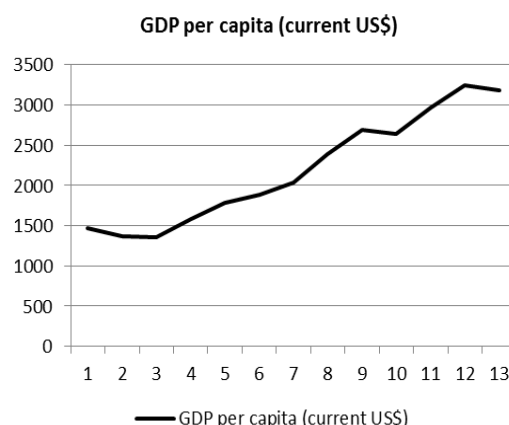
Table 1: Vanuatu trade profile

(source: WTO)

BASIC INDICATORS

Population (thousands, 2012)	247
GDP (million current US\$, 2012)	787
GDP per Capita (US\$, 2012)	3 176
Current account balance (million US\$, 2008)	-142
Trade per capita (US\$, 2010-2012)	3 046
Trade to GDP ratio (2010-2012)	97.1

	<u>2012</u>
Real GDP (2005=100)	132



TRADE POLICY

WTO accession 24 August 2012

Tariffs and duty free imports

Tariff binding coverage (%) 100.0

MFN tariffs Bound Applied

Simple average of import duties

All goods 39.7 9.1

Agricultural goods (AOA) 43.6 17.5

Non-agricultural goods 39.1 7.8

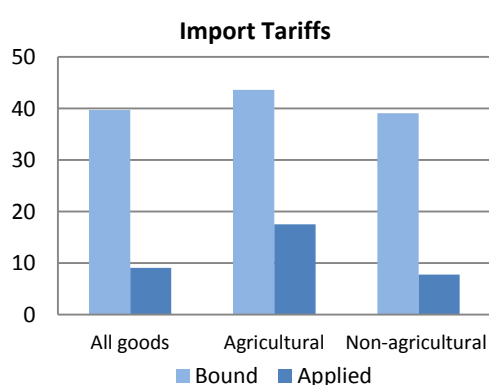
Non *ad-valorem* duties (% total tariff lines) 0.0 0.3

MFN duty free imports (% , 2011)

in agricultural goods (AOA) 2.2

in non-agricultural goods 25.6

Services sectors with GATS commitments 70



MERCHANDISE TRADE

	Value	Annual percentage change		
	2012	2005-2012	2011	2012
Merchandise <i>exports</i> , f.o.b. (million US\$)	55	5	38	-19
Merchandise <i>imports</i> , c.i.f. (million US\$)	296	10	7	-3

Breakdown in economy's total exports

By main commodity group (ITS)

Agricultural products 83.2

Fuels and mining products 1.5

Manufactures 7.8

By main destination

1. Malaysia 20.4

2. Philippines 18.0

3. New Zealand 11.4

4. Australia 11.3

5. Fiji 8.1

Breakdown in economy's total imports

By main commodity group (ITS)

Agricultural products 24.2

Fuels and mining products 17.3

Manufactures 48.2

By main origin

1. Australia 29.7

2. Singapore 18.2

3. New Zealand 12.7

4. Fiji 8.0

5. China 6.9

COMMERCIAL SERVICES TRADE

	Value	Annual percentage change		
	2012	2005-2012	2011	2012
Commercial services <i>exports</i> (million US\$)	315	13	4	12
Commercial services <i>imports</i> (million US\$)	145	11	17	1

Breakdown in economy's total exports

By principal services item

Transportation 10.2

Travel 82.9

Other commercial services 6.8

Breakdown in economy's total imports

By principal services item

Transportation 49.3

Travel 25.6

Other commercial services 25.1

C. Identifying competitive products

When the product space methodology¹⁵ is applied to Vanuatu using 2011 export, several product groups with high levels of competitiveness can be identified. Figure 2 shows the 2011 product space map of Vanuatu. The products depicted as black squares in Figure 2 that are identified as being competitive exports with RCA values greater than 1. Several of these products (such as beef, vegetables and fruit) have already been targeted for capacity building by technical assistance programs (e.g., with the European Union, Australia and New Zealand in particular). The present study seeks to examine those **competitive sectors** including **coconut oil, cocoa beans and sandalwood**. Export data for these three products for the year 2011 follows in Table 2, and for the years 2006 to 2011, in Figure 3.

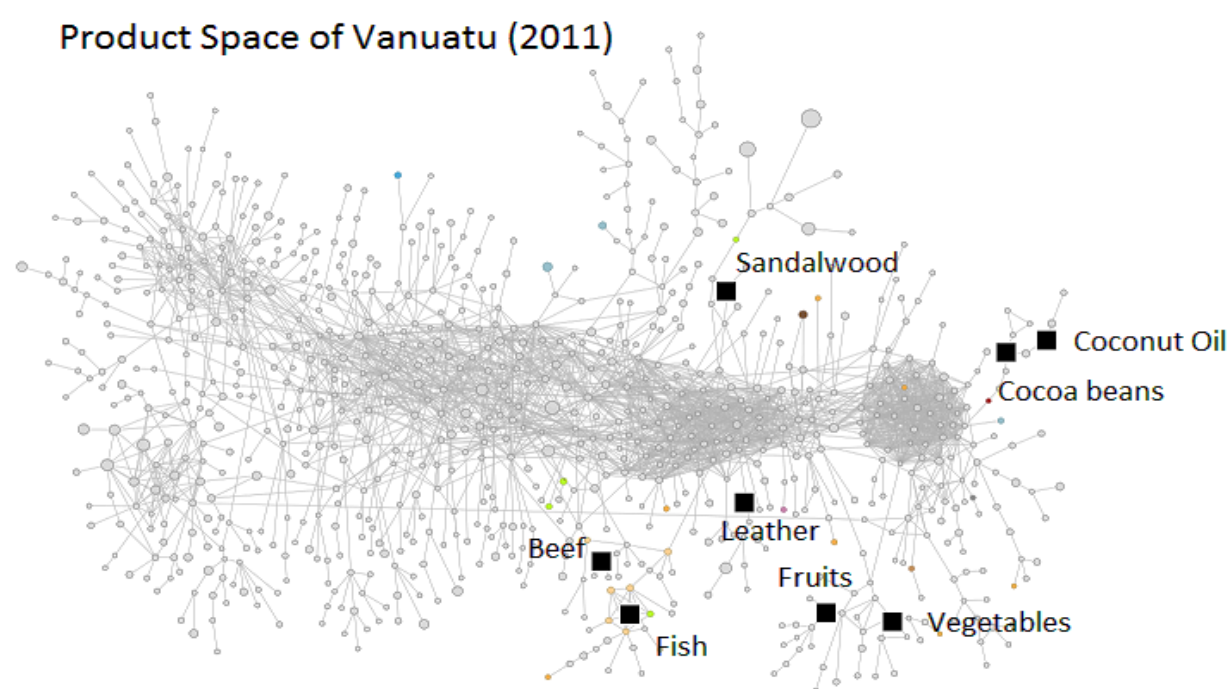


Figure 2: Product Space Map of Vanuatu in 2011^{15, 16}

The graph in Figure 2 presents the most competitive exports of Vanuatu based on trade data from recent years.¹⁶ Values of revealed comparative advantage are used as a measure of competitiveness, all three of these products - coconut/copra, cocoa and sandalwood - rank among the top 20 competitive exports (see Figure 3): copra in first place, coconut in second, cocoa in fourth, followed by sandalwood in fifteenth place. Interestingly, Figure 3 also shows that the value of RCA for these products has increased over the period 2006-2011, suggesting increasing competitiveness of Vanuatu in all of these products. Taken together, in 2011, these goods accounted for 50% of Vanuatu's goods exports (Copra 18%, Coconut Oil 27%, Cocoa 4%, and Sandalwood 1%).

SITC Product Code	ProductDescription	Export value (2011) Thousand \$USD
2231	Copra	11'255
4223	Coconut (copra) oil	16'820
548	Veg prod nes,fresh/dried	7'401
721	Cocoa beans,raw/roasted	2'606
112	Beef, frozen	5'144
2237	Oil seeds/oil fruits nes	186
341	Fish,whole,live/frsh/chd	4'018
2821	Waste/scrap cast iron	537
2112	Bovine hides, whole, raw	254
2239	Oil seed/etc flour/meal	84
2929	Vegetable materials nes	460
342	Fish,frozen exc.fillets	1'535
1123	Beer/ale/stout/porter	1'139
230	Butter, milk fats	346
2911	Bones/ivory/shells/etc	26
981	Homogenized food preps.	51
5411	Vitamins/provitamins	269
371	Fish, prepared/preserved	664
4229	Fix veg fat nes not soft	49
572	Citrus fruit nes frsh/dr	130
8998	Small wares nes	318
2484	Sandalwood	539
813	Oil cake by-products	831
5513	Essential oils	119
1124	Distilled alcoholic bev	728
363	Molluscs/aquatic invert.	204
19	Live animals n.e.s.	18
712	Coffee roasted	90
752	Spices ex pepper/pimento	52
2927	Cut flowers/foilage	202
Total Exports	All Goods	63'000

Table 2: Vanuatu's exports in terms of decreasing RCA (Source: UNCTAD calculations based on data from UN Comtrade, 2014)

However, once products are identified, in order to further develop exports, the need to mobilize private sector involvement including investment into few sectors with dynamic growth potential and high value remains important. Investment is critical but remains missing. There are several value chains already developed for cocoa, copra, and sandalwood but greater investment is required to increase production, value addition and exports. The cost of domestic entrepreneurs accessing finance is an issue (with interest rates of 10-14% to be repaid with three years as compared to 2% over 15 years in Australia for example). Foreign investment and public-private partnerships will be important in developing trade capacity and the complementary policies. A major issue is also related to transportation especially shipping lines and their costs between different islands of Vanuatu.

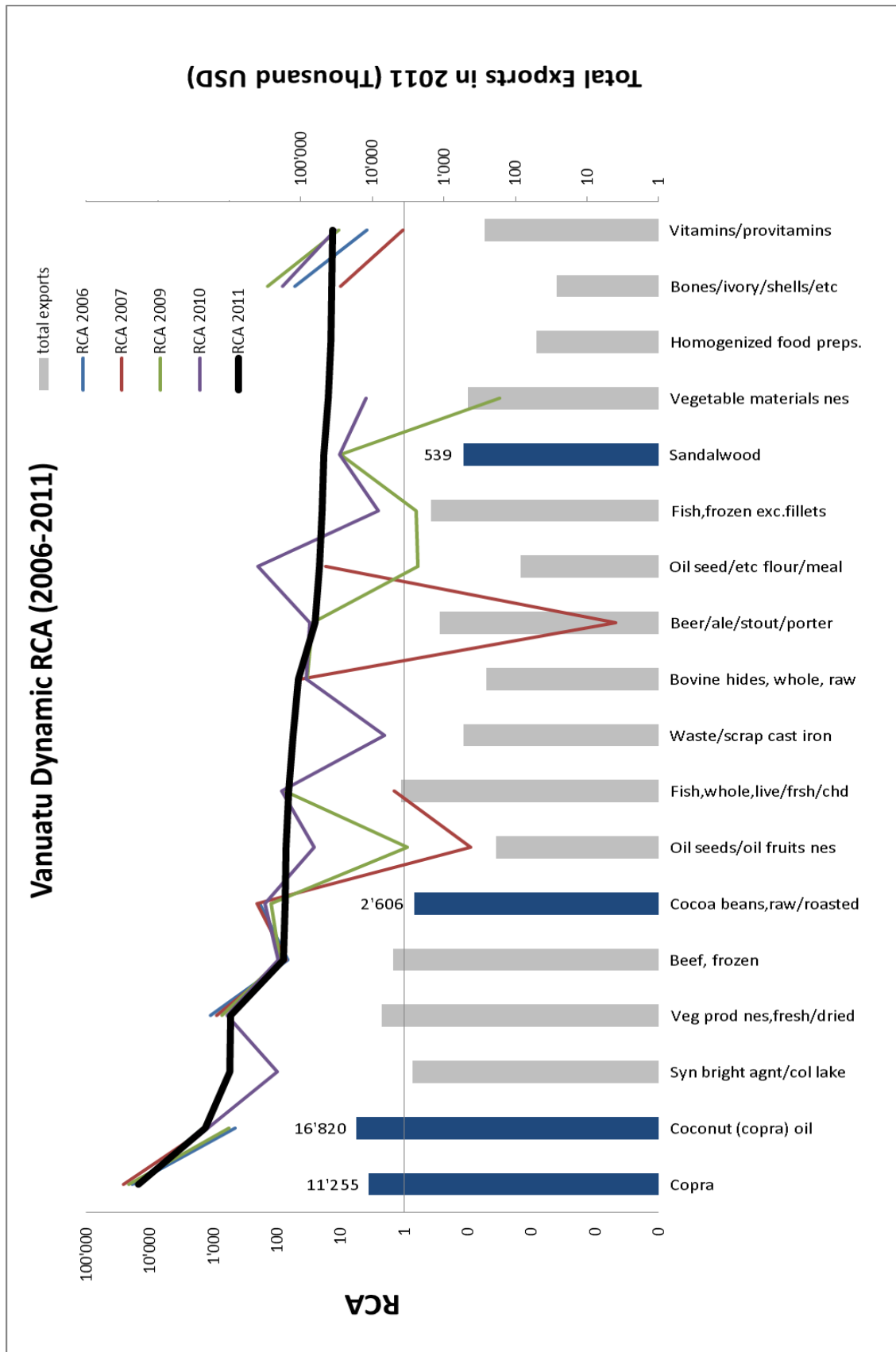
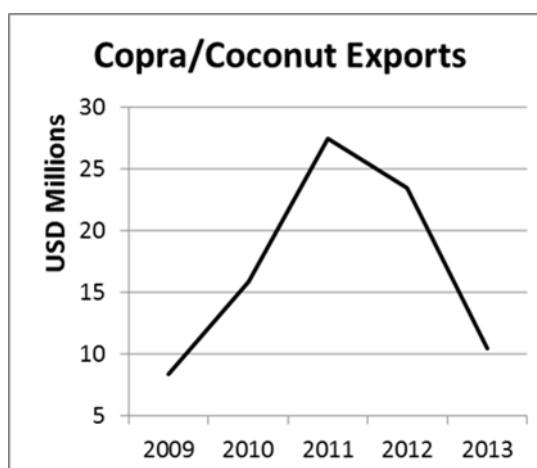


Figure 3: Composite chart of Vanuatu's exports in terms of the values of RCA from 2006 to 2011 and of export values in 2011 (source UNCTAD calculation based on data from UN Comtrade)

V. Products under preliminary analysis ¹⁷

A. Copra/Coconut

Coconut plantations occupy the largest area under agricultural production in Vanuatu. Copra and coconut production provides employment, income and a key source of nutrition for the majority of the rural population. Over 60% of the rural population of Vanuatu is involved in coconut production, with 85% of the country's population involved in farming activities.¹⁸ Copra and coconut represent the categories of goods with the highest exports, traditionally over several decades, and continuing today as they account for approximately 30% of total goods exports (in 2011).



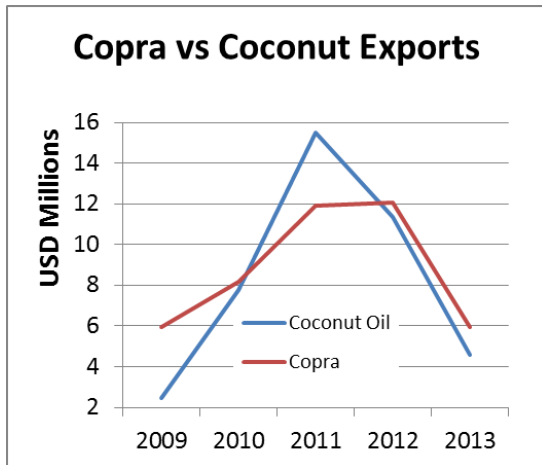
The Vanuatu copra/coconut industry is regulated by the Vanuatu Commodities Marketing Board (VCMB). Currently, 2 copra crushing mills¹⁹ are operational in Luganville (Santo Island, Sanma Province), exporting crude coconut Oil (CNO), coconut meal and manufacturing CNO products (Oils/soaps). Together, these two mills have the capacity to process all the copra produced in Vanuatu. However, raw copra is still being exported without value added processing.

Over the past five years, national data reveal that about one third of copra production is exported in the raw form as copra, with a major share of the remaining production exported in the form of crude coconut oil and coconut meal (see Table 3). Vanuatu coconut producers traditionally extract and dry coconut flesh as copra for the oil to be extracted by local copra mills or by large Asian mills via Pacific commodity copra traders.

Year	Copra produced (tonnes)	Copra exported (tonnes)	Coconut oil exported (tonnes)	Copra meal exported (tonnes)
2009	23'167	15'107	5'385	12
2010	36'066	12'133	10'325	5'222
2011	40'320	13'596	12'000	6'917
2012	35'834	16'846	10'011	6'082

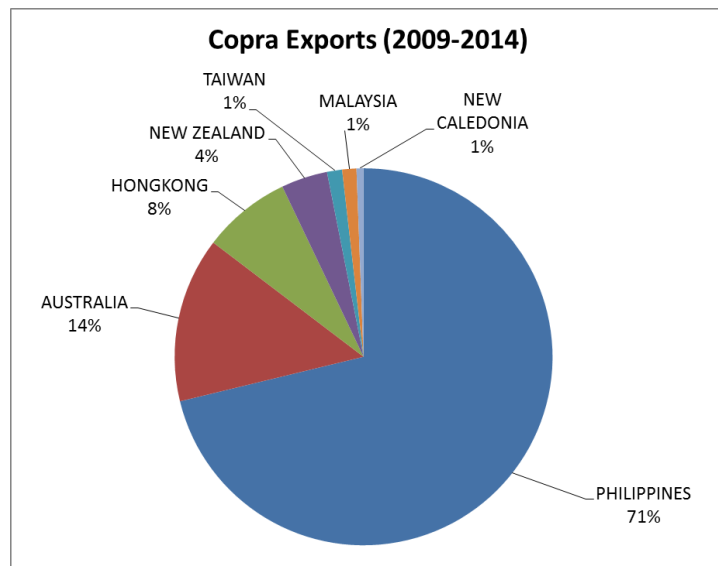
Table 3: Volume of copra and coconut oil exports from 2009 through 2012 (source: Vanuatu National Statistics Office (VNSO))

The most recent data show a significant decline in copra/coconut exports in just the past two years. While demand for traditional coconut products, such as copra, has been in decline, growing markets for value-added coconut products, such as virgin coconut oil, coconut coir, cream and water is driving new processing and production techniques. Crude copra oil is refined (refined, bleached and



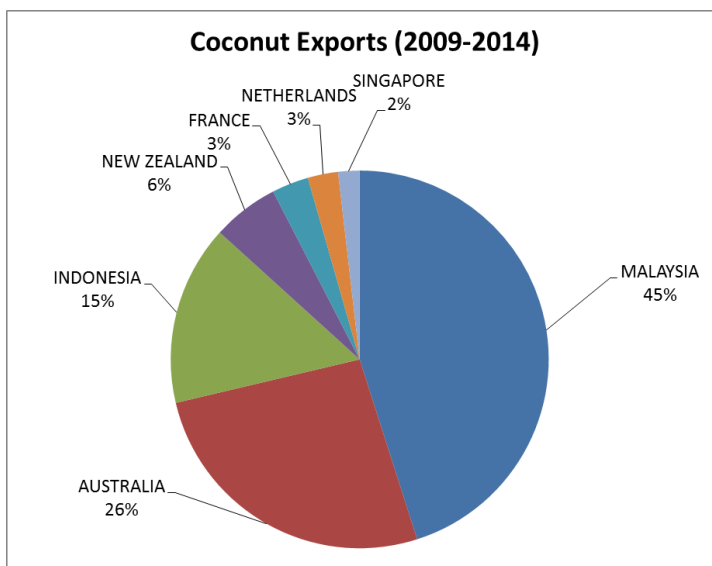
deodorized under high pressure in factories) and used as a key component of culinary oil, soaps, shampoos and lotions, and skin moisturizers.²⁰ By products of the milling process include fresh and canned coconut milk and cream pressed from copra, coconut sugar from flower or palm stems. Other copra by-products include coconut husk which yields a fiber (coir) for local woven goods, geotextile mats, and insulation filler for car upholstery and plant mulch. The coconut shell is used mostly to fire coconut dryers, but is in demand for bowls, jewelry, ornaments and other handicrafts, and for high value

activated carbon used for filters. Copra meal and copra cake (expeller) from copra oil production are in demand for cattle feed, both locally and exported (if the quality is adequate and consistent), and food grade meal is used in bakery goods. Coconut tree wood is used widely in craft, utensils, furniture and other household items and in construction as a flooring material. And finally, coconut oil is an efficient component of biofuels, including in the domestic economy.



A major opportunity remains to retain much of the added-value of the copra value chain in Vanuatu rather than to continue to export raw copra to other countries for processing. Although coconut oil and coconut meal

accounts for a major share of Vanuatu's coconut exports, increased domestic processing of copra could be profitably increased. Moreover, many of the other final products in the copra/coconut value chain noted above remain to be produced from by-products in the value chain.²¹



Regional and global niche and premium (e.g. organic, fair trade etc.) markets should be targeted with efforts to increase the organic share of copra production.²² While coconuts in Vanuatu are already produced without any application of synthetic fertilizers, to date, they are largely uncertified as organic products. Advancing organic certification thus represents a new and exciting market opportunity for Vanuatu producers.

There may also be scope for diversifying and/or shifting export markets to increase export earnings, including by connecting to global supply chains in the consumer products industries (food, cosmetics, furniture and construction supplies). Over the past 5 years, customs records indicate that copra and coconut export markets remain largely centered in the region, and within it towards the Philippines and Malaysia.

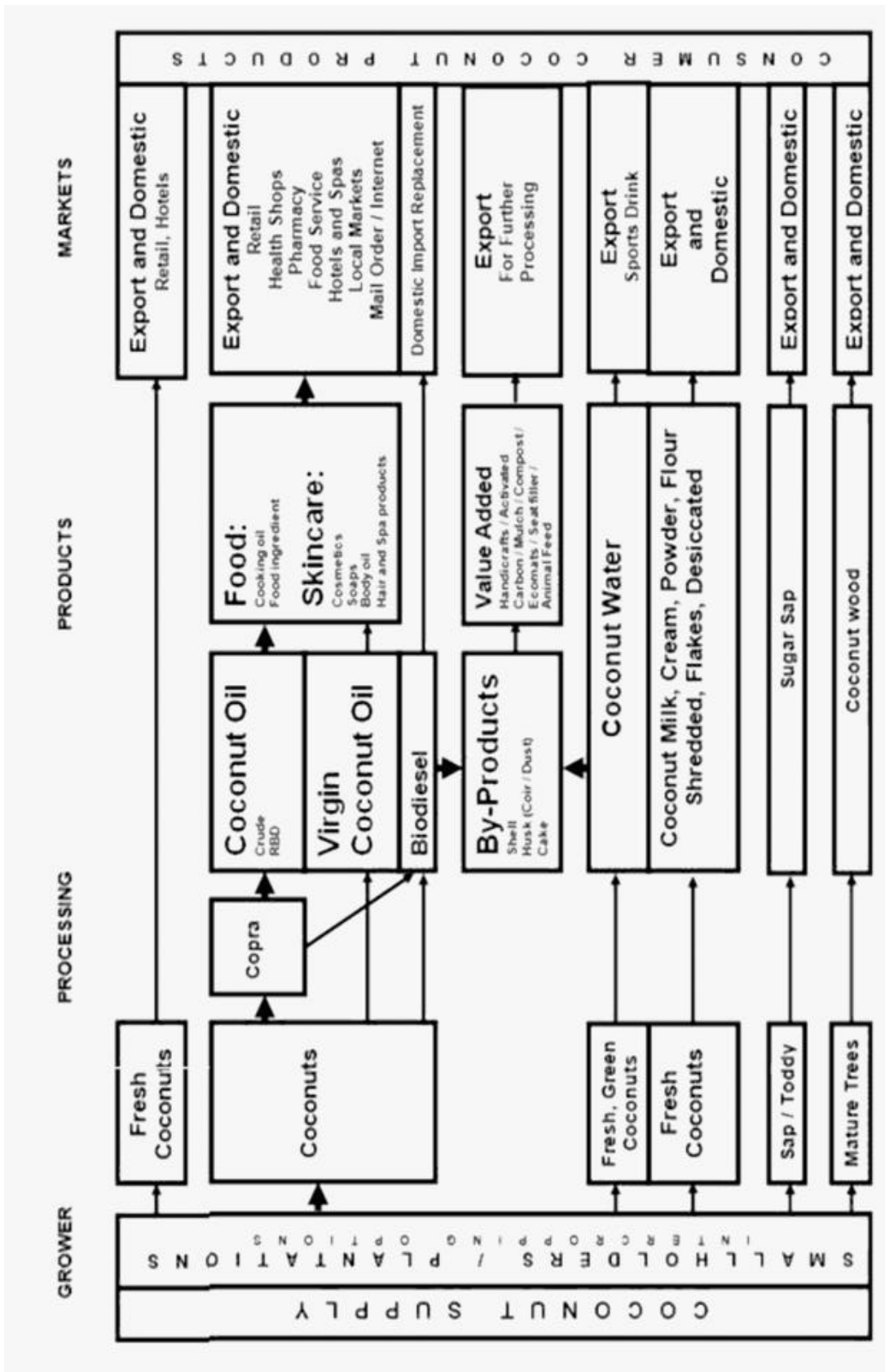
Production variables are also important such as increasing the productivity of coconut plantations in Vanuatu by optimizing tree species, renewing aging plantations, improving planting materials and infrastructure, and organizing copra farmers into cooperatives to limit the cost of copra drying, organic certification and transportation.

Copra/Coconut Value Chain (preliminary draft - to be elaborated by stakeholders)

Shaded green areas are products that can be marketed in tourism sector

Primary	Added Value (1)	By-products	Added Value (2)
Coconut	Virgin coconut oil	Coconut shell	Household utensils, decorative products
	Coconut flower syrup and sugar		Activated carbon (industrial product for absorption of gas)
	Sweets, candies	Coconut husks (coir)	Carpets, door mats
	Soap		Coir dust (mulch, compost)
	Cosmetic products		Geotextiles
	Dry coconut, shredded coconut		
Coconut milk & powder			
Coconut water (beverage)			
	Coconut wood	Lumber products	Wall panels, furniture, doors and windows
	Coconut leaves	Plaiting material	Basketry products
			Brooms
Copra	Refined Coconut oil	Copra meal	Animal feed
	Cooking oils		Biofuels
	Oleo-chemicals (fatty acids, fatty alcohol, glycerin)		

Figure 4: Copra/Coconut Value and Supply Chain (source: Pardi, see reference 20)



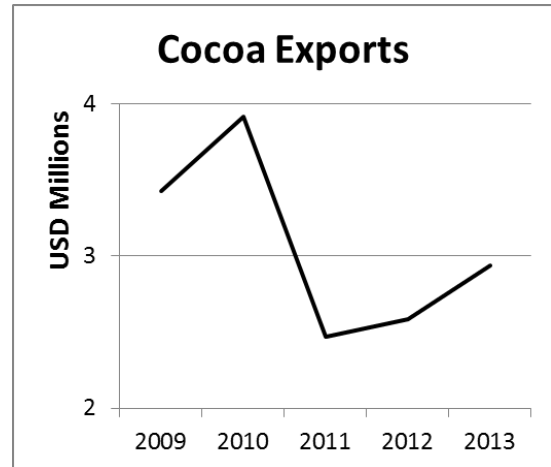
Copra/Coconut SWOT Analysis (preliminary draft - to be elaborated by stakeholders)

Strengths	Weaknesses
<ul style="list-style-type: none"> - Abundance of established trees suited to local conditions - Favorable climate - Developing marketing network - Rich value-added product possibilities - Low maintenance plantation management - Suited to intercropping 	<ul style="list-style-type: none"> - Insufficient mill processing capacity - Limited value-added production; reliance on raw commodities exports to foreign markets for processing - Insufficient infrastructure for manufacture and transport - Lack of finance availability for smallholders - Lack of incentive to replant for future supply
Opportunities	Threats
<ul style="list-style-type: none"> - Target higher value buyers with more valuable and convenient products - Improve linkages to tourism sector to tap local market for artisanal coconut products - Improve quality and food safety to meet growing world quality standards - Add value across entire product line to motivate replanting - Harvest senile palms for flooring and other timber uses - Coconut oil offers health benefits - Organic certification 	<ul style="list-style-type: none"> - Aging trees, declining supply - Poor tree management promoting pests and disease - Changes in government policy - Rising quality standards of markets and competing countries

B. Cocoa

Cocoa planting in Vanuatu began in 1885 and the first reported cocoa bean export was in 1910. In Vanuatu, cocoa is grown throughout the islands - with nearly 9,000 smallholders engaged in cocoa production - but production is concentrated in Sanma, Penama and Malampa provinces. In the years 2009-2011 Vanuatu exported on average 1,360 tons of cocoa (VNSO, 2012). Cocoa exports account for about 5% of Vanuatu's goods exports. Vanuatu remains a very small player in the global cocoa trade representing less than 1% of global production.²³

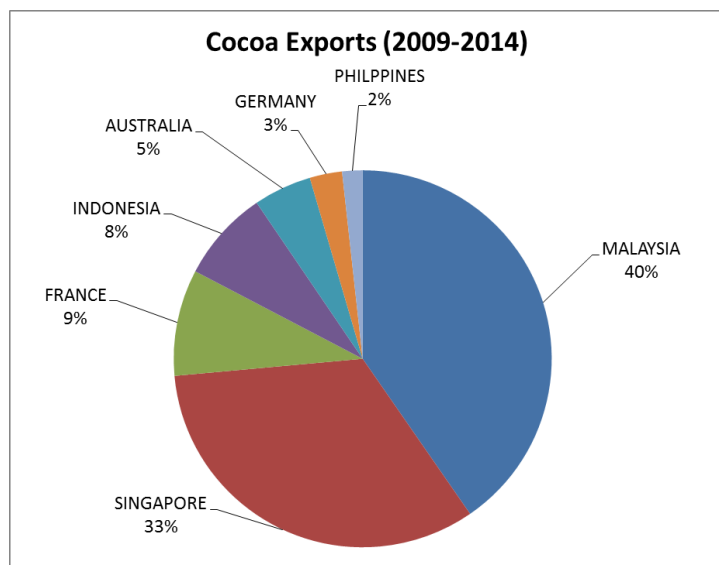
As with copra, the Vanuatu cocoa industry is regulated by the Vanuatu Commodities Marketing Board (VCMB). Cocoa quality standards established in 1981 and later updated in 2006 through the Vanuatu Cocoa Act which aim to provide for the control of cocoa bean quality. Vanuatu's grading specifications are based on the international standard Cocoa Bean Specification ISO-2451-1973. The standards established provide access to the main global cocoa markets including those in major developed country markets. However, current exports, with the exception of organic cocoa exported to France and Germany, are mainly to the low-price cocoa product markets of South East Asia, (for powder, liquor and butter) where prices tend to be much lower than European and North American markets. A major goal for the sector is to improve bean quality to better access these latter markets.



A major socio-economic advantage of cocoa production for Vanuatu smallholders is that cocoa growing labor requirements are much lower than for copra and provides a better return for effort. Cocoa can also be integrated into a food garden or grown under mature coconuts and can be planted alongside and other food crops, making cocoa growing an attractive opportunity for diversifying and increasing smallholder family incomes.²⁴

International market demand for high quality 'premium' chocolate is expanding rapidly; however, Vanuatu smallholders face a range of well-documented difficulties linking to markets. There is a need to improve pathways for commercialization of smallholder farming systems and to link them to higher value global markets for premium chocolates.

What are premium chocolates? Single origin chocolate is made from cocoa beans sourced from an identified geographic region. Single origin chocolates are now becoming an important part of the European and American markets, which are willing to pay premium prices for quality beans that meet the required specifications.



Organic and Fair Trade cocoa are other premium chocolate market segments. Smallholder cocoa production in Vanuatu has always essentially been organic in the sense that chemicals and fertilizers are not used. The major challenge for organic certification is in the auditing and compliance of over 1,200 smallholders and 25 primary processing cooperatives. The Vanuatu Organic Cocoa Growers Association (VOCGA) assists smallholders in capturing market premiums for single origin and organic cocoa beans. By targeting high quality branded cocoa markets, Vanuatu cocoa growers can expect to obtain a price premium of 10-20% while participating in a niche cocoa market segment that tends to be more resilient to economic downturns.²⁵

There remains considerable scope to improve farmer returns by increasing their productivity. Yields can be significantly improved through better management.

Raising earnings in the cocoa sector could also be pursued by increasing value added production by processing beans more fully at the domestic level through the production of cocoa powder, cocoa butter and chocolate.

Building linkages with the tourism sector are also critical. Tourists visiting Vanuatu represent a local door to access premium markets in global cocoa trade.

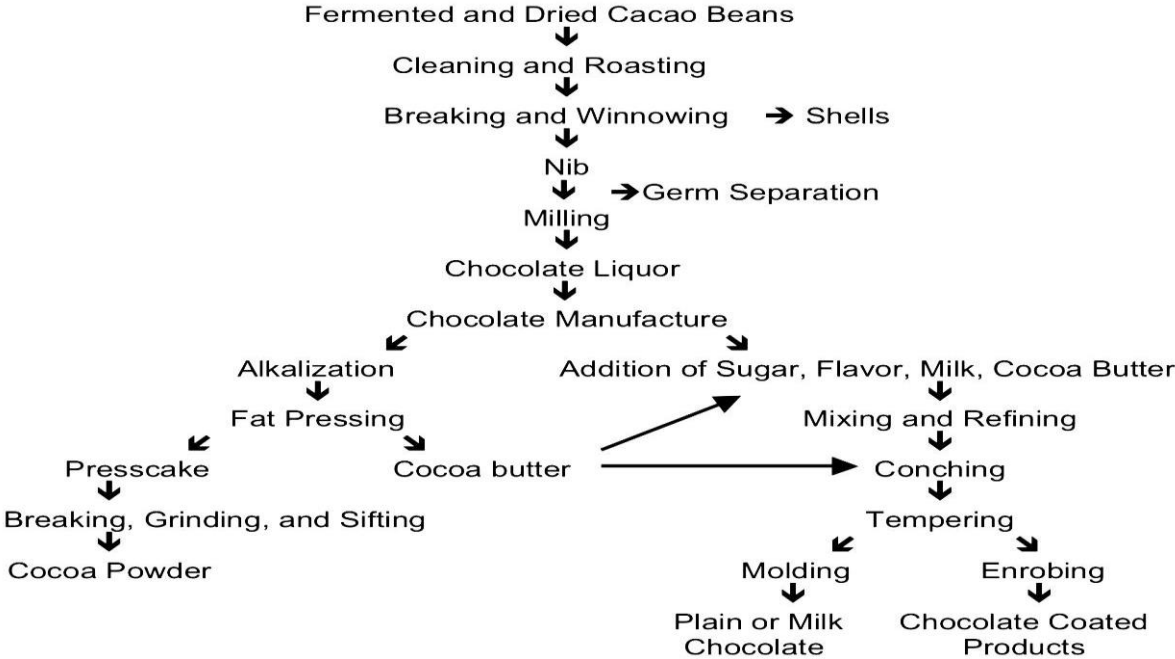
Many of these approaches towards improving earnings in the cocoa sector are already being advanced through the Cocoa Development Programme (CCDP) for 5 years (2010-2014) developed by the Department of Agriculture and Rural Development (DARD) and national stakeholders. This program is one of 7 Sector Plans developed to complete the Vanuatu Agriculture Sector Policy Strategic and Operational Plan (SOP).

Cocoa Value Chain (preliminary draft - to be elaborated by stakeholders)

Shaded green areas are products that can be marketed in tourism sector

Primary	Added Value (1)	By-products	Added Value (2)
Raw cocoa beans	Dried and fermented cocoa beans Roasted cocoa beans Chocolate liquor Cocoa powder Cocoa butter	Cocoa pods, shells Nibs	Fertilizer Animal feed
	Chocolates Other chocolate products Cocoa beverages		

Cocoa Process Chain



Cocoa SWOT Analysis (preliminary draft - to be elaborated by stakeholders)

Strengths	Weaknesses
<ul style="list-style-type: none"> - Northern provinces are the producers of the top quality cocoa product branded to be one of the best in the world - Relatively low labor requirements needed to farm cocoa - Can be planted alongside and other food crops to diversify smallholder incomes - Established and functional cocoa growers cooperatives 	<ul style="list-style-type: none"> - Poor fermentation techniques by smallholders resulting in a multitude of quality problems - Limited value-added production; reliance on raw commodities exports to foreign markets for processing - Lack of chocolate manufacturing capacity - Insufficient infrastructure for manufacture and transport - Lack of finance availability for smallholders
Opportunities	Threats
<ul style="list-style-type: none"> - International market demand for high quality 'premium' chocolate is expanding rapidly - Improve linkages to tourism sector to tap local market for artisanal coconut products - Enhance bean size and quality to meet growing world quality standards - Add value through artisanal chocolate manufacturing - Broaden organic and FairTrade certification - Strengthen exporting by encouraging entry of new exporters 	<ul style="list-style-type: none"> - Volatile and fluctuating cocoa prices on world market - Rising quality standards of markets and competing countries - Pests and disease - Old plant stock - Limited replanting program to replace old stock

C. Sandalwood

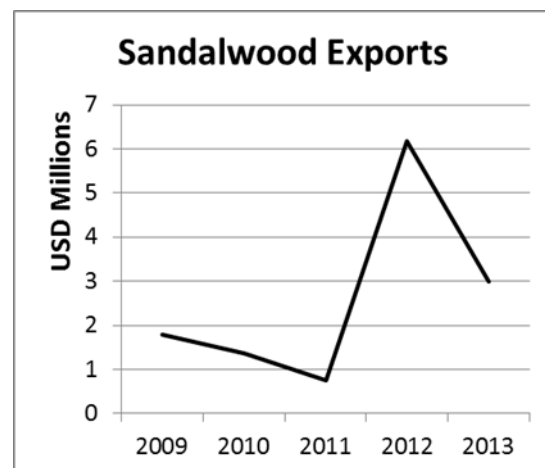
Sandalwood is an important crop for Vanuatu. It is a key crop that generates much needed income in the remotest areas and in many cases remains the only source of income in these isolated communities. Its uniqueness as a source of income for people in remote areas, as well as its value to the national economy, has encouraged the government to develop it into a sustainably managed industry.²⁶

The sandalwood sector in Vanuatu has been progressing well, as the communities, land owners and other agencies are currently taking the leading role in planting sandalwood. However, sandalwood cultivation involves considerable investment and time and while it has the potential to provide a high return on initial investment, it takes many years from the time seedlings are planted for harvesting to generate income. Sandalwood trees normally start producing heartwood at around 10-15 years. High-quality sandalwood oil comes from trees that are at least 30 years old.

Sandalwood has three important factors favoring its commercial cultivation in Vanuatu:

- It is a native tree that is well suited to the growing environment.
- Its heartwood has a very high value.
- Its heartwood and associated products are non-perishable, which simplifies shipping and storage requirements.

Traded internationally for centuries, sandalwood is used to make high-value, low-volume, non-perishable products for global markets. Aromatic oils produced in the heartwood and roots of sandalwood trees are one of the world's most valuable tree products. Sandalwood oil is distilled in a four-step process from the tree sap, incorporating boiling, steaming, condensation, and separation. The process is known as steam distillation. Sandalwood is also used for woodcarving and as an ingredient for incense.



The major consumer end uses of sandalwood in eastern markets include handicrafts and carving, non-alcoholic fragrances, toiletries, mouth freshener, medicinal uses, incense and as a flavoring agent. Sandalwood is also valued in western societies where it features as a key ingredient in perfumes and in other value-added products such as incense, toiletries, cosmetics and aromatherapy.

The quality of sandalwood oil depends on the level of santalol in the oil. Indian sandalwood is of the highest quality. Several Pacific sandalwoods are similar in quality, especially sandalwoods from Fiji, New Caledonia and Vanuatu.

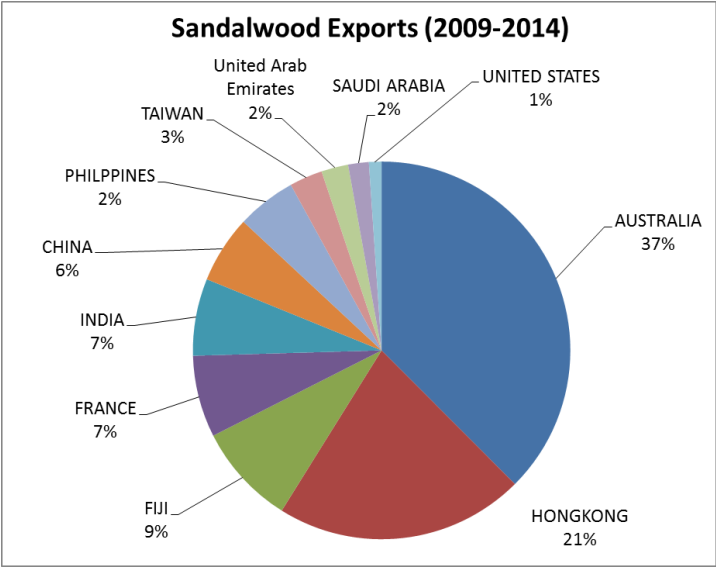
Wild-harvested sandalwood is the basis of the worldwide sandalwood industry, and as most countries have severely depleted their natural reserves, plantations (with yields not expected in the near future until trees mature) are actively being established through new commercial ventures. The current downward supply trend, combined with continued demand, has resulted in sustained price increases in international markets. Global demand for the different sandalwood species and their

derivatives is estimated at 4,000-7,000 tonnes per year²⁷. However, since official data on sandalwood production does not take illegal harvesting into account, actual demand and production may be much higher.

Traditionally, sandalwood has been harvested from wild stands by farmers/smallholders with customary rights over the land. Most smallholders harvest sandalwood for sale or to collect seedlings for planting. Although only small volumes are harvested from wild sources in Vanuatu (80–120 tonnes annually, representing about 2% of world supply), sandalwood contributes significant export revenue and provides significant income to sandalwood harvesters. Current export markets for Vanuatu sandalwood include Australia, Hong Kong, China and India among others. Australia and India, while major producers, are also a major importer due to supply shortfalls in their domestic market.

The Government of Vanuatu has exerted a level of control on sandalwood harvesting and marketing. At present, there are only two licenses to buy sandalwood issued to Vanuatu processors, each with demonstrated capacity. These licenses represent a maximum 80 tonnes of sandalwood per year combined. This limit represents the current estimated annual sustainable harvest from the native resource as estimated by the Vanuatu Department of Forests (VDoF). The VDoF also regulates the minimum price paid per kilogram of desapped heartwood for wild-harvested trees.

The linkage between trade and reforestation activities is important because it guarantees the future of the sandalwood industry in Vanuatu. The Vanuatu sandalwood industry has the potential to develop a niche market based on the organic and sustainable production of a highly valued natural product, which benefits smallholder producers. Planting activity in Vanuatu over the past 10–15 years has resulted in the establishment of between 420 and 700 hectares of combined smallholder and commercial



sandalwood plantings. Like many forestry investments, the planting of sandalwood is a medium- to long-term venture. When these plantations mature in 2030, sustainable output levels will be at least four times the current 80 tonne quota. Such an increase will have significant benefits to the local cash economy and ultimately improve Vanuatu livelihoods.

The Sandalwood processing industry in in Port Vila, produces various products, including sandalwood oil, heartwood, carving logs and sapwood, thereby contributing to employment in the value added segment of the sandalwood market. Only one company (South Pacific Sandalwood Ltd) is processing sandalwood oil and scents which they sell in local market on site (at Summit Gardens) and to a few customers overseas. Their trade could be expanded with diversified markets and formation of other firms to exports such refined products.

Capitalizing on the vibrant and expanding tourism industry in Vanuatu, opportunities exist for marketing Vanuatu sandalwood products domestically, focusing on producing value-added products for sale within existing retail outlets accessed by tourists.

Sandalwood Value Chain **(preliminary draft - to be elaborated by stakeholders)**

Shaded green areas are products that can be marketed in tourism sector

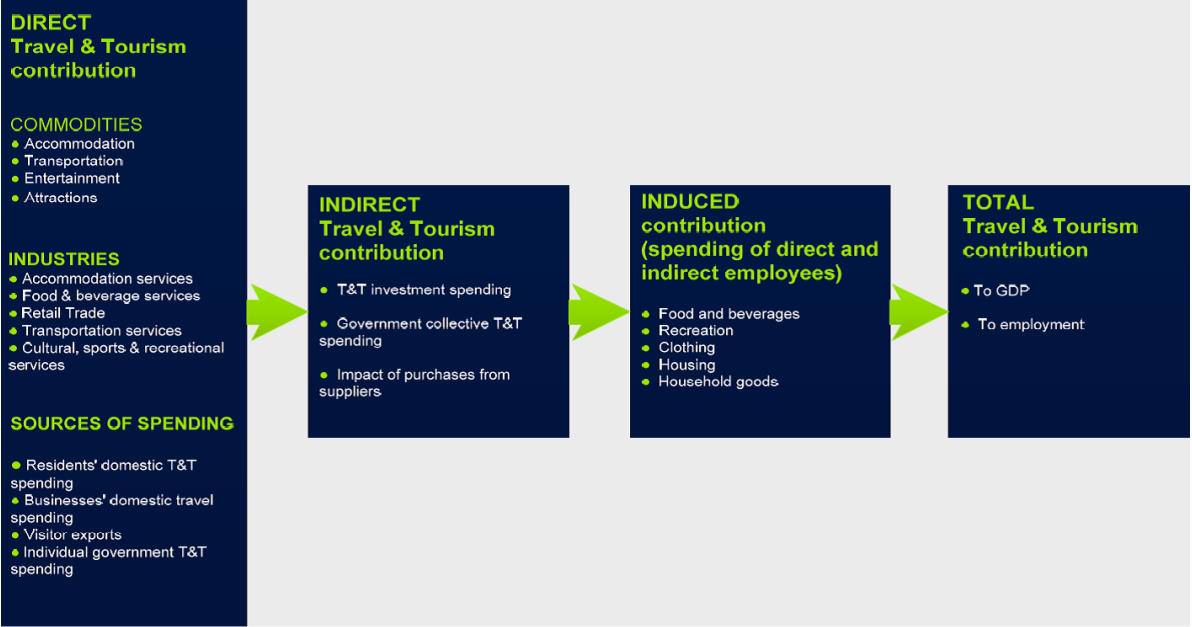
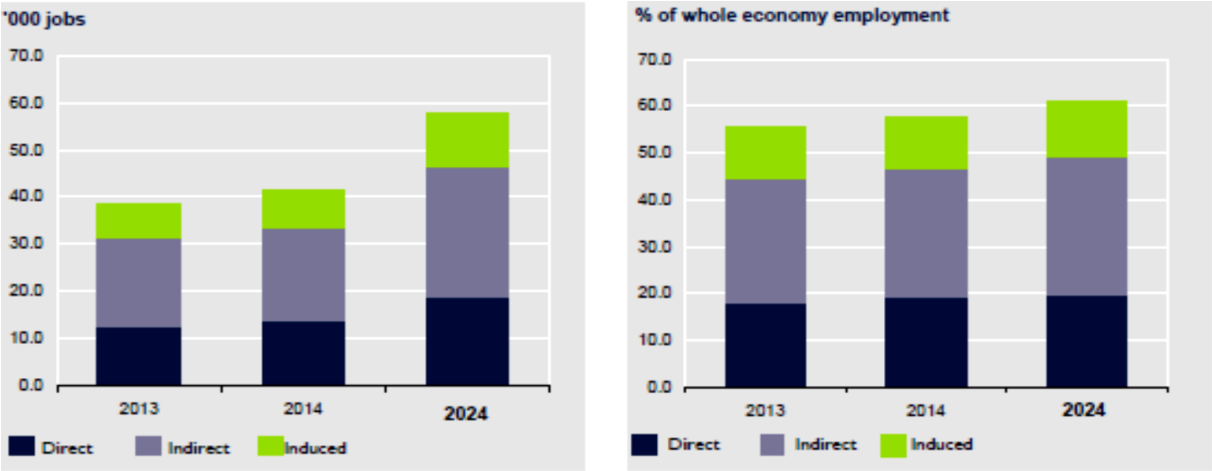
Primary	Added Value (1)	By-products	Added Value (2)
Sandalwood tree	Sandalwood logs Large sandalwood carvings	Sandalwood powder (input to distillery to produce oil) Sandalwood scrap wood	Sandalwood oil Sandalwood soap Perfume Medications Small sandalwood carvings
	Sandalwood chips (incense) Sandalwood powder		

Sandalwood SWOT Analysis **(preliminary draft - to be elaborated by stakeholders)**

Strengths	Weaknesses
<ul style="list-style-type: none"> - Regulated and controlled industry - Native trees suited to local conditions - Significant value-added product possibilities - Low maintenance plantation management - Suited to intercropping - No major disease risks - Well-established plantations - Over 30,000 seedlings planted each year - Annual harvest quota of 80MT to rise to 300MT by 2020 - Rising sandalwood prices in global market - Vanuatu sandalwood oil is readily accepted in foreign markets - Organic certification 	<ul style="list-style-type: none"> - Long latent investment period (15 years for trees to mature) - Insufficient legislation to protect long term investors - Lack of funds committed to the planting of sandalwood by the government - Land tenure disputes - Adverse extreme weather events - High local cost of processing and shipping in Vanuatu - Insufficient awareness of sector in the remote locations of Vanuatu - Lack of standards and poor marketing strategies that ruin the reputation of certified oil
Opportunities	Threats
<ul style="list-style-type: none"> - Collaboration between private sector and government to improve product standards - Good chance of establishing niche markets through ethical certifications (Fairtrade) - Carbon credit farming - Establish funding programmes geared towards local communities - Target higher value buyers with more valuable and convenient products - Improve linkages to tourism sector to tap local market for artisanal coconut products - Improve quality and food safety to meet growing world quality standards - Add value across entire product line 	<ul style="list-style-type: none"> - Farmers losing land to leases - Increasing incidence of disease - Competition from other crops for valuable sandalwood growing land - Theft and illegal harvesting of young sandalwood trees and seedlings - Clearing of natural sandalwood land by developers - Poor planting practices, removal of topsoil and erosion - Well financed corporations with investments that do not enhance local livelihoods

VI. Vanuatu's local access to global markets: The tourism sector

The total contribution of tourism (including travel and transportation) to GDP was VUV 44,204 million (65% of GDP) in 2013, and is forecast to rise by 8% in 2014, and to rise by 4.5% per annum to VUV 74,014 million (70.9% of GDP) in 2024.²⁸ The share of tourism's total contribution to GDP and national employment are very high in Vanuatu for two reasons. First, tourism by itself is a major economic sector in Vanuatu. Second, the tourism sector is reliant on, and linked closely to nearly all other sectors in the national economy, and in the case of Vanuatu, existing linkages are significant. Using the methodology of the World Travel and Tourism Council (WTTC) to assess the total contribution of tourism to Vanuatu's GDP, three components of the total contribution of tourism – direct, indirect and induced – are estimated.²⁹



Tourism is a somewhat unusual sector in the economy because it is not defined by a single commodity; rather, it is a cluster of inter-related industries. Thus Figure 5 portrays tourism as a composite sector, linked to a multiplicity of economic activities spanning the agricultural, manufacturing, and services sectors—including foods and beverages, furniture and textiles, jewelry and cosmetics, and transportation and communication services, among many others.³⁰

Once robust inter-sectoral links become firmly established, tourism provides considerable potential for Vanuatu to leverage sectoral activity for broad-based economic benefits at the national level as well as employment generation and pro-poor results throughout the national tourism supply chain.

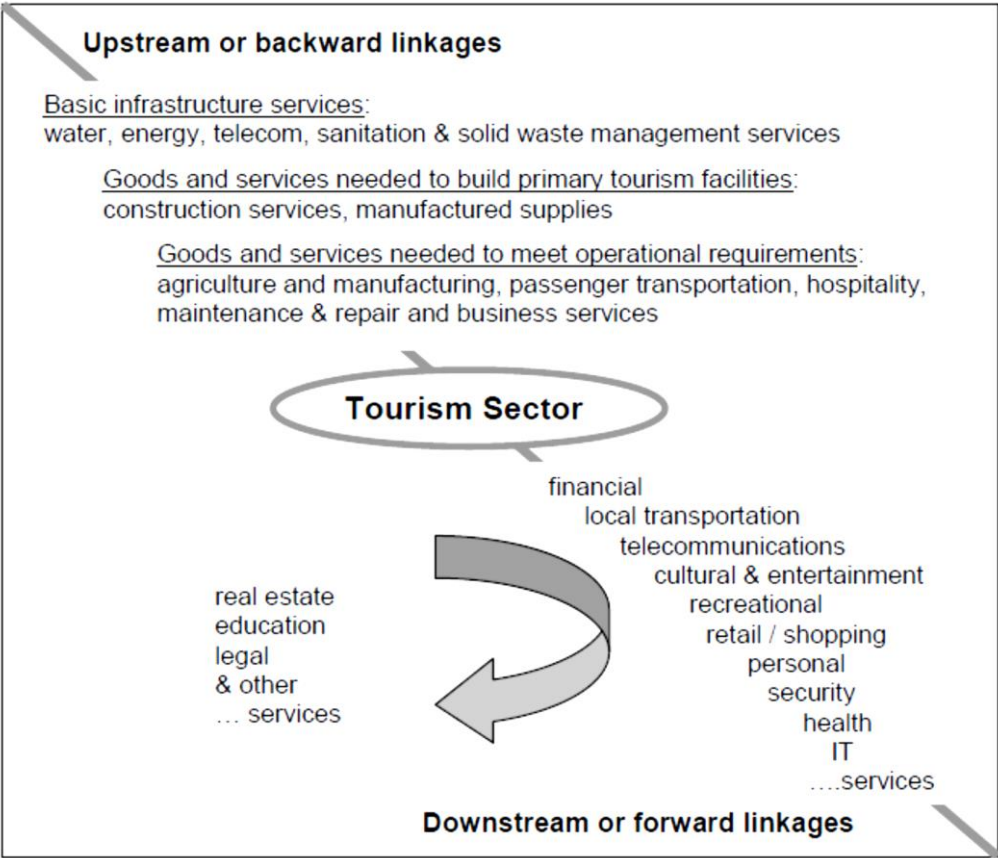


Figure 5. The tourism value chain showing the main sectors linked to tourism. In addition to the common downstream linkages (bottom right), some tourists making regular or longer term visits may also consume real estate, education, legal and other services (bottom left).

With a growing and increasingly deep tourism sector, Vanuatu has great potential for strengthening linkages in the supply chain for tourist consumption products – foods and beverages, crafts, cosmetics, flowers and ornamentals, essential oils, massage oils and spa products etc. Effectively, Vanuatu producers need to displace the dependence of the national tourism sector from goods imported to supply tourist market needs. Specifically, coconut oil, chocolates, sandalwood oil and related products will be in high demand by tourists visiting Vanuatu.

Consumption goods are either supplied to, or directly purchased by tourists in shops, hotels and restaurants, and therefore suppliers need to break into the supply chains of the national tourism sector. To service tourists, market local producers need to find profitable and competitive ways to meet tourism industry demand for volume, quality, regularity and safety requirements. The exposure of tourists to specific local products can also help export market penetration when returning home such visitors help build a domestic demand in their home countries for Vanuatu products.

Tourism creates a foreign, diversified source of demand within the borders of the host economy, creating supply opportunities for national producers. When these opportunities are captured locally,

tourism catalyzes economic diversification. Challenges include limited air transport connections, costly hotel facilities and need to cater to cruise ship-based tourism.

Tourists have a different set of preferences than do consumers from the local economy. Visiting tourists carry their home country preferences with them, and demand many of the same types of goods and services they would enjoy at home. In Vanuatu this represents a more sophisticated, higher-value demand. But tourists have preferences for cultural or exotic goods, which are not frequently demanded by local consumers. As a result, tourists can create two channels of demand in Vanuatu: one for daily consumption products, and another related to cultural or exotic goods. Therefore, in the process of catering to tourists' preferences and establishing productive linkages with the tourism economy, the host country effectively undergoes a process of product diversification.

Another consideration is that international tourists' preferences embed a different set of standards. In meeting the demand of the tourism economy, a developing country finds itself not only discovering new goods it can produce, but also adapting to the higher quality standards and technical requirements that are intrinsic to international tourists' preferences. Tourists seek goods produced in a certain way, to have a pleasing appearance, to incorporate labeling and packaging requirements, and even to conform to environmental- and labor-friendly practices. Essentially, these are the same standards that need to be met to sell the product in tourists' home countries. Thus once Vanuatu producers meet the standards that tourists demand, they will also make considerable progress in complying with the technical requirements needed to export the product to international markets. As a result, establishing productive linkages with the local economy can serve as a springboard to export diversification.

VII. Questions for discussion by national stakeholders

For each sector - Copra/Coconut, Cocoa and Sandalwood - discussions of the following topics can help identify parameters for the NGER's overall direction, its final report and its proposed national action plan:

1. Which niche market opportunities have Vanuatu producers successfully seized in global markets, and which remain to be exploited?
2. What are the main factors preventing increased value added production?
3. Can export markets be diversified to increase output and earnings?
4. How can linkages with Vanuatu's tourism sector be more fully exploited by producers?
5. How can organic and FairTrade certification be advanced?
6. What are the institutional, financial and market constraints faced by producers?
7. How can the national and regional governments better support producers and intermediaries in getting products to export markets?
8. What can producers themselves do to improve cooperation and coordination?

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