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Realizing economic opportunities in agriculture to promote greater food security in Pacific Island Countries

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I. Introduction

1. Primary sector producers and firms in the Pacific islands face strong competitive pressures in both their export and domestic markets. As a result, there is an urgent need for public and private sector co-operation in order to facilitate the investment in greater productivity and value chain efficiency required to maintain their market share and food security. Food security in the remote, isolated and fragmented Pacific islands has in the past been largely ensured from food locally grown, gathered and fished from the near shore ocean, supplemented by income from export commodities such as copra, cocoa, coffee, sugar, and bananas. Today these sources of food and household income continue to provide an important pillar for food security. However the decline in competitiveness of farmers and fishers in the Pacific Islands has reduced their capacity to supply export markets and their domestic food needs, reducing the returns to semi-subsistence farming relative to off-farm employment and encouraging the next generation of farmers and fishermen to leave their rural communities in search of new opportunities in urban centres.

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2. The transformation of household diets affected by urbanization from one characterized by consumption of own produced carbohydrates, greens and protein, to imported foods with a high sugar, salt and saturated fat content, raises a number of issues related to the nutritional quality of food consumption and impact upon health, as well as the growing vulnerability of national food security resulting from rising food import dependence in the Pacific Islands. Currently all Pacific Island Countries (PICs) have either negative or highly negative food trade balances.

3. This transformation in large measure reflects inadequacies of locally produced foods to compete in produce marketing systems in the Pacific that has resulted from the inability of semi-subsistence producers to access the modern inputs required to make the transition into commercial production and the supply of modern marketing channels. In addition it reflects the fall in household income garnered from traditional export commodities as a historical decline in international prices, increased competition from lower cost producers in Asia reduce the share of PICs in traditional export markets. Furthermore the countries generally lack the capacity to process local foods into the convenience products increasingly in demand in urban markets.

4. The poor economic geography of the Pacific islands¹ – their remote location from markets, small land and population mass, and large internal distances between islands – poses some special development challenges common to Small Island Development States that effectively undermines export-led development. A key implication of this is that productive sector growth strategies and policy reforms to increase the competitiveness of Pacific producers must be very strategic and tightly focused on reducing the disadvantages imposed by geography and on opportunities that are less impacted by geographical disadvantages. This suggests a need for an increased focus on high value export markets, the growing urban domestic market and the expanding tourist/hospitality market.

5. The challenge to policy makers and sector stakeholders therefore, is how to obtain greater food security and improved livelihoods for the region by supporting the large proportion of semi-subsistence producers to move into more commercial-oriented production through sustained access to competitive markets. This paper examines the key factors impacting on competitiveness of PICs' agricultural products, draws some lessons provided by value chain examples in order to inform policy-makers on steps required to realize new domestic market and export opportunities, and highlights the need to strengthen the enabling policy and institutional environment for private sector led agriculture growth through better evidence-based policymaking. The needs regarding better co-ordination of interventions important to the agriculture sector across the different Ministries relevant to food policy, as well as stronger collaboration with the private sector are also explored.

II. Selecting value chains for promotion

6. Modern markets generally involve buyer-driven value chains where the buyers – who are at the top of the chain – execute the critical governing role. Consequently, small producers are faced with price points, quality standards, packaging requirements and delivery schedules that are dictated by the market and the buyers within their markets. To enter and upgrade into such business supply value chains requires capital, knowledge and skills. But among smallholder producers and small agro-processing enterprises in the Pacific there is an overarching absence of awareness and understanding of international best practices which has an adverse effect on their competitiveness. Relatively few agro-processing enterprises in the Pacific currently add any significant value to their primary product.²

7. Higher-value niche export markets, such as for origin-based, certified and premium quality products, do present the Pacific Islands with some opportunities to find a market for their traditional commodities by improving the sophistication of production and processing techniques. However in the absence of a large, innovative agro-processing sector, the investment required to raise the standard of producing, processing and marketing agricultural produce in the Pacific has largely been left to the donor community. Effective partnerships between the public and private sectors has led to some

¹ World Bank (2009), *Pacific Island in 3-D: Key findings and Policy Advice*, Washington DC.

² Veisamasama P. and P. Wilson (2010), *Building Business Value Supply Chains in the Pacific Region-Expertise*, Final Report PBLH International Consulting SPRL 6 Chaussée de Boondael 1050 Brussels, Belgium.

success in accessing these higher-value niches, such as in the sugar, cocoa, coffee and coconut industries, and therefore greater co-ordination and co-operation on expanding such export market opportunities should be a focus of future investment. However, even when the public sector and donor community are willing to share the cost burden of helping farmers meet the required market standards, the private sector only maintains a financial incentive to invest in such partnerships where a sufficient volume of product is available and easily marketed. Insufficient supply of the requisite quality product continues to exclude many small and remote farmers from these specialized markets.

Case study: Papua New Guinea coffee

Consumer demand for Third Party Certified (TPC) coffee has grown 25 percent a year as opposed to 2 percent for conventional coffee over the last decade. TPC coffee, such as Fair Trade, UTZ, Rainforest Alliance and Organic, offers farmers a small premium (2-10 percent) above international prices, in return for meeting a set of minimum criteria addressing production, processing, marketing and organizational standards. With assistance from donors and the private sector, Papua New Guinea's (PNG) coffee growers have sought to capitalize on this market trend by increasing the proportion of coffee sold into these market niches to 25 percent. However reaching the levels of quality consistency and volume of supply sufficient to provide a positive return on this investment has been a significant challenge. Eighty five percent of the coffee produced in PNG is produced by smallholder farmers on less than 2 hectares, located in remote highland regions with poor transport and communications infrastructure. The additional costs associated with supporting extension and marketing from these areas has been prohibitive, with the result that 40 percent of coffee never reaches market, and up to 85 percent of production is 'sidelined' in alternative marketing channels. Indeed only relatively large groups of farmers (1 000 or more) located in areas easily accessible by road or in close proximity to buying stations, provided a net positive return on investment and by 2013, only 10 percent of PNG's coffee production was certified.

Sources: Giovanucci, D and Hunt, J. (2009) *Papua New Guinea Strategic Assessment of the Coffee Sector*, World Bank, Washington D.C.; Martyn, T. (2013) *On the Margins: a case study of private-sector led access to Third Party Certified markets among smallholder farmers in Papua New Guinea*, Secretariat of the Pacific Community, Suva: Fiji

8. Most traditional Pacific island subsistence crops – coconut, banana, breadfruit, pandanus and root and tuber crops (sweet potato, taro, cassava and yam) plus a variety of leaf vegetables and fruits – are of high nutritional value and can be grown with much lower labour inputs than grains such as rice and wheat. In addition, subsistence production of livestock, chicken and pigs as well as in-shore reef fish, provided an important source of protein in the diets of Pacific households. Access to substantial land resources enabled most households in Polynesia and Melanesia to shift their food gardens in order to maintain soil fertility. Thus rural households were able to achieve high levels of food and nutritional security – described as Pacific 'subsistence affluence' – with resort to few inputs other than household labour, land and genetic material secured from within the household's own resources.

9. However, this system of agricultural production has proven less capable of supplying the demands of modern domestic and export markets. Efforts at labour-led and capital-led intensification of crop production have largely foundered because of competing demands upon household labour and the inability of remote rural communities to access and apply improved planting material, competitively priced fertilizers and pesticides, and the agricultural credit with which to purchase labour-saving technologies. In addition the flexible harvesting patterns employed by traditional semi-subsistence farmers in the Pacific have led to inconsistencies in the supply schedules, to the frustration of modern retail channels. In addition, in the absence of competitively priced modern production technologies, farmers have been unable to meet the production quality specifications required by modern markets or be price competitive with imports. As a result, urbanization has been accompanied by a change in household diet towards imported substitute sources of carbohydrates and protein and a

rapid increase in food import dependence, with negative consequences for obesity and non-communicable diseases (NCDs), as well as national balance of payments.

III. Supporting a more competitive domestic food supply chain

10. One policy objective common to the agriculture sectors throughout the Pacific is to reduce food import dependence by enhancing the capacity of domestic producers to compete with imported food products. For many Pacific Island farmers and fishers, domestic markets provide significant accessible growth potential compared to export markets, where the barriers posed by global market and certification standards, transport costs and quarantine issues, continue to constrain their participation. However while the Pacific Islands do possess some specific opportunities to substitute imported crop and animal products with competitively priced local produce, sustainable growth in domestic market access will require establishing the policy and regulatory settings necessary for the private sector to thrive. The introduction of new macro-economic policy settings designed to attract investment (e.g. adjusting value of currency), pricing policies (taxes and subsidies), and the introduction of higher sanitary and phytosanitary standards (SPS), will help to improve the competitiveness of domestic production relative to imports. Improving infrastructure (roads, wharfs, ports, market houses etc.), transport and communications are critical to reducing the costs of doing business. Policy measures designed to reduce the cost of the farm inputs, such as by reducing tariffs on farm machinery and feed; increasing the security of customary tenure; improving agriculture sector access to commercial finance; certified local production of high quality planting material – will help to improve productivity of the domestic agricultural sector. Facilitating private sector input into identifying and developing the right policy tools is critical, as experience has demonstrated that successful agriculture enterprise development and sector growth is private sector led.³

Case study: Fiji import substitution of vegetables

Despite being a major agricultural producer, Fiji is the most urbanized of the Pacific Island countries. More than 50 percent of Fiji's population now resides in its urban areas. It is also a major importer of food: its food import bill is estimated to be growing by 20 percent every year. As a result, the Government of Fiji has sought to incentivize an increase in agricultural production for a number of targeted import substitution commodities through the introduction of policy measures aimed at improving the environment for agriculture sector growth. In 2009, the Fiji Government devalued the Fijian dollar by 20 percent, which immediately increased the price of all imports, including for the targeted commodities. They also introduced 5-13 year tax holidays for investors in commercial agriculture and agro-processing and reduced all import levies of specialized agricultural machinery, equipment like greenhouses and hydroponics and other agricultural inputs, in order to foster increased productivity. Furthermore, Fiji has established designated geographic tax free zones, in order to encourage clustering of agro-processing. The provision of interest subsidies for loans to agricultural enterprises provided by both commercial banks and development banks, encouraged lending to the agriculture sector. As a result, Fiji was able to foster competitive local production and reduce imports of a number of targeted products, e.g. the volume of imported tomatoes declined from 160 000 tonnes in 2008 to 20 000 tonnes in 2011; the volume of lettuce declined from 140 000 to 30 000 tonnes, and of capsicum from 60 000 tonnes to 10 000 tonnes, over the same period.

Sources: Martyn, T. (2011) Fiji Domestic Market Study: opportunities and challenges for vegetable import substitution, FAO SAPA, Apia: Samoa; Fiji Ministry of Primary Industries (2009) Agriculture Strategic Development Plan 2010-12, Suva: Fiji; Fiji Ministry of Finance (2013) Agriculture Incentives, Presentation to the Agriculture Taskforce, Suva: Fiji; Fiji Bureau of Statistics, Trade Data 2008-2012

³ FAO (2010), *Agriculture for Growth: learning from experience in the Pacific: Summary results of five country studies in Fiji, Samoa, Solomon, Tonga and Vanuatu*, FAO Sub-regional Office for the Pacific, Apia, Samoa.

11. The growth in international tourism in recent decades has been of significant economic benefit to a number of Pacific Island Countries. The Pacific Islands possess comparative advantages in international tourism, having pristine tropical ecosystems, beautiful scenery and interesting and friendly cultures. The deregulation of air travel into the region has led to a reduction in airfares from the major destinations (Australia and New Zealand) and a growth in tourist numbers in recent years. However, the benefits accruing from the tourism industry are eroded by high “leakage” rates as a result of reliance on imported goods and services and repatriation of profits. Efforts to reduce tourist dollar “leakage” have focused on the supply of fresh fruit and vegetables as well as meat and seafood products by domestic producers – products which often arrive frozen or canned and are not in keeping with the Pacific’s luxury brand of tourism. It is estimated that 80 percent of the food consumed by the tourism industry is imported, and that the largest barriers to local supply are the service and quality requirements of the industry.

12. To capitalize further on the increasingly sophisticated domestic supermarket and tourist markets and higher value international market opportunities there will need to be a considerable increase of investment in production and marketing skills, infrastructure and processing equipment so that food products can meet international quality, SPS and food safety standards as well as allow value addition to take place.

13. In 2011, Pacific island ministers of health and Pacific Islands Forum leaders declared a health and development crisis in the Pacific island countries and areas due to the high burden of NCDs.⁴ NCDs, including cardiovascular disease and diabetes, are responsible for approximately 75 percent of deaths in the PICs.⁵ Obesity, principally as a result of the overconsumption of foods with a high sugar, saturated fat and salt content, coupled with inactivity and alcohol and tobacco, is the most significant cause of Type II diabetes. Obesity rates in the Pacific range from in excess of 60 percent in Nauru, the Cook Islands and Tonga, to less than 20 percent in Papua New Guinea.⁶ While alcohol and tobacco products are heavily regulated and taxed, food and beverage products which are damaging to health are not subject to the same controls and price disincentives.

Case study: Cook Islands

The Cook Islands is currently undertaking a review of import levies, and identified that in order to combat rising obesity and NCDs rates in the country, it is imperative to introduce tariffs on goods with a high content of sugar on a sliding scale, ensuring that those goods with more sugar, face a higher rate. This new policy aims to shift the diet of Cook Islands away from sugary foods by imposing a price disincentive for the consumption of goods with a high content of sugar content, as well as make healthier alternative products relatively more price competitive. It is estimated that the tariff will raise NZD 200 000 a year to spend on NCDs awareness campaigns and health education.

14. Given the change in diets of Pacific islanders is largely driven by considerations of food availability, convenience and price, the policy response to the NCDs crisis must address these three areas by adopting a multi-sectoral review of the impact of agriculture, trade, fiscal and health policy on nutrition. This new strategic approach needs to assess what policy mix, including tax and tariff reform policies, will help to restore the competitiveness of local foods and national efforts to enhance nutrition. Where imported products pose a risk to food safety, appropriate regulatory controls and price disincentives should be introduced and enforced. The use of revenue generated by additional tariffs and taxes on imported food products harmful to health for investment in greater nutrition awareness and improving the relative competitiveness of nutritious local foods. Consumer knowledge

⁴ SPC (2011) Pacific Health Ministers Meeting, Official Communiqué

⁵ SPC (2013) Towards healthy islands: Pacific communicable disease response, paper for the Pacific Health Ministers Meeting, Apia: Samoa

⁶ Samo, M.(2012) “*Pacific in Crisis: progress on NCD actions*”, presentation to the Joint Management Committee of the Pacific NCD Programme

and awareness campaigns on the value of nutrient-rich local foods have already increased demand for local nutritious foods in parts of the Northern Pacific.⁷ Primary sector growth strategies that encourage investment into improving the efficiency of domestic agriculture would contribute to increasing the price competitiveness, and demand, for nutritious local foods along the entire value chain. Improved post-harvest and processing technologies would improve access to convenience and fortified foods utilizing nutritious local foods.

15. Clearly many of the areas for policy action to increase competitiveness of local agriculture products and to enhance nutritional health status lie outside the remit of the agriculture ministry thus emphasizing the need for a ‘whole of government’ approach through the establishment of a cross-cutting Food Policy Council or other strategic body capable of bringing together participants from the Agriculture, Health and Finance Ministries, as well as Development Banks, commercial banks and representatives in the agriculture and tourism industries. Encouraging further development of multi-stakeholder bodies, such as commodity associations, agriculture industry boards and standards-setting bodies (e.g. national Codex committees), which enable policy-makers and private sector to communicate more effectively to identify shared development objectives, is also a priority.

IV. Evidence-based policy making

16. Whilst there are few policy prescriptions that would be equally applicable everywhere in a region as diverse as the Pacific, it is important across the region to pay more attention to evidence-based policy analysis to enable the authorities in each country to navigate the fine line between protecting the poor from price increases – especially food – and supporting inclusive primary sector led economic growth.

17. Strategic decision-making and improved policy development for the primary sector is critically constrained by a lack of good data. Accessing reliable data on primary production, marketing and trade presents a major challenge in developing and monitoring appropriate policy interventions in most countries in the Pacific island sub-region. The poor availability of primary sector data means that impacts of policy interventions aimed at improving levels of food security and nutrition, and agriculture based development more broadly, are poorly understood and that policy is generally based on perception rather than evidence.

18. Whilst the costs involved in collecting production data are considerable, the value of data can only be realized through its use to improve decision making. From the government perspective this implies value being realized through improved policy decisions, better monitoring of current policies and programmes, and improved investments (both public and private). Only a few countries have dedicated policy/planning capacity in Agriculture and Fisheries Ministries, but even in these countries there is limited activity in data analysis and dissemination of information useful for decision makers.⁸ The lack of analysis and value adding of agriculture data represents a serious weakness if policy making is to improve, political demand for data is to increase, and nationally driven data collection and management is to improve in a sustainable way.

19. Clearly there is a need to direct more efforts toward ensuring better analysis and use of existing data as well as maintaining the integrity of the current collection systems and extending them where possible. Furthermore, given the general lack of capacity in the Pacific region to analyze and disseminate policy relevant information there is also a need for an increased focus on capacity building in this area.

⁷ Kaufer L, L. Englberger, R. Cue, A. Lorens, K. Albert, P. Pedrus, and H.V. Kuhnlein (2010), *Evaluation of a “traditional food for health” intervention in Pohnpei, Federated States of Micronesia*. Pacific Health Dialogue 16(1): 61–73; Rogers T.S. (2010), *Agriculture Data: Report on a scoping study in six Pacific Island Countries*, FAO Sub-regional Office for the Pacific Islands, Apia, Samoa

⁸ Rogers T.S. (2010), *Agriculture Data: Report on a scoping study in six Pacific Island Countries*, FAO Sub-regional Office for the Pacific Islands, Apia, Samoa.

Benefiting from the Blue Economy

The Pacific Island Countries have great potential to benefit from sustainable economic growth in utilization of marine resources. The combined value of the Pacific tuna haul is currently estimated at 3 billion USD. Fishing license revenues represent between 1 and 45 percent of total fiscal revenues in the Pacific Island Countries. While fiscally important, fishing license revenues are commonly assumed to account for less than 10 percent of value of the Pacific tuna catch. The challenge of collecting accurate data on catch rates and final sales has made it difficult to both monitor the impact of this industry on stock sustainability and undermined the ability of PICs to reach agreement on a fairer distribution of the value of the Pacific tuna catch. The introduction of a new Vessel Day Scheme in 2011 – restricting long-line tuna fishing vessels to more closely monitored and regulated licensing – has resulted in a strong growth in government revenue from license fees; a reduction in tuna catch rates to a more sustainable level; as well as improved access to catch rate data. This information is essential for the verification of the health of current stocks, and the development of evidence-based policies to ensure the sustainability of tuna fishing in the Pacific, and greater domestic economic opportunities from this important resource. It will also provide a stronger evidence base for the adoption of international agreements and instruments critical to the ongoing management of tuna resources, and the impact of its exploitation on other fisheries resources. Given that seafood accounts for 50-90 percent of the animal protein consumed in coastal communities, and that Pacific Islanders consume an average of 50 kg per person per year, compared to the global average of 18 kg per person, sustainable harvesting of regional fisheries resources is critical to ensuring greater food security in the Pacific Islands.

Sources: IMF (2013) *Chapter IV Staff Report: Kiribati*; IMF (2013) *Chapter IV Staff Report: FSM*; IMF (2013) *Chapter IV Staff Report: Solomon Islands*; ADB (2012) *Pacific Economic Monitor*, December 2012; Johnson, G. (2010) *Marinas Variety* “New Pacific tuna regulations to protect resource: greater revenues, smaller catch envisioned”; FAO (2011) *Fisheries of the Pacific Islands Regional and national information*, RAP PUBLICATION 2011/03; SPC (2013) *Fisheries Newsletter* #141 May-August

V. Key messages and points for discussion

20. Identifying and realizing real growth market potential in domestic markets, including tourism markets; and developing the production, processing and marketing skills required to meet the quality and consistency standards they demand, should be prioritized. Limited opportunities exist in niche exports, for farmers with sufficient volume and capacity. An increased focus on domestic markets will offer improved rural development and food security outcomes.

21. Developing evidence-based, multi-sector forums for addressing the strategic policy challenges inherent in improving national food security will assist the development of more effective policy solutions. Food policy is not the domain of the agriculture sector or health sector alone and therefore needs to be addressed through a holistic Government approach. Reducing food import dependency will require action outside of the agriculture sector. Developing the innovative, evidence-based policies required to address these food security issues will depend upon the improvement of the establishment of reliable systems for gathering and analyzing data; and on improving the capacity of public sector institutions to formulate and implement targeted and cost effective policies able to increase the competitiveness of domestic agricultural producers to supply domestic markets, including the tourism market.

22. Developing multi-sector stakeholder bodies which harness the input of the private sector will be critical to developing targeted and effective policy. Establishing and strengthening forums where the private sector have a formal role to dialogue with government should result in better policy and development outcomes.

23. To guide further refinement of the results to be delivered by FAO in the Pacific, the Regional Conference is requested to:

- 1) Share experiences where domestic food markets, tourism markets, and niche export markets have been successfully developed to the advantage of all farmers [Outcomes 2 and 3 of SO4].
- 2) Identify gaps or areas which need to be strengthened in the pursuit of evidence-based policy to realize economic opportunities in agriculture in the Pacific [Outcome 1 of SO4].
- 3) Provide guidance on the role and comparative advantage of FAO to assist countries to enhance collaboration between the public, private and social sectors to build inclusive and efficient food chains serving domestic markets in the Pacific [Outcome 2 of SO4].