Improving Domestic Market Linkages:
Policies to Improve Agriculture Sector Competitiveness
in the Pacific

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United Nations (FAO)
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Executive summary

Family farming in Pacific Island communities is a way of life and a source of enduring food security that ensures the health and wealth of their people. Much has changed, however. In recent decades, Pacific Island Countries (PICs) have undergone a nutrition transition associated with the increased availability of inexpensive, energy-dense foodstuffs; migration to urban centres; and diversification of income generation away from primary sector activities. These trends have contributed to an alarming increase in diet- and nutrition-related diseases.

In its efforts to arrest the distressing decline in agriculture sector productivity and improve the sector’s competitiveness in relation to imports, FAO has identified a number of key policy options that would assist PICs to take advantage of new opportunities for growth. FAO recommends that PICs:

1. **support a regional marketing initiative** to highlight the tour operators that offer a true Pacific cuisine experience and to train chefs to develop menus that incorporate more local ingredients;
2. **assist in offering low-interest loan products and risk-reduction mechanisms**, such as tax breaks, in an effort to attract investments in labour-saving and off-season production technologies that will improve the supply and quality of local agricultural products, as well as upgrade the cuisine associated with PICs tourism;
3. **consider the application of a levy on the food and beverage products** that contribute to poor nutrition outcomes and non-communicable diseases (NCDs), such as foods high in salt, sugar and fat;
4. **offer incentives to increase the use of local content by the tourism industry**, such as tax deductions for the purchase of locally produced food and beverages, as well as providing marketing benefits to tourism businesses using local produce;
5. **consider charging departure and accommodation taxes to cruise ship passengers** – currently applied to other tourists – so as to raise investment revenue for port infrastructure to accommodate a growing industry and for the maintenance of protected areas on which ecotourism depends;
6. **introduce school feeding programmes (SFP)** which are based on a menu choice that will maximize the use of local fresh produce, and design a procurement and distribution system to facilitate the food purchase from local farmers and fishers;
7. **establish a multistakeholder National Food Policy Council** to oversee the adoption and implementation of these policies and programmes, as well as others that are relevant to the improvement of food quality and nutritional security; and
8. **establish a national dialogue between stakeholders in the agriculture and tourism sectors** to oversee the implementation of incentives for local food content and taxation that are required to realize the synergies between the two industries.

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1 FAO. 2014. “State of food and agriculture in Asia and the Pacific region, including future prospects and emerging issues”. FAO Regional Conference for Asia and the Pacific, 32nd Session, Ulaanbaatar, Mongolia. 10-14 March. Agenda No. 9.
Introduction

1. The fall in productivity in the rural sector in PICs has been a key contributor to the increase in the price of domestic foods that are of nutritious value. A review of the patterns of food production in the Pacific region, undertaken by the Asian Development Bank,\(^5\) has revealed that the growth in agricultural production has declined over the last four decades, in general, and that it continues to do so across the region. Farming in the region remains mainly at small scale, depends on family labour, and focuses predominantly on meeting household subsistence needs. Together with this semi-subsistence sector is a small commercial agriculture sector that struggles to compete in the export market – against food imports. A few countries in the area now limit agriculture on large plantations.\(^6\) The limited capacity of the smallholder agriculture sector to supply and satisfy the needs of the domestic market, at prices that are comparative with imports, is a significant factor that contributes to the increasing dependence on food imports in PICs. This increase has raised the incidence of poor household nutrition.

\[\text{Figure 1: Average agriculture sector growth rates (\%) in ten selected Pacific Island Countries, 2000-2010}\]

![Average agriculture sector growth rates](image)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>-4.1</td>
</tr>
<tr>
<td>Fiji, Rep. of Kiribati</td>
<td>-0.7</td>
</tr>
<tr>
<td>Palau</td>
<td>-0.4</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>2.1</td>
</tr>
<tr>
<td>Samoa</td>
<td>4.3</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>-2.9</td>
</tr>
<tr>
<td>Tonga</td>
<td>0.6</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>0.2</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2.2</td>
</tr>
</tbody>
</table>


2. The international development community has long recognized the impact that economic geography and the exposure to price and natural disaster shocks can have on agriculture sector development in Small Island Development States (SIDS). Among the special challenges faced by these states in the Pacific are: (i) their small land mass; (ii) the large distance between islands and export markets and between the islands, themselves; (iii) the low population densities that make it difficult to exploit economies of scale; (iv) their vulnerability to exchange rate and price spikes, as a result of their low export diversity and little influence over terms of trade; (iv) and their vulnerability to natural disasters.\(^7,8,9,10\) The World Bank has estimated that there will be a permanent gap between

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\(^6\) Ibid.

the cost of production in the Pacific and world prices in many key export markets, as a result of these structural costs.\textsuperscript{11}

3. The greatest gains for the agriculture sector in PICs lie in their domestic markets, when account is taken of the limited capacity for international trade competitiveness in the primary sector. Increasing the competitiveness of small farmers in domestic markets is contingent upon a greater investment in the adoption of technologies that enhance productivity. Since the largest share of investment in primary production in the region is undertaken at the farm level, the governments of PICs should ensure that policies are in place to create an enabling environment for small farmers to invest in these technologies.

4. Natural synergies exist between the primary sector and tourism. Rising consumer demand for local content in tourist offerings, including quality cuisine experiences, nature tours and cultural activities, should motivate the tourism sector to secure and procure additional local goods and services and to contribute to effective resource management. These approaches will enhance the quality of the products offered by the tourist industry, providing it with a competitive advantage to be gained from product differentiation and non-price attributes.\textsuperscript{12}

5. The key challenges for PICs policy-makers are to ensure that tourism growth is sustainable and that the benefits that accrue from increased visitor numbers is equitably shared with and among the poorer rural communities. Strengthening linkages and creating synergies between tourism and agriculture will, ultimately, reduce foreign exchange leakage and harness the tourist dollar to drive growth in other sectors, including the primary production and food manufacturing industries.

**Policy tools to improve agriculture sector competitiveness in the Pacific**

6. Real and sustainable improvements in regional food security will depend on identifying and mobilizing the political will to change and translate them into policy action. This paper aims to assist sector stakeholders and policy-makers by providing them with the tools necessary to achieve sustained food import substitution, poverty reduction and improved food security in PICs.

7. This paper provides concrete examples of policies that can promote healthier nutrition and agriculture sector development in the Pacific region. In particular, it informs on the design of policy options for potential adoption by stakeholders in the PICs food sector, as well as by those actors in the agriculture, health, education, and finance sectors. The paper presents examples of policy tools relating to methodologies, key principles, frameworks for implementation and case studies, designed to achieve an increase in domestic market opportunities and better health and nutrition outcomes.

8. Furthermore, this paper provides the policies to promote stronger economic linkages between the agriculture and tourism sectors. Specifically, it provides case study examples of the tools available to policy-makers to improve market opportunities relating to the incorporation of

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local food into Pacific Island cuisine, which will create employment and business opportunities for rural communities, as well as advance the marketability of the Pacific as a tourist destination.

9. In addition, the paper calls on the establishment of multistakeholder institutions to guide the evidence-based policy decision-making process at the national and regional levels. This resource, therefore, is designed as a practical guide for stakeholders involved in the tourism, health, finance and education sectors of PICs, as well as in their agriculture-, fisheries- and forestry-related activities.

**Combating the rise in obesity and the intake of unhealthy food**

10. The Pacific Islands are currently threatened by a man-made disaster which poses an immediate threat to the livelihoods of their resident communities. Rather than climate change, however, it is the rising tide of obesity that perhaps poses the most present danger. The incidences of obesity and diet-based NCDs, such as the late onset of Type 2 diabetes and heart disease, are now at critical levels in many PICs, leading to escalating rates in health care costs, morbidity and mortality. While obesity rates have risen worldwide over the last three decades, the greatest and most significant increase has occurred in PICs.¹³ Five of the world’s ten most overweight nations include PICs, where obesity rates regularly surpass 60 per cent.¹⁴ As a result, the Disability Adjusted Life Years (DALYs) lost to overweight and obesity are now higher in the Pacific than in any other developing region of the world.¹⁵

**Figure 2: Pacific Islands country diabetes and obesity rates**

<table>
<thead>
<tr>
<th>Country</th>
<th>Diabetes rate (%)</th>
<th>Obesity rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>23.6</td>
<td>61.4</td>
</tr>
<tr>
<td>Micronesia, Federated States of</td>
<td>32.1</td>
<td>42.6</td>
</tr>
<tr>
<td>Fiji</td>
<td>12.9</td>
<td>18.0</td>
</tr>
<tr>
<td>Kiribati</td>
<td>20.4</td>
<td>39.9</td>
</tr>
<tr>
<td>Nauru</td>
<td>16.2</td>
<td>58.1</td>
</tr>
<tr>
<td>Niue</td>
<td>38.4</td>
<td>61.0</td>
</tr>
<tr>
<td>Palau</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>13.3</td>
<td>16.2</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>37.2</td>
<td>31.6</td>
</tr>
<tr>
<td>Samoa</td>
<td>22.0</td>
<td>54.7</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>17.7</td>
<td>23.7</td>
</tr>
<tr>
<td>Tonga</td>
<td>17.5</td>
<td>57.6</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>-</td>
<td>58.7</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>21.2</td>
<td>18.8</td>
</tr>
</tbody>
</table>

*Source: Secretariat of the Pacific Community: National Minimum Development Indicator Database (v2.0) (available at [http://www.spc.int/nmdi](http://www.spc.int/nmdi)).*

11. Household diet and nutrition are increasingly important to health, agriculture and economic policy-makers, worldwide. While the low intake level of dietary energy, protein and micronutrients

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remains a problem for hundreds of millions of people, the rise in income levels and the growing liberalization of trade in the developing world is fuelling a transformation in food consumption that contributes to weight gain and obesity. The impact of this trend has major implications on health and agriculture, and it will require appropriate interventions to put policies in place that are designed to effectively incentivize healthier food choices.

12. The calorie consumption in PICs has climbed over the past four decades, as locally produced starches, fish, fruit and vegetables have been replaced by imported foods. It is evident that a single serving of some of these imported goods (including sodas, canned meat, instant noodles and meat off-cuts, such as turkey tails and lamb flaps) contains harmful levels of the micronutrients - such as sodium, sugar and fat - leading to poor nutritional outcomes among consumers. As a result, the health status of Pacific Islanders and the economic viability of their primary sectors have significantly deteriorated.

13. While food preferences are important, the price and availability of food are steadily driving the transformation patterns of food consumption in the Pacific. A poor diet, therefore, is not simply a health issue; rather, it is an economic issue. Because of the price differences between local, nutritious food and those foods that are imported – which reduce the availability of healthy alternatives – households are forced to make economically rational – and, therefore, nutritionally detrimental – decisions in their selection of food. To overcome this scenario, there is a new approach to ensure that more nutritious food choices can be economically viable: the introduction of progressive price policies.

14. Inadequate nutrition impairs the mental and physical development of infants and places them at life-long disadvantages. The ability of households in the developing world, therefore, to make good food choices that result in positive nutrition outcomes is of critical importance to policymakers in the health sector. Policies that will increase the intake of fruit and vegetables, while reducing the consumption of foods that are high in salt, fat and sugar, will result in better health outcomes. Such policies are also important to agriculture policy-makers and farmers, since an increase in the demand for fruits and vegetables (among other products) will provide additional income-generating opportunities to the rural sector.

15. The World Health Organization has recommended, within a local context, the use of fiscal policy to influence food prices “in ways that encourage healthy eating”. This action plan explores how PICs can effectively adopt pricing policies used by other developing and developed countries to influence diet and health outcomes. Specifically, it aims to develop a model for the implementation of food pricing policies and SFPs that prioritize the use of local fruit and vegetables, the programmes of which are designed to adequately address the scale of the NCD crisis currently inflicting the Pacific Island region.

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20 Ibid.
22 Ibid.
16. The greatest public health challenge in PICs stems from increasing obesity and chronic diseases as a result of the over-consumption of energy-dense and processed foods and beverages that contain high levels of sugar, fat or salt, together with the under-consumption of fresh fruits and vegetables. As a result, the health costs of PICs to treat diet-related NCDs and the impact of associated NCDs on labour productivity and morbidity have escalated. The implementation of an excise on food and beverage products would not only improve national food security, but it would also boost national income. A levy would also help to reduce foreign exchange leakage resulting from tourism by increasing local value addition. The funds derived from the excise can be used to reduce the cost of fruit and vegetable products to consumers. Additionally, it would eliminate the need for further external development loans.

17. The application of a levy on less healthy food choices, combined with the application of subsidies on healthier alternative products, would effectively change diet and health outcomes in the region. The levy and subsidies would also impact the use of other substances which contribute to poor health outcomes; those of alcohol and tobacco. Such a pricing policy would certainly influence household food consumption behaviour.

18. Excises have generally been applied to discourage the consumption of goods that affect public costs, such as those of health as a result of tobacco and alcohol abuse. They also generate revenue to support government expenditure. Excises are effective in influencing purchasing behaviour; for example, increasing the base price of a product provides a disincentive for consumption. While the application of taxes is not usually exploited in the region, they would be a significant source of revenue for PICs — if judiciously applied (e.g. as health taxes). In terms of food, since the demand for food would remain unchanged, consumers will be less likely to select the taxed product. Evidence from studies relating to the potential health outcomes of targeted taxes and subsidies on foods has demonstrated that a tax on unhealthy foods, combined with appropriate subsidies on fruits and vegetables, could lead to significant population health gains. While it is generally agreed that food taxes are regressive — meaning that low-income households pay a greater proportion of their income on food taxes than do high-income households — there is evidence that food taxes do benefit low-income populations the most in terms of lowering consumption and improving nutrition outcomes, reflecting progress from a health perspective.

19. The cost of complacency is simply too great. Revenue that can be generated through health taxes provides the opportunity to bring together agriculture, nutrition, and health sector stakeholders to unleash the potential of agriculture (as a supplier of nutritious food, a source of income, and an income-generating sector) to sustainably reduce malnutrition and reduce NCDs in the Pacific region.

Increasing investment and productivity in the agriculture sector

20. Smallholder farmers in the Pacific region continue to lack the capacity to supply produce consistent with the quality and price standards required to effectively compete with imports of fruit and vegetable commodities. To facilitate an increase in agriculture production and processing

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26 Ibid.

efficiencies to a level that rivals food imports will require an improvement in the level of access to finance at interest rates that are competitive with those enjoyed by farmers in neighbouring regions. Accessing the capital to purchase inputs (improved planting materials, fertilizer, improved livestock breeds and feed), combined with the adoption of productivity-enhancing equipment (machinery, greenhouses, hydroponic and irrigation systems to prolong seasons and increase yields), is critical to maintain competitiveness in the agriculture sector. Access to these inputs, however, is constrained by the inability of many agriculture producers to obtain the long-term finance required to acquire such assets. The rate of lending to agriculture in the Pacific has been very low – ranging from 0.6 per cent to 3.1 per cent of gross domestic product. This rate of lending is especially short, considering the proportion of gross domestic product derived from agriculture.

Figure 3: Agriculture gross domestic product of six select PICs compared to proportion of lending to the agriculture sector

Sources: Pacific Regional Statistics Service (PRISM), available at www.spc.int/prism, and selected Central/Reserve Bank reports.

21. Global experience indicates that agriculture finance for smallholder farmers is effective and carries less risk when it is incorporated into a broader finance package that includes financial and non-financial services. The objectives of such financial instruments are for farmers to build the skills necessary to manage their business and to improve yields and quality through access to better inputs and extensions. A combination of policy-making, services and financial support that targets market-oriented agro-entrepreneurs will help turn the tide in what is currently a faltering agriculture sector across the region. The ageing of participants in the agriculture sector and the decreasing numbers of new entrants in PICs highlights the need to ensure that agriculture is more competitive and profitable and, therefore, is an attractive choice for young farmers in terms of generating income.

22. Improving the agriculture sector’s access to finance will depend on the measures adopted to reduce risk and improve the creditworthiness of farmers. Agriculture value chain finance offers an opportunity to reduce the cost and risk of financing. It also reaches out to smallholder farmers. For

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financial institutions, value chain finance creates the incentive to look beyond the direct recipient of finance and better understand the competitiveness and risks in the sector as a whole. External value chain finance is made possible by value chain relationships and mechanisms; for example, a bank will issue a loan to a farmer based on the farmer’s contract with a trusted buyer or on a warehouse receipt from a recognized storage facility.  

23. PICs farmers will benefit from improved financial literacy and business management skills to increase farm profitability. As long as a farm’s profitability remains low, lending for agricultural production will remain a risk factor. The poor quality of business proposals presented by farmers to financial institutions, coupled with the paucity of suitable collateral, presents a major barrier to improving access to finance. Assisting banks to build their capacity to assess farmer risk and to identify good bankable opportunities in the agriculture sector, therefore, will be an essential step towards enabling financial institutions to reach out to the sector. Loans thus can be tailored to suit the specific needs of the client and prevent heavy reliance on traditional collateral values.

24. To encourage investment in the adoption of new technologies to increase year-round quality food supplies and in processing technologies to provide a secondary market for the periodic oversupply of fruit and vegetable products, the following activities are essential: (i) access to low-interest loan products for agribusiness development; (ii) tax breaks for primary producers with the ability to quickly write off the value of capital investment for agricultural equipment; and (iii) reduction of risk factors on agriculture investment by introducing disaster risk insurance for agribusiness infrastructure and equipment. In addition, risk sharing arrangements, such as credit guarantees, matching grants and increased availability of agriculture insurance products, will further increase the level of ease between lenders and borrowers in the agriculture sector.

Structured institutional markets for improved health and agriculture sector development outcomes

25. The numerous challenges relating to distance and the barriers faced by PICs smallholders results in their having to compete for a share of the domestic fresh produce markets, which are relatively thin and volatile. This exposes them to the significant risks that threaten the profitability of their agro-enterprises. National governments in other developing country regions are increasingly seeking approaches to link SFPs to local agricultural production, in order to generate a stable and sustainable market for small-scale farmers.

26. Linking small farmers to markets through the use of contracts to supply institutional markets, such as SFPs, is critical to improve access to finance and investment in agricultural value chains in the Pacific. Public procurement programmes typically involve large quantities of local produce to supply public institutions, such as schools, hospitals, prisons, and government offices and they usually are not driven by the same profit motives as other buyers in the market. As a result, contracts have more flexible terms and have a significant lead-in time, which assists small farmers to make the transition into the formal market. SFPs offer a relatively long-term market (on average, 180 days a year) for a pre-determined food basket (usually concentrating on local and nutritious content). This

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30 Ibid.
provides producers with a relatively large and stable outlet for their products and, therefore, a reliable source of income.\textsuperscript{33}

27. International experience underlines the importance of combining structured demand for food with supply-side agricultural interventions to boost productivity, collective marketing, food safety, storage, and management of contracts.\textsuperscript{34} SFPs, therefore, must be supported by a broader programme of interventions that focus on improving the capacity of farmer organizations; adoption of Good Agricultural Practices; and upgrading the logistical system for the delivery and storage of food, as well as capacity building and complementary finance.\textsuperscript{35} As a result, SFPs would provide a secure contract market on more flexible terms to assist the smallholder sector in PICs to progress towards more modern and commercially-oriented farming systems.\textsuperscript{36}

28. Similarly, policy-makers in the developing world have identified that SFPs can ensure that students, who face poor educational and nutritional outcomes, will receive the minimum nutritional inputs they require to lead healthy and productive lives.\textsuperscript{37}

\begin{center}
\textbf{Figure 4: The objectives of school feeding programmes}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4}
\caption{The objectives of school feeding programmes}
\end{figure}


\begin{flushleft}
\textsuperscript{34} Coles C. 2013. What is known about the impact of structured demand activities on resilient food systems? London: Overseas Development Institute.
\end{flushleft}
29. The importance of food in contributing to positive health outcomes and the prioritization of tackling the issues of obesity and NCDs in the Pacific provides the rationale for SFPs to play a critical role to improve the diets of school-age children and thus motivate the rest of the population to transition to healthier dietary choices.  

30. It is essential that Ministers of Agriculture in PICs collaborate with their respective Ministry of Health and Education to review the nutritional content of school meals that are currently offered to school students. It is important to adopt a programme for school meals that is based on a menu that incorporates local fresh produce (fruits, vegetables and livestock products) to the maximum extent possible. It will be necessary to design a procurement and distribution system to facilitate the purchase of such foods from local farmers and fishers. The school lunch menu should be drafted with the technical advice of nutrition experts and should maximize the use of local food varieties that are rich in vital nutrients. The government agencies that are responsible for the procurement of school lunches should collaborate with local farmers and their associations to encourage the planting and marketing of these essential crop varieties.

**Building demand for local produce and enhancing tourist destinations**

31. Food and beverages now represent the second highest category of tourist expenditure in PICs, followed by accommodation. The rising interest in ethnic cuisines and in cooking shows on television in those countries from which the tourists who visit PICs originate (Australia and New Zealand) has generated a new awareness and appreciation of a cuisine experience that can be offered at holiday destinations. The food tourist industry is a growing market segment in international terms, renewing a focus on locally sourced produce. The development of a healthy food and hospitality sector in the region that can provide a distinct flavour for local cuisine, therefore, is increasingly important to gain a competitive advantage as a tourist destination. A premium food experience, therefore, is a key strategy to increase and sustain the number of visitors to the area.

32. The concept of niche tourism has emerged in recent years to counter what commonly has been referred to as mass tourism. Mass tourism is characterized by a high-volume, low-margin business model that provides homogenized food, accommodation and cultural experiences. The issues associated with mass tourism include high foreign exchange leakage as a result of the importation of a significant number of tourism inputs, including food; little economic participation in the industry by rural communities; and environmental damage from overexploitation of natural resources (including reefs, beaches, rivers and forests). Such a model can lead to the perception by potential customers of a loss of authenticity in the tourist destination which, in an era of marketing that is driven by social media, can pose a serious threat to the sustainability of the local tourist industry. An alternate and more sustainable model is one that will capitalize on potential niche markets (e.g. eco-, adventure, nature, green and gastronomic tourism) as a source of revenue.

33. The growing appreciation by the tourist for high-quality food that uses unique local ingredients and provides distinct ethnic flavours is encouraging the development of a new tourism model for tour companies. Furthermore, the incorporation of authentic local cuisine experiences

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38 SPC Statistics’ web site [www.spc.int/sdd](http://www.spc.int/sdd)
into the travel agenda is attracting higher paying tourists and can forge stronger economic linkages with domestic producers and service providers, as well as reduce foreign exchange leakage.

34. The adoption of a regional policy that will ensure that the Pacific becomes a recognized destination is essential to tourism and agriculture sector stakeholders. The region would be known for the availability, authenticity, quality and value of local food, as well as for the food experience. To achieve this, it will be necessary to consider the food experience as a major factor in the marketing and branding strategies of the tourist industry – one that evokes a unique sense of place, culture and hospitality. This will allow PICs to focus on high-value tourism and to better differentiate their tourism products in the face of an increasingly competitive market. Increasing the awareness of and demand for Pacific Island ingredients through tourism is also an avenue to facilitate the export growth of the primary sector.

Figure 5: The importance of local food as an economic driver of tourism

35. To realize these opportunities, leaders in the PICs need to support the tourism and agriculture industries and help to create synergies between the sectors. This can be done by providing incentives to the food hospitality industry so that more local produce can be procured, thereby fostering investment into improving the quality and quantity of domestic food production. The stimulus can be in the form of brand recognition and promotional benefits for tourist operators who are willing to increase the use of local content on their menus or in the form of direct tax credits that relate to the level of procurement of local produce.

36. In order to improve the supply coordination of the tourism sector, it is critical that there is a combination of improved market intelligence and better farm production planning. Tourist industry actors with an interest to increase their use of locally produced food, therefore, should be encouraged to supply stakeholders in the agriculture sector with forecasts for their demand of fruit and vegetable products. Such forecasts can be developed by hotels and resorts by using weekly food order sheets, in relation to their forward bookings, to calculate the volume of demand for select fruit and vegetable products at least six months in advance. Collaboration and partnerships are essential between national tourism authorities – and relative associations (including those representing hotels, restaurants, chefs and farmers) – and national agriculture departments, and farm enterprises should be incentivized to increase productivity and raise the quality of goods to the level required by the tourism industry.

37. National authorities should reduce the risks associated with buying locally produced foods by providing marketing benefits to motivate tour operators to use local foods. Several PICs are now developing or strengthening tourist sector certification and accreditation systems, providing an opportunity to integrate a rating mechanism in relation to the use of local produce by hotels and restaurants that seek accreditation. Ministries of Agriculture of PICs should work with their national tourism authorities, as well as with hotel, restaurant and chef associations, to identify how to feature local businesses that are dedicated to the use of local produce in their national tourism campaigns.

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Increasing the local value added from cruise ship tourism

38. The global cruise ship industry, in recent years, has experienced a rapid increase in demand, and passenger numbers have climbed from 7.2 million in 2000 to 21.6 million in 2014. This demand has resulted in a steady growth in the size of cruise liners and the rate is predicted to continue with customers from various age groups, backgrounds and regions.

39. Cruise ship tourism is expanding in the Pacific and various PICs are experiencing a growing number of cruise ship visitors on a daily basis – from approximately 580,000 passenger port days in 2007 to over 1.3 million in 2012. This represents a compounded rate of 17 per cent growth each year over the five-year period.

40. The growth of the cruise ship industry in the Pacific has been heralded as a new source of tourist income for the region. The increased frequency and capacity of cruise ships in Pacific ports, however, has led this industry to request significant investment by PICs to redevelop their port infrastructure and immigration processing facilities. The national economic benefits of cruise ship tourists is a fraction of those arriving by other means or remaining on shore, since the daily expenditure of cruise passengers is far lower than that relating to tourists arriving by air, and they consume less local produce; are exempt from many of the hotel accommodation taxes, departure taxes and green fees; and cruise ship operators in PICs are considered non-domiciled for income tax purposes.

Figure 6: Breakdown of average daily expenditure of a cruise ship passenger in Port Vila (AUD$)

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41. Regional and national authorities should develop a new strategy in relation to cruise ship tourism in the Pacific region due to the associated high rates of foreign exchange leakage and the excessive costs of redeveloping port infrastructure to accommodate the growth of this industry. The overriding goal for PICs should be to maximize revenue from visiting cruise liners by building the economic linkages between the suppliers of local goods and services and those of the cruise ship market. To raise the rate of local earnings from this type of tourism, PICs should review the taxes that are applied to day visitors and the cruise ship industry, in order to ensure comparability with other segments of the tourist industry. The value of any additional tax on the cruise industry can be made deductible to the value of the purchase of local produce and services. This will leverage further use of local content. Any additional revenue raised through such levies can be invested in the upgrade of port infrastructure and in the capacity of local production and processing.

**Figure 7: Indirect expenditure impact flows (%) from cruise passenger spend in Vanuatu**

![Indirect expenditure impact flows chart]

Source: IFC (2014).

42. To increase local earnings from cruise ship tourism, PICs should negotiate the introduction of local food content requirements in return for an investment in port infrastructure and other onshore facilities. A review should be made of the taxes imposed on day visitors and the cruise ship industry relative to other tourists, hotels and onshore tour operators. Additional revenue that may be raised through such levies can be put towards upgrading the quality of local production and processing methods. To motivate the cruise ship industry to use local content, domestic food and beverages should be tax deductible and a passenger departure tax (green fee) should be introduced.

**Ecotourism provides alternative income benefits from sustainable resource management**

43. As the world’s population continues to become more environmentally and socially conscious, the choices at tourist destinations have become increasingly influenced by concerns relating to
sustainability. As a consequence, ecotourism\textsuperscript{51} – which focuses on nature-based activities – is the fastest growing segment of the global tourist industry.\textsuperscript{52} The United Nations World Tourism Organization estimates that the share of ecotourism in total global tourist revenue in 2009 was approximately 10-15 per cent.\textsuperscript{53} Countries that have built up a nature-based ecotourism industry have been more successful at generating additional foreign earnings and local employment than from exploiting resources in the extractive industries (logging and commercial fishing). The protected areas in Costa Rica, for example, have seen more than one million visitors each year in the five years leading up to 2006. This has generated revenues of over US$5 million in 2005 and the direct employment of approximately 500 people. Protected areas in Mexico record 14 million visitors each year, creating 25,000 jobs.\textsuperscript{54}

44. PICs – with their pristine marine and land environments – are well placed to benefit from the rising demand in nature-based tourism.\textsuperscript{55} Niche ecotourism activities, such as diving, bird and whale watching and bushwalking in forested areas offer alternative income opportunities for PICs. The successful adoption of an ecotourism model must involve the participation of local communities and must provide an appropriate return to those communities to support the long-term conservation of the resources.\textsuperscript{56} Authorities in tourism and the environment in PICs should act now to ensure that adequate natural resource management structures are in place to protect the fragile reef, river and forest ecosystems that are critical to attract this category of tourist, as well as to ensure the sustainability of this tourism model.

45. The geographic coverage of community-managed marine- and forest-protected areas has expanded significantly across the PICs over the last decade, providing opportunities for substantial national economic benefit from tourism.\textsuperscript{57} These benefits, however, are not necessarily equitably shared with the communities that play a critical role in monitoring these protected areas against exploitation.\textsuperscript{58} Indeed, communities that have been charged with effectively managing protected areas in the Pacific region have reportedly received less than 30 per cent of the revenue that is required to meet their basic needs.\textsuperscript{59} While the annual cost to the community to administer marine protected areas is estimated up to US$10,000 per square kilometre, the total economic benefits generated by these areas are estimated to be far higher – up to US$30,000 per square kilometre.\textsuperscript{60} A large proportion of the economic benefits of marine protected areas in the PICs, however, is captured by the tourist diving industry, with local fishermen benefiting only 1 per cent of the total value that is generated.\textsuperscript{61} The limited ability of communities to negotiate arrangements with private

\textsuperscript{51} The International Ecotourism Society defines ecotourism as “responsible to travel to natural areas which conserves the environment and improves the welfare of local people”.


\textsuperscript{58} Ibid.


\textsuperscript{60} Ibid.

\textsuperscript{61} Ibid.
sector operators and/or exploit the occasional opportunities that arise from drop-in tourists to protected areas, should create the impetus for leaders to adopt national revenue collection models.\footnote{Govan H. 2009. \textit{Status and potential of locally-managed marine areas in the Pacific Island Region: meeting nature conservation and sustainable livelihood targets through wide-spread implementation of LMMAs}. Samoa: Secretariat of the Pacific Regional Environmental Programme.}

46. Ensuring the spread of efficient, community-led protected areas will continue to provide the tourist industry with important growth opportunities in terms of ecotourism. This will depend on the adoption of policy options for equitably redistributing the financial benefits of tourism to the communities that are integral to the protection of these natural resources. A source of revenue sufficient to assist communities to meet the administrative costs of managing protected areas, while compensating for lost earnings, can be provided by a green fee added to the departure tax levied on all tourists. This has been piloted in some jurisdictions,\footnote{FAO. 2014. “Options for Improving Tourism Agriculture Linkages.” \textit{Op. Cit.}} and surveys suggest that ecotourists are willing to pay a fee to enable the enhancement of conservation and one which can be shared with local communities.\footnote{Government of Palau. 2004. \textit{Palau Tourism: Economic Valuation Survey}. Koror: Republic of Palau. Office of Planning and Statistics, Bureau of Budget and Planning, Ministry of Finance.} \footnote{UNEP. 2013. \textit{Op. Cit.}} \footnote{UNEP. 2005. \textit{Forging Links Between Protected Areas and the Tourism Sector: How tourism can benefit conservation}. Paris: United Nations Environment Programme.} \footnote{Driscoll L., Hunt C., Honey M., Durham W. 2011. \textit{The Importance of Ecotourism as a Development and Conservation Tool in the Osa Penninsula, Costa Rica}. Submitted to the Tinker Foundation. The Centre for Responsible Travel.}
47. Tourists are becoming more demanding of the environmental quality of destinations, creating a motive for the conservation and improvement of such tourist destinations for the sake of the country in addition to creating value. An environmentally conscious tourism model will be an important marketing tool for the region, giving local tourist service providers a competitive edge that will ensure not only the sustainability of the natural environment, but also that of the tourism industry.  

48. The addition of a green fee to the departure tax for all visitors will contribute an alternate method of generating revenue to invest in protected areas and will deliver compensatory income to smallholder households. The revenue collected should also be put towards establishing trust funds specifically for protected areas to ensure that these payments are sustained. They should not be absorbed into the general government expenditure.

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Coordinating change through strategic alliances and partnerships

49. Strategic decision-making and improved policy development for the agriculture sector are critically constrained by the lack of coordination in the Pacific between the public and private sectors and between public sector agencies. The first – and perhaps most important – step towards encouraging greater investment in improved food security by the public and private sectors is the effective coordination of stakeholders. A clear communication of policy needs and objectives can be possible only through the collaboration of committed multistakeholders in the agriculture, food and health sectors.

50. The linkage between policy research and analysis and the adoption of policy decisions is complex and often problematic. To achieve the implementation of the necessary policy and regulatory reforms to improve food security and health outcomes, PICs should put in place a high-level and multisector statutory agency to offer a formal policy role to the full range of public and private sector stakeholders in the agriculture, food and health sectors. This agency, identified as a National Food Policy Council, will facilitate the implementation of national policy measures to encourage consumption of locally produced and nutritious food. This, in turn, will reduce obesity and food insecurity, stimulate local markets for food and foster rural development. It will also raise agricultural gross domestic product and national economic growth. The statutory agency would be responsible for the design and implementation of policy, as well as the regulatory and programmatic reforms that have been presented in this paper, among other key priorities.

51. Information and good sector analysis will provide the evidence base on which better policy decisions can be made. Only a few countries, however, have dedicated policy and planning capacities within their Ministry of Agriculture. Nevertheless, their data and information for decision-making is limited. The key role of a Ministry of Agriculture in PICs is to create a Secretariat for its National Food Policy Council and provide the key information relating to food sector developments, as well as advise on the financial and health impact of suggested policy interventions. To improve the capacity to deliver this service, the Ministries of Agriculture must work closely with national statistics bureaus and the technical agencies that can furnish the necessary data for policy-making.

52. Value for the agriculture and food sectors can be forged by a collaborative relationship to improve the sharing of demand- and supply-side information, resources, risks and rewards. The establishment of a tourist industry that differentiates its destination on the basis of a unique cultural heritage, food tradition and natural environment is a strategy that has successfully attracted

Food Policy Council

The food policy council model emerged in North America during the last three decades in an attempt to address the inadequacies and gaps in food policy and planning. Despite its fundamental importance to society, food and food policy, historically, have been shaped by a disparate array of government departments and agencies that have lacked the coordination and recognition of linkages between the food-related sectors. Remedies for specific food-related problems, such as diet and nutrition in relation to agriculture, hunger and food business, among others, have been sought in narrow and sometimes ineffective ways.

The Food Policy Council model is a policy and governance innovation that brings together diverse stakeholders to study a localized food system and offer recommendations for policy change.

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investment and increased the number of visitors. It is shown to have also provided greater income-generating opportunities to the rural sector and helped to reduce foreign exchange leakage.

53. The promotion and marketing of Pacific region tourist destinations with the food experience will require a coordinated approach that can only be developed together with the private sector. Collaboration and partnerships must include the food and beverage industries; agriculture, education, health, culture and tourism sectors; and the national governments of PICs to help establish a comprehensive training, certification, and quality assurance system to support gastronomic tourism. To increase their ability to develop and implement coordinated and strategic marketing efforts, leading food tourist destinations have formed food-tourism alliances in the form of not-for-profit organizations. Their mandate is to integrate strategy with planning and implementation. There is no single established model that will suit all purposes across the diverse nations of the Pacific region. Private sector industry associations (hotels, chefs, farmers) and non-government organizations have played vital roles in facilitating the formation of multistakeholder alliances in other regions of the world. 71,72,73,74

Recommendations

1. support a regional marketing initiative to highlight the tour operators that offer a true Pacific cuisine experience and to train chefs to develop menus that incorporate more local ingredients;
2. assist in offering low-interest loan products and risk-reduction mechanisms, such as tax breaks, in an effort to attract investments in labour-saving and off-season production technologies that will improve the supply and quality of local agricultural products, as well as upgrade the cuisine associated with PICs tourism;
3. consider the application of a levy a on the food and beverage products that contribute to poor nutrition outcomes and NCDs, such as foods high in salt, sugar and fat;
4. offer incentives to increase the use of local content by the tourism industry, such as tax deductions for the purchase of locally produced food and beverages, as well as providing marketing benefits to tourism businesses using local produce;
5. consider charging departure and accommodation taxes to cruise ship passengers – currently applied to other tourists – so as to raise investment revenue for port infrastructure to accommodate a growing industry and for the maintenance of protected areas on which ecotourism depends;
6. introduce SFPs that are based on a menu choice that will maximize the use of local fresh produce, and design a procurement and distribution system to facilitate the food purchase from local farmers and fishers;
7. establish a multistakeholder National Food Policy Council to oversee the adoption and implementation of these policies and programmes, as well as others that are relevant to the improvement of food quality and nutritional security; and
8. establish a national dialogue between stakeholders in the agriculture and tourism sectors to oversee the implementation of incentives for local food content and taxation that are required to realize the synergies between the two industries.