

MARSHALL ISLANDS

1. Economic Statistics

Population: 51,600 (2000)

Land Area: 200 square kilometers

Exclusive Economic Zone: 2,131,000 square kilometers

Political Status: independent democratic government since 1979

GNP: US\$99 million (1999)

Major Industries: fisheries, copra

Merchandise Exports (FOB): US\$7 million (2000)

Major Exports: copra cake; crude coconut oil; pet fish; and handicrafts

Merchandise Imports (CIF): US\$68 million (2000)

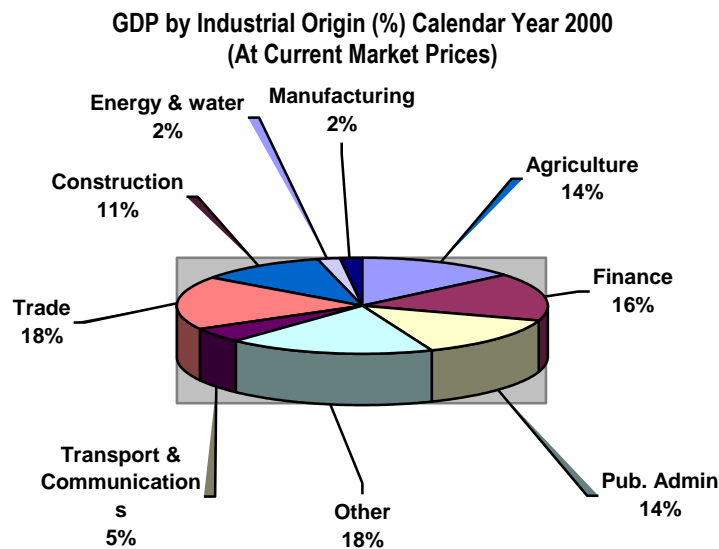
Major Imports: crude materials; machines, transport and equipment; food and live animals; manufactured goods; mineral fuels etc.

Currency: United States Dollar

2. Economic Profile and Performance

Due to contractions in trading and transport, primary production, and manufacturing, real GDP declined by about 2.3% in 2000, following growth of around 0.8% in 1999. Along with modest growth prospects in the medium term, the economy faces a major challenge in moving towards greater self-reliance and providing employment for the growing labour force.

Government expenditure grew marginally in 2000, while trading and transport, primary production and manufacturing fell. Due to the strengthening of the United States dollar and low demand, and despite the rise in world oil prices, price deflation of 1.9% was recorded, compared with inflation of 2% in 1999. The key economic indicators are shown in the tables below:



Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

3. Agriculture and Fisheries

3.1 Current status of Development

Agriculture within RMI is very limited due to poor soils and lack of land availability. However, market gardening is common and produces vegetables for the local market. Copra is the main source of income for farmers with very little piggery and poultry farms. Local egg production sustains approximately 75% of the market.

Ninety eight percent of the copra used by the Tobolar Coconut Oil Company is supplied from the outer islands. Given the falling prices of copra, the Government of RMI provides a subsidy to stabilize the price.

In terms of food businesses and processing, there are a number of bakeries and some businesses producing a range of beverages. The majority of food establishments are small family retail establishments selling imported processed foods and some fresh produce

and bakery products. Noni juice and bottled water and produced locally. While many food businesses have in place pest control, sanitation and personnel hygiene programs none of the food industry operates under quality assurance or HACCP programs.

Exports from RMI 1998-2000 (f.o.b '000 US Dollars)

| Product | 1998 | 1999 | 2000 |
|-------------------|-------------|-------------|-------------|
| Copra cake | 987 | 1053 | 1354 |
| Coconut Oil | 1459 | 1192 | 1110 |
| Handicrafts | | | 10 |
| Pet Fish | 306 | 473 | |
| Other | 626 | | 50 |
| Re-Exports Diesel | 2306 | 4944 | 6600 |
| TOTAL | 5773 | 7662 | 9124 |

Source : RMI Statistical Abstract 2001

3.2 Issues and Constraints

The main issues facing the agricultural sector in the RMI include:

- Access to agricultural land – mainly in the main islands of Majuro and Ebeye;
- Transportation problems with the outer islands – this was highlighted as one of the main problems where transportation to the outer islands is inconsistent. The farmers in the outer islands cutting copra depend on these boats as the main source in income and the coconut oil mill produces oil from 98% of the copra produced in the outer islands. This also affects the quality of the copra for coconut oil processing and for exports. Transportation is mainly provided by government and some private boats operating could not carry the capacity of the copra produced;
- Exports of copra to the international markets face higher standards as some shipments of copra to China was injected 40% tax as a barrier and copra cake exports to Hawaii was not accepted.

As in most of the Pacific Island countries, in the Republic of Marshall Islands, fisheries is a part time engagement for most of the population, numbering over 60,000, with most living in the outer islands. Over 2 million sq kilometers of sea area comes under the republic's EEZ. The Marshall Islands Marine Resources Authority (MIMRA) has embarked on several programs to enhance fisheries development, mainly through Coastal Fisheries Development Assistance (COFDAS) project, a series of cooperative programs administered by the Overseas Fisheries Cooperation Foundation (OFCF) of Japan, and designed towards comprehensive technical cooperation encompassing fish harvesting and handling, production, processing, distribution, consumption and engine repairs and maintenance, refrigeration, fiberglass works, training, etc.

Concerned over the relatively fragile resource base, its susceptibility to over-fishing and costly logistics, the current NFDP (National Fisheries Development Policy) proposes detailed review of collateral opportunities whereby developments in the industrial fishery may nurture small developments in the community fishery. In particular this could apply to farming baitfish for the industrial pole and line and longline fleets. Additionally an influx of longliners would result in an increase in airfreight capacity thereby improving the prospects for the underutilized deep-water snapper fishery, which is substantially reliant on airfreight access to USA and Asian markets. Both of these activities favor the involvement of outer island communities and small-scale development.

MIMRA has also embarked on several Regional Technical Assistance programs as well as an atoll project for conservation and management of coastal fishery resources and habitat environment in coral reef areas including enhancement of giant clam populations using hatchery-reared juveniles and transplanted wild adults to establish giant clam sanctuaries. Inclusive with the above proposal under the Atoll Project is a plan to establish a resource management program whose purposes are as follows: fishery, giant clam, trochus, sea cucumber stock assessment, data collection and analysis in standing stock, catch data analysis etc.

The JICA assisted Project for Development of Fishing Communities in Jaluit Atoll envisages to improve the production and marketing system of coastal fisheries as well as to promote fishing, fresh fish marketing to meet the fresh fish demand in Majuro and Kili Island, to stimulate the local economy of Jaluit, and to contribute to improving fish marketing in Majuro. Other areas of focus include seaweed farming and pearl farming.

3.3 Vessel Licensing program

The tuna industry of the RMI mainly involves the licensing of foreign vessels to fish in EEZ through bilateral arrangements. During 1997/98 and 1998/99, the Republic earned about \$3.9 and \$5 millions respectively through licensing while during 1999/2000 collection was down to \$2.9 million due to the reduction of operational fishing vessels. The situation has made the government to focus on enhancing domestic fleet expansion through the introduction of small-scale tuna long lining vessels. MIMRA is also conducting

explorations on the Deep Sea Snapper Fishery which focuses on a wide range of deep water fishes, deploying fishing lines with 5-6 hooks to a depth of between 100 and 200 meters.

Tuna fishing is mainly through fishing agreements with United States of America, Taiwan, Korea, Japan and FSM. Longline and pole and line fishing continues to be dominated by the Japanese fleet. For the coming year, the sector will increase in this fishery with the addition of the locally based longline fleet. Under the Fishing Access agreements a license fee for each vessel is required for actual fishing operation in the Republics Exclusive Economic Zone. This fee remained at 5% of the landed value of the catch with a non-refundable advance payment of US\$ 8,000.

Access Agreements in the RMI Exclusive Economic Zone for 2000/2001

| Country/Party | Type | Administrator | Type |
|-----------------|--------------|---------------|--------------------------|
| USA | Multilateral | FFA | Regional |
| Japan | Bilateral | MIMRA | Government to Government |
| Taiwan | Bilateral | MIMRA | Industry to Government |
| Korea | Bilateral | MIMRA | Industry to Government |
| FSM Arrangement | Multilateral | FFA | Regional |
| Fong Seong Co. | Bilateral | MIMRA | Industry to Government |

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

The RMI became a party to the FSM arrangement in early 2000. The Arrangement is administered by the Forum Fisheries Agency (FFA), and operates similar to the U.S treaty. Members of the FSM arrangement are considered a sub-regional group of the FFA, mostly from the Parties to the Nauru Arrangement group; Micronesia, Palau, Kiribati, Solomon Islands, PNG, Nauru, and the RMI.

Number of Vessels Licensed in RMI for 2000/2001

| Country/Party | Purse Seine | Pole & line | Longline | Carriers/bunkers | Total |
|----------------|-------------|-------------|-----------|------------------|------------|
| USA | 30 | - | - | - | - |
| Japan | 36 | 68 | 27 | - | - |
| Taiwan | 43 | - | 5 | - | - |
| Korea | 27 | - | - | - | - |
| FSM Arr. | 12 | - | - | - | - |
| Fong Seong Co. | 2 | - | - | - | - |
| Others | - | - | 3 | 63 | - |
| Total | 150 | 68 | 35 | 63 | 316 |

Note: Figures do not include the Locally Based Foreign Boats.

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

Foreign Licensed Revenue in RMI for 2000/2001 (U.S\$ 000)

| Country/Party | Purse Seine | Pole & line | Longline | Carriers/bunkers | Total |
|----------------|--------------|-------------|------------|------------------|--------------|
| USA | 147 | - | - | - | 147 |
| Japan | 280 | 891 | 405 | - | 1,576 |
| Taiwan | 390 | - | 40 | - | 430 |
| Korea | 251 | - | - | - | 251 |
| FMS | - | - | - | - | - |
| Fong Seong Co. | 20 | - | - | - | 20 |
| Others | - | - | - | 63 | 47 |
| Total | 1,088 | 891 | 445 | 63 | 2,471 |

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

3.4 Trans-shipment

The Trans-shipment activity continues to be dynamic in the Majuro port. The following table is indicative of the number of vessels and fee associated with the transshipment activity for the year.

Trans-shipment Trips and Fee Revenue in RMI for 2000/2001

| Country/Party | Purse Seine | Pole & line | Longline | Carriers/bunkers | Total |
|-----------------------|-------------|-------------|------------|------------------|------------|
| USA | 5 | | | | 5 |
| Japan | | | | | |
| Taiwan | 157 | | 9 | 12 | 180 |
| Korea | 60 | | | 3 | 63 |
| FSM Arrangement | 57 | | | | |
| Fong Seong Co. | 7 | | | | |
| Others | | | | 61 | 61 |
| Total Vessels | 286 | | 9 | 76 | 374 |
| FEE (US\$ 000) | 171 | | 5.4 | 45 | 221 |

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

Total number of Vessels transshipped in Majuro at 374, with an earning of \$221,000 as transshipment revenue. The Taiwanese fleet continues to be dominant in port calls, with 157 purse seine transshipment. The declining market forced the vessel operators and owners to make drastic operation cuts, and limit the fishing effort. The boats had to stay in port fifteen (15) days after transshipment as a result. It should be noted that all fish transshipped in Majuro are not caught in the RMI EEZ and vice versa. In the case of the Japanese boats, they go directly back to Japan.

Catch and Earnings in RMI for 2000/2001

| Country/Party | Purse Seine | Pole & line | Longline | Carriers/bunkers | Total |
|-----------------|--------------------|-------------|----------|------------------|------------|
| USA | 1,346 tons | | | | 238 |
| Japan | 9,758 tons | | | | 319 |
| Taiwan | 7,765 tons | | | | -0- |
| Korea | 12,855 tons | | | | 236 |
| FSM Arrangement | N/A | | | | |
| Fong Seong Co. | Nil | | | | |
| Others | | | | | |
| Total | 31,724 tons | | | | 793 |

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

Total Revenue/Earnings in RMI for 2000/2001 (US\$ 000)

| Country/Party | Purse Seine | Pole & line | Longline | Carriers /bunkers | FEE (US\$ 000) |
|---------------|-------------|-------------|----------|-------------------|----------------|
| License fee | 1,088 | 891 | 445.0 | 47 | 2,471 |
| Transshipment | 171 | | 5.4 | 45 | 221 |
| Catch/Value | | | | | 793 |
| Total | | | | | 3,485 |

Source: Annual Report, Marshall Islands Marine Resource Authority, 2000/2001

3.5 Domestic long lining program

Majuro Tuna Longline Fish-Base, set up to assist the Marshall Islands in developing a national fishing industry closed down in 1998. Fish-Base has had two (2) previous operators: Mehau Fishing Co., a Hawaiian based company and Ting Hong Co., a Taiwanese based company. In 2001, Marshall Islands Fishing Venture (MIFV) was established. A subsidiary of Luenthai Holding LTD., based in Hong Kong, the MIFV services locally based longline fishing vessels.

PM&O Processing Co (Majuro loining plant) began its operations in November 1999. The plant employs 400 people mostly women. PMOP has a contract with Starkist Seafoods to supply frozen tuna loins. Starkist delivers fish to Majuro by purse seiner fishing vessels. The fish is offloaded at Majuro commercial dock and delivered to PMOP. PMOP ships the frozen loins in forty-foot refrigerated containers to the Starkist cannery in Pago Pago, American Samoa for canning. PMOP also processes the fish waste into dried fishmeal

which is exported to Taiwan and the Philippines.

PMOP is currently producing about 4,000 tons of frozen tuna loins annually and have plans to increase production up to 10,000 tons annually. As of end 2001, the plant had bought fish from 37 vessels, including purse seiners, carriers, and jig boats.

4. Food Sector

The food industry within the Republic of the Marshall Islands (RMI) is under-developed and relies heavily on the importation of foods to maintain food security. Copra and fisheries are the only food industries of export significance. Total exports are small and were valued at US\$9.1 million in 2000, but US\$6.6 million of this was attributable to re-export of diesel oil. Food and agricultural exports in 2000 represented US\$2.5 million, equivalent to 2.5% GDP of which copra cake and coconut oil comprised virtually all (99%). It is also estimated that frozen tuna loins exports from the recently established plant in Majuro could be up to US\$5.3 million per annum. The plant processes frozen tuna under contract to a foreign company (Starkist) that are then exported to American Samoa for canning.

4.1 National capabilities to meet importing country food safety requirements

Food standards do not exist in RMI and the food processing industry is not sufficiently diverse and knowledgeable to have the capacity to implement quality assurance and HACCP systems. There are also limited resources and technical capacity at the government level to facilitate the development of and enforce modern food safety and quality systems that would meet overseas market requirements.

As agricultural production is very fragmented and on a small scale, Good Agricultural Practice (GAP) and Good Manufacturing Practice (GMP) systems have not been developed and there is no integrated control of the hazards likely to be associated with the various agricultural commodities and products.

Within the Agriculture Ministry there is little technical capacity and resources to undertake risk assessment of food safety hazards (chemical, microbiological) and advise on the integrated control of these hazards at the farm level.

4.2 Lessons from recent experiences and barriers to expanding exports

The fragmented and small –scale production of agriculture within RMI and high costs of transport and fuel, make it difficult to establish integrated production systems with the capacity to supply quality products to the export market. Having said this, the copra cake and copra oil industry has been successful in meeting technical quality requirements for the US and Asian markets, although quality issues occasionally arise with coconut oil and stem largely from supply and transportation difficulties of obtaining the raw product from outer islands.

The foreign owned tuna loining plant in Majuro has successfully established a world-class operation that operates under approved FDA HACCP requirements.

RMI would like to sell food to US military base on Kwajalein Atoll. However, due to the absence of domestic food standards, the US will not currently accept locally produced food from RMI. The Government is working with the US Food and Drug Administration in relation to building the capacity to develop food standards.

4.3 Deficiencies in institutional and legislative frameworks

There are currently no domestic food safety (chemical, microbiological, additives) or quality (labeling and composition) standards in place within RMI. Under the Public Health, Safety and Welfare Act – Chapter 1, Public Health and Sanitation, there are regulations that require food offered for sale to do so under good sanitary conditions with a focus on hygiene and pest control. The Act gives Health inspectors the powers to inspect premises that store, prepare and sell food and destroy food unfit for human consumption. Food premises are required to obtain a health license and employees require an annual health examination.

Comprehensive food safety and quality legislation and standards are required for RMI. In the domestic market, lack of assurance against safety and quality of food, for example mislabeled and expired foods, is common and potentially results in reduced consumer protection. This is particularly important, as the confidence in the domestic food supply is a vital ingredient necessary to attract tourism. The high dependency on the United States for food imports, has until recently, made food standards a low priority. However, as markets are progressively freed up, RMI is witnessing a greater amount of imports from other countries, particularly Asian markets. Such products often do not have English labels and their quality and safety is unknown.

The lack of comprehensive food safety and quality regulations and standards means that there is a lack of assurance against quality and safety of both imported food and that produced domestically. The Government of RMI recognizes the value in improving the safety and quality of food and the benefits this may bring in promoting confidence in the food supply. The presence of standards has benefits for the economy in being one of the platforms on which tourism can be promoted and the benchmark that the food industry must work to in its implementation of product quality and safety systems.

4.4 Institutional framework

RMI's food inspection activities are currently located within a Food Unit of the Environmental Protection Agency. The Food Unit performs hygiene inspections on food premises at regular intervals. There are minimal resources within the food area and a lack of resources and expertise to extend inspection activities beyond that of basic food hygiene inspections.

The Ministry of Agriculture has a lack of well-trained agricultural officers in agronomy and entomology that are able to advise farmers and the agricultural industry on technical standards and good agricultural practice programs.

Quarantine regulations are harmonized throughout the Federated States of Micronesia and are largely based on US requirements. There is insufficient technical capacity and resources to undertake independent risk analyses for plant and animal health related issues.

There is currently no capacity to perform chemical or detailed microbiological analysis of food. An absence of routine testing of foods results in:

- An inability to objectively assess compliance against food standards.
- The food industry having a difficult task to develop added value products.
- A failure to facilitate the development of plant and product certification systems, which would help in export promotion.

There is currently no inspection or analysis at the border for imported processed and packaged foods and ingredients.

Trained officers using official protocols and checklists carry out quarantine inspection of animal and plant-based products at the border. The system is based on that developed by the SPC and is largely harmonized throughout Micronesia. Although there is a lack of technical capacity to assess the quarantine risk posed by animal and plant products, assistance is usually provided by SPC.

5. Trade Policies and the WTO

The Compact of Free Association agreement (Compact) signed by RMI and the US entered into force in 1986. Under the trading clauses of the Compact, RMI gains access to the US market on reciprocal MFN terms. With some exceptions, entry to the US market is largely duty-free and quota-free to RMI originating goods (defined broadly as goods with at least 35% RMI value added). RMI currently levies import tariffs on US goods. As yet, RMI has taken very little advantage of the opportunities offered by the opportunities offered by the availability of preferential access to the US.

Given this commitment by RMI under the Compact Agreement, it has yet to ratify PICTA and PACER.

The new strategic development plan provides clear endorsement for further involvement in the trade deregulation and regional and global integration once the Compact Issue is settled.

The Trade priorities of the RMI include:

- Strengthening institutional structures and mechanisms dealing with trade (in terms of Government personnel)
- Encouraging exports – particularly of fish and aquaculture products, and tourism
- Improving and implementing policies and programs designed to assist the private sector in the trade sphere
- Improving the competitive skills of, and the extent of competition along, potential exporters
- Improving and implementing policies aimed at promoting exports, tourism, inward foreign investment and the acquisition of modern technology
- Encouraging inward private foreign investment

Trade tariffs range from 5-10% for most basic products allowing RMI to depend on so much imported foodstuffs mainly from the United States.

Most of the trade policies are in line with the WTO requirements such as the non-existent of export taxes and import licensing requirements.

The main challenges of RMI from the multilateral trading system would be through the reduction of subsidies given by the US government to its producers. This would raise the price of goods in the RMI posing a major threat to the food security issue.

Being a member of the WTO would allow RMI to deal with some of the trade restrictions it currently or would be facing in the future. The main constraint would be in the area of expertise available to educate the private sector in following the trading patterns governed by the WTO agreements. The subsidy imposed by the Government of RMI would not be a major issue in terms of WTO measure of aggregate support.

6. Recommendations

- (i) *Consultation with the private sector* – for RMI to successfully implement its policies and plans, involvement of the private sector in all sectors is very important particularly in the facilitation of trade and business activities. Ongoing workshops and dialogues could be developed to promote this consultative role.
- (ii) *Privatization of Internal Transportation* – it may be beneficial for Government to privatize the internal transportation to the outer islands by contracting it out to the private sector. This would provide efficiency in the services and improving the regular access to the outer islands supplying foodstuffs and income for the copra for the farmers. This would enhance the productive capacity of the private sector.
- (iii) *Fisheries Development*
- Promote domestic long-line fleet expansion and by-catch landings from locally-based licensed vessels as a means satisfying domestic demand for fish as well as improve export earnings and employment
 - Encourage expansion of domestic fish processing sector including fresh/ frozen loin exports
 - Use of tuna processing waste for animal/ fish feed development including feed development incorporating copra cake and other agricultural feed ingredients
 - Implementation of comprehensive sea food safety and quality regulations and standards to assure quality and safety of both imported (canned) fish products as well as domestically produced/ marketed fish and fishery products including capacity building in this sector in partnership with established industry.
 - Encourage farming baitfish for the industrial pole and line and longline fleets, especially in the outer islands.
 - Improved sustainable utilization of deep water snapper resources including market diversification, including Asian markets
 - Encourage eco-tourism and sustainable commercial utilization of resources through management of coral reef areas and their resources including giant clam, trochus, sea cucumber, pet fish .
 - Expand coastal fish production and upgrading domestic fish marketing systems to meet the fresh fish demand in Majuro and Kili Islands
 - Expansion of pearl farming and seaweed culture
- (iv) *Needs for training and capacity building*

Control of imported foods

The implementation of a system for the inspection and testing of imported foods and ingredients would be beneficial for RMI in preventing mislabeled, low quality and potentially unsafe foods from entering and/or being dumped onto the domestic market and therefore better protecting the consumer. It would also give assurances to future food processors, which would have to rely heavily on imported ingredients for their food manufacturing. In order to implement a system that is compatible with WTO/ SPS and TBT requirements, domestic food standards must first be established and a greater capacity developed for their enforcement.

Quality management systems training

As there is essentially no processed food industry within RMI, there are no established quality assurance and/or HACCP systems. The notable exception here is the foreign owned tuna loining plant in Majuro. There is a need for greater technical capacity within government and industry to understand the requirements of and to develop these systems.

There is a need within RMI to build upon current agricultural diversification programs and to look at establishing good agricultural practice systems for selected agricultural commodities of importance to the economy.

The Government in partnership with the food industry needs to take a proactive approach to facilitate the development of quality assurance and HACCP systems for food processing. Such systems will have benefits for production and will better assure the quality and supply of products. Assistance and training is required to better understand the requirements of these systems and to advise and train the industry in their establishment and implementation.

Food safety training

There are no apparent programs in RMI that educate food businesses on food safety requirements. Training in the development and evaluation of process control and HACCP food safety systems is required within the health sector so that they can transfer this knowledge to the food sector.