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**High-Level Meeting on Integrated Initiatives for
Least-Developed Countries' Trade Development**

COUNTRY-SPECIFIC ROUND TABLES: DOCUMENTATION

Vanuatu

Addendum

Documentation for the Round Table Meeting for Vanuatu.

ASSESSMENT OF TECHNICAL COOPERATION NEEDS RELATING TO TRADE

(Based on the Check-List for Conducting Trade-Related
Technical Cooperation Needs Assessment)

A. Trade Policy

(a) **What are the sectors that you believe have unexploited or underexploited export potential?**

Five economic sectors have unexploited or underexploited export potential:

Agriculture:

Greater emphasis could be given to commercial production to supplement subsistence production. Considering the magnitude and productive capacity of the rural population, Vanuatu could expand its production of specialized crops for export. Kava presently has the greatest potential, given the wide demand in the Pacific region and in large manufacturing countries, particularly with regard to the pharmaceutical uses of kava.

Livestock:

The quality of Vanuatu's beef is internationally recognized as high. There is the possibility of promoting organic meat from Vanuatu in regional and Asian "niche" markets that are interested in such products.

Fisheries:

Insufficient benefits have accrued to the people of Vanuatu from the exploitation of the fishing resources of the country. Foreign vessels have so far been the largest beneficiaries of fishing activities. Substantial value added opportunities could be sought in Vanuatu through the processing of fish, an area which at present is abnormally underexploited.

Tourism:

The tourism sector, which already employs some 5,000 people in Vanuatu, offers substantial opportunities for expansion, considering the wealth of environmental resources, natural beauty and cultural richness of the country. The potential for expansion of the sector, which is analyzed in the Government's Master Plan for the Development of Tourism (April 1995), lies in traditional hotel-based tourism activities as well as specialized forms of tourism, in particular, those relating to cultural traditions and environmental assets in rural areas. (The number of visitor arrivals grew by an average 14 per cent per annum between 1986 and 1996).

Offshore financial services:

Although it has not grown substantially in the recent past, the offshore services sector has potential to become a major source of earnings for the country. Important conditions for its success will be the achievement of political stability, the development of indigenous professional skills, and adjustments to the legal base for offshore activities in order to increase the international competitiveness of the centre.

(b) Could you please define your country's perspective of the reasons for changes in the structure and direction of exports and imports?

Little diversification has been observed in the structure of exports over the last five years. Copra has been the country's first exported product for many years. Its share of total exports grew from 33 per cent in 1993 to 46 per cent in 1996. Between 1994 and 1996, the volume of copra exported by Vanuatu increased by 14 per cent, while that of cocoa exports decreased by 27 per cent. The structural problems that obstruct the diversification of the economy (see question B(c) below) explain this situation.

In the direction of trade, the only significant change that has taken place in the recent past is the growing share of Bangladesh as a destination for exports (31 per cent in 1996). This reflects Vanuatu's exports of copra to Bangladesh, a country with copra-processing capacities. Before 1996, the European Union was the first destination for Vanuatu exports (37 per cent in 1995), followed by Japan and Australia. The latter remains the principal source of imports (43 per cent in 1996).

It must be noted that exports of services account for a growing share of the total foreign exchange earnings of the country. Considering the prospects for expansion of the tourism and offshore services sectors, it can be anticipated that the current account of Vanuatu will eventually demonstrate greater reliance on the balance of services than on the balance of visible trade.

(c) What have been the objectives of trade policy in the most recent period, compared to, say, two decades ago?

Since independence and until recently, Vanuatu's trade policy favoured production for the domestic market over production for export. Import substitution under protection has resulted in high cost structures in the economy. The new objective of trade policy is to establish an open trading regime in order to promote greater competitive production of goods and services for export. This new orientation is envisaged in the framework of the new Comprehensive Reform Programme (CRP), which aims at enhancing the machinery of governance, redefining the role of the public sector (with a focus on efficiency), and promoting private sector-led growth while inducing greater social equity.

In this context, it is envisaged that the government will withdraw from the numerous commercial activities in which it has been present (e.g. livestock, abattoir, fisheries, tourism, etc.) and concentrate on creating an environment of stability and confidence in which the private sector can flourish. An overriding objective is to provide reliable and affordable transport and marketing services to traders in all parts of the country, and to encourage greater agricultural production for foreign markets.

Implementation of the new trade policy will be undertaken from 1998 in the context of the implementation of the CRP and accession of Vanuatu to WTO. It will involve a general reduction and simplification of import duties, tariffication on products that have been subjected to quantitative restrictions, the removal of all export taxes, and the replacement of the turnover tax by a value-added tax. All import licences that give monopolies will be revoked in order to end unfair trade practices. For goods not subjected to bans, import prohibition will be replaced by tariff measures or eliminated.

Marketing of primary commodities (copra, cocoa, coffee, kava) is presently controlled by the Vanuatu Commodities Marketing Board (VCMB), which also licenses private kava exporters. In the future, it is intended that all marketing services will be provided by the private sector. However, the VCMB retains its present role so that shipping services to remote parts of the country be not discontinued.

On the regional scene, trading opportunities offered by the Melanesian Spearhead Group Trade Agreement will be more fully exploited.

(d) What are the Ministries in charge of trade policy matters, including formulation, implementation, enforcement and monitoring? How is coordination made? What are the respective roles of the relevant Ministries (give particular attention to tariff policies and other policies directly affecting exports and imports of goods and services)?

In the present Government structure, the following departments deal with the different aspects of trade policy:

Department of Industry, Trade and Commerce: responsible for the formulation of domestic and international trade policy.

Department of Customs and Taxes: responsible for the implementation of all tariff policies, including concessions relating to investment incentives.

Department of Foreign Affairs: focal point for Vanuatu's relations with international agencies such as WTO and UNCTAD, and with regional trading partners with which Vanuatu has signed bilateral or regional agreements (substantive aspects of trade policy are dealt with by the Department of Industry, Trade and Commerce).

Department of Cooperatives: training and business-related activities.

Office of the National Council of Women: business advice, training.

Other public or statutory bodies dealing with particular trading sectors: Vanuatu Commodities Marketing Board (which has sole purchasing rights for exports of copra and cocoa, as stipulated by the Vanuatu Commodities Marketing Board Act); National Tourism Office and National Planning Office (which coordinate the implementation of the Tourism Master Plan); Vanuatu Financial Services Commission (which regulates and facilitates the development of the offshore services sector and acts as the Registry of Companies).

The CRP envisages that there will be a Ministry of Trade and Business Development, with a Minister focusing on promoting ni-Vanuatu business development. This new Ministry will be given the responsibility of coordinating, *inter alia*, business-related training activities.

(e) How are the private sector and academic institutions associated with the formulation and conduct of trade policy?

The involvement of the private sector in the formulation and conduct of the national trade policy has gained significant importance in the recent past, through the participation of various economic actors in the policy reform process. The Comprehensive Reform Programme envisages the involvement of the private sector in all aspects of policy-making on a more systematic basis. It must be noted that, in the agricultural sector, there have always been consultations with growers and producers in the decision-making process. In the tourism sector, the elaboration of the 1995 master plan also largely involved tourism operators.

The Government has used the services of consultants from the University of the South Pacific (as well as the South Pacific Forum Secretariat) in tasks relating to various aspects of national trade policy.

(f) What are the institutions in your country that can play a role in the implementation of a trade-related project at the local level? State their roles?

A variety of institutions other than private enterprises can play a role in trade-related projects.

Some 18 enterprises dealing with trade in goods or services are owned by the State in proportions ranging from 10 per cent to 100 per cent. These corporations pertain to sectors such as cattle farming, livestock development, abattoir, cocoa, coffee, fishing, electricity generation, rural retail, stevedoring, air transport, tourism, and telecommunications.

The Vanuatu Commodities Marketing Board buys and exports agricultural produce.

Cooperative societies (associated in a federation) carry out various commercial transactions involving the supply of general merchandise, particularly in rural areas.

Some church groups and other non-governmental organizations are also involved in developing local businesses.

(g) What are the main laws and regulations dealing with trade policy - on exports and imports? Please provide a short description of each.

The key instruments regulating international trade are:

- the Import Duties (Consolidation) Act (Cap. 91) (Harmonized System of...)
- the Import of Goods Control Act (Cap. 176)
- the Provincial Government Act 1994
- the Business Licence Act (Cap. 173)
- the International Business Companies Act (1992)
- the Registration of United Kingdom Trade Marks Act (Cap. 81) and Registration of United Kingdom Patents Act (Cap. 80)
- the Labour (Work Permits) Act (Cap. 187)
- the Chambers of Commerce and Industry of Vanuatu Act No. 4 of 1995, which provides for the establishment of the Chamber of Commerce and Industry of Vanuatu and the establishment of local Chambers of Commerce and Industry.

Texts to be introduced are:

- a Foreign Investment Act (to facilitate the process of foreign investment)
- a new Investment Code (relevant to trade-related investment)
- an Act introducing a broad-based consumption tax (value-added tax)

- a Vanuatu Government Property and Commercial Functions Act (to form a National Investment Trust to hold shares of government companies and prescribe standards on which their performance will be judged).

(h) What are the main instruments of trade policy (on exports and imports)?

Imports:

- import duties: their reduction will be phased over a ten year period from the end of 1997;
- there is an excise tax on domestically produced beer;
- Vanuatu will abolish licensing requirements that contravene the WTO Agreement on Agriculture;
- in the future, tariffs will be the principal instrument of trade policy (should any measure of protection be deemed necessary);
- quantitative restrictions on rice, sugar, tobacco, and canned mackerel will be eliminated; seasonal restrictions on potatoes will be replaced by a seasonal tariff;
- service tax and licence fees will be incorporated into customs duties;
- import tariff exemptions (subject to justification and only for economic activities that contribute significantly to the economic development of Vanuatu).

Exports:

- there have been export taxes on copra (4 per cent), kava (3 per cent), beef (2 per cent), cocoa (7 per cent); they will be eliminated by mid-1998.

(i) In case you are a WTO Member or are in the process of acceding, how is your country preparing itself to comply with the WTO Agreements?

The WTO Working Party on the Accession of Vanuatu is scheduled to meet in January 1998. Vanuatu has already accomplished substantial work to develop its offers for goods and services in preparation for bilateral market access negotiations.

Vanuatu is prepared to bring all relevant laws and regulations in conformity with its obligations under the WTO Agreements. This mainly involves amendments to the Import Duties Act and to the current rules on customs valuation. Vanuatu is not considering adopting any anti-dumping, countervailing or safeguard measures legislation. It will revise existing legislation and introduce new legislation to allow compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights.

(j) What is the state of familiarity with the WTO framework:

- among government and government-related agencies?
- in the private sectors?

A number of civil servants, mainly from the Departments of Trade and Customs, have been familiarized with the WTO framework through regional or national training or sensitization seminars on the outcome of the Uruguay Round, organized by the WTO, UNCTAD, and the Forum Secretariat. Other officials in institutions such as the Chamber of Commerce and Industry and the Vanuatu

Commodities Board have also attended training events on this subject. There is however, a substantial need for further training of officials in sectoral or technical areas to which some of the WTO Agreements are relevant.

Familiarity with the WTO framework is much more limited in the private sector.

(k) What are your technical assistance requirements with regard to your compliance with the WTO Agreements?

The Government of Vanuatu needs technical assistance to complete the process of acceding to the WTO. This involves, *inter alia*, support in informal bilateral consultations with Australia and New Zealand on Vanuatu's application to join the WTO, and further assistance in amending Vanuatu's market access commitments as a result of these bilateral consultations.

Once it has become a member of the WTO, Vanuatu will need help in implementing its obligations with respect to notification procedures. There will also be a major need for training of officials dealing with trade policy in general and customs matters in particular. Training seminars will need to be empirical (based on numerous concrete examples) for trade and planning officials, and more technical for customs officials and government lawyers dealing with intellectual property rights and other legal subjects.

(l) In which specific areas of the WTO Agreements do you have technical assistance needs (e.g. market access, agriculture, rules (anti-dumping, subsidies, import licensing, rules of origin, safeguards etc.), TBT and SPS, Services, TRIPs)?

Vanuatu will need technical assistance to amend the Import Duties Act in accordance with customs-related commitments and with a view to maintaining or improving Government revenue levels.

Vanuatu will also need technical assistance to incorporate into domestic laws its obligations under the WTO Agreement on Implementation of Article VII of the GATT 1994.

Vanuatu has already approached the World Intellectual Property Organization for technical assistance to revise and improve domestic legislation to allow compliance with the provisions of the Agreement on TRIPs. Vanuatu laws in this regard will be WTO-consistent within three years of the country's accession.

(m) What is your assessment of your existing trade analysis and negotiating capacities, both multilateral and bilateral, in areas already covered by the WTO Agreements and other trade-related areas, e.g. competition policy and trade and environment?

The trade analysis capacity in WTO-related areas is relatively limited, but could increase over time if consistent efforts are pursued to train and sensitize relevant officials in the Departments of Trade and Customs, the Reserve Bank of Vanuatu, and the National Planning Office.

The negotiating capacity of ni-Vanuatu officials has already to a certain extent been tested since the beginning of the accession process. In the absence of a corps of commercial diplomats, Vanuatu however relies on a small number of officials who are familiar enough with the multilateral trade framework to take part in trade negotiations. This implies that substantial external support in the form of advisory services will be required before as well as after accession.

In new areas of analysis or negotiations such as competition policy or trade and the environment, the national capacity is very limited, and ni-Vanuatu officials will need the cooperation of UNCTAD in sensitization and research activities. It must be noted that the subject of trade and the environment is of particular interest to Vanuatu, considering the potential of the country with respect to the exportation of "green" products facing environment-related standards in large importing countries, and the commitment to promote sustainable development in Vanuatu.

B. Obstacles to Trade Expansion

Supply constraints, including institutional bottlenecks

(a) **What are the main bottlenecks inhibiting the development of a sustained export capacity of goods and services (e.g. customs facilitation, freight charges, quality management, elimination of cumbersome legal and administrative procedures, paucity of human skills, access at international prices to imported inputs, or inadequate telecommunication, port and transport facilities etc.)?**

- **Land-locked countries may face additional problems, such as having to ship using costly or unreliable transport and ports systems. In case this applies to your country, please indicate such problems. What kind of technical assistance would help you work out these problems?**

Infrastructure:

Most trading businesses in Vanuatu are affected by deficiencies in the quality and accessibility of the country's infrastructure, particularly with respect to transport services and marketing facilities. In rural areas, where most ni-Vanuatu live, businesses are faced with severe logistical problems, which entail high costs and losses of competitiveness.

Skills and attitudes:

Other obstacles to local business development include the lack of business skills, and the traditional attitudes of most people that are not conducive to risk-taking, capital accumulation, and profit.

Land:

In order to facilitate the use of leases of custom land as collateral for loans, legislation and amendments to the country's constitution will allow the registration of custom land to establish clear ownership of the land, in order to minimize the risk of disputes. (However, it will not be possible for the land to pass out of custom ownership.)

Shipping:

Shipping is costly and often unsteady in the islands. In the context of competition in local maritime transport, the shipping business is shared by too many vessels, and profit margins are not large enough to allow proper maintenance and replacement of vessels. As a result, exporters or potential exporters in the most remote islands are very disadvantaged.

(b) **Are there any *institutional* bottlenecks, which may impede the efficient conduct of your country's trade policies? Provide details. For example, what are the problems perceived by the**

different actors, e.g. exporters, producers, service providers (banks, insurance companies, quality control, transporters etc.), professional associations and Ministries? Are problems mainly perceived in the area of:

- (i) human resources**
- (ii) management of the institution**
- (iii) financial and material resources**
- (iv) communication**

The most serious institutional bottleneck hampering trade development has been the difficulty to obtain funding support from national lending institutions. The Development Bank of Vanuatu was originally established to improve ni-Vanuatu access to credit for trading ventures. However, the Bank has gradually become similar to a commercial bank, demanding loan securities that have excluded most rural people. The National Bank of Vanuatu has also concentrated on low-risk lending. One reason for this deficiency of the financial sector has been the financial difficulties that these institutions have experienced as a result of the political influences they have been subjected to. Another reason seems to have been a lack of dialogue and coordination between the Government, the private sector and the concerned financial institutions.

(c) What are the main bottlenecks to *export diversification*?

Historically, the long-standing policies of promoting small businesses through protection and import substitution have failed to stimulate the diversification of the economy. Presently, in the new context of export-propelled growth, there are still structural obstacles to competitiveness that play against investment, risk-taking and diversification of the economy. These obstacles include the lack of business culture and business-oriented motivation among most rural people, the lack of access to capital for potential investors (such as, for example, small entrepreneurs in tourism-related hospitality), and the lack of business and technical skills among entrepreneurs.

More generally, the lack of economies of scale that can be achieved on the outer islands explains the difficulties that are met in seeking profitability in new business ventures. The smallness and remoteness that characterize the economic environment of most projects in rural areas and the outer islands explain the limitations to a re-specialization of the economy. These island-specific factors are compounded by the lack of trade efficiency in the microeconomic environment of enterprises, which essentially results from the lack of skills and capital referred to above.

(d) If *investment in the production of goods and services is inadequate*, what are the main reasons? Please elaborate them (e.g. structural constraints, difficulties in attracting foreign investment, limited enterprise development, financing, lack of appropriate technology, et.c)

Vanuatu's attitude to foreign direct investors has been ambivalent in the past: sometimes welcoming and sometimes unwelcoming, if not hostile. A lack of stability in the Government's attitude and policy (with sometimes the use of detrimental arbitrary powers obstructing investment) has therefore been among the negative factors affecting investment. New legislation in the framework of the Comprehensive Reform Programme will prevent these negative influences.

The lack of a sufficient skilled labour force, of professional services, and of an appropriate trade-related infrastructure are also fundamental reasons for the reluctance of many entrepreneurs who might have chosen Vanuatu as host country. This factor, however, does not seem to have affected the tourism sector as much as it has affected the manufacturing factor: hotel developers have often provided their own management skills and contributed to develop their own basic infrastructure.

Among potential investors in activities of trade in goods, an insufficient access to appropriate and steady sources of supply has often caused a lack of interest in Vanuatu as a host country. The absence of an affluent local market and the distances to large markets have of course also led to investors' cautiousness.

It is now admitted that the system of business licence fees has been unfriendly to businesses. The 4 per cent tax on turnover, with its cascading effect affecting producers at higher value-added levels, has discouraged specialization.

(e) Is there a national policy to encourage export-related investment opportunities? Please elaborate. What arrangements are in place for reviewing, drafting, negotiating contractual arrangements with foreign investors?

Vanuatu's policy on foreign investment will be structured through a new Foreign Investment Act, involving a "one-stop shop" offering investors a friendly interface with the public authority. It will be a unit to assist investors in all their dealings with Government departments.

At present, Government may offer a special status to investment procedures that qualify and have been submitted for approval. This generally excludes very small projects, although Government does not discourage small-scale foreign investment. Some of the main incentives to investors are the absence of income tax, corporate tax, estate duties, succession duties, capital gains taxes, and withholding taxes. Projects seen as beneficial to the country can attract customs duty exemptions. A 50 per cent reduction on the business licence fee can be granted to new investors for the first three years.

As reflected in the Comprehensive Reform Programme, political and economic stability are regarded as vital conditions for attracting foreign investors.

The new Foreign Investment Board (FIB) will review and make recommendations on contractual arrangements with foreign investors. The FIB will be the sole institution empowered to do so.

(f) What are the main obstacles to the transfer, development and acquisition of technology? Is there any national policy/strategy in this area? Please elaborate.

There are no obstacles to the transfer of technology in relation to foreign investment. A limiting factor, however, is the scarcity of the skilled labour force that will be able to take part in the exploitation or maintenance of transferred technology.

There is no national policy on transfers of technology. There is, however, an effort to consider the impact of technology transfers on the environment in the context of the national policy for sustainable development.

(g) What are your technical assistance or other assistance needs with respect to supply constraints?

There is a general need for technical assistance for improving the microeconomic trading environment and increasing trade efficiency in all parts of the country. This includes:

- introducing an inter-island cargo planning system that will increase the reliability of domestic maritime transport and contribute to the general competitiveness of the most remote parts of the country;

- introducing UNCTAD's Automated System for Customs Data (ASYCUDA) with a view to increasing the efficiency of customs services for the benefit of traders as well as Government;
- studying the possibility of developing (or strengthening) micro-credit facilities for the benefit of small enterprises, particularly in rural areas;
- supporting the move to establish a credit guarantee scheme;
- establishing a Trade Point in Port-Vila to enhance traders' access to the global network of information that will allow cost-efficient promotion of products and trading opportunities;
- a multi-subject programme of training and sensitization for enterprises and national trade-support organizations will be necessary to allow a full understanding of the above-listed facilities.

Trade promotion and trade support services

(h) Do your enterprises, especially small and medium enterprises, experience difficulties in expanding their exports? What are these problems in the major export sectors?

The difficulties faced by small enterprises in expanding their exports are caused by the main structural weaknesses that have been described above, namely, the lack of adequate infrastructure, the lack of entrepreneurial and managerial skills, the insufficient access to financing facilities, and the lack of access to information on markets. Considering the severity of these bottlenecks due to the consequences of island-specific smallness and remoteness, trade development is hampered although the context of trade liberalization and globalization offers new trading opportunities. This is why a good understanding of this context and its reflection in the national trade policy, though necessary, will not be enough to enhance the chances of the country to expand its trade in goods and services and avoid marginalization from the global economy.

Enterprises in the agricultural sector have great difficulties to find adequate or sufficient trade financing in the absence of a mechanism to make micro-credit facilities available to small producers/exporters.

Fishing enterprises, particularly those in the outer islands, have no scope for establishing processing activities in the absence of funding support and considering the risks of unsteady deliveries between the islands and abroad.

Small potential entrepreneurs in tourism-related activities (bungalows, local restaurants, etc.) are often unable to realize small tourism projects in the absence of willingness or capacity, on the part of the financial sector, to support their ventures, or even to help them to improve their projects.

(i) What are the problems for your enterprises in obtaining reliable and up-to-date information on export/import business opportunities?

The few large enterprises operating in the country do not face major problems in acceding to trade information, even without using the existing facilities provided by the Department of Trade or the Chamber of Commerce and Industry. Most other enterprises, however, are too small and remote from international trade circles to be able to obtain information on vital facts such as the state of competition at the regional or international levels, the relevant foreign markets and their evolution, or possibilities for purchasing foreign supplies at better terms. This is relevant to commodities markets as well as trade in manufactured products (foreign procurement).

In order to complement the efforts that are made and will be pursued by the Government and the chamber of Commerce and Industry to improve access to trade information, it is desirable that serious consideration be given to the establishment of a Trade Point in Port-Vila (and the organization of relevant training and sensitization accordingly) in order to allow small operators to have access to appropriate information on the international markets on which they should be present, and promote their products through Internet at a low cost.

(j) Can your enterprises offer products of internationally acceptable design, quality and packaging to foreign buyers? If no, what are the problems?

To a large extent, quality and related standards are determined on an ad hoc basis directly between suppliers and foreign importers. There is however a commitment, under the Comprehensive Reform Programme, to strengthen agricultural inspection services for relevant internationally traded products.

Considering the potential for export of natural products that will face environment or health-related standards in many importing countries, it is in the interest of Vanuatu to be well informed about the evolution of "green consumerism" and related trends, and whenever this will be possible, to take part in the definition of quality, labelling and packaging standards at the international level. The work of UNCTAD in the area of trade and the environment is relevant to Vanuatu in this respect.

(k) What problems, other than in terms of trade policy, do you anticipate in developing the export of services (e.g. computer software, tourism)?

Two key sectors of international trade in services, tourism and offshore services, are already well developed in Vanuatu, and probably offer the greatest potential for expansion of foreign exchange-earning possibilities.

The main problems relevant to the expansion of tourism services are the difficulties to attract international investors to develop the hotel and related infrastructure of the country, and the obstacles faced by small entrepreneurs in developing tourism-related ventures. Efforts to improve the economic and infrastructural environment of the country, as envisaged in the tourism master plan, are therefore of utmost importance, considering that the potential interest in further developing tourism in Vanuatu already exists (see the success of the existing bungalow rental sector in the outer islands).

Developing the offshore financial sector will to a greater extent depend on a number of policy-related step, which the government is desirous of taking (political stability, enhanced competitiveness of the offshore products, human resource development).

Development of other international services such as computer services or support services to the film industry will depend on the emergence of a greater awareness, among ni-Vanuatu, of the merits of a diversified service economy, which will imply improvements or expansion of domestic and professional services.

(l) What are the technical/professional problems encountered by trade support institutions (e.g. trade promotion council, chamber of commerce, exporters association, etc.) in your country providing their services to export/import enterprises?

The main national institutions that can provide support to trading enterprises in Vanuatu are the Vanuatu Commodities Marketing Board, the Chamber of Commerce and Industry, and the Development Bank of Vanuatu (export promotion will also be among the responsibilities of the new

Foreign Investment Board). The expertise of these institutions as limited by the smallness of their technical staff, and their limited financial means do not allow them to provide the sustained assistance that small operators would expect (particularly in the outer islands).

Technical assistance will be needed by the new Ministry for Business Services to develop the supporting capacity of this institution.

(m) What problems and deficiencies experienced by enterprises in their international purchasing and inventory management?

International purchasing, like most transactions involving ni-Vanuatu enterprises, if any, of small or medium size have rationalized their international purchasing transactions and seek the best purchasing terms on a regular and systematic basis. Purchasing channels are often very limited anyway, considering the remoteness of the country from large transport routes. For international purchases that are not competitively sourced are associated with high transport costs because of the geographical situation of the country, patterns of international purchases involving high global costs often hinder global competitiveness, including for export activities that have an imported input content.

Inventory management is relatively basic among most medium-sized enterprises, and virtually non-existent among most small enterprises.

(n) What are the present availability and arrangements for trade finance facilities (e.g. export credit guarantees, etc.)? Are there any perceived deficiencies in this area?

There is a sizeable gap between the commercial banking activities that are carried out by the financial institutions (mainly with risk-free borrowers) and the few informal credit arrangements that exist within communities. There is an important need to fill this gap by providing rural people with accessible long-term credit, without which many viable (though small-scaled) projects cannot be realized.

It is recognized that the formal banking system cannot meet all the needs of the rural population. The Development Bank of Vanuatu no longer provides low interest loans but operates on a fully commercial basis. Measures to promote small-scale and informal lending are necessary.

The Comprehensive Reform Programme envisages to diversify the range of lending options for small businesses, including micro-credit facilities. It proposes that a new entity be created to offer a credit guarantee scheme for small business loans and business advisory services. The loan guarantee scheme should allow commercial banks to share with the Government the risk of lending to small businesses for productive investment.

There is also a project to introduce supervision of the credit unions and allow them to take an active part in the supply of credit to small enterprises.

(o) What are the main problems in the way of improving export/import management skills of your business enterprises? Do you have training programmes in your country? What are the deficiencies?

Weaknesses in the country's system of education and training cost much to the private sector and hamper economic development. Skilled workers are scarce in Vanuatu, which entails a high degree of dependence on costly expatriate labour.

The Government is committed to improve the educational system in the perspective of business development.

Training programmes for management skills are offered by the Government's Training Centre (for civil servants), as well as the Institut National de Technologie du Vanuatu (INTV).

The CRP envisages that the new Ministry of Trade and Business Development will be given the responsibility of coordinating all business training activities, including those of the Chamber of Commerce and Industry. The CRP also plans that a human resource development plan will be prepared, after which it will be necessary to organize funding arrangements for vocational training. A strategy to involve more ni-Vanuatu in business to exploit competitive market opportunities is of vital importance for the country.

(p) Does your trade representation service actively promote your trade? What are the weaknesses?

Vanuatu's trade promotion is conducted on an ad hoc basis through the country's participation in trade fairs and other events organized by the Chamber of Commerce and Industry or professional associations. Vanuatu has no trade representative attached to any of its diplomatic missions abroad. For the promotion of tourism activities, Vanuatu is represented by the Tourism Council of the South Pacific, of which it is a member.

(q) Briefly describe your technical assistance needs in the area of trade promotion and support services?

Considering the utmost importance of training and sensitization activities to enhance business management and vocational skills and improve trade promotion and support services, there is a need for multi-faceted technical assistance, at least through the provision of periodic advisory services, and ideally through the assignment of a resident adviser for a period of two years.

A resident adviser could carry out three types of technical cooperation activities to promote and support trade development and could assist all foreign exchange-earning sectors except tourism and offshore services:

- training and advisory services in the establishment and management of businesses (including the area of import management);
- establishment and operation of a Trade Point, with relevant training to groups of potential users;
- attracting new investors by a promotion campaign regionally and internationally.

(The same resident adviser could provide assistance in trade policy matters in the context of accession to WTO.)

Market access

(r) What are your main market access problems?

Vanuatu faces the challenge of erosion in EU-granted trade preferences for tree crop products (copra, coffee, kava). Considering the gradual alignment of such preferences with GSP preference levels, Vanuatu will eventually face severe competition from large copra producers such as Bangladesh.

(s) What specific problems or barriers, and in which countries, are most troublesome for your exporters?

Market access has not diminished, but the key issue is that of competitiveness on existing markets, which entails the desirability of acceding to new markets where the competitive pressure will be lower. Envisaging a new direction of trade in the context of global trade liberalization and erosion of trade preferences is therefore the main problem faced by Vanuatu exporters of commodities. The lack of information on markets in general and new trading opportunities on "niche" markets in particular is a limiting factor, and explains the lack of trade expansion and diversification.

(t) Regional and sub-regional trading arrangements (RTAs): please list RTAs to which your country belongs. Are you satisfied with the performance with these RTAs? Please state the problems of each. Do you have suggestions on how to solve these?

Vanuatu is a member of the Melanesian Spearhead Group Preferential Trade Agreement with Papua New Guinea and the Solomon Islands (and eventually, Fiji). The MSG Trade Agreement, which comprises 150 tariff lines, is WTO-consistent. The Agreement states the intention of its members to eliminate trade barriers on substantially all trade to facilitate the free flow of goods and services.

SPARTECA, a schedule of trade preferences between Australia and New Zealand and South Pacific Forum members, will be gradually "eroded" through the alignment of the preference with Australia and New Zealand's GSP levels as a result of the Uruguay Round.

(u) Are there any problems in utilizing existing market access preferences, such as GSP, GSTP? Please state the nature of problems relating to each of these.

The only problem, in this regard, concerns the application of rules of origin. When WTO and the World Customs Organization have completed their formulation of new criteria for the application of rules of origin in the light of the relevant WTO Agreement, Vanuatu will formulate its own modalities for complying with rules of origin obligations.

(v) What are your technical assistance needs with respect to market access?

A better knowledge of the Generalized System of Preferences and the conditions attached to its functioning (rules of origin in particular) is desirable and implies the provision of technical assistance in the form of advisory services and training/sensitization seminars.

C. Technical Assistance

(a) To the extent this kind of information is easily available, could you please briefly describe what trade-related assistance you have received over the past five years from bilateral and multilateral sources and what projects/programmes are presently under consideration in this area?

The only trade-related technical assistance that Vanuatu has received in the past five years was the provision of a trade adviser by the Commonwealth Fund for Technical Cooperation (CFTC) for one year in 1993-1994.

(b) Please summarize your technical assistance needs as well as other needs as reflected in the check-list. Please rank them in terms of priority.

Technical assistance needs in connection with Vanuatu's trade development can be summarized into three areas of intervention:

Advisory services:

With regard to accession to WTO, changes to laws and regulations in the light of WTO obligations, bilateral and multilateral trade negotiations (including in the EU-ACP framework);

Technical assistance:

For the establishment of a Trade Point, the improvement of trade efficiency (maritime transport, customs, micro-finance), the promotion of foreign investment;

Training:

In trade policy, trade efficiency (including the use of trade information technology), and business development matters.

(c) In the light of the information you have been able to provide so far in response to the questions in this check-list, what types of information are, in your view, still missing or could be improved upon? In order to assist you in providing this missing information, would you need technical assistance?

In the light of the problems that have been described above, the Government of Vanuatu considers that a significant step to encourage a better participation of Vanuatu in the global economy could be achieved through the development of a national publication on the implications of globalization for Vanuatu. Such publication should explain, in a non-theoretical language, the conditions that the country should meet in order to expand its trading possibilities and achieve re-specialization with a view to enhancing standards of living. It will be entirely illustrated with observations and situations relevant to Vanuatu and could contain meaningful comparative aspects referring to other small island developing States, particularly those that have already demonstrated success in export-led development.

The target population would primarily consist of school leavers, social science teachers, potential entrepreneurs, senior civil servants and legislators, but could also encompass a wider public. The publication, in the form of a book not exceeding 100 pages, could be commercially produced and sold at a small price, or alternatively distributed free of charge by a national authority to the relevant target population. Vanuatu would like to consider the realization of such project in cooperation with UNCTAD. While UNCTAD would coordinate the realization of the publication (with as much local substantive input as possible, such as relevant national research findings), the publishers and printers of the book could be found in Vanuatu.

(d) Does your country have the technological capacity and human resource to make use of the new information/communication technology tools such as CD-Rom, the Internet etc.? What assistance would you need to enable your country to use these tools in the context of training and, more generally, in the context of trade development?

Internet is available in Vanuatu, but few ni-Vanuatu are yet familiar with it and able to operate Internet applications. In the context of the establishment of a Trade Point, the necessary training would

be conducted in order to enable relevant officials in the public and private sectors to operate the trade information component of the Trade Point.

Integrated Response

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(k) :</p> <p><u>Technical requirements as regards compliance with WTO Agreements</u></p>		
<p>The Government of Vanuatu needs technical assistance to complete the process of acceding to WTO. This involves, inter alia, support in informal bilateral consultations with Australia and New Zealand on Vanuatu's application to join the WTO, and further assistance in amending Vanuatu's market access commitments as a result of these bilateral consultations</p>	WTO	<p>- Assistance at the technical level will be provided to Vanuatu in its accession process to the WTO. The timing will be in light of progress in the accession process.</p>
	UNCTAD	<p>UNCTAD will assist in this regard (with the assistance of the Forum Secretariat) through studies, advisory services and training.*</p>
<p>Once it has become a WTO member Vanuatu will need help in implementing its obligations with respect to notification procedures.</p>	WTO	<p>Assistance will be provided to Vanuatu for the review and reform of its regulatory system in conformity to the WTO rules.</p>

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question A(k) (cont.):</p> <p>There will be also a major need for training officials dealing with trade policy in general and in customs matters in particular.</p> <p>Training seminars will need to be empirical (based on numerous examples) for trade and planning officials ,and more technical for customs officials and government lawyers dealing with intellectual property rights and other legal subjects.</p>	UNCTAD	UNCTAD to undertake training seminars to respond to this request.*
	IMF	FAD will provide assistance in (1) reviewing customs legislation and regulations, including the customs valuation system, to adapt them to WTO requirements; (2) reforming the import tariff; and (3) advising on computerization issues.
	WTO	<p>A national seminar on the multilateral trading system will be undertaken (1998)</p> <ul style="list-style-type: none"> - Specialized regional seminars and/or workshops on WTO provisions will be organized (1998 and 1999) for Asia and Pacific region. - a three-week trade policy course for English-speaking Least-developed countries will be held (1998 and 1999).

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(l):</p> <p><u>Specific technical assistance needs:</u></p>		
<p>- Vanuatu will need technical assistance to amend the Import Duties Act in accordance with customs-related commitments and with the view to maintaining or improving government revenue levels.</p>	UNCTAD	UNCTAD to assist the Government of Vanuatu in simulating the fiscal and trade policy implications of commitments for tariff changes, and accordingly, advise on the revision of Vanuatu's tariff schedules in the light of these commitments.*
	IMF	See A(k)
<p>-Vanuatu will also need technical assistance to incorporate into domestic laws its obligations under the WTO Agreement on implementation of Article VII of the GATT 1994.</p>	WTO	Assistance will be provided to Vanuatu Customs and Excise Department for aligning its customs valuation legislation with the WTO Agreement. The timing will be in light of progress in the accession process.
<p>Vanuatu has already approached the WIPO for technical assistance to revise and improve domestic legislation to allow compliance with the provisions of the Agreement on TRIPs. Vanuatu Laws in this regard will be WTO-consistent within 3 years of the country's accession</p>	WTO	Assistance will be extended to Vanuatu in accordance with the cooperation Agreement with WIPO and WTO providing for WIPO legal-technical assistance relating to TRIPs Agreement. The timing will be in the light of progress in the accession process.

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(m):</p> <p><u>Assessment of the existing trade analysis and negotiating capacities</u></p>		
<p>The trade analysis capacity in WTO-related areas is relatively limited, but could increase over time if consistent efforts are pursued to train and sensitize relevant officials in the Departments of Trade and customs, the Reserve Bank of Vanuatu, and the national Planning Office.</p>	UNCTAD	Capacity-building relevant to trade analysis will be incorporated in the national training programme (trade policy component), mentioned in A(k).*
	WTO	The trade policy course (see A (k) above) will contain a general training for enhancing negotiating skills for participation in multilateral trade negotiations.
<p>The negotiating capacity of ni-Vanuatu officials has already to a certain extent been tested since the beginning of the accession process. In the absence of a corps of commercial diplomats, Vanuatu however relies on a small number of officials who are familiar enough with the multilateral trade framework to take part in trade negotiations. This implies that substantial external support in the form of advisory services will be required before as well as after accession.</p>	UNCTAD	UNCTAD to provide advisory services.*
	WTO	Please refer to WTO response immediately above.

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question A(m) (cont.)</p> <p>In new areas of analysis of negotiations such as competition policy or trade and environment ,the national capacity is very limited and Ni-Vanuatu officials will need the cooperation of UNCTAD in sensitization and research activities. It must be noted that the subject of trade and the environment is of particular interest to Vanuatu, considering the potential of the country with respect to the exportation of " green" products facing environment-related standards in large importing counties, and the commitment to promote sustainable development in Vanuatu.</p>	UNCTAD	UNCTAD to respond to these individual requests through, <i>inter alia</i> , studies and workshops.*

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question B(g) :</p> <p><u>Technical assistance needs as regards to supply constraints</u></p> <p>There is a general need for technical assistance for improving the microeconomic trading environment and increasing trade efficiency in all parts of the country. This includes:</p>		<p>Agencies indicated a willingness to cooperate with the government to identify specific needs in operational terms and establish priorities. Further consultations with the government will be necessary to develop specific projects and programmes and to explore funding.</p>
<p>-introducing an inter-island cargo planning system that will increase the reliability of domestic maritime transport and contribute to the general competitiveness of the most remote parts of the country</p>		
<p>-introducing UNCTAD's Automated System for Customs Data (ASYCUDA) with the view of increasing the efficiency of customs services for the benefit of traders as well as Government</p>	UNCTAD	<p>Pipeline project to be implemented regionally through the Forum Secretariat.</p>
<p>-studying the possibility of developing (or strengthening) micro-credit facilities for the benefit of small enterprises, particularly in rural areas</p>		
<p>Supporting the move to establish a credit guarantee scheme.</p>		
<p>-establishing a Trade point in Port-Vila to enhance trader's access to the global network of information that will allow cost-efficient promotion of products and trading opportunities.</p>	ITC/ UNCTAD	<p>The establishment of a Tradepoint will be incorporated in a national program of technical cooperation under which ITC will provide specific components in trade information management.</p>

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question B(g) (cont.) : -a multi-subject programme of training and sensibilization for enterprises and national trade-support organizations will be necessary to allow a full understanding of the above-listed facilities.	UNCTAD/ ITC	See immediately above. A national training programme including training of businessmen will be incorporated in the future National Trade Development Programme.*

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question B(q) :</p> <p><u>Technical assistance needs in trade promotion and support services</u></p>		<p>Agencies indicated a willingness to cooperate with the government to identify specific needs in operational terms and establish priorities. Further consultations with the government will be necessary to develop specific projects and programmes and to explore funding.</p>
<p>Consider the utmost importance of training and sensitization activities to enhance business management and vocational skills and improve trade promotion and support services,there is a need for multi-faceted technical assistance ,at least through the provision of periodic advisory services ,and ideally through the assignment of a resident adviser for a period of two years.</p> <p>A resident adviser could carry out three types of technical cooperation activities to promote and support trade development and could assist all foreign exchange-earning sectors except tourism and offshore services:</p> <ul style="list-style-type: none"> -training and advisory services in the establishment and management of businesses (including the area of import management) -establishment and operation of a Trade Point,with relevant training to groups of potential users -attracting new investors by a promotion campaign regionally and internationally. <p>(The same resident adviser could provide assistance in trade policy matters in the context of accession of WTO)</p>	<p>ITC</p>	<p>ITC is presently implementing a regional project in import management which benefits Vanuatu.</p> <p>This programme will be extended if requested.*</p>

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question B(v) : <u>Technical assistance in market access</u>		
A better knowledge of the generalized System of preferences and the conditions attached to its functioning (rules of origin in particular) is desirable and implies the provision of technical assistance in the form of advisory services and training/sensitization seminars	UNCTAD	UNCTAD to respond in the context of its Regional Programme for Asia and the Pacific.*

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question C(b) :</p> <p><u>Summary of technical assistance needs according to priority</u></p> <p>Technical assistance needs in connection with Vanuatu's trade development can be summarized into three areas of intervention:</p>		
<p>Advisory services: with regard to accession to WTO, changes to laws and regulations in the light of obligations, bilateral and multilateral trade negotiations (including in the EU/ACP framework)</p>	<p>WTO</p>	<p>Assistance at the technical level will be provided to Vanuatu in its accession process to the WTO. The timing will be in light of progress in the accession process.</p> <p>Assistance will be provided to Vanuatu for the review and reform of its regulatory system in conformity to WTO rules.</p> <p>A national seminar on the multilateral trading system will be undertaken. (1998)</p> <ul style="list-style-type: none"> - Specialized regional seminars and/or workshops on WTO provisions will be organized (1998 and 1999) for Asia and the Pacific region. - A three-week trade-policy course for English-speaking least-developed countries will be held (1998 and 1999). This trade-policy course will contain a general training for enhancing negotiating skills for participation in multilateral trade negotiations.

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question C(b) (cont.) :		<p>Assistance will be provided to Vanuatu Customs and Excise Department for aligning its customs valuation legislation with the WTO Agreement. The timing will be in the light of progress in the accession process.</p> <p>Assistance as necessary will be extended to Vanuatu in accordance with the cooperation Agreement with WIPO and WTO providing for WIPO legal-technical assistance relating to TRIPS Agreement. The timing will be in the light of progress in the accession process.*</p>
	IMF	At Vanuatu's request, FAD will provide assistance in (1) reviewing customs legislation and regulations, including the customs valuation system, to adapt them to WTO requirements; (2) reforming the import tariff; and (3) advising on computerization issues.
	UNCTAD	UNCTAD will assist in this regard (with the assistance of the Forum Secretariat) through studies, advisory services and training.*
Technical assistance: for the establishment of a trade point, the improvement of trade efficiency (maritime transport, customs, micro-finance), the promotion of foreign investment	ITC/ UNCTAD	<p>The establishment of a Trade point will be incorporated in a national program of technical cooperation under which ITC will provide specific components in trade information management.</p> <p>A national training programme including training of businessmen will be incorporated in the future National Trade Development Programme.*</p>

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question C(b) (cont.) :	UNCTAD	For the introduction of UNCTAD's Automated System for Customs Data (ASYCUDA) with the view of increasing the efficiency of customs services for the benefit of traders as well as government, there is a pipeline project to be implemented regionally through the Forum Secretariat.
Training: in trade policy, trade efficiency (including the use of trade information technology), and business development matters.	WTO	Please refer to answer immediately above (under "Advisory services"). The trade policy course will include a general training for enhancing negotiating skills for participation in multilateral trade negotiations.
	UNCTAD	Please refer to answer immediately above (under "Advisory services"). Capacity-building relevant to trade analysis will be incorporated in the national training programme (trade policy component), mentioned in A(k), above.*

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question C(d) :</p> <p><u>Technology capacity and human resources</u></p>		
<p>Internet is available in Vanuatu, but few ni-Vanuatu are yet familiar with it and able to operate Internet applications. In the context of the establishment of a Trade point, the necessary training would be conducted in order to enable relevant officials in the public and private sectors to operate the trade information component of the trade Point</p>	WTO	<p>The WTO will provide one computer to the Department of Industry, Trade and Commerce. This will include a link-up to the Internet. (1998)</p> <p>Training on access and use of Internet resources and of CD-Roms will be provided. (1998)</p>
	UNCTAD/ITC	Please refer to the two responses to B(g).

*Funds are requested.