

Interview: John Ridgway, Pacific Legal Network

Business Advantage spoke with John Ridgway, founder of the Pacific Legal Network (PLN), about the current state of business in the Pacific. The head office of PLN, Sydney-based PLN Lawyers, recently won an export award from the New South Wales Government in Australia and has representatives in every major Pacific territory through its network of independently owned and operated law firms. It also extends its reach into the US and China via DWT Pacific, its collaboration with international US law firm Davis Wright Tremaine LLP.



Nitij Pal (PLN), Craig Miller (DWT Pacific), John Ridgway (PLN) and Anthony McFarlane (PLN).

What major legal developments have there been in the Pacific over the past couple of years? Has the investment climate improved or deteriorated from that perspective?

A number of Pacific jurisdictions are streamlining their foreign investment regimes, which will hopefully lead to strengthening of individual jurisdictions and the region as a whole.

There has been significant advancement in commercial law reform in a number of jurisdictions, with changes to company and chattel security legislation. These types of changes certainly help to boost business and investor confidence.

Fiji, for us, is still a work in progress at the moment. Australian and other companies have significant business investment in Fiji and from what we see, hear and feel, are very active in ensuring that those investments are secure.

Rapid progress in telecommunications and aviation services is improving the Pacific's investment climate. What does the next phase in this development entail?

The next logical step in Pacific aviation is airline rationalisation and increased code share arrangements to enable more economic success for all airlines and to further enhance the already thriving tourism industry of the Pacific.

In relation to telecommunications, the obvious next step is mobile phone banking, or 'm-banking'. The Pacific has embraced mobile phone technology over the past several years and this has contributed to significant advancements in communications and ease of doing business. Reducing the need for travel in the islands and further

enabling the ease of doing business by performing financial transactions via mobile phones would only be a good thing.

How is Asian investment reshaping the Pacific's economy?

From merchandising, shipping, investment in the hospitality industry, via tourism, inter-government aid programs and through the fishing industry, Asian investment plays a significant role in both the Southern and Northern Pacific Island economies.

For so long Asian investment in the Pacific or 'cheque-book diplomacy' as it is often referred to, has been viewed negatively and is well documented.

As part of the Australian Government's international diplomatic relations, Australia is already working on strengthening its relationship with Asia, and China specifically. The Australian Government should view Asian and specifically Chinese activity in the Pacific as an opportunity to work together in the Pacific and increase transparency within the region, rather than a threat.

Are there any other key trends you see emerging in the Pacific's economy? What are the biggest risks to the region's economic progress?

The key risk to development of the region remains the propensity for any one of more of the smaller Pacific states to take a 'do it alone' approach so that efforts to develop industries such as aviation and telecommunications on a regional basis are diminished.

By working together, the states can further advance development and services in their own individual states while benefitting the region and the Pacific peoples as a whole.

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Trends in Pacific investment and trade

How seriously has investment in the Pacific been affected by the global financial crisis? What are new investors in the Pacific investing in and where are they coming from? *Business Advantage* asked the region's national investment promotion agencies in order to find out.

Each of the 23 countries and territories covered in this publication, from East Timor to French Polynesia, from Guam to Tonga, has at least one agency with the official task of encouraging foreign investment. Some are stand-alone statutory bodies, such as Papua New Guinea's Investment Promotion Authority while others sit within a government department, such as Samoa's Ministry of Commerce, Industry and Labour.

In April 2010, *Business Advantage* asked all these organisations to respond to a short survey designed to give our readers an understanding of current investment trends across the Pacific. Our respondents came from across the region, from the Pacific Forum Countries, the French Pacific and also the US-affiliated Pacific. Their responses have been collated for this article.

Our thanks go out to all those organisations that responded to the survey. We hope to run a similar survey in the next edition of *Business Advantage Pacific Islands*.

THE EFFECT OF THE GLOBAL FINANCIAL CRISIS

Of the agencies that responded to the survey, all reported a negative impact on their economies from the global financial crisis, about 80% saying the crisis had affected their economies 'significantly', and the remainder saying its impact was 'moderate.'

While the crisis appears to have affected business across the board in many territories, the sectors most commonly nominated as most affected by the downturn were tourism and mining.

Another notable impact on Pacific economies was the high cost of oil-based fuel:

'The rising cost of fuel has been the primary reason for significant changes in our economy,' noted the Guam Economic Development Authority, in a statement that characterised the position of many Pacific economies. 'Guam, being a remote tropical island, imports almost all goods and commodities. The price of fuel ultimately affects the cost of living through freight, transportation costs and utilities.'

THE CHALLENGE OF ATTRACTING INVESTMENT

Each economy has its own investment profile and particular strengths and weaknesses. One might therefore expect that each faces its own challenges in attracting foreign direct investment.

While this is largely the case, there was one challenge that just about all the respondents to our survey shared in common: the relatively high costs of doing business in the Pacific (influenced in part by the region's reliance on imports, the lack of scale in individual economies and the large distances between territories).

'What is most noticeable about the sources of investment in the Pacific is just how diverse they are.'

While several Pacific economies now have solid investment laws in place, the need for further investor-friendly legislation was identified by nearly two-thirds of respondents as a key agenda item. Interestingly, while a shortage of skilled workers is a major issue in economies with important mining industries, such as Papua New Guinea, Nauru and New Caledonia, this was less of an issue for other economies. Likewise, a lack of infrastructure was cited as a challenge by about 60% of respondents. A similar number spoke of the need to improve their profile among potential investors. The French territories of the Pacific face a barrier unique to them—that of the French language.

GROWING SECTORS

It would seem the Pacific is bouncing back from the global slowdown. In spite of the challenges of raising investment, respondents to the survey reported investment growth across several sectors, most notably the regional staple—tourism and hospitality. The response from Tonga's National Economic Development Council was typical:

'A significant number of projects implemented in Tonga come from tourism and it has the major contribution and impact on our GDP.'

Another sector nominated as experiencing investment growth is building and construction, while several respondents also reported increased investment in retail, agribusiness and fisheries. Papua New Guinea and New Caledonia both possess fast-growing mining sectors.

PRIORITY SECTORS FOR FUTURE INVESTMENT

We also asked the region's investment promotion organisations to identify their priority sectors for future investment. Sectors nominated were:

- Agribusiness
- Fisheries
- Health and safety
- Information and communications technology
- Mining
- Renewable energy
- Research and development on the commercialisation of Pacific plants, fruits and marine resources
- Tourism

TRADING OCEANIA



The New Zealand Pacific Business Council's Mike Flanagan considers the longstanding trading relationship between the Pacific Islands and the rest of the world.

Trade with the Pacific Islands may not be in the same multi-billion dollar league their trade with Asia, Europe and the

Americas, but for Australia and New Zealand it is probably the steadiest market since the financial downturn of September 2008—and the Pacific is a welcome traditional trading partner on their respective doorsteps.

However, two-way trade between the Pacific Islands and Australia and New Zealand has been anything but balanced in recent years. With the exception of major imports of petroleum, gas and minerals by Australia from Papua New Guinea, the remaining trade is severely slanted against the Pacific Islands, with large trade deficits.

This was not the case prior to the 1960s, when sugar exports from Fiji to the world were substantial, and copra, coir and tropical fruit (especially bananas) were major earners for many small Islands such as Tonga, Samoa and the Cook Islands, who enjoyed trade surpluses with the world.

However, with the growth of large multi-national trading companies like Dole, that fresh fruit trade has virtually disappeared to locations such Ecuador and the Philippines.

The important (essentially manual) sugar industry in Fiji was largely displaced in the early 1970s by the large mechanised Queensland sugar cane farms. Last year Fiji's total exports were over 16% lower, driven

significantly by a big fall in sugar exports to around just \$80 million.

There is however good news on the horizon—in Papua New Guinea and Guam. PNG is already on the path to a resources boom in natural gas and minerals mining, building on existing oil, gas, copper and gold mining, and forestry extraction. Palm oil has grown into a major agribusiness, with new on-shore fish processing plants, and a huge potential beyond coffee, for food products. PNG is blessed with a large land mass, and a vast array of micro-climates, from temperate to tropical. It's just a matter of training its large rural population and harnessing these natural resources.

Guam could now be described as the 'Klondike of the Pacific', as \$20 billion is to be spent in Guam and nearby Islands by the US Military in the next few years. Australian and New Zealand companies stand to share in this military expenditure—principally on infrastructure and housing construction. Further large sums are spent each year on all four American Micronesian Islands via US aid packages to these countries.

While the immediate potential in the Pacific Islands lies in these two locations, business is particularly strong in the five Melanesian countries, because of their natural land-based resources, and larger populations.

We must not overlook too the fact that all Pacific Island nations are rich in resources—for fish and undersea minerals—from their huge 30 million sq km exclusive economic zone. But they must band together if they wish to negotiate good outcomes from a position of combined strength.

Mike Flanagan is a Business Analyst on Pacific economies. He is a representative for the New Zealand Pacific Business Council.

WHO'S INVESTING?

The source of investment capital differs depending on several factors, including the economy's geographical location within the Pacific, its historical cultural ties and recent diplomatic connections. Thus the two main French-speaking territories in the Pacific, New Caledonia and French Polynesia, may share a common cultural bond, yet receive investment from two different sources: New Caledonia's largest source of investment is still France (and this in spite of its proximity to Australia), whereas French Polynesia—closer to Hawaii than Noumea—receives more investment from the United States.

What is most noticeable about the sources of investment in the Pacific is just how diverse they are. Key investment source countries nominated in our survey included:

- Australia
- Brazil
- Canada
- China
- Fiji
- France
- Japan
- Korea
- New Zealand
- Philippines
- Switzerland
- United States

Japan, Korea and China were nominated as the fastest-growing sources of investment, a clear indication of the strengthening ties between the Pacific and neighbouring Asia.

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CHINA IN THE PACIFIC: WHAT'S REALLY GOING ON?

Fergus Hanson of Asia-Pacific think-tank the Lowy Institute provides an insight into China's growing relations with Pacific countries.

China has longstanding ties to the Pacific, but has only recently ramped up its engagement. Quiet island capitals are littered with the fruits of its efforts, with grand looking, Chinese-built edifices sprinkled across the region. Over the last few years, the Lowy Institute has been measuring Chinese aid pledges, finding that they have jumped from an estimated US\$33 million in 2005 to US\$206 million in 2008. In addition to its aid largesse are large Chinese investments like the Ramu nickel-cobalt mine in Papua New Guinea (PNG).

The Pacific has long been ignored by all but a handful of countries and businesses so, not surprisingly, China's sudden interest in the region has raised eyebrows.

Most of China's aid is made up of concessional loans, not grants. That explains the large headline figures. These are used to fund much-needed infrastructure projects. But the bounty comes with some snags: the conditions attached to the loans generally require use of Chinese contractors, materials and even labourers. This minimises the flow-on benefits to locals, and the quality of the finished products has caused occasional concern. China's mineral investments in PNG have also raised local protests about working conditions and environmental safeguards.

As to its motivation, the Pacific is still peripheral for China, despite the hype. PNG is the only country with any sizeable natural resources.

'The real driver of China's aid and engagement has been the diplomatic stoush with Taiwan.'

Solomon Islands and Fiji offer some, but beyond that the pickings are slim.

The real driver of China's aid and engagement has been the diplomatic stoush with Taiwan (the Pacific holds six of the remaining 23 countries that still recognise Taiwan). With the 2008 election of a friendlier president in Taiwan, both sides informally agreed to freeze their diplomatic rivalry. But the risk the truce might unravel has seen China maintain its engagement.

With the diplomatic battle as the central organising principle of its engagement in the region, shortcomings with China's aid are not surprising. However, if the truce holds improvements will no doubt be made, and China's interest is a positive development.

For a region that is mostly off the radar, it's good to have a new major donor in town and, more importantly, one that is driving increased trade.

Fergus Hanson is a Research Fellow at the Lowy Institute and authors an annual Lowy Institute report on China's aid program in the Pacific.



The rebuilding of Tonga's capital Nuku'alofa has been greatly assisted by soft loans from the People's Republic of China.

THE PACIFIC: AN OCEAN OF OPPORTUNITY

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Due to an expanding mining and petroleum sector, there is demand for 2000 additional engineers in Papua New Guinea over the next two years.

Zoe Lyon of the Australian Trade Commission— Austrade—examines opportunities to supply goods and services to the Pacific.

They're infinitely diverse in terms of their size, geography, history and culture, but there's one thing the Pacific Islands have in common—they present a wealth of opportunity for Australian businesses.

Last year, Australian exports to the Pacific Islands totalled around \$12 billion—approximately equal to the value of those to the US. In terms of exporter numbers, the region is home to four of Australia's top 20 export destinations: New Zealand (number 1), Papua New Guinea (7), Fiji (10) and New Caledonia (20). Last year, the Pacific Islands was a destination of choice for approximately half of Australia's total 45,000 exporters. Australia is also the largest investor in the Pacific.

Austrade's Trade Commissioner for Fiji, Dan Williams, explains that an attraction of the Pacific Islands for Australian businesses is that they present export opportunities in a very broad range of product categories.

'These are island nations, so they don't tend to have the domestic manufacturing base that other export markets have, so it means that first and foremost they will turn to Australia and New Zealand for

a very broad array of goods and services,' he says. In addition, the relatively small size of supply contracts coming out of Pacific Island countries matches the supply capabilities of many Australian companies. This makes the Pacific Islands an ideal launching pad for their export endeavours.

Williams added that another big advantage is the strong cultural and historical ties which exist between Australia and Pacific Island countries, which greatly increase the ease of doing business.

'Often the legal systems have similar origins, and the products and services standards are very familiar to Australians because they're based on Australian or New Zealand standards,' Williams explained.

Currently, key opportunities in the region include work emanating from ExxonMobil's US\$15 billion LNG project in Papua New Guinea, which is expected to be followed up with further large resources projects.

'We're hearing reports of companies effectively having to double their size of operations over the next couple of years in PNG,' Williams says. 'To give you an idea of the kind of infrastructure spend going on: PNG has around 1200 registered engineers, but they're going to need an additional 2000 in the next two years to meet the demand.'

With a quarter of the world's nickel reserves and a number of large scale resources projects in the pipeline, New Caledonia also presents some valuable opportunities. The global resurgence in resources prices, combined with high levels of disposal income, is resulting in strong demand for Australian mining and services capability.

While opportunities are abundant, Williams advises that companies looking to do business in the Pacific Islands should take the time to 'do their homework' particularly with countries such as Fiji experiencing some home-grown issues.

'Like anywhere, it takes time—you need to make an effort to develop relationships and do your homework. In particular you need to be culturally sensitive while ensuring you are dealing with a customer who has both the willingness and ability to pay you,' he says. 'For example, the legal system in Fiji is currently in a state of change. If issues can't be resolved amicably then pursuing a legal course of action could have some significant challenges for Australian companies at the moment.'

Further information: www.austrade.gov.au



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Gas ignites Papua New Guinea

The PNG LNG Project will create between 12,000 and 15,000 full time positions. Of these, 30% will be filled by Papua New Guineans.

The US\$15 billion ExxonMobil-led PNG LNG gas project is arguably the largest business investment ever made in the Pacific. *Business Advantage* investigates the potential of liquefied natural gas.

The final investment decision has been made, project finance secured and sales agreements finalised with customers in China, Taiwan and Japan. The long-awaited PNG LNG Project in Papua New Guinea (PNG) is a reality.

The project represents the single largest investment ever made in PNG—estimated at US\$15 billion. Over a 30-year period, the ExxonMobil-led project is expected to export nine trillion cubic feet of liquefied natural gas (LNG).

LONG CONSTRUCTION PHASE

During the construction phase of the project, estimated to take about three years, the project will involve a level of economic activity unparalleled in the Pacific region.

The project is of military proportions. With limited road access to the gas field, a new airstrip capable of handling the world's largest transport planes must be constructed in PNG's Highlands so that the heavy components of the gas conditioning equipment can be flown in. A liquefaction and storage facility will be built near the capital Port Moresby, while a new workers' village is also under construction.

The gas itself will be treated at a gas conditioning plant in the Highlands before being transported via pipeline to the liquefaction facility. From there, it will be shipped to customers in Asia.

'The project is already stimulating demand for goods, services, buildings and qualified personnel.'

SERVICE AND EMPLOYMENT OPPORTUNITIES

The project will offer business opportunities, both directly and indirectly, to hundreds of businesses, many of which will be owned by local landowners, and create employment for thousands.

'The project encourages the participation of PNG's business community, both independent and landowner companies,' says ExxonMobil's Venture Manager, Peter Graham.

ExxonMobil will invest 150 million kina (US\$60 million) in new training facilities. Once the project's engineering, procurement and construction phase is complete, they will be turned over to PNG educational institutions.

LIQUID NIUGINI GAS

While PNG LNG is now underway, InterOil Corporations' Liquid Niugini Gas project could well be a second major LNG Project. The PNG Government announced its approval of the project agreement for the building of an US\$5 billion LNG gas plant near Port Moresby in December 2009.

The existence of InterOil's infrastructure, alongside ExxonMobil's facilities and the planned petroleum park at Konebada (see pages 43 to 44), make the future look promising for others looking to participate in PNG's LNG boom.

'The infrastructure envisioned to complete the LNG project firmly establishes incentive for further exploration in the country,' InterOil's Chief Executive Officer Phil Mulacek has said in a statement.

TALISMAN ENERGY

And there's more. In August 2009, TSX-listed Talisman Energy bought exploration company Rift Oil, and also took a 50% interest in petroleum exploration licenses operated by Horizon Oil in PNG's Western Province, thereby extending its PNG assets significantly.

Rift Oil had drilling operations in the Foreland basin of PNG's Western Province. Concurrently, Talisman had identified significant gas reserves in the Gulf of Papua. Now the two liquefied natural gas projects will fall under the same umbrella.

PUTTING PNG AND THE PACIFIC ON THE MAP

As the largest LNG project currently on ExxonMobil's books, the PNG LNG Project has been reported in business media across the globe, putting PNG firmly on the map as the latest member of the exclusive club of LNG-producing nations.

As PNG's economy grows (some estimates suggest the project could double the country's GDP over its 30-year life), there will undoubtedly be flow-on effects in the PNG economy and beyond.

The project is already stimulating demand for goods, services, buildings and qualified personnel within PNG, while the PNG Investment Promotion Authority is reporting record numbers of new foreign businesses arriving in the country, some new to the region. Once located in PNG, could some follow the lead of such PNG-based companies as Bank South Pacific, Credit Corporation and New Britain Palm Oil Limited and establish a presence in other Pacific economies? The notion is very appealing.

THERE'S NEVER BEEN A BETTER TIME TO INVEST IN THE SOLOMON ISLANDS

On the back of strong economic growth over several years and a range of economic reforms, the Solomon Islands is attracting increasing interest from foreign investors. Opportunities exist in the following sectors:

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Connecting the Pacific

Two major advances—in telecommunication and aviation—are paving the way for new technology, cost-savings and efficiency, promoting business and economic progress across the Pacific region, writes Dev Nadkarni.

Isolation and the tyranny of distance have long been blamed for the slow pace of business growth and economic development in the Pacific islands region.

Historically, sparse populations spread across wide swathes of ocean have made economies of scale hard to achieve and the Pacific an expensive region to do business with because of the high costs of travel, communication and logistics.

But the past few years have seen discernible changes in the business and economic environments of almost all the island nations. The two most visible advancements have been in telecommunication and aviation—with both sectors seeing more players join the fray, plummeting costs and steadily increasing volumes.

COMPETITION DELIVERS RESULTS IN ICT: THE DIGICEL EFFECT

‘There has been considerable growth in ICT (information and communication technologies) infrastructure in the islands,’ says Franck Martin, founding director of Fiji-based IT firm Avonsys, which provides monitoring, system administration, quality assurance and software development for customers in the US.

‘Bandwidth and mobile call costs have dropped dramatically in Fiji as they have wherever some form of competition was introduced,’ says Martin, a French national who has lived in Fiji and the Pacific islands for several years. ‘The markets that saw most growth are the ones where Digicel competed against the local established provider, which forced the local incumbent to become more innovative. It also created a price battle to the bottom.’

In the Pacific, Digicel entered the Samoa, Fiji, Tonga, Vanuatu, Papua New Guinea and Nauru markets as it rolled out its plans to establish a pan-Pacific mobile service, competing head-on with long-established local players, lowering costs and introducing new and improved services, such as roaming between the islands.

‘We encourage governments to stop their monopolies and to open up and deregulate. It improves the lives of people in those countries,’ says Vanessa Slowey, Digicel Pacific’s Chief Executive Officer. ‘We haven’t seen any [incumbent] company going into financial crisis after Digicel launched. If anything, they have thrived. It has forced them to become more efficient and customer-centred. We are pro-competition—it causes prices to drop.’

In Port Vila, Vanuatu’s hotel industry association officials told *Business Advantage* that their members’ communications costs were now up to one-third lower than previously and that they now connect more frequently with their supply chains and employees, greatly improving efficiency.

SPEEDING ALONG THE DIGITAL HIGHWAY

Better and cheaper bandwidth availability as well as a choice of internet gateways is spurring growth in ICT-based enterprises in countries like Fiji. Already, there are call centre projects, in collaboration with Indian business process outsourcing (BPO) outfits, close to commencing in Suva.

‘The bandwidth situation is far better now than it was a few years ago,’ says Sin Joan Yee, Librarian at the Fiji-based University of the South Pacific, which serves the entire region with satellite-based instructional services that are increasingly using internet protocol (IP) technologies.

In 2007, Fiji’s main internet gateway provider Fintel permitted the University to tap into AARNET, the high bandwidth network that connects Australian universities, boosting connectivity from a mere 5Mbps to 122Mbps almost overnight.

Similarly, French Polynesia, Federated States of Micronesia and Marshall Islands have joined the high-speed digital highway by landing submarine optic fibre cables to their main centres. The Honotua cable, which connects Tahiti and neighbouring French Polynesia, will help grow tourism and business in these internationally popular holiday destinations.

Boosting bandwidth, driving costs down and ensuring reliable connectivity by providing back-up systems in more remote markets are companies like Sydney-based Pactel, which is passionate about the long-term opportunities in the Pacific, despite the challenges.

Partnering with regional organisations such as the South Pacific Commission, Pactel has developed programs like the Rural Internet Connectivity System (RICS) platform. ‘It makes internet connectivity possible anywhere in the Pacific islands with the help of a 1.5 metre satellite dish,’ says Pactel’s chief executive officer Andrew Taylor.

The company has also developed a satellite mobile platform for Tuvalu, which lost its own network after a cyclone and had no resources to replace it.

BUDGET BOOM IN THE TRAVEL SECTOR

Just as Samoa revolutionised the region’s mobile telephony with Digicel, it also kick-started the revolution in Pacific aviation by partnering with Pacific Blue. The Samoan Government was quick to fly its loss-making flag carrier Polynesian Airlines out of the red and into profitability following its joint venture with the Australian subsidiary of Virgin Airlines to form Polynesian Blue. Budget airlines then entered the region and a whole new class of traveller—the backpacker.

Backpacker tourism spurred the building of a range of accommodation directed at budget travellers, particularly in island

'We encourage governments to stop their monopolies and to open up and deregulate. It improves the lives of people in those countries.'

destinations where budget airlines began flying. 'Budget airlines have sent visitor numbers soaring—and that has helped the region's economy greatly because it is primarily tourism-driven in many countries,' says Misa Telefoni Retzlaff, Samoa's Deputy Prime Minister and Minister of Tourism.

'Air transport connectivity has increased with many new city-pairs either becoming competitive for the first time or opening new routes. Examples include the Fiji and Vanuatu markets and new routes like Brisbane to Samoa and Melbourne to Port Vila,' says Our Airline chief executive Karam Chand, who helped set up Polynesian Blue in his previous assignment.

Greater cooperation between private operators and code sharing has brought better connectivity and frequency. 'Our Airline and its partner Air Kiribati provides the competitive tension on two key markets of Brisbane to Honiara and Nadi to Tarawa [Kiribati]—and much-needed price competition,' Chand says.

FUTURE PROMISING BUT MORE CHANGE NEEDED

Ram Bajekal, Group Chief Executive of FMF (Flour Mills of Fiji), one of Fiji's largest manufacturing companies, which makes baking and other food products for export throughout the Pacific, including Australia and New Zealand, believes both telecommunication and air travel have changed for the better in recent years. He finds the scenario encouraging for future business expansion for the FMF Group in the region.

'We would certainly base our growth strategies on exports, which would rely on improved connectivity between the islands and Australia and New Zealand. In fact, our exports to these two markets will grow by about 30% this year,' he says.

But there is still a long way to go in building on these developments, according to Bajekal. For one, interconnectivity charges between providers and data roaming charges are too high to be viable. Franck Martin concurs: 'Data roaming costs are prohibitive.'

Bajekal also says freight logistics in the region need to improve. 'Shipping freight costs have marginally reduced but haven't yet reached levels that can be accepted as "proportionate" to the distance involved.



The advent of competition in the mobile phone sector of several Pacific territories has expanded coverage and improved service.

We could provide a lot better service to our customers in the islands, Australia and New Zealand if only shipping services were more frequent and more reliable and punctual,' he says.

BIG-SCALE INVESTMENTS UNDERWAY

Improvements in telecommunications, aviation and logistics as well as the impressive growth of the minerals sector, particularly in Papua New Guinea, are already beginning to attract serious investors in the region.

A European Union-funded study of the tourism sector in the Pacific islands earlier this year mooted a US\$50 million investment vehicle to boost tourism in the region. The project, headed by an Australian fund manager with experience in financing major tourism projects, is beginning to gain traction.

Another major infrastructure project, the US\$20 billion building of the US military base in Guam—the biggest ever in the Pacific—is turning out to be a big opportunity for the islands as well as Australia and New Zealand.

'It certainly offers big-money business opportunities, and even as sub-contractors, there is a big chunk of construction and infrastructure business,' says Gilbert Ullrich, Chairman of the New Zealand Pacific Business Council, who led June 2010 delegation of New Zealand business people to Guam.

Dev Nadkarni is an Auckland-based Pacific current affairs and business commentator with a long history of reporting on the region's telecommunications and aviation sectors.

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Renewable energy moves forward

The European Union's REP-5 photovoltaic project covers five Pacific territories.

International funding and natural resources are helping to bolster exciting new advances—small and large—towards a more sustainable energy industry for the Pacific Islands, writes the European Investment Bank's Nigel Hall.

While energy and oil prices have stabilised following the global financial crisis, fuel imports remain a heavy burden on the energy-intensive communities of the Pacific Islands. With a helping hand from aid agencies and international financial institutions, the region is actively seeking to reduce this millstone by promoting the efficient use of energy and the exploitation of local renewable energy resources.

NORTH REP

The governments of the Federated States of Micronesia (FSM), Palau and the Republic of the Marshall Islands (RMI) have targeted the energy sector—especially new and renewable sources of energy—as the area of concentration for the 10th European Development Fund funding. These three countries have combined their allocations into a multi-country program—the North Pacific ACP Renewable Energy and Energy Efficiency Project (North REP)—which has a total budget allocation of 14.44 million euros (approximately US\$19.44 million). The project will be staffed by a core of four technical experts, two based in Pohnpei and one each in Palau and the RMI.

All three countries have distinct development challenges given their very small populations, their isolation in the Pacific Ocean, their varying GDP per capita (from US\$3130 in RMI to €US\$8268 in Palau) and their fragile environment.

This scheme follows on from the successful REP-5 program (Renewable Energy Program—Support to the Energy Sector in Five ACP Pacific Islands—FSM, Nauru, Niue, Palau and RMI), which was implemented by the Pacific Island Forum Secretariat with 12.38 million euros in funding from the 9th EDF. Individual projects funded under REP-5 included outer island and grid-connected solar photovoltaic installations, as well as energy-efficiency measures.

TINA RIVER HYDROPOWER DEVELOPMENT PROJECT

On the island of Guadalcanal in the Solomon Islands, the cost of energy is high and nearly all electricity is generated by relatively old and inefficient diesel generators fired on expensive imported oil.

In a country where the annual rainfall is high and the terrain is steep, the potential for hydro-electric power generation to alleviate dependence on high and volatile petroleum prices is striking, although this abundant and sustainable resource remains largely untapped. Obstacles to realising hydro potential in the country are substantial and include a lack of experience and know-how in the government and the power utility, an absence of reliable long-term hydrographic data, difficult access to possible project sites in the steep and jungle-clad terrain and the challenge of negotiating with disparate and loosely defined local landowner groups to secure rights for use of the land.

In order to meet this challenge, the Solomon Islands Government has established a taskforce to manage implementation of a hydro-electric scheme on the Tina River, some 20km southeast of the capital.

The Government commissioned a full technical-economic feasibility study at the end of 2009, funded by the European Investment Bank (EIB), to review the different options for generating power on the Tina River. It will then develop an optimal scheme that will be put out to tender for implementation by the private sector.

The size of the hydropower station has yet to be finalised, however, it is planned to provide a large proportion of the energy currently generated by the Solomon Islands Electricity Authority (SIEA) from fossil fuels and may also provide electricity to the nearby Gold Ridge mine.

The World Bank is supporting the SIEA by providing professional staff and training to improve financial and operational management,

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RENEWABLE ENERGY IN THE US PACIFIC

US commitment drives local industry growth and opens opportunities for private-public partnership.

Generally speaking, renewable energy sources are especially useful for smaller scale energy consumption. As such, islands are probably the most ideal platform for renewable energy development.

The islands of the US Pacific, namely Guam, American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI), which are characterised by small populations dispersed over thousands of kilometres, have a practical need for renewable energy. Resources in the region are abundant—with sun, wind, wave and even geothermal potential—but until recently have been under-utilised. Fortunately, this is now starting to change.

As part of the insular areas of the United States of America (USA), these territories' energy plans are inextricably linked to the national objectives of the Obama Administration. One of the President's specific goals in implementing the American Recovery and Reinvestment Act of 2009 (ARRA) was supporting the renewable energy industry and providing capital over the next three years to eventually double domestic renewable energy capacity. In 2010 this equated to US\$475 million for the development of a variety of renewable sources of electrical generation such as solar, wind, and geothermal.

Key programs within the ARRA, such as the State Energy Program (SEP), have driven renewable energy development in the US Pacific. In the 2009/10 fiscal year the SEP was appropriated US\$3.1 billion to help promote energy efficiency and clean energy deployment. Of this, between US\$18 and US\$19 million of grants were awarded to each of the three island territories for the development of public and private

projects. Funding has been targeted at smart grid development and energy transmission through other agencies, in addition to tax credits to encourage renewable energy development.

Home to an expanding US military base, Guam has used its SEP funds to promote energy efficiency and renewable energy through retrofits, strong policy leadership, and public education efforts. In public buildings across Guam, the territory's energy office is conducting energy audits and has put in place cost-effective energy-efficient retrofits. At the same time, the Guam Power Authority is seeking to acquire renewable energy resources with the goal to have at least 5% of electricity sales coming from renewable energy by 2015.

In American Samoa, the local government-owned power provider has developed a new metering policy to proliferate the use of renewable energy. The American Samoa Power Authority's (ASPA) Interconnection and Net Energy Metering Policy states that those who wish to install a renewable generating facility—solar or wind—which is 30 kilowatts or smaller and intended to offset all or a portion of their power needs, are able to 'net meter' with ASPA using a credit/debit system of billing.

In the CNMI, renewable energy development continues to focus primarily on geothermal potential, with the island being unique among the US Pacific territories for its significant geothermal resources. Opportunities continue to exist for private/public partnership in this area.

The US commitment to renewable energy in the American Pacific has translated into political and practical action at the regional and local levels.

reduce technical and commercial losses, and improve reliability of the generation, transmission and distribution system. Funds have also been allocated through the Pacific Regional Infrastructure Facility (PRIF) to support the project office; and the International Finance Corporation is helping the Government establish the legislative procedures and agreements required for the project to go ahead.

PROVIDING FUNDS FOR SMALL-SCALE ENVIRONMENTAL PROJECTS

The size of individual renewable energy projects and energy-efficiency schemes in the Pacific is often too small to make it feasible to provide direct financing from large international financing institutions. Help to the many small and medium-sized enterprises active in the environmental sector can be provided, however, by channelling funds through local financial intermediaries that have well-established relationships with the local business community and employ staff on the ground who are able to select, appraise and monitor smaller-scale projects.

Over the past two years, the EIB has provided dedicated environmental credit lines to local banks in both French Polynesia and New Caledonia, which have been on-lent to businesses to finance a wide range of projects with significant environmental benefits, including small-scale wind farms, solar photovoltaic installations, solar hot water systems, biotechnology units and metal recycling facilities.

In New Caledonia, the generation of electricity relies predominantly (more than 80%) on fossil fuels, however, coastal sites such as Helios Bay, some 40km from the capital Nouméa, enjoy a high level of solar irradiation (over 1900 h/year, equivalent to an average of 5.2 kWh/m²/day) and low rainfall, making solar power an attractive alternative. The grid-connected solar photovoltaic power plant, which was completed

at the end of 2009, comprises 10,500 solar panels, each with a capacity of 200 Wp. Annual production from the plant is estimated to be 2800 MWh, sufficient to supply the needs of around 1000 households.

The Touongo wind farm, located on the southern extremity of the island of Grande Terre in New Caledonia, comprises 18 demountable wind turbines, each with a capacity of 275 kW. The wind turbines can be lowered to the ground and secured to avoid damage in the event of a cyclone. The project was completed at the end of 2008 and is estimated to be able to generate up to 9400 MWh of electricity per year.

Nigel Hall is technical adviser at the European Investment Bank's Sydney office.



Touongo wind farm in New Caledonia.

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Remittances: a major contributor to the Pacific economy

Migrating overseas to find employment is a common practice among Pacific islanders, and a fair portion of their overseas earnings finds its way back home in the form of remittances.

There is no doubt that worker remittances—expat Pacific islanders sending money home—make a vital contribution to Pacific economies. The largest recipients of remittances are Fiji, Samoa, Tonga and Papua New Guinea. Relative to economy size, Tonga is the second largest recipient of remittance flows in the world (Lesotho is first) and Samoa is the fourth.

Pacific islanders tend to migrate for work due to limited employment prospects in their own small economies. The need to send remittances swiftly and safely has led to the proliferation in the Pacific of international money transfer agencies run by companies such as MoneyGram and Western Union.

According to International Monetary Fund data cited in the ANZ *Pacific Quarterly* (April 2007), remittances to the Pacific grew from US\$89 million in 1997 to US\$425 million in 2005. One reason for the rise in remittance flows over that period was the strong economic performance of host countries such as Australia, New Zealand and the United States, where most islander expat workers are domiciled.

DOWNTURN DROPOFF

Unsurprisingly, remittances tailed off sharply during the global downturn, but according to data published in ANZ's *Pacific Quarterly* in late 2009, they had stabilised throughout the region and in several countries were starting to increase again.

FLOW-ON BENEFITS

Aside from allowing residents to raise their standard of living (gaining greater access to consumer goods or health and education services), remittances increase the rate of capital accumulation in an economy and thereby boost its potential for growth. In Samoa, for example, a significant amount of capital is being invested into local real estate due to remittances.

Remittances also provide an important cushion of foreign exchange; in Pacific economies, imports are almost equivalent to consumption and, without remittances, imports would have to diminish sharply in order to balance the trade account. Evidence also suggests that remittances have helped central banks in the Pacific to maintain relatively strong exchange rates.

Aside from allowing residents to raise their standard of living ... remittances increase the rate of capital accumulation in an economy and thereby boost its potential for growth.'

A DOUBLE-EDGED SWORD?

On the other hand, remittance-based currency inflows can distort an economy and its potential for growth. Remittances reduce the incentive to invest and raise employment levels in the home country, which can lead to a vicious cycle of dependency on overseas migrant workers. As a 2005 Asian Development Bank report into remittances in the Pacific observed, 'maintaining remittance flows at high levels ... requires a steady flow of new migrants.'

Furthermore, fewer remittances might encourage state authorities to enhance the competitiveness of their economies in order to support the balance of payments position.



Money transfer agencies proliferate across the Pacific. In the future, remittances may be enabled through the Pacific's improving mobile phone network.

PACIFIC PETROLEUM TAKES OVER BP AND SHELL ASSETS IN THE PACIFIC

Tahiti-based Pacific Petroleum Company (PPC) has made two recent moves that greatly expand its Pacific footprint.

In May 2010, it officially took over the operations of British Petroleum South West Pacific (BP). The move followed PPC's 2006 acquisition of Shell Oil's downstream sales and marketing operations in New Caledonia, Vanuatu and French Polynesia.

The acquisition secures the future of BP's Pacific operations, which employ about 200 staff across Fiji, American Samoa, Tonga, Vanuatu, Tuvalu and the Cook Islands. The business will be re-branded Pacific Energy South West Pacific under the new ownership. The new company

will be managed from Fiji by Roko Nabalarua, a former CEO of the Fiji Electricity Authority.

In a second acquisition in June 2010, PPC subsidiary Pacific Islands Energy acquired a 51% stake in Shell Oil's last remaining asset in Papua New Guinea, its refuelling depot at Jacksons International Airport. The new venture, to be called Pacific Energy Aviation (PNG) Ltd, has been set up by PPC in partnership with minority shareholder NAS Aviation Ltd, a consortium of former Shell executives backed by PNG superannuation company NASFUND.

Pacific Petroleum Company is owned by a consortium of French Pacific investors led by Tahitian millionaire Albert Moux.

Trade and Economic Cooperation Agreements in the Pacific Islands

Julia Tijaja provides an update on current trade agreements affecting the Pacific Islands.

Pacific Island Countries (PICs) have been engaging in trade and economic partnership negotiations in the past year with varying outcomes.

The comprehensive Pacific–European Union Economic Partnership Agreement (EPA) is still under negotiation, albeit slowly. The next meeting of the officials of the two regions is scheduled for September 2010.

Elsewhere, regionalism thrives. Seven PICs are now trading under the Pacific Island Country Trade Agreements (PICTA) and negotiations on trade in services are underway.

The Melanesian Spearhead Group (MSG) Secretariat was established in Vanuatu in 2008 and aims to facilitate the implementation of the Revised MSG Trade Agreement.

Negotiations between the Pacific Islands and Australia and New Zealand under PACER Plus were launched in March 2010 (see box); and the Recognised Seasonal Employer (RSE) Scheme in New Zealand has been highly successful for participating PICs.

PICS & THE EUROPEAN UNION (EU)

Fiji–EU Economic Partnership Agreement (EPA)

http://trade.ec.europa.eu/doclib/docs/2010/january/tradoc_145671.pdf

Papua New Guinea–EU Economic Partnership Agreement (EPA)

http://trade.ec.europa.eu/doclib/docs/2010/january/tradoc_145672.pdf

Everything But Arms (EBA) for least developed PICs i.e. Vanuatu, Solomon Islands, Samoa, Kiribati and Tuvalu

<http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences>

Generalised System of Preference (GSP) for other PICs

Status: operational

Since 2008, a range of trading regimes has replaced the Cotonou Agreement to govern Pacific–EU trade. After negotiations for a region-wide EPA failed, PNG and Fiji signed separate EPAs with the EU in 2009. These bilateral EPAs provide free market access for PNG and Fiji exports to the EU with transitional arrangements for sugar and rice, and simplified Rules of Origin for processed fish. In return, PNG opens 86% of its market to the EU. Fiji will eventually open 87% of its market over 15 years.

PICs which did not sign an EPA are exporting to the EU under the Generalised System of Preferences (GSP). The six least developed PICs trade under the Everything But Arms (EBA) agreement.

Other developing PICs revert back to the standard GSP, a unilateral preferential market access into the EU. The EU accepts the standard United Nations Conference on Trade and Development GSP Form A as a valid certificate of origin. The forms are available from PICs' trade authorities. A sample is downloadable from www.unctad.org/sections/gsp/docs/gsp_form_a_en.pdf

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PICS PLUS AUSTRALIA & NEW ZEALAND

Members: Forum Island Countries (FICs)—PNG, Fiji Islands, Solomon Islands, Vanuatu (these 'big four' form the Melanesian Spearhead Group), Cook Islands, Samoa, Tonga, Nauru, Niue, Republic of Marshall Islands, Federated States of Micronesia, Kiribati, Palau and Tuvalu—Australia and New Zealand, unless otherwise stated.

The South Pacific Agreement on Trade and Economic Cooperation (SPARTECA)

Status: operational

www.worldtradelaw.net/fta/agreements/spartecafa.pdf

SPARTECA provides duty-free market access for FICs' exports into Australia and New Zealand. Its stringent Rules of Origin (RoO) has mitigated against FICs' export development. RoO has been identified as a key area in PACER Plus negotiations.

The Pacific Agreement on Closer Economic Relations (PACER)

Status: operational

www.forumsec.org

PACER entered into force in 2002 and provides a framework for gradual regional trade and economic integration. Its main component is the Regional Trade Facilitation Programme, which encourages cooperation in customs, quarantine, standards and conformance. PACER contains a provision that obliges members to commence trade negotiation by 2011, or earlier should the FICs begin formal negotiation with another developed country. This negotiation will come under PACER Plus (see box) and once realised will replace SPARTECA.

Recognised Seasonal Employer (RSE)

Members: New Zealand and presently six FICs: Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

Status: operational

www.dol.govt.nz/initiatives/strategy/rse/index.asp

The RSE Scheme was introduced in New Zealand to address labour shortages in the horticulture and viticulture industries. The RSE enables temporary engagement of overseas workers in planting, maintaining, harvesting and packing of crops. Presently six FICs have participated in the scheme. The scheme has been highly successful, demonstrating the potential for successful regional cooperation in labour mobility under PACER Plus.

PNG and Australia Trade and Commercial Relations Agreement (PATCRA)

Members: PNG and Australia

Status: operational

PATCRA II replaced PATCRA I in 1991. It allows duty free access for PNG products into Australia.

TRADE AGREEMENTS AMONG PICS

Pacific Island Countries Trade Agreement (PICTA)

Members: 12 FICs, excluding Palau and Marshall Islands

Status: Trade in goods agreement operational in Cook Islands, Fiji Islands,

Niue, Samoa, Solomon Islands, Tuvalu and Vanuatu

Status: Trade in services negotiations underway

www.forumsec.org

PICTA entered into force in 2003, and gradual tariff elimination started in 2007 (2009 for least developed countries) with a view to create a free trade area by 2021. Seven PICTA signatories have announced their readiness to trade. The Federated States of Micronesia (FSM) has ratified the agreement and is now working on domestic arrangements. Currently PICTA covers only merchandise trade. The fifth round of services negotiations is scheduled for September 2010.

THE PACER PLUS NEGOTIATIONS

National consultations and discussions underway

The PACER Plus negotiations were launched by Forum Leaders in August 2009. Four priority areas have been identified: Rules of Origin, regional labour mobility, development assistance and trade facilitation. To support the FICs in the negotiations, the Office of the Chief Trade Advisor was established in March 2010 in Vanuatu. Dr Chris Noonan, Deputy Head of Commercial Law at Auckland University, has since taken on the role of Chief Trade Advisor.

PACER Plus will go beyond a conventional FTA to include development components. A workshop on Rules of Origin will take place in August and the next officials' meeting is scheduled for October 2010.

Speaking at the May 2010 Australia Papua New Guinea Business Forum in Townsville, Australia's Parliamentary Secretary for International Development Assistance Bob McMullan explained Australia's motivation for supporting PACER Plus:

'In the longer term, we want to live in a stable and prosperous region. No country can develop without opening markets to the world and selling to the world ... Opening markets is not enough, however. We have to provide the capacity to take advantage of the opportunity.'

McMullan highlighted the role of the private sector, noting that 'no private sector can be efficient in the long term without competition and open markets.'

Melanesian Spearhead Group Trade Agreement (MSGTA)

Members: Papua New Guinea, Solomon Islands, Vanuatu and Fiji Islands

Status: operational

www.worldtradelaw.net/fta/agreements/msgfta/pdf

The original MSGTA was signed in 1994, facilitating free trade on 240 goods. The agreement was reviewed in 2005 to establish a Free Trade Area with lists of exempted goods. The MSG Secretariat was established in 2008 to aid implementation and overcome administrative delays. Currently only Fiji has started trading under the revised MSGTA; other members are still working on their national procedures for implementation. An upcoming meeting of the MSG officials in June 2010 will explore the operation of the agreement.

The Compact of Free Association

Members: USA, Palau, the Federated States of Micronesia (FSM), and the Republic of Marshall Islands (RMI)

Status: operational

www.fm/jcn/compact/comframe.html

'Compact' provides the three compact states preferential trade access into the US market. The US has tabled a waiver for this arrangement with the WTO until 2013.

New Overseas Countries and Territories (OCT) Preferential Trade Agreement

Members: French Polynesia and New Caledonia

Status: operational

As members of the association of OCT, French Polynesia and New Caledonia enjoy duty-free access into the EU market.

Julia Tijaja (email j.p.tijaja@open.ac.uk) was a trade policy analyst for the Solomon Islands Government (2005–2007). She is currently doing a PhD in international development at the Open University, UK.