



SOLOMON ISLANDS
TRADE POLICY STATEMENT



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1 | VISION, AIMS AND OBJECTIVES

The long-term **vision** of the trade policy framework is to:

'Build the productive capacity of the Solomon Islands economy via sustainable trade and investment. The resulting creation of wealth and employment opportunities is aimed at promoting human development, reducing poverty and improving living standards for Solomon Islanders.'

This trade policy framework lays out the main principles that will guide trade policy in Solomon Islands over the forthcoming five years and beyond. Its main aims are to integrate the trade-related aspects of existing sectoral policies and to put in place the broad institutional and policy guidelines and priorities to support policymakers in enhancing the role of trade in the economy as a means to reducing poverty and raising the level of human development.

A Trade Policy framework helps to avoid ad hoc decision-making and harmonise conflicting rules and policies. A prosperous trade and investment climate needs a comprehensive policy applied consistently to ensure certainty, predictability and credibility among trading partners. Frequent policy changes hamper trade development. The trade policy also helps with identifying constraints in the production and export sector and recommends solutions on how to address production and supply-side constraints.

More specifically the objectives of this TPF are to:

1. Mainstream trade into the national development strategy including future agreed national priorities.
2. Improve the medium to long-term performance of the Solomon Islands economy in the areas of trade and foreign direct investment.
3. Establish a policy platform that builds upon and coordinates sectoral priorities for the ultimate purpose of enhancing human development.
4. Support the effective operation of the National Trade Development Council (NTDC).
5. Articulate the trade interests of Solomon Islands and ensure that these are reflected in trade negotiations.
6. Facilitate increased inflows of Aid for Trade (AfT) for the purpose of implementing trade policies and helping use the opportunities offered by trade agreements.

2 | INSTITUTIONAL FRAMEWORK

Whilst the Ministry of Commerce, Industries, Labour and Immigration (MCILI) and the Ministry of Foreign Affairs and External Trade (MFAET) are the primary institutions involved with trade policy, the NTDC is mandated as the locus of cross-ministerial trade activity, involving all the main trade-related ministries and agencies. One of its advantages is that it mainstreams trade. Trade is a crosscutting issue which involves a considerable number of government ministries and agencies, and until now most have been insufficiently involved in trade policy. The NTDC meets increasingly regularly and is developing a detailed and proactive work programme. The organisation of the institution needs to improve, as well as its capacity to effect change.

Solomon Islands has a number of experienced trade negotiators. It is important that Solomon Islands continues to invest in building the capacity of existing personnel within the Department of External Trade to meet the demands of on going and future trade negotiations.

POLICY ONE	Develop a work programme and agenda for the NTDC including high-level goals to allow flexibility, along with cross-sectoral targets and specific goals. For example high-level goals might include ensuring that the TPF vision is implemented and that trade contributes to human development. A more specific goal might be to finalise a certain project, such as the construction of a Vapour Heat Treatment Facility to treat exportable fruit and vegetables. The work plan and agenda will be developed and driven by members. If written by outside consultants or specialists it will lack ownership and commitment.
POLICY TWO	Build awareness and support for the work plan and agenda at Cabinet level. After the work plan and agenda are endorsed by Cabinet, the TPF will be presented to the Members of Parliament to build awareness and support among the legislature.
POLICY THREE	Specific technical working groups in key negotiation areas such as labour mobility, agriculture and agro-processing, fisheries, development co-operation can be formed based on the stakeholders' areas of competence. In the medium term, the Trade Policy Framework and DTIS with necessary amendments can also be used to assist in formulating positions for trade negotiations. Adequate budget resources will be allocated for preparations for negotiations. Issues such as tariff liberalisation strategy, identification of sensitive or exempted goods, identification of services sectors and sub-sectors, current limitations on MFN and national treatment, and the quid pro quo must be thoroughly discussed at the NTDC before the trade delegation begin negotiation talks. The delegation can then be given the mandate with sufficient guidelines to negotiate in the best interests of the country.
POLICY FOUR	The NTDC is chaired by the Honourable Minister for Foreign Affairs and External Trade. The SICCI CEO is vice-chair alongside the CBSI Governor.
POLICY FIVE	The NTDC will meet at four times a year – i.e., every three months. Working groups will meet more often.

**POLICY
SIX**

The NTDC will broaden its membership to include other key trade related ministries such as environment and health.

**POLICY
SEVEN**

Improve trade-related data and capacity to generate, analyse and disseminate statistical information, including better coordination of data between MoFT, CBSI and MFAET. Support should cover: institutional strengthening; infrastructure development including training and implementation; the training of officials; and dissemination of data.

**POLICY
EIGHT**

Put in place a trade-related communications strategy including development of an internal communications strategy; regularly updating the website; development of an external communications strategy including segmentation of target audience and developing target-specific key messages; implementing communications and PR initiatives; enhancing staff communications and PR skills.

**POLICY
NINE**

Develop monitoring and evaluation for trade, including through: the clear assignment of roles and responsibilities; developing and adopting a results framework, a monitoring plan, a data management system and an evaluation plan; development of monitoring and evaluation capacities; and the allocation of future resources for monitoring and evaluation.

3 | MACROECONOMIC AND HUMAN DEVELOPMENT BACKGROUND

The economic performance of Solomon Islands since independence in 1978 has been mixed and volatile, with economic growth falling consistently short of the regional average. The economy grew at around 4.5% per annum for the first decade, slightly lower than the 5% average recorded during the previous 10-year period. Annual growth declined further in the nineties to the disappointing rate of around 3.5%, little higher than the rapid annual population growth of 2.9%.

With the stabilisation of the security and political situation from 2003 onwards the economy expanded rapidly for the next five years, rebounding quickly from a downturn in 2009 during the global economic crisis. By 2012 growth of 5.5% still lagged the regional average of 7.3%, being below that of neighbouring Papua New Guinea but higher than that of Vanuatu, Fiji, Samoa, Kiribati, Micronesia and Tonga. In real terms, per capita income started from a lower level and lost ground on the other Pacific island small states between 2003 and 2012.

A reduction in output from the logging sector has undermined growth, and this trend is expected to continue in coming years. The sustainability of the logging industry is the most worrying macroeconomic trend in coming years. A sharp economic shock is on the horizon with the potential loss of 60% of exports within 5-10 years.

Inflation has been relatively high, at an average of 7.75% from 2008-13, one percentage point above the average of the rest of the region, and with a disproportionate impact on the poor in the form of higher food prices. This relatively high rate of inflation is largely the result of higher world prices, rapid money supply growth and donor expenditure.

Human development is about capabilities and the freedom to make choices that can lead to life satisfaction. Translated to the UN Human Development Index (HDI) it includes per capita income, education and health and income, a broader measure of country performance than simple economic growth. On this measure Solomon Islands has performed badly. On the 2012 Index Solomon Islands was classified as having 'poor' human development, at 143rd out of 186 countries. Of the three main indicators that make up the index, Solomon Islands performs worst on education and better on health and income. As pointed out in the DTIS, trade is capable of contributing to an improvement in human development and economic progress, but only if supported by an active and coherent policy. Human development similarly has an important role in boosting economic growth and incomes.

Approximately 22.7% of people suffer basic needs poverty according to the UNDP, while food poverty is 10.7%. Urban households around Honiara suffer from disproportionate levels of poverty, with almost one in three people unable to afford a basic minimum standard of living. In rural areas 19% of people are poor. As Honiara expands, land pressures are creating large squatter settlements. In the provinces it is the most remote and most densely populated areas which have the highest proportion of poor households.

3.1.

Reasons for economic underperformance

Solomon Islands represents an example of the 'resource curse'. As a ready source of economic activity, logging reduced the incentives for diversification and value-addition. Export duties on logs were a reliable source of fiscal revenue independent of direct and indirect taxes on citizens. The fiscal and economic gains from logging were not used to build infrastructure and productive capacity. Rather than actively promote diversification and the development of the supply-side of the economy through investment in infrastructure and the other necessary ingredients of productive capacity the government has, perhaps not as part of a purposeful or explicit strategy, over the past years enacted policies of increased trade openness and domestic liberalisation alongside lower government expenditure and limitations in money-supply growth. Trade and economic growth have performed poorly at a time of lower tariffs, restrictions on government spending and the limited availability of credit.

The problem of slow growth and trade development, therefore, largely concerns weak demand and underinvestment rather than insufficient domestic liberalisation or access to foreign markets. Solomon Islands has very low tariffs and significant access to international markets via trade agreements. Domestic supply is clearly limited, and however open are international markets, the domestic economy struggles to generate enough supply to meet the significant potential market access that exists for Solomon Islands products. Additional measures to stimulate demand and reduce inequality are critical, via government and donor spending rather than tax cuts, which are unlikely to have much effect in a partly subsistence economy at a time of long-term economic stagnation.

4 | TRADE COMPOSITION AND TRENDS

The three largest export commodities are timber, gold and fish. Timber and fish exports have a long-term history although gold is a relatively new export. Logging comprises 60% of exports, 15% of government revenue and 32% of foreign exchange earnings. It is also the largest source of formal employment other than the government, providing 5,000 jobs. The likelihood that natural forest resources will soon be exhausted means that other sources of export growth will need to be found in addition to mining. Almost all exports are unprocessed commodities. Value-addition must form an integral part of export strategy.

The economy relies heavily on imports of processed and manufactured goods as very little is produced domestically. The emphasis in trade policy on building productive capacity is aimed partly at helping with import substitution in selected industries.

Services account for roughly a third of total trade. Transportation and travel account for about half of total services imports, a reflection of the country's geographical isolation and dispersion. The tourism sector is at an earlier stage of development despite abundant natural attractions and the proximity to Australia. Solomon Islands is formally included in the New Zealand Recognised Seasonal Employer (RSE) scheme and Australia's Seasonal Worker Programme (SWP). Such programmes could become an important form of services exports.

By country, China is Solomon Islands' top export partner according to the IMF Direction of Trade Statistics, accounting for nearly half of all exports (mostly logs). Australia was a distant second at 16.7% in 2012, although it should be noted that the data may be unreliable. Exports to Australia are reported to have jumped by nearly double in 2012 due to the increase in gold exports from the Gold Ridge mine, a significant diversion from the long-run trend, although the closure of the mine has since reduced exports.

Exports to the EU were almost a tenth of the total according to the most recently available data. Exports to Thailand and South Korea dropped to 3.1% and 1.4% of the total, respectively, largely as a result of a decline in fisheries exports, whilst exports to India appear to have jumped in the past two years, reaching 2.6% of the total. Statistical problems aside, the main outstanding export trend has been a major shift toward developing Asia and China away from the European Union over the past decade or more.

Imports are more diversified, with more than half a dozen countries accounting for the bulk of imports. One of the biggest trends has been the increase in imports from Singapore and developing Asia over the previous 15-20 years. Singapore now accounts for 26.9% of all imports (mostly probably re-exported products which originate elsewhere, including items such as mineral fuels) and developing Asia 29%. Imports from Australia are the second largest by individual country, at 25.5%, followed by China at 7.1%. The European Union now accounts for only 1.7% of imports, compared with as much as a tenth in the 1980s.



5 | BUILDING PRODUCTIVE CAPACITY

Productive capacity is the key challenge to trade development. It can be seen as the set of capabilities available in a country to produce and market its output of goods and services. This includes labour, physical capital, human capital, land, productivity, and any other factor that contributes to maximizing the output of the economy, including trade and transport integration, institutions, policies and regulations. This trade policy framework pulls together the various existing sectoral strategies and tries to coordinate them in the interests of trade development. It does not promote new sectoral policies, which are the responsibility of individual ministries.

Output maximisation, however, should not be the sole aim of development. A human development approach recognises that the fulfilment of human capabilities is more important than simple enrichment, and that income distribution is critical to ensuring a sustainable long-term development path.

As noted above the economy suffers from a shortage of supply capacity to be able to export in sufficient quantities and consistency to international markets. The difficulties in responding to changes in the world economy and a lack of diversification undermine the country's ability to export. A number of other factors including transport, finance, land ownership and utilities further constrain productive capacity and trade – not only exports but imports and the possibility of import substitution. Participants in consultations for the trade policy framework almost unanimously agreed that the building of productive capacity should assume a higher priority than it has done until now, and that it should receive greater focus than existing trade negotiations.

In Solomon Islands the principle ingredients required to build productive capacity are linkages, infrastructure, finance, land, energy and water. Within the parameters permitted by international trade commitments, an industrial policy will be developed in order to tackle some of these challenges.

Linkages include backward linkages with suppliers, linkages with technology partners, forward linkages with customers and other spill over effects. One important example of linkages in Solomon Islands is between the hospitality industry and agriculture. Farmers may supply fruits, vegetables and meat to hotels. The mining industry in time may also develop additional backward linkages with suppliers of food and transport.

Infrastructure is key to stimulating economic activity, improving trade and reducing poverty. Quality infrastructure which extends across the whole country facilitates the movement of agricultural and other inputs into the productive areas and help producers bring to market goods and services, and consumers to travel to markets. Infrastructure spending can also help raise economic growth by creating jobs and helping money to circulate in the economy.

Access to financial services is also critical. Interest-rate spreads are high and banks particularly risk-averse. For the purposes of building productive capacity with a view to trade development

it will remain important to provide the full range of different financial institutions, including conventional banking, microfinance, travelling banks and banking by mobile telephone.

Clear property rights are critical to market-based economic development, yet in Solomon Islands this has proved a particular challenge. Land is mostly owned by the community rather than on an individual private, freehold basis. Approximately 87% of land is customarily owned, 9% owned by government, 2% owned by individual Solomon Islanders and 2% leased by foreigners. In many cases land was historically not ‘owned’, but used by different groups for different purposes, such as water, grazing or growing crops. It is therefore virtually impossible to determine ‘ownership’ in the western sense. Conflict over land ownership has been widespread and has in some cases held back economic development – land-based mining operations being cases in point. Land is cited by foreign investors as the biggest challenge to doing business, followed by infrastructure.

Water supply and energy are major challenges, with the infrastructure for each remaining somewhat out dated and old. Both are critical to the development of productive capacity for trade. Electricity blackouts remain common, and the diesel bill has been particularly high, with a consequent effect on the balance of payments. A number of schemes aimed at tackling these challenges are under way.

5.1. Prioritisation of sectors

During consultations for the Trade Policy Framework stakeholders were asked to prioritise the main existing industries according to future importance for the economy and sustainable development. Agriculture was unanimously given the highest priority, followed mostly by fisheries but with some stakeholders favouring the tourism industry. Labour mobility was largely cited as the next most important issue, followed by mining and logging. The perception of most stakeholders was that mining was unsustainable, had few linkages to the rest of the economy and that land issues had a high chance of retarding investment in this area (apart from undersea mining). However mining doubtless has a critical role to play in future economic growth. Information and communications technology is not generally considered a major contributor to the economy although it has significant future potential.

POLICY ONE	The level of openness of Solomon Islands will be primarily determined by its unilateral policy actions based on an assessment of the interests and needs of the people of Solomon Islands rather than be driven by trade negotiations.
POLICY TWO	The diversification and development of the export trade of Solomon Islands should be built on a series of consistent, well-designed and coordinated sector policies.
POLICY THREE	Develop an industrial policy including targeted interventions aimed at improving economic diversification and domestic value addition; improvement of linkages between sectors; and increasing the contribution of agriculture and manufacturing to merchandise trade. The policy will enhance competitiveness and diversification, and aim at moving Solomon Islands up the value-adding ladder. The policy should be driven by the MCILI through the NTDC.
POLICY FOUR	Promote policies that induce backward and forward linkages, particularly tax and investment policies. Promoting smaller-scale enterprises that are linked to the large enterprises can play a critical role in achieving inclusive growth.

6.1. Agriculture

Some 84% of Solomon Islanders engage in subsistence smallholder farming. Agriculture is a key economic sector and an important source of rural employment and livelihoods. Commercial export crops have grown to a larger scale to increase cash income for rural households and are now the main contributors to the economy. Crops include cocoa, coffee, kava, vanilla, copra and coconut oil, oil palm, and honey. Around 17% of export earnings come from cocoa and copra.

POLICY ONE

The government will move towards the elimination of unprocessed copra exports and toward higher-value added processing. Production targets will be reassessed and made more realistic based on current trends, and will include concrete intermediate actions aimed at achieving these realistic targets.

POLICY TWO

Implement a programme, including overseas study tours and quality standards assurance, on knowledge and capacity building of high value food processing and marketing techniques for private sector entrepreneurs. Encouraging value addition. The food sector, including coffee, nuts, spices, fruits and kava, is particularly appropriate for support in this context. Other countries in the region, particularly PNG, Vanuatu, and Fiji have accessible expertise in these areas. The government will seek the necessary technical assistance from development and international partners to help carry out all of the prioritised reforms in partnership with ministries.

6.2. Fisheries

Solomon Islands is located within the last great tuna fishery. The wider Western Central Pacific Ocean area produced a record high of 2.6 million tons of tuna in 2012, representing over 60% of the world's tuna catch. Roughly half of this tuna catch was taken from the waters of PICs. There is significant potential for the fishery to contribute to the economic development of Solomon Islands over the longer term if the fishery is sustainably managed.

Of the total catch in Solomon Islands zone, including MGA waters, some 11% (24,000 tonnes) is processed in-country. This processing generates 1,795 jobs with a potential value-added of US\$16 million and exports valued at US\$59 million.

For inshore and coastal fisheries, most Solomon Islands villages are located on the coast and rely heavily on marine resources for food and cash incomes. There are serious concerns about the future sustainability of the coastal fisheries resources in Solomon Islands and urgent attention should be given to this issue. Coastal fisheries are an essential supply of protein and need to be better managed.

POLICY ONE	Continue to engage with the Economic Partnership Agreement (EPA) negotiations, signing only if benefits clearly outweigh the costs. A new and detailed empirical cost-benefit analysis will be conducted once the negotiations have been finalised.
POLICY TWO	Continue to support the development of fisheries canning and tuna processing in Noro and elsewhere. Place rural fisheries and aquaculture development within an integrated rural development strategy ensure that a proportion of the income from the tuna industry is allocated to support the rural development strategy. This may best be achieved by ring-fencing the funds in a trust fund.
POLICY THREE	Increase focus on value-addition and reduce reliance solely on fisheries access revenue in order to encourage job creation and retention of benefits by prioritising the granting of fisheries access to those companies that make considerable investments in onshore fish processing in Solomon Islands.
POLICY FOUR	Continue to ensure that conservation and the sustainable management of fisheries remain core principles governing actions and policies in this sector.
POLICY FIVE	Ensure that the competent authority that deals with food safety including sanitary and phytosanitary issues within the Ministry of Health and Medical Services is provided with adequate funding allocation on an annual basis in the national budget. This will remove the uncertainty from relying on donor funds in this vital area and ensure continued trade of fisheries products with the EU.

6.3.

Mining

Mining has the potential to be the major contributor to foreign exchange and government revenues, possibly replacing the logging industry as the mainstay of the economy. As in a number of other industries land ownership has proven a particular challenge. Plans for nickel mining in Choiseul and Isabel were delayed and may not produce as much as was originally thought.

The Gold Ridge mine on Guadalcanal also faced challenges, where land disputes cost significant sums and delayed operations. The quantity and quality of gold extracted were lower than expected, and in April 2014 the mine finally closed and was later put up for international sale.

Whilst land is part of the problem, a lack of policy guidance is also critical. A mining policy exists but it is not implemented, and guidance is taken from the Mining Act. An updated mining policy needs to be developed and put in place as a matter of urgency. Environmental management also remains very important, as does the social impact of mining.



POLICY ONE	Update and implement the mining policy and put it into practice. Ensure that a variety of government ministries have the necessary technical expertise to ensure that regulations are appropriately set and implemented, mining concessions and contracts are well negotiated and benefit the people of Solomon Islands.
POLICY TWO	Build linkages between the mining sector and other industries including utilities; food services; maintenance services; machinery maintenance services; training of technical personnel in business services; accounting and safety standards.
POLICY THREE	Place emphasis on the reduction of legal obstacles to mining development, improve transparency and continue to adhere to international best practice, while ensuring that mining activities are sustainable and land-owners and the community fairly share in the benefits. Make environmental considerations paramount.

6.4.

Forestry

The decline in the logging industry is the most pressing macroeconomic and environmental challenge facing the country. The majority of exports and government revenues come from the industry, which is a major employer and supports a number of important areas of economic activity, such as stevedoring. Plantation forestry, at an estimated 7% of total logging output, will be insufficient to compensate for the forthcoming decline in the logging of natural forests.

POLICY ONE	Ensure the tax and regulatory regime is fully implemented and modified to address any loopholes.
POLICY TWO	Work with sawmill operators and local timber companies and develop downstream processing among domestic companies and produce a long-term strategy on downstream processing. Establish a Value-added Timber Association (VATA) producer's organization. Work on removing obstacles to the export of timber has been undertaken under the auspices of PHAMA will be supported.
POLICY THREE	Continue to inform resource owners about reforestation and plantation establishment. Awareness for plantation establishment will prioritise landowners in plantation or woodlot establishment on their land, followed by community plantations, then joint ventures with existing Solomon Islands based companies, and finally, joint ventures with foreign investors. Mechanisms for property rights and rentals should be clarified, especially understanding of land registration and joint venture arrangements.
POLICY FOUR	Formulate a policy position on carbon finance. A national carbon monitoring system needs to be established, which would be followed by undertaking a national carbon stock assessment.

7.1. Foreign investment

Foreign investment can make an important contribution to the economic development of Solomon Islands and may help increase productivity. An investment policy was under preparation at the time of writing with the support of the World Bank. It is important that the investment policy be integrated into the broader trade policy framework.

A number of obstacles to increasing investment have been identified. These include: political instability, in particular that arising from the post-conflict settling; the high cost of doing business (but low wages); poor infrastructure; high tax rates; land ownership/registration; inconsistencies between different pieces of legislation; distance from markets; and lack of knowledge about country and investment opportunities.

Efforts have been made to improve the general business and investment climate in recent years, including measures to facilitate investment in land-based activities in a manner consistent with continued customary ownership of land. Some incentives are available to foreign investors. However, scope remains to improve the procedure for review of foreign investment and other regulatory approvals required. Business travellers are also an important feature of the services industry, as they are often associated with foreign investment and bring skills and income.

POLICY ONE	Seek to enhance the transparency of the legislative and policy environment governing foreign investment, including the conditions and procedures governing investment and business operation in key sectors of the economy, such as fisheries, forestry and mining.
POLICY TWO	Seek assistance to better promote opportunities for quality investments in productive sectors. This should incorporate the incentives to attract investment in specific sectors. ¹
POLICY THREE	Exercise great caution before concluding an investment protection treaty that contains provision for investor-state arbitration of investment disputes. An investment treaty that did not provide for investor state dispute settlement, and was drafted to retain appropriate regulatory and policy space, could, however, be one of a series of measures that would signal to investors that Solomon Islands is secure location to invest.
POLICY FOUR	Ensure appropriate regulatory regimes are in place, especially in sectors a commitment to liberalise access to foreign investment might be made in a treaty.

¹ See, for example, Christopher A. Hartwell, Starting a Tourism Business in Solomon Islands: A Guide for Foreign Investors, Prepared for the Tourism Task Force and the International Finance Corporation (IFC), November 17, 2010.

Services account for more than half of GDP. In 2012 Solomon Islands exported a total of SI\$1,038 million worth of services. Approximately three quarters of the total were made up of travel (SI\$492 million) and transportation (SI\$251 million). In the same year, travel (SI\$500 million) and transport (SI\$378 million) services also dominated the importation of services, but with a significant amount of other business services imported (\$SI287 million). There has been a persistent deficit in trade in services over the past decade.

POLICY ONE

A review of the consistency of national legislation with current and proposed commitments in relation to trade in services should be undertaken.

Tourism is among the smallest sectors but is growing, based on natural advantages such as pristine tropical ecosystems, beautiful scenery and diverse cultures. The country offers a range of products including dive tourism, adventure tourism related to nature and culture, kayaking, game fishing, village stay tourism and World War II heritage tourism.

Visitor arrivals were an estimated 24,431 in 2013, a limited rise from 23,918 the previous year, 22,941 in 2011 and 20,521 in 2010. Only a about a quarter of total visitors were tourists, which is very low compared with the more than 300,000 tourists and day visitors seen during a single year in neighbouring Vanuatu. The challenge is to build the sector in these areas to an extent that it can support a sufficient critical mass of visitors to make operations sustainable as well as encourage greater investment in tourism related infrastructure.

Growth is constrained by limited human resources, weak marketing, and poor infrastructure and services – roads, airports, shipping, communications, electricity, water supply and sanitation, waste disposal – compounded by value for money concerns relating to tourism standards.

There is evidence that the rise in China's middle class will create significant opportunities for Melanesian neighbour Fiji. As a long term strategy Solomon Islands should seek to tap into the Chinese tourism market and leverage the direct air links between Fiji and Hong Kong and in turn Fiji and Solomon Islands.

POLICY ONE

Finalise and implement the tourism policy and allocate sufficient funding. Increase funding into tourism marketing and promotion outside of the country. Tourism strategy will be based on yield enhancement rather than an absolute increase in tourism numbers.

POLICY TWO

Commit additional resources to outside marketing and promotion using the regional tourism bodies.

POLICY THREE

Improve access for local tourism enterprises to business start-up or expansion funding, including microfinance.

POLICY FOUR

Use the internet to tap into high-yield markets and make it a major focus for future marketing. The strength of Solomon Islands lies in the mix of experiences that it can offer visitors.

Information and Communications Technology (ICT) is under-prioritised, and ICT infrastructure is amongst the poorest in the Pacific region. Yet ICT, together with tourism, is the area of the services sector with the most potential to contribute to economic diversification and growth. It may also contribute to broad social objectives through e-government and e-education initiatives. ICT is especially significant in the context of PACER Plus negotiations: Australia and New Zealand are Solomon Islands' biggest trade partners, and each country has a sophisticated ICT infrastructure and e-business community. Australia and New Zealand can provide a source of know-how and inward investment, and might even in future become markets for the export of services via the Internet.

Solomon Islands should aim to create a situation where all citizens have access to high-speed broadband and where young people see the Internet as a normal part of the economy and everyday life. ICT particularly suits Solomon Islands given its smallness, physical distance from major markets and its geographical fragmentation. ICT also provides more cost efficient and effective ways to preserve and promote local culture. The costs of economic and social activities can fall when ICT replaces transport and postal services. Furthermore, it opens new business opportunities.

POLICY ONE

Develop an ICT policy which devotes attention to trade, exploring opportunities to provide a variety of services over the internet. Lessons will be learnt here from the Vanuatu policy, finalised in 2014, which includes 1) Access to ICT in Education; 2) Access to ICT Infrastructure and Devices; 3) E-Government; 4) Integration of ICTs into Sectoral Policies; 5) Building Trust (Mitigating Risks and Threats related to the ICT Development); 6) Locally Relevant Content; 7) Capacity Building; and 8) Platform for Multi-Stakeholder and Multi-Sector Coordination and Collaboration.

POLICY TWO

In light of the imminent availability of undersea high bandwidth fibre-optic cabling formulate an ICT regime that is designed to attract greater investments in the area of business process outsourcing (BPO), call centres and other forms of back up operations which Solomon Islanders from different education backgrounds and qualifications can benefit from.

Freedom of movement of labour is a core element of the economic integration between Australia and New Zealand and the European Union. Increased labour mobility among Pacific Island Forum Members, in particular increased access for Pacific Island Country workers to the Australia and New Zealand labour markets, has long been an objective of Pacific Island political leaders. Improved access to employment opportunities in higher-income economies represents a significant opportunity for improving the living standards and productivity of Solomon Islanders.

In recent years the debate on merits of labour mobility has been dominated by the New Zealand Recognised Seasonal Employer Scheme (RSE). The equivalent Australian scheme to the RSE has been until recently somewhat smaller and less successful. There were 42 Solomon Island workers in FY 2012-2013 and only eight up until January in FY 2013-2014.

The greater size and better transport connections between with Australia rather than New Zealand mean that the participation of Australia is central to the success of any regional labour mobility scheme.

POLICY ONE	Labour mobility will form a key pillar of the macroeconomic strategy to improve the level of economic and human development in Solomon Islands.
POLICY TWO	Formulate a National Labour Mobility Strategy.
POLICY THREE	Labour mobility will form a key offensive interest in PACER Plus negotiations. Solomon Islands will continue to argue that labour mobility must be within the PACER Plus agreement, with improved quotas and additional sectors in which labour shortages exist.
POLICY FOUR	Continue to highlight to partner countries that labour mobility is advantageous for employers, workers and sending and receiving countries. Seek to expand market access opportunities for Solomon Islanders in foreign markets, and streamlining of administrative processes, in particular with Australia and New Zealand. Opportunities under existing schemes should be expanded, while seeking additional opportunities in fields where Solomon Islanders are likely to receive additional training and skill development abroad in fields in demand in Solomon Islands. Administrative processes can reduce access to foreign markets and are frequently the subject of trade negotiations. Solomon Islands should discuss options for the streamlining of administrative processes in receiving countries for seasonal workers.
POLICY FIVE	A marketing and promotion strategy will be developed to promote Solomon Islands workers for the RSE and SWP and other seasonal worker opportunities.
POLICY SIX	Strengthen the Labour Mobility Unit to facilitate increased mobility under the RSE and SWP and future labour mobility schemes and liaise with the Department of Labour, MCILI, to review legislation and design a broader framework for labour mobility.
POLICY SEVEN	Build long term capacity to provide enhanced administrative support and coordination, pre-departure training, care and monitoring of workers abroad, and ensuring predictability of supply of seasonal workers. Consider the Vanuatu model on labour mobility.
POLICY EIGHT	Solomon Islands will continue with initiatives to reduce the cost of remittances, in particular to rural communities.
POLICY NINE	Link labour mobility to the broader national development strategy, in particular in relation to vocational training. Where opportunities for labour mobility are available, Solomon Islands should seek donor support for the enhancement of the skills and qualifications of Solomon Island workers in such areas, including through vocational training, such as courses provided by the Australian Pacific Technical College.
POLICY TEN	Solomon Islands should discuss options with its partners to ensure that its people have an effective equal opportunity of access to opportunities for workers compared with people from other countries, most notably under working holiday schemes.

8 | TRADE POLICY AND BUSINESS ENVIRONMENT

8.1. Domestic legal framework

A number of laws relate to trade, including The Customs and Excise Act 2002 (as amended); The Customs Valuation Act 2009 and Customs Valuation (Amendment) Act 2010; and the Biosecurity Act 2013. A number of other laws regulate product standards, including the Weights and Measures Act 1982 and the Consumer Protection Act 1990. The Consumer Protection Act 1990 contains broad powers to regulate goods and the Weights and Measures Act 1982 contains broad power for the regulation of metrology. The Pure Food Act 1996 and the Environmental Health Act 1980 permit the regulation of the quality of foodstuffs. Other laws that regulate domestic trade, such as the Price Control Act 1982, could also affect international trade flows. Some of this legislation is in need of reform. The Protected Industries Act 1954 permits the granting of orders to restrict imports that may affect particular industries.

The Income Tax Act 2002 (as amended) provides for income tax exemptions on the basis of domestic-value-added criteria, as well as exemptions for specific sectors. The Goods Tax Act provides for a number of goods tax exemptions. The 2006 Guidelines provide for tax exemptions for capital goods imported by new or expanding businesses or for the development of rural communities.

POLICY ONE

Solomon Islands will continue to review older legislation that may affect trade in products, including the legislation aimed at the domestic market, to ensure that the legislation achieves its policy objectives and operates in a WTO compatible manner.

8.2. MFN tariffs and other charges

Solomon Islands' tariffs have fallen significantly over the past decade. The simple averaged applied MFN tariff rate in 2008 was 9.1%, while the average effective tariff rate was 5.7% in 2007. About 82% of ad valorem tariff lines have a rate of an applied tariff of 10%; 17% of items have a rate of 5%; 33 items are duty free; and 6 items have a rate of 15%.

Solomon Islands has bound all of its tariffs under the GATT, mostly at 80%. As a consequence, Solomon Islands would be able to significantly raise most of its tariffs on imported products if it decided to do so. The gap between bound and applied rates creates the space that may be necessary for Solomon Islands to implement an industrial policy.

Under the Goods Tax Act, the goods tax is 15% for imports and 10% for domestic products. On the other hand, imported beer, tobacco and cigarettes are not subject to excise tax.

POLICY ONE

From the introduction of ASYCUDA World, Solomon Islands will publish statistics on trade flows and tariff revenue, including on the granting of full and partial duty exemptions, to improve transparency and certainty for traders and investors.

POLICY TWO

Ensure that the use of ASYCUDA World is consistent with the recommendations under the section of the TPF on the institutional framework. This means strengthening institutions so that they can use and interpret ASYCUDA data; the training of officials in the generation and analysis of data; and the dissemination of data.

8.3.

Preferential tariffs

Solomon Islands has made preferential tariff commitments under the MSGTA and PICTA. In 2017, Solomon Islands will be required to provide duty free access to all but a few exempt products, including alcohol and tobacco products, from the MSG countries and products from Solomon Islands will continue to have duty free access to the markets of other MSG countries. The MSGTA may have increased bilateral trade between members by 49%.

Solomon Islands is yet to announce its readiness to trade under PICTA. PICTA seeks to reduce ad-valorem tariffs to zero by the year 2015 for developing countries and 2017 for least developed countries and small island states. For products on the negative list and non-ad-valorem tariffs, tariffs will be reduced to zero by 2020 and 2021 for developing and LDC and small island states, respectively. Alcohol and Tobacco products are excluded from liberalisation under PICTA. The trade and revenue effects of PICTA are likely to be modest.

If Solomon Islands concluded preferential trade agreements with the EU and/or Australia and New Zealand, preferential duty access will have a more substantial impact on government revenue and the flexibility Solomon Islands possesses to modify its tariffs. Any industrial policy will need to take into account the negotiation of preferential trade agreements.

POLICY ONE

The MCILI will lead development of an action plan to assist exporters to promote and market products in other Pacific Island Countries in order to effectively benefit from PICTA and the MSGTA.

8.4.

Quantitative restrictions and licensing

The Comptroller of Customs is empowered to impose prohibitions and quantitative restrictions on imports under the Customs and Excise Act. The broad power needs to be administered in a manner that is compatible with the international obligations of Solomon Islands. The WTO, consistent with policy advice, has a preference for import competition to be regulated with tariffs rather than quotas, because tariffs are more transparent and less distortionary. Under the WTO, members are generally prohibited from imposing prohibitions and quantitative restrictions on the importation and exportation of products. The rule has a number of important exceptions.

Solomon Islands, like all other countries, also prohibits the importation of a number of products and imposes a requirement of import licences for public order, public morals, health, biosecurity and environmental reasons.

**POLICY
ONE**

The legislation prohibiting or restricting the importation of products, as well as the implementation of legislation that empowers a government agency or Minister to restrict or product imports, will be reviewed to ensure the legislation is achieving the policy objectives of keeping undesirable products off the market and doing so in a manner consistent with the international obligations of Solomon Islands.

8.5. Export taxes and controls

Export taxes are levied on fish, minerals and timber. In 2012 and 2013, approximately 14% of government revenue came from export taxes (largely on logs), as opposed to approximately 8% of government revenue from import tariffs. The expected drop in quantity of logs exported from 2014 is likely to see a significantly smaller percentage of government revenue coming from export taxes.

Export taxes provide an important source of revenue, provide a practical means of capturing some of the economic rents from natural resources, and may encourage some downstream processing. With the possibility of restrictions on the use of export taxes being introduced into the WTO and the EPA, Solomon Islands should consider whether an appropriate set of alternative policy measures can achieve broadly the same outcomes as the current export tax regime or negotiate sufficient policy space to allow the continued use of export taxes.

**POLICY
ONE**

If alternative means of raising equivalent revenue (such as stumpage charges, a VAT or a resource rent tax) are not practical or politically possible, the entry into a trade agreement that restricts the right to impose export taxes should be avoided.

**POLICY
TWO**

The availability of income tax exemptions and deductions will be reviewed and aligned with the sectoral development and industrial policies of Solomon Islands.

8.6. Customs procedures and cooperation

Many studies have shown that non-tariff barriers to trade, including customs delays and inefficiencies, impose significant costs on countries around the world. The cost of inefficient trade facilitation can be significant. Solomon Islands should coordinate its negotiation of trade facilitation commitments in preferential trade agreements with its strategy in the WTO. The implementation of the WTO Trade Facilitation Agreement and related decisions in November 2014 will require assessment of Solomon Islands' existing customs procedures, progress with reforms underway, and resources required to complete priority reforms. Solomon will then secure funding to assist with the implementation of the reforms.

Solomon Islands has a number of initiatives underway to modernize its customs administration. A key priority has been the enactment of new customs legislation. At the time of preparation of the report, a bill was still being drafted and had yet to be sent to the Attorney General's office and the Cabinet. Secondly, Solomon Islands is in the process of implementing ASYCUDA World. The project has entered the second phase, with a prototype having been completed. Third, Solomon Islands is planning to implement the 2012 version of the Harmonized System from 2015. In 2014 the new tariff classification was scheduled to be gazetted.



Solomon Islands needs to ensure a high level of inter-agency coordination to achieve its objectives in relation to customs modernization, including between the Customs and Excise Division and other divisions within the Ministry of Finance and Treasury and the Ports Authority.

POLICY ONE	Commit to implementation of a programme of trade facilitation and customs modernisation consistent with the available resources and adopt a policy of continuous improvement.
POLICY TWO	Seek the necessary technical assistance to carry out all of the prioritised reforms as part of a multi-year programme.
POLICY THREE	Establish a Trade Facilitation Committee under the National Trade Development Council.
POLICY FOUR	Ensure better resourced border control in ports outside of Honiara.

8.7 Sanitary and phytosanitary measures and standards and conformity assessment

Sanitary and phytosanitary measures (SPS) constrain the export of a number of agricultural and fisheries products from Solomon Islands. Use can be made of the WTO SPS agreement, although a number of trade agreements have sought to include additional elements that go beyond the scope of the WTO SPS Agreement. Solomon Islands should negotiate provisions or chapters on SPS measures and TBT in its trade agreements based on the obligations it has accepted in the WTO.

Solomon Islands quarantine administrations are severely capacity and resource-constrained, and standards and conformance bodies in Solomon Islands are either non-existent or at the early stages. Further assistance may be required to enhance export potential in relation to agricultural and fisheries products.

The Department of Agriculture and Quarantine will need to be provided with the necessary resources to address issues relating to fruit flies and other pests which are a hindrance to fresh fruits and vegetable exporters. A vapour heat treatment system for fresh produce may be necessary to resolve in the sanitary and phytosanitary problems when trying to export agriculture goods into the Australian market.

As already noted, problems also existed for the competent authority for fish exports, which had to receive emergency funding from AUSAID in 2013. Continued underfunding for the competent authority is of great concern as this could potentially risk the suspension of tuna exports to the EU.

The liberalisation of trade may expose Solomon Islands to the risk that some of the imported goods may be harmful to the health of people, animals or plants. This concern was raised during consultations. Liberalisation needs to be accompanied by adequate regulation. As noted above, the legislative framework for standards and conformity assessment may need to be reviewed.

POLICY ONE	Include provisions modeled on the WTO SPS and TBT Agreements in preferential trade agreements that are negotiated.
POLICY TWO	Building on existing studies and initiatives identify priority areas that will assist exporters and protect the local people and environment and seek assistance with the realization of these objectives in a coordinated manner under the post-Bali Work programme and bilateral arrangements.
POLICY THREE	Sufficient funds for the operation of the competent authority charged with providing quality assurance of tuna exported to the EU will allocated in the budget of the Solomon Islands Government.
POLICY FOUR	Review health and safety regulations and enforcement bodies to ensure that Solomon Islands people and environment are not exposed to harmful imported products.

9 | TRADE RELATED ISSUES

Trade policy is no longer restricted to trade in goods and services. Solomon Islands' trade policy must deal with the full range of matters that may be the subject of the WTO and preferential trade arrangements. In addition to government policies and measures directly addressed in trade agreements, many other government policies and laws and regulations are affected by the integration of Solomon Islands into the regional and global trading system. Those policies, laws and regulations will also affect the extent to which the individual people of Solomon Islands and the country as a whole are affected by increasing economic integration.

9.1. Competition policy

Competition is limited due to the small size of the market and limited regulations. A number of measures can be taken to improve competition and thus lower prices and ultimately productivity.

POLICY ONE	Establish a general competition law and an enforcement agency that is applicable to all sectors of the economy, building on the activities of existing agencies within Solomon Islands and successful experiences in other Pacific Islands.
POLICY TWO	Review the scope of any statutory monopolies with a view to enabling greater competition and private sector activity in a sector where consistent with the development strategy of Solomon Islands.

Government procurement of goods and services constitutes a not insignificant portion of government expenditure (14%) and GDP (5%) in Solomon Islands. The strengthening of government procurement systems, and ensuring compliance, can lead to better use of scarce government resources and assist economic development. Strong procurement systems can also lead to greater flexibility in the use of donor assistance. The Public Financial Management Act 2013, ss 72-75, provides legislative backing for rules and regulations on government procurement.

Solomon Islands should determine the appropriate system of government procurement and seek to avoid international commitments that would be incompatible with that system. A careful national study may be required. A number of broad issues must be considered, including: the thresholds for goods, services and construction covered; the range of entities covered; whether discrimination in favour of local firms is permitted; whether exceptions for national security or other purposes should be permitted; and relationship to regional joint procurement proposals.

**POLICY
ONE**

Before undertaking international commitments on government procurement, the role that government procurement can play in development in Solomon Islands and review of the type of disciplines on procurement in Solomon Islands will be conducted.

Above and beyond the WTO TRIPS agreement many preferential trade agreements, in particular those negotiated by developed countries, include chapters on intellectual property. Often these chapters contain additional commitments over and above those contained in TRIPS. In the EPA negotiations, the EU has sought to include substantive commitments on intellectual property.

Some intellectual property protection is necessary to encourage foreign investment and domestic innovation and entrepreneurs. Solomon Islands, like most small developing countries, is a net importer of intellectual property. Extensive international commitments on intellectual property protection in all areas are not necessarily in its interest, which are best advanced by detailed consideration of the type of intellectual property protection that is consistent with its development plan.

Solomon Islands has an interest in the protection of its traditional biological resources and tradition knowledge and cultural expression. These interests are not well protected under traditional intellectual property systems and sui generis legislation is often seen as necessary. In 2002, the Model Law on Traditional Knowledge and Expressions of Culture (TKEC) was completed.

**POLICY
ONE**

Develop intellectual property laws that are consistent with its interests outside of trade negotiations.

**POLICY
TWO**

Where appropriate seek cooperation from other countries to reduce cost and technical obstacles.

**POLICY
THREE**

Seek to have bio-diversity, traditional knowledge and cultural expressions that is protected in Solomon Islands protected in other jurisdictions.

The promotion of trade without regard for the environment will not lead to sustainable development. Positive measures need to be taken to ensure that the environment is not harmed. This might involve the regulation of exploitation of natural resources central to key export industries, such as forestry, fisheries, and mining. A failure to regulate may harm other export industries, such as tourism, or prevent eco-certification that may be important for the maximisation of the return from some industries.

One such example is in an effort to combat the flow of IUU fish into the EU market, in September 2008 the EU's adoption of a regulation establishing a system to prevent, deter and eliminate illegal, unreported and unregulated (IUU) fishing. The IUU Regulation establishes a scheme for catch documentation to enhance the traceability of fisheries products through the various stages of the supply chain, from fishing vessels onwards.

While greater controls on IUU fishing is in the interests of Solomon Islands, efforts should be made to ensure that such controls are structured and administered in a manner compatible with the interests of Solomon Islands.

The development of a general approach to the issue may be of some importance to Solomon Islands in the light of the attempt by the EU to negotiate provisions regulating fisheries conservation and management measures in the EPA as well as a general chapter on trade and the environment. Trade policy should seek to support fisheries policy and not undermine it.

Aside from the current round of negotiations, Solomon Islands should remain engaged with the WTO because members make a number of important decisions that can affect the interests of members. An example is the General Council Decision of 6 December 2005 on the Amendment of the TRIPS Agreement, WT/L/641, which confirmed earlier decisions to permit certain actions designed to improve access to pharmaceuticals in developing countries. Another example is the WTO Work Programme for the Least-Developed Countries (LDCs) adopted by the Sub-committee on Least-Developed Countries on 28 June 2013, WT/COMTD/LDC/W/57. The resources and influence of Solomon Islands can best be used in the WTO in cooperation with other like-minded members, in particular other Pacific Islands and the Group of Small and Vulnerable Economies.

Current negotiations under the Doha Development Agenda are unlikely to present significant challenges for Solomon Islands as a WTO member. This is because in non-agricultural market access (NAMA) negotiations LDCs are not expected to make any tariff reduction commitments, although they are expected to substantially increase their bindings.

Solomon Islands will benefit from continued engagement in the on going discussion on the implementation of the outcome of the WTO Ministerial held in Bali in December 2013 and related decisions by the General Council in November 2014. A number of areas are of importance, including the implementation of the Trade Facilitation Agreement and the mobilisation of resources to assist with implementation.

Another specific task to be undertaken is to identify on the basis of the current agriculture modalities and alternative proposals being made the likely future market access conditions of Solomon Islands’ most important export products, such as copra, palm oil, cocoa beans, and timber.

Solomon Islands will remain involved in the Group of Small and Vulnerable Economies. Recognition of the special circumstances faced by such economies is only likely to occur in the context of co-ordinated action. Individually, these countries rarely possess the negotiating capacity to advance their interests satisfactorily.

Solomon Islands has an important stake in the rules negotiations insofar as they concern fisheries subsidies. In the fishery subsidies negotiations at present there is little convergence on even the technical issues, so Solomon Islands still has the opportunity to meaningfully add its voice to the discussions. A senior Solomon Islands trade official in Geneva has championed the issue of fisheries subsidies on behalf of the Pacific Island countries.

POLICY ONE	Active engagement in WTO issues of critical relevance to Solomon requires a physical presence in Geneva. Even if the Doha Round of negotiations is unlikely to result in significant new obligations, Solomon Islands has important interests in the discussion of fishing subsidies, aid for trade, special and differential treatment pending expiry of transition period of LDCs under TRIPS, and the implementation of the Trade Facilitation Agreement.
POLICY TWO	Where appropriate seek cooperation from other countries to reduce cost and technical obstacles.
POLICY THREE	Seek to have traditional knowledge that is protected in Solomon Islands protected in other jurisdictions.

10.2. Preferential trade arrangements

Solomon Islands is a party to a number of preferential trade arrangements and is in the process of negotiating further arrangements. These are both reciprocal and non-reciprocal. Non-reciprocal preferential trade arrangements provide exports from Solomon Islands with preferential or duty free access into the markets of other countries. Exports of goods from Solomon Islands receive non-reciprocal market access preferences under the Generalized

Systems of Preferences (GSP) operated by Australia, Canada, China, Chile, Chinese Taipei, the European Union, Iceland, India, Kyrgyz, Morocco, New Zealand, Norway, the Russian Federation, Belarus, Kazakhstan, South Korea, Switzerland, Turkey, and the United States.

10.3. Melanesian Spearhead Group (MSG) Trade Agreement

While 9% of Solomon Islands imports came from MSG countries in 2007, only 2.3% of exports went to MSG markets. This is partially due to bigger manufacturing bases in Papua New Guinea and Fiji, and their more proactive utilisation of the trade agreement. Nevertheless, this also reflects general supply-side constraints in Solomon Islands, and the (indirect) relatively high cost of utilisation of the MSGTA for its producers and exporters.

The volumes of trade under the MSGTA are never likely to be significant but it has cultural, strategic and political importance and it may provide a strategic basis for improving access to East Asia. In 2017 Solomon Islands will provide duty free access to all but a few exempt products from the MSG countries and products from Solomon Islands will have duty free access to the markets of other MSG countries.

POLICY ONE	Continue to support the economic integration of the MSG countries and seek funding from development partners for that purpose.
POLICY TWO	Work with other MSG countries to address trade issues that are common to MSG.
POLICY THREE	Support the negotiation of a modern comprehensive trade agreement with the MSG countries that includes trade in goods, trade in services, investment and labour mobility that supports its sustainable development.

10.4. Pacific Island Countries Trade Agreement (PICTA)

Under the Pacific Island Countries Trade Agreement (PICTA), which was signed in 2001, Solomon Islands has made reciprocal commitments on trade in goods to the other Forum Island Country members. Apart from 16 products on its Negative List and alcohol and tobacco products, Solomon Islands is obliged to eliminate tariffs on products from other Forum Island Countries by 2021. PICTA has a broader membership than the MSG but slightly narrower product coverage. Very little trade is likely to have preferential access to Solomon Islands under PICTA that would not have preferential access under the MSGTA2.

Developments under PICTA may affect the future of the MSGTA. The PICTA TIS negotiations initially included a scheme for regional labour mobility but the issue was not included in the final Protocol. The MSG SMS was based on the provisions in an early draft of the PICTA TIS. The benefit that Solomon Islands is likely to receive from labour mobility among the Pacific Island countries may be largely satisfied by the MSG SMS.

The major concerns in relation to the PICTA (including the PICTA TIS) are the potential difficulties with the implementation of the agreements.



POLICY ONE	Continue to engage with the parties to PICTA and PICTA TIS without allowing it to draw too many resources away from significant regional negotiations that are likely to be implemented.
POLICY TWO	Undertake preparation for the legislative and policy work needed for the implementation of PICTA TIS with expectation that similar steps would be required to implement other trade agreements.

10.5 Pacific Agreement on Closer Economic Relations (PACER)

The Pacific Agreement on Closer Economic Relations (PACER) provides a broad framework for regional integration among the Forum Island Countries and Australia and New Zealand. The Agreement contains no obligations on market access, but in certain circumstances required the parties to commence negotiations on a free trade agreement. Those negotiations commenced under a process known as PACER Plus.

While some increase in trade from Solomon Islands is possible through addressing quarantine measures and restrictive rules of origin, success in the negotiations is not assured and the gains are likely to be relatively modest. The prospect of increased market access for goods and services exported from Solomon Islands to Australia or New Zealand will not drive the PACER Plus negotiations. The normal mercantilist logic of trade agreements does not apply to trade in goods and services in PACER Plus, because Solomon Islands does not need to provide market access commitments in exchange for market access commitments from Australia and New Zealand.

Exports of goods and services from Australia and New Zealand to Solomon Islands are likely to increase from Solomon Islands liberalization under PACER Plus much more than exports of Solomon Islands' goods and services. In the short term, Solomon Islands is likely to face adjustment and implementation costs, which may create economic or political obstacles to securing the longer-term benefits.

Solomon Islands as the lead spokesperson on PACER Plus negotiations will continue to base negotiations on following principles:

POLICY ONE	Commit to undertaking a robust assessment of the benefits and costs of the PACER Plus agreement upon the conclusion of the negotiations with a view to ensure decisions on signature and ratification are in the interests of Solomon Islands. This will involve a comparison between the outcome of the negotiations and the current situation.
POLICY TWO	Labour mobility will form a key offensive interest in PACER Plus negotiations. Solomon Islands will continue to insist that labour mobility must be within the PACER Plus agreement, with improved quotas in sector covered by existing arrangements and quotas in additional sectors in which labour shortages exist.
POLICY THREE	Solomon Islands will insist that additional development assistance that is commensurate with PACER Plus specific obligations, adjustment costs and to address supply side constraints is necessary for PACER Plus to be a balanced, reciprocal agreement.

With the other Pacific members of the Group of African Caribbean and Pacific States (PACPS), Solomon Islands is negotiating an EPA with the EU. As the trade preferences in the EU market under the Cotonou Agreement given to the African, Caribbean and Pacific States (ACP) came to an end, on 23rd November 2007 two PACP non-LDCs (PNG and Fiji) initialled the Interim EPA (IEPA) to maintain their market access for tuna and sugar. Solomon Islands together with all other PACP LDCs are trading with the EU under the Everything But Arms (EBA) arrangement, which provides the same level of market access as the Cotonou Agreement did albeit with more restrictive rules of origin. The remaining non-LDC PACPS are exporting to the EU under the standard GSP preferences extended to all developing countries. Most PACPS opted not to sign the IEPA and elected to continue negotiations on a comprehensive EPA in order to resolve the outstanding contentious issues and ensure additional benefits for the region.

**POLICY
ONE**

Solomon Islands will continue negotiating the comprehensive Economic Partnership Agreement with the other PACP States as a single region.

**POLICY
TWO**

Solomon Islands will conduct a cost benefit analysis at the end of the comprehensive EPA negotiations on whether to sign and ratify the agreement. The EPA is likely to lead to a number of significant obligations for Solomon Islands and specific commitments and the costs of implementation of those obligations at a time when revenue from mining or logging activities may also be reduced. This may require the introduction of a VAT. The financial, practical and political difficulties of the introduction of such a tax need to be weighed against the potential benefits of investment, employment and tax revenue from fish processing made possible by global sourcing for canned fish and cooked loins and potentially fresh, frozen and chilled fisheries products.



Exports from Solomon Islands have preferential, but not necessarily duty free, access to the markets of China, Chinese Taipei, Japan and South Korea under the Generalized Systems of Preferences operated in these countries. In relation to access to the markets in ASEAN and China, exports from Solomon Islands are at a disadvantage relative to exports from a number of other countries. ASEAN and China have negotiated a number of preferential trade agreements with countries that export products that may compete with the products exported by Solomon Islands. For example, some ASEAN countries have MFN duties on copra and logs.

The ability of Solomon Islands to export to some countries is affected by the preferential trade arrangements that country may enter with a third country. For example, the ability of Solomon Islands exports to be competitive in many markets in East Asia has been undermined by the preferential trade arrangements that link most East Asian countries. Solomon Islands' trade policy needs to consider and respond to developments relating to preference erosion as well as the other issues highlighted above.

**POLICY
ONE**

On a regional basis with other Pacific Island Countries, or on a sub-regional basis with the MSG Countries, seek to negotiate improved access to Asian markets.

**POLICY
TWO**

In light of the outcome of the EPA and PACER Plus negotiations, develop a strategy to mitigate trade diversion costs.



Aid for trade should be a key component of trade policy. It can supplement the investment that Solomon Islands makes in economic reform and development. Aid for trade represents an important mechanism to enhance the benefits Solomon Islands could receive from greater integration in the international economy as well as to mitigate some of the adjustment costs that may result from greater openness.

In Solomon Islands net ODA receipts (in million USD) for the years 2007 to 2011 were 246, 224, 206, 340 and 334. Solomon Islands has benefited from a number of aid for trade initiatives. These include at the regional level the work to establish the Pacific Trade and Development Facility by the Pacific Islands Forum Secretariat; the Pacific Regional Economic Integration Programme and its successor programme funded by the EU; the now expired Regional Trade Facilitation Programme established under the PACER. Solomon Islands was a beneficiary of the Enhanced Integrated Framework that resulted in the Diagnostic Trade Integration Study finalised in January 2009 and it also participated in technical assistance activities of the WTO. Solomon Islands has benefited from bilateral aid for trade assistance from a number of countries, including Australia, the EU and New Zealand.

The increase in aid for trade assistance over the past few years should assist Solomon Islands benefit from greater integration into the international economy. The aid for trade will not address all significant short and medium-term costs Solomon Islands will need to bear as integration proceeds. Solomon Islands should develop procedures to ensure that aid for trade assistance is directed to the highest priority areas and maximum value is derived from the assistance.

POLICY ONE	The TPF will be used to secure Aid for Trade from its trade and development partners to address the trade and development needs identified in the TPF, including the Aid for Trade Priorities Identified for Pacific Islands Forum Secretariat Consolidated Aid for Trade Matrix.
POLICY TWO	The TPF will be implemented over a long period of time and Pacific Islands Forum Secretariat shall play a vital role in mobilising the resources required for implementing the TPF. Pacific Islands Forum Secretariat and SIG shall organise a donor conference to present the TPF and mobilise funding.
POLICY THREE	Solomon Islands should develop procedures to ensure that aid for trade assistance is directed to the highest priority areas and is supportive of Solomon Islands' trade policy and maximum value is derived from the assistance.



Ministry of Foreign Affairs and External Trade
Solomon Islands Government



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