



# Pacific Horticultural and Agricultural Market Access Program (PHAMA)

Technical Report 30 (Part A): Scoping Study to Assess  
the Potential for Increased Primary Sector Exports from  
Solomon Islands to Nearby Pacific Island Countries  
(SOLS07)

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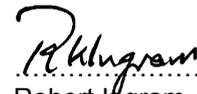
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## Abbreviations

<b>Abbreviation</b>	<b>Description</b>
A\$	Australian dollar
AusAID	Australian Agency for International Development
CDL	Central Developments Limited
CEMA	Commodity Export Marketing Authority
CLIP	Cocoa Livelihoods Improvement Project
COMTRADE	United Nations Commodity Trade Statistics Database
ETA	Estimated time of arrival
FCL	Full container load
KSSL	Kiribati Shipping Services Ltd
MAL	Ministry of Agriculture and Livestock
MAWG	Market Access Working Group
MCILI	Ministry of Commerce, Industries, Labour and Immigration
MT	Metric tons
PET	Polyethylene terephthalate
PGEP	Pacific Growers Export Partnership
PHAMA	Pacific Horticultural and Agricultural Market Access Program
PICs	Pacific Island Countries
PIPSO	Pacific Islands Private Sector Organisation
PT&I	Pacific Trade and Invest
QQQ	QQQ Holdings Limited
RAMSI	Regional Assistance Mission to Solomon Islands
RTD	Ready to drink
SBD	Solomon Islands Dollar
SIMA	Solomon Islands Manufacturers Association
SME	Small and Medium Enterprise
SMEC	Small and Medium Enterprise Council of Solomon Islands
SPC	Secretariat of the Pacific Community
TEU	Twenty foot equivalent unit
URS	URS Australia Pty Ltd
US\$	United States Dollar

## Executive Summary

There have been sporadic and unregulated exports of vegetables and processed food products from Solomon Islands to nearby Pacific Island Countries (PICs) (Kiribati, Nauru and the Marshall Islands) in recent years. Anecdotal evidence suggests that demand is strong, and there is substantial interest from the private sector in developing the trade. The establishment of increased regional trade within PICs would substantially reduce dependence on imports from more distant countries and would contribute to local economic development. Historically, the availability of freight space has been a key limiting factor.

The objective of this study, conducted in April 2012, was to assess the potential for increased primary sector exports from Solomon Islands to nearby PICs, including Kiribati, Nauru, and possibly the Marshall Islands. The scope of preliminary work carried out included the following:

- In consultation with Solomon Islands exporters, producers and government officials, undertake a preliminary quick-scan to develop a list of potential exports to target markets;
- Develop a shortlist of products considered to have the greatest export potential, taking into account factors such as production volumes, pricing, seasonal supply characteristics, industry organisation, export infrastructure requirements, packaging requirements, etc.;
- Assess air freight and sea freight services (schedules and capacity). Reference should be made to past regional experience in establishing small-scale shipping routes;
- If there is deemed to be sufficient potential and interest, organise and lead a small Trade Mission (4–5 persons) to selected target countries to further assess the market potential of identified products, including consideration of prices, volumes, variety preferences, quality requirements, seasonal windows, and distribution channels;
- Facilitate contact between members of the Mission, potential importers/ buyers, and relevant government officials in target markets;
- Identify any regulatory import requirements; and
- Undertake initial research on target markets, including an assessment of market demand, product demand, regulatory import requirements and potential agents and distributors.

Solomon Islands export capability remains low, but the potential for developing exports of a range of perishable products is high. The country has an extensive range of agricultural and horticultural products but the vast majority of this production is sold and consumed locally. There are a small number of exporters who have traded with target markets. Expansion is constrained by three key factors:

- Availability of transport: both air freight and sea freight options are limited, expensive and irregular;
- Consistency of supply: exporters and producers need to work on secure supply chains in order to develop long-term market sustainability; and
- There is limited knowledge of target markets, pricing, volumes and buyers.

Despite these constraints, exporters and producers retain a strong interest in developing exports. Consultations indicate that the target markets are appropriate, although the Marshall Islands present a particular challenge. Closer markets, e.g. Bougainville, could also be considered. A wider range of products than fruit and vegetables should also be considered in order to ensure economies of scale. This could entail offering beverages, processed foods, timber, seafood and manufactured products. A wider range of products would also help to mitigate risk and attract the interest of potential customers.

Government has indicated its support for this initiative. The Ministry of Commerce, Industries, Labour and Immigration (MCILI) noted that it has previously investigated the target markets but that a range of factors prevented further action. The Ministry of Agriculture and Livestock's Quarantine Service actively works with exporters and is keen to see export growth. Business support organisations – the Small and Medium Enterprise Council of Solomon Islands, Chamber of Commerce, Solomon Islands Manufacturers Association, and Business Council – are all keen to see exports grow, but also recognised a range of constraints that need to be addressed.

Consultations undertaken with the private sector reveal a relatively consistent view that exporting should be viewed as part of overall business development plans. Although recognising that volumes remain small, exporters consider that the small size of target markets presents the right opportunity for Solomon Islands. Some expressed concerns regarding previous experiences with non-payment or late payment but also recognise that payment in a hard currency (A\$ or US\$) is worth the risk. They would like to see work done on developing a trade finance facility. Bank finance usually requires 100% collateral, which is out of reach for many exporters. Some of the larger traders may have this capacity, but exporters dealing with what remains a cash-based economy do not.

Demand-side knowledge remains limited, with exporters relying heavily on secondary sources for market information. Importers provide some information but this is generally product-specific. A more comprehensive understanding of the market is fundamental to sustainable exports. Although both Kiribati and Nauru are small markets, both have particular characteristics. In addition to seeing how the market works, exporters need to be able to see firsthand what their competitors are doing in the market. Trade missions are an effective tool for exporters or groups of exporters to experience market conditions, conduct business and establish long-term relationships. It is also essential that pre-mission briefings focus on developing a comprehensive program focussed on commercial outcomes.

Trade statistics indicate that exports to target markets are steady, but volumes are low. The range of exports is also quite narrow. Kava and root crops appear to dominate, but more recently there have been significant sales of beer to Kiribati. Air freight to Nauru allowed for good levels of fresh produce but with this link now terminated, trade has ceased. If there were more stable transport links, trade could increase substantially across a range of Solomon Islands-produced products. The issue at the supply end is ensuring that containers can be filled on a regular basis. For markets like Kiribati and Nauru, imports are a survival lifeline. If products are not shipped as ordered, the impact is significant. In an environment as competitive as the Pacific, isolated markets will go to those they know can deliver, even if the price is higher and quality is lower.

Solomon Islands exporters are presented with market opportunities in Kiribati and Nauru. The Marshall Islands could be factored in, but shipping is even more of an issue than to the two main target markets. A trade mission could help determine the viability of the market, but a strong caveat should be made on the limited size of both markets. They are small, but at the same time well within the capability of Solomon Islands to supply. However, the variety of product offered needs to be as varied as possible. This mitigates risk at the demand end, and also makes the consolidation of freight at the supply side more cost effective. Strategies around consolidation require further work. There are options for small exporters to leverage off larger exporters, but this needs to be done on a commercial basis. Government will need to consider the level of investment it should make in export development, particularly in trade promotion. While the Pacific Horticultural and Agricultural Market Access Program (PHAMA) can provide an initial impetus, ultimately this is a strategic decision on the part of Solomon Islands, i.e. how does export diversification and regional market development factor into the overall

economy of the country? Are there employment and livelihood benefits? Is this a potential revenue stream for the government? How are compliance and regulatory issues to be handled?

Finally, leadership of the export development process needs to come from the private sector. Solomon Islands may have an extensive variety of agricultural and horticultural produce available, but getting this to market (and knowing what the market wants) is the single biggest constraint.

# 1 Export History

## 1.1 Background

Total Solomon Islands exports in the year to the end of 2011 totalled approximately US\$406 million.<sup>1</sup> The main export items are logs, copra, cocoa and seafood. Together, these compose over 90% of total exports by value and volume. There is little added-value, although sawn timber exports do occur. Exports of agricultural products remain very low, with regional markets taking the bulk of these. Solomon Islands has excellent export potential but faces a number of issues in realising this, including:

- **Access to markets** – shipping and air freight facilities are limited, with direct routes to target markets currently unavailable. All exports to the North Pacific require transshipment in either Vanuatu or Fiji;
- **Consistency of supply** – although growing conditions are excellent, exporters who are not also producers rely on supplies from farmers whose main focus is on supply to the local market;
- **Variety of exports** – Solomon Islands has an extensive product offering available but current data suggests that actual exports span a very narrow range of products, with kava and root crops dominating;
- **Organisation within the exporting community** – most exporting is done by individual companies, with little evidence of consortium or export network style arrangements;
- **Addressing overall export knowledge** through the provision of targeted training, market intelligence and in-market trade missions; and
- **Access to finance** – exporters take a significant risk in sending products offshore unless they are on cash terms. Access to export credit or a less stringent collateral requirement on the part of commercial banks (with support from government) warrants consideration.

Against this background, the Solomon Islands Market Access Working Group (MAWG) requested that the Pacific Horticultural and Agricultural Market Access Program (PHAMA) help investigate the potential for expanding exports to Nauru, Kiribati and the Marshall Islands. As markets with reasonable proximity, of a manageable size, and having a history of trading with Solomon Islands, it was considered that there could be good prospects for export development.

## 1.2 Challenges

Solomon Islands faces a number of export challenges, reflecting the country's continuing efforts to rebuild its overall economy. For primary industries, it is clear that growing crops is not an issue. Solomon Islands has an abundant and varied range of agricultural and horticultural products available to it. The local market is strong, but the continuing dominance of subsistence farming in large parts of the country does affect the supply chain.

### *Transportation*

Outer provinces, for example Malaita, have both a local market and the main Honiara market as outlets. On Guadalcanal, agricultural production is still very good, but transportation outside the main urban Honiara area and the surrounding Guadalcanal Plains is very poor. Farmers face a long journey to get product from their farms, to river transport, onto trucks and into market. The impact on the

<sup>1</sup> Central Bank of the Solomon Islands, *pers comm*.

quality of perishables such as fruit can be significant. Previous studies on supply to the local market<sup>2</sup> have noted that although some products are packed and loaded with care, transport and unloading result in spoilage and wastage. This is a major constraint for export trade, given that travel times are much longer and product not arriving in good condition will inevitably result in poor consumer reaction, along with diminished prospects for long-term trade.

### **Volume**

Solomon Islands also faces challenges in developing volume trade in exports outside of the main commodities such as copra, logs, cocoa and fish. Having a narrow export base exposes the country to the vagaries of shifting international demand and prices. Competition in these commodities is both regional and global. Any major shift in the global economy will have a direct and most likely immediate impact on the country. It also appears that the capacity to add value is limited. Some sawn timber is now being exported, but the majority of forestry exports are of round logs. Similarly, cocoa and coffee go out as dried beans rather than in a value-added form. There has been consideration of getting Fairtrade certification commenced for both cocoa and coffee, but the costs are high and the process can be daunting for both producers and exporters.

### **Continuity and quality of supply**

The issue at hand for agricultural and horticultural exports, either to the target markets of Nauru and Kiribati or beyond, is continuity and quality of supply. The opportunity for export is there, although the market demand requires verification. To be able to meet the opportunity, the likelihood is that exports will need to go out as consolidated shipments. Mixed containers are the most efficient method, although the challenge here is getting the product mix correct. Anecdotal evidence from exporters already trading into Nauru and Kiribati is that 'everything is imported, therefore everything is required'. This suggests both opportunity **and** a competitive market. Discussions with Quarantine officials (and exporters) appear to indicate that biosecurity issues in Nauru and Kiribati are minimal, therefore one key constraint is largely dealt with. Shipping (as noted later in this report) remains an issue, but possible solutions include:

- Engaging with local shipping companies such as SolFish or Isabel Development Corporation;
- Consolidating shipments utilising an anchor / large volume exporter such as SolBrew to maintain volumes;
- Taking advantage of transshipment options in Santo and Suva through regular scheduling of shipments through commercial shippers; and
- Investigating the costs and feasibility of air freight shipments given that routes are now being opened up again from Solomon Islands to Nauru and Kiribati, ex-Nadi.

### **Capability building**

Turning the issue on its head, what is required is a business model that combines opportunity, capability and resources. Given economies of scale, agricultural and horticultural exporters need to combine resources with processed foods and beverages exporters. Capabilities can be enhanced by regular exposure to the export process and also the target markets. Knowing consumer and market requirements is a fundamental part of the export development process. Finally, verifying the

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<sup>2</sup> Case studies of fresh produce marketing at Honiara Central Markets: Guadalcanal Province, Solomon Islands, Vinning and Sale.

opportunity through the likes of inbound and outbound trade missions – with each mission having clearly defined commercial objectives – will create a professional export cadre. Flowthrough effects to producers will be a desired outcome as they are approached to supply on a consistent, quality-based platform, knowing they will be paid. A final component in the challenge is ensuring that trade finance is more readily available to exporters, in order to enable some degree of financial security during the transaction phase of exporting.

### 1.3 Current Markets

Trade statistics in the region come from a variety of sources, including national statistics organisations, Customs Departments, Oceania Customs Organisation, the Pacific Trade Statistics Database of the Secretariat of the Pacific Community (SPC), and the United Nations Commodity Trade Statistics Database (COMTRADE). It is difficult to get an accurate fix on the exact level of exports from Solomon Islands to the world, although trends have emerged. Solomon Islands' 20 largest trading partners at present are tabled below (values in thousands of United States dollars).<sup>3</sup>

<b>Importers</b>	<b>Exported value in 2007</b>	<b>Exported value in 2008</b>	<b>Exported value in 2009</b>	<b>Exported value in 2010</b>	<b>Exported value in 2011</b>
<b>Total</b>	<b>331,719</b>	<b>386,620</b>	<b>284,363</b>	<b>406,725</b>	<b>587,586</b>
China	182,338	214,986	178,105	287,054	348,945
Australia	5,371	5,214	3,912	4,888	73,297
Thailand	23,161	29,798	11,738	16,108	30,039
Italy	12,877	15,029	11,985	15,639	22,984
Spain	4,080	23,703	15,822	10,129	21,889
Philippines	16,639	20,873	8,885	11,119	20,232
Malaysia	9,349	6,781	5,346	6,676	12,769
Republic of Korea	25,219	23,198	12,696	15,769	12,511
Indonesia	1,151	3,955	7,433	11,341	10,656
Netherlands	7	7	1	2,217	8,385
Germany	1,203	221	1,506	4,155	7,210
Japan	20,544	12,023	6,727	9,410	6,205
Singapore	1,774	5,741	1,263	2,702	4,130
United Kingdom	7,122	787	875	2,036	3,941
United States of America	1,625	1,636	1,018	1,289	1,577
Chinese Taipei	319	514	389	113	1,161
France	225	1,497	314	1,288	638
New Caledonia	516	789	785	519	432
Canada	141	109	90	161	187
Switzerland	32	0	2	27	163

Regional markets do not figure highly in the trade figures. Further data analysis indicates that Fiji, French Polynesia, Vanuatu, Samoa and Tonga do feature. Target markets are covered to a greater

<sup>3</sup> Figures extracted from International Trade Centre Trade Map ([www.trademap.org](http://www.trademap.org)). Note: mirror data is the main source of figures.

level of detail in SPC's Pacific trade statistics database, but the most recent figures available are to 2009. The figures do give an indication of fresh product and kava trade with Nauru and Kiribati, for the year to the end of 2009.

The most accurate data available was sourced from the Solomon Islands Customs and Excise Division. A call on Customs staff focussed on obtaining trade data for the target markets of Kiribati, Nauru and the Marshall Islands. Summary data indicated the following:

- Kiribati: approximate value of all exports from 2008 to March 2012: SBD9.2 million;
- Nauru: approximate value of all exports from 2008 to April 2012: SBD7.1 million; and
- Marshall Islands: value of all exports not listed, but exports were mainly processed kava.<sup>4</sup>

Interestingly, although kava continues to be the dominant feature, Nauru had a very wide variety of other imports from Solomon Islands over the period. Exports to Kiribati are a lot less diverse, with kava making up the bulk of both value and volume over the reporting period. The regularity of exports to Nauru is significant, suggesting that although direct flights have ceased, exporters have been taking advantage of sea freight. Kiribati exports, by contrast, appear to be mostly via sea, although exporters spoken to in the course of the mission indicated that if air freight is available, they do use it. Varivao Holdings has sent 'emergency' supplies of kava through to Kiribati by air freight.

The scale of exports to Asia is both surprising and at the same time concerning. In the main, these are commodities and by far the largest commodity is round logs. Seafood exports are also growing, but both cocoa and copra are also major exports to Asia. There is little evidence of any value-add being considered for these products. Palm oil is also starting to come on stream and in a few years will start to be a major export item. The issue is how much of the economic benefit of this type of commodity-based export economy comes back to Solomon Islands.

As noted above, regional trade is negligible across all products. It represents at best 5% of Solomon Islands' total exports by value. With such a heavy reliance on such a narrow export base, the challenge is in identifying and verifying market demand within the region and building an export strategy around this. Regional markets such as Nauru and Kiribati are small, but manageable. Nauru is a market of 12,000 and Kiribati about 100,000 with the majority on Tarawa. The business community in both is described as small, so establishing long-term relationships (if these are not already in place) should be relatively straightforward. Promoting two-way trade between the islands should also be a factor in any export development strategy. While the prospects of imports might appear small, some effort should be made to ensure a mutually beneficial business relationship.

Consideration should also be given to looking at other markets in the Pacific or beyond. This will require a long-term export development perspective and is somewhat outside the scope of what the Solomon Islands MAWG is considering at present. However, there are opportunities beyond Nauru and Kiribati that should be kept in mind.

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<sup>4</sup> Figures supplied by Solomon Islands Customs and Excise Department.

## 2 Export Development

### 2.1 Product Range

Solomon Islands grows a wide variety of agricultural and horticultural produce. Publications produced by B Reg French<sup>5</sup> indicate the capacity to produce everything from root crops to plantains, fruits, nuts, leafy greens and vegetables of all varieties. A list of known export products (or export potential products) is attached as Appendix B. What is *actually* exported as fresh produce is less well known. The big exports remain logs, cocoa, copra and seafood. Some sawn timber is also going out, but it is currently a narrow export base. Fresh produce exports are in the main restricted to root crops, some fresh vegetables, and fruit. Volumes are small, with an estimate of only A\$1.5 million to Nauru and Kiribati in the period 2008 to 2011 for a range of exports, including kava and root crops, some processed food re-exports, and sundry items.

Unless exporters are also producers (some are), management of the supply chain is a critical constraint in export development and being able to consistently supply the market. Competition is at hand from Vanuatu, Fiji, and the traditional suppliers from Australia. Solomon Islands may have a slight price advantage, but is also disadvantaged by having to tranship product and in the volumes available for export. It is possible to develop a good export trade – and the range of product available in Solomon Islands should allow this – but it will take careful management to be able to fill the containers or cargo holds in full and on time. Importers can be unforgiving if they are left with no trade, and alternatives to Solomon Islands can easily be found.

### 2.2 Existing Exporters

Meetings were organised with a number of exporters both large and small over the course of the mission. Export products covered in the course of the meetings included:

- Root crops
- Vegetables
- Kava
- Processed foods
- Beverages – soft drinks and alcohol
- Fish – processed and fresh/frozen.

**Dudley Longomai (Varivao Holdings):** Long-term exporter of kava to both Nauru and Kiribati. Kava exports commenced in 2008 and have been ongoing since. Varivao faces continual problems with production (growers not supplying and planting sufficiently), so inventory is always at low levels. Despite this, production is maintained at about 2 tonnes per month of processed (chipped and powdered) product. Varivao is looking to ramp up production in 2013. Main supplies come from Isabel prior to consolidation in Honiara for shipping.

Varivao has previously exported to both Nauru and Kiribati, but the Nauru trade has ceased since the end of direct air services. Trade to Kiribati has continued by sea. However, Varivao is obliged to send all shipments by container. This has meant that shipments of 1.5 tonnes required purchase of one full container load (FCL), with a lot of empty space left in the container. However, the consignee is paying the freight. Still, there is good opportunity to fill the container with other products, as there is no

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<sup>5</sup> *Good Gardening and Growing Root Crops in the Solomon Islands, Fruits and Nuts in the Solomon Islands, and Leafy Greens and Vegetables in the Solomon Islands.*

additional cost charged by the shipper. Varivao would be very interested in working with other exporters to capitalise on this opportunity and to share costs. Supply is to one agent in Kiribati.

The Kiribati buyer has expressed interest in sourcing other imports, including sawn timber, soft drinks, biscuits, and coral for landfill. Kava exports have to go in a dry container, so a reefer option is not appropriate. Other dry good exports or timber could be a possibility. Varivao is also a coffee roaster and exporter. Longomai considers that if there was more consistent commitment to export from a core group, he could get his producers in Isabel to offer up more goods, i.e. root crops, for export.

**Charles Dausabua (Easter Marketing & Distributor Limited):** A Malaita-based exporter with a range of business interests. His main exports are cocoa, copra and logs. Most of his current trade is with Asia, but he is interested in exploring regional markets. In terms of possible product offerings, he noted that he can get access to:

- Root crops – taro, cassava, sweet potato, yams
- Coconuts
- Pineapple – when in season
- Nuts
- Leafy greens.

His main concern was with shipping, which he described as not very reliable and expensive. He has had some experience with export to Australia of taro but not recently.

**John Bakeua:** Began exporting vegetables and fresh produce to Nauru in 1998. For Kiribati, he suggests there is a high demand for a range of products, with family in Kiribati noting that all products are required. Nauru trade was primarily by air freight, but Kiribati was more difficult for air freight. Orders for Nauru are still coming in even though flights have been suspended. Main products exported include: cabbage, potato, pumpkin, bush lime, mango, cucumber, lettuce, tomatoes, ginger, kava, taro and cassava. All products exported fresh.

Air freight costs were noted to be very high: at least three times (per kg) the price of the goods. Even so, margins were described as very good, given that the payments were in A\$. Terms were cash, via telegraphic transfer or international MoneyGram. Customers in Kiribati included hospitals, hotels and schools. Purchasing is direct or through relatives. Nauru trade was direct to family contacts. Bakeua presented himself as a possible leader/facilitator of any joint export drive. He is currently working on the Pacific Festival of the Arts and is contracted to this until mid-July 2012.

**George Wu Company:** One of the larger traders in Honiara. He has never been involved in exporting from Solomon Islands so knowledge is fairly limited. Understands the most common problems plaguing exporters to be:

- Logistical/Infrastructure issues – compounded by the many natural resources of Solomon Islands being scattered across the archipelago and not supported efficiently by regular sea or inland transportation;
- Consistency in supply – when buying prices are good, farmers often scale-back production;
- Quality of the supply – due to limitations in processing equipment and handling skills, etc.;
- Lack of value-adding opportunities to earn more revenue – due to expensive input costs, i.e. electricity, freighting, storage, property rent, etc.;
- Landowner dealing issues – disputes on ownership of resources among tribes/clans, etc.; and
- Limited support from Government (all levels) for the export industry.

**Albert Fono (Arania):** The largest cocoa exporter in Solomon Islands, Fono started exporting in 1990. His main business continues to be cocoa, with two buyers in Europe and one in Asia over this period. However, the European buyers have ceased trading with Solomon Islands due to low volumes. He confirmed that – like most exports of this type from Solomon Islands – the product form is largely unprocessed, although cocoa beans are dried before packing and loading. He noted that shipping for large commodity exports is not so much of an issue as for regional markets. Routes to Asia are fairly regular and he can get volume trade with annual exports around 2,000 MT. He is looking to ramp-up production from 2013. He would like to get Fairtrade certification for his producers but is not entirely sure of the costs and the process for this.

Looking at exports to the region, Fono noted that many of his cocoa suppliers are also general agriculture producers. He says he has access to producers who can grow taro, pineapple, bananas, cassava, watermelon, and a range of leafy greens. Most of these producers supply to their local markets (cocoa comes in from four provinces) but can supply into the main Honiara market given the right shipping schedules. He did note that quality can be variable and for the most part producers are unaware of exporting as a viable economic option. He pointed to seasonality issues for some crops (including pineapples, watermelons and mangos), but did not see a problem with supplying year round on root crops and bananas. His main concern was ensuring that there are viable regional markets and in particular regular shipping routes. He was able to identify the cost of reefer containers as a potential constraint but was open to the concept of consolidating product to get the export trade moving.

**John Saki (Guadalcanal Origin Trade):** John Saki is an organic producer, as well as the Solomon Islands contact for the Pacific Growers Export Partnership (PGEP) (<http://pacificgrowers.net>). Although part of PGEP since its inception in 2011, he expressed some concerns about their business model, noting that it does not take different economic and growing conditions into account across the region. Producers in his network work primarily on growing root crops (taro, sweet potatoes, cassava) and watermelon for the local market. He is keen to look at exporting as an option, but recognises that product form will be an issue. His preference is to look towards some degree of value-adding, even if this is as limited as producing frozen product. He is aware, for example, of the market for frozen cassava in New Zealand. He is also involved with cocoa exports and has processing/drying facilities outside of Honiara (albeit on a small scale). His comments on the viability of trade to regional markets echoed those of other exporters, i.e. there is need for secure shipping routes, good supply chains, quality product and verification from the market as to product requirements and demand levels.

**Kenwood Harry (Soltai Fishing and Processing Limited):** Soltai is the largest fishing company in Solomon Islands, exporting tuna loins in frozen form and canned tuna to markets around the world. High value loins are sent mostly to Europe and Asia, with other canned products to Asian and regional markets, including Fiji, Papua New Guinea, Vanuatu, Kiribati and Nauru. Soltai is currently reviewing its fishing operations, with the intent of combining its own catching operations with bought product. Export shipping was noted as a continuing problem for their export trade, even with good volumes. With their main operations at Noro they are able to examine different shipping routes (some lines still call into Noro). Current exports were estimated at 540,000 cases per annum. However, their core business was described as high value tuna loin. There are plans to increase production to 704,000 cases with the opening of a new line in Noro.

Soltai has a continuing interest in exports to the region for Solomon Taiyo. Trade has been relatively steady to Kiribati for its low value Solomon Blue brand. The consumer preference is for darker meat in oil both for local and export markets. A range of high value product is also produced and packaged for

premium prices. Soltai's main issue at present is not so much market demand as its capacity to supply. Until the new line is fully operational, the company admits it will struggle to keep supply open to existing customers. Any commercial decision to provide goods to a consolidated export strategy will require confirmation from the company managers based in Noro.

**Peter Tam (Szetu Enterprises):** Szetu was established in 1983 as a contract manufacturer to Schweppes, an arrangement which continued until Coca Cola's purchase of Schweppes in 1993. Rather than shut production down, the company moved to production of soft drinks in PET bottles. Initially only producing soft drinks and cordials, Szetu now produces a range of RTD alcoholic drinks for local consumption and export. Szetu also had a noodle production line until the mid-2000s, but this was shut down. There are now plans to restart the line using a baked noodle process. Bottled water exports are starting to grow, but there are concerns that these may be constrained by the need for formal certification and testing. Exports of the soft drink and RTD ranges have grown steadily in the last three to four years, including to Nauru and Kiribati.

Szetu also raised the issue of shipping, expressing concern about shipping lines changing routes, increasing freight prices and on occasion offloading goods en route. For companies like Szetu that require import of production inputs, this can cause continual production issues. Factor this into exporting and the result is possible failure to complete orders on time. Szetu manages this by holding large inventories of raw materials but it is not an ideal business model. Szetu works with two major buyers in Kiribati and in Nauru has dealt previously with the same contractor supplying the Regional Assistance Mission to Solomon Islands (RAMSI) operation.

**Andy Hewson (SolBrew):** SolBrew supplies the local market with a range of bottled, canned and draught beers. SolBrew is very keen to continue its export growth around Melanesia and the North Pacific. They currently export to Nauru, Kiribati and the Marshall Islands, usually by the container load. The company is also diversifying into soft drink (fruit-based and carbonated) production, which it will add to its export offering. RTD alcoholic drinks are also available, with the range to expand shortly.

SolBrew recognises that shipping is a continual issue for export development from Solomon Islands. As a volume exporter with regular customers, SolBrew has fewer problems securing space. Production runs can be matched to shipping schedules to ensure maximum shelf life in the market. With the Neptune Line's vessel the "Scarlett Lucy" being taken off the North Pacific run, SolBrew is now using the Micronesian Princess on a Santo–Tarawa–Nauru–Marshall Islands run. They are also checking other routes in order to mitigate possible no-shows.

SolBrew is very keen to grow its level of exports and also to support overall export development from Solomon Islands. An offer was made by the General Manager to support consolidation of product on SolBrew premises. They will need to investigate the feasibility of doing this vis-à-vis general food production and hygiene levels but if there is to be a consolidated approach to exporting, a central loading and packing point has merit. The General Manager would like to be kept informed of developments and would be open to participating in a larger working group.

**Lawrence Quan (QQQ Holdings Limited):** QQQ is a large trading house based in the Chinatown district of Honiara. Although mostly dealing with imports, QQQ has sent re-exports of processed foods and beverages on to Kiribati on occasion, although it is not a regular business venture. Their view is that the markets are too small to justify anything more than a reactive market approach. There are concerns about the continuing 'merry-go-round' that is shipping to Solomon Islands. This affects both

imports and exports, with concerns of collusion among the shipping lines in terms of how routes are divided up.

**Stanley Goh (Central Developments Limited, or CDL):** CDL is one of the largest wholesalers and importers in Honiara. They have had a long history of exporting to Nauru but have not traded regularly with Kiribati. The range of products exported to Nauru includes tinned fish, kava, noodles, rice, canned foods and water. Most of these are re-exports from Asian suppliers. Where there is no direct shipping route, goods were transhipped through Suva to Nauru. Most of the trade was arranged directly with Chinese traders in the respective countries. When CDL did not have the products available themselves, they did the consolidation on behalf of other suppliers, e.g. for kava. When asked whether CDL would be interested in providing consolidation services for an export consortium from Solomon Islands, Goh said they could consider this if there was commercial benefit in it for CDL.

**Mathew Psang (Global Vision):** Global Vision (trading as Delite) manufactures a range of biscuits, navy biscuits and milled flour for the local market. Originally part of the Goodman Fielders Group, they have been manufacturing this limited range for a number of years. They specialise in low price product. Flour milling is done primarily for the local market, with packages of 5, 10 and 20 kg bags. Delite does not export directly but is aware of their product being exported by trading houses. Asked if they are considering export, they were adamant that their focus is only on Solomon Islands (but that if traders wanted to export their products, they are most welcome to).

## 2.3 Exporter Roundtable Meeting

A roundtable meeting of exporters was conducted to gain a clearer picture of both the level of interest and the level of capability regarding export development to Nauru and Kiribati. Exporters have something of a record in trading with both countries, but in a limited range of products. The largest export in the last four years appears to be kava (and by some distance), but root crops, fresh fruit and vegetables can also be described as primary exports. Volumes have been small and trade is at best inconsistent. There is very little direct knowledge of the market, with a reliance on family contacts in many cases to get any level of market intelligence.

### *Direct in-market exposure*

Those exporters who do regular business with Nauru and Kiribati do not often visit the market. Of those spoken with, only one – John Bakeua – has been in the market and that was some time ago. In order to increase both understanding of and access to the market, it is crucial that regular contact be maintained with customers, government agencies and the consumer. Exporters cannot build up their overall export capabilities without this type of direct exposure. Government agencies provide some degree of support through provision of quarantine advice and market information, but this is a secondary source of exporter education. Further work is also required on payment options, working in a consortium-style arrangement, ensuring the pricing information is up to date, and ensuring that packaging and labelling is appropriate.

### *Competition*

Exporters recognise that competition from Fiji and Vanuatu is a key issue for Solomon Islands, especially when their shipping links are more regular. There was comment that Vanuatu kava is already starting to make inroads into the Solomon Islands' market share. Although Solomon Islands kava is preferred in Kiribati, price is a definite factor. The concern is that if questions are being raised

about kava prices, will this affect other export items? Quarantine commented that Kiribati is also starting to look at import standards for some products requiring labelling, best before dates and phytosanitary certificates. Exporters would like to see government being able to provide more of this type of market and marketing information.

### ***Export standards***

Producers attending the meeting commented that, in most cases, farmers have little idea of export standards, markets, product preference or the need for durability and quality. Responsibility for this aspect of export development will need to sit equally between government and exporters. Exporters were less keen about having too much responsibility for this aspect of market intelligence, but feel they could contribute on the basis of feedback from their customers.

### ***Trade finance***

Exporters expressed the need for more advice on and better access to trade finance. Facilities such as the Rural Development Program were one mechanism identified, but an export guarantee system would be of some interest. Commercial banks often require high levels of collateral, which most exporters simply do not have. The issue then becomes their terms of trade with customers, in essence working towards cash terms. In the main, this happens, but there is risk for the buyer, who also knows that shipping cannot be relied on. If they pay up front for goods and they do not arrive, there is little chance of recovery.

### ***Product offering***

There was discussion on which products should form the basis of trade with Nauru and Kiribati, but no firm agreement on final selection. The consensus was that further investigation of the market would be prudent. Products considered to possibly have potential included:

- Kava
- Root crops
- Pineapples
- Melons
- Bananas
- Nuts
- Breadfruit
- Fish.

Discussions on consolidating product offerings were generally accepted. Varivao Holdings noted that they are very keen to see their containers filled and costs shared. It was also agreed that discussions with processed food and beverage exporters could be opened. There was a sense of exporters being enthusiastic about opportunities but also not being in a position to take leadership responsibility for an export consortium-style approach. There is a history of exporters 'doing their own thing' and it is understandable that they want to protect their own business interest. However, the size of the markets and the size of the product offering from Solomon Islands manifests itself into an opportunity, i.e. a consolidated approach to exporting, resulting in filling container/s with products the market requires on a regular basis. Exporters all recognise that continuity of supply at a good price will lead to export sustainability.

### **Air freight**

Exporters expressed concerns about air freight no longer being available for trade to Nauru. This had previously been a good market for fresh fruit and vegetables, but without the air link this trade has stopped. The option of going through Nadi is being investigated; however, as this is only available every two weeks and involves transshipment, interest is limited. This is less of an issue with Kiribati, which has two flights each week ex-Nadi. Air freight is very costly, with a comparative cost of A\$2,100 for 500 kilograms of air freight vs. A\$1,800 for a full container by sea freight.

### **Shipping**

The overarching issue though is shipping services that can be guaranteed, are cost effective and will get the products to market in good condition. Some form of government subsidy would be welcomed, but exporters recognise that this is unlikely. Discussion about local shipping options to Nauru and Kiribati were also explored. The MV Kosco, Isabel Development Company's MV Ortiga and the SolFish fleet were all discussed as potential ways of mitigating shipping risks.

## **2.4 Supply-side Issues**

Supply-side constraints do exist, particularly the ability of small producers to get their produce to the Central Market or into Honiara proper. Shipping links to the outer provinces are fairly regular, but the same type of local transportation constraints exist, i.e. limited roads, with alternative methods such as river transportation being time-consuming and ultimately affecting quality due to transit times. While the range of products might be extensive, the likelihood of getting product to an export standard requires further assessment. Logic would dictate that market research is required (i.e. confirmation of demand characteristics of the market), but at the same time an early decision on manageable products needs to be made. The focus here will be on ease of supply, ease of transport, longevity and pricing. Highly perishable products such as leafy greens will only be possible by air freight, the costs of which alone make the trade marginal at best. Root crops, watermelons, pineapple, nuts, green bananas and plantains, kava and processed foods have the best potential. Root crops, along with bananas and plantains, can be supplied year round. Watermelons and pineapples are seasonal, while nuts (both for oil and consumption) are easily stored and transported.

Further information is required from government agencies on production volumes and seasonal supply capabilities. Agricultural survey information (if available) will be central to this. Individual producers may be able to supply some information. The Ministry of Commerce, Industries, Labour and Immigration (MCILI) noted that communications with Customs are very difficult and information on levels and types of exports is difficult to obtain. There is limited communication and coordination between certain departments.

## **2.5 Transportation**

### **2.5.1 Sea Freight**

#### **Shipping companies**

Meetings were held with Tradco Shipping Limited, Sullivans Shipping Services and SolFish (also a potential exporter) regarding shipping options. Comments from the shippers included:

- The past year has seen very limited volumes of freight to both Nauru and Kiribati ex-Honiara. A previous direct service to both countries ceased in late 2011 due to lack of cargo. This was the service provided by Neptune (Scarlett Lucy).
- Neptune now runs a service from Australia through to Vanuatu, Nauru and Kiribati. There is a shipping option from Honiara through to Santo (Luganville) and Port Vila. This could be a possible option for Solomon Islands exports to Nauru and Kiribati, but transit times and transshipment costs will need to be factored in. This service is the same ship, the Scarlett Lucy, with a two day travel time to Santo. From Santo to Tarawa is a further four days, with another two days from Tarawa to Nauru. Sullivans Shipping confirmed that their shipping routes now require transshipping through Suva.
- Costs for reefer containers are US\$3,600. Note that this is the same cost as from Brisbane to the North Pacific. Reefers are guaranteed cool on the journey but it was noted that both Nauru and Tarawa operated a lighter/barge offload method. Break bulk is not an option.
- In terms of reviewing the direct shipping options, this would be entirely contingent on significant increases in volume of products. There was a suggestion of consolidated containers, but history has shown that it is difficult for Solomon Islands producers to consistently supply to export markets, unless this is for products such as timber, logs, cocoa and copra.

Email communication from Neptune noted the following:

*I regret to confirm your information is correct. Scarlett Lucy is currently at Noro on her last voyage through Solomon Islands, Tarawa and Nauru. The notice concerning changes to the service were broadcast last week. Basically Swire wanted to resume services from Fiji to Tarawa and gave us notice that they would no longer load Tarawa cargo on Scarlett Lucy. As the service would not have been viable without the Tarawa cargo we made some major changes in order to continue. Accordingly we will charter Scarlett Lucy to Swire who will deploy her on their new Singapore/Darwin/Dili service.*

*We have chartered Micronesian Pride and we will share space with Swire. They will load to New Caledonia, Santo (Vanuatu) and Tarawa and we will load to Nauru from Australia and Fiji. We will load our Honiara and Noro cargo on Swire vessels ex Australia.*

*There were very few containers being shipped between Honiara and Tarawa / Nauru. Those that were mainly being ex-Asia. That cargo will now be shipped on Swire vessels to Santo for transshipment to Micronesian Pride.*

*The ability to ship produce ex Honiara to Tarawa and Nauru may be still possible if Swire are keen to be involved. We are actually shipping two containers of general cargo ex Asia on their Pacific Islander on 27 April to transship at Santo on 2 May to Micronesian Pride which has an ETA Tarawa of 9 May and an ETA Nauru of 14 May. This however is a good connection but it may not be so close for future sailings.*

## **SolFish**

SolFish had a different perspective from the shipping companies, noting that their ships are capable of going to Nauru and Kiribati. The ships were built in China, are 27 metres in length and have a cargo capacity of 100 MT maximum, although 90 MT is more manageable. The vessels do not carry containers but are divided into four holds, at least one of which is refrigerated. Cargo holds can take

up to 23 MT maximum weight. As an example of volume, it was noted that 2,000 cartons of beer took up only 25% of one cargo hold.

Both perishable and non-perishable products can be shipped. As small vessels, SolFish's ships have some advantages in landing product off to lighters/barges. Their vessels are equipped with on-board cranes.

In commercial terms, SolFish is interested in viable business but would be prepared to make trips on a break-even basis, at least initially. However, they would be looking to ensure long-term viability by making sure that they have profitable items on board, e.g. timber, non-perishables and other trading items. If exporters are able to provide product, they will take it. However, they do not want to become the purchaser and shipper. Any freight shipped would need to be at the producer's risk, unless government was able to come up with either a guarantee scheme or a subsidy.

SolFish has another advantage in that its operations in Solomon Islands are extensive and the company is to a large extent vertically integrated, at least in its food products business. They could potentially consolidate shipments on behalf of smaller producers, but they do not want to take on the commercial risk of non-payment or late payment, which is an acknowledged business risk in Nauru particularly and to a lesser extent in Kiribati.

SolFish consider that for exporting to be viable, shipments will need to be as diverse as possible. Agricultural products are simply not enough. Beer, drinks, snack foods, tinned fish, frozen fish and even rice (as a re-export) should be considered. Even second-hand clothing could be an option just to fill the ship. Frozen product is not a problem, but fresh product for longer voyages is not viable at present. Noting this, in 2013 SolFish is intending to bring in a purpose-built ship that will be able to take containers, and may include reefer facilities.

### ***SPC Economic Development Division***

A meeting with staff at SPC's Economic Development Division in Suva confirmed aspects of the comments obtained in Honiara on shipping issues in the Pacific. A search for viable routes to the North Pacific goes back a number of years, although examples of links to Nauru, Tuvalu, the Marshall Islands and Kiribati are as recent as 2006. The main issues with shipping in the Pacific are allegations of shipping lines colluding on price and division of routes, forcing prices to unsustainable levels in the region. One example quote was Tuvalu being charged A\$8,000–8,500 per Twenty foot equivalent unit (TEU). A solution proposed by the Forum was to allow Kiribati Shipping Services Limited (KSSL) to sail the Nauru/Tuvalu/Marshall Islands/Kiribati route if countries could guarantee a 10 FCL minimum per sailing. Trade grew well in the period to mid-2010, until technical issues forced the ship out of service.

Larger shipping companies have tended in the past to put large ships on the Pacific route and are then unable to get trade volumes. The vessels usually on the routes are 200–250 TEU capable, whereas studies show that 100–120 TEU capable vessels are sufficient for the region. Viable routes require volume. SPC has undertaken studies on the potential of hub ports for specific sub-regions around the Pacific. Honiara was considered as one option; however, both entry and exit volumes were considered too small. What is required is to look at cross-trade around the Pacific, which may help manage volumes on commercial lines.

Lines looking to provide services into Honiara now that the Scarlett Lucy has been pulled out include Reef Shipping (Fiji, Nauru, Lae, Honiara, Kiribati and the Marshall Islands) and Pacific Direct Ltd. Cruz

Holdings was also asked to look at servicing the Nauru/Kiribati routes, but it is unclear whether their current fleet is sufficient for this purpose.<sup>6</sup> Another factor affecting shipping lines stopping in at small ports like Honiara, Nauru and Kiribati is offload and onload times. Ports are described as not very efficient and ships are on tight schedules. Delays are costly and have an impact on the viability of remaining on the route. Clean containers and associated sanitary and phytosanitary risks are also a factor.

Fundamentally, the issue is around three things: volume of trade, cost of uplift and offload, and continuity of trade. Routes in the Pacific are long, with average sailing times of between 3 and 7 days between ports. Ships have to carry cargo in order to make the routes viable. Even Pacific Forum Line, set up partly to service outlying islands, now operates on a fully commercial basis. The options for Solomon Islands may indeed need to be home-grown, along the lines of what SolFish is looking to do.

## 2.5.2 Air Freight

Air freight is still an option for exporters, but it remains an expensive undertaking. Pacific Air Express is the largest air freight operator in Honiara. Solomon Airlines provides limited air freight services, but concentrates mainly on growing passenger services. Up until the end of its services to Nauru, Our Airline carried air freight, with a number of exporters using this service. There is no indication of when a direct service might be reinstated. Given low passenger loadings, it is unlikely. Essentially, all air freight is now handled by either Pacific Airfreight or Solomon Airlines. There may also be freight available on Air Vanuatu and Air Pacific, but this will need to be organised through the likes of Pacific Air Express.

Hubs for transshipment are either Nadi or Brisbane. For Nauru, going through Brisbane probably makes the route uneconomic. Holding costs and possible quarantine issues in Brisbane would make the trade marginal at best. Routes from Brisbane to Nauru are also limited. However, Our Airline is making another attempt to restart services into the North Pacific, including fortnightly services from Nauru to Nadi and from Nauru to Tarawa. There may be opportunities to tranship through Nadi to Nauru, but cost will be a major factor. Companies such as DHL and TNT are not really options for fresh produce exporters. Costs are much higher on a per unit basis and they do not carry perishables; packages are hubbed through Brisbane in any case. Should the refugee processing centre reopen on Nauru, these flight links and options may well change.

## 2.6 Government Support

### *The Ministry of Commerce, Industries, Labour and Immigration*

MCILI has primary responsibility for marketing aspects of export development. In the past, they have organised a trade mission to Kiribati, with a full report produced. However, it proved difficult to locate a copy of the report. In 2009, another attempt was made to take a mission to Kiribati, led by John Bakeua and including both SolFish and the Small and Medium Enterprise Council of Solomon Islands (SMEC). Apparently this did not take place for a number of reasons. Mention was made of assistance being sought from Pacific Trade and Invest (PT&I) in Sydney assisting with development of a national exports database. Information from PT&I's Sydney-based Trade Commissioner indicated that there has been some contact with the Ministry related to PHAMA work on promoting Solomon Islands

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<sup>6</sup> See <http://www.cruzholdings.com.fj> for details.

exports (cut flowers) to Australia. There is no work being done with them on development of trade information database, although reference was made to the Solomon Islands Trade Directory.<sup>7</sup> There has been an inward trade mission from the Australia Pacific Islands Business Council. Feedback indicated some interest in trade development between the two countries. Most of the PT&I work in Solomon Islands is currently directed towards assistance to SMEC and its Pathways to Finance program.

### ***Ministry of Agriculture and Livestock's Quarantine Section***

The Ministry of Agriculture and Livestock (MAL) delivers a range of services to exporters, including advice on biosecurity and compliance issues. Duties include negotiating entry requirements for primary exports and developing export protocols. Food safety is not dealt with in MAL; rather, responsibility for this lies with the Public Health and Environment Unit. Note was made of both fish and meat being items considered under PHAMA in Solomon Islands. Quarantine staff have some contacts with counterparts in target markets; this is not often direct contact but occurs through regional events. It was noted that most of Solomon Islands' food production is outside of Guadalcanal. There is adequate shipping from the outer provinces to Honiara, but keeping product in good condition is always difficult given the time from harvest to port to ship to offload. Local markets tend to take the best product on offer. One concept that has been floated is 'internal exports', i.e. outer provinces supplying into Guadalcanal as a test of their export potential. There is merit in pursuing this idea.

Agricultural surveys have been done in the past, but there is a clear need to update this data. Cost is always a factor, with most Ministries under severe budgetary constraints. MAL relies on self-reporting by producers, which is not always accurate. Some work is continuing in this area, so a general knowledge of production volumes is obtained. What is not as easy is to get accurate data on target export products such as root crops, kava and other vegetables.

Customs proved to be a useful source of information on volumes, value and destination markets. Despite warnings from both MCILI and MAL that information would be hard to come by, a visit to the main Customs office resulted in full details being provided on a range of exports to Nauru, Kiribati and the Marshall Islands, covering the period from 2008 to the first quarter of 2012.

## **2.7 Business Support Organisations**

### ***Small and Medium Enterprise Council of Solomon Islands***

SMEC emerged as a useful contact in the export development exercise. Established in 2003, SMEC provides a range of services and advice to Small and Medium Enterprises (SMEs) (described as businesses with an annual turnover of between SBD30,000 to SBD1,000,000). SMEC is dealing with SMEs that include:

- Agriculture
- Forestry
- Fisheries
- Services
- Wholesale/retail.

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<sup>7</sup> See <http://www.bjs.com.sb/pdfs/2010%20TD%20for%20web.swf>.

Most of SMEC's activities are aimed at building business capacity, although there is a strong emphasis on access to finance. Business mentoring is a core service offering. They have worked previously with Pacific Island Forum Secretariat, but with the move of business support services to the Pacific Islands Private Sector Organisation (PIPSO), the Chamber of Commerce (as the Solomon Islands' National Private Sector Organisation) takes the lion's share of training provided by PIPSO. SMEC does have some contact with the New Zealand Business Mentors program and also maintains contact with the New Zealand-funded Small Business Enterprise Centre. Funding for SMEC comes from Solomon Islands Government, the European Union and PT&I. SMEC is also looking for funding under the Enhanced Integrated Framework, Tier II for timber and fisheries.

SMEC is keen to assist businesses with market linkages, i.e. increasingly providing direct advice on market potential, preparation for export and identification of customers. They have a very good network of contacts around Honiara and also into the outer provinces given the scope of their work. Their supply-side knowledge is very good and they gave the impression of knowing 'who's who'. For example, they knew that manufactures, beverages, beer and other re-exported goods are going into Nauru; agriculture, firewood and manufactured products into Kiribati; and some fish and timber exports to Vanuatu. Bougainville was also mentioned as a potential market, with commodities such as rice going in and copra coming out. Comments about filling containers post-delivery also indicated that SMEC has given some thought to two-way trade with neighbouring islands.

In terms of the retail environment, it seems that Nauru has only one supermarket and Kiribati has two, so imports of perishables should be relatively straightforward. One interesting network that was rolled out was that of Honorary Consuls of Israel. The General Director of SMEC is one, and the main importer in Nauru is another. There is not one yet in Kiribati, but there are plans to appoint one. SMEC has had contacts previously with Chambers of Commerce in Nauru and Kiribati.

### ***Solomon Islands Chamber of Commerce***

Several visits were made to the Solomon Islands Chamber of Commerce, but no meeting was held despite requests being made in person and by phone. Information obtained from the Chamber's website and other third parties indicates that the Chamber deals mostly with larger companies. Agricultural companies listed as members were negligible, with only Guadalcanal Plains Palm Oil listed. Fishery and forestry companies are also represented, along with transport companies. Key shippers and air freight companies who were identified as potential partners in the export development exercise are represented.

### ***Solomon Islands Manufacturers Association (SIMA)***

SIMA is a small organisation representing the larger manufacturing and food processing companies in Solomon Islands. As a voluntary organisation, SIMA often struggles with staying active, but the organisation does provide ongoing inputs to economic development through participation in public-private partnership exercises. Examples include being on negotiation teams for the Economic Partnership Agreement, Melanesian Spearhead Group and Pacer Plus national teams. SIMA also has a focus on export development, but recognises that Solomon Islands faces continual competitiveness issues (price of inputs vs. prices available in the market), along with constraints in sea freight and air freight. SIMA has an interest in ensuring that shipping lines continue to develop routes out of Honiara, but recognises that export volumes (apart from the major export commodities) remain an issue. In terms of consolidating shipments, SIMA would like to see more efforts to consolidate freight but

recognises that supply-side issues with agricultural producers will need to be addressed. As large commercial operators, SIMA members do have the capacity to meet shipping deadlines, but would be wary of relying on agricultural suppliers to get product ready for export on time.

### **Commodity Export Marketing Authority (CEMA)**

CEMA has gone through significant restructuring since its direct export functions were withdrawn by government. Market liberalisation commenced in 2002, with CEMA now only left with export licensing responsibility and some training functions for commodity exporters. Proscribed commodities remain in place, these being copra, cocoa, palm oil, chilli, kava and cardamom. CEMA has regulatory functions for exports, along with responsibility for ensuring that products meet international market requirements. For the most part though, CEMA is struggling to continue in business as it lacks any direct government funding and relies on property management functions for all its operational revenues. Some assistance has been provided for exporter education from the European Union. Donor funding from Australia through the Cocoa Livelihoods Improvement Project (CLIP) has allowed CEMA to continue its technical advisory functions. Cocoa and copra exporters rent warehousing in both Honiara and the outer provinces. CEMA previously had a fleet of ships for inter-island trade, but this was sold off as part of the restructure. CEMA has examined getting funding from the Enhanced Integrated Framework for both institutional strengthening and communications.

CEMA commented that although export development is welcome, the reality is that most of Solomon Islands' small producers are more familiar with subsistence farming. CEMA consider that exports of taro, kumara, yams and cassava could be possible. Consistency of supply would be their biggest concern. If trade is to be sustainable, it would be better to look at full-scale commercial production.

## **2.8 Trade Mission**

Exporters, government and business support organisations all agree that a trade mission to Nauru and Kiribati is potentially worthwhile. The focus of the mission should be on gathering market intelligence, consumer information, distribution and agency arrangements, import requirements, competitor information and commercial deals. Pre-mission planning would include obtaining information from the likes of PT&I, PIPSO and host Ministries of Trade. In addition, Solomon Islands expatriates in target markets can provide a valuable resource for export development. Specific criteria for the mission would include:

- It should be commercially focussed, i.e. the mission should focus on long-term export development. It should not be for a single purpose but for market continuity.
- It should be of a manageable size, with not more than six participants, the majority of whom should be from the private sector, with up to two government representatives.
- Once mission participants are selected, a pre-mission briefing process should be undertaken, including obtaining market status reports, exporter profiles, product profiles and current levels of business.
- Adequate notification should be given to destination market business support organisations, government, and trading houses / importers.
- A mission report from all participants should be compiled within two weeks of return from the trade mission.

Contact has been made with the High Commissions of Nauru and Kiribati regarding the proposed mission. Comments included the following.

## **Nauru**

While the mission would be welcomed, the Nauru High Commissioner cautioned on the size of the market and the limited business community in Nauru. With a market of only 12,000, most of the trade is done with a single importer (although families also bring in imports on a regular basis). Air links into Nauru are still patchy, but Our Airline has re-established fortnightly flights from Nadi to Nauru (and from Nauru to Tarawa). Other options include a Honiara to Brisbane to Nauru link.<sup>8</sup>

The High Commissioner also noted that a lot of trade with Nauru is now conducted out of Suva, with supplies sourced in Fiji for shipment. Nauru's economy continues to struggle and it is considered more cost-effective to source product from Fiji, in addition to there being better shipping options from Fiji. The High Commissioner suggested that if Solomon Islands is looking to increase exports to Nauru, then transshipment through Suva for connection to regular services may be an option.

The High Commission would be pleased to assist with organisation of a trade mission from Solomon Islands, but strongly advised that the size be limited to a maximum of two (one government and one private sector). He considers that most of the business can be done in a day and a half, so there is little value in taking a large delegation through. He requested that he be kept informed of developments.

## **Kiribati**

The High Commission welcomed news of the proposed mission, noting that Solomon Islands has strong links with Kiribati. They consider that logistics (of conducting a Trade Mission) are not too much of an issue, with there being regular flights from Nadi to Tarawa. Commenting on the size of the mission, the High Commission felt that six is about the right size, given the size of the Kiribati market. The private sector is small in Kiribati, but there is an active Chamber of Commerce, which would be a key contact for the mission. The High Commission indicated that once a decision on dates is made, they would be happy to pass on notification of the mission to the Ministry of Foreign Affairs, which would then liaise with the Ministry of Trade and the private sector. It might be more prudent to notify the Chamber of Commerce directly, but given that contact has now been established at an official level, a certain process must be followed. This does bring into question the status of the trade mission, as there might be expectations that it would be an official bilateral mission. This would somewhat change the dynamics and protocol of how the mission is structured and coordinated.

## **Mission travel**

There are several options available for travel to both Nauru and Kiribati, which can be explored in more detail once numbers, dates and a tentative program is set up in both countries. Details of flights can be found on both [www.ourairline.com.au](http://www.ourairline.com.au) and [www.airpacific.com](http://www.airpacific.com).

## **Mission timing**

Discussions with exporters and government officials in Honiara indicated that June would be a good timing, but the approach of the Pacific Festival of the Arts in Solomon Islands in July is going to put something of a strain on the private sector. Exporters who are also producers have indicated that they would like to be in Honiara for this event and the lead up. It might be possible to break the trade mission into two parts, as suggested below:

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<sup>8</sup> Note concerns regarding Brisbane route at Section 2.5.

## **Nauru**

- A smaller mission of up to two people to Nauru with a specific brief to look at commercial opportunities for Solomon Islands in agricultural, horticultural, processed food and beverage products.
- Specific Terms of Reference to be developed for the Nauru mission that make it incumbent upon the mission members to report back to both the Solomon Islands MAWG and the larger exporter reference group upon return to Solomon Islands.
- Product profiles to be presented to potential importers in Nauru on an equitable basis.

## **Kiribati**

- A full-scale mission of six participants (including the two from Nauru) to take place following on from the return of the smaller mission from Nauru.
- A one-day debriefing/briefing exercise to be undertaken in Nadi prior to travelling to Tarawa to allow the results of the Nauru mission to be informed to the larger group.
- Specific Terms of Reference to be developed for the Kiribati mission that make it incumbent upon the mission members to report back to both the Solomon Islands MAWG and the larger exporter reference group upon return to Solomon Islands.
- Product profiles to be presented to potential importers in Kiribati on an equitable basis.

### 3 Comments/Recommendations

The mission has revealed that there is strong interest from exporters to grow their business through exporting, and that there is existing trade (although limited), a degree of export capability, wider support from larger food and beverage manufacturers, trading house interest both in terms of supply and consolidation, and broad government support. Issues identified above, particularly with respect to shipping and verification of the market, will need to be resolved over time. Issues of trade finance and the role of commercial banks (and possibly the Rural Development Program) require further investigation. Government will need to give some attention to export development beyond current indications of general support.

The proposal to take a small trade mission to Nauru and Kiribati has some merit, but needs to be confirmed by the Solomon Islands MAWG on the basis of other key constraints identified in this report. There is strong support from the private sector, business support organisations and government. If the decision is made to provide further support for a trade mission, emphasis should be on private sector participants, supported by trade-related government Ministries. Existing exporters should have priority, but at the same time (and as discussed at the Roundtable), they should be prepared to represent sectors/products on the mission. Private sector participants are encouraged to engage in business but also need to take a strategic focus, which includes representing the interests of the wider supply chain.

Export development is something that takes time, commitment and money. There are few quick wins, but on occasion this can happen. Given the challenges that exist in the Pacific, expectations need to be realistic. Neither Nauru nor Kiribati are large markets. But they are manageable markets, in reasonable proximity to Solomon Islands, and they have extensive import requirements. There is an opportunity in these markets to not only build up sustainable exports, but also export capability. Better export capability could then be factored into a longer-term perspective whereby additional regional markets could be considered.

It is recommended that:

- Additional information should be sought from regional agencies as to the levels of trade between Solomon Islands and target markets.
- Further clarification should be sought from shipping companies, both local and international, as to shipping routes, timings, cost and availability.
- A trade mission profile booklet outlining Solomon Islands' export offer, profiles of participants and general background information should be produced.
- On the basis of this additional information, further consideration should be given by the Solomon Islands MAWG as to whether providing further support for a trade mission to Nauru and Kiribati is justified. It is not recommended that the Marshall Islands be included, given the low levels of trade and high potential cost of travel.

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## Appendix A

### Appendix A Contacts Met

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## Appendix A

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## Appendix B

### Appendix B List of Potential Export Products

<b>Roots Crops</b> <ul style="list-style-type: none"> <li>• Cassava- <i>Manihot esculenta</i></li> <li>• Taro-<i>Colocasia esculenta</i></li> <li>• Yam</li> <li>• Pana</li> <li>• Sweet Potato-<i>Ipomoea batatas</i></li> <li>• Irish Potato-<i>Solanum tuberosum</i></li> <li>• Kong kong taro-<i>Xanthosoma sagittifolium</i></li> </ul>	<b>Nut Crops</b> <ul style="list-style-type: none"> <li>• Ngali nut</li> <li>• Alite nut</li> <li>• Cut nut</li> <li>• Okari nut</li> <li>• Peanut-<i>Arachis hypogaea</i></li> <li>• Chest nut</li> <li>• Betel nut-<i>Areca catechu</i></li> </ul>
<b>Vegetables</b> <ul style="list-style-type: none"> <li>• Ball Cabbage</li> <li>• Chinese Cabbage-<i>Brassica Chinensis</i></li> <li>• Capsicum-<i>Capsicum annuum</i> (Sweet pepper)</li> <li>• Saladeer</li> <li>• Tomato-<i>Lycopersicon esculentum</i></li> <li>• Cucumber-<i>Cucumis sativus</i></li> <li>• Egg plant-<i>Solanum melongena</i></li> <li>• Onion-<i>Allium cepa</i></li> <li>• Garlic-<i>Allium sativum</i></li> <li>• Lettuce-<i>Lactuca sativa</i></li> <li>• Watercress-<i>Nasturtium officinale</i></li> <li>• Okra-<i>Hibiscus esculentus</i></li> </ul>	<b>Spices</b> <ul style="list-style-type: none"> <li>• Chilli</li> <li>• Vanilla-<i>Vanilla fragrans</i></li> <li>• Ginger-<i>Zingiber officinale</i></li> <li>• Pepper-<i>Piper nigrum</i></li> <li>• Turmeric-<i>Curcuma domestica</i></li> </ul>
<b>Fruits</b> <ul style="list-style-type: none"> <li>• Water Melon-<i>Citrullus lanatus</i></li> <li>• Bush Lime</li> <li>• Pineapple-<i>Ananas comosus</i></li> <li>• Carambola (Five Corners)-<i>Averrhoa carambola</i></li> <li>• Pawpaw-<i>Carica papaya</i></li> <li>• Malay Apple</li> <li>• Guava-<i>Psidium guajava</i></li> <li>• Avocado-<i>Persea americana</i></li> <li>• Mangosteen</li> <li>• Pumpkin-<i>Cucurbita moschata</i></li> <li>• Mango-<i>Mangifera indica</i></li> <li>• Banana (yellow flesh)</li> </ul>	<b>Other Crops/Plants</b> <ul style="list-style-type: none"> <li>• Kava</li> <li>• Breadfruit-<i>Artocarpus altilis</i></li> <li>• Coffee-<i>Coffea canephora</i> (Robusta coffee) and <i>Coffea arabica</i> (Arabica coffee)</li> <li>• Flower</li> <li>• Dry coconut</li> <li>• Green coconut</li> <li>• Noni (Morinda)</li> </ul>
<b>Marine Products</b> <ul style="list-style-type: none"> <li>• Reef fish</li> <li>• Mud crab</li> </ul>	<b>Animal Products</b> <ul style="list-style-type: none"> <li>• Chicken</li> <li>• Pork</li> <li>• Beef</li> <li>• Egg</li> </ul>



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