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***“Strengthening Economic Linkages”***

**SUSTAINABLE ECONOMIC DEVELOPMENT VIA STRENGTHENED  
LINKAGES: TOURISM SECTOR**

**OPTIONS FOR IMPROVING TOURISM AND AGRICULTURE  
LINKAGES**

This paper, prepared by the Food and Agriculture Organisation (FAO) Sub-Regional Office for the Pacific Islands, provides an update on the policy measures to strengthen economic linkages of the tourism industry in the region with specific focus on the agriculture sector.

# Sustainable Economic Development via Strengthened Linkages: Tourism Sector

## Options for Improving Tourism and Agriculture Linkages

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### Purpose

Outlines policy measures to strengthen the linkages between agriculture and tourism industries in the region.

### Summary of Key Issues

Agriculture, forestry and fishing have traditionally been the most important sources of income for most of the Forum Island Countries (FICs), and their rural households. A decline in the relative competitiveness of FIC primary sector exports in recent decades, and rising food import dependence have significantly reduced household income generating opportunities from these sources. During the same period, the tourism sector has established itself as the main engine of economic growth, and foreign exchange income in many FICs. However, the overwhelming majority of tourism sector earnings are captured by urban households, and overseas markets. Forging closer economic linkages between the tourism industry and the primary sectors by facilitating increased supply opportunities, will help ensure rural incomes match growth rates in the urban sector, and will also reduce the extent of foreign exchange leakage.

2. Natural synergies exist between the primary sectors and tourism. Rising consumer demand for local content in tourism offerings, including improved cuisine experiences, ecotourism and cultural activities has increased the level of interest of the tourism sector operators in securing additional local produce and in contributing to effective resource management.

3. Diversification of FIC tourism brands to respond to emerging consumer trends, such as through the creative use and marketing of local produce and natural attractions, will assist the tourism industry to capture a larger share of high-spend tourists, and return visitors. However, inconsistency in the supply and quality of local fresh produce, compounded by the disconnection between the peak tourist season (e.g. June to September) and the natural growing season for tropical fruit (e.g. November to February), has reduced the tourist industry's capacity to introduce and increase consumption of local agricultural content.

4. Consequently, it is imperative to facilitate increased investment in the adoption of modern and off-season production technologies, as well as post-harvest cold storage facilities, in order to address this supply side problem. The high cost of financing for production technologies and capital equipment purchases, and the high rates of risk associated with investment in the agriculture sector as a result of frequent natural disasters and land tenure issues, are significant barriers to increased investment.

5. Without: improved access to finance at interest rates competitive with those enjoyed by farmers in food exporting countries in the Pacific rim; access to long-term agricultural leases; and access to agricultural insurance schemes which reduce the financial risks associated with flooding and cyclones;

FICs are unlikely to attract sufficient investment in the production and processing infrastructure required to supply the tourism industry (and other domestic markets) with competitively priced and high quality local food products. In addition, improving the agriculture sector's access market and farm gross margin information will be necessary to facilitate better co-ordination of the supply of local food to the tourism and hospitality sectors.

6. Unless there is significant new investment to enhance the competitiveness of FIC agribusiness, the tourism industry will continue to depend upon imported food, with negative implications for future branding and marketing promotions, and foreign exchange earnings.

7. The introduction of a tax to discourage the consumption of foods high in salt, trans fat and sugar, could achieve the twin policy aims of reducing risk factors associated with obesity and NCDs, and generating investment capital sufficient to provide low interest loans to the development of competitive food systems. The use of taxes to raise revenue for achieving important social, economic and environmental goals is a strategy underused by FICs. Given the rising costs to FICs' health budgets associated with treating NCDs, as well as the impact of NCDs on labour productivity and morbidity; and given the need to reduce foreign exchange leakage from tourism by increasing local value-added, a tax could improve both national food security and national income, without the use of external development loans. These funds could also be used to invest in reducing the cost of fruit and vegetable products to consumers by supporting and expanding local production.

8. The growth of the cruise ship industry in the Pacific has provided a new source of income from tourism. The increased frequency and capacity of cruise ships in Pacific ports has contributed to rising visitor numbers. However, in order to accommodate the current and future growth of this industry, the cruise ship industry is requesting significant investment by FICs in redeveloping port infrastructure and immigration processing facilities. Given the far lower rate of cruise ship tourists' daily expenditure (relative to tourists arriving on flights); their lower rate of consumption of local produce; their exemption from many of the taxes (hotel bed taxes, departure taxes, and 'green fees'); and the non-domicile of cruise ship operators in FICs for income tax purposes; the national economic benefits of cruise ship tourists is a fraction of those arriving by other means, and staying onshore.

9. In order to increase local earnings from cruise ship tourism, FICs could negotiate the introduction of local content requirements, in return for future investment in port infrastructure and other onshore facilities. They could also review the taxes imposed on day-visitors and the cruise ship industry relative to other tourists, hotels and onshore tourism operators. Any additional revenue raised through such levies (in consultation with cruise ship operators) could be used for investment in upgrading local production and processing capacity for the identified products. In order to incentivise the cruise ship industry to increase their local content, all purchases of local food and beverages by ship operators could be 'tax deductible' from any forms of taxes that the operators may have to pay, including head and departure taxes, or the proposed green fees.

10. The rise in niche ecotourism such as diving, bird and whale watching, and bushwalking in forested areas, offers alternative income opportunities for rural communities willing to invest in effective resource management. The FICs' branding and marketing as 'clean and green' tourist destinations depend upon

effective maintenance of a pristine natural environment, and natural resources central to tourist activities such as coral reefs, forest reserves, and whale and bird breeding sites. The tourism industry has benefitted significantly from the establishment of locally managed Marine Protected Areas and the protection of forested areas from logging. However the maintenance of these areas introduces some significant resource implications for poor rural communities.

11. If rural communities are to mitigate the financial costs associated with administering and enforcing the protected areas, as well as the impact of reduced fishing and logging activity on household income levels, then protected areas need to offer these communities alternate sources of revenue. While some communities have been successful at negotiating the direct application of visitor fees, these arrangements impose additional administration costs, are difficult to regulate, and can fail to provide compensation sufficient to discourage infringements in the protected area by members of the community. The addition of 'green fees' to departure taxes for all visitors provides an alternate method of generating revenue for funding the implementation and administration of protected areas at the national level including the provision of compensatory income to resource owners. Revenue collected from these fees should be used to help establish protected area trust funds which would ensure that these payments are sustained, and not lost due to the absorption of such tax revenue into general government expenditure.

12. The proposed policy options to link the tourism and agriculture sectors outlined in this paper require more detailed analysis before consideration by the respective national authorities prior to implementation. Further refinements to these policy proposals are required, taking into account the discussions at the FEOM and FEMM. The Waiheke Declaration Technical Working Group could be tasked to further develop the policy options into detailed proposals for Members' consideration, including specific proposals for cooperation at regional and sub-regional levels.

**Food and Agriculture Organisation (FAO) Sub-Regional Office for the Pacific Islands**  
**Apia**  
**19 June, 2014.**

# DETAILED ASSESSMENT OF POLICY MEASURES TO PROMOTE AGRICULTURE-TOURISM LINKAGES: ENHANCING ECONOMIC, SOCIAL AND ENVIRONMENTAL SYNERGIES

## Agriculture policy needs a stronger focus on supplying domestic markets

Tourism is the major source of foreign exchange earnings, employment and national income for many FICs, with the contribution of tourism to the region valued at over US\$ 2.27 billion.<sup>1</sup> Income from tourism represents an average value of 7.2% of GDP across the Pacific; and employs almost 6 per cent of the labour force.<sup>2</sup> The sustained growth in tourist visitor numbers (Table 1) has provided an important alternative source of national income to offset falling agricultural exports, and rising food import dependence.

**Table 1: Visitor Arrivals Pacific Island Countries 2007-2013**

Country	2007	2008	2009	2010	2011	2012	2013(e)
<b>Cook Islands</b>	97,019	94,776	101,229	104,265	113,114	122,384	121,237
<b>FSM</b>	21,146	22,297	21,540	21,576	22,730	23,126	23,589
<b>Fiji</b>	539,881	585,031	542,186	631,868	675,050	660,590	691,820
<b>French Polynesia</b>	218,241	196,496	160,447	153,919	162,776	168,978	173,705
<b>Kiribati</b>	4,709	3,871	3,944	4,701	5,264	4,907	4,981
<b>Marshall Islands</b>	7,200	6,022	4,923	4,563	4,559	4,590	4,601
<b>New Caledonia</b>	103,363	103,672	99,379	98,562	111,875	112,204	115,989
<b>Niue</b>	3,445	4,748	4,662	6,214	4,920	5,048	5,129
<b>Palau</b>	88,175	79,259	71,887	85,593	109,057	118,754	124,129
<b>Papua New Guinea</b>	104,122	120,139	125,891	146,933	163,173	169,975	175,524
<b>Samoa</b>	122,356	122,163	129,305	129,500	127,420	134,700	137,271
<b>Solomon Islands</b>	13,748	16,264	18,260	20,521	22,941	23,925	24,053
<b>Tonga</b>	43,344	50,462	45,711	47,081	46,005	49,010	50,191
<b>Tuvalu</b>	1,130	1,559	1,622	1,657	1,201	1,019	1,032
<b>Vanuatu</b>	81,345	90,654	100,675	97,180	93,824	108,161	116,100
<b>Total</b>	<b>1,462,204</b>	<b>1,516,318</b>	<b>1,431,661</b>	<b>1,554,133</b>	<b>1,663,909</b>	<b>1,707,371</b>	<b>1,769,351</b>

Sources: National Statistics Offices; National Tourism Offices; SPTO estimates

2. The growth in Pacific islands tourism presents a good opportunity for positive market linkages with the agriculture sector, but to date these linkages have not been fully exploited. This is largely because local food production has failed to meet the tourism sector's requirements for a consistent supply of quality fresh

<sup>1</sup> Seidel, H. and Lal, P. (2010) *The Economic Value of the Pacific Ocean to Pacific Island Countries and Territories*, IUCN, Suva

<sup>2</sup> Ibid

food throughout the year. As a result, the growing demand from the tourism food hospitality sector has further increased FICs' food import dependence. It is estimated that between 60-80 percent of the food consumed by the tourism industry is imported, and that the largest barriers to local supply are the service, consistency, and quality requirements of the industry.<sup>3 4</sup>

3. Improving the supply linkages between agriculture and tourism depends on the capacity of the agriculture sector to produce a consistently high quality product, throughout the year, at a price competitive with imported substitutes. Food purchasing in the tourist market is a buyer-driven value chain where buyers dictate quality standards, delivery schedules, and price points to agricultural producers further down the chain. Participation in this demanding value chain depends upon the possession of capital, knowledge and skills not often available to smallholder farmers.

4. Therefore, facilitating the participation of FIC farmers in the tourism market supply chain will require considerable investment in the adoption of production and marketing skills, infrastructure and processing equipment by farmers and agribusinesses. This will require a transformation from subsistence oriented agriculture to a more modern commercial sector focused on 'farming as a business' and the end customers' needs (Box 1).

#### **Box 1: Tourism focused Participatory Grower Schemes**

The vegetable production season in FICs is usually eight to nine months long. However through the co-ordination of planting and harvesting schedules, and the use of greenhouse coverings and ripening houses, farmers from Qereqere in the Sigatoka valley in Fiji have managed to supply out-of-season vegetables (such as tomatoes) to the Fijian Shangri-La and Warwick Resorts.

Three groups of 16 farmers came together to develop an agreed group business plan which included each farmer planting ¼ of an acre of tomatoes in groups of four, giving them a collective total of an acre each month. Early estimates indicate combined production of the three Sigatoka groups rising to three tonnes per week (compared to their previous capacity of 4-500kg), including 400 - 800Kg of Grade 1 tomatoes which are sold to resorts. The lower Grades are sold at the Suva Municipal Market.

*Source: ACIAR (2014) PARDI: Capacity building in the South Pacific, ACIAR., Canberra*

5. To encourage investment in the adoption of new technologies which increase a year-round quality supply, as well as processing technologies which help to provide a market for second grade fruit and vegetable products during periods of oversupply there is a need to: (i) provide low interest loan products for agribusiness development; (ii) introduce tax breaks for primary producers with the ability to quickly write off the value of capital investment for agricultural equipment; (iii) reduce risk on agriculture investment by the introduction of disaster risk insurance for agribusiness infrastructure and equipment ; and (iv) ensure fertilizers and other agricultural inputs are available at economical prices ( Box 2).

<sup>3</sup> Sofield, T.H.B. and Tamasese, E. (2011), Samoa Tourism Led Poverty Reduction Programme, Opportunity Study Report, International Trade Centre, January 2011

<sup>4</sup> Young, J. and Vinning, G. (2007) *Fiji: Commodity chain study: Outcomes from the investigations implemented to assess import substitution potentials of selected horticultural products*, FAO SAPA, Samoa

6. Global experience has shown that financing agriculture is more effective, and hence less risky, when it is part of a broader package that combines both financial and non-financial services to the farmers with the objective of building business management skills, improving yields and quality (through access to better inputs and extension) and ensuring access to markets for selling farm produce<sup>5</sup>. A full package of policy, service and financial support directed at market-oriented, agro-entrepreneurs is required to turn the tide in the faltering agricultural sectors across the region. The ageing of participants in the sector and the low level of new entrants highlights the need to make agriculture more competitive and profitable and thus an attractive choice for income generation for younger farmers.

**Box 2: Fiji policy support for agribusiness and import substitution**

With a large urban and growing tourist market Fiji is also a major importer of food: the food import bill is estimated to be growing by 20 per cent every year. As a result, the Government of Fiji has sought to stimulate an increase in agricultural production for a number of targeted import substitution commodities through the introduction of policy incentives aimed at improving the environment for agriculture sector growth. In 2009, the Fiji Government devalued the Fijian dollar by 20%, which immediately increased the price of all imports, including for the targeted commodities. They also introduced 5-13 year tax holidays for investors in commercial agriculture and agro-processing and reduced all import levies of specialised agricultural machinery, equipment like greenhouses and hydroponics and other agricultural inputs, in order to foster increased productivity. Furthermore, Fiji has established designated geographic tax free zones, in order to encourage clustering of agro-processing. The provision of interest subsidies for loans to agricultural enterprises provided by both commercial banks and development banks, encouraged lending to the agriculture sector. As a result, Fiji was able to stimulate competitive local production and reduce imports of a number of targeted products, e.g. the volume of imported tomatoes declined from 160,000 tonnes in 2008 to 20,000 tonnes in 2011; the volume of lettuce imports declined from 140,000 to 30,000 tonnes, and imports of capsicum declined from 60,000 tonnes to 10,000 tonnes, over the same period. As a consequence supply of local produce to hotels has also increased.

*Sources:* World Travel & Tourism Council (2013) *The Economic Impact of Travel & Tourism in Fiji 2013*; Martyn, T. (2011) *Fiji Domestic Market Study: opportunities and challenges for vegetable import substitution*, FAO SAPA, Apia: Samoa; Fiji Ministry of Primary Industries (2009) *Agriculture Strategic Development Plan 2010-12*, Suva: Fiji; Fiji Ministry of Finance (2013) *Agriculture Incentives*, Presentation to the Agriculture Taskforce, Suva: Fiji; Fiji Bureau of Statistics. Trade Data 2008-2012

7. Generating sufficient revenue to provide a source of low-interest loan capital to the private sector has been an issue for the primary sector. Loan vehicles are often dependent on sourcing external financing from International Financial Institutions and donors. However, loan capital could be generated by levying a small tax on food products which contribute to negative health outcomes.

8. The introduction of taxes can provide a valuable source of revenue whilst assisting FICs to address social and environmental objectives.<sup>6</sup> Excise taxes are generally used to discourage consumption of goods with public costs, such as pollution or health impacts, while also yielding revenue to support government expenditure; however they remain underutilised in the region.<sup>7</sup> Therefore there is a wide scope for

<sup>5</sup> International Finance Corporation (2012) *Innovative Agricultural SME Finance Models*

<sup>6</sup> PIFTAC (2010), *Improving Revenue Collection and Capacity in Forum Island Countries*, prepared for the PIFS in response to the 2009 request of the FEMM for a study on revenue collection options for FICs, Suva

<sup>7</sup> Ibid

increasing the range of goods and services covered by taxes in the Pacific, in order to raise revenue sufficient to achieve priority social and economic objectives.<sup>8</sup>

9. Recognising the high incidence of NCDs such as diabetes in FICs and their link to diet, there is a compelling argument for a multi-sectoral approach to addressing this crisis<sup>9</sup>. Some FICs have already shown their willingness to use taxation to deal with obesity and NCDs by implementing a sugar tax targeted at sweetened soda drinks (see Box 3)<sup>10</sup>.

### **Box 3: Estimation of potential revenue collected from a tax on sugar content in soft drinks**

On April 1<sup>st</sup> 2014 the Cook Islands Government introduced a levy of NZD9.80 per kg of sugar on soft drinks with high sugar content. . A Coke 1.5 litre bottle has 160grams of sugar, and this levy would add about NZD1.56 to the bottle's CIF (imported) price or any other product with the same sugar content.

In 2012, there were 1,178,469 litres of carbonated soft drinks with sugar (not sweetener) added, valued (CIF) at NZD 1,596,882.95. The sugar content of these soft drinks ranges from 148g per litre for Fanta orange, down to 105g per litre for Sprite. Coke and Dr. Pepper were on the lower end of the scale at 114g per litre. Given the likelihood that more Coke was imported than Fanta, it has been assumed for the purpose of this estimation, that Coke (and a sugar content of 114g) is the average for all of the 1,178,469 litres of soft drink imported. Applying the new sugar tax on the sugar content of this volume of imported soft drinks would provide NZD1,316,585.56 of revenue. The additional revenue from the sugar levy will be invested in achieving social and economic objectives in the country.

*Source: Cook Islands Statistics Office Trade Data; Cook Islands Tax Review 2013*

10. Using revenue from health taxes to invest in improving the competitiveness of local production of fruits and vegetables would not only provide their domestic population with cheaper nutritious food substitutes important to reducing NCDs, it would also increase the economic value of tourism to FICs.

### **Improving coordination in supply and demand**

11. The paucity of demand and price data in most FICs poses a significant problem for farm planning and for coordinating year-round supply of agricultural produce to domestic consumers, such as in the tourist food hospitality sector. Currently only three countries in the region (Fiji, Samoa and Tonga) have institutionalised regular market data collection and only two of these countries provide easy access to this data to farmers. There is also very limited data available on tourist sector demand for fresh food produce and where the sector sources its supply, either from imports or local production. Gaining a better understanding of the different domestic market segment demands and the potential to meet these through year-round local supply is critical for policy and strategic planning in the agriculture sector, and also for ensuring positive linkages between the agriculture and tourism sectors.

12. The identification of market preferences and communicating these to farmers is essential to improving linkages between tourism and agriculture. Therefore trading intermediaries are a critical link needed between the market and producers. Traders are successful when they establish supply relationships with the food hospitality sector based upon their proven ability to service the sector's quality, variety and

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<sup>8</sup> Ibid

<sup>9</sup> Personal communication Dr Rangiau Fariu, Cook Islands Ministry of Health

<sup>10</sup> Personal Communication James Webb, MFEM:

delivery needs and are able to effectively communicate these preferences to farmers. Supporting such trading intermediaries will be critical to improving supply co-ordination between agriculture and the tourist sectors (see Box 4).

#### **Box 4: The link between farms and hotels**

Susana is a farmer and a trader who has worked for 10 years supplying the major hotels and resorts in Port Vila with fruit (pineapple, melon, papaya and banana) up to three times a week. She manages her own 10ha farm and began working with surrounding farmers in order to help her co-ordinate supply, and reach the volume required to work with hotels and resorts. She thus has had a long experience in interacting with resorts and hotels, and understands their demands and preferences; as well as having experience of the constraints facing smallholder growers. Her method is to contact hotels usually on a weekly basis to pick up their order sheet indicating the products, quantities and time of delivery. She then visits her network of growers and selects and collects the required quantities and grades needed to fill the order, hires a truck and transports to the hotels. Suzanna has managed this business for a decade without a phone or own transport. She has established strong relationships with the purchasing officers at a range of hotels, as well as amongst her network of growers. She pays her growers weekly, and receives payment from her hotels weekly; and therefore receives produce from growers without payment up front (though advances are sometimes provided). Hotels have sought her services because she has ensured good quality and reliability.

Susana's competitive advantage is that she can procure a volume of produce sufficient to provide a return on a hired vehicle; ensure that the hotels get a higher quality produce than if they went direct to the Vila municipal market; and has developed good relationships with hotels on the basis of her ability to meet the quality and reliability standards demanded by them. She would like to improve her business and service to hotels by reducing post-harvest spoilage and waste through having a solar powered container cold storage facility.

*Source: FAO (2014) Linking farmers to markets: Improving opportunities for locally produced food on domestic and tourist markets in Vanuatu, April 2014 Study Report*

### **Building demand for local produce and destinations**

13. Expenditure on food and beverages is the second highest category of expenditure engaged in by visitors to the Pacific islands, after accommodation. The rise in interest in cuisine and cooking shows among citizens of the countries who most often visit the FICs as tourists – Australia and New Zealand - is generating a new awareness, and appreciation of, the 'cuisine experience' that is offered by comparable holiday destinations.

14. As a result, the quality and variety of cuisine on offer at a destination is becoming increasingly important to defining the tourist holiday experience in the Pacific region. Therefore, promoting local food will be an essential aspect of any strategy for growing the market share for Pacific destinations as well increasing the demand for local fresh produce.

15. Most hotels in FICs are keen to purchase local food products. However higher prices, inferior product and lack of consistency of supply have led many to secure import supply contracts with foreign food logistics companies; and supplement these standing orders with whatever local fruit or vegetable products are cheap and plentiful, and of the right quality. The purchasing arrangements maintained by many of the larger, international hotel chains are determined at corporate level, in order to obtain economies of scale and universal quality standards across their various franchisees.

16. Smaller boutique resorts and hotels tend to have a stronger commitment towards purchasing local food produce, given that the scale of their operations can be supported by the smaller volumes of local produce available. However, most important to determining a hotel's use of local produce is the extensiveness of the network of relationships established by the manager, purchasing officers and chefs with members of the local farming community. Their ability to source unique ingredients and consistent high quality produce is often the result of the investment of additional time and resources in understanding the wide variety of local food products available, and potential suppliers. A strong catalyst for making this additional investment is the increased demand for improved 'cuisine experiences' from their restaurant clientele and guests.

17. The popularisation and promotion of menus containing increased local food and beverage content in hotel and restaurant menus has been spearheaded by celebrity chefs, with the support of SPTO and national tourist authorities. Robert Oliver and Tracey Berno, authors of the Me'a Kai Cookbook (The Food and Flavours of the South Pacific) have been at the forefront of encouraging FIC tourist operators to write local farm products onto menus, in order to provide a point of differentiation. Oliver is currently working actively across the region to change perceptions and attitudes of managers and chefs about the quality and worthiness of Pacific Island local dishes for the hospitality sector. Training programmes to support the development of chefs with the necessary skill-base to increase the variety of local ingredients and flavours in their menus, should be a priority.

18. Several FICs are developing or strengthening tourist sector certification and accreditation systems and this could provide an opportunity to consider rating the use of local produce by hotels and restaurants seeking the benefits of accreditation. National Tourism authorities, as well as hotel, restaurant and chef associations, have a critical role to play in encouraging greater use of local produce in the food hospitality industry. These stakeholders should be encouraged to work together to identify strategies for capitalising upon the marketing benefits for campaigns promoting the unique cuisine offerings available in the Pacific.

19. Full realisation of the value of a distinctive local fresh cuisine as a destination selling point, and the additional income generating opportunities this will offer to local farmers, will more likely be realised if hotels are offered significant marketing benefits. The development of a regional tourism branding initiative, perhaps replicating the use of the



#### **Box 5: True Pacific branding of local products**

True Pacific is a Programme bringing outstanding Pacific products to the rest of the world, through the use of the True Pacific quality mark on products which truly represent the unique artisanal properties, exotic flavours and fresh and unspoiled natural beauty of the Pacific.

A variety of food products bear the True Pacific mark: from PNG coffee, to Fiji Red papaya, to Hot Samoan Boys Chilli Sauce, Lapita Manioc products from Vanuatu, and Heilala Vanilla products from Tonga.

Launched in September 2011, True Pacific is an initiative of the Pacific Co-operation Foundation. PCF plays a coordination role by actively providing business, technical and marketing support to enterprises from throughout the region to ensure their practices and products meet the required standard. To earn a True Pacific licence, producers must register with the programme and meet a set of assessment criteria which confirm products are high quality and effective systems are in place.

Source: [www.truepacific.com](http://www.truepacific.com)

True Pacific (Box 5) brand for exported products, should be explored by FICs, with the support of CROP agencies.

### **Increasing the local value added from cruise ship tourism**

20. The cruise industry is the fastest growing leisure-travel market globally estimated to be worth about US\$37.1 billion in 2014 with 21.6 million passengers carried. Cruise ships are getting bigger<sup>11</sup> with capacity up to 4,000 passengers. A total of 6 new ships were added to the global fleet in 2014 and from 2015 to 2016, 17 more new cruise ships will come online<sup>12</sup>. Cruise ship tourism is also growing in the Pacific with several FICs experiencing increased numbers of day cruise ship visitors. In Vanuatu, cruise ship tourism is the fastest growing segment with 213,243 visitor arrivals in 2012 representing 66 percent of tourist arrivals<sup>13</sup>. Growth has centered on the three major cruising destinations of New Caledonia, Vanuatu and Fiji because of their geographical ‘closeness’ to the main source market of Australia where typically cruise lines operate 1 to 2 week cruises<sup>14</sup>.

21. To accommodate more frequent cruise ship visits and greater vessel size countries are being encouraged to make significant investments in upgrading port infrastructure and passenger facilities. The government of Tonga using a 30 million pa’anga (about US\$16.2 million) loan from China has recently built the new Vuna Cruise Ship Wharf in Nuku’alofa and Vanuatu is implementing wharf upgrades in Port Vila and Luganville. The economic value added from cruise ship tourism must fully justify these substantial investments.

22. Despite that in some countries cruise ship tourism is growing faster than land-based tourism, the direct spend by cruise ship passengers in the local economy is likely to be much less than by stop-over visitors. In 2012 the direct contribution to Vanuatu’s economy by the 108,161 stop-over visitors’ local spending was estimated to be US\$ 122.9 million whilst the contribution from 213,242 cruise ship day visitors was US\$ 30.5 million<sup>15</sup>. Furthermore, the Vanuatu Cruise Visitor Survey conducted in 2013<sup>16</sup> estimated that the average cruise ship visitor spends only VUV 1,460 (about US\$15) on food and beverage. In contrast around 24% of the 675,000 stop-over tourist’s expenditure in Fiji in 2011 was on food and 10% on beverages, equivalent to FJ\$ 381 (about US\$205) per capita spend.<sup>17</sup>

23. Despite the size of the cruise ship market, its consumption of FIC food and beverage products is negligible. The cruise ship industry imposes strict biosecurity and food quality requirements which make it almost impossible for local suppliers of fresh produce to gain a share of their general food provisioning.<sup>18</sup> The cruise ship industry also maintains bulk corporate ordering processes which provide contracts to food

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<sup>11</sup> While most boats currently coming into Port Vila are between 1,000 and 2,000 berths, there were some in 2012 and 2013 with 2,600 berths

<sup>12</sup> [www.cruisemarketwatch.com](http://www.cruisemarketwatch.com)

<sup>13</sup> Vanuatu Statistics Office (2013)

<sup>14</sup> South Pacific Tourism Organization (2012) Cruise Market Analysis, April 2012

<sup>15</sup> FAO (2014) *Linking farmers to markets: Improving opportunities for locally produced food on domestic and tourist markets in Vanuatu*, April 2014 Study Report

<sup>16</sup> South Pacific Tourism Organization (2014) Vanuatu Cruise Visitor Survey, February 2014

<sup>17</sup> Fiji Bureau of Statistics (2012) Statistical News, Fiji’s earnings from Tourism December quarter 2011

<sup>18</sup> FAO (2014) *Linking farmers to markets: Improving opportunities for locally produced food on domestic and tourist markets in Vanuatu*, April 2014 Study Report

and beverage suppliers (often a single procurement company) located in home ports, at prices significantly cheaper than can be supplied by farmers in FICs.<sup>19</sup> Thus cruise ship companies have not often been willing to consider local food and beverage alternatives, other than semi-regular 'island nights' and on board product promotional 'try and buy' events.

24. The opportunities to market fresh food products, once passengers come ashore, is also limited. Cruise ship holidays typically involve pre-paid packages which include all onboard meals and many onboard activities, discouraging many passengers from consuming additional meals, or spending time onshore<sup>20</sup>. In general, only around 50-60 percent of onboard cruise passengers disembark while in ports and go on organised tours.<sup>21 22</sup> However, passengers who embark on formal tours arranged by the cruise ship tour agent generally can only be served food or drinks at a restricted number of venues which is pre-agreed with cruise ship agents and their ground handlers. Furthermore, passengers are given advice onboard ship regarding food safety issues and warnings on consumption of certain local products, and advised that they cannot bring fresh food products back on the boat. Phytosanitary issues are also raised about some processed food products and craft items, sometimes without a substantial basis.

25. Increasing the cruise ship industries rate of purchase of local content especially fresh food, will take a sustained and concerted high level political commitment, advocacy and negotiation with cruise ship industry operators. With the anticipated continued strong growth in the cruise ship market segment, the goal of increasing local content in the cruise ship value added should rigorously be pursued. Because the cruise ship industry is highly concentrated, with only four global companies owning 86% of all cruise ship lines, they present a formidable united front in negotiations with individual FICs.

26. To strengthen FICs' negotiating position, they should work together to increase their collective bargaining power in the negotiations with cruise ship operators. There is a need for harmonisation in policy and regulations related to the introduction of local content requirements to leverage better agreements with cruise ship companies in order to generate income opportunities for rural communities; and in the introduction of visitor levies to increase the overall benefits of cruise activities to national income (e.g. passenger head tax, departure tax and environment 'green' fees). FICs could allow transferability between these twin measures, so that any investment in local procurement was deductible against the value of other taxes levied against cruise ship operations.

27. Passenger or head tax is routinely charged around the world to cruise ship visitors and is included in their ticket price. The island states of the Caribbean each impose a passenger head tax of between US\$4 and US\$60, in addition to environmental taxes, with reductions being offered during off-peak times.<sup>23</sup> State Governments in Australia have also imposed passenger tax on cruise ship visitors. The New South Wales

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<sup>19</sup> Ibid

<sup>20</sup> Schevens, R. and Russell, M. (2013) *Sharing the Riches of Tourism in Vanuatu*, Massey University, School of People, Environment and Planning

<sup>21</sup> Ibid

<sup>22</sup> FAO 2014 Op. Cit.

<sup>23</sup> Caribbean Hotel Association (2007) *Cruise Passenger Head Tax*, document prepared for the Caribbean Regional Sustainable Tourism Development Programme <http://www.caribbeanhotelandtourism.com/>

Government imposed a passenger tax in Sydney Port of A\$20 in 2013 rising to A\$25 in 2014 and to A\$30 in 2015.<sup>24</sup>

28. The challenge for FICs' policy makers is both to ensure that tourism growth is sustainable and that the benefits that accrue from increased visitor numbers are maximised in country value added and that any increased wealth is equitably shared with poorer rural communities.

### **Ecotourism provides alternative income benefits from sustainable resource management**

29. Ecotourism, characterised by travel to natural areas that promote conservation of the environment, is one of the fastest growing segments of the tourism industry worldwide – growing at a rate some two to three times the rate of growth in the tourism industry overall.<sup>25</sup>

#### **Box 6: Palau recognises the economic value of living marine resources**

The marine environment is the main draw-card for tourists to Palau, particularly for diving and snorkeling and the government has fully recognised the importance of marine life as a resource for tourism and for the national economy. The coral reefs of Palau still host large populations of top-order predators and this factor distinguishes the Palauan diving experience from that available in many other places throughout the tropics where sharks have been severely reduced in numbers or eradicated by fishing. Diving with reef sharks and manta rays are among the main attractions for tourists to the country and brings around 8,600 divers each year. To protect this resource, the national government declared the waters around Palau a shark sanctuary in 2009, where shark fishing is prohibited. This initiative places Palau among a small group of nations that have a nationwide ban on commercial shark fishing. A recent study has calculated that each swimming shark has a lifetime value of US\$1.9m in diving and tourism. Also tax revenues collected from diving were roughly 24 times higher than those from the fishing industry. Of the more than 100,000 tourists who visit Palau every year, approximately 51% are divers. The economic value of Palau's diving industry is US\$85.3 million per year, which represents about 59% of the total value of tourism, and more than 37% of GDP. In contrast, commercial fishing, largely by boats from Japan and Taiwan, currently contributes about US\$5 million in annual revenue to Palau – or 3.3% of GDP. Recognising the central economic value of marine-based tourism to the nation, Palau's President has declared that Palau will place a moratorium on all commercial fishing in their Exclusive Economic Zone.

Sources: Vianna et al (2010) *President Remengesau's Address to the United Nations, 4 February 2014*;  
Government of Palau [2012 Statistical Yearbook](#)

30. The FIC tourism industry derives significant financial benefits from marketing the Pacific Islands as offering visitors a pristine natural environment. Consequently the sustainability of the income generated by tourism is highly dependent upon sustainable natural resource management. However, population growth (exceeding 2% in some countries) is subjecting the natural resources of these destinations to significant additional pressures: overfishing of reefs and rivers; deforestation; and land degradation caused by cropping on sloping land.

<sup>24</sup> "NSW Government defends new cruise tax," *Cruise Weekly*, June 14<sup>th</sup> 2012

<sup>25</sup> Durst, P (2011) "Ecotourism can play vital role in maintaining healthy forests Rural communities can maximise the benefits of sustainable ecotourism," FAO Press Release 28/9/11 Rome

31. Snorkeling, scuba diving, and whale watching have become important attractions for tourists globally, and they are central features of the FIC tourism industry. Tourism based on whale watching is estimated to generate a global income of over US\$2.1 billion<sup>26</sup> for operators and businesses (hotels, restaurants and souvenirs) supporting this industry. The development of whale watching as a global tourist attraction is matched by a growth in interest in other types of marine megafauna, in particular sharks and rays<sup>27</sup>. Palau is one FIC that is taking full advantage of this (Box 6).

32. With over 20 million registered and 7 million active scuba divers around the world,<sup>28</sup> coral reef based tourism generates more than US\$9.6 billion in global revenue every year.<sup>29</sup> The establishment of Marine Protected Areas (MPAs) and special management areas provides positive benefits to tourism operators and communities by preventing the destruction of coral and preventing the disruption of fish breeding and feeding sites. Pacific Island Countries have long experience with the establishment of MPAs, led by Fiji (Box 7) and Vanuatu.

33. There are now more than 500 MPAs spread around the Pacific Islands.<sup>30</sup> While the annual cost to the community of administering MPAs is estimated to be up to US\$10,000 per square kilometer of area covered, the total economic benefits generated by MPAs are estimated to be far higher: up to US\$530,000 per square kilometer of area covered.<sup>31</sup>

34. However, the majority of economic benefits of MPAs in the Pacific Islands are currently captured by the diving based tourism industry with local fishermen capturing only 1% of the total value generated.<sup>32</sup> The limited ability of communities to negotiate arrangements with private sector operators and/or exploit

**Box 7: Co-operation between tourism and Namena Island Marine Protected Area, Fiji**

The reefs of Namena island, north of Easter Viti Levu in the Fiji islands, has earned its name as the ‘mecca of diving in Fiji’ as a result of its diversity and beauty of hard and soft corals, as well as fish species. They provide the breeding ground for the endangered hawksbill turtles, as well as enjoy regular visits from bottlenose dolphins and humpback whales.

Up until the 1980’s, commercial fishing of the reefs surrounding Namena was a lucrative business; until the fish stocks started to decline. In 1997, the local community sought to limit and then ban unauthorised fishing activities for a period of 5 years – thereby forfeiting the revenue that previously went to the community from commercial fishing licenses. Despite the growth in popularity of Fiji, and Namena, as an international SCUBA diving destination, the local community struggled to receive benefits from tourism. As a result, the local Namena Committee established a user fee for diving the reefs of the island – reaching FJ\$10 per person per day, by 2000. However revenue from this fee was insufficient to satisfy the 10 villages with claims over Namena reef. With the support of local and international NGOs, it was decided to raise the fee to FJ\$25 per diver, and establish their own eco-tourism enterprises in order to ensure the benefits of this resource are more widely distributed.

Source: Govan, H. (2011) *Good Coastal Management Practices in the Pacific: Experiences from the Field, SPREP, Samoa*

<sup>26</sup> O’Connor S, Campbell R, Cortez H, Knowles T (2009) Whale Watching Worldwide: tourism numbers, expenditures and expanding economic benefits, a special report from the International Fund for Animal Welfare. Yarmouth MA, USA, prepared by Economists at Large.

<sup>27</sup> Vianna GMS, Meekan MG, Pannell D, Marsh S, Meeuwig J (2010) Wanted Dead or Alive? The relative value of reef sharks as a fishery and an ecotourism asset in Palau. Australian Institute of Marine Science and University of Western Australia, Perth.

<sup>28</sup> Seymour, D. (2013) *The perceived economic benefits of SCUBA diving at a marina destination*, North-West University,

<sup>29</sup> Cesar, H. Burke, L. and Pet-Soede, L. (2003) *The Economics of Worldwide Coral Reef Degradation*, World Wildlife Federation, Netherlands

<sup>30</sup> Pascal, N. Seidel, A. (2013) *The economic benefits of Marine Protected Areas: Vanuatu and Fiji case studies*, IUCN, Suva

<sup>31</sup> Ibid

<sup>32</sup> Ibid

occasional opportunities provided by “drop-in” tourists to MPAs has at best, provided a supplementary source of income for most communities.<sup>33</sup>

35. As a result, revenue generated by protected areas does not always accrue to the satisfaction of local communities, or all individuals within a community, undermining their commitment to maintaining the sanctity of the protected area.<sup>34</sup> In order to ensure that MPAs provide compensatory income sufficient to dissuade violations of protected areas, the costs of administration and source of revenue for alternative income generation should be derived from national environmental levies on tourism. These could be collected through the taxes collected from departing tourists, as per the US\$30 ‘Green Fee’ currently collected from tourists in Palau; and/or applied as a per capita levy on dive tourists.

36. Ecotourism can play a vital role in maintaining healthy forests, by providing communities with alternate source of income generation. Money spent directly in the local economy helps put a monetary value on forest preservation. Local people, along with the government, can see the importance of keeping the forest intact. And many tourists are willing to pay directly for preservation in the forms of park entrance fees and donations.

37. While less developed than marine based tourism, land and forest based eco-tourism in the FICs provides an important future avenue for growth. With support from the Global Environment Facility (GEF), the Food and Agriculture Organization recently began implementing an US\$18 million programme in collaboration with Pacific islands countries (Fiji, Niue, Samoa and Vanuatu) aimed at developing ecotourism as a major component of sustainable forest management.

38. In order to supplement income from ecotourism levies, FICs should also explore options to work with other private stakeholders with an interest in maintaining the Pacific brand as a ‘clean and green’ destination. Agribusinesses whose marketing material features Pacific imagery, or who promote their product as having used sustainable practices, are also

**Box 8: The Sovi Basin forest protected area and the establishment of a community trust**

The Sovi Basin is Fiji’s largest remaining undisturbed lowland forest watershed and its most biologically important terrestrial ecosystem. In fact, the Basin boasts the largest intact tract of forest and is the most biodiverse terrestrial ecosystem in the Polynesia-Micronesia Hotspot. With its dense mantle of tropical rainforest surrounded by jagged peaks and imposing scarp walls, the Sovi Basin is visually spectacular. It is home to 19 endemic birds — many of them threatened — and is likely a crucial site for the long-term survival of several species of mammals, reptiles, and amphibians. The Basin also contains several river catchments critical to nearby communities and an important potential water source for urban areas. After more than a decade of negotiations, 13 landowning communities agreed to the cancellation of the timber concession for the 20,700-hectare Sovi Basin area.

In order to provide a source of compensatory income to Sovi basin landowners, as well money to meet the costs of managing the protected area, the Global Conservation Fund, together with Fiji Water and the FAO provided US\$4 million to establish a trust fund. As a result the Sovi landowning communities party to the agreement will receive FJ\$89k a year in income, in addition to access to an education scholarship fund of FJ\$51k a year.

Source: Conservation International, Sovi Basin Endowment, presentation to Fiji MPI

<sup>33</sup> Govan, H. (2009) *Status and potential of locally-managed marine areas in the Pacific Island Region: meeting nature conservation and sustainable livelihood targets through wide-spread implementation of LMMAs*, SPREP, Samoa

<sup>34</sup> UNEP (2013) “Tourism” pp. 259-285 in *Green Economy and Trade*, UNEP Geneva

a potential source of contributions to establishing financing mechanisms necessary to provide an alternate source of income to communities engaged in managing FIC natural resources and promoting sustainable development (Box 8).

## Conclusions and Recommendations

39. Tourism now provides a far more significant contribution to GDP than the primary sector for many FICs. Increasing the value of tourism earnings captured by FICs, and the value share enjoyed by rural communities in order to increase economic opportunities in those areas, are important objectives for Finance Ministers.

40. Boosting local content in FIC tourism would contribute to improved product differentiation, marketing and the sustainability of growth in the associated industries; and increase the contribution of tourism to national earnings. Improving linkages between agriculture and tourism in order to reduce foreign exchange leakage can be achieved through the introduction of policies and programmes to promote increased local content in the FIC tourism industry, by improving the competitiveness of the agriculture sector in the Pacific, and by facilitating increased demand for local agricultural produce. **The launching of a regional marketing initiative highlighting tourism operators and resorts offering truly Pacific ‘cuisine experiences’ and training of chefs to develop menus that incorporate more local ingredients** would help to encourage greater use of local produce by the tourism industry, and increase the value of this market for the agriculture sector. Improving supply consistency and quality would ensure year-round access to fruit and vegetable products and improve the cuisine experience associated with FIC tourism. Achieving these objectives will require **the introduction of low competitive interest loan products and risk reduction mechanisms capable of facilitating investment in the adoption of labour saving and off-season production technologies.**

41. Generating the low-interest loan capital required for investment in the modernization of FIC agriculture, and improving its capacity to service the tourism industry could be achieved by **the introduction of a tax levied on the consumption of food and beverage products which contribute to NCDs. Such a health tax would** provide a price disincentive for the consumption of food and beverage products which contribute to poor nutrition outcomes and generate potential capital for investing in improving local production, processing and marketing of fruits and vegetables to the tourism sector. The introduction of this tax will therefore help FICs to achieve complementary social and economic objectives.

42. Cruise ship tourism is a fast growing segment of the FIC tourism industry. However, the FIC income benefit of cruise ship visitors is far lower (per capita) than other tourists. In order to provide sufficient revenue to fund the development of port infrastructure necessary to accommodate the growth in the cruise ship industry in the Pacific, **FICs could work together to increase local content in the cruise ship tourism sector and maximise economic benefits by developing a harmonised regional cruise ship policy and regulatory framework.** This should include the application of fees and taxes similar to those collected from other tourists, such as hotel bed taxes, departure taxes and ‘green fees.’ In order to increase local content in the cruise ship industry, FICs should **offer tax deductibility to the cruise ship industry for any purchase of locally produced food and beverages.**

43. Ecotourism offers important economic opportunities for rural communities to benefit from FIC tourism, as well as helping contribute to achieving important environmental objectives. Maintaining the integrity of community managed protected areas, such as Marine Protected Areas and forest reserves, is critical to the sustainability of important FIC tourism niches, such as diving, snorkeling and whale watching. Rural communities will need sufficient incentives to eliminate fishing and logging activities from these areas identified as having environmental significance and importance to tourism, and to contribute towards their protection. **The addition of environment ‘green’ fees to visitor departure taxes could provide a significant source of supplementary revenue for the implementation, and maintenance of, protected areas which are so important to ecotourism.**

44. Ultimately, stronger agriculture-tourism linkages will result through the provision of supporting policies, legislation and services that benefit both agriculture and tourism, such as land and water policies, incentives for infrastructure development, investment in technology and training, postharvest management systems, information and communication networks, food safety audit and certification services, and access to insurance coverage and better risk management. The FICs need to consider the full range of policies that could create synergies between the agriculture and tourism sector, and promote their implementation.