



PACIFIC ISLANDS FORUM SECRETARIAT

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FORUM ECONOMIC OFFICIALS MEETING

FORUM ECONOMIC MINISTERS MEETING

10-12 August 2022
Port Vila, Vanuatu

AGENDA ITEM 4B: SUPPLY CHAIN DISRUPTIONS REVIEW

Purpose and Recommendations

Purpose

This paper presents the outcome of the supply chain disruption study mandated by the Economic Ministers at their meeting in 2021.

Summary

The study report provides an overview of the current situation with the supply chains in Forum Island Countries (FICs), the causes of the supply chain disruption, its impacts on micro, small and medium enterprises (MSMEs), and recommendations for actions. The study suggests that the COVID-19 pandemic has shocked rather than simply disrupted regional supply chains. All economic sectors, including those involved in the provision of essential services, have been greatly impacted. Impacts in FICs include increased cost of freight, sharp decline in tourism activities which significantly impacted tourism-related businesses and reduced exports. The full impact of the pandemic and the impact of disrupted supply chains on MSMEs in FICs are still unknown. To address the impacts of the supply chain shocks, the study recommended for FICs to review the current system of 'Just in Time' supply chain practices which are unsustainable. Additionally, lack of supply chain visibility amplifies the disruptions. The report recommended addressing this with digitalisation, information sharing and upskilling of the various stakeholders in the supply chain. A system thinking approach is also recommended to better understand regional supply chain systems, how they are influenced, and importantly, how they can best collaborate to build back better in line with the proposed Blue Pacific Economic Strategy to achieve the vision of the 2050 Strategy for the Blue Pacific Continent.

A. Background

The COVID-19 pandemic has impacted the global supply chain and the border closures had highlighted the vulnerabilities of the supply chains in the Pacific region. Long term border closures have significantly affected the movement of goods and services from Forum Island Countries (FICs) to markets resulting in projected negative economic outlook for FICs.

2. At the Forum Economic Ministers Meeting in 2021, Ministers:

Reiterated the need for evidence-based policy decisions, and directed the Secretariat, in consultation with Members and partners, to carry out research on supply-chain disruption and its economic impact on the businesses in FICs, due to the pandemic.

3. Following the 2021 FEMM, a PIFS-PTI team was set up to provide oversight of this initiative. This team developed a terms of reference that was endorsed by CERT at its meeting of 19 October 2021. A consultant was then recruited in April to undertake this study with financial support from the Ministry of Foreign Affairs and Trade of New Zealand.

4. The final report is attached for the review of the Economic Ministers.

B. Key Findings of the Study

Situation Analysis – Supply Chains in the Pacific

5. In any supply chain there are bottlenecks and constraints that need to be managed to enable flow. The consequences of the pandemic highlighted pre-existing bottlenecks which became more pronounced, and new bottlenecks were created. The weaknesses in the current system include the popular lean operating process and ‘Just in Time’ (JIT) practices which are unsustainable although it is a system that reduces waste in the supply chains. The challenge with the JIT system is that it does not adapt well to fluctuations in demand and disruptions to production processes.

6. Most trade routes involve port calls to at least two different FICs, and up to seven different FICs in some cases. Delays and inefficiencies in one port on these trade routes will have cascading ripple effects in other ports. Different FIC ports deploy different operating procedures under normal circumstances.

Key trading destinations

7. Based on the data available for this study, top destinations are Japan, Korea, China, Taiwan, Thailand, Australia, New Zealand, and the United States of America (USA).

8. The FICs are located over a vast area of the Pacific Ocean and shipping services provide vital linkage to international commerce. Like airlines, shipping line schedules were also significantly disrupted due to both internal and external factors. Limitations around crew changes and travel created its own mental and physical health crisis for seafarers and heightened border security and quarantine levels, disrupted importer, exporter, and marine sector operations significantly.

9. FICs have also experienced disruption in their domestic supply chains like many nations around the globe. Domestic shipping is a crucial part of the supply chain in Pacific islands. Whilst international shipping services deliver and load cargo at international ports, there is a vast network of privately and publicly run shipping services linking outer islands with the main island that were greatly affected by the pandemic.

Causes of disruptions to supply chains

10. Some supply chain disruption is unavoidable and at the regional level, most regularly occurring in the form of natural disaster. The Cyclone Harold in April 2020 and the January 2022 volcanic eruption and the ensuing tsunami in Tonga damaged Tonga’s infrastructure and communication systems. Both events further contributed to supply chain disruptions that were already being experienced due to the pandemic.

11. Other vulnerabilities in FICs supply chains attributed to remoteness, size of market, heavy reliance on imported goods from few suppliers, became further accentuated during the pandemic as the restricted flow of goods in and out of these nations became noticeable.

Impacts to FICs and MSMEs

Increased Freight costs

12. The cost of freight to and from the Pacific nations has increased since the start of the pandemic. Factors include increased consumer demand globally, a sharp reduction in airfreight options, and delays related to congestion which led to reduction in sailing frequencies. To cater for the increased demand and lack of capacity, ship charterers and operators sought more tonnage. With limited supply of vessels, especially with the size of vessels required to operate in the Pacific region, the costs of vessel charter also increased dramatically. Due to the pandemic induced shift in demand, vessel charter rates and bunker fuel costs, global freight rates rose by an average of 50% in 2021.

13. The support provided by PIFS and PTI New Zealand through the freight subsidy programme provided some relief to some of the Pacific MSMEs. It is reported that without this assistance, some of the recipients would have had to cease trading. Nevertheless, with the increase in freight costs some exports were lost and the goods either wasted or sold locally to avoid total losses.

Tourism and Overseas Visitors

14. With the restrictions on travel, cessation of passenger flights, and quarantine regulations, all FICs saw a sharp decline in tourists and other visitors from early March 2020. It is expected that full recovery of the tourism sector will not be possible until 2024. With MSMEs heavily dependent on tourism, this decline has had significant impact on this sector, particularly for those involved in arts and crafts sales to cruise ship visitors and other visitors to urban and rural areas.

Remittances

15. Personal remittances are an important source of income for Pacific Island communities. With the sudden stoppage of tourism activity and resulting loss of economic activity and jobs, the importance of financial remittances from overseas family members was amplified. Data showed that remittances in countries like Fiji, Tonga, Samoa and Vanuatu represented a greater percentage of GDP in 2020 than pre-pandemic in 2019. Despite this increase, it is important to note that Pacific Island communities residing overseas were affected by redundancies, reduced working hours, loss of revenue due to local lockdowns.

Food security

16. Except for some flour production in Fiji, New Caledonia, Solomon Islands and Papua New Guinea, staple food products such as rice, flour, sugar and chicken are imported. Barriers to local food production, shift in consumer tastes to international products and a reliance on imported staple goods means that the PICs are heavily dependent on supply chains for foodstuffs. In atoll nations, 80% of daily household meals consist of imported and processed foods.

17. Those working in the agriculture sector are also dependent on the supply chain for items such as seeds, tools, fertilizers, transport to market and cold storage facilities. In some PICs, governments have been actively involved in encouraging communities to pursue domestic agriculture and facilitate this process with stimulus packages and distribution of seeds. These new activities greatly assist business continuity and growth for MSMEs.

18. In the fishing sector, the transfer of fish from FIC based fishing fleets either to carriers at sea that provide linkage to international markets, or transfer on shore to refrigerated shipping containers for re-export has been greatly affected. With fish transfer being conducted offshore and often further from shore than pre-pandemic circumstances, there has been less fish filtering to local communities.

Women-led businesses and women in business

19. The COVID-19 pandemic appears to have magnified pre-existing barriers to women successfully conducting their work. In FICs, women are often employed in the informal sector and such employment may fall through gaps in traditional methods of data collection and statistical analysis. A July 2020 report by Trade and Invest Australia shows female owned and led businesses had been more negatively impacted by the pandemic.

FIC exports

20. A review of Pacific Datahub export data for the FICs that have information available showed a drop in export values for Kiribati, Samoa, Tonga and Vanuatu. Exports appear to rise for Cook Islands and Palau. Some MSMEs have managed to innovate their way through the pandemic and maintain business growth including value adding to products, frequent communication with buyers and forecasting shipping container requirements with shipping lines. Fiji and French Polynesia showed a decline in export values from 2019 to 2020 but both showed recovery between 2020 and 2021.

Direct economic impact on MSMEs in FICs

21. The full extent of the pandemic and the impact of disrupted supply chains on MSMEs in FICs is still unknown. Only some FICs have re-opened their borders. Those MSMEs that have survived this period of isolation and depend on tourists and visitors for their business will be able to resume trade to some extent.

22. Short of extensive in-country research requiring a greater timeframe than allocated for this study, Pacific Trade and Invest Australia's Pacific Business Monitor is one of the few sources of data to gauge the pandemic impact on MSMEs at a regional scale. 84% of respondents to the Business Monitor survey indicated that their business suffered negatively due to the COVID-19 pandemic, 74% report a decline in revenue but an increasing trend and current 87% are confident that their business will survive the crisis. Similar findings were supported by SME surveys conducted in many FICs by Business Link Pacific in 2021.

23. The significance of the informal work sectors is substantial in FICs and qualifying or quantifying the real impact on this sector is very difficult due to the lack of data and access to markets. Further research is required to ascertain the economic impact and how the informal sector could be formalised to increase data and economic visibility.

Pacific Islands Forum Secretariat
27 July 2022