The Trade Policy for the Republic of the Marshall Islands

BY

THE MINISTRY OF RESOURCES AND DEVELOPMENT

DIVISION OF TRADE AND INVESTMENT

MAY 2012

EXECUTIVE SUMMARY

The Republic of the Marshall Islands (RMI) requested for assistance from the Pacific Islands Forum Secretariat to formulate its National Trade Policy. In November 2009, the Ministry of Resources and Development (R&D) convened a National Trade Policy Consultative Meeting, where all the stakeholders from the National Government, private sector and non-state actors were invited. The purpose of the meeting was to brainstorm and consider the key elements and priorities of a Trade Policy. This meeting was followed by one-on-one consultations with the various Government Ministries, the private sector, non-governmental organizations and academia.

The recommendations from the consultative meeting and one-on-one consultations were used as a basis for formulating the first draft Trade Policy. The draft Trade Policy Framework was circulated to all the stakeholders for further comments before it was presented at the Second National Trade Policy Consultative Meeting that was held in May 2010. The meeting endorsed the draft Trade Policy Framework and agreed that the draft be finalized and submitted to Cabinet for consideration. The Second National Trade Policy Consultative Meeting also agreed to revive the National Trade Facilitation Committee (NTFC) and the NTFC was formally established by Cabinet in 2010. The Trade Policy was endorsed by the NTFC on 3 May 2012 and submitted to Cabinet for endorsement.

The key objective of the Trade Policy is to enhance the participation of the private sector in the economy and promote export-led sustainable economic growth and self reliance with the ultimate objective of creating employment, alleviating hardship and raising the living standards of Marshallese citizens.

The Trade Policy Framework is divided into ten chapters. Chapter one gives the background including the rationale for a Trade Policy Framework, its vision and sets the context in which the Trade Policy Framework is being formulated.

Chapter two details how the RMI economy has been performing and what needs to be done to ensure that trade is fully mainstreamed into the national development plan to promote sustainable and inclusive economic growth and development. In particular, the Trade Policy provides some recommendations on what needs to be done to promote private sector development and export-led economic growth. This is very important in light of the fact that economic growth is primarily driven by a large public sector, which depends heavily on declining Compact grants. The Trade Policy will also assist RMI to cope with changes in the global economy.

Chapter three deals with trade policy by sector and examines how the three priority sectors (agriculture, fisheries and tourism) have been performing and what needs to be done to improve trade in these sectors. It is clear that the fisheries sector as well as the tourism sector have potential for further growth, while the agricultural sector has a number of well-known challenges that need to be addressed. If these challenges are addressed, RMI will be able to increase production of agricultural products for the local market and export a few niche agricultural products such as value added coconut products, nin and pandanus products.

Chapter four deals with RMI's participation in international trade. According to available statistics, it is clear that RMI has a huge trade deficit and imports continue to increase while exports are still very small. The Trade Policy recommends a number of measures that could be taken to promote exports of goods and services. As mentioned in chapter three, fisheries and tourism have potential to boost exports and should be prioritized and supported. RMI also needs to improve its human resources, including vocational skills that are required to promote trade and turn the economy around. Improving vocational skills could also help RMI to fully utilize the preferential arrangement it has with the U.S. on labour mobility and to improve the flow of remittances to RMI.

Chapter five deals with the investment climate in RMI. Investment has been identified as a key sector that needs comprehensive reform in order for RMI to be able to produce goods and services that can be traded competitively. The Trade Policy makes it clear that without some bold reforms on relevant laws governing investment including immigration, labour, land and taxation laws, it will be very difficult for RMI to participate meaningfully and benefit from international trade and foreign direct investment. The key issues that have been identified in the World Bank's report on the ease of doing business need to be reviewed carefully and implemented accordingly to improve the investment climate in RMI.

Chapter six highlights the importance of trade in services and what needs to be done for RMI to participate actively in trade in services. It also recommends RMI to take urgent measures to improve the efficiency and quality of services provided as this is critical to ensure competitiveness in the global economy. Services such as transportation, communications, education, business services, financial services, energy and health play a vital role in the production of goods and services for the local as well as the export market. The Government will work with all the stakeholders to provide the key infrastructure and undertake the necessary reforms in the services sector to enhance the capacity of the private sector to participate in trade in services. This will also contribute to reducing the cost of doing business in RMI and enable the private sector to produce goods and services that can be traded in a competitive manner. To this end, policies and laws dealing with services reforms including liberalization of trade in goods and services will be addressed simultaneously in order to maximize the benefits of reform and trade liberalization.

Chapter seven identifies some of the trade-related issues such as taxation, competition, Government procurement, intellectual property rights (especially traditional knowledge and biodiversity), corporate governance that need to be addressed in order to create a good business environment for trade and investment. The chapter also focuses on the need for RMI to ensure that trade is undertaken in a manner that does not undermine the environment. The issues pertaining to trade and environment, including climate change will also be taken into account. There is also a need for RMI to ensure that trade benefits the Marshallese people, including the vulnerable and disadvantaged groups such as women and unemployed youths.

Chapter eight is one of the most important sections dealing with ongoing trade negotiations and market access. It provides some recommendations and guidelines on what needs to be done in the various trade negotiations. In particular, RMI is urged to participate in regional integration through the Pacific Island Countries Trade Agreement (PICTA), which is now being extended to trade in services and labor mobility as directed by the Leaders under the Pacific Plan. The Trade Policy also recommends RMI to participate actively in the Economic Partnership Agreement (EPA) negotiations with the European Union (EU) and consider signing the comprehensive EPA to promote its fisheries exports to the EU. However, assistance will be required from the Government as well as the EU to enable RMI to establish a Competent Authority and to comply with other export requirements including the EU Illegal Unreported and Unregulated (IUU) regulation that entered into force in 2010.

The Trade Policy also recommends that RMI should ensure that its trade interests are also included in PACER Plus negotiations with Australia and New Zealand. RMI must work with all the national and regional stakeholders to ensure that EPA does not set a bad precedent for PACER Plus or any future trade negotiations.

Most importantly, RMI is required to consult with the U.S. under the most favored nation clause in its Compact with the U.S. before it concludes a free trade agreement with non-PICTA parties (e.g. EU, Australia and New Zealand). The consultations should be undertaken as a matter of urgency under the Micronesian Trade Committee. RMI should also use this opportunity to improve its trade and investment relations with the U.S. including the removal of tariffs that are being levied on its fisheries exports to the U.S.

Chapter nine deals with Aid for Trade. The Trade Policy identifies RMI's national Aid for Trade needs and priorities that should be supported by the Government, donors and trading partners in order to ensure that trade promotes sustainable development in RMI. RMI will improve its coordination of donor funds and ensure that all the Aid for Trade into RMI is coordinated effectively and channeled towards the priorities identified in the Implementation Matrix.

Chapter ten provides key recommendations on how the Trade Policy should be implemented. The Government is urged to allocate funding to priority sectors identified in the Trade Policy, undertake the necessary reforms and work with trade and development partners to secure Aid for Trade to implement its Trade Policy Framework. This section identifies the agencies that are responsible for implementing the Trade Policy, the timeframe involved, the funding required and the annual progress reports for the Government to be able to assess whether the objectives of the Trade Policy are being achieved and what needs to be done to improve its implementation.

The ten chapters cover the key issues that need to be addressed in order to promote trade and sustainable development in RMI. It is clear that a lot of work was done to produce the National Trade Policy and in this context, I would like to take this opportunity to thank the Minister for Resources and Development, the Chairman of the NTFC, non-state actors, the National Government and the members of the NTFC who have participated actively in the formulation of the Trade Policy. I would like to thank the many citizens of the RMI who participated in formulating the Trade Policy and the business community for their valuable input in the process.

I would also like to thank the Ministry of Resources and Development, especially, the Division of Trade and Investment which worked very hard with all the stakeholders to produce our first National Trade Policy. Lastly, I would like to express my appreciation to the Pacific Islands Forum Secretariat, especially the Hub and Spokes Project, which is jointly funded by the EU and the Commonwealth Secretariat, for providing the technical and financial assistance which enabled us to formulate our first National Trade Policy.

The Trade Policy will help us to identify our trade priorities and focus our attention on addressing the supply-side constraints that are inhibiting us from producing goods and services that RMI has the potential to export competitively on the global market. The ultimate objective is to ensure that trade is fully mainstreamed into our national development plans and used as an engine to promote inclusive and sustainable economic growth and development, with the ultimate objective of raising the living standards of our people.

The adoption of this Trade Policy shows the importance that the Government places on private sector development. I strongly believe that trade is the engine for sustainable economic growth and development and the role of the Government should be to facilitate the participation of the private sector in trade. I am fully committed to working with all of you, especially the private sector and our trading partners and donors to ensure that the Trade Policy is fully implemented for the benefit of the Marshallese people.

…………………………………………………………………………………….

H.E. President Christopher Loeak
President of Republic of the Marshall Islands

TABLE OF CONTENTS

List of tables and illustrations

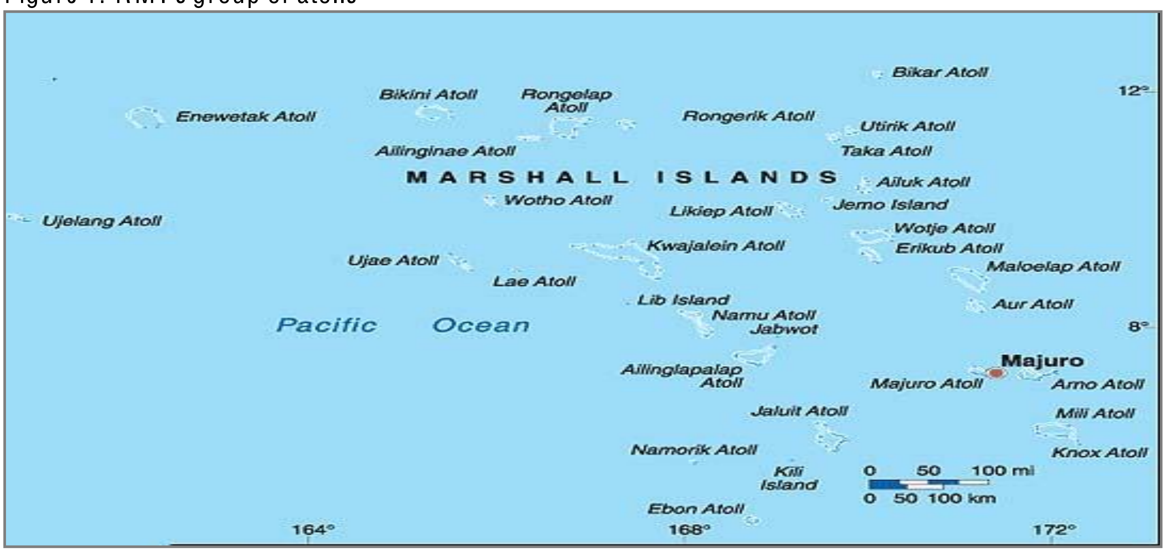
LIST OF ACRONYMS

ACP:	African, Caribbean and Pacific
CA:	Cotonou Agreement
Compact:	Compact of Free Association
DC:	Developed Countries
R&D:	Ministry of Resources and Development
T&C	Ministry of Transport, Communication
EPA:	Economic Partnership Agreement
EC:	European Community
EU:	European Union
EDF:	European Development Funding
EEZ:	Exclusive Economic Zone
FFA:	Foreign Fisheries Agency
FTA:	Free Trade Agreement
FAS:	Freely Associated States
FDI:	Foreign Direct Investment
GDP:	Gross Domestic Product
GSP:	Generalised System of Preferences
IPR:	Intellectual Property Rights
LDCs:	Least Developed Countries
MFN:	Most Favoured Nation
NTFC:	National Trade Facilitation Committee
MIMRA:	Marshall Islands Maritime Resources Authority
MIVA:	Marshall Islands Visitors Authority
NSA:	Non State Actors
OCO:	Oceania Customs Organization
PIFs	Pacific Island Forum Secretariat
PACP	Pacific ACP
SPC:	Secretariat of the Pacific Community
SPS:	Sanitary and Phytosanitary Measures
SPARTECA:	South Pacific Regional Trade and Economic Cooperation Agreement
TBT:	Technical Barriers to Trade
UNCTAD:	United Nations Conference on Trade and Development
WTO:	World Trade Organisation

1 BACKGROUND AND INTRODUCTION

The Republic of the Marshall Islands (RMI) consists of two groups of 29 atolls and five raised coral islands extending 750 miles (1, 200 km) north-south and 800 miles (1, 300 km) east-west, with the capital Majuro located 2, 000 miles (3, 200 km) from both Honolulu and Tokyo[1]. The land area is about 181 km but the Exclusive Economic Zone (EEZ) covers about 2 million square kilometers. According to the 1999 census, the total population in RMI was 50,840. The current population is estimated at 58, 291 and about 51% of the population live in Majuro, 20% live in Ebeye (Kwajalein atoll) and about 30% in outer islands. The estimated annual population growth rate varies depending on the source of the data, but according to the World Bank it was 2.29 in 2008. This growth rate is considered to be too high when compared to other Pacific Islands and may not be sustainable[2].

Figure 1: RMI's group of atolls



The RMI became independent in 1986 but maintained a special relationship with the US under the Compact of Free Association Agreement from 1986 to 2001. The Compact was amended and renewed in 2004 and Compact funding is expected to end in 2023. Under the Amended Compact, the US has the right of strategic denial, while RMI benefits from annual payments as well as the right for its citizens to live and work in the US. The US also has exclusive military access into RMI and in return RMI benefits from a guarantee of defence against third parties.

[1] About 4000 km north-east of Australia.

[2] For example, the average annual population growth rate for 2005-2010 according to World Stat. Info, RMI was ranked as the fourth highest growth in the Pacific with 2.23% and Vanuatu had the highest growth at 2.54%, followed by Solomon Islands at 2.46% and PNG at 2.37%. [Accessed on 21/02/11 http://worldstat.info/?cat=7CQddgrowth].

The Compact also allows the US to lease most parts of Kwajalein for military and defence purposes through to 2066 with an option to extend to 2086.

The Compact provides for a Trust Fund where the US and RMI are making annual contributions, and this is expected to be the main source of funding from 2024 onwards. With regards to trade, the Compact provides for duty free access to the US market for most goods. However, RMI has not fully utilised this market access opportunity. This is partly because of lack of productive capacity in RMI as well as import duties that are imposed by the US on tuna loins without a clear legal basis.

The RMI economy is a Small Island State (SIS), which is largely dependent on foreign aid, foreign goods (imports), foreign labor and foreign investment. It receives an average of $70 million in grants annually, or about 45% of gross domestic product (GDP). On average, about 70% of fiscal revenue comes from the Compact of Free Association with the USA (76% and 72.5% of 2009 and 2010 revenue respectively).

In 1999, the Human Development Index (HDI) was 0.563 and RMI was ranked number 10 out of 15 Pacific Island Forum members. Palau was ranked number 1 with a HDI of 0.86 while PNG was number 15 with an index of 0.314. These criteria are based on life expectancy, literacy level and average gross domestic product (GDP). In terms of Human Poverty Index (HPI)[3], RMI was ranked number 11 out of 15 with an index of 19.5. Niue was ranked number 1 with an index of 4.8 and PNG was number 15 with an index of 52.2. In terms of the Vulnerability Index (VI)[4], RMI is considered to be vulnerable to coastal flooding, moderate cyclones, droughts and rise in sea level.

RMI needs to conduct a census and provide the latest data on the HDI, HPI and the vulnerability index. However, despite the lack of recent data, anecdotal evidence suggests that many children suffer from malnutrition and many adults suffer from obesity and overweight. There are challenges in terms of the quality of education at all levels as well as the healthcare system. All these issues need to be addressed in order to enable RMI to have a healthy and educated work force which can contribute effectively to trade and sustainable economic development.

Like many other small islands, RMI is a very small economy, with a small population and landmass, narrow resource base, limited economic opportunities and weak institutional capacity. It lacks adequate and cheap financial capital, lacks economies of scale, faces severe transportation problems and is far away from major commercial markets. The island is also vulnerable to external (global) shocks and natural disasters. Climate change is one major challenge affecting RMI and comprehensive solutions need to be found urgently to ensure that

[3] HPI measures the number of people who will die before the age of 40, the number of underweight children who are less than 5 years, the number of people who do not have access to safe drinking water and health services,
[4] VI provides a quantitative measure on external environmental and economic shocks,

trade and economic development is not undermined. This is the broader setting in which a Trade Policy is being formulated.

1.1 What is a Trade Policy?

It is important to note that there is no universally agreed definition of a Trade Policy. According to WiseGeek[5], Trade policy is a collection of rules and regulations which pertain to trade and, the purpose of trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners.

Many countries are involved in the formulation of trade policies on a national, bilateral or multilateral level. There are best practices on Trade Policy that are recommended by regional and international organisations. Experiences from other countries that have formulated Trade Policies also play a vital role in shaping the key elements of a Trade Policy. It is interesting to note that even before the key elements of a Trade Policy were discussed, participants and stakeholders in RMI already had a good idea of what they wanted to be included in the Trade Policy and their views are incorporated in this document. Some of the issues that were highlighted during the consultation include the following:

- Trade Policy should deal with bilateral, regional and multilateral trade agreements
- Trade must not be a one way street. The Trade Policy should deal with trade negotiations, imports and exports. It must bring mutual gains to trading partners and help RMI to get the best deal from trade negotiations. The Trade Policy must bring benefits to RMI and focus on development aspects
- The Trade Policy should incorporate gender equality, development of women, protection of indigenous community and the environment
- The Trade Policy should deal with trade in goods as well as trade in services
- The Trade Policy should identify the key goals and priorities and set guidelines or a road map for promoting trade and investment. It should also include best trade policy practices and "do's and don'ts".

In simple terms, trade involves the buying and selling of goods and services. A Trade Policy is a collection of basic principles or rules which can be used by the Government to promote trade (goods and services) for the benefit of the nation. It should be used as a guide to stimulate private sector development and sustainable economic growth and development. The World Trade Organization (WTO) is the key global institution that is responsible for setting global rules and best practices on trade policy. The World Bank and the International Monetary Fund as well as other specialised agencies of the United Nations, including the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), and major trading

[5] http://www.wisegeek.com. What is Trade Policy? (Accessed 28 February 2011).

countries as well as regional institutions also play a vital role in shaping Trade Policy. Developing Countries and Least Developed Countries (LDCs) also play a vital role in defining Trade Policy and the issues of their interest are also being considered at the regional or global level.

It should be noted that free trade agreements (FTAs) play a vital role in shaping Trade Policy. There are other studies that have an influence on trade policy matters including, the Diagnostic Trade Integration Studies (DTIS), which are conducted under the Enhanced Integrated Framework (EIF) for LDCs. The Integrated Framework (IF) was inaugurated in October 1997 at the WTO High Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development by the IMF, ITC, UNCTAD, UNDP, World Bank and the WTO. The key objectives of the IF include:

- to "mainstream" (integrate) trade into the national development plans of LDCs
- to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified by the LDCs

The ultimate objective is to assist LDCs to play an active role in trade and enable them to use trade to alleviate poverty and raise their standards of living. From the above discussion, it is clear that there is no 'one-size-fits-all' when it comes to the definition of a Trade Policy. All the policies, practices, laws and regulations that are recommended by various institutions have to be looked at critically to assess whether they are appropriate for a particular country. The Trade Policy should also help a country to make a link between the national, regional and global trade issues. Most importantly, the Trade Policy should assist a country to come up with a clear legal and institutional mechanism that can be used to deal with trade issues.

Traditionally, the definition of Trade Policy used to be limited mainly to trade in goods, and border issues such as customs rules and procedures, tariffs, rules of origin amongst other things. However, Trade Policy has evolved and now covers behind the border issues such as trade in services, investment, plant and animal health standards, the food safety, technical barriers to trade, intellectual property rights, Government Procurement, competition, and trade and the environment amongst other things.

1.2 The rationale for a Trade Policy

When RMI attained independence in 1986, it did not formulate a comprehensive Trade Policy to guide the nation on how to conduct trade with third parties and to identify the role of a Trade Policy in its development planning. Aside from a number of policies and trade-related laws developed by specific sectors, RMI did not have a comprehensive Trade Policy to guide the nation on trade matters.

The first and main rationale of having a Trade Policy is to mainstream trade into the national development plan. The Strategic Development Plan Framework (SDPF) has some references to trade issues. However, there are no direct linkages between the SDPF and trade, in particular, how trade will contribute towards the achievement of national development goals. The Ministry of Resources and Development (R&D) Strategy and Action Plan attempts to address some trade-related issues, but since it was never designed as a Trade Policy, it is not surprising that it does not address trade issues in a comprehensive manner.

The second rationale is to improve coordination and consultation between the Government, the private sector and civil society. One of the issues hampering RMI's effective participation in regional and international trade is the fact that there is poor coordination between Government departments, the private sector and the civil society. The institutional support for trade is very weak. This hinders the, negotiation and implementation of trade agreements. A comprehensive Trade Policy and an effective institutional mechanism shall guide the nation on regional and international trade matters.

The third rational of having a Trade Policy is to create a transparent, consistent, coherent and predictable trading environment. A trading environment where rules are unclear, where sectoral policies (e.g. agriculture, fisheries, tourism, investment, and environment) are conflicting with one another will discourage trade and investment. The Trade Policy will help to address these issues and avoid ad hoc decision making and sometimes conflicting rules and policies. In order for RMI to create a good trade and investment climate, it needs a comprehensive Trade Policy, which is applied consistently to ensure certainty, predictability and credibility among its trading partners. Frequent Trade Policy changes or reversals are inimical to free and fair trade and hampers development.

The fourth rationale is to articulate a clear negotiating strategy that would be applied consistently in trade negotiations to promote and protect RMI's offensive and defensive interests. The global trading system is undergoing enormous change and RMI needs to formulate a Trade Policy to protect its interests in trade. RMI needs to develop a position and strategy with regard to the Pacific Island Countries Trade Agreement (PICTA), the Pacific Agreement on Closer Economic Relations (PACER) Plus, the Economic Partnership Agreements (EPAs), the US and the WTO. A Trade Policy helps the country to be proactive in international trade negotiations rather than being reactive.

The fifth rationale is to develop a holistic solution to trade problems. Most of the products that are produced by RMI fall under various agencies, and the supporting services that are needed to develop production capacity and export competitiveness fall under different agencies or sectors. There is a need for a clear Trade Policy that 'connects all the dots' and identify strengths, weaknesses and opportunities in the 'trade policy chain' (production, handling, processing, transportation, marketing, exporting and distribution) to ensure that all the trade-related problems are addressed in a holistic manner.

The Trade policy will also help with identifying the constraints in the production of products in agriculture, fisheries, tourism, manufacturing, handicraft and other services including labor mobility. The pre-eminent objective of a Trade Policy should be to create an environment that is conducive for private sector development, to identify and address supply and demand-side constraints inhibiting trade in goods and services. The long-term objective of the Trade Policy should be value addition, diversification of the export basket, addressing product standards, consolidation of the existing markets, finding new markets and assisting exporters to access these markets.

The Trade Policy Framework should not be drafted in a vacuum but must take into account other social, cultural and environmental goals. Trade is not an end in itself, but a means to achieve export-led economic growth, which in turn should lead to employment, increased standards of living and poverty alleviation. This is borne in mind in the formulation of the present Trade Policy.

Further, the Trade Policy should encourage private sector development, and the Government should not compete with the private sector but facilitate private sector development and promote investment. RMI needs to develop a long term vision on trade to guide the nation in exploiting its full potential in trade and participate effectively in the global trading system. It is in this context, and in pursuance of the abovementioned objectives, that the Trade Policy is being formulated.

1.3 Vision

The vision for the present Trade Policy takes into account the vision for the nation that is articulated in the SDPF. Some of the key goals of the SDPF include inter-dependence, socio-economic self-reliance, educated, healthy and productive people, protection of culture and the need for development which takes into account environmental sustainability.

The vision also draws upon some of the key issues that are included in the 2005-2010 R&D Strategy and Action Plan. Some of these issues include the need to:

- take into account the environment and traditional lifestyles when considering modern development
- promote food security and encourage people to eat healthy and locally produced food
- create business and job opportunities for local people
- ensure that RMI is free from pests and disease
- ensure that Marshallese products are successfully exported around the world

- enhance economic self-reliance.

During the National Trade Policy Consultative Meeting that was held in November 2009, the participants also indicated that the vision of the Trade Policy should be:

- To promote balance of trade, economic growth and sustainable development, self sufficiency in finance, gender equality, environment and the needs of indigenous communities without making others worse off. The end result should be good quality of living for all, and all the stakeholders must participate in and benefit from trade

- To assist RMI to accede to trade agreements that will benefit the nation and also to ensure that temporary movement of natural persons is included in these agreements. The Trade Policy should also seek to promote exports and imports, improvement in shipping, competition (regulate monopoly) and an environmentally sound economy

- To close the gap in trade balance, promote self-reliance, maximize the returns from natural resources without depleting them. It must promote sustainable development and growth and promote political, social, economic and cultural development.

Based on the above elements the Vision of the Trade Policy is:

> *To mainstream trade into the national development plan, create an environment conducive for trade and investment, secure Aid for Trade to build capacity on trade and address supply-side constraints and infrastructural services to enable the private sector to produce quality and competitive goods and services that can be traded globally, thereby enhancing the capacity of RMI to participate effectively in, and benefit from trade, and stimulate sustainable economic growth and development; with the ultimate objective of achieving fiscal sustainability, creating employment, alleviating poverty and raising the standards of living for the Marshallese people.*

1.4 The Legal and Institutional Framework

The President is elected by the Nitijela (parliament), and he has executive power. The Speaker appoints the President elect. After his election to power, the President nominates to the Speaker for appointment as Ministers not less than 6 and not more than 10 other members of the Nitijela.

The President, will allocate among the members of the Cabinet (including himself if he so desires) the portfolios of Ministers of Finance, Minister of Foreign Affairs, Minister of Transport and Communication, Minister of Resources and Development, Minister of Social Welfare, Minister of Public Works and such other portfolios as may be necessary or desirable for giving to a member of the Cabinet the primary responsibility for any Department or function of government.

Legislative power resides in the Nitijela, the lower house of the Marshall Islands bicameral parliament. The Nitijela has seven committees, namely Appropriation, Ways and Means, Foreign Affairs and Trade, Health, Education and Social Affairs, Public Accounts, Judicial and Governmental Relations and Resources and Development.

The judicial power vests with the courts. The courts are independent of the legislative and executive. RMI has the following courts: the Supreme Court, a High Court, a Traditional Rights Court, and such District Courts, Community Courts and other subordinate courts as are created by law. The arms of the Government must act in accordance with the constitution.

For any Trade Policy initiative to be successful, it is important for the Cabinet and the Nitijela to be involved in Trade Policy formulation at an early stage. It is very critical for the Nitijela to be briefed regularly on trade matters since it will be responsible for ratifying trade agreements. The Nitijela also needs to be sensitised on the importance of amending trade-related laws in order to create an environment that is conducive for trade and investment. In this context, it is also important for the Cabinet and Nitijela to be sensitised on the need to review all the trade-related laws[6] to ensure that they promote trade, investment and private sector development. There is also a need to ensure that these laws are fully applied and enforced by the relevant institutions (police, AG, courts).

In order to ensure that the Cabinet and the Nitijela are given the best advice on trade policy, it is important to revive and formalise the National Trade Facilitation Committee (NTFC). The NTFC played a vital role in revising labor laws, however, it was noted that very few people were aware of its existence and its effectiveness.

During the 2009 National Trade Policy Consultative Meeting, all the participants agreed that the NTFC should be revived and formalised with slight amendments[7]. Some of the common issues that were discussed include the following:

- The NTFC should be composed of R&D, MIMRA, MIVA, AG, CoC, MOFA, Farmers Association, Handicrafts Association, MoF, Immigration, Labour, EPPSO, EPA, WUTMI, Parliament Committee on R&D/Foreign Affairs and Trade and T&C, MIBA, business representatives from PRC and RoC, CMI, MIMA, MICS.
- At least 50% of its representatives must be women and at least 50% must also be from the private sector
- The NTFC can be chaired by the Minister for R&D, Chief Secretary or Chamber of Commerce/private sector. There should be a vice chair. R&D must be the Secretariat

[6] Most of the trade-related laws will be discussed under the chapter on services, trade-related issues and other relevant chapters.
[7] A list of participants in the meeting is appended.

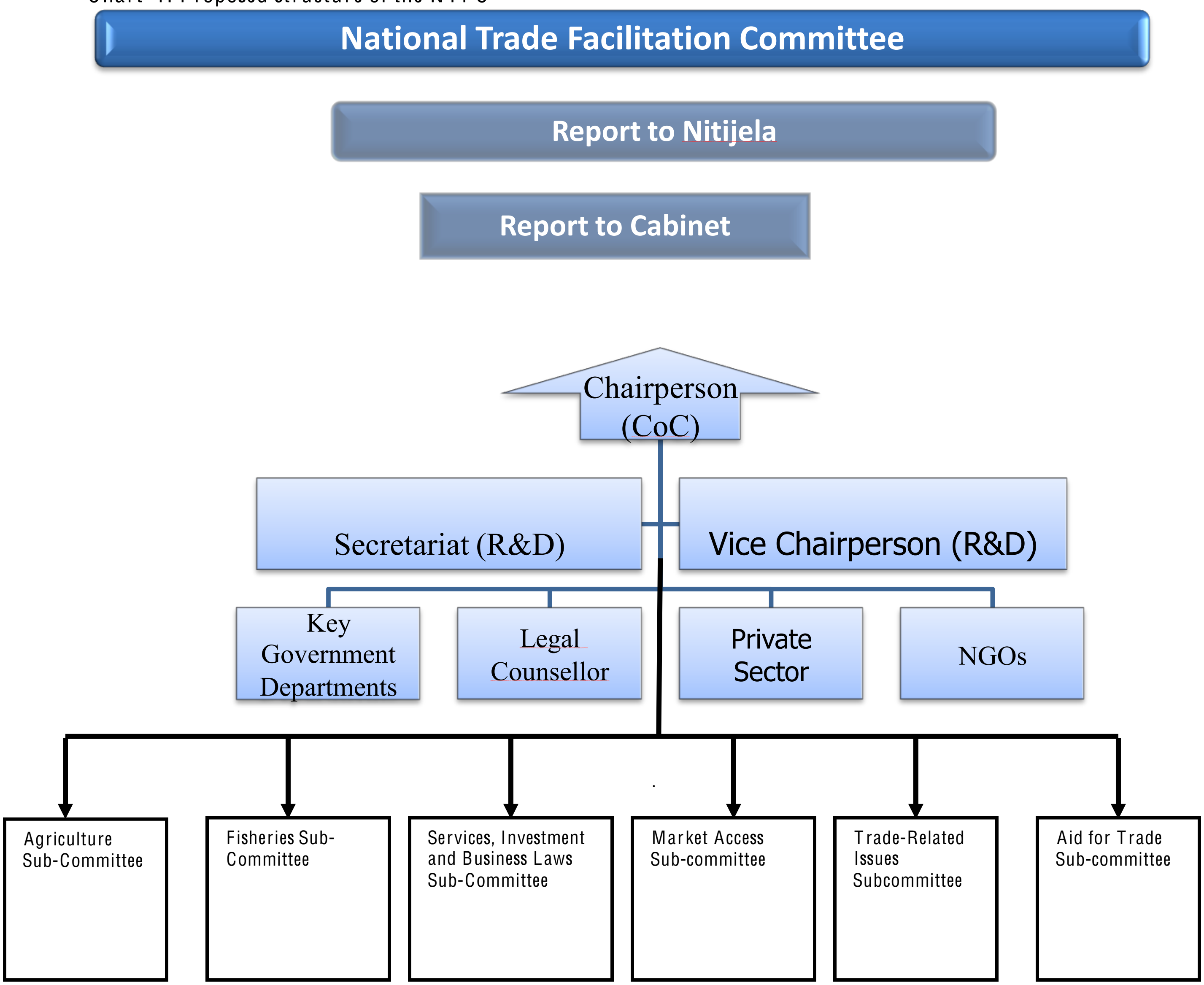
- Funding must be provided for the NTFC to operate effectively. Initially funding can be sought from donors but in future, the Government and the private sector should consider taking responsibility for funding the NTFC

- The NTFC should regulate, monitor, develop, implement and review the Trade Policy and report on progress

- The NTFC should be backed by Cabinet Resolution/Order/law. If it is backed by law this will ensure certainty and raise the priority of trade. This will also ensure continuity and retention of institutional memory. However, the challenge is that it will also be difficult to amend to accommodate new developments.

- The NTFC should meet at least four times a year

Chart 1: Proposed structure of the NTFC



1.4.1 General Duties and Responsibilities of the Members of the National Trade Facilitation Committee

a) Ministry of Resources and Development (R&D)

The Ministry of Resources and Development was established in 1979 under the Constitution of the Marshall Islands. The responsibilities of the Ministry have undergone several changes. The Ministry is responsible for development of the economy through promoting agriculture, fisheries, tourism, trade, investment and energy development. In 1997, the Marshall Islands Marine Resources Authority (MIMRA) was established by an Act and mandated with the management of all marine resources in the RMI. The Marshall Islands Visitors Authority (MIVA) was also created in 1997 to focus on development of the tourism industry. Fisheries and tourism remain the two greatest opportunities for economic development and export. Therefore these two institutions, including the Department of Agriculture are key components of R&D. Another department under the R&D is the Energy Authority

The Ministry of R&D will serve as the Secretariat to the NTFC and it will coordinate development and Trade Policy issues relating to marine, agriculture and tourism, the three key priority sectors. The Ministry is in charge of international trade and facilitates trade and investment matters in RMI. The Directors for MIMRA, MIVA, Agriculture, Trade and Investment could serve as chairpersons for the sub-committees on Fisheries, Tourism, Agriculture, Market Access, Services and Investment.

b) Ministry of Justice

The Ministry of Justice is responsible for looking at the legal issues pertaining to trade agreements such as PICTA, PACER, EPA, and US (Compact). It also oversees the registration of businesses, enforcement of contracts and upholding the rule of law to create a good environment for business. It should also ensure that the laws relating to labor and immigration are not more trade restrictive than is necessary. The Ministry should also participate effectively in trade negotiations and develop the capacity to deal with trade issues. It should work with R&D and incorporate training and capacity building in trade as part of its human resources development.

c) Ministry of Foreign Affairs (MOFA)

The Ministry should assist with mobilizing Aid for Trade from RMI's trade and development partners to implement the Trade Policy, promote commercial diplomacy and ensure that its overseas missions are staffed with officials who are knowledgeable on trade, investment, tourism and Aid for Trade. The Ministry should focus on finding markets for goods and services that are produced in RMI. There is also a need for the Ministry to assist RMI producers and exporters with joining organizations that will assist exporters to access export markets.

The Ministry of Foreign Affairs, Finance, R&D and EPPSO need to work together to secure Aid for Trade from RMI's trade and development partners to support trade and investment activities identified in the Trade Policy. The Office responsible for Compact management must ensure that trade and investment activities are prioritized in Compact funding and there is also a need to improve the trade preferences that were given to RMI because these preferences have been eroded.

MOFA is the key ministry that deals with the international community and should also be actively involved in trade. The RMI Ambassadors must also strengthen their role in promoting trade and investment.

d) Ministry of Finance

The Ministry needs to ensure that the tax reform goes ahead smoothly to ensure that the negative effects of trade liberalization are minimized. The Ministry is also responsible for reviewing the customs legislation to comply with international trade obligations including tariff reduction schedules, import and export procedures, and rules of origin amongst other things. It is also the responsibility of the Customs Department to facilitate trade and to ensure that all the red tape that is inhibiting imports and exports is removed. The Customs Department needs to work with the World Customs Organization, Oceania Customs Organization (OCO) and WTO to upgrade customs procedures and standards in order to facilitate trade. All the issues relating to smuggling of goods should also be addressed.

RMI has just adopted the Harmonised Commodity Description and Coding System (HS) 2007 and should be ready to adopt the 2012 HS and future amendments. This will be very important to enable RMI to effectively participate in trade negotiations. RMI also needs to adopt a customs automation system which can be used to capture trade data. The current system where trade data is captured manually is hindering trade and also makes it difficult to retrieve and analyse trade data.

The Customs Department also needs to work with other agencies including quarantine, health and immigration to ensure that there is smooth movement of goods, services suppliers and people to facilitate trade and investment.

The budget allocation must be sensitive to projects that are aimed at facilitating trade in tourism, fisheries and agriculture. Local revenue as well as donor funding, including Compact funding in general should be used to support priority trade projects.

e) Ministry of Health

The Ministry must assist in ensuring that RMI has a healthy population which can contribute effectively to the economy. The Ministry can also play a vital role in advising the nation on the effects of unsafe imports of food, drugs and other products. The Ministry should also advise the NTFC on all issues pertaining to trade in health services, including the number of foreign medical personnel or private hospitals that should be allowed in RMI, restrictions that may need to be put in place on trade in goods or movement of people especially after an outbreak of a pandemic like swine flu, as well as training of local people in this sector.

f) Ministry of Education

Education plays a vital role in trade and its role is rarely acknowledged in economic development. For any nation to prosper in trade there must be a good education system especially the production of relevant skills that are needed to turn the economy around. Areas such as mathematics, science and ICT are some of the areas that warrant attention. There is also a need to prioritize Technical and Vocational Education Training Centres (TVET) to enable the nation to develop the skills that are needed in the economy and also export the surplus skills and earn remittances. The poor education system in RMI is another factor that is slowing trade and economic growth. This issue needs to be tackled at all levels, from the elementary level to tertiary level.

g) The Ministry of Transportation and Communications

Transportation is a key issue in RMI, particularly for exporters, importers, consumers and tourists. The Ministry of T&C needs to work with all the stakeholders to address the transportation (air, maritime) problems. Telecommunication is another issue that affects the RMI business environment and the relevant policies need to be put in place to address these shortfalls in order to promote trade and investment. RMI needs to ensure that the regulatory framework governing transportation and communication is adequate. The Government must adopt measures to facilitate the participation of the private sector in these sectors. The RMI should explore the possibility of public-private sector partnership in providing infrastructure services in the transport sector. The transportation and telecommunication sector has a huge impact on the costs of doing business in RMI and affect any activity that will take place in tourism, fisheries and agriculture. For this reason, the Government needs to ensure that the right policies are adopted to address these issues.

h) Economic Policy, Planning and Statistics Office (EPPSO)

According to the Act establishing the Economic Policy, Planning and Statistics Office (EPPSO), the Office comprises of the Policy and Strategy Development Unit; Performance Monitoring, Evaluation and Aid Coordination Unit and the Statistics and Analysis Unit. The Policy and Strategic Development Unit is responsible for providing advice on general economic policy, including periodic review of overall national development goals and strategies to Cabinet through the National Policy Coordinating Committee; providing advice on general economic policy and planning in order to assist the Ministry of Finance in the budget preparation and preparing the five-year rolling Economic Policy Statements to be updated annually. The Economic Policy Statement will identify the main economic goals and objectives and be supported by brief sector strategies. EPPSO is also responsible for conducting economic and social studies, reviews and assessments as required.

The Performance Monitoring, Evaluation and Aid Coordination Unit is responsible for providing advice on general economic policy in order to assist the Ministry of Finance in negotiations with external sources and lending institutions on programs and projects of assistance. It is also responsible for the monitoring and evaluation of the Compact and related agreements, acting as the Secretariat for the RMI-US Joint Economic Review Board. It is charged with preparing and updating the performance score card, and preparing quarterly monitoring reports on budget and major projects and programs for submission to the National Planning and Coordination Committee.

The Statistics Collection and Analysis Unit is responsible for the collection, compilation, analysis and publication of certain statistical data and information, and for matters incidental thereto.

It is clear that EPPSO plays a major role in economic development and trade. The Office must be given more resources to ensure that all the policies and plans that are developed are coherent and contribute towards achieving the goals that are stipulated in the SDPF. EPPSO should play a vital role in ensuring that trade is mainstreamed into the SDPF or any subsequent development plans.

The Statistical Unit must ensure that disaggregated national statistics including those relating to GDP, BOP, trade in goods, trade in services, remittances and investment are improved to enable RMI to monitor progress and take the necessary remedial action. Statistics is vital for guiding policy makers as well as in measuring progress either under the SDPF or under the Trade Policy.

i) Environment Protection Agency (EnPA)

Development in RMI is prone to natural disasters and global shocks including climate change and the rise in sea level as a result of global warming. These are serious challenges and the office of EnPA needs to be vigilant in protecting the environment to ensure that development is sustainable. There is a clear link between trade and environment and this theme is gaining prominence at the global level and the EnPA needs to monitor these developments to ensure that trade and economic endeavour is undertaken in a sustainable manner.

j) Non-Governmental Organizations

WUTMI and MICNGOs should also play a vital role in coordinating all the input and comments from the NGOs and defending these interests in the NTFC.

k) Nitijela

In order to improve understanding of key trade issues, it is recommended that the R&D Committee or the Committee for Foreign Affairs and Trade be actively involved in the formulation and implementation of the Trade Policy. This is important because the Nitijela will be responsible for approving the ratification of various trade agreements and allocating funding that is needed to implement the Trade Policy. It will be important to ensure that the Nitijela is briefed and updated regularly on major trade policy developments to avoid a situation where they will only be asked to ratify trade agreements that they have never been involved in.

l) Sub-Committees

In order to advance discussions at the technical level, the Chairman of the NTFC should be empowered to establish specialized sub-committees to deal with sectoral issues and formulate plans on issues such as agriculture, fisheries, tourism, services, investment, market access, trade-related issues and Aid for Trade. The Chairman of the sub-committee can work closely with interested stakeholders and present their recommendations to the NTFC for consideration.

Recommendations of the National Trade Policy Meeting:

The National Trade Policy Consultative Meeting agreed that:

i. The NTFC be revived with improvements.

ii. The NTFC be composed of R&D (MIMRA, MIVA, Agriculture), AG (Immigration), CoC, MOFA (Compact, Labor), Farmers Association, Handicrafts Association, MoF, EPPSO, EPA, T&C, MIMA, Ministry of Internal Affairs, NGOs (WUTMI/MICNGOs), Parliamentary Committee on R&D/Legislative Counsellor, MIBA, business representatives from PRC and RoC, CMI, MICS.

iii. The chair be empowered to establish technical sub-committees to deal with technical trade issues relating to fisheries, tourism, agriculture, market access, trade in services and investment, trade-related issues and Aid for Trade.

iv. The Chair of the NTFC should report to Cabinet and Nitijela.

v. At least 50% of the members of the NTFC must be women.

vi. At least 50% of the members must be from the private sector.

vii. The Government must provide adequate funding to enable the NTFC to operate effectively. Assistance should also be sought from donors and the private sector to fund NTFC activities.

viii. The NTFC will be chaired by the President of the Chamber of Commerce and the Vice Chair will be from R&D, which will also serve as the Secretariat

1.5 Schedule of Work

The Ministry of Resources and Development organised the first National Trade Policy Consultative Meeting in November 2009. The purpose of the Meeting was to gather views from all the stakeholders. Consultations were also held with key Government ministries, the private sector, farmers, major operators in tourism, and non-governmental organisations. The list of participants is attached. Based on these consultations, a first draft Trade Policy was prepared and presented during the second National Trade Policy Consultative Meeting that was held in May 2010. The draft was circulated in July 2010 to all the relevant stakeholders for comments and the comments were incorporated into the Final draft which was submitted to the Ministry of R&D. The draft was updated and circulated in April 2012 and presented to the NTFC on 03 May and submitted to Cabinet immediately thereafter. This exercise was transparent and inclusive in order to allow all the stakeholders to participate freely and contribute to the Trade Policy.

1.6 Structure of the Trade Policy

The Trade Policy Framework is structured as follows: Section One looks at RMI and the Trade Policy Framework covering the introduction, the definition, the rationale, the vision of the Trade Policy, the legal and institutional framework, the schedule of work and the structure of the Trade Policy.

Section Two reviews the state of RMI's macro-economic environment with a focus on the Strategic Development Plan Framework (SDPF) and the R&D Strategy and Action Plan and assesses whether these documents have contributed towards economic growth or not. The SDPF is critically important because the Trade Policy must be mainstreamed into the overall development framework. The section also recommends measures that need to be taken to promote economic growth, employment and how to reduce trade deficit and fiscal imbalances. It is important to have sound economic fundamentals and clear economic targets to enable trade and investment to flourish.

Section three deals with trade policy by sector and assesses how agriculture, fisheries and tourism have been performing including the contribution of these sectors to economic growth and development.

Section four looks at the participation of RMI in merchandise trade including the import and export trends as well as other measures that are required to facilitate trade. This is followed by section five which deals with investment and the general laws that are affecting investment in RMI. It also reviews RMI's performance in the Ease of Doing Business and recommends the key actions that must be taken to improve the trade and investment environment.

A full description of the key laws and regulations affecting trade in services in RMI including recommendations on how RMI can reform these laws is provided in section six. The section also highlights the importance of labour mobility and the need for RMI to strengthen its capacity in this area to supply the skills that are required locally and export surplus skills and earn remittances.

Section seven deals with a number of trade-related issues such as taxation, competition policy, Government Procurement, corporate governance, intellectual property rights, trade and environment and trade and gender. The section provides recommendations on how to build capacity in these areas and reform the relevant laws, thus creating a more conducive business environment.

Section eight deals with market access and trade negotiations and discusses the key issues pertaining to regional and international markets, including the ongoing and/or potential trade negotiations. The section provides recommendations on how to improve the existing market access as well as how to diversify export markets. It also provides general guiding principles that RMI should adhere to when undertaking trade negotiations.

Most importantly, sections nine and ten deal respectively with Aid for Trade and implementation. Section nine makes it clear that Aid for Trade is required to assist RMI to implement the priorities that are set out in the implementation Matrix. The ultimate objective is to use Aid for Trade to build the capacity of RMI to use trade as a tool to fuel economic growth, create jobs, fight poverty and contribute towards meeting the national development goals including the Millennium Development Goals (MDGs).

2 THE MACRO-ECONOMIC ENVIRONMENT

This section gives a brief overview of the SDPF, the R&D Strategy and Action Plan, RMI's economic performance, the structure of the economy, the fiscal policy and employment. This will set the context in which the Trade Policy is being formulated. The main objective is to mainstream trade into the national development plan and ensure that trade will play a vital role in promoting export-led sustainable economic growth and development.

The ultimate objective is to ensure that trade and investment contribute to the achievement of the goals that are set in the national development plan including the MDGs. Trade should not be an end in itself, but must be used as a tool to fight poverty, create employment, stimulate private sector development and raise the living standards of the Marshallese people.

2.1 RMI's Strategic Development Plan Framework

In June 2001, the RMI adopted the Strategic Development Plan Framework (SDPF) 2003-2018, which is commonly known as Vision 2018. The SDPF is complimented by Master Plans focusing on major policy areas as well as Action Plans of Ministries and statutory agencies, which show the relevant programs, projects and costs. The overall vision of the SDPF is:
" *to become a country within an inter-dependent world, with an enhanced socio-economic self-reliance, and educated, healthy, productive, law abiding and God-loving people in which individual freedom and fundamental human rights are protected and culture and traditions are respected and development and environmental sustainability are in harmony*".

Goal 1 deals with operating in an interdependent world, in particular, RMI's Foreign Policy and climate change.The Foreign Policy seeks to assist RMI to develop the capacity to implement national sustainable development policies to maximise national benefits and foster international relations, recognising the limits and opportunities offered by political and economic ties with the rest of the world, globalisation and technological advances. On climate change, RMI seeks to cooperate with regional and international organisations to minimise the adverse impact of global warming and climate change.

Goal 2 deals with enhanced socio-economic self-reliance. The first part deals with the macro-economic framework and seeks to achive a level of quality development such that dependence on foreign technical and financial assistance and skills as well as the dependence of the private sector and households on Government expenditure is reduced. The second part deals with partnership and coordination and seeks a partnership with all important decision makers at all levels. The third one is directly relevant to trade because it deals with food security and import substitution to the best extent possible, and the development of exports. The fourth one deals with infrastructure development to assit the nation to achieve the goal of sustainable development and enhance self-reliance with minimum impact on the environment. The table below summarises some of the key issues that are still relevant for the Trade Policy.

Table 1: Objectives outlined in the SDPF

Macroeconomic Framework	The Productive Sectors	Infrastructure
Objective 1 – Developing, diversifying and strengthening our economic base so as to generate maximum income and domestically generated Government revenues Objective 2 – Achieving fiscal stability in Government Objective 3 – Achieving a more balanced structure in the economy with a greater reliance on foreign exchange earning / import substitution sector Objective 4 – Ensuring optimal accessibility to opportunities to ensure fuller participation of women in the	Agriculture Objective 1 – Increase output of local foods and agricultural exports Objective 2 – Achieve healthy and balanced diet to minimize both malnutrition and obesity Objective 3 – Increase output of locally processed foods and supplements : Objective 4- Minimize the percentage of underutilized land for agricultural purposes	Objective 1 – To provide reliable and affordable infrastructure in the areas of communication, transportation, water & sewage, and energy Objective 2 – Establish a sustainable and continuous maintenance program for all infrastructure Objective 3 – Establish and foster a complementary, efficient and secure land tenure framework for the smooth development of infrastructure which also takes into account for any foreign investment

self – reliant and sustainable development process in the country Objective 5 –Ensuring an acceptable level of equity in the distribution of national income among different income groups and within families and among family members Objective 6 – Enhancing the total level of saving in the economy Objective 7 – Achieving a higher degree of participation at all levels in the society with regard to individual responsibilities, duties and needs Objective 8 – Ensuring the existence of a comprehensive legal framework that fosters and facilitates but not inhibit activities at all levels that promote the achievement of the National Vision and enhances the welfare of every individual in the country Objective 9 – Ensuring the efficient, speedy, and impartial enforcement of all laws in order to protect person and property of every individual and institution in the country in a manner that justice is dispensed in a non – discriminatory , transparent and efficient manner Objective 10 – Ensuring the prevalence of an orderly and a peaceful environment , which would enable all individuals and institutions to make their contribution towards the achievement of the National Vision in an optimal manner Objective 11 – Ensuring accountability, transparency, and predictability in regard to decision making and implementation of policies and programs involving the expenditure of public funds and collection of public revenue at all levels in the country	Fisheries Objective 1 – To maximize rents from fisheries resources within sustainable limits Objective 2 – Development of income opportunities in sustainable coastal fishing activities for fisheries Objective 3 – To develop sustainable management plans based on stock assessment of fisheries resources prior to any development activities Objective 4 –To strengthen the Fisheries Nautical and Training Centre (FNTC) and diversify the employment opportunities for graduates Objective 5 – Enhance the capacity of the sector to increase production, processing, trade, and exports in a sustainable manner Tourism Objective 1 – increase number of tourists to be at least 15,000 by the year 2018. Objective 2 – Diversify cultural activities and tourism activities within the Marshall Islands Objective 3 – Promote a clean environment Objective 4 – Enhance the industry's capacity to provide quality services for a higher and growing number of tourists Manufacturing Objective 1 – Enhancing the production processing of local goods for domestic consumption and export Objective 2 – Creating and enabling environment for manufacturing activities Objective 3 – To identify and promote new products	Objective 4- Enabling all citizens to access clean and adequate water supplies as well as sustainable, affordable and reliable power supply

Goal 3 deals with education and seeks to establish a knowledge-based economy by equipping Marshallese citizens with internationally competitive skills, qualities and positive attitudes to work and society.

Goal 4 deals with health and seeks to build the capacity of RMI citizens to care for their own health through primary health care program and to provide high quality, effective and affordable and efficient healthcare services.

Goal 5 seeks to develop a productive people capable of contributing in the sustainable development of the nation. Goal 6 deals with obediance to the law and good governance. Goal 7 ackonwledges the spirituality of the Marshallese people and the right to religion.

Goal 8 deals with individual freedom and fundamental human rights. Goal 9 deals with the need to respect culture and tradition. Goal 10 focuses on environmental sustainabilty and the need to develop a regulatory system that can be enforced to achieve sustainable developemnt of natural resources, while protecting the environment from any adverse impacts. It also places emphasis on the need to minimise the impact of climate change.

To realise this overall vision the SDPF has set out ten goals, which together seek to contribute to sustainable ecoconmic developmnet. Some of the specific trade issues that are included in the SDPF especially under goal two include the following:

- to attain food security for all people at all times and to substitute imports to the best extent possible and develop exports
- to increase output of local foods and agricultural exports
- to enhance the capacity of the fisheries sector to increase production, processing, trade and exports in a sustainable manner
- to increase the number of tourists, to at least by 15 000 by year 2018
- to enhance the production and processing of local goods for domestic consumption and export
- to achieve a more balanced structure in the economy with a greater reliance on foreign exchange earnings and import substitution.

The section dealing with Foreign Affairs and Trade requires RMI to put in place policies that will assist in implementing the SDPF, including creating an good environment for investment, obtaining tariff concession for RMI's products in major markets such as the US and benefiting from opportunities in the information technology industry, for employment creation and trade.
One of the goals (Goal 2) also makes reference to other infrastructural services such as communication, transportation, water and energy, which are relevant sectors when trade in services is concerned. It is clear that provision of infrastructure is hampered by lack of economies of scale and limited landmass. However, poor policies also hinder the private sector

from providing some of the infrastructural services, thus contributing to the existing poor quality of infrastructure. The Government needs to establish and implement adequate and effecive policies in these areas to improve trade-related infrastructure.

The SDPF attempts to address trade-related issues, however, it is not detailed enough. There is a need for a comprehensive Trade Policy to supplement the SDPF, and which will fully mainstream trade into the development plan and link this to the budget process, including the technical and financial assiatance that is provided by donors and trading partners, as well as measurable performance indicators.

2.1.1 The Ministry of Resources and Development Strategy and Action Plan 2005-2010

The Marshall Islands Resources and Development Strategy and Action Plan 2005-2010 complements the SDPF and provides specific strategies and activities that must be implemented to achieve some of the development goals that directly fall under the Ministry of Resources and Development (R&D). The vision for the Ministry of Resources and Development Strategy and Action Plan 2005-2010 provides for a future where:

- Modern development and urbanization co-exists with the environment and traditional lifestyles
- Physically active people eat locally grown and processed healthy foods, and have secure supplies of food
- There are business and job opportunities for the people
- Each outer-island household has access to electricity
- RMI’s beautiful islands are safeguarded from pests and disease
- The unique Marshallese products are being successfully exported around the world
- RMI’s traditions are alive, and the country is economically self-reliant

The R&D Strategy provides for an integrated approach to development, geared towards primary production, value-added production and market development. Some of the issues that were recommended in the R&D Strategy and Action Plan include the need to establish a farmers market where people can come together and sell their local fruits and vegetables, fresh fish, preserved pandanus, roasted breadfruit, handicrafts or clothes. In the past, an attempt was made to establish a farmers’ market and a building was established several years ago near the building of the Ministry of R&D but it was subsequently appropriated for other uses. The Bank of Marshall Islands established a farmers market but it was not being fully utilized mainly because of low levels of production, high transportation costs to bring the produce to the market and high rentals ($5 per day) for using the market.

The other program that was recommended in the R&D Strategy is the Coconut "Tree of Life" Development project. The objectives of this project are to increase the value of coconut and coconut products to the Marshall Islands, reduce dependence of outer islands on imported fuel and copra subsidies and develop value-added coconut products for export. This project has not been implemented and there is a need to assess the best ways of implementing it.

The atolls have many coconut trees which are underutilized. RMI could derive more benefits if it adopts an integrated approach to the development of coconut resources. Rather than concentrating on copra-exports, RMI needs to focus on value added products. Value addition will contribute to improving the living standards of local people and also reduce the Government subsidies for copra.

It is also recommended that the extraction of coconut oil could be decentralized and carried out on outer islands at a relatively low cost. The oil can then be used to run electricity generators (at a significantly lower cost than solar power), diesel vehicles and outboard motors. Coconut oil can also be used directly for cooking or to develop value-added products such as beauty creams, oils and livestock feed. Parts of the coconut tree are already being used for handicrafts, and senile plants can be used for timber while the coconut shell can be used to produce charcoal.
Another project focuses on increasing domestic food production and some measures have been taken to implement this project, but more still need to be done.

The other objectives include the need to replant trees including coconut plants to ensure that there will be adequate raw materials for handicrafts, medicine, coconut products and other non-food production.

The R&D strategy also calls for RMI to take the necessary measures to prevent the introduction and spread of injurious pests and diseases into and within the Marshall Islands.

Another component of the R&D Strategy deals with product and market development, including product development services, domestic marketing services, international marketing services and trade facilitation services. It also deals with export requirements and labeling. However, there is a need to provide training and relevant information to encourage the development of new products and to improve the production of existing ones. Some of these products include handicrafts, processed foods, preserved fish, pandanus, nin juice and other products made from local raw materials. This will help to increase consumption of domestic products, thus decreasing dependence on imports. Targeted technical assistance should be provided towards the production of a few products and if successful, this can be expanded gradually to other products.

The R&D Strategy also focuses on developing products for the local and export market. The current major export products include copra oil and fish. There is also potential in handicraft and nin. The R&D Strategy also recommends the Government to improve access to credit through micro-finance schemes. Furthermore, it calls for the development of Trade and Investment Policies to contribute to the economic development of the RMI. The Trade Policy is therefore key to achieving the goals on the SDPF and the R&D Strategy.

Recommendations:

i. RMI must assess the results of the SDPF and use the lessons learnt to develop a new National Development Plan which will take into account Vision 2018, the existing reports, plans and, policies, and introduce performance based budget and realistic and measurable indicators.

ii. The Ministry of Finance/Cabinet must allocate adequate resources that are required to implement the Trade Policy.

iii. RMI must also assess and refresh the R&D Strategy to ensure that trade is fully mainstreamed into the strategy.

iv. The Division responsible for trade and investment needs to be strengthened and staffed by at least three trade experts.

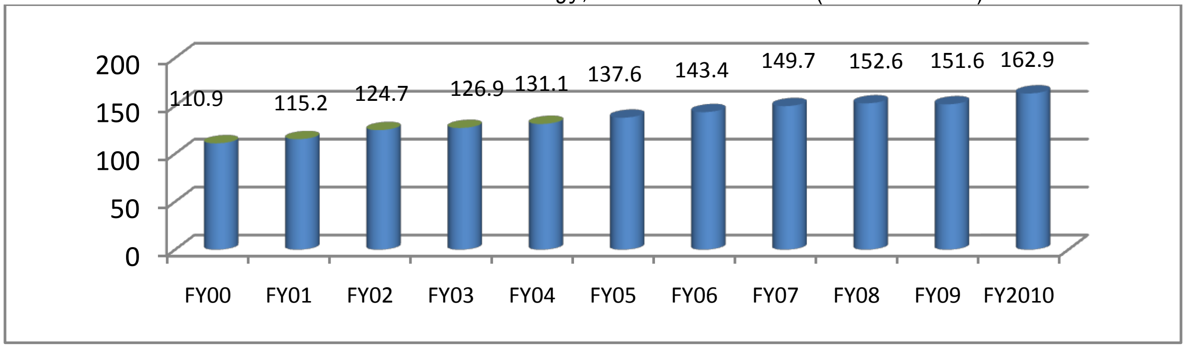
v. There is a need to sensitize the Cabinet on the importance of trade and the need to provide the necessary support for trade and private sector development.

2.2 Economic Growth

The section above described briefly RMI's Strategic Development Plan Framework and the R&D Strategy. The common trend that could be seen in both documents is the need to enhance sustainable economic growth, self-sustenance and improve the standard of living for Marshallese people. This section on its part, will review RMI's economic growth and assess RMI's economic performance and its impact on development. This review will help to assess the trade and investment measures that need to be introduced to boost export-led economic growth and sustainable development.

According to chart 2 below, the current GDP increased from $110.9 million in 2000 to $162.9 million in 2010.

Chart 2: RMI GDP based on current methodology, FY2000 to FY2010 (USD Millions)



Source: EPPSO

Real GDP per capita increased from about $2,367 in 2000 to about $2,748 in 2007 but declined to $2,663 in 2008. Inflation increased from -1.8% in 2000 to about 15% in 2008.

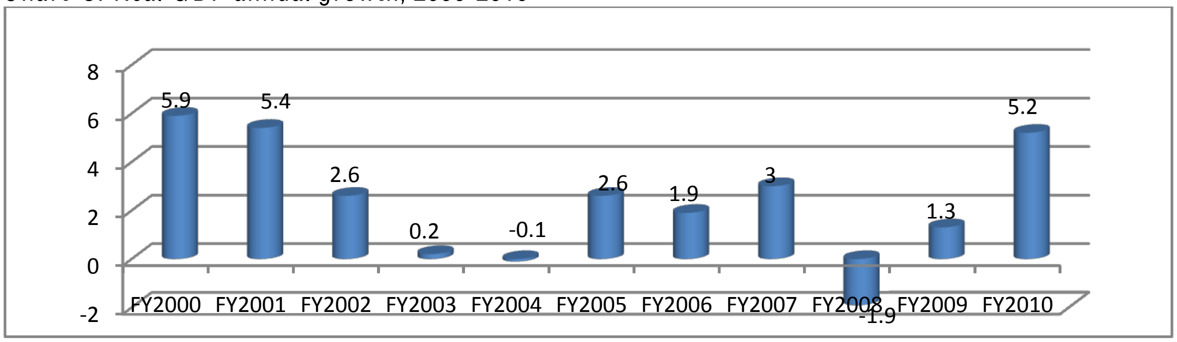
Table 2: Real GDP and GDP annual growth and GDP per Capita

GDP US$ millions (old series)	Linked Series	Real GDP $ millions	Real GDP annual growth	Population	GDP per capita, Constant prices	Real per capita GDP annual growth
FY2000	110.9	121.1	5.9%	51,181	2,367	5.2%
FY2001	115.2	127.6	5.4%	50,440	2,530	6.9%
FY2002	124.7	131.0	2.6%	49,564	2,642	4.4%
FY2003	126.9	131.2	0.2%	49,796	2,634	-0.3%
FY2004	131.1	131.1	-0.1%	50,211	2,611	-0.9%
FY2005	137.6	134.5	2.6%	50,887	2,644	1.3%
FY2006	143.4	137.1	1.9%	51,130	2,681	1.4%
FY2007	149.7	141.3	3.0%	51,397	2,748	2.5%
FY2008	152.6	138.5	-1.9%	52,027	2,663	-3.1%
FY2009	151.6	136.7	-1.3%	51,779	2,640	-0.9%
FY2010	162.9	143.8	5.2%	52,371	2,746	4.0%

Source: EPPSO

The chart below shows the performance of real GDP from 2000 to 2010.

Chart 3: Real GDP annual growth, 2000-2010



Source: EPPSO

In the late 90s, GDP was affected by a 30% downsizing of the public service in 1995-1997 since Government wages and salaries accounted for a significant portion of GDP. The economy was affected by a reduction in revenues to fund Government operations mainly through the Public Sector Reform Program (PSRP) that was initiated with assistance from the Asian Development Bank (ADB). Through the Policy Reform Program, which was launched in 1995, the size of employment in the public sector –excluding state owned enterprises (SOEs) was reduced from 2,303 in 1995 to 1,484 in 1999. A Reduction in Force (RIF) was the major component of the reforms intended to reduce Government costs.

The adverse weather conditions in 1997 and 1998 also contributed to the decline in GDP. The Government also had a lot of debt in Government bonds. However, by the beginning of FY2000, the fiscal pressure had eased as a result of the reforms and the economy grew by 5.9%. By 2002, the Government had paid all the bonds, thus allowing it to use the original Compact funds that had in prior years been absorbed in debt repayment. FY2002 and FY2003 were also the "bump-up" years under the original Compact and saw an infusion of additional resources.

In 2004, RMI received about $35 million compared to $25 million, which was received during the pre-bump up levels and this stimulated economic growth during the succeeding years. From 2005 onwards, the injection of Compact funds contributed to public sector growth. Some of the key projects that contributed to real GDP growth include the new construction projects funded by the Amended Compact infrastructure grant, the FAA-funded Majuro international airport development, and in FY2007 the reconstruction of the Majuro tuna loining plant, as well as the convention center funded by the Republic of China (ROC).

However, contrary to earlier reports that indicated that the initial period of the Amended Compact FY2003-FY2007, had been a period of sustained fiscal expansion and public sector led growth, with overall GDP growing by an annual average of 2.6%, the revised GDP data shows that the average growth during this period was only 1.9%. RMI experienced negative growth in FY2008 and FY 2009 mainly because of the global recession. Growth bounced back to in 2010 mainly as a result of a reduction in inflation and expansion in the fisheries sector. In order for RMI to generate sufficient activities to fuel economic growth and development, there is a need to adopt positive trade measures. These measures are elaborated in the Trade Policy under various sections.

It is important to note that GDP is often positively correlated with the standard of living, however, its use as a stand-in for measuring the standard of living has come under increasing criticism and many countries are actively exploring alternative measures to GDP for that purpose. For example, the French President, Sarkorzy called for a "great revolution" in the way national wealth is measured and supported a report by Joseph Stiglitz and Amartya[8] which criticizes "GDP fetishism" and prioritizes the quality of life over financial growth. He said governments should do away with the "religion of statistics" in which financial prowess was the sole indicator of a country's state of health. He argued that GDP – the standard means of measuring a country's economic growth – ignores other factors vital to the well-being of its population.

Joseph Stiglitz and Amartya[9] recommended that a new indicator which would be calculated with GDP but taking into account issues such as environmental protection and work/life balance as well as economic output to rate a country's ability to maintain the "sustainable" happiness of its inhabitants should be considered. Stiglitz argued that “GDP statistics were introduced to measure market economic activity. But they are increasingly thought of as a measure of societal well-being, which they are not."

RMI should also consider taking into account socio-economic issues - such as environmental protection, life balance a sound economic output at a level to ensure sustainable societal happiness (or ‘good life’ as referred to in the SDPF) - in measuring societal well being[10]. However, RMI needs to gather disaggregated data on GDP to actually see how much agriculture, fisheries, tourism and other services contribute to GDP. EPPSO should be given more resources to improve its statistics.

[10] Joseph Stiglitz and Amartya *(Stiglitz, Joseph E. (2009) “GDP Fetishism,” The Economists’ Voice: Vol. 6: Iss.8, Article 5).*

Recommendations:

(i) EPPSO should be given enough resources to be able to compile base-line data and disaggregated statistics on GDP and contribution of agriculture, fisheries, services to GDP to enable RMI to use verifiable indicators to measure economic progress and the implementation of the Trade Policy. Such information should be regularly shared with the department of trade and investment of the Ministry of R&D.

(ii) RMI should adopt measures that will stimulate trade and private sector development in order to enhance sustainable economic growth and development.

(iii) EPPSO should be given more resources to continue working with the Secretariat of the Pacific Community (SPC), Pacific Financial Technical Assistance Centre (PFTAC) and IMF to improve its statistics.

2.3 The Structure of the RMI Economy

The RMI economy is largely influenced by the financial provisions of the Compact of Free Association with the United States. The structure of the original Compact economic assistance was front-loaded with two step-downs after 5 and 10 years entailing a 15 and 14 percent reduction in base grant funding respectively. This also affected economic performance. The Compact funding also contributed in creating a large public sector and a very small private sector.

Public sector activities mainly consist of compensation of Government employees at the national and local levels, and various public agencies and enterprises. The performance of the private sector has been volatile, and influenced by large projects that were implemented in RMI. The private sector activities have been focused on non-foreign exchange earning activities such as wholesale and retail of imported goods, construction, hotels and restaurants, banking and insurance and transport services. There has been little growth in foreign exchange earning activities. The private sector is heavily dependent on the public sector and it produces largely non-traded goods and provides services to the Government and its employees. Aside from the fisheries sector, establishments producing goods and services for the domestic market dominate the private sector. The developments in the private sector basically follow the rise and fall in public expenditure, and this influences the demand for private sector services.

Table 3 below shows that in 2010 agriculture contributed about 3.4% to GDP, whilst fisheries contributed about 10.9%, and hotels and restaurants contributed 1.5%. Wholesale and retail had the highest contribution of about 13.6%, which is followed by public administration and education. These trends show that the key sectors of agriculture and tourism do not contribute much to trade and the RMI economy is largely driven by the public sector and the private sector which supplies goods and services to the Government and its employees.

Table 3: RMI GDP by industry, FY2000 – FY2010

$US Millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture, Hunting and Forestry	3.8	3.7	3.2	3.6	3.9	4.0	4.0	4.7	6.4	6.5	5.6
Fisheries (1)	6.9	7.2	7.7	8.3	8.2	7.5	8.0	8.1	8.9	11.9	17.7
Mining and Quarrying	~	~	~	~	~	~	~	~	~	~	~
Manufacturing	1.1	2.0	2.2	2.3	3.6	2.8	2.8	4.1	4.2	1.0	3.0
Electricity, Gas and Water Supply	4.1	2.0	5.9	3.3	1.9	1.6	1.9	4.9	4.4	6.4	6.9
Construction	6.7	8.1	8.2	7.7	7.0	7.3	11.2	10.0	10.8	10.1	9.7
Wholesale and Retail Trade and Repairs	15.9	17.6	18.9	17.9	19.2	20.1	20.0	20.3	20.9	21.4	22.2
Hotels and Restaurants	4.2	6.2	4.1	3.7	4.0	3.5	2.8	3.3	2.6	2.7	2.5
Transport, Storage and Communications	10.4	10.2	12.0	13.6	12.1	12.3	11.8	13.9	11.2	11.7	12.6
Financial Intermediation	5.3	5.2	5.8	5.6	6.1	7.0	7.9	8.9	8.4	7.4	6.9
Real Estate, Renting, Business Activities	9.7	9.9	9.9	9.8	9.7	10.1	10.6	10.9	12.5	12.9	13.2
Public Administration	19.5	19.9	20.1	20.4	21.2	22.7	23.4	23.5	23.5	22.9	22.0
Education	10.9	11.5	13.9	15.0	17.0	17.8	18.5	18.6	19.3	20.1	21.1
Health and Social Work	5.7	5.9	6.3	7.6	8.4	9.8	10.5	10.9	11.0	10.7	11.2
Other Community, Social, Personal Services	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	1.0	1.1	1.2
Less intermediate FISIM	-2.9	-3.0	-3.2	-2.7	-2.8	-3.1	-3.5	-4.1	-4.0	-3.6	-3.3
GDP at basic prices	101.9	107.1	115.7	116.7	120.2	123.7	130.4	138.7	141.0	143.2	152.4
Taxes on products	11.0	10.7	12.9	14.0	14.0	16.5	16.9	18.9	18.5	15.8	17.2
Less subsidies	-2.0	-2.6	-3.9	-3.8	-3.1	-2.7	-4.0	-7.9	-6.9	-7.5	-6.7
GDP at purchasers prices	**101.9**	**115.2**	**124.7**	**126.9**	**131.1**	**137.6**	**143.4**	**149.7**	**152.6**	**151.6**	**162.9**
Memo: GDP excluding offshore fishing vessels	**101.9**	**115.2**	**124.7**	**126.9**	**131.1**	**137.6**	**143.4**	**149.7**	**152.6**	**150.1**	**157.1**

According to Table 4, Government contribution to GDP increased from $35.9 million in 2000 to $55.4 million (34% of GDP) in 2010 and the contribution of the private sector increased from 31.5 million to $48.2 million (29.6% of GDP) during the same period. Government contribution to GDP continued to be higher than the contribution of the private sector throughout the period.

The economy is affected by the flow of Compact funds or changes in investment decisions by the private sector. For example, exports from Ting Hong ended in FY1998 and this affected the contribution of the private sector to GDP. In FY2005, the closure of the Philippines Micronesia and Orient Line (PM &O) plant also affected the contribution of the private sector to GDP. Aside from the private sector and Government, households and indirect taxes also play a vital role in the economy. The household sector represents the production of non-marketed goods and home ownership. The share of households increased from 10.5% in 2000 to 15.5% in 2010. The share of indirect taxes increased from 6.75% to 10.55% over the same period.

Table 4 shows that growth has been led by the public sector and this was fuelled by an injection of Compact funds. However, this type of growth is not sustainable because a reduction in or expiry of Compact funds will mean that the economy will be affected severely.

Table 4: Current price GDP by institutional sector, FY2000-FY2010

US$ Millions	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Private Enterprise	31.5	34.5	35.9	34.2	34.3	34.1	38.2	39.0	41.1	41.8	48.2
Public Enterprise	11.3	10.7	13.2	12.0	11.3	10.2	8.2	10.3	7.1	7.4	11.3
Finance (Banks)	5.1	4.9	5.6	5.4	5.8	6.7	7.7	8.6	8.1	7.1	6.6
Government	35.9	38.0	41.5	44.7	48.5	52.1	54.2	54.2	54.7	55.1	55.4
NGOs	1.8	2.0	2.0	2.0	2.0	2.3	2.2	2.3	2.2	2.3	2.5
Households	17.2	17.3	16.8	17.3	18.0	18.7	19.5	20.7	24.9	25.7	25.2
GDP at Factor Cost (Gross)	**102.7**	**107.4**	**115.0**	**115.6**	**119.9**	**124.1**	**129.9**	**135.0**	**138.1**	**139.3**	**149.1**
Indirect taxes less Subsidies	11.0	10.7	12.9	14.0	14.0	16.5	16.9	18.9	18.5	15.8	17.2
Less intermediate FISIM	-2.9	-3.0	-3.2	-2.7	-2.8	-3.1	-3.5	-4.1	-4.0	-3.6	-3.3
Nominal GDP at Market Prices (Gross)	**110.9**	**115.2**	**124.7**	**126.9**	**131.1**	**137.6**	**143.4**	**149.7**	**152.6**	**151.6**	**162.9**

Source: EPPSO estimates

Air Marshall Islands (AMI) recorded a positive contribution to GDP during the FY1997-FY2006 period, but only made a positive profit in two out of the ten years. The Kwajalein Atoll Joint Utility Resources (KAJUR) and Marshalls Energy Company (MEC) have not been performing well. The contribution from KAJUR has been negative throughout much of its history. MEC has benefited from cross subsidization of fuel sales to fishing fleets with electricity production and has been viable. The Marshall Island Resort made a positive contribution throughout the period, and reported positive profits in FY2005 and FY2006.

Tobolar, the Government enterprise responsible for copra collection and production of coconut oil, made a negative contribution to GDP throughout the period. However, it plays a vital role in sustaining the livelihoods in outer islands. The National Telecommunications Authority (NTA) makes the largest contribution to GDP, reflecting its monopoly status and ability to set prices. In general, the performance of some of the public sector players is positive, however, there is room for improvement. However, AMI and Tobolar have been draining a lot of resources. Therefore AMI needs to be privatised or restructured and alternative ways of helping the outer islands should be found while Tobolar should either be re-organised or privatised.

The Table below provides details on the contribution of the public enterprise sector to GDP by enterprise at factor cost (before receipt of subsidies.)

Table 5: Public enterprise value added, FY1997 – FY2006, USD 000s

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Air Marshall Islands	575	1861	1955	1340	953	699	2159	1231	1353	1045
Kwajalein Atoll Joint Utilities Resources	602	1188	919	-27	-383	52	-709	-178	633	-88
Majuro Water and Sewer Company	647	778	630	425	536	699	775	697	560	646
Marshall Energy Co. Inc (Utilities)	1066	1590	2531	2670	1157	2687	1420	498	-1,328	-1596
Marshall Energy Co. Inc (Fuel distribution)	964	1295	471	783	885	1477	1561	1801	1,798	1,428
Marshall Islands Airport Authority	0	0	0	299	402	612	582	579	0	0
Marshall Islands Ports Authority	426	637	811	1611	1370	1707	1670	1377	1947	1,395
National Telecommunications Authority	4656	4291	4421	4615	4794	5073	4349	3783	4,195	4,672
Marshall Islands Resort (Inc)	583	516	700	883	2547	739	701	653	913	1,919
Tobolar	-1147	-589	-415	-1527	-1674	-757	-736	-188	-1091	-782
Total Value Added	8372	11587	12023	11072	10 586	12987	11773	10,252	8980	8,640

Source: EPPSO

The above trend basically underscores the well known principle that Government should not be involved in business but should create a good environment for the private sector to develop the economy. The performance of Tobolar is a clear testimony to this. Even though AMI had positive contribution to GDP, the situation could be better if these services were provided by a private entity or by a public-private entity. The performance of NTA, on its part could have been better if there was competition in the sector and less Government involvement.

In order to have a detailed analysis of RMI's economic structure, it would be useful to have accurate disaggregated data which show how much the key sectors in the private sector contribute to GDP. It will also be good for disaggregated data to be provided on the percentage contribution of agriculture, fisheries, tourism and other services to GDP. This base-line data will enable the policy makers to assess whether progress is being made and to design targeted measures to improve the situation. However, based on anecdotal evidence as well as data from various sources, it is clear that exports of fisheries, agriculture and tourism have not been contributing much to GDP. A lot of work needs to be done to improve exports in these priority sectors.

Recommendations:

i. RMI must take urgent measures to curb uncontrolled Government expenditure and introduce positive measures that are necessary to create an environment that is conducive for trade, investment and private sector development. However, the Government must ensure that adequately qualified and experienced personnel are employed in the Government to enable it to function efficiently.

ii. The role of Government must be limited to providing basic infrastructure, essential services, regulation and adopting measures that enhance and facilitate private sector development rather, than venturing into direct commercial operations in competition with the private sector.
iii. The Government must set targets on economic growth as well as other socio-economic goals.
iv. RMI must reform and/or privatise public enterprises to enhance efficiency in service delivery, promote competitiveness and lower the cost of doing business in RMI.
v. The Government must adopt trade measures that will enhance private sector development and stimulate the production of goods and services that can be traded competitively in the local market and in major export markets.

2.4 Employment

One of the objectives of the SDPF, which is also the ultimate goal of the Trade Policy, is to use trade to enhance private sector development, create jobs and raise the living standards of the Marshallese people. This section reviews the employment situation in RMI and recommends actions that need to be taken to ensure that trade plays a vital role in creating quality jobs and decent income for workers, especially the vulnerable groups such as women.

RMI's population is relatively young and has also been affected by emigration to the US. Between 1990 to 2007, over 15,000 Marshallese are estimated to have emigrated to the US. The labor force (15 to 64 who are able to work) is estimated to be between 14,000 - 15,000 persons. About 10, 216 people were formally employed in 2009 and more than 5,000 people are either informally employed or not employed whatsoever. The RMI's official unemployment rate based on the 1999 census stood at 30.9%.

Since the majority of the population lives in Majuro and Ebeye urban areas, subsistence activities are very limited for most people. This means that formal, cash-earning employment activities are needed for the survival of most Marshallese today. Only around 40 percent of adults in the RMI have completed high school and about 5% have completed college level (bachelor level degree). These rates are very low compared to other Pacific Islands.

Employment increased from 7,940 in FY1997 to 10,709 in 2011. The opening of PM&O in FY 2000 and its subsequent closure in 2004 contributed to the fluctuation in the employment numbers in the private sector. Compared to the 2004 figures, in 2005, employment in the private sector fell by about 14.3%. However, the private sector employment increased significantly from 2,525 in FY97 to 4,440 in FY 2011 mainly as a result of the developments in the fisheries sector.

After the downsizing in the public sector in late 90s, public sector employment decreased to about 3,672 in FY1999. However, it increased to 4730 in 2011 and the RMI Government contributed a lot to this expansion.

Table 6: Public and private sectors employment FY2000-FY2011

No. of workers (part time/full time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Private Sector	3,190	3,545	3,786	3,845	4,043	3,463	3,705	3,923	4,031	4,036	4,331	4,440
Public Enterprise	588	583	633	658	690	702	704	765	787	812	794	813
Banks	124	149	141	137	153	158	175	184	191	186	202	206
RMI Government	1,487	1,525	1,775	1,900	2,003	2,116	2,421	2,407	2,412	2,353	2,392	2,415
Government Agencies	564	644	630	639	596	609	407	465	435	471	523	554
Local Government	1,056	1,114	1,019	963	1,055	1,083	1,090	1,041	1,007	960	899	948
NGO's and Non-Profits	341	356	366	354	366	403	383	387	365	356	359	364
Households	~	~	~	~	~	~	~	~	~	~	~	~
Foreign Embassies	14	15	13	14	14	15	16	17	16	16	29	38
Kwajalein US Base	1,241	1,281	1,227	1,453	1,229	1,208	1,239	1,193	1,097	1,028	978	933
Total	8,602	9,211	9,589	9,961	10,149	9,755	10,137	10,380	10,340	10,218	10,506	10,709

Source: *Social Security plus EPPSO 'non-reported' estimate. FY2011 based on six months data.*

In 2011, the total number of people employed in the private sector was 4,440 and the wholesale and retail sector had the largest contribution to employment. This was followed by fisheries, construction, transport, storage and communications, real estate, renting and business activities and hotels and restaurants. The employment in the fisheries sector increased mainly as a result of the opening of the processing facility by Pan Pacific Foods. Very few people are employed in the manufacturing and agriculture sectors. From the table below, it is clear that the fisheries industry has the potential to create more jobs.

There is also an opportunity for growth in the tourism sector; however, for the tourism industry to expand, the Government needs to provide the necessary support. Agriculture contributes very little in terms of formal employment. The Government should use the Trade Policy to develop trade and investment in fisheries, tourism and perhaps agriculture to increase the contribution of these sectors to employment.

Table 7: Employment by industrial sector (numbers) FY2000-FY2011

No. of workers, part time/full time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture, Hunting and Forestry	7	1	~	21	24	24	27	31	28	25	23	20
Fisheries (1)	546	618	735	902	1,002	280	343	313	463	712	1,136	1,261
Mining and	~	~	~	~	~	~	~	~	~	~	~	~

Quarrying												
Manufacturing	79	72	78	75	71	94	96	106	96	77	76	112
Electricity, Gas and Water Supply	218	231	251	261	278	276	270	276	278	312	319	312
Construction	424	490	636	563	522	557	729	857	820	681	593	564
Wholesale and Retail Trade	1,552	1,747	1,720	1,636	1,744	1,805	1,819	1,810	1,826	1,715	1,738	1,754
Hotels and Restaurants	257	266	267	309	270	238	263	295	282	253	242	222
Transport, Storage and Communications	409	411	451	475	541	562	577	708	672	706	649	657
Financial Intermediation	140	168	159	152	169	174	193	208	211	208	222	227
Real Estate, Renting and Businesses Activities	212	224	221	220	231	249	211	220	224	241	230	222
Public Administration	2,673	2,769	2,919	2,986	3,150	3,326	3,640	3,574	3,548	3,436	3,413	3,487
Education (2)	561	627	624	606	590	624	383	435	399	416	457	485
Health and Social Work (2)	181	195	203	205	225	239	246	248	251	249	246	247
Community, Social & Personal Service Activities	87	94	80	78	81	82	83	86	119	127	143	158
Private Households With Employed Persons	3	4	5	8	8	5	3	4	13	16	12	14
Extra-Territorial Organizations and Bodies	1,254	1,296	1,240	1,467	1,243	1,222	1,254	1,210	1,113	1,044	1,007	971
Total	**8,602**	**9,211**	**9,589**	**9,961**	**10,149**	**9,755**	**10,137**	**10,380**	**10,340**	**10,218**	**10,506**	**10,709**

1) Includes Shore based fish processing and vessel support services. Part time workers may be significant. 2) Not including Government workers which are included under "Public Administration*Source: Social Security plus EPPSO 'non-reported' estimate. FY2011 based on six months data*

The Table below shows employment by industrial sector and wage costs for the FY 2000 to FY2011. It is clear from the table that the public administration has the highest wage costs, followed by the private sector.

Table 8: Employment by Industrial Sector, wage costs, 2000 - 2011

US$000	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Private Sector	16,432	18,023	18,354	16,967	17,033	16,401	17,745	19,139	20,019	20,331	21,021	21,798
Public Enterprise	6,394	6,343	6,790	7,541	7,830	8,140	8,207	8,626	9,395	9,854	10,371	10,601

Banks	1,534	1,683	1,952	2,019	2,272	2,665	2,975	3,217	3,156	3,261	3,443	3,425
RMI Government	16,645	17,938	20,665	21,863	26,478	27,500	30,233	30,144	30,425	30,643	31,046	32,279
Government Agencies	6,750	7,075	7,531	8,055	7,667	8,017	6,393	6,772	6,747	7,373	8,022	8,593
Local Government	7,244	7,628	7,436	7,021	7,523	7,916	8,221	8,254	8,224	7,392	6,758	7,398
NGO's and Non-Profits	1,575	1,715	1,761	1,774	1,772	2,031	1,912	1,955	1,918	1,966	2,135	2,226
Households	~	~	~	~	~	~	~	~	~	~	~	~
Foreign Embassies	150	165	143	147	175	182	199	221	208	199	310	388
Kwajalein US Base	16,877	17,601	16,566	17,689	17,892	18,413	20,123	19,230	17,064	17,292	16,258	15,948
Total	73,601	78,171	81,197	83,077	88,643	91,264	96,007	97,558	97,156	98,310	99,364	102,655

Source: *Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations. FY2011 based on six months data*

The private sector earnings indicated very little growth and the PMOP did not influence the wages and salaries because it was exempted from minimum wages and many employees worked less than fulltime work week. However, for the low income workers who lost employment when PMOP was closed, the impact was significant. It is also important to note that PPF has also been exempted from the minimum wage.

Even though it is not possible to conclude that Government wage rates are higher than the private sector since the skill mix in the two sectors is different, it is clear from Table 9 that the wage differential between the two sectors has widened significantly. This means that more qualified people would be attracted to work in the public sector than in the private sector.

Table 9: Employment by institutional sector, average wage and salary rates, FY2000 – FY 2011

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Private Sector	5,152	5,084	4,848	4,412	4,213	4,736	4,790	4,879	4,966	5,038	4,854	4,909
Public Enterprise	10,883	10,873	10,726	11,466	11,348	11,601	11,658	11,276	11,938	12,131	13,066	13,047
Banks	12,422	11,334	13,892	14,768	14,824	16,840	17,046	17,509	16,547	17,506	17,025	16,666
RMI Government	11,198	11,762	11,645	11,508	13,221	12,997	12,490	12,523	12,614	13,025	12,982	13,369
Government Agencies	11,962	10,995	11,946	12,613	12,867	13,164	15,727	14,578	15,527	15,653	15,338	15,510
Local Government	6,863	6,847	7,300	7,292	7,134	7,311	7,543	7,930	8,165	7,704	7,517	7,804
NGO's and Non-Profits	4,617	4,824	4,809	5,018	4,837	5,040	4,992	5,059	5,254	5,521	5,942	6,124
Foreign Embassies	11,106	10,793	11,010	10,713	12,489	12,523	12,860	13,392	13,185	12,637	10,775	10,203
Kwajalein US Base	13,602	13,743	13,503	12,176	14,555	15,249	16,243	16,114	15,559	16,817	16,627	17,093
Total	8,556	8,487	8,468	8,340	8,734	9,355	9,471	9,388	9,396	9,622	9,458	9,586

Source: *Social Security plus EPPSO 'non-reported' estimate. FY2011 based on six months data.*

Recommendations:

i. The Government must create a good trade and investment environment to enhance private sector development, trade and employment particularly in the productive sectors of fisheries, agriculture, tourism, handicraft, manufacturing and services.
ii. RMI must adopt best practices on labor as recommended by the International Labor Organization, to ensure that the rights of workers including decent work program, basic conditions of employment and the freedom to organize are fully implemented.
iii. Education and training from elementary to tertiary levels should include entrepreneurship skills and, the vocational training and other training by the College of Marshall Islands, the National Training Council (NTC) should focus on skills that are in short supply in RMI and abroad.

2.5 Balance of Payments

In simple terms, the balance of payment measures the amount of money coming into the country from abroad less all the money going out of the country during the same period. It is normally broken into the current account and the capital account. The current account includes:

- visible trade (merchandise trade)
- invisible trade which is receipts and payments for services and other intangible goods such as intellectual property, cross border dividends and interest payments
- private transfers (e.g. remittances)
- official transfers (e.g. international aid).

The capital account includes long-term capital flows, such as funds invested in foreign firms, and the profits made by selling those investments and bringing the money home. It also covers short-term capital flows. This section gives a brief overview of RMI's balance of payment statistics.

(a) The current account

According to the data provided by EPPSO, the RMI's current account balance improved from $-22.8 million in 2000 to $-3.9 million in 2008 and fell sharply to $-26.4 in 2009 and $-40.7 in 2010. The total exports in 2000 were $15.5 million and increased to $32.3 million in 2010. Imports increased from $77.9 million in 2000 to $94.1 (f.o.b) million in 2009, then rose sharply to 125.5 in 2010. Exports from RMI consist mainly of fuel re-exports, coconut products, fish, and a few other small items. The RMI has a large trade account deficit which is matched by substantial inflows on the primary and secondary income accounts. The imports of goods and services are financed mainly by earnings of Marshallese workers at the Kwajalein U.S. base, rent of the base and Compact current transfers. RMI is not generating its own foreign exchange to pay for its imports.

The **service account** on the receipt side includes transhipment fees of fishing fleets restocking in the RMI, port facilities, telecommunications, travel expenses of visitors to the RMI, and local expenses of Continental airlines. The payment side includes freight and insurance for imported items (estimated), payments for passenger services, in particular air travel expenses overseas for Government officials and private individuals. The other items include small payments for pension services, business and financial services etc.

The **primary income account** consists mainly of compensation of Marshallese employees on the Kwajalein military base, the receipts for rent received by the Kwajalein landowners and ship registration fees which have been increasing over the years. However, since most Kwajalein landowners live in the U.S., only the transactions related to residents are included in the flows. The other category includes fishing licence fees, as well as the interest earnings of the various Trust Funds (including Compact Trust Fund), the MISSA social security funds and commercial bank off-shore investments. On the payments side, primary income flows are mostly represented by interest payments on external debt, payment for non-resident Kwajalein land owners and compensation of employees.

The **secondary income account** includes budget grants, Compact current grants and other transfers received from the ROC and U.S. federal programs. Other receipts include inward remittance flows to households, but there is no reliable data. The College of the Marshall Islands also receives relatively large transfers from Pell grants and other U.S. Federal grants. Remittance outflows mainly consists of household transfers and are estimated to be larger than remittances that are sent home by Marshallese living in the U.S. Outward transfers consists of payments from Marshallese families to relatives in the US as well as Chinese and other Asian communities living in the Marshall Islands.

(b) The Capital Account

The capital account includes Compact capital grants, and before FY2004 these were represented by the original Compact I CIP funds and mainly Compact infrastructure sector grant. Now RMI has improved its capacity to use Compact capital grants. The receipt of funds for the Compact Trust Fund is also included in the capital account and matched by a contrary entry in the financing account. The capital account is always positive, reflecting receipt of capital transfers from the U.S. and ROC.

(c) The financial account

The **financing account** shows that direct investment flows have generally been small, but increased to $7.0 million in FY2007 because of the re-construction of the fish loining plant by Pan Pacific. However, it decreased to $5.7 million in FY2008. Portfolio investment represents contributions to the Compact Trust Fund from the RMI, U.S. and ROC; investments by MISSA in the U.S. for the social security portfolio. These investments were affected in 2008 and 2009 by the global financial crisis.

During Compact I, the RMI issued a series of Medium Term Notes, to cash in on future Compact receipts. The portfolio investment item under―liabilities mainly represents repayment of notes, which were finalised in FY2001. Other investment represents changes in commercial bank foreign assets, which has generally shown large increase and net changes in liabilities on external debt. The finance account has been negative in many years, reflecting the build-up of assets, whether contributions to the Compact Trust Fund, the social security portfolio, or commercial bank accumulation of foreign assets. However, for the last 3 years the financial account was positive reflecting a big increase in foreign direct investment especially in the fisheries sector.

Table 10: **RMI's Balance of Payment FY2000**-FY2010

(US$ millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Current account balance	***-22.8***	***-17.6***	***-3.4***	***-13.2***	***-5.7***	***-8.9***	***-5.1***	***-3.5***	***-3.9***	***-26.4***	***-40.7***
Goods and services balance	*-92.8*	*-97.0*	*-78.2*	*-88.8*	*-87.0*	*-100.5*	*-100.4*	*-108.6*	*-109.3*	*-127.3*	*-136.1*
Goods balance	*-62.5*	*-64.7*	*-49.3*	*-57.9*	*-53.2*	*-61.7*	*-64.1*	*-69.6*	*-69.8*	*-73.3*	*-93.3*
Exports of goods	15.5	13.9	15.1	17.5	18.8	23.5	17.9	18.3	20.2	20.8	32.3
Fish	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	2.8	8.8
Other*	15.1	13.5	14.7	17.1	18.4	23.1	17.5	17.6	19.4	17.9	23.5
Imports of goods f.o.b.	77.9	78.6	64.4	75.4	72.0	85.1	82.0	87.9	90.0	94.1	125.5
Services balance	*-30.4*	*-32.2*	*-29.0*	*-30.9*	*-33.8*	*-38.9*	*-36.3*	*-39.0*	*-39.5*	*-54.0*	*-42.8*
Exports of services	9.5	9.1	10.4	11.8	10.8	10.2	10.2	10.0	10.2	10.5	11.3
Fish processing	2.5	2.5	3.2	4.3	3.7	2.0	2.3	2.3	3.0	3.3	3.7
Travel	2.6	2.4	2.8	3.1	3.0	3.1	3.1	2.9	2.7	2.8	2.8
Other	4.4	4.1	4.4	4.4	4.1	5.1	4.8	4.7	4.5	4.5	4.8
Imports of services	39.9	41.3	39.4	42.7	44.5	49.1	46.5	49.0	49.8	64.6	54.1
Transport	20.8	20.6	19.0	21.6	22.5	25.5	26.0	27.2	28.0	25.9	25.6
Freight and postal services	13.8	13.2	10.9	12.8	12.2	14.4	13.8	14.4	15.1	13.7	14.6
Passenger services	7.0	7.4	8.0	8.8	10.3	11.1	12.2	12.9	12.9	12.2	10.9
Construction services	~	~	~	~	~	~	~	~	~	12.9	1.8
Other	19.1	20.7	20.5	21.1	22.0	23.6	20.5	21.8	21.7	25.7	26.7
Primary income balance	*36.3*	*37.4*	*36.8*	*35.8*	*36.6*	*40.7*	*40.8*	*43.1*	*43.2*	*40.8*	*34.5*
Primary income, inflows	45.0	45.4	44.4	43.6	46.4	51.2	55.2	56.8	56.1	52.9	51.2
Compensation of employees	19.2	20.1	19.1	20.4	20.6	21.2	23.3	22.3	19.9	20.1	19.0
Ship registration fees	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.8	2.0	3.3	3.3

Fishing license fees	2.8	0.9	1.1	1.2	0.9	1.4	1.6	0.8	1.7	1.4	1.0
Dividends and interest	9.7	11.5	11.0	9.1	8.2	11.6	13.0	15.4	15.4	10.1	9.8
Other	12.3	11.9	12.2	11.9	15.7	16.0	16.3	16.6	17.1	18.1	18.0
Primary income, outflows	8.8	8.0	7.7	7.8	9.8	10.5	14.4	13.7	12.9	12.1	16.6
Secondary income balance	*33.8*	*41.9*	*38.1*	*39.8*	*44.6*	*50.9*	*54.4*	*62.0*	*62.2*	*60.2*	*60.9*
Secondary income, inflows	36.7	44.9	41.3	43.1	48.0	54.5	58.1	65.8	66.3	64.6	66.2
Government grants	27.1	35.2	33.4	35.9	40.1	46.0	49.6	53.6	57.2	54.4	56.2
Compact current grants	8.1	8.1	13.4	13.5	17.4	22.9	26.0	30.8	39.7	43.1	42.5
Other budget and off-budget grants	19.1	27.2	19.9	22.4	22.8	23.1	23.6	22.8	17.5	11.3	13.7
College of Marshall Islands	2.9	2.8	2.9	2.7	3.2	3.3	2.9	3.3	3.2	3.9	4.4
Other	6.7	6.9	5.0	4.6	4.7	5.2	5.7	9.0	5.9	6.3	5.6
Secondary income, outflows 3/	3.0	3.0	3.2	3.3	3.4	3.6	3.7	3.9	4.1	4.4	5.3
Capital account balance	***28.2***	***28.6***	***20.6***	***19.2***	***10.3***	***22.7***	***35.6***	***34.7***	***30.1***	***36.2***	***31.6***
Capital inflows	28.2	28.6	20.6	19.2	10.3	22.7	35.6	34.7	30.1	36.2	31.6
National Gov't, Compact capital grants	23.0	23.4	19.3	19.2	3.2	4.7	9.5	16.6	11.3	13.2	13.3
Other capital grants to government	5.2	5.2	1.3	~	7.2	18.0	26.1	18.1	18.8	22.9	18.3
Net lending/Borrowing (Curr + Cap)	***5.4***	***11.0***	***17.2***	***6.0***	***4.6***	***13.8***	***30.4***	***31.1***	***26.2***	***9.8***	***-9.1***
Financial account balance	***-7.7***	***-6.3***	***0.8***	***-4.2***	***16.7***	***-16.5***	***8.2***	***-14.1***	***8.8***	***14.4***	***19.7***
Direct investment	0.7	0.7	0.8	-1.2	1.1	3.3	-1.1	7.0	5.7	14.6	37.1
Portfolio investment (increase in assets: -)	-7.2	-16.7	-0.3	3.4	17.9	-14.6	3.2	-16.5	4.1	-4.9	-5.3
Assets	8.6	5.8	-0.3	2.6	17.3	-14.4	3.3	-15.1	4.7	-5.7	-5.7
National Gov't, Compact Trust Fund	~	~	~	~	-32.0	-15.6	-10.5	-11.4	-10.5	-14.9	-13.5
Other public sector investments 2/	8.6	5.8	-0.3	2.6	49.3	1.2	13.7	-3.6	15.2	9.2	7.9
Liabilities (mainly MTN)	-15.9	-22.5	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6	0.8	0.4
Other investment (increase in assets: -)	-1.2	9.7	0.3	-6.4	-2.3	-5.2	6.1	-4.6	-1.1	4.7	-12.2
Assets (bank deposits)	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6	-6.5	-8.2
Liabilities (public	8.4	7.8	7.5	3.6	0.3	-2.5	10.1	-1.4	-4.7	11.2	-4.0

sector loans)											
Errors and omissions	***-2.3***	***4.7***	***18.0***	***1.8***	***21.3***	***-2.7***	***38.6***	***17.0***	***35.0***	***24.2***	***10.6***
MEMO ITEM: 'Exports' non-resident fishing vessels**	Na	28.3	35.3	33.7	44.1	56.0	47.1	81.2	66.7	65.1	84.6

*Other: copra and re-exports

**Pelagic fishing vessels operated economically from abroad are treated as non-resident, thus their sales are not included as exports in the main dataset.

Source: EPPSO

2.6 External Debt

During Compact I, external debts affected economic performance because in the mid-1990s bond issues (MTNs) made as far back as 1987 resulted in almost all Compact revenue streams being committed to repayments by the mid-1990s. Unfortunately, most investments that were funded out of bond proceeds did not perform well. This affected economic growth in the second half of the 1990s. However, by end of FY2001 all the bonds were paid.

Table 11: External debt, original value and outstanding principal by loan

Loan	**Lender**	**Number**	**Year**	**Original debt, $'000**	**Estimated outstanding principal September 2010, $'000**
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	2,888
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	433
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	6,787
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	621
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	7,473
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	4,596
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	10,500
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	7,834
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,616
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	7,865
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	2,569
Outer-Islands Transport and Infrastructure Loan	ADB	1948-RMI (SF)	2003	7,900	508
Public Sector Program	ADB	2659-RMI (SF)	2010	9,500	

Marshalls Energy Company - New Power plant Loan	RUS		1997	12,500	6,328
Marshalls Energy Company - Consolidation Loan	BoG		2007	12,000	8,495
NTA Loan	RUS		1989, 1993, 2009	41,300	30,051
MIDB ICBC Loan	ICBC		2004	4,000	1,780
PRC Loan for Garment Factory	PRC		1991	1,900	
Air Marshall Islands	BoG?		2009		1,117
RMI Ports Authority	n.a.		2007	568	250
Total				**157,958**	**104,709**

Note: As of September 20, 2010 no drawdown on MEC Public Sector Program loan has taken place

Source: EPSSO

The Government also contracted loans from the Asian Development Bank during Compact I, some of the funds were used to fund fisheries development in Ebeye. Other loans included water supply, social sector and transport projects, as well as reform program loans. In total, the ADB has approved $76.2 million worth of loans since the RMI joined in 1991. According to the Ministry of Finance, after debt repayment and lack of full disbursement for some loans, outstanding ADB debt at the end of FY2010 was $56.7 million[11]. All these loans save for the $4 million loan, are provided on highly concessional terms from the Asian Development Fund (ADF) resources of the ADB. These resources provide grace periods of 8–10 years and full repayment of principal over 40 years (inclusive of grace periods) for older loans and 32 years for more recent loans. No interest is applied to the principal of these loans, but a service charge of 1–1.5% is applied to the outstanding principal. New program loans, such as those through the Fiscal and Financial Management Program, now have a term of 24 years. The concessional nature of the lending means that the ADF loans have a significant grant component when valued on a discounted cash flow basis.

The Government has also guaranteed loans taken by state owned enterprises (SOEs) and these include the Rural Utilities Service (RUS, formerly the Rural Electrification Administration) loans for National Telecommunication Authority (NTA) and the Marshall Islands Energy Company (MEC). In 1989, the RMI guaranteed an $18.8 million loan for NTA to finance fiber-optic cable and administration facilities in Majuro. NTA extended this loan by another $4 million in 1993, though the extension of the loan was not guaranteed by the RMI. The estimated outstanding principal for NTA was estimated at $30 million. In 1997, MEC secured an RUS loan for $12.5 million to finance the new power plant on Majuro. More recently, in FY2004 the Government guaranteed a loan issued by the International Bank of China to the Marshall Islands Development Bank. In FY2007 MEC took a $12 million loan from Bank of Guam which was guaranteed by the Government. The Government will be obligated to meet debt service requirements in case of default by the state owned enterprises (SOEs).

[11] However, the figures in the 2012 statistics is different from the estimates provided by Ministry of Finance in May 2012.

RMI's debt in 1995 was $138 million, which represented about 115% of GDP. It finished paying the bond debt in FY2002 and the debt had declined to $87 million. In FY2008, outstanding external debt was $99.1 millionbut rose $104.7 million in 2010, representing 64.3% of GDP[12]. Table 12 shows RMI's external debt and debt servicing trends. Even though the debt servicing has fallen significantly, the increasing trend since FY2002 represents the expiration of grace periods and could pose problems for RMI.

Table 12: External debt and debt servicing

(US$ millions)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
External Debt Total											
New	10.1	10.4	9.2	5.0	6.1	1.0	9.8	12.0	-	17.0	3.1
Outstanding	100.5	94.5	78.9	86.2	94.1	92.8	101.9	111.7	99.1	95.6	106.8
Debt Service	22.0	27.8	3.5	3.2	3.7	4.5	6.4	16.8	7.5	7.8	9.2
Principal	18.3	25.0	1.6	1.2	1.4	2.0	3.1	13.2	4.2	4.7	5.6
Interest	3.7	2.8	2.0	2.1	2.3	2.5	3.3	3.6	3.3	3.0	3.6
Principal balance	93.3	78.9	87.1	90.0	94.7	92.1	99.7	99.1	94.6	106.8	104.7
External debt (adjusted) as % of GDP	84.1%	68.6%	69.8%	70.9%	72.2%	66.9%	69.6%	66.2%	62.0%	70.4%	64.3%
Debt service as % of general fund revenues∗	80.0%	96.2%	10.1%	8.8%	11.7%	14.1%	19.9%	48.7%	21.7%	23.1%	26.3%
Memorandum of items											
Debt to ADB (all concessional)	37.5	46.8	56.0	60.9	62.6	63.1	63.0	61.7	60.6	58.8	56.7
ADB Debt Servicing	0.3	0.4	0.5	0.6	1.1	1.4	1.1	2.2	1.9	2.6	2.9
Interest	0.3	0.4	0.4	0.5	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Principal	-	0.0	0.0	0.1	0.2	0.5	0.3	1.3	1.1	1.8	2.1
General Fund Revenues	27.5	28.9	35.0	36.8	31.5	31.9	32.2	34.5	34.7	33.7	34.9
ADB Share of General Fund	1.0%	1.4%	1.4%	1.7%	3.5%	4.4%	3.5%	6.3%	5.6%	7.7%	8.4%
GDP	110.9	115.2	124.7	126.9	131.1	137.6	143.4	149.7	152.6	151.6	162.9
Export of Goods and Services	25.0	23.0	25.5	29.3	29.6	33.7	28.1	28.3	30.4	31.3	43.5

∗General Fund revenue = uncommitted Governmentrevenue available for debt service

Source: Department of Finance and Administration and EPPSO estimates

[12] This lower proportion of external debt to GDP is explained by the steady rise of GDP over the period. According to EPPSO projections, RMI shall pay off the totality of its debts by 2038.

Recommendations:

(i) RMI should privatise some of the SOEs that are draining most of the resources and only borrow money for essential infrastructural projects and public services.

(ii) Some of the infrastructure projects should be funded through public-private partnerships.

2.7 Fiscal Policy

The fiscal position in RMI is largely influenced by Compact funding. Under Compact 1, the Government received funds to support general Government activities and these funds were largely unrestricted. The Government also received special grants which were tied to specific sectors and had access to U.S. special and federal programs. There were two step-downs in FY1992 and FY1997, and an increase in funding in FY2002–FY2003 at the average levels of the first 15 years. As seen above, these step-downs and the bump-up funds affected economic growth and the economic trends were merely following the fluctuations in Compact funding.

The Amended Compact which entered into force in FY2004, ushered a new fiscal framework which entailed a series of sector grants earmarked for education, health, environment, private sector development, capacity building and infrastructure. It also introduced a Trust Fund, which was designed to provide a yield sufficient to replace the annual grants after 20 years.

Table 13 shows that each year, over a 20- year period, the United States will contribute to the RMI $57 million, partially adjusted for inflation. In 2004, the annual sector grants started at $35 million but will be reduced annually by $0.5 million. The difference between the total contribution and the annual sector grant levels will be deposited in the Trust Fund to accumulate over the 20-year Compact period. In addition to the sector grants and Trust Fund, the United States will contribute $15 million a year for Kwajalein impact to the Kwajalein landowners. The United States agreed to contribute a further $5 million to the RMI in FY2014, $2 million of which would be added to the annual sector grants and the remaining $3 million would be used for Kwajalein impact.

Table 13: U.S. Annual Compact Grants and Contributions to the Trust Fund, FY04-FY23

	Annual Sector Grants	Trust Fund Contribution	Kwajalein Impact	Total Contribution
FY04	35.0	7.0	15.0	57.0
FY05	34.5	7.5	15.0	57.0
FY06	34.0	8.0	15.0	57.0
FY07	33.5	8.5	15.0	57.0
FY08	33.0	9.0	15.0	57.0
FY09	32.5	9.5	15.0	57.0
FY10	32.0	10.0	15.0	57.0
FY11	31.5	10.5	15.0	57.0

FY12	31.0	11.0	15.0	57.0
FY13	30.5	11.5	15.0	57.0
FY14	32.0	12.0	18.0	62.0
FY15	31.5	12.5	18.0	62.0
FY16	31.0	13.0	18.0	62.0
FY17	30.5	13.5	18.0	62.0
FY18	30.0	14.0	18.0	62.0
FY19	29.5	14.5	18.0	62.0
FY20	29.0	15.0	18.0	62.0
FY21	28.5	15.5	18.0	62.0
FY22	28.0	16.0	18.0	62.0
FY23	27.5	16.5	18.0	62.0

The annual reduction in real resources is estimated to be approximately 2% per annum. This will require active fiscal policy adjustments, unless RMI can develop a policy regime that will attract and encourage private sector investment and economic growth great enough to offset the decline. The Trade Policy will play a vital role in guiding RMI to use trade as an engine of economic growth and private sector development.

RMI and the US agreed that between 30% and 50% of the total Compact sector grant will be devoted specifically to infrastructure and 5% of the infrastructure grant must be set aside for infrastructure maintenance, and the RMI must contribute an additional 5% out of local revenues.
In FY2004-FY2008, the use of the minor sector grants for private sector development, environment, and public sector capacity building was minimal. There is also provision for the community needs of Kwajalein Atoll. RMI can also access federal programs with the exception of certain education programs, which were cashed out and have been replaced through the Supplemental Education Grant (SEG).

RMI also received about $10 million from RoC, of which $4 million was transferred to the General Fund and the remaining $6 million was available for special projects to be agreed upon between the parties. In FY2008, the contribution to special projects had risen to $12 million and was no longer strictly earmarked for development projects. However, when the fiscal problems increased, an increasing amount of the project money has been used for general activities, and, in effect, the project contribution simply augmented general fund revenues. RoC also agreed to transfer $50 million to the RMI over the period of the Amended Compact and $40 million of this will accumulate in the ―A account and $10 million in the ―D account. Funds in the A account may not be touched during the Amended Compact period, but RMI has the right to utilize the yield earned on the resources in the D fund once they have reached $10 million.

The Compact Trust Fund is an important component of fiscal policy. In FY2004, at the inception of the CTF, the RMI transferred $25 million to the new fund, coupled with the U.S. contribution of $7 million. However, despite some challenges in terms of RMI's contributions to the CTF, by FY2006, the RMI managed to make the final contribution of $2.5 million to the CTF through transfer of funds from the D account. In FY2006, the funds in the CTF stood at $63.1 million in the A account and $3.0 million in the D account. During FY2007, the U.S. made its annual contribution of $8.9 million, and the ROC contributed $2.5 million, of which $0.75 million was earmarked for the A account and the rest for D. At the end of FY2007, the balance on the A account stood at $83.9 million, after a bullish year on the U.S. stock market. In FY2008, the U.S. made an annual contribution of $9.7 million; however, RMI lost about $20.5 million due to the financial crisis. The delay in investments during the early years and the financial crisis raise doubts whether the CTF would meet the target for FY2024, at which time withdrawals from the Fund are to replace the use of the annual sector grants.

However, according to the 2010 Economic Review[13], RMI should focus on ensuring that there are sufficient funds in the Trust Funds in 2024 to allow a smooth and sustainable transition from Compact grants to annual Trust Fund distributions to the RMI. The authors project the terminal condition for sufficiency of the Trust Fund to be $748 million at the outset of FY2024. For RMI to beon track to achieve this, the Trust Fund performance should have reached $157.3 million in June 30, 2011 but the actual value was just $141.9 million. This means that a projected growth rate of 8.6% would be required to "catch-up". The authors argue that this rate of return still remains achievable but not guaranteed. They recommended RMI to mobilize additional contributions to the Trust Fund from domestic and external sources to support the RMI's long-term fiscal stability and sustainability.

Despite maintaining a balanced budget over the last few years as indicated in chart 5, the authors argue that the crisis in FY2008 and higher fuel prices precipitated a financial crisis at the MEC and this threatened the fiscal stability of the nation. They also argue that the existence of a priority list of creditors, difficulties in maintaining debt service obligations to the ADB, and the fact that RMI started using ROC project grants to fund operational expenditures, and the daily cash flow problems shows that RMI is facing fiscal challenges. This is exacerbated by the limited ability of the Government to borrow to finance the deficit, the fine balance between revenues and expenditures, and the high risk of insolvency in the SOE sector.

In keeping with the constitution, RMI is required to maintain a balanced budget. Fiscal policy in the macro-economic sense is thus executed only through the general fund because there is very little flexibility on other funds. Local Government expenditures constitute about 6% of national Government expenditures. Under the constitution, powers to raise taxes rest with the national government, but local governments may raise taxes provided the increase has been authorized by law. The Local Government Act of 1989 provides the framework and limits the powers of local governments to levy taxes in specified areas, notably sales taxes, licenses, and other indirect taxes. In FY2008, the local Government share of total domestic revenues amounted to 11%.

Table 14: RMI Government Finances, revenue and expenditure: 2000 – 2010

[13] Pacific Islands Training Initiative, 2011, Fiscal Year 2010 Economic Review, Graduate School, USA. [Accessed online May 2012 at www.pitiviti.org]

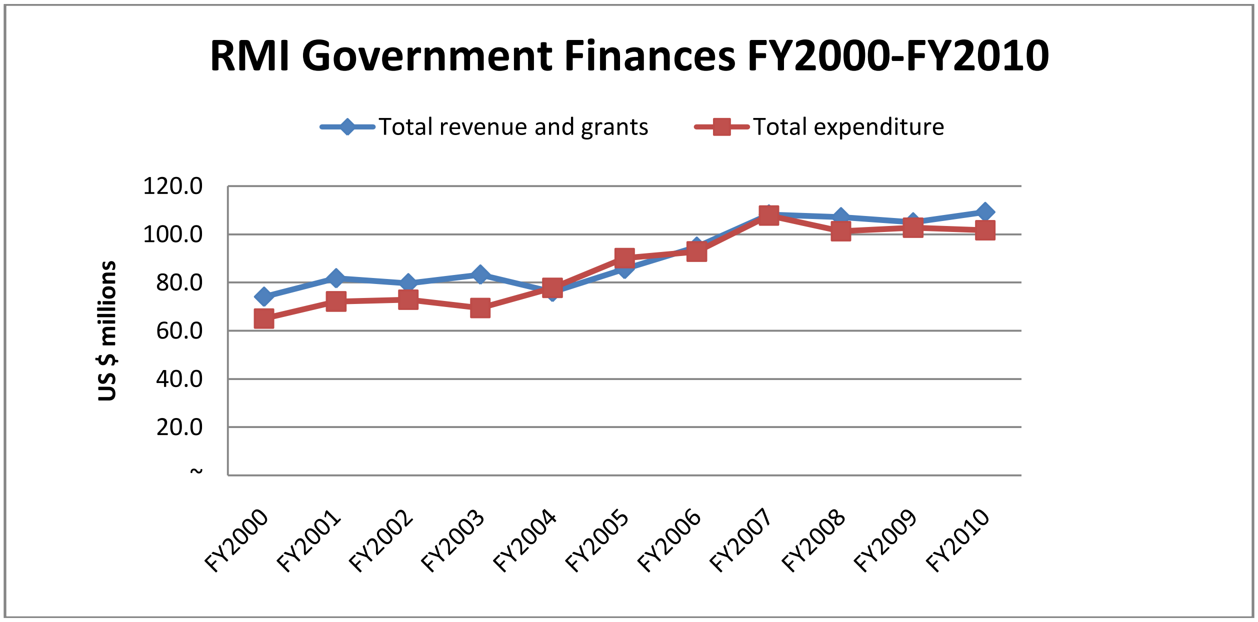
US$ millions	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	
Total revenue and grants	74.1	81.7	79.7	83.3	76.1	85.6	94.8	108.2	107.1	104.9	109.2	
Total domestic revenue	24.4	23.6	27.5	28.7	33.4	35.5	36.4	38.6	39.1	37.8	40.3	
Taxes	17.0	18.4	20.1	23.1	22.5	24.3	25.1	27.1	26.2	24.3	25.2	
Income	8.7	9.6	9.6	12.0	10.6	10.9	11.1	11.2	11.0	11.2	10.8	
Gross revenue	3.2	3.8	3.5	3.4	4.0	3.9	4.8	5.9	5.8	5.4	6.2	
Imports	4.5	4.5	6.3	7.0	6.7	8.8	8.6	9.4	8.7	7.1	7.7	
Other	0.6	0.4	0.6	0.6	1.2	0.6	0.6	0.6	0.7	0.6	0.5	
Nontax	7.3	5.3	7.4	5.6	11.0	11.2	11.2	11.5	12.9	13.5	15.1	
Fishing rights	3.7	1.8	3.3	1.7	0.9	1.4	1.5	1.3	1.5	1.5	2.0	
Social contributions (6)	~	~	~	~	6.3	6.2	6.4	6.3	6.9	6.7	7.2	
Fees and charges (2)	0.9	1.0	1.6	0.8	1.4	1.4	1.3	1.2	1.5	1.4	1.5	
Investment income	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.2	0.4	0.1	0.1	
Other	2.3	2.0	2.1	2.8	2.1	2.2	1.8	2.4	2.7	3.8	4.3	
Grants	49.7	58.1	52.2	54.6	42.6	50.1	58.5	69.6	68.0	67.1	68.9	
Of which: current grants	26.7	34.8	32.9	35.4	39.5	45.4	49.0	53.0	56.7	53.9	55.6	
Compact (3)	31.1	31.4	32.7	32.7	20.5	27.6	35.5	47.4	51.0	56.3	55.8	
Other	18.6	26.7	19.5	21.9	22.1	22.5	23.0	22.2	16.9	10.7	13.1	
Total expenditure	65.1	72.1	72.9	69.4	77.8	90.2	92.9	107.8	101.3	102.8	101.7	
Current expenditure	52.9	52.8	55.8	55.7	66.7	77.5	78.3	82.1	82.9	85.9	84.3	
Wages and salaries	17.4	18.7	21.5	25.6	30.1	32.8	34.1	33.5	34.2	34.3	35.0	
Goods and services	20.1	17.9	22.3	21.9	26.8	31.2	32.9	31.7	34.9	37.5	33.3	
Interest payments	2.0	1.5	0.6	0.9	0.8	0.9	0.9	0.9	1.3	0.9	0.9	
Subsidies to public enterprises	2.0	2.6	3.9	3.8	3.1	2.7	4.0	7.9	6.9	7.5	6.7	
Other subsidies and transfers	11.1	12.1	7.7	3.5	5.9	9.8	6.4	8.2	5.6	5.7	8.4	
Capital expenditure (4)	12.1	19.4	17.1	13.8	11.1	12.7	14.5	25.7	18.5	16.9	17.5	
Current balance	-1.9	5.6	4.5	8.4	6.2	3.4	7.0	9.5	12.9	5.8	11.7	
Overall balance	9.0	9.6	6.8	13.8	-1.8	-4.7	1.9	0.4	5.7	2.1	7.5	
Financing	-10.3	-9.6	-6.8	-13.8	1.8	4.7	-1.9	-0.4	-5.7	-2.1	-7.5	
Net Government debt repayment	-5.6	-14.8	8.6	4.1	2.1	0.5	-0.6	-1.7	-1.1	-2.2	-2.4	
Principal repayment	-16.7	-24.0	-1.1	-0.2	-0.2	-0.5	-0.7	-1.8	-1.1	-2.2	-2.4	
Gross borrowing	11.1	9.2	9.6	4.3	2.3	1.0	0.1	0.1	~	~	~	
Change in Government financial assets	-3.4	5.2	-15.3	-18.0	-0.3	4.1	-1.3	1.4	-4.6	0.0	-5.1	
Of which: Intergenerational Trust Fund	~	~	-17.5	-16.0	~	-0.3	-0.6	5.9	~	~	~	
(In percent of GDP)												
Revenue and grants	66.8	71.0	63.9	65.6	58.0	62.2	66.1	72.3	70.2	69.2	67.0	
Revenue	22.0	20.5	22.0	22.6	25.5	25.8	25.4	25.8	25.6	25.0	24.7	
Taxes	15.4	15.9	16.1	18.2	17.2	17.6	17.5	18.1	17.1	16.1	15.5	
Grants	44.8	50.5	41.8	43.0	32.5	36.4	40.8	46.5	44.5	44.3	42.3	
Expenditure	58.6	62.6	58.4	54.7	59.4	65.6	64.8	72.0	66.4	67.8	62.4	
Current	47.7	45.8	44.8	43.9	50.9	56.3	54.6	54.9	54.3	56.7	51.7	
Wages and salaries	15.6	16.2	17.2	20.2	23.0	23.8	23.8	22.4	22.4	22.6	21.5	
Goods and services	18.2	15.5	17.8	17.2	20.4	22.7	22.9	21.1	22.8	24.8	20.5	

Capital	10.9	16.8	13.7	10.8	8.5	9.3	10.1	17.2	12.1	11.2	10.7
Current balance	-1.7	4.9	3.6	6.6	4.7	2.5	4.9	6.3	8.5	3.8	7.2
Overall balance	8.1	8.3	5.4	10.9	-1.4	-3.4	1.4	0.2	3.7	1.4	4.6
(In percent of GDP)											
Memorandum items:											
Trust Fund Balances			15.9	32.9	72.7	56.5	71.9	88.8	79.4	96.6	119.6
Intergenerational			15.9	32.9	40.4	7.5	5.8				
Compact											
Closing Fund Balances	34.1	28.9	16.3	5.0	8.3	3.0	3.2	8.0	12.6	12.1	17.1
o/w Unrestricted financial assets (5)	2.8	1.5	2.7	0.8	5.3	1.6	1.4	0.8	1.9	3.4	4.0
Outstanding Government debt	89.4	49.6	58.2	62.4	64.5	66.1	66.9	68.8	69.8	72.0	74.5
ADB	37.5	46.8	56.0	60.9	62.6	63.1	63.0	61.7	60.6	58.8	56.7
MTN	22.6	-0.0									
Other	1.9	1.9	1.9	1.9	1.9	~	~	~	~	~	~
Government Guaranteed Debt	31.2	30.3	29.2	27.2	30.2	28.9	36.7	37.4	34.0	47.9	48.0
Total External debt	93.3	78.9	87.1	90.0	94.7	92.1	99.7	99.1	94.6	106.8	104.7
Nominal GDP	110.9	115.2	124.7	126.9	131.1	137.6	143.4	149.7	152.6	151.6	162.9
Sources: Government of RMI Audits											
1/ The fiscal year ends on September 30.											
2/ From FY04 onward figures include fees and charges related to the Ministry of Health's health fund.											
3/ Does not include Compact funds earmarked for Kwajalein rental payments and trust fund contributions.											
4/ Excludes \$10.4 million in FY02 and \$1.37 million in FY05 for loan write-offs.											
6/ In FY02 employer and employee contributions (7% of payroll) for health insurance were transferred from the Marshall Island Social Security											
Administration to Government. Only in FY04 did the audit capture these changes											

Source: Government of RMI audits

1. In FY02 employer and employee contributions (7% of payroll) for health insurance were transferred from Marshall Island Social Security Administration to Government. Only in 2004 did the audits capture these changes.
2. From FY04 onward the figures include fees and charges related to the Ministry of Health's Health Fund
3. Does not include Compact funds earmarked for Kwajalein rental payments and trust fund contributions
4. Excludes $10.4 million in FY02 and $1.37 million in FY05 for loan write-offs

Chart 4: Government revenue and expenditure, FY2000 - 2010



Source: EPPSO

In the 1990s, the Government pledged future Compact grants through bonds in order to avoid a financial crisis that was looming. It also implemented the Public Sector Reform Program (PSRP), with a loan from ADB and the major purpose was to restore financial stability, reduce expenditures, raise revenues, restructure the public sector, and initiate policies to improve the development of the private sector. There were huge cuts in payroll costs and subsidies to public enterprises. In 1999, the fiscal position was exacerbated by reduction in customs tariffs and excises on beer and tobacco in the run-up to the 1999 election. However when a new Administration took office, customs rates were increased to restore fiscal stability, although not to the full rates prevailing in FY1998.

In FY2002 and FY2003, the RMI entered the bump-up period. There was a temporal rise in Compact funds because the bond issues had been fully repaid and the Government decided to contribute some of the money into the Trust Fund.

During FY1997-2003, grants as a percent of GDP remained relatively stable averaging 44% and between 2000-2010, grants contribution to GDP remained the same averaging approximately 43%. In 2004, RMI did not have the absorption capacity to fully utilise the grants but this had improved in FY 2005, though there were still problems on infrastructure grants. However these problems have since been resolved and capacity of utilisation of grants has improved.

In 2010, grants as a percent of total revenues accounted for about 63%. There has been a little change in the level of dependency on external transfers as a percentage of both total revenue and GDP. The dependency on U.S. grants has fallen, but this has been offset by increased funding from the RoC. Tax revenues have averaged 17% of GDP since FY1997. Tax effort is above that of the FSM but below that of the majority of other Pacific Island economies and below the rate prevailing in the United States.

As indicated on Table 14 above, public expenditure averaged 65% of GDP during Compact II. The public sector in RMI plays a dominant role in the economy and this is supported by external assistance.

With regards to revenue, a major source of tax revenue is a tax on wages, accounting for $10.8 million out of a total tax yield of $25.2 million in FY2010, down from 11.2 out of a total tax yield of $24.3 million in 2009. Wage earners pay 8%, up to a threshold of $10,400, and above that, 12%. Those earning less than $4,160 are exempted from the income tax.

Customs duties are the second major source of tax revenue. In FY1998, $7.8 million of customs taxes were collected, and the general rate was 12% on merchandise. There were varying but lower rates on food products and high rates on alcohol and tobacco. The general rate of 12% was reduced to 5% in the run-up to the elections in FY 1999 and the rates on sin goods were also reduced. Tax revenue fell to $4.5 million in FY2000. However, tariff rates were adjusted by the new Administration to 8% and the rates on sin goods were also raised. In FY2003, customs taxes reached $7.0 million. New higher rates were imposed on sin goods in FY 2005 with the additional revenues earmarked for the College of the Marshall Islands (CMI).

However, the Government eliminated tariffs on certain basic foods, including rice, in response to the increase in world food prices in FY 2008. Duties on diesel used by MEC were also eliminated as part of the assistance and subsidy package to the ailing enterprise. Total customs collections reached $8.6 million in FY2006 and rose to $9.4 million in FY2007 but slid back to $7.1 million in FY2009 and 7.7 million in 2010, as the economy suffered the effects of the world recession.

The third major contributor to local revenue is gross receipts tax (GRT) which is levied at 3% of business turnover and is intended as a proxy income tax, although the incidence is comparable to that of a sales tax. Each sale from one business to another multiplies the tax yield and distorts resource allocation. In 2010 GRT was $6.2 million. Fish and fish products have been exempted from the GRT to enable the fishing sector to remain competitive on international markets.

RMI also imposes taxes on fuel and hotels but these do not contribute much to revenue. In FY 2002, the rate of contribution to the health care fund was increased from 2.5% of gross pay to 3.5% for both employers and employees, bringing the total to 7%. In FY2004, the funds were included in the audit for the first time and contributed $6.9 million to local revenues in FY2008. Domestic revenue also includes fishing fees and a variety of smaller fees, earnings on investments, etc.

Table 16 shows National Government costs by Department. During FY1997–FY2000, payroll costs were reduced through the implementation of the public sector reform. However, payroll expenditures increased when the revenue position improved as a result of new grants from the RoC, repayment of the bond issues, and bump-up years. The Amended Compact also allowed increased public servant recruitment in education and health. Total payroll costs increased from $17 million in FY 1999 to $31.2 million in FY2010. The decrease in FY2007 reflects the creation of the Marshall Islands Shipping Corp, whose function was previously executed through the Ministry of Transport and Communications. Wage and other costs of the Department of Transport are thus now funded out of a subsidy to the MISC.

Table 15: National Government wage costs (by department), FY2000 – FY2011

	US$000 (1)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
10	President & Cabinet	537	586	650	649	720	702	740	760	702	777	784	787
11	Chief Secretary Office	225	244	264	262	385	455	465	473	543	583	594	552
12	Special Appropriations	15	41	41	40	~	14	~	~	189	~	~	~
13	Council of Iroij	205	204	187	180	248	249	252	248	240	268	249	265
14	Nitijela	628	792	819	798	791	907	919	1,022	870	997	966	1,105
15	Auditor General	109	124	167	165	176	164	167	158	132	107	112	154
16	Foreign Affairs	788	743	781	756	723	800	762	841	826	866	879	833
17	Public Service Commission	267	250	257	258	331	323	334	342	346	342	370	374
18	Judiciary	345	376	480	479	547	520	529	578	574	516	457	518
19	Attorney General Office	263	321	357	442	459	474	479	462	424	422	443	519
20	Ministry of Education	4,087	4,290	5,775	5,953	8,015	8,010	10,444	10,500	10,857	11,139	11,405	11,749
30	Health & Environment	4,054	4,145	4,502	5,026	5,971	6,704	6,805	7,093	7,249	7,027	7,110	7,386
40	Transport & Communications	428	494	919	1,094	1,412	1,398	1,241	723	324	334	316	310
45	R & D	445	387	431	415	361	320	369	398	363	438	475	501
50	Internal Affairs	589	677	704	689	1,074	895	958	854	968	1,081	1,200	1,237
55	Justice	1,931	1,728	1,630	1,825	2,147	2,157	2,124	2,060	2,124	2,225	2,228	2,104
60	Finance	1,259	1,329	1,415	1,472	1,641	1,848	1,933	1,915	2,021	1,838	1,917	1,956
70	Public Works	434	1,172	1,230	1,267	1,172	1,156	1,200	1,117	1,166	1,174	1,106	1,056
75	Epa	~	~	~	~	223	274	288	282	295	287	281	309
80	Compact II Capital	~	~	~	~	42	51	98	96	91	132	134	162
	Total	**16,608**	**17,903**	**20,609**	**21,771**	**26,438**	**27,422**	**30,107**	**29,922**	**30,305**	**30,552**	**31,027**	**31,877**

1) Sum of gross salary and wages; does not include benefits

According to Table 14 above, expenditures on goods and services also increased from $18.2 in 2000 to $20.5 in 2010.

The level of current subsidy to the public enterprise sector has increased in the last few years. Table 16 below includes both the current operating subsidies and capital transfers i.e. equity injections. Air Marshall Islands has been a major drain on public resources, although the subsidies were significantly less in the last two years. The utilities, KAJUR and the MEC, have also been a drain on resources and cannot operate on a commercial basis at full cost recovery. MEC receives funds from the Government to maintain operations but other injections and advances are not included in the table below.

The Marshall Islands Shipping Corp. was created in FY2007 to supply shipping services to the outer atolls, an important element of RMI social policy. The Marshall Islands Resort has required significant injections of cash over the years to remain in business but generated an operating surplus in FY2005-FY2007, which turned negative in FY2008. Tobolar provides a way for Government to support rural incomes through subsidization of the copra price in the outer atolls.

Table 16: Subsidies to public sector enterprises (current and capital), FY2000 –FY2010, $000

US$000	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Air Marshall Islands	2,000	-	1,500	913	716	400	397	2,100	2,740	499	899
Kwajalein Atoll Joint Utilities Resources	2,030	550	1,825	3,104	1,253	1,470	2,081	3,821	3,585	3,432	1,549
Majuro Water and Sewer Company	100	100	1,465	155	155	235	226	395	1,258	347	318
Marshalls Energy Co. Inc.	-	-	1,867	1,867	205	400	1,470	874	356	3,370	1,825
Marshall Islands Airports Authority	50	89	--	--	--						
Marshall Islands Development Bank	50	970	995	165	207	194	347	249	249	250	24
Marshal Islands Ports Authority (1)	-	-	-	-	-	99	741	307	425	315	-
NTA	-	-	-	-	-	-	-	-	-	1000	1000
Outrigger – Marshall islands Resort	100	186	-	-	545	-	-	-	-	-	-
Marshall islands Shipping Cooperation	-	-	-	-	-	-	-	1,468	1,008	1,092	969
Tobolar	845	3,050	1,449	1,096	900	895	900	1,200	1,092	997	1,340
Total	**5,174**	**4,945**	**9,100**	**7,300**	**3,981**	**3,693**	**6,126**	**10,413**	**10,713**	**11,301**	**8,148**
Memo: Units treated as Government agencies in RMI economic statistics											
Majuro Atoll Waste Company	-	-	-	-	-	-	-	425	1,111	695	420
College of Marshall islands	Na	Na	Na	1,942	2,200	4,540	3,326	3,327	3,093	3,244	3,590

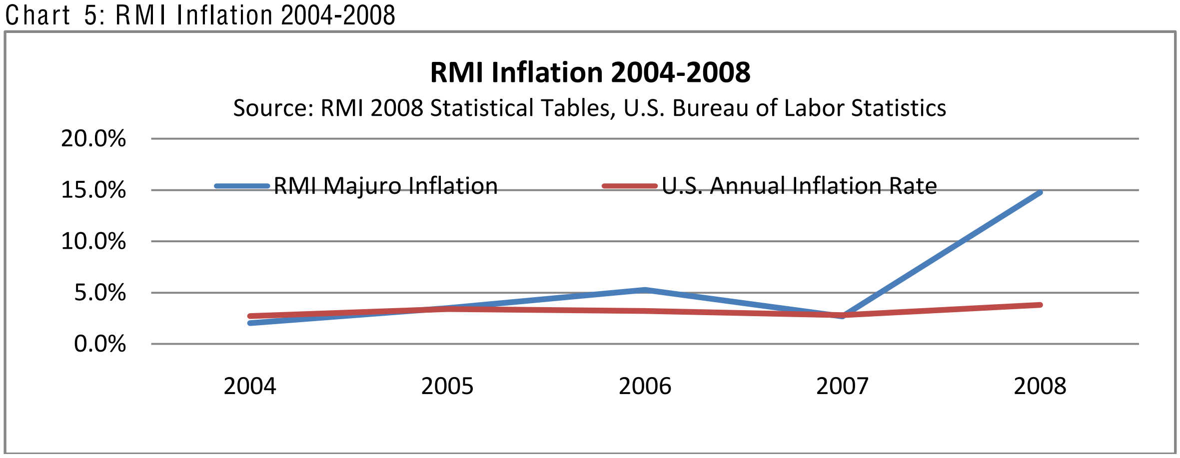
(current transfers from REPMAR)										
College of Marshall islands (capital transfer from REPMAR)	Na	Na	Na	Na	200	108	1,000	5,507	4,848	5,766	4,352

1) Excludes US FAA contributions to airport improvement projects

Source: Compiled from Government of RMI and selected Public Enterprise Audits. Data for earlier years may be incomplete.

According to chart 7 below, inflation has been relatively stable over the years, however, in Majuro, it increased to about 14.8% in 2008 as a result of the financial crisis. This shows the vulnerability of RMI to external shocks. The RMI economy is highly sensitive to regional and global inflationary trends because it imports most of the goods and services.

Chart 5: RMI Inflation 2004-2008



From the above, it is clear that Compact funds did not lead to the expected levels of economic development and self reliance. The funds were used to support a large public sector and this created disincentives to private sector development. Some of the funds were used to start business ventures which failed. RMI needs to learn from its past mistakes and use the Compact funds effectively to create an environment which is conducive for trade, investment and private sector development. More funding should be spent on infrastructure and private sector development to improve the services that are required by the private sector and provide all the support that is required by this sector.

Despite a huge injection of donor funding, RMI still faces major challenges including lack of adequate hotel and airport infrastructure; low freight capacities and poor inter-island shipping; inadequate transshipment facilities; limited pool of skilled labor. The business environment is also costly and there is poor provision of power, water, and other infrastructure services. The Government should use the available resources to address some of these challenges to create an environment which is conducive for trade and investment. If these issues are resolved, there are potential opportunities in agriculture, fisheries and tourism, especially the specialized niche markets such as high-end tourism, dock services and value adding in the fisheries industry.

3 TRADE POLICY BY SECTOR

As indicated above, the Compact funding has not led to the desired levels of economic growth and self-reliance. Performance in the priority sectors of agriculture, fisheries and tourism has been very weak. For RMI to achieve sustainable economic growth and development, it is vital to develop export competitiveness in agriculture, fisheries and tourism and the private sector must play a critical role in this process. This section reviews the developments in the three sectors and analyses the challenges that have inhibited trade in these sectors with a view towards rectifying the errors of the past and finding lasting solutions aimed at increasing production both for the local and export market.

3.1 Agriculture

Agriculture plays a vital role in terms of sustaining the living standards of people, particularly in the outer islands. The contribution of agriculture to GDP decreased from 4.5% in 1997 to 3.5% in 2010, while the contribution of fisheries increased from 4.5% to 10.8% over the same period. The contribution of tourism to GDP decreased from 5.4% in 2001 to 1.6% in 2010. A household survey conducted by EPPSO in 2006 showed that a large portion of rural households continue to rely on home production for own consumption (of 244 homes surveyed in Wotje, Jaluit, Arno and Likiep, around 80% kept and relied on home-grown crops such as breadfruit and pandanus), and well over half relied on copra as a source of income. The high prices of imported rice and other staple foods prompted the Government to reconsider and refocus efforts on strengthening basic food security.

However, the nature of agriculture activities in RMI is limited by the system of land ownership, where most of the land is owned traditionally and there is no large scale commercial farming. The land size is also too small to allow large scale commercial farming. The soil type, and the fact that RMI is prone to natural disasters does not allow mono-cropping. Very little has been done in terms of livestock production because of a number of constraints including lack of technical knowhow and the challenge of getting livestock feed amongst other things.

The main commercial agricultural activity has been copra, which is run by Tobolar with huge subsidies from the Government. There has been very little success in terms of value addition and Tobolar's performance has been very weak. However, RMI has been able to produce some vegetables for the local market and also some pigs and poultry on a small scale.

RMI has been importing more food products than it exports and this widened the trade deficit, which was largely financed by Compact grants and other grants. The consumption of less nutritious imported foods has contributed to life style diseases such as diabetes, gout, obesity and high blood pressure. RMI needs to promote the production of local foods to address some of these problems and also to ensure food security and export the surplus. Support should also be provided to develop new exports.

RMI should consider promoting the value addition in agriculture and produce items like nin juice, pandanus juice, breadfruit chips, flour and coconut cooking oil amongst other things. The Government should assist outer islands with the necessary infrastructure, education and training in food processing technology. Copra can also be processed into a number of products which will be discussed below.

3.1.1 The Copra Industry in RMI

The Tobolar Copra Processing Authority Act of 1992 provides for the establishment of a Statutory Authority to engage in copra processing and related purposes – specifically the management, operation and maintenance of all aspects of copra processing for the Marshall Islands. Tobolar is responsible for “all aspects of copra processing services for the Republic”. The first objective of Tobolar is to perform in a manner that will best meet the social, economic and political needs of the people of the Republic and to do so efficiently and economically. The second objective is to assure a continuing market for copra from the Republic and make it an economically productive commodity upon which the Republic can rely. The third one is to encourage private sector participation in Tobolar. Some of these objectives are beyond the control of Tobolar and it cannot realistically be expected to meet them. For example, Tobolar has no control over the price of copra or other products from copra and cannot assure a market for copra.

The 1992 Act establishes Tobolar as a statutory monopoly so that no other person or enterprise can engage in copra production, processing and marketing. The law requires all the producers to sell copra to Tobolar. The Licensing of Copra Trade Act, Chapter 1, Title 20 Business Regulations and Practice provides for the licensing of copra businesses in the Republic for the purchase of copra for export, and a license is required to export copra. However, a license is not required for the purchase of copra that is to be processed into products destined for export. RMI has not been exporting copra for a number of years because of the decline in world prices.

Pacific International Inc. (PII) used to manage Tobolar since 1970 and the Government was paying a management fee of $50 000 per year. However, in December 2009, the management of Tobolar reverted back to government. Some of the products that it produces include crude coconut oil and copra cake. Copra from outer islands is brought by Government ship and Tobolar pays price of copra, commission for getting copra and stevedore charges. In 2010, the price of copra in the outer islands was 15 cents per pound and 16.5 cents in Majuro. In the past, it used to be 22 cents per pound and 26 cents respectively, but was affected by a global decline in oil prices. According to an ADB report on copra trade in RMI[14] (2005), a copra price of at least 20-22 cents per lb would be needed to double copra production in the outer islands. A copra price of 25 cents per lb could see people leave their jobs in Majuro and return to the outer atolls and islands to make copra.

Tobolar has been receiving about $1.2 million in subsidies per year, but in 2009, it only received $500.000 and this led to a big drop in the price of copra. Tobolar received a loan of $1 million from the bank of Guam to sustain the price of copra.

According to the ADB report, it is clear that the copra industry has not been performing well. Copra trade is essentially a commodity trade that is vulnerable to the vicissitudes of the fluctuations in the global market. RMI has very small production of copra and does not have economies of scale when it comes to the copra business. Like all commodities, the international copra trade has been declining and the returns to producers in the outer islands have also been decreasing forcing some people to migrate to Majuro or Ebeye. The Government has been subsidizing the price producers receive for copra purchased by Tobolar and the transportation costs in order to promote development in the outer islands.

Despite all the subsidies that are provided to the copra industry, in 2005, copra production contributed about 1% to GDP, averaging about 4,244 tonnes per annum (2000-2005). This is a very tiny contribution to world copra trade or crude coconut oil trade. Copra production decreased from 7,182 short tonnes in 2008 to 5405 short tonnes in 2010.The other problem is that RMI has no adequate quality standards on copra and the quality of RMI products is low compared to other countries. In the past, exports of copra cake to the US were rejected because of poor quality, however, a new market has been found in Australia.

The world prices for copra have been declining for the past 50 years and continue to do so. The price of coconut oil also fluctuates and competes with other edible oils. Production of copra in RMI also depends on the price and the efficiency of the shipping services. According to the 2005 ADB report, production levels can be relatively easily increased to 8,500 tons but for this to occur, a copra price of 20-22 cents per lb will be needed along with a much improved shipping service. Tobolar normally runs below capacity because of shortage of copra.

From FY 2000-2010 the average income from export sales of coconult oil and copra cake averaged $2 million per year. Tobolar’s total costs of production average about $1.7 million before product inventory valuation adjustments of minus $0.5 million. The average annual copra

[14] ADB 2005, *Conduct of the Copra Trade and Outer Island Shipping Services in the Marshall Islands.* Report done by Mcgregor and Company

price stabilisation subsidy has been $1.2 million over the same period. The outer island shipping subsidy has averaged $125,000 in recent years and the annual cost of the Marshall Islands Shipping Corporation from 2007 to 2010 has been about $1.1 million.

The Government provides a direct subsidy towards the shipping of copra from the outer atolls and islands to Majuro. General cargo receives this subsidy too. According to the 2005 ADB report, the subsidy payment was, and still is not linked to cargo or even copra carried. So vessels with a copra cargo capacity of 101 tons would receive $30,000 per voyage, regardless of the amount carried. If only 50 tons were carried, the effective freight carried or the freight subsidy will be $600 per ton. Similarly, a vessel with a 250 ton capacity (like the Mercy K) would receive $30,000 per voyage regardless of where the ship sailed and the quantity of copra cargo carried. If, for example, the ship loaded 150 tons of copra this will be equal to a freight subsidy of $200 per ton. The less cargo carried the greater the subsidy on a $ per ton basis.

According to the ADB report (2005), the RMI Government subsidizes the copra industry and shipping to the tune of $2.9 million per year. This is the equivalent to 34 cents per lb, which is almost three times the outer islands posted price for copra of 12 cents per lb. The main beneficiary of these subsidies was the Sea Transport Division and its employees, suppliers, which, spread across the whole copra industry, amounts to 21.8 cents per lb (i.e. on every ton of copra produced). The next major beneficiaries are the outer island copra producers who receive 8.2 cents per lb. The third class of beneficiaries are the employees of and suppliers to Tobolar, who receive the equivalent of 5.9 cents per lb. Private ship operators are the fourth class of beneficiaries and altogether (and spread across the industry) receive 1.5 cents per lb.

The ADB report noted that neither the copra seller nor the buyer (Tobolar) is directly involved in determining shipping arrangements. However, the Tobolar Board sets the copra freight rate that bears no resemblance to ship operating costs. The outcome is that the domestic shipping service is not a consequence of copra trading requirements and so does not satisfactorily support the copra trade. The other problem that affected Tobolar is that there were cash flow problems that appear to be the result of the tardy administration of subsidies on the part of the Ministry of Finance. In the past, there have been delays in the Ministry of Finance in paying the Ministry of Transport and Communication –STD and Tobolar has been slow in providing funds to onboard merchants to purchase copra because the subsidy for price stabilization would not have been paid to the company.

The report recommended that copra sales must be conducted on a proper f.o.b or c.i.f. basis that includes a sea freight rate reflecting private sector ship operating costs. It also recommended that the shipping subsidy be terminated. The argument was that, subsidies make it difficult for non-subsidized operators to compete with subsidized operators. The main issue however is that there is no traffic (cargo and passenger) nor revenue density to support a financially self sufficient shipping operation and that is why the Government has been providing subsidies.

Direct subsidy payments include:

- cash operating subsidies (copra price stabilization subsidy) paid to the miller and processor (TCPPI)
- an outer atoll and island shipping subsidy that is managed and administered by (MoTC) and paid in one way or another to private ship owners and operators for the transport of copra
- capital grants paid to TCPPI, the processor

Indirect payments or benefits-in-kind that are received by participants in the copra trade include:

- tax concessions for the copra producer (Tobolar is exempt from all taxes, Government charges, fees, duties on imports)
- exemption from Majuro port charges, wharfage, etc… for vessels involved in the discharge of copra at Tobolar's wharf facility
- the provision of shipping services to the shippers of copra at a cost (freight rate) considerably lower than the cost of the services provided

The effect of these subsidies is to: make the price paid for domestic shipping services lower than they otherwise would be, increase the income of the copra processor, enable Tobolar to undertake plant developments that otherwise would not be undertaken and increase the income of copra producers, especially in the outer atolls and islands.

Table 18 below shows the situation of copra and shipping subsidies. In 2006, the total subsidy given to the Ministry of Transport and Communication was almost $2 million.

Table 17: Situation of copra and shipping subsidies, FY02-FY06

RMI Expenditure Budget : Copra & Shipping Subsidies							
Serial Fiscal Year	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
1. Copra Price Stabilisation Subsidy	800,000	n/a	954,235	650,000	900,000	900,000	900,000
2. Ministry of Transportation & Communications							
3. Outer island Transport Subsidy	$180,000	$180,000	$180,000	$120,000	$120,600	$160,600	$150,000
4. MV Jabake				98,448	153,261	140,970	
5. MV Ribuke				$121,591	$186,586	$218,225	$218,225
6. MV Landrik				$153,982	$194,491	$228,615	$228,615
7. MV Litakboki				$153,902	$195,207	$259,445	
8. MV Aemman							$259,445
9. MV Boken Leb				90,283	124,789	142,576	142,576

10. Jeljelat Ae					$136,560	130,891	
11. Total Vessels	n/a	n/a	n/a	618,286	990,974	1,120,722	848,861
12. Landing craft					112,315	275,685	
13. Other Sea Transport Division					583,924	354,278	362,352
14. Total Sea Transport Division	n/a	n/a	510,206	618,286	1,687,213	1,750,685	1,211,213
15. MoTC Total	$502,000	n/a	$1,150,202	$1,191,371	$2,527,141	$2,547,073	$1,997,001
16. Total Government Expenditure (actual)		26,514,427	33,804,531	36,435,920	29,233,989	n/a	n/a
17. Tobolar cash operating subsidy (actual)	845,000	1,849,964	949,464	1,095.75	1,218.661		
Source: MoTC, TCPPI, actual RMI expenditure Statistical Yearbook 2004, (n/a = not available)							

Table 19 below shows the copra production from 1951-2010 and the average producer price per ton, as well as the total income for producers. The biggest copra production was recorded in 2008 when a total of about 7,000 mt were produced. The annual average quantity of copra production for the past 50 years has been about 5,000 tons per annum. Production levels and prices have been fluctuating over time.

Table 18: Copra production, average producer price and income to producers: 1951-2010

	Total Production (Short Tons)[1]	Average Producer Price Per S.Ton	Total Producer Income ($,000)
1951	4,980	84	418
1961	6,060	126	764
1971	5,344	154	823
1981	5,760	171	985
1991	4,213	155	653
2001	5,256	187	949
2002	2,653	180	478
2003	4,283	240	1,027
2004	4,868	240	1,186
2005	4,908	240	1,178
2006	4,646	240	1,115
2007	6,053	299	1,810
2008	7,182	439	3,153
2009	6567	440	2889
2010	5405	379	2046
Source: Tobolar Processing Plant and EPPSO			
Note: Short Ton=0.984, Metric Ton=907.2 Kgs.			

In 1997, copra contributed about 56% to household monetary income, but this declined to about 37% in 2004. However, the contribution of fishing increased from 14-20% and the contribution of handicraft increased from 24-30% over the same period. The contribution of household income from copra production to GDP decreased from 2% in 1997 to 0.9% in 2004. However, the contribution of household income from fishing and handicraft to GDP averaged 0.5% and 0.9% for fisheries and handicraft respectively over the same period.

Table 19: Gross Domestic Product and Copra Production

Gross Domestic Product and Copra Production									
Fiscal Years	1997	1998	1999	2000	2001	2002	2003	2004	Mean
									2000-04
Household Monetary Income									
Copra production	2082	821	1,007	1183	949	478	1027	1186	965
Fishing	523	558	571	558	558	576	817	860	593
Handicrafts	899	954	980	954	954	989	1060	1134	1018
Other	200	209	216	222	230	238	237	244	234
Total household Income	3,884.00	2,540.00	2,774.00	2,915.00	2,689.00	2,281.00	2,941.00	3,224.00	2,810.00
Total All Operating Subsidies	2,308	2,839	1,368	1,993	2,609	3,594	2,277	1,227	2,340
Gross Domestic Product	101,898	101,219	101,810	108,285	111,188	118,589	123,261	130,943	118,049
Household Monetary Income %									
copra production	56%	32%	36%	41%	35%	21%	35%	37%	34%
Fishing	14%	22%	21%	19%	21%	25%	21%	20%	21%
Handicrafts	24%	38%	35%	33%	36%	43%	35%	35%	36%
Other	5%	8%	8%	8%	9%	10%	9%	8%	8%
Total Household Income	100%	100%	100%	100%	100%	100%	100%	100%	100%
Household Monetary income as % GDP									
Copra production	2.00%	0.80%	1.00%	1.10%	0.90%	0.40%	0.80%	0.90%	0.80%
Fishing	0.50%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Handicrafts	0.90%	0.90%	1.00%	0.90%	0.90%	0.80%	0.90%	0.90%	0.90%
Other	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Total household Income as % GDP	3.60%	2.50%	2.70%	2.70%	2.40%	1.90%	2.40%	2.50%	2.40%
Total subsidies as % GDP	**2.30%**	**2.60%**	**1.30%**	**1.90%**	**2.30%**	**3.00%**	**1.80%**	**0.90%**	**2.00%**

Source: EPPSO, RMI Yearbook 2004.

According to the 2005 ADB report, the producer or local merchant in outer islands sells copra (f.o.b) to on-board merchant and ownership of copra passes to the merchant. The copra is then transported to Tobolar, which buys copra in Majuro (c.if.). The on-board merchant can also sell delivered excluding shipment to Tobolar Majuro and ownership passes to Tobolar on dock. Tobolar is responsible for paying freight but has no influence on the schedule of ships. The on-board merchant holds the risk but has no control on shipping. The Ministry of Finance pays a copra stabilization subsidy directly to Tobolar as an operating subsidy. If Tobolar does not have the cash flow to pay the freight or advance funds to on-board merchants no ship sails. The Ministry of Finance also pays a shipping subsidy after the voyage is completed.

Lack of scheduled shipping hinders the copra trade and other aspects of outer island life because growers would prefer to have six annual visits that are on-time rather than eight annual random visits. The freight rate is presently $56.25 per ton. It is understood that the freight rate is set by the Tobolar Board and not the ship operator in negotiations with the shipper. Shipping is now controlled by Marshall Islands Shipping Company, which has three big boats, and the situation has reportedly improved.

It is important to note that Tobolar has the capacity to process 13,728 tons per year, more than three times current production levels. The problem is a shortage of copra and random and unreliable shipping. Tobolar's output indicates that about 60% of its copra intake is converted to crude oil, 33% is converted into copra cake, about 1% is presently distilled into bio fuel and about 1% is turned into soap. Tobolar also lacks new technology and has not been able to innovate and add value. These are some of the issues that have affected the performance of the company.

3.1.2 The Global Trend in the Coconut Industry

The Asian and Pacific Coconut Community (APCC) is an intergovernmental organisation of 17 member countries, including the Marshall Islands, established in 1969 to promote, coordinate and harmonise all activities in the coconut industry[15]. More than 90 countries produce coconut and the main producers are Indonesia, the Philippines and India. PNG is the largest producer in the Pacific, while Brazil is a major grower in Latin America and Tanzania a major grower in Africa.

In 2003, APCC members accounted for about 84% of copra production representing about 11.3 million tonnes and world production was about 13.5 million tons. The top copra producers were India (25%), Indonesia (24%) and Philippines (21%), accounting for about 70% of total world production. The Pacific region produced about 559,000 tons, accounting for only 4% of total world production and half of that was supplied by PNG.

According to 1998/9 data from the APCC, the main producers of crude coconut oil were the Philippines, Indonesia and India together accounting for 74% of production. The only significant producer in the Pacific region is PNG (2% of world total). India is not a major exporter but the Philippines and Indonesia export about 75% of their coconut oil and this account for over 80% of

[15] The APCC member countries include: Federated States of Micronesia, Fiji, India, Indonesia, Jamaica, Kiribati, Malaysia, Marshall Islands, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, and Vietnam. Jamaica is an associate member of the APCC. http://www.apccsec.org

world export volumes. In 1998-99, export volumes of coconut oil were about 2 million tons and the export market was completely dominated by the Philippines and Indonesia. The bumper crops and oil production volumes have a significant effect on export market prices and this affects the viability of small producing countries, like the Marshall Islands, to successfully export (crude) coconut oil.

The EU and US are the major consumers of coconut oil[16]. Copra meal (cake) is used mainly for agricultural feedstock.

The international prices for all coconut based products has been decreasing over the years mainly as a result of a combination of oversupply and substitute (competing) products – for coconut oil such as palm oil, soybean oil, sunflower oil and rapeseed oil[17].

Table 20: World market prices in USD/T in 2010

	March 30	March 29
Sun oil, EU. Fob	930 Ap	930 Ap
Rapeseed, EU, cif. Hbg.	419 Ap/Je	419 Ap/Je
Rape meal, Hbg. ex-mill	212 Ap	213 Ap
Palm oil, crude, cif Eur.	822 Ap	822 Ap
Coconut oil, cif Rdm.	890 Ap/My	880 Ap/

According to the UN Food and Agricultural Organisation (FAO), the decline in copra prices has not been limited to the coconut industry only but has also been a feature of the cocoa, coffee, rubber, sugar and rice trades. The drop in the price of copra trade led to a switch from copra trading to coconut oil trading. By 1990 copra prices were so low that the anticipated return from copra was lower than labour and other costs so that coconut was no longer considered a remunerative cash crop in many small Pacific nations. The prices for coconut oil and copra meal have also been fluctuating. RMI was also affected by these prices swings.

3.1.3 RMI's Exports of Coconut Products and the Future of the Coconut Industry

The above section highlighted that the RMI copra industry is very complicated and is heavily dependent on subsidies for both the copra prices and transportation. Even though when the industry was run by a private operator, it has been difficult for it to be competitive because of the fluctuation in the global prices of coconut products. This section looks at RMI's exports of coconut products and assesses how the country has been performing, including challenges affecting the survival of the industry.

---

[16] http://www.foodmarketexchange.com/datacenter/product/fruit/coconut/detail/dc_pi_ft_coconut0902.htm

[17] The latest prices of coconut oil can be found on the oil world website http://www.oilworld.biz/. In April 2010, the price for coconut oil was $890/MT (c.i.f Rdm).

It should be noted that Tobolar (through TCPPI) has been exporting coconut crude oil and copra cake. In 2008, exports of crude coconut oil and copra cake were about $4.4 million. Copra meal, used for animal feed (especially horses), goes to Australia at $160 per metric ton (mt). Copra meal is also sold to farmers locally[18]. The export revenue from the sale of crude coconut oil and copra cake is lower than the cost of supplies to Tobolar, and without a price stabilisation subsidy would provide a gross return to growers of less than 5 cents per lb.

By August 2009, Tobolar had exported about 3,200 mt and the price was $635 per mt (c.i.f) and the total amount was about $2 million. In 2008, Tobolar exported 2,000 mt of oil at $1,450 per mt (f.o.b) amounting to $2,8 million. The exports for 2007 were about 2,400 mt of crude coconut oil at $765 per mt (c.i.f) and the total received was $1.8 million. Export of coconut oil is also facing stiff competition from soya and peanut oil. As indicated above, India, Indonesia and Philippines are major producers of coconut oil and they often hold their oil in large volumes and sell it when the price is good following which the price drops suddenly. However, Tobolar has no capacity to store large volumes of oil and sell when the prices are good because it can only store 3,000 mt per year.

With regards to the future of the industry, the Government is looking at a bio-fuel project and the coconut oil is expected to be used to run the generator and vehicles, with the ultimate objective of reducing diesel imports. The Government believes that the bio-fuel project may allow it to maintain the price of copra regardless of global market prices. Coconut oil can be mixed with diesel to avoid clogging or wearing the engine. The ratio is normally 70 percent diesel and 30% coconut oil. Vanuatu's power plant for instance runs on diesel oil, however, when the electricity consumption reaches more than 75 kilo watts, the coconut oil kicks in. The Government of Vanuatu is trying to save money for power generation through this arrangement and the savings are used to reward the farmers. The farmers are contracted to supply copra per year in order to reduce carbon emissions and import of diesel by the government.

RMI should consider adopting some of the practices that Vanuatu is using to produce power so as to cut the import of diesel and provide more income to the producers. Furthermore, Guam is in the process of introducing a charge/tax on all liquid fuel that is transhipped through its territory to neighbouring Micronesian countries and this might have some consequences on the price of fuel in RMI, further impacting on other costs. This further stresses the need for increased production of, and reliance on coconut fuel as a means to circumvent additional costs.

The price of coconut fuel in 2010 was $2.95 per gallon, and Tobolar has the capacity to produce about 15 000 gallons of coconut fuel per month. However, Tobolar is still facing cash- flow problems and this makes it difficult for it to buy copra in outer islands. To this end, the

[18] However, the data on copra meal exports was not readily available from Tobolar.

Government is planning to put a mobile bank on the ship and the Bank of Marshall Islands is willing to facilitate this arrangement.

It was also noted that Tobolar wants to focus on adding value to coconut products and adopt a zero waste coconut processing strategy. For example, the husk can be used to produce fibres for ropes, rags, bags and coconut peat. Other products that can be manufactured include charcoal, fuel, carbon for filtering water, bottled coconut water, vinegar, and coconut sugar. The meat of fresh coconut can be used to manufacture virgin coconut oil. Senile coconut plants can also be used for construction timbers for housing, high quality furniture, and high quality flooring especially in the export markets.

Some of these activities can be done in the outer islands and the Government can facilitate private sector participation through a pilot project. Interested individuals in the private sector can use their own machines to produce oil to run their boats. Excess oil can be sold to Tobolar. The Government needs to look for a grant to undertake the pilot project on coconut value addition and once it is successful; it can be run on a commercial basis and be used as a model in other outer islands.

RMI can also benefit from what other countries are doing in the coconut industry. For example, in FSM, the Coconut Development Authority (CDA) in Pohnpei is running a pilot virgin coconut oil project. The CDA also produces jam, coconut milk, virgin oil and ice cakes. In Fiji there are a number of private companies that process coconut products into a number of different products. The US is a lucrative market for virgin coconut oil. The other potential markets are Japan and Germany. Coconut oil is special because it is healthy and can also be used for body massage and as a fragrance.
However, before any projects are undertaken, it would be crucial to first assess the viability and sustainability of the project to avoid a situation where the Government will end up channelling money into a project that has no prospects of success as is the case with Tobolar.

3.1.4 Other Agricultural Products

Aside from the coconut industry, RMI has potential to produce small quantities of other vegetables as well as nin and pandanus products. However, the R&D has not done much on livestock because it has been concentrating on crop production. The objective of the Agricultural Division is to assist farmers to manage soil fertility and increase crop production. The Laura Farmers Association has about 102 farmers but only 82 are active. The Association has been conducting workshops on farming.

The Republic of China (RoC) has been assisting RMI to grow vegetables. It has four extensions and distributes seeds, fertilizer, sprayers and recordings. However, some farmers have been complaining that the Taiwanese farmers are now competing with local farmers instead of teaching the locals to grow vegetables. It was noted that when the Taiwanese farmers bring products to the market, the prices drop suddenly and this affects other small farmers.

Farmers also face marketing constraints and need support in terms of post harvest handling of products. However, some of the farmers have been selling their products to some restaurants and fishing boats. For example, Marshall Islands Resort (MIR) was willing to buy vegetables from farmers every month but there were problems in terms of consistency in supply and quality of the products. Some local citizens expressed concerns that instead of supplying seedlings and assisting farmers, the Taiwanese farmers were keeping the seedlings to themselves because they also want to grow vegetables and supply MIR. However, others were concerned that if the Taiwanese farmers go back, farmers will face problems in terms of accessing seedlings.

Some of the vegetables/crops that are produced include cabbage, radish, cucumbers, water melons, egg plants, corn, papayas and green beans. Cucumbers and tomatoes have better returns. Other crops and vegetables including noni and pandanus are also being produced mainly for local consumption. The average price for local vegetables is about $1.00 per pound but imported vegetables cost about $2.00 per pound. However, there is no accurate data on the quantity and value of vegetables that are produced.

The other problem in RMI is that about 30% of the population have basic education with most farmers needing assistance to apply for grants and loans. Furthermore, the loans that are provided are too small ($800-1000) and farmers are not able to do much with such amounts. It was also noted that some of the people leave for the US without paying back their loans. The other challenge is that most of the farmers do not engage in farming as a business. They do not re-invest in business and they easily become bankrupt because of lack of the relevant skills to manage finances. This is exacerbated by too many social obligations.

Farming in RMI is challenging mainly because the soil is not fertile and even though composting has been introduced, the pH level is very high (7) and not good for plant nutrients. The Environmental Protection Agency law also prohibits farmers from using commercial fertilizer. However, it was pointed out that the Taiwanese farmers use fertilizer and spraying. Some farmers have tried to use copra cake to produce compost but it takes about three months to get the compost ready. Farmers are also using organic manure, which is being sold at $1.00 per bag but a small amount of fertilizer is needed even if organic manure is used. Chicken manure is also being used.

Although it is estimated that agriculture contributes about 3.5% to GDP, there is no disaggregated data on this. In addition to the other issues highlighted above, the key challenges include logistics, marketing, lack of farming skills, lack of economies of scale, limited arable land and lack of coordinated policies. All these factors make it difficult for RMI to produce its own agricultural food products. It is estimated that agricultural products constitute about 20% of total imports. Anecdotal evidence suggests that many people are moving away from local foods and prefer imported products, some of which are not good for health. Some of the measures that were taken to improve food security include the annual leadership meeting with local government, outreach programs, ROC technical mission to provide free seedlings and assistance to farmers as well as subsidies.

The Government needs to support farmers to grow local food products to ensure food security and address some of the health problems that are associated with the consumption of unhealthy imports. There is also a need to gather data on agricultural production, as well as imports and exports of agricultural products to assess the scope for import substitution, where feasible.

RMI needs to develop the capacity to supply the local markets first and consider supplying niche overseas markets. Investments in agriculture should be encouraged and the cargo services for export of agricultural produce must also be improved. Quarantine issues need to be addressed to ensure that no injurious pests and diseases are introduced. Exporters also need assistance to comply with export requirements. There is also a need to improve the training facilities and research in agriculture. The Government should encourage synergies in agricultural production and ensure that the vessels collecting copra can also collect nin and bring it to a central place for processing. The Government also needs to assist farmers to form associations and work together to be able to produce products in reasonable quantities and in a consistent manner. The Government should also promote foreign investment in agriculture and explore the possibilities of contract farming. It was also noted that the Japanese market needs most agricultural products in good quantities and on a regular basis but RMI does not have the capacity to supply.

The other reason why commercial agriculture is not developed is because farmers perceive the returns from agriculture to be very low and slow to materialize compared with other activities such as fishing, tourism, handicraft and non-traded services and Government employment. Skewed wages in the public sector which are inflated by Compact assistance has turned the terms of trade against agriculture and makes agricultural production less attractive. Lack of interest in agriculture and the land tenure system have also adversely affected commercial farming.

The other limitations to increasing agricultural exports include infrequent transportation links, insufficient freight space in air-transport (priority is given to passengers) and high freight costs, uncertainty in shipment schedules, low volume of locally produced goods, inconsistency in the supply of these goods, and the limited knowledge and skills of local producers. Some of the constraints to agricultural production and exports include disconnections between producers and buyers, lack of meaningful incentives to stimulate investment in the agriculture sector, stringent quarantine and standards requirements from the importing countries and inadequate local consumption attitude.

It was also noted that commercial agriculture is a high risk business due to variations in climate and markets, and many farmers are denied loans because of the high risk involved in the business. Reliable access to inputs especially seed and fertilizer is a problem and people lack business and farming skills. All the problems identified above, need to be addressed urgently in order to promote agricultural production.

3.1.5 Recommendations

(i) The Government must improve the transportation infrastructure and services and facilitate the participation of the private sector in the business by creating a transparent regulatory regime and level playing field in the sector.
(ii) The Ministry of Resources and Development, Tobolar and producer representatives must establish quality standards for all post harvest activities and copra specifications.
(iii) The Government must explore possibilities of restructuring or privatizing Tobolar to ensure that it is run on a commercial basis without draining public resources. However, other ways of meeting the needs of the people in the outer islands must be explored.
(iv) The Government must promote the establishment of farmers associations to enable them to produce products in a consistent manner.
(v) The Government must promote investment in agriculture and explore the possibility of contract farming.
(vi) The Government must facilitate access to cheap loans, and the amount of loans must be increased to a reasonable level and the procedures simplified.
(vii) R&D should facilitate value addition and decentralization of the coconut oil extraction. The Government needs to secure donor funding to run a pilot project on value addition to coconut products in the outer islands.
(viii) RMI must increase domestic food production and consumption and establish/strengthen new farmers' markets to reduce the import bill and address the health concerns.
(ix) RMI must re-plant coconuts plants as well as other plants that are used as raw materials for handicraft, medicine, and other non-food products.
(x) The Government must strengthen measures to protect the country against the introduction and spread of injurious pests and diseases.
(xi) RMI must take measures to increase exports of niche and value-added products particularly noni and pandanus products and handicraft.
(xii) Technical and financial services should be provided to improve technical analysis, testing and certification (including organic certification) of local products to ensure that they meet domestic and international standards.

(xiii) RMI should promote consumption of local farm produce in the local schools, hospitals, jails, cargo and passenger vessels and related state public functions serving foods.

(xiv) Regulatory measures should be streamlined to promote conservation, development of the natural resources and exports of local products from safe and feasible projects.

3.2 Fisheries

This section will look at the major regional and international treaties governing the fisheries industry in the Pacific, the major fishing nations in RMI's EEZ and RMI's efforts to develop onshore industries and the measures that RMI needs to take to maximise the benefits from its resources.

The marine resources of RMI are contained within an Exclusive Economic Zone (EEZ) covering around 2 million square kilometres. The Marshall Islands Marine Resources Authority (MIMRA) is responsible for the management and development of the tuna fishery in the EEZ. RMI is located in the equatorial belt of the Western and Central Pacific Ocean, which is rich in tuna resources, especially skipjack. However, in some years, the pole and line and purse seine surface of skipjack are less rich due to oceanographic effects on water temperatures. RMI also hosts many longline companies; however, yellowfin and bigeye from RMI do not fetch the highest prices in the Japanese sashimi market due to the warm water temperatures. Many longline fishermen from Japan prefer cold-water areas which are rich in higher value bluefin species as well as yellowfin and bigeye with higher body-fat context and good flesh quality. Therefore, it is not surprising that the tuna fishery in RMI is dominated by purse seine fishery, predominantly distant water fleets catching mainly skipjack. Other fishing activities include long line and pole-and line vessels fishing under various access arrangements.

3.2.1 Treaties Governing the Fishing Activities in RMI

The RMI is a party to regional and international fisheries management arrangements such as the Parties to the Nauru Agreement[19] (PNA), the United Nations Fish Stocks Agreement (UNFSA), the Convention for the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean (WCPO), the Pacific Islands Forum Fisheries Agency (FFA), the Multilateral Treaty on Fisheries Between Certain Governments of the Pacific Island States and the Government of the United States of America (commonly referred to as the "U.S.

[19] Solomon Islands, Tuvalu, Kiribati, Marshall Islands, Papua New Guinea, Nauru, Federated States of Micronesia and Palau.

Treaty"). The U.S. Treaty enables U.S. purse seine fishing vessels to fish in the EEZ of the 16 Pacific Island Parties[20].

The PNA is a sub-regional agreement on terms and conditions for tuna purse seine fishing licenses in the region. It deals with the Vessel Day Scheme (VDS) which was introduced in 2007. The Vessel Day Scheme (VDS) is a scheme where vessel owners can purchase and trade days fishing at sea in places subject to the PNA. The Total Party Allowable Effort[21] under the VDS is the total amount of days that can be fished in the Exclusive Economic Zones (EEZs) of PNA Members and this has been set at 28,469 days per year. The days are allocated based on historical catches in their respective waters. The purpose of the VDS is to constrain and reduce catches of target tuna species, and increase the rate of return from fishing activities through access fees paid by Distant Water Fishing Nations (DWFNs). The VDS is considered to be the most effective way of implementing the conservation and management measures of the Western and Central Pacific Fisheries Commission (WCPFC) *for Bigeye and Yellow fin Tuna.* It replaces the purse seine vessel number limit of 205 vessels under Annex 1 of the *Palau Arrangement for the* Management of the Western Pacific Purse Seine Fishery.

The Palau Arrangement is a multilateral treaty governing the operation of purse seine vessels in the national waters of the PNA members. Its primary purpose was to place a limit on the number of vessels operating in the waters of the PNA. The maximum number of purse seine vessels agreed in 1994 was 205 distributed as follows, US 55, Japan 35, Taiwan 40, South Korea 29, Philippines 10, domestic or locally based 36. According to Article 5 of the Palau Arrangement, priority in terms of licensing will be given to domestic vessels, domestic vessels of another party to this arrangement or jointly operated by parties, locally based foreign fishing vessels, existing foreign fishing vessels of good repute and any other new entrants.

In April 2011, PNA members also introduced the vessel day scheme for the long-line fishing vessels on a trial basis. The VDS are similar to the existing VDS system in place for the purse seine fishery and are intended to enhance PNA's control over the tropical longline fishery, improve management of mainly big eye and yellow fin and derive greater economic returns.

Table 21: Total Allowable Effort in PNA States (FFA 2008)

PNA States	TAE in days
FSM	6,253
RMI	694

[20] Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The treaty provides US$21 million annually (USD 18 million direct aid and USD 3 million paid by the US industry) to the islands to allow up to 40 American purse seiners to fish or 10.000 days. Some experts from the PNA argue that the US is basically paying US$300 a day, where as some Asian flagged tuna seiners pay from a minimum US$3000 up to US$6000 a day for fishing tuna in the Pacific EEZ's.

[21] The TAE is determined and reviewed annually by the PNA.

Nauru	1,452
PNG	7, 907
Palau	595
Solomon Islands	2,361
Tuvalu	979
Total Allowable Effort (TAE) in Days	28,469

According to the ADB Report: 2005[22], the Pacific Island countries can be divided into four categories based on the productivity of their EEZ. Those countries in category 1 have large productive EEZs, situated in tropical/equatorial areas where the majority of surface tuna biomass occurs. This group includes PNG, FSM, Solomon Islands, Kiribati, and to lesser extent, RMI. In this group, there is huge potential for surface purse seine and pole-and-line fisheries, and longline fisheries based on deep –swimming tropical tunas (yellowfin and bigeye).

Group 2 consist of countries with small to medium size EEZs, situated in tropical areas, with moderate to high productivity smaller scale, and are more subject to large-scale geographical variations in tuna availability. This group includes Palau, Nauru, and Tuvalu. These EEZs offer potential for purse seine, longline and pole-and-line fisheries, but on a smaller scale, and are more subject to large-scale geographical variations in tuna availability.

Group 3 comprise of countries with medium sized EEZs of moderate productivity, situated in sub-tropical areas. This group includes Vanuatu, Fiji, Cook Islands and Tonga. These EEZs offer limited potential for purse seine fishing, but good opportunities for albacore-based longline fisheries, either domestic or under access agreements.

Group 4 consist of countries with small EEZs of moderate productivity, situated in sub-tropical areas. This group includes Samoa, Niue, and Tokelau, which have limited potential for access arrangements but some potential for domestic fishery development. The table below provides further details on the four categories.

Table 22: EEZ size of other Pacific island nations and the four categories.

Country	EEZ square kilometres (million)
Category 1	
PNG	2.24

[22] A. Lewis, 2005, A review of current access arrangements in Pacific Developing Member Countries (PDMCS) ADB, Australia.

FSM	2.78
Solomon Is.	1.34
Kiribati	3.55
RMI	2.13
Category 2	
Palau	0.63
Nauru	0.32
Tuvalu	0.90
Category 3	
Vanuatu	0.68
Fiji	1.29
Cook Islands	1.83
Tonga	0.70
Category 4	
Samoa	0.12
Niue	0.39
Tokelau	0.29

Source ADB:2005

The PNA members decided to establish their Office in Majuro, and in February 2010 it issued a declaration which aims to develop innovative ways to maximize economic gains from sustainable management of their tuna resources. The PNA has obtained eco-label certification from the Marine Stewardship Council (MSC) for skipjack tuna. This will go a long way towards helping to increase the value of the purse seine fishery while at the same time enabling PNA Members to derive more economic benefits by promoting their skipjack as being sustainably managed.

The Niue Treaty is an agreement on cooperation between FFA members about monitoring, control and surveillance of fishing activities. It includes provisions on exchange of information about the position and speed of vessels at sea, which vessels are without licences. It also establishes procedures for cooperation in monitoring, prosecuting and penalising illegal fishing vessels.

In 2009, the FFA developed the Regional Tuna Management and Development Strategy (2009-2014), to serve as a mechanism to deal with management of tuna resources and to maximize the benefits from these resources[23].

The 90th ACP Council of Ministers in November 2009 mandated the creation of a new ACP Ministerial Fisheries Mechanism ('Fisheries Mechanism'). The core objective of this mechanism is to build 'political support, both within the group and from its external partners, for new approaches to fisheries governance, in order to ensure that fisheries play their just part in the

23 http://www.ffa.int/trade_industry

social and economic development of ACP Member States. The Fisheries Mechanism will be financed by contributions from ACP states and donors into a Trust Fund. Its tasks will include:

- Monitoring and evaluation of major fisheries developments, and trade and cooperation activities with ACP partners
- Promotion of the gathering and sharing of summarised strategic information between ACP countries at the highest political level
- Provision of strategic advice to ACP states in negotiations on fisheries issues
- Ensuring that recommendations by the Fisheries Mechanism are taken into account when major ACP-EU programmes, projects and/or texts are being reviewed

3.2.2 Who is fishing in RMI's EEZ?

The Western and Central Pacific Fisheries Commission (WCPFC) has the largest tuna resources in the world and 98% of the total Pacific tuna harvest comes from FSM, Papua New Guinea, Kiribati, Solomon Islands, Nauru, Tuvalu and RMI. According to the 2010 FFA study, annual catches by all gears and the four main tuna species (skipjack, yellowfin, bigeye and albacore tunas) in the WCPO have increased continuously from 1.6 million tonnes in 1997 to 2.4 million tonnes in 2009[24]. The value of the landed catch was estimated at 5 billion in 2008 and 4 billion in 2009.

It is estimated that PNA waters provide around 25% of the world's supply of tuna. The value of the tuna caught within the PNA waters is estimated at $2 billion per year but the Pacific is only getting about 5% of this[25]. So this begs the question: who is catching fish in RMI's EEZ taking away all the 95% of the proceeds leaving only 5% for RMI? What is RMI doing about this? These are some of the challenges that RMI needs to address in order to maximise the returns from its fisheries resources.

It is clear that the fisheries sector in RMI is dominated by foreign fishing operators. In 2003, there was only one RMI-flagged long line vessel operating in the WCPFC Convention area but the number increased to four in 2007. The sole vessel was owned and operated by MIMRA as part of its feasibility study to develop the domestic long line fishery. Currently, there are five RMI-flagged purse seine vessels fishing in the RMI EEZ and the Convention area.

RMI has little capacity to fish in its EEZ and the majority of the fish in the EEZ is caught by licensed distant water fishing nations from China, FSM, Japan, Korea, Chinese Taipei, Belize, Kiribati, New Zealand, Vanuatu, Solomon Islands and the US. The Japanese fleet dominated the

[24] According to Peter Wilson, the Pacific produces about 2.7 million tons of tuna a year or about 64% of the global tuna harvest.
[25] Forum Fisheries Agency, 2010 PNA Ministers Agree: Open PNA Office, Strengthen Fishing Limits & Cooperate to exchange Fishing Observers. [http://www.ffa.int]

long line fishery in RMI EEZ until 1990. However, after the 1990s the number of Japanese long line vessels decreased while the number of other countries such as Korea, Taiwan and China increased. RMI has better air connection to US and Japan and this makes it logistically a good location from which to engage in long-lining for the sashimi market.

Long-Line Fishing

According to Table 24 below, the number of foreign long line vessels licensed to fish in the RMI EEZ declined from 73 in 2003 to 64 in 2007. The major players in this sector are China and Japan. According to the FFA Report (2010), between 1997-2009, in descending order, Kiribati (118,000mt), FSM, Fiji, Solomon Islands, Vanuatu, Australia, Samoa (43000mt), RMI (37, 000mt), PNG, Palau, New Zealand, Cook Islands, Tonga, Tuvalu, Niue and Nauru (72mt) had the highest total longline catch by national waters.

Table 23: Number of Foreign Long-line vessels licensed to fish in the Marshall Islands EEZ, by year and flag

Number of Foreign Long-line vessels licensed to fish in the Marshall Islands EEZ, by year and flag.							
				Long-line			
	China	FSM	Japan	Korea	Ch- Taipei	Belize	Total
2003	33	4	24	1	10	1	73
2004	40	4	17	1	3	6	71
2005	43	6	25	2	5	7	88
2006	40	9	34	1	6	0	90
2007	36	6	21	0	1	0	64

MIMRA: 2010

The domestically-based foreign long-line fleet comprises vessels from China and FSM, which are managed and operated through a joint venture fishing company[26]. According to Table 25, the total catch from domestically-based long-line vessels declined from 4,242 mt in 2006 to 3,769 mt in 2007. The main species that are targeted by long line vessels are big eye and yellow fin tuna. In 2007, exports of fish caught by domestically-based foreign long-line fleet were 2,718 mt.

Table 24: Total unloaded catch (mt) for domestically - based long-line vessels, 2007

Species	Exports	Others	Total
Albacore	0	15	15
Bigeye	2,000	170	2,170
Yellow fin	587	178	756
Blue marlin	64	312	377
Mahimahi / dolphin fish	10	15	25

[26] It is also important to note that Japanese long-line vessels offload their catch in ports in Japan.

Opah/ moon fish	9	11	20
Sail fish (indo pacific)	0	2	2
Sharks (unidentified)	0	256	256
Short - billed spearfish	0	12	12
Swordfish	15	24	39
Wahoo	34	55	88
Total	2,718	1,051	3,769

MIMRA: 2010

Table 26 provides for annual catch by foreign long line fleets in RMI EEZ. In terms of annual catches by foreign long-line fleets, the main players in the long-line fishing are China and Japan. The main target species are big eye and yellow fin tuna. Almost all the catches were fresh fish for the sashimi market consisting mainly of bigeye and a few yellowfin tuna.

Table 25: Annual catches (mt) by foreign long line fleets in the Marshall Islands EEZ, by flag and species, 2003 - 2007

Annual catches (mt) by foreign long line fleets in the Marshall Islands EEZ, by flag and species, 2003 - 2007.						
Flag	Year	ALB	BET	YFT	OTH	TOTAL
China	2003	3	709	300	3	1,016
	2004	6	953	328	1	1,288
	2005	20	1,030	600	2	1,651
	2006	39	1,908	1,478	388	3,811
	2007	14	2,028	727	348	3,116
FSM	2003	0	135	51	0	186
	2004	0	218	74	0	292
	2005	0	136	74	2	211
	2006	4	417	235	76	732
	2007	3	359	133	66	561
Japan	2003	17	1,351	544	5	1,917
	2004	6	491	96	7	599
	2005	12	106	45	0	163
	2006	23	120	70	0	212
	2007	5	114	40	0	159
Ch- Taipei	2003	0	4	1	0	5
	2004	1	37	16	0	53
	2005	0	35	21	0	56
	2006	0	5	7	0	12
	2007	0	0	0	0	0
TOTAL EEZ	2003	20	2,199	897	8	3,124
	2004	12	1,698	514	8	2,232
	2005	33	1,307	738	3	2,081
	2006	65	2,449	1,790	463	4,768
	2007	21	2,501	899	415	3,836

Purse Seine Fishing

According to Table 27, the total number of purse seine vessels decreased from 157 in 2003 to 130 in 2007. The major fishing nations in the purse seine business are Japan, Korea, Chinese Taipei, USA and PNG. According to the FFA Report (2010), the total catch by purse seine fleets operating in the RMI EEZ declined from 25,866 mt in 2008 to 13,79 mt in 2009 (est). Skipjack was the main specie that was caught by purse seiners and it is used for tuna canning.

Table 26: Number of purse seine vessels licensed to fish in the Marshall Islands EEZ, by year and flag

Number of purse seine vessels licensed to fish in the Marshall Islands EEZ, by year and flag					
	YEAR				
	2003	2004	2005	2006	2007
CHINA	6	4	5	8	12
FSM	7	6	6	1	3
JAPAN	33	32	34	33	35
KIRIBATI	1	1	1	1	1
KOREA	26	28	27	20	20
NZ	4	4	3	3	0
PNG	16	17	17	16	17
CH – TAIPEI	37	34	34	19	13
VANUATU	2	7	8	8	7
SOLOMON	0	0	3	0	0
USA	25	21	15	12	22
TOTAL	157	154	153	121	130

MIMRA: 2010

The total annual catch and effort estimates for the Marshall Islands purse seine fleet in the WCPFC Convention area increased from 37, 875 mt in 2003 to 59,485 mt in 2007. Skip jack is the key specie that was targeted by purse seiners. According to FFA, (2010) in 2009, PNG (209, 228 mt), RMI (44,193 mt), Vanuatu, New Zealand, Kiribati, FSM and Solomon Islands (17.883) had the highest catch by national fleet.

Table 27: Annual catch and effort estimates for the Marshall Islands purse - seine fleet, by species in the WCPFC Convention Area, 2003 - 2007.

	Effort	Catch (metric tonnes)				
Days Fishing & Searching						
Year	Searching	SKJ	YFT	BET	OTH	TOTAL
2003	1,508	35,233	2,129	513	0	37,875

2004	1,408	42,078	3,716	878	0	46,672
2005	1,233	47,565	7,628	971	0	56,164
2006	1,047	38,881	1,436	2,032	340	42,689
2007	1,258	53,916	3,370	2,118	81	59,485

MIMRA: 2010

The main foreign vessels that are active in the purse seine business are Chinese Taipei, Korea, US, Japan and those countries fishing under the FSM arrangement[27].

Table 28: Annual catches by purse seine fleets in the Marshall Islands EEZ, by flag and species, 2003 – 2009

Annual catches by purse seine fleets in the Marshall Islands EEZ, by flag and species, 2003 – 2007						
			CATCH (metric tonnes)			
Fleet	YEAR	SKJ	YFT	BET	OTH	TOTAL
China	2003	0	0	0	0	0
	2004	663	0	0	0	663
	2005	0	0	0	0	0
	2006	526	217	6	0	749
	2007	0	0	0	0	0
FSM	2003	1,127	200	48	0	1,376
Arrangement	2004	7,773	507	110	0	8,391
	2005	6,662	838	93	0	7,593
	2006	5,253	710	22	0	5,985
	2007	3,280	305	150	10	3,745
Japan	2003	562	82	0	0	644
	2004	2,417	272	5	0	2,693
	2005	1,311	131	23	0	1,466
	2006	3,148	181	0	0	3,329
	2007	0	0	0	0	0
Korea	2003	0	73	1	0	74
	2004	1,621	104	7	0	1,732
	2005	2,231	0	0	0	2,231
	2006	1,231	235	21	0	1,488
	2007	175	100	0	0	275
Chinese Taipei	2003	678	58	5	0	741
	2004	1,271	16	1	0	1,287
	2005	1,488	0	0	0	1,488
	2006	1,705	218	11	0	1,933
	2007	1,664	367	0	2	2,033
USA	2003	377	20	4	0	402

[27] It should be noted that the data provided by MIMRA is different from the one in the 2010 FFA Report.

	2004	144	14	5	0	163
	2005	2,932	336	116	0	3,384
	2006	163	8	4	0	175
	2007	110	17	0	0	126
Vanuatu	2003	38	0	0	0	38
	2004	1,496	0	0	0	1,496
	2005	3,376	97	3	0	3,384
	2006	767	192	1	0	175
	2007	3,233	164	3	1	126
TOTAL EEZ	2003	2784	433	59	0	3,276
	2004	15,384	913	128	0	16,425
	2005	18,000	1,402	235	0	19,637
	2006	12,793	1,761	65	0	14,618
	2007 2008 2009	8,462	953	153	13	9,580 16,177 15,614

MIMRA: 2010

Pole and Line Fishing

Table 30 shows that Japan is the only nation in the pole and line business and had about 22 vessels in 2007.

Table 29: Number of Japanese pole- and - line vessels licensed to fish in the Marshall Islands EEZ, by year and flag

Number of Japanese pole- and - line vessels licensed to fish in the Marshall Islands EEZ, by year and flag	
2003	20
2004	23
2005	35
2006	23
2007	22

MIMRA: 2010

Table 31, shows that pole-and line catch increased from 1,171 mt in 2004 to 4,400 in 2007. The main target specie is skipjack.

Table 30: Annual catches (mt) by foreign pole- and -line fleets in the Marshall Islands EEZ, by flag and species, 2003 - 2010.

Fleet	Year	BET	SKJ	YFT	OTH	TOTAL

JAPAN	2003	0	92	2	0	94
	2004	0	1,152	9	11	1,171
	2005	0	653	1	1	655
	2006	0	978	8	1	987
	2007	0	4,400	1	0	4,400
	2008		2,467			2,467
	2009		419			419
	2010		2,056			2,056

Source: MIMRA: 2010

Fishing Access Fees

From all the fishing activities that are taking place in the RMI EEZ, RMI is getting very little in terms of access fees. According to Table 32 fishing rights fees declined from $2, 7 million in 2000 to $1.38 million in 2009. However, the access fees is estimated to have increased significantly in 2010 and 2011 as a result of the implementation of the VDS.

Table 31: Total fish catch in RMI EEZ, by method, and fishing license fees received: 2000-2010

Method of catch (Metric tons)					
	Long line	Purse seine	Pole and line	Total	Fishing license (US$)
2000	2,110	20,403	8,208	30,721	2,750,700
2001	4,176	36,324	16,243	56,743	898,400
2002	2,090	28,915	7,316	38,321	1,086,018
2003	3,100	3,381	94	6,575	1,178,802
2004	2,232	16,425	1,171	19,828	855,340
2005	4,526	19,637	655	24,818	1,354,000
2006	4,768	14,618	987	20,373	1,614,222
2007	3,836	9,580	4,400	17,816	751,799
2008	4,473	16,177	2,467	23,117	1,730,986
2009	4,930	15,614	419	20,963	1,382,000
2010 [1]	4,960	8,867	2,056	15,883	1,029,152

1. 2010 data are provisional

Total Catch and Value of fish caught in RMI EEZ

According to the FFA 2010 Report[28], the total amount of tuna that was caught in the waters of FFA members increased from 773,918 metric tonnes in 2000 to 1,137,248 metric tonnes in 2009 but about 1,098,280mt (96.6%) were caught in PNA waters. About 728, 697mt were caught in other countries such as American Samoa, French Polynesia, Indonesia, Japan, Mathew and

[28] The report aims to provide estimates of the value of catches of the four main commercial species caught in the Western and Central Pacific Fisheries Commission (WCPFC) Convention Area, that is, albacore (Thunnus alalunga), bigeye (Thunnus obesus), skipjack (Katsuwonus pelamis) and yellowfin (Thunnus albacares). Caution should be used in interpreting the statistics presented; in particular, catch estimates for 2009 are preliminary in particular for the longlines.

Hunter, New Caledonia, Philippines, Pitcairn, Taiwan, US + territories (ex Am Sam), Wallis and Futuna in 2009. About 564, 430mt were caught in the surrounding high seas[29]. The total tuna that was caught in FFA members, other countries fishing in the WCPO and the surrounding high seas was 2, 430, 370 mt. Full details are indicated below on Table 33.

In 2009, the following PNA members had the biggest catch in their national waters: PNG, Kiribati, FSM, Solomon Islands, Tuvalu, Nauru, RMI and Palau.

Table 32: The total catch in FFA waters and PNA waters respectively, FY2000 to FY2009

Catch by national waters All values in metric tonnes										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
All gears										
FFA members										
FSM	146,476	106,616	84,734	229,800	150,946	237,212	215,871	162,267	90,669	110,360
Kiribati	148,161	272,850	362,824	89,962	114,606	211,932	174,986	179,770	233,378	323,036
Marshall Islands	34,727	62,885	41,904	7,008	20,506	23,307	19,448	20,368	29,835	17,842
Nauru	66,958	61,606	129,514	21,519	68,919	51,730	58,747	67,030	59,181	55,398
PNG	278,520	160,100	171,618	394,284	331,192	304,844	436,499	476,188	471,539	424,095
Palau	2,374	1,731	800	4,430	7,050	4,885	8,687	3,804	7,809	1,894
Solomon Islands	9,061	37,145	24,708	68,916	111,626	101,121	123,581	113,922	120,408	98,113
Tuvalu	40,889	23,549	30,496	3,901	20,975	15,680	15,400	45,138	40,937	67,541
PNA Sub Total	727,166	726,481	846,597	819,820	825,820	950,711	1,053,219	1,068,487	1,053,756	1,098,280
Australia	6,885	5,100	5,061	5,256	3,821	2,737	4,850	4,264	3,940	2,977
Cook Islands	394	1,495	4,719	1,954	2,827	3,012	2,372	2,453	3,151	5,571
Fiji	8,169	11,445	9,391	7,661	16,767	5,931	7,324	5,631	8,573	6,322
New Zealand	17,489	10,711	10,942	11,061	16,583	14,569	8,522	12,880	12,621	6,488
Samoa	3,224	5,749	4,392	1,799	1,824	1,486	2,307	3,326	2,761	3,370
Tokelau	5,626	1,241	6,862	34	982	5,101	1,109	967	4,081	6,674
Tonga	1,186	1,514	1,338	1,187	420	610	816	878	597	323

[29] High Seas Codes: I1 Doughnut hole between PNG and FSM, I2 Doughnut hole between FSM, Solomon Islands, Kiribati, Marshall Is. Nauru, Tuvalu, I3 International waters east of the Philippines to Guam, above FSM, around Marshalls, up to 20°N and west of 175°E (not including areas I1, I2 and I8), I4 International waters east of Marshall Islands and Kiribati, from the equator up to 20°N and east of 175°E to 170°W, I5 International waters around Line Group from the equator up to 20°N, east of 170°W to 150°W, and south of the equator to 20°S from 155°W-130°W, I6 The reminder of International waters not covered above in the Northern hemisphere of the WCP-CA, I7 The reminder of International waters not covered above in the Southern hemisphere of the WCP-CA, I8 International waters bordered by Fiji, Solomon Is and Vanuatu, I9 International waters between the Cook Islands and French Polynesia, H4 International waters between Tuvalu, Phoenix and Tokelau, from the equator down to 10°S and east of 175°E to 170°W, H5 International waters between Phoenix and Line Groups, from the equator down to 10°S, east of 170°W to 155°W (excludes IW between CK and PF = Area "I9")

Niue	0	0	102	1	16	105	343	249	2	162
Vanuatu	3,780	3,714	3,767	4,550	5,037	6,972	10,254	6,251	6,004	7,081
FFA Total	773,918	767,450	893,172	853,323	874,098	991,234	1,091,117	1,105,387	1,095,486	1,137,248

FFA: 2010

According to Table 34, the value of the fish that was caught in FFA members in 2009 is estimated at USD 1, 560 million but about USD 1, 445 million is from the PNA members. In 2009, in descending order, the following PNA members had the highest value of catch in their national waters: PNG (USD 543 million), Kiribati, FSM, Solomon Islands, Tuvalu, Nauru, RMI and Palau (USD 10 million).

Table 33: Summary Table for value of catch

All values in US$ millions										
Value of catch by national waters										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
FFA members										
FSM	157	122	88	202	162	251	247	244	170	144
Kiribati	176	283	340	98	156	221	204	287	450	426
Marshall Islands	45	82	48	22	33	35	36	49	73	45
Nauru	43	53	104	17	62	48	57	90	103	65
PNG	172	145	151	325	319	308	450	669	848	543
Palau	15	11	4	11	15	22	36	22	37	10
Solomon Islands	14	34	32	69	120	110	167	186	218	130
Tuvalu	31	22	27	4	23	18	15	67	73	81
PNA	652	750	795	748	891	1,013	1,212	1,613	1,973	1,445
Australia	20	26	24	28	21	16	21	19	24	16
Cook Islands	0	1	5	6	10	10	8	6	9	18
Fiji	29	36	24	23	47	17	25	16	33	26
New Zealand	23	22	16	18	22	20	14	20	25	13
Niue	0	0	0	0	0	0	1	1	0	0
Samoa	11	16	9	4	6	5	7	8	9	11
Tokelau	3	1	5	0	1	5	1	1	7	8
Tonga	4	5	4	4	2	3	4	4	3	2
Vanuatu	11	12	10	16	16	23	33	17	19	22
Sub-Total	753	871	892	846	1,016	1,111	1,326	1,705	2,102	1,560

Source FFA: 2010

Table 35 shows that out of the 2, 4 million mt of fish that is caught in the WCPO waters, only about 417, 353 mt is caught by national fleet from FFA members. The rest is caught by fleet from other nations. PNG, Vanuatu and RMI have the highest catch by national fleet. This means that many PACPS will not be able to meet the EU stringent rules of origin and export qualifying fish unless a derogation on rules of origin is provided to enable them to buy fish from distant fishing nations catching fish in the WCPO and process them for EU export.

Table 34: Catch by national fleet

All values in metric tonnes										
TOTAL										
FFA Members	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	6,997	5,279	5,235	5,809	4,200	3,095	5,027	4,402	3,964	3,041
Cook Islands	335	206	770	2,463	3,205	3,125	2,838	2,623	2,414	2,007
Fiji	9,596	11,206	11,548	10,854	17,273	11,965	15,458	10,034	11,652	10,517
FSM	21,703	17,646	20,607	30,853	28,444	28,254	10,755	15,453	19,455	21,157
Kiribati	4,976	4,622	5,256	4,839	4,601	7,105	4,660	5,447	5,799	20,871
Marshall Islands	7,560	35,807	38,989	37,873	46,588	56,164	42,428	59,513	33,332	44,709
Nauru	11	13	7	20	3	-	-	-	-	-
New Zealand	18,918	17,534	38,555	30,601	33,914	27,886	27,430	38,933	33,877	29,148
Niue	-	-	-	-	6	105	286	192	16	159
PNG	68,778	92,848	124,471	159,351	225,276	235,260	233,131	230,015	205,533	212,975
Palau	240	62	4	20	35	-	-	-	-	-
Samoa	4,654	5,864	4,882	2,748	1,938	1,596	2,561	3,559	2,689	3,408
Solomon Islands	12,929	17,237	18,542	26,364	24,904	20,039	29,477	21,240	16,182	17,883
Tokelau	-	-	8	3	3	6	6	8	8	12
Tonga	1,160	1,733	1,669	971	388	629	759	861	592	271
Tuvalu	-	-	-	-	-	-	-	-	-	3,558
Vanuatu	37,548	11,928	28,050	28,461	65,044	86,553	76,287	79,781	47,233	47,638
Sub-Total	195,405	221,985	298,592	341,230	455,823	481,782	451,104	472,062	382,747	417,353
Others										
American Samoa	-	-	-	-	-	-	-	-	-	-
Belize	270	7,143	3,382	2,697	943	1,056	632	595	225	190
Canada	351	206	144	-	63	72	135	27	-	-
China	6,244	9,947	15,629	42,215	40,167	61,556	73,756	69,842	83,938	114,742
Eastern Pacific fleet	2,925	510	244	2,600	2,014	709	709	709	709	709
Ecuador	3,992	1,057	427	1,562	3,051	5,193	9,523	9,187	25,397	4,428
El Salvador	-	599	1,488	74	-	-	-	6,025	10,858	7,498
French Polynesia	6,834	7,736	7,343	6,309	5,437	4,990	5,937	6,458	5,503	6,927
Indonesia	284,310	254,400	260,421	251,746	262,615	281,494	314,638	315,416	315,873	316,299
Japan	497,028	439,605	451,608	469,838	441,724	482,097	447,060	473,700	435,048	391,614
Korea	207,502	216,528	254,270	220,955	212,594	237,271	275,032	278,298	274,834	309,671
New Caledonia	1,663	1,717	1,926	2,005	2,189	2,112	1,806	1,770	1,993	2,187

Philippines	234,491	210,801	226,856	264,106	271,783	274,257	291,571	320,579	360,098	328,047
Senegal	-	-	-	-	-	6	15	6	-	-
Spain	12,896	2,402	-	-	5,587	3,453	11,653	20,534	35,661	26,889
Taiwan	271,150	273,644	310,124	248,352	251,903	238,684	250,114	270,517	237,891	224,562
US + territories (ex Am Sam)	134,175	127,314	135,210	100,243	77,986	96,298	80,496	102,695	220,433	279,254
Sub-Total	1,663,831	1,553,610	1,669,073	1,612,703	1,578,056	1,689,249	1,763,076	1,876,358	2,008,462	2,013,016
GRAND TOTAL	1,859,236	1,775,595	1,967,665	1,953,932	2,033,879	2,171,031	2,214,180	2,348,420	2,391,209	2,430,370

FFA: 2010

3.2.3 Maximizing the Returns from Tuna Resources

From the numbers that have been presented above, which are very conservative, it is clear that most of the benefits from RMI's tuna resources have been going to DWFN and foreign nations. Aside from the access fees, RMI is not getting value from its tuna resources. The exports of fisheries products have also been very minimal. According to Table 36, fish caught by the domestically-based long line vessels increased from 2,016 in 2004 to 4,960 in 2010. The main target specie is big eye and yellow fin.

Table 35: Total catch by Marshall Islands and domestically based vessels1 (long-line, 2001-2010

	Domestic based long line (metric tones)
2001	n.a.
2002	n.a.
2003	n.a.
2004	2,016
2005	3,175
2006	4,543
2007	3,683
2008	4,473
2009	4,930
2010[2]	4,960

1. Includes fish caught outside RMI EEZ
2.2010 data provisional
Source: MIMRA

Table 37 show the value of the fisheries sector in terms of its contribution to exports of goods and services as well as access fees. The statistics shows that RMI has the potential to add value and earn more returns to its resources rather than just supply unprocessed fish through licensing foreign based fishing vessels.

Table 36: Extracts from 2010 BOP Statistics

(US$ millions)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010		
Exports of goods	15.5	13.9	15.1	17.5	18.8	23.5	17.9	18.3	20.2	20.8	32.3		
Fish	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	2.8	8.8		
Exports of services	9.5	9.1	10.4	11.8	10.8	10.2	10.2	10.0	10.2	10.5	11.3		
Fish processing	2.5	2.5	3.2	4.3	3.7	2.0	2.3	2.3	3.0	3.3	3.7		
Primary income, inflows	46.0	46.2	45.1	44.4	47.2	52.1	56.0	57.6	56.9	53.7	51.9		
Ship registration fees	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.8	2.0	3.3	3.3		
Fishing licence fees	2.8	0.9	1.1	1.2	0.9	1.4	1.6	0.8	1.7	1.4	1.0		
MEMO ITEM													
"Exports", non-resident fishing vessels 1/	n.a.	28.3	35.2	33.7	44.1	56.0	47.1	81.2	66.7	65.1	84.8		
1/ Pelagic fishing vessels operated economically from abroad are treated as non-resident; thus, their sales are not included in exports in the main dataset.													
2/ Coverage of national Governmentinvestment portfolio and local Governmenttrust funds is incomplete.													

Source: EPPSO

Based on the information supplied above, it is clear that RMI is not getting the maximum benefits from its tuna resources. RMI needs to enhance the participation of the local private sector in the fisheries industry. The initiatives by the PNA to manage the resources and ensure that RMI gets the maximum returns from its resources are positive measures in the right direction. However, RMI needs to play its part and ensure that it attracts the right investments which will assist it to exploit its resources for the benefit of the nation.

Marshall Islands Fishing Venture

The Marshall Islands Fishing Venture (MIFV) was established in 2001 and it is involved in fishing and fish processing. It is owned by Luen Thai Fishing Venture (LTFV), a subsidiary of the Hong Kong-based Luen Thai International Group, which has operations in several other northern Pacific island countries. MIFV replaced Ting Hong, a Taiwanese company which used to operate in RMI with a large fleet of long line vessels. The company bought and refurbished the defunct cold storage, wharf and offloading area known as Fishbase (which had been used by Ting Hong) from the Governmentfor a small sum on a long-term lease.

MIFV operates the long-line fish base with about 33 domestically-based foreign long-line vessels as well as the national long-line fleet (about four are RMI flagged). Most of the domestically-based foreign long-line vessels operating under the MIFV fly foreign flags of registration (Taiwan) and not necessarily the flag of the countries operating and managing these vessels, which is essentially Marshall Islands. A-grade sashimi is exported to Japan, with B and C-grade tuna loined and sold for tuna steaks to the United States. MIFV exports mainly fresh chilled tuna species to the US, Canada and China. Frozen fish (rejects and by-catch)-designated as other- is shipped to China and/or sold to the local market.

Fresh tuna is processed into fillets or loins and the whole fish is exported to Canada, US, and Japan. Frozen steak also goes to the US, Philippines or China and frozen mahi-mahi goes to China. MIFV has a sales branch in the US, which receives products from RMI every week. The frozen products do not fetch much money because the prices are very low.

Fuel prices, especially in 2008 had a huge impact on the fishing industry. Since the fuel price as of November 2009 was down, the fishing costs as well as freight charges for MIFV also went down. Another major factor that has an impact on the business is the cost of electricity. At one point, the company paid about $140 000 per month to MEC for electricity but the amount has been reduced to an average of about $80 000 per month. MIFV wanted to install its own generator but there is no space for this. These issues need to be addressed to enable the company to operate efficiently.

The company also indicated that it needs assistance from the Government to deal with the stringent EU export requirements. MIFV expressed interest in accessing the EU market and to this end, requested the Government to establish a Competent Authority. The company also indicated that the price for tuna in Europe is good. To this end, MIFV is willing to work with the Government and PPF to establish a laboratory. It was also noted that the business projection for the company depends on international market, fuel price amongst other things. For this reason, it is very important to diversify the export markets and provide the necessary assistance to MIFV to enable it to expand its exports.

MIFV also indicated that it was facing import duties on packing material of about 8%. Some of the packing materials come from the US but frozen boxes come from Taiwan. The company also imports bait from Japan and it's taxed at 5% at the border. The company recommended that since it is producing for export and does not sell in the local market, it should be exempted from these taxes. Originally the company was given a 5 year tax exemption but this has expired and it's now paying GRT at 3% per quarter.

MIFV does not plan to venture into canning because this will need a bigger space, which is not available in Majuro. The company has been looking for more land to operate. As at November 2009, the company employed about 140 local workers mainly for offloading and processing, 20 Chinese in the office, and 11 plant operators from the Philippines. The company has also been training workers but most of these workers leave for the US after training. The workers are paid about $2-25 per hour but $8 per hour in the US.

With regards to transportation, MIFV relies on Asia Pacific Air (APA), another subsidiary of the Luen Thai International Group to transport sashimi to Japan and the United States. The company also needs air transportation to outer islands. For example, APA has a new base in Kosrae, Christmas Island.

Koo's Fishing Company (KFC).

MIMRA has a Joint venture with Koo's Fishing Company (KFC). In May 2008, Marshall Islands Fishing Company (MIFCO) formally opened its permanent offices within KFC's new office building adjacent to MIMRA. KFC has 5 purse seine vessels but one is owned through joint venture with the Governmentthrough MIMRA (51%/49%). In 2007, Koos vessels caught about 53 916 mt of skipjack in the WCPFC Convention area. KFC catch is mainly for canneries in Bangkok, Philippines, Pago Pago, Japan and China. They also sell to local processors such as PPF but Japan is their key market. The company is also planning to have a small market to process by-catch.

KFC also wanted assistance to deal with the EU's IUU regulations and SPS issues. Assistance from FFA and other regional organisations to deal with these issues will be required. The company indicated that the EU is a lucrative market and KFC normally sells its fish through brokers-FCF and Tri Marine. Tri-Marine then sells to the EU and South America. These brokers have contracts with canneries. Tri- Marine also insists on compliance with the new EU regulations.

KFC proposed that there should be a tax holiday for investments that are worth more than $10 million. The company also encouraged RMI to have its own fishing vessels. In the 80s, RMI had 2 vessels. However, the Government should not be involved in the day to day operations of the vessels. KFC supports the PNA initiative to maximize the benefits from fishing. Under this arrangement, it is proposed that each PNA member can sponsor investment in their domestic vessels. The foreign investors on their part must meet the minimum criteria, for example they must have minimum onshore investment, generate Governmentrevenue, allow a certain percentage of equity to be owned by locals, be RMI flagged, purchase fuel locally (e.g. 25%) and have at least five RMI citizens on each vessel. If the investors agree to these conditions, then they can be given a regional license to fish in PNA.

One vessel per load of fresh tuna (about 950 tonnes) fetches about $1 million but if frozen it fetches about $600 per metric tonne. In 2008 the price was as high as $1800 per metric tonne.
KFC has two carriers but these are not enough and sometimes the company uses FCF and Tri-Marine.

Pan Pacific Foods (PPF)

In 2006, Shanghai Deep Sea Fisheries Co Ltd signed an MOU with MIMRA to reactivate the loining plant with the endorsement to add four (4) purse seine vessels to associate with the plant so as to secure the supply of raw fish. PPF has one purse seine and argues that this arrangement will ensure that if there are losses on processing, they could be compensated through fishing.

PPF was registered in 2006, started constructing the plant from January 2007 and completed the construction in December 2007. Processing started in April 2008, In that year, PPF processed about 425 mt of raw fish and exported 149 mt of loins, 24 mt flakes and 28 mt of fish meal. According to the evaluation in commissioning, PPF suspended the processing from January to June, 2009 to install new machineries and equipment to fully support the production. PPF resumed production in June 2009 and has 1,600 local workers but only about 400 show up. Since the resumption of production on June 22, 2009, PPF has increased the daily production to 35 mt and day-shift is fully operational. As such, the total benefit package per month is about $ 140 000 payroll plus free transportation, meal and water.

PPF has exported over 400 mt of loins and 200 mt of fish meal. Currently, PPF is the biggest exporter and about 435 mt or 80% of PPF production is tuna loins for the US market while 75 mt goes to Bangkok. For the year 2010, PPF will process over 15,000 mt of fish and export 5,000 mt of loins and 800 mt of fish meal, provided that it could get more workers and space.
It was also noted that the labor cost in RMI is too high. The minimum wage is $2 per hour but can be exempted for $1.50 per hour. In Philippines, the wages can be as low as 10 cents per hour and in Bangkok it's even cheaper.

Some of the products that are produced include pre-cooked loins from skipjack or big-eye and pre-cooked flakes. Exporting to China is difficult because there are many problems involved, but exporting to Taiwan is easier. The EU market is very important because EU prices are always higher, and this also gives PPF more choices. About 10% of PPF's catch is yellow-fin but there is no ready market for this. If RMI signs the EPA, this will allow PPF to export yellow-fin to the EU market under favourable terms. PPF needs an alternative market. The prices in the US have been fluctuating from $4,000 per mt at the beginning of 2009 to $2,700 in November 2009. Canned tuna was also affected.

American Samoa used to supply the army and RMI should try to tap into that market because the prices are very good. However, the food safety requirements are very strict.
PPF indicated that canning is very costly and some of the cost includes importing the cans and other raw materials. However, PPF will try to do simple things such as tuna sausage. They also have a lot of flakes but there is no ready market.

PPF already has one lab which was assessed by FFA. It is willing to work with the Government to support water testing amongst other things. PPF has a place, facility and workers who can provide support to the Competent Authority.

It was noted that Solomon Islands spent about $4 million which was donated by the EU to establish a Competent Authority. Fiji uses USP facilities. It was recommended that the

Competent Authority can be established in R&D under MIMRA. PPF also indicated that Tri-Marine was willing to send an expert to set up the lab.

The company urged RMI to control access to their fisheries resources. It also recommended that there be one policy document for foreign investment. There should be clear steps on what the investors need to do and the approval steps must be set out clearly. There should be an exemption permit for tax holiday. The other agencies must coordinate with the AG's Office to ensure that foreign workers are treated fairly. The Government should monitor the excessive charges that are charged by the stevedoring company, which at one point wanted to charge a fee equivalent to 10% of the value of fish. There was also an issue of discrimination because the Government is allowed to offload copra without the services of a stevedore, but fishing companies are not allowed to offload their own fish on their own.

The other issue is that PPF is RMI flagged but when they come to the port they are classified as foreign and they pay a foreign entry fee of $100. There should be no need for the services of a pilot for domestic vessels. The pilot charges about $3,000 per trip.

The Government should assist PPF to have free access to the US market for Vacuumed Precooked Tuna Loins as PPF has to slit the vacuum bags to meet the requirement of free-access. If you slit, it becomes duty free, but this is costly to the company. It was noted that South American countries can ship vacuum packed pre-cooked loins to the US under the free trade Agreement with the US.

The key issues that PPF wanted to be addressed are:

- Access to the US Army food market and to have duty free access to the EU market for vacuumed pre-cooked tuna loins.
- Assistance to establish a Competent Authority.
- Incentives to encourage fishing companies to develop the local market and training workers on marine issues.
- Improve port services and ensure fair treatment of domestically based vessels-they should not be required to pay pilotage; they should not be required to use stevedoring services, and should not pay foreign entry fee each time they come to the port.
- Assistance to get the US to honour the requirements under the compact, as the US is still imposing tariffs of up to 6% on some PPF products exported to its market, even when slit according to US requirements.

3.2.4 General Conclusion and Recommendations

Through the early 1990s, the perception in RMI and throughout most of the Pacific was that the Government should directly be involved in the fishing industry by owning and operating fishing vessels, processing plants, and other facilities. Local participation in fisheries was strongly favored over foreign involvement and investment. However, a number of government-led fisheries projects failed (including a major ADB-financed fisheries venture in the RMI) and by mid 90s it was clear that Government involvement in business was not working. This prompted the RMI to rethink its policy, and with additional support from the ADB, a new direction was taken. RMI established the first National Fisheries Development Plan (NFDP 1997) which seeks to create an environment more conducive to private-sector–led fisheries development.

RMI also developed a Tuna Management Plan (TMP) which was revised in 2004. The TMP was subsequently reviewed in March 2008. MIMRA intends to phase out foreign fishing licenses in order to allow RMI domestic fleets to enter into fishery and maximize economic benefits from its tuna resources.

RMI needs to create an environment which is conducive for trade and investment. There are conflicting laws or regulations governing the fisheries sector and these need to be streamlined. Some of these laws pertain to investment. RMI needs to ensure that all the factors that are necessary to attract investors are taken into account. RMI should establish a transparent Investment Board which looks at foreign investment applications to screen the investments. As a small nation, RMI is constrained by its location and it's also competing with other countries.

Some of the companies that are operating in RMI have created employment and other related benefits. However, they have concerns that there is no transparency on the exemptions that are granted to foreign companies. There is a waiver on export income however, the customs regulations requires them to pay GRT. The law stipulates that if the investment is more than 1 million dollars, the tax is waived, however, it is not clear who is responsible for issuing the waiver. The process for issuing the waiver is also not transparent.

It was also noted that foreign licensed vessels do not pay GRT, however, domestically registered vessels pay GRT. Distant Fishing Nations get a license to fish but they are based in their respective countries. Domestic-based foreign vessels are foreign vessels that are based in RMI and they offload fish in RMI and export. Their activities have direct benefits to the economy.
It was noted that the RMI Development Authority has also been defunct. However, in order to develop the fisheries industry, the Government needs to identify atolls that can be earmarked for development and put in place the relevant infrastructure such as roads, ports, electricity. This is very important because there is now very little space for a major development in Majuro.

It should be noted that the supply of tuna for canning from purse seine fishing is essentially a commodity trade and is thus subject to significant market price variations. The very high regional catch levels of the late 1990's saw bulk tuna prices reduced to as little as $350 per mt in 1999 and 2000. Prices have subsequently stabilized but have been fluctuating. The fishing industry is highly competitive and involves high-risk as it is subject to the vicissitudes of the volatile global market. It operates on small margins of profit and requires large economies of scale. The fishing fleets must be flexible and mobile, always ready to move when circumstances demand. Another problem is that local workers may not be willing to serve on fishing boats for longer periods than their counterparts in Asia. For the private sector to enter into this risky industry, the Government must put in place all the required supporting facilities and incentives. However, lessons from the past experiences must be used to develop working fisheries development plans.

RMI needs to promote foreign investment and value addition in this sector. The Government should work with all the relevant stakeholders and make it easy for foreign investors to invest in the fisheries sector. The government's role should be limited to resource management, creating an environment which is conducive for private sector development, provide hard infrastructure and facilities such as adequate supply of power, potable water, sanitary waste disposal, good port facilities and shipping terminals, access roads and docking facilities. The private sector must be responsible for all commercial fisheries investments and operations. Once the supporting facilities and trained personnel are available, there is a good chance that successful fishing ventures can be established.

It should be noted that RMI will be competing with other well established Asian countries such as Thailand which is the main supplier of the US market. RMI should not focus on large fishing operations but the private sector should focus on niche products.

RMI has another advantage in the form of duty free access to the US, which gives it a 12% marketing advantage over Asian processors. If it signs the Economic Partnership Agreement (EPA), it can also export to the EU duty free with a 20.5% -24% marketing advantage over some Asian competitors. Since labor costs are 6-8% of the total costs of a case of tuna, RMI has the potential to compete with Asian countries. In principle, Island based canneries have the potential to obtain the raw product 10-20% cheaper than distant processors as it costs about $100-120 a ton to deliver the tuna to distant plants. This is a huge advantage because the costs of tuna are about 60% of the total cost of a case of tuna.

However, in the long run, the Pacific industries must be competitive and not depend solely on preferences. There is a need to ensure that the tuna industry remains competitive even after the preferences are gone. This requires an objective assessment of the sufficiency of major factors of production such as suitable land, water, labor, electricity, transportation infrastructure and accessibility to year-round fishing grounds.

RMI needs to establish a Competent Authority to assist the processors to meet export requirements. The Competent Authority must have food and fish scientists and a laboratory. The workers need to be trained on hygiene standards. If RMI wants to export to the EU it has to make sure that the Competent Authority complies with the EU sanitary and phyto-sanitary standards (SPS) and the technical barriers to trade (TBT) requirements. RMI boats and processing plants are also required to meet the EU requirements and all the product processing methods must comply with the EU sanitary requirements.

MIMRA should provide the necessary infrastructure in order to maximise revenue generation and associated economic benefits from fishing vessels transhipping in Majuro.
RMI should also consider expanding its aquaculture business, focusing on high-value export products such as pearls[30], aquarium life, sponges and perhaps organisms with pharmaceutical properties. There is potential to produce clams and crabs for the US, EU (UK, Netherlands, and Germany) and Chinese markets.

Recommendations:

(i) RMI must take positive measures in line with the PNA initiative to maximize the value of its tuna resources, including through obtaining eco-labeling certification and encouraging domestication of the fisheries industry.
(ii) RMI must reform its laws and regulations to create an environment which is friendly for foreign investment in the fisheries sector.
(iii) Procedures on incentives must be transparent and streamlined and the Ministry of Finance should issue an exemption permit to qualifying investors.
(iv) RMI must work with outer islands and set aside land for fisheries development in outer islands and develop the necessary infrastructure.
(v) RMI must focus more on value addition to its fisheries products rather than relying mainly on access fees. Positive measures must be put in place to support the participation of the local private sector in the fishing industry.
(vi) The Government should consider introducing targeted incentives for investors in the fisheries industry. These may include removing duties on raw materials required for fish processing.

[30] In the past the Marshall Islands Marine Resources Authority, Robert Reimers Enterprises (RRE), University of Hawaii's Sea Grant, and pilot projects by Dr. Manoj Nair, a former CMI Aquaculture Researcher worked very hard to develop the black pearl industry. RRE opened the first pearl oyster farm in Arno and Jaluit in the 1990s. Black Pearl Farms, a privately owned entity as well as other local governments followed suit. The major challenge for these operators was lack of spat (baby oysters). There was no proper hatchery. However, the Aquaculture Hatchery located in the College of Marshall Islands Arrak Campus has helped to revive the industry by producing enough spat. In 2010, the local governments of Rongelap and Namdrik atolls held their first action and sales of pearl. Various products including pearl necklaces, earrings, and rings raked in a net profit of over $31,000. This is a vital sector with potential to grow and should be fully supported to enable the sector to expand and tap into the export markets.

(vii) The Government must improve its access into the US market, in particular access for vacuum packed pre-cooked tuna loins and access to the US military market.

(viii) RMI must establish the Competent Authority and consider signing the EPA to have preferential access into the EU fisheries market.

(ix) There should be targeted training on fisheries and other skills relating to the fisheries industry.

(x) RMI flagged vessels must be exempted from paying entry fees each time they enter the port and they should not be required to use pilotage. They should also be allowed to handle their own fish at port and not use expensive stevedoring services.

(xi) RMI must improve the statistics on fisheries including fisheries exports as well as those that are caught by DWFN.

(xii) R&D must work together with outer islands in promoting foreign investment in integrated catching and processing and facilitating exports of value added fisheries products.

(xiii) Technical and financial assistance must be provided for the development of aquaculture (e.g. black pearls, tilapia, giant clams, sea cucumbers, trochus, lapu-lapu, salt processing, ornamental reef industry, sea weed processing, fish caging, and hatchery.

3.3 Tourism

The Marshall Islands Visitors Authority (MIVA) falls under the Ministry of R&D and is governed by the MIVA Act of 1997. It is the key agency that is responsible for developing the tourism industry. The MIVA was established with technical assistance from ADB and the Department of Interior. The RoC has also been supporting MIVA. It receives about $150 000 from the Government General Fund on an annual basis, however, this amount is inadequate to allow MIVA to perform its functions effectively.

As seen above, the opportunities in agriculture and fisheries are not adequate to provide the desired employment opportunities to RMI citizens, and for this reason, it is important for the Government to support the tourism industry. The RMI is geographically, culturally and historically unique. It is one of just a few coral atoll nations in the world and the vast majority of its land and sea environment is still pristine. This includes an abundance of uninhabited coral atolls, islands and their terrestrial and marine areas and resources. If managed properly, tourism has the potential to spur developments in other sectors.

The National Tourism Development Plan (NTDP) outlines a number of goals and objectives that, if fully implemented, can help the RMI develop into a truly successful and sustainable destination. However, for this to occur, RMI needs to improve the basic services and infrastructure, education, health, enhance skills, preserve the environment and culture for the benefit of local people as well as the tourism industry.

The United Nations World Tourism Organization (UNWTO) defines a tourist as someone who travels to and stays in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited. In 2009, international tourism is estimated to have declined worldwide by 4%. In 2008, international tourism generated about USD 946 billion in export earnings. However, RMI's contribution to tourism exports is very tiny.

In 2006, the global tourist arrivals were 842 million and they slightly increased to 880 million in 2009. Tourism play a vital role in the Pacific region and many countries are taking measures to benefit from the global tourism market. The Pacific Islands can be divided into three of four major clusters based on the size of their visitor markets. At the top, destinations like Guam, the Commonwealth of Northern Mariana Islands (CNMI), and Fiji have more than half a million visitors per annum. The next group which consists of French Polynesia, Samoa, New Caledonia have roughly 100,000 to 200,000 visitors. Cook Islands, Palau and Vanuatu have between 50,000 to 100,000 visitors a year. For the remainder of the countries, including the RMI, see under 50,000 visitors a year. Further details are provided in Table 38.

Table 37: Total Arrivals in the Pacific

Country	Year	Total Arrivals	New Zealand	Australia	USA	Canada	United Kingdom	Europe	Japan	Asia	Pacific	Other
American Samoa	2006	30,268	...	...	...	...	...	...	...	...	...	...
Cook Islands	2008	94,720	61,376	11,262	3,598	2,078	...	13,454	...	533	1,087	1,332
Federated States of Micronesia	2006	19,136	183	1,077	8,053	203	...	2,398	3,071	1,525	1,158	1,468
Fiji	2008	585,031	100,018	247,608	63,667	17,871	33,935	29,512	21,918	25,328	35,936	9,238
French Polynesia	2008	196,496	...	...	70,506	...	...	82,838	...	21,226	21,406	520
Guam	2004	1,120,676	...	...	46,159	...	...	...	906,106	126,303	32,435	9,673
Kiribati	2008	3,380	319	876	35	...	86	294	192	...	1,029	549
Northern Mariana Islands	2008	396,410	...	...	32,199	...	...	...	201,982	150,043	...	12,186
Marshall Islands	2007	6,959	215	281	1,690	na	na	275	1,600	1,043	1,024	831
Nauru	...	...	...	...	...	...	...	...	...	...	...	...
New	2008	103,672	8,424	18,185	...	...	...	...	20,225	...	...	56,838

Caledonia												
Niue	2008	4,748	2,778	546	256	59	113	379	27	93	437	26
Palau	2008	83,114	...	738	10,442	...	...	2,723	30,319	33,134	3,102	2,656
PNG	2007	104,122	4,637	53,819	6,678	1,384	3,530	5,101	3,355	21,574	3,118	926
Samoa	2008	122,163	51,533	22,643	8,465	428	1,707	3,384	730	2,271	30,403	599
Solomon Islands	2007	13,748	987	5,960	953	...	...	...	572	...	...	147
Tonga	2004	41,208	16,384	8,023	7,923	279	1,157	2,251	567	629	3,369	626
Tuvalu	2007	1,130	105	138	54	11	35	52	227	80	330	98
Vanuatu	2008	90,675	...	...	...	...	...	...	...	...	...	...

Source: SPC 09/04/10

RMI has seen a steady but slow growth in the tourism industry. In the 80s, annual tourists were around 4,000 a year. However, the number of visitors increased to 9,173 in 2005 mainly because of the entry of Continental Air Micronesia, which began servicing RMI in 1968, and the establishment of major hotels. The numbers have also increased because of Japanese tourists who come in through Japan Air Line (JAL) charter flights. Some of the airlines that used to service RMI include Aloha, Air Nauru and Our Airline. Air Marshall Islands (AMI) also used to service the Fiji-Majuro route. According to Table 39, tourism numbers declined to 4,563 in 2010 mainly because of poor marketing and transportation challenges amongst other things. It is also clear that the number of visitors coming for vacation is lower than business visitors. For example in 2010 there were 2,257 business visitors compared to 934 visitors on vacation. According to Table 41, from 2007 onwards, the length of stay for business visitors is slightly higher than visitors on vacation.

RMI also needs to do more to promote annual sea arrivals. The total annual sea arrivals have ranged from 100 to 1,000 (depending on the number of yachts and cruise ships visiting each year. There is also a need to gather and maintain accurate data on sea arrivals. Investment in tourism in recent years has increased. However, the RMI remains a relatively undeveloped and young destination.

Table 38: Visitors to Majuro, by year and purpose of visit: 2001 - 2010

Purpose	2001	2002**	2003**	2004	2005	2006	2007	2008	2009	2010
Transit/Stop Over	676	997	1,988	1,779	1,590	965	1,415	1,325	773	172
Business	1,892	2,165	2,245	2,999	3,061	2,033	2,218	2,147	2,119	2,257
Holiday/Vacation	1,483	1,445	1,380	2,683	2,727	1,255	2,060	1,385	1,430	934
Visiting	662	763	769	810	931	661	718	587	511	562

Friends/Relatives										
Other/Not Stated	731	632	813	736	864	866	548	578	539	638
Total	**5,444**	**6,002**	**7,195**	**9,007**	**9,173**	**5,780**	**6,959**	**6,022**	**5,372**	**4,563**
Memo: Total excluding Transit	4,768	5,005	5,207	7,228	7,583	4,815	5,544	4,697	4,599	4,391

**Does not include those who arrived at Kwajalein airport

Table 39: Visitors to Majuro, by year, length of stay and by purpose of visit: 2001- 2010

Purpose	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Transit/Stop Over	1.5	1.1	0.8	0.7	0.9	2.4	1.1	1.1	1.2	*n.a.*
Business	6.2	7.9	6.8	4.8	6.4	6.3	5.4	4.8	5.3	*n.a.*
Holiday/Vacation	5.4	5.4	6.2	3.7	5.6	6.6	4.9	4.0	4.3	*n.a.*
Visiting Friends/Relatives	8.9	9.1	12.9	9.1	10.7	11.5	7.1	6.2	8.2	*n.a.*
Other	9.0	9.8	11.8	10.3	8.8	9.5	6.8	5.5	10.2	*n.a.*
Not Stated	0.8	1.0	0.5	1.0	1.0	1.5	0.1	2.0	1.1	*n.a.*
Total	**5.6**	**6.1**	**5.6**	**4.2**	**5.5**	**6.3**	**4.6**	**4.0**	**5.2**	***n.a.***

Prior to 2004 only visitors travelling by air were included

Table 41 shows that the major tourism markets are USA and Japan. The US has been the number one market for visitors to the RMI and about 2,000 visitors were received on annual basis. The decline in US holiday visitors began in 2002 and the numbers decreased to 506 and then 200 in 2007. This is mainly due to the problems with Air Marshall Islands, which have especially hurt Bikini Atoll dive tourism. The economic crisis and the poor marketing strategy have also contributed to this decline. However, the arrival numbers from Japan have been steady. In 2007, visitor arrivals were about 7,000 and there were about 6 JAL flights which brought in about 2,000 tourists. In 2008, there were about 6,022 visitors but there were no JAL flights in 2008 and 2009. It is estimated that about 10,000 visitors could contribute about 7-8 million to GDP per year. The contribution of tourism to GDP decreased from 5.4% in 2001 to 1.6% in 2010. It is therefore important that statistics on the number of tourists and their financial contribution to the economy be gathered and regularly updated.

Table 40: **RMI's major tourism markets (2000**-2010)

Usual residence	2000	2001	2002	2003	2004	2005	2006 1	2007	2008	2009	2010
USA/Canada & other America	2,022	1,994	2,156	2,189	2,099	2,554	1,831	1,690	1,480	1,547	1,332
Australia/ New Zealand	202	222	263	279	277	578	293	496	275	271	274
Other Pacific Island countries	1,181	1,070	1,072	1,650	1,669	2,024	1,236	1,024	965	665	1,279
European Countries	129	115	147	196	160	404	180	275	177	153	144

Japan	856	940	828	961	984	1,565	907	1,600	1,427	1,349	557
Taiwan	211	353	347	209	321	476	228	311	375	255	404
People's China	83	80	159	57	87	142	58	157	61	89	79
Philippines	170	180	239	245	192	532	204	255	236	196	216
Other Asian Countries	181	228	489	1,021	936	731	565	320	324	207	85
Others & Not Stated	211	262	302	388	2,282	167	278	831	702	640	153
Total	**5,246**	**5,444**	**6,002**	**7,195**	**9,007**	**9,173**	**5,780**	**6,959**	**6,022**	**5,372**	**4,523**

Source: MIVA

RMI has about 300 rooms available for tourists and there are about 20 to 30 units to be added with new resorts currently under construction. Between 2005-2007, about $3.2 million has been invested in accommodation facilities. It should also be noted that even though RMI has very few rooms, it has been struggling to fill the existing capacity. For both 2006 and 2007, the estimated annual occupancy rate for all of RMI stood at around 23 percent. This means that the RMI can probably triple its annual visitor arrivals without having to expand its room capacity.

The data from EPPSO and MISSA shows that the hotel and restaurant industry (excluding dive operators, airlines, and other tourism related industries) currently employs around 300 people. Total wages paid to 300 hotel and restaurant workers in FY2007 was around $1.5 million dollars, or an average of around $5,100 per annum per worker. Hotel tax is about 8% plus local tax of about $3 per night and 10% of this goes to MIVA.

The most important principle is to ensure that development is planned and controlled properly so that culture and environment are not affected. RMI should focus on quality (and not quantity) in tourism planning, promotion and development efforts. The long term objective should be to encourage and emphasize the development of high-yield quality tourism rather than high volume tourism.

RMI needs to improve its marketing and sales, international and domestic transport, hotels and resorts, food and beverage, recreation and activities, and other goods and services. Physical infrastructure, policies and regulations and the socio-cultural and political issues also need to be addressed in order to improve its live-ability and visit-ability.

The 2008-2011 tourism development policy is:

"To develop our economic base through tourism and to enable all Marshallese to benefit from controlled tourism development, insisting that this development will complement the Marshallese people, their natural environment and cultural heritage".

For this policy to be fully implemented the private sector must play a vital role in the tourism industry and the Government should provide the necessary infrastructural support including planning and regulations. AMI must be privatised but the subsidies must continue to support non-viable routes. Outer island airport facilities also need to be upgraded.

3.3.1 RMI's key Tourism Resources

The principal resources include beaches, marine life, historic sites and annual events. Support resources include transportation, accommodation, food and beverage, tour operations, basic business services and other goods and services.
The natural resources offered by RMI include flora, fauna, landscapes, seascapes, climate, marine resources and physical conditions and features. RMI has a mild climate (with no consistent typhoon season), unique coral atoll geography, abundance of pristine coral islands, rich marine life and various species of fish, corals, and other resources, strong and consistent windy season, surf breaks, unique ecosystems and species, beaches and expansive uninhabited/isolated areas.

RMI also has several potential World Heritage sites that can serve as strong tourist attractions. These include the atolls of Bikini, Ailinginae, Rongelap and Rongerik, which have both natural and historic significance.

Cultural resources in the RMI include canoes and navigation traditions, traditional and locally made arts and crafts, Marshallese foods, local products, culturally significant sites (bwebwenato), Alele Museum and archives. In addition to these, the RMI also has culturally-based events throughout the year that can serve as cultural tourism resources, such as the Manit (culture) Day activities and the annual traditional canoe races.

Historic resources include the various World War II relics and wrecks both on land and underwater (e.g. Wotje, Mili, Maloelap, Kwajalein, Bikini), as well as other site such as the deBrum house in Likiep and other pre-WWII sites in other atolls. Bikini Atoll itself is an excellent example of a historic resource with global significance and uniqueness.

The key activity resources include SCUBA diving; free diving, snorkeling, sport fishing, surfing, windsurfing, sailing, kayaking, and camping. The main event resources include fishing tournaments, traditional canoe races, the activities surrounding Manit Day, and sporting events (regional tournaments, etc.). Majuro also plays host to occasional international, regional and sub-regional conferences, workshops and seminars every year. The new International Conference Center should help in promoting these events.

Visitors include SCUBA divers (both general recreational divers as well as more technical and wreck divers) and snorkelers, sport fishermen, including free divers, private yacht cruisers, commercial cruise ship visitors, military ship visitors, surfers, general interest adventure travelers, business visitors and other special interest visitors (like researchers and religious visitors).

3.3.2 Marketing RMI Tourism

MIVA has also been trying to market RMI through TV shows, radio personalities, targeting the US, Japan and Australia. It was acknowledged that internet is the best in terms of marketing but more training may be needed. There used to be a trade show booth in Europe for 4 months under the International Travel Bureau in Berlin at a cost of about US$ 12 000. There were different shows in China but it was very expensive to translate the adverts to Chinese ($3, 500). Japan and Taiwan have been willing to assist with marketing at their own cost but charging about $5,000 each excluding printing.

RMI sometimes utilizes the Pacific Islands Trade and Investment Commission (PITIC) offices but they were concerned that these offices do not concentrate on tourism. Some of the services offered by PITIC include support to Forum Island Countries National Tourism Offices (NTO) to develop and promote their tourism industries, production of tourism statistics, supports marketing activities of NTOs based in the respective PITIC Offices and partnering with NGOs to develop rural based tourism activities. RMI is more active with the Pacific Asia Travel Association (PATA) because of the Micronesian charter. RMI is also participating in the Shangai Expo and has received $7 500 from MoFA for this purpose.

The major challenge for RMI is to improve its competitiveness in the tourism industry to be able to compete with other countries in the region. The capacity to compete depends on the investments made to create an attractive and safe product, enhance its quality and provide a friendly and encouraging environment. Competitiveness brings the tourism enterprise into the picture and hence trade in tourism services. The products that RMI offers should be a quality "tourism product" and both the Government and private sector must work together to develop this product. The issue of safety of the product should also be taken into account. There should be an appropriate and transparent regulatory framework, as well as the establishment and recognition of mandatory or voluntary standards, best practices and minimum requirements.
The NTDP recommends that the marketing strategy should focus on North American and Asian markets as primary source markets and Australia/New Zealand and EU markets as secondary markets.

In 2008, RMI became a Government member of the region's mandated inter-governmental body for tourism development and marketing – the South Pacific Tourism Organisation (SPTO). SPTO's mission is to "Market and Develop Tourism in the South Pacific". SPTO is also the implementing agency for the "Pacific Regional Tourism Capacity Building Programme (PRTCBP)", which is funded by the European Union under the 10th European Development Fund and will be carried out over 36 months from January 2012 to December 2014. The PRTCBP will focus on the development of sustainable tourism by supporting a more conducive enabling environment for regional tourism growth through enhanced policy and capacity development as well as increased productive capacity and improved market access.

3.3.3 Key Challenges affecting Tourism in RMI

Some of the key problems that have been identified in the NTDP include the following.

i) Most Marshallese, including policy makers do not support tourism because they do not understand the potential of tourism. There is a need for awareness campaigns involving all the stakeholders. RMI must show commitment in supporting tourism in terms of funding before it goes out to seek donor funding.
ii) The environmental challenges: There should be effective mechanism for protecting natural resources and managing waste. Littering and the dirty environments in Majuro were highlighted as key concerns. Majuro is littered and unattractive. Key facilities at the air port, roads, public places need to be upgraded, beautified or cleaned.
iii) Tourism development must be more inclusive. Local people should be involved in developing the tourism sector and enjoying the benefits.
iv) The domestic transportation system is dire. Transportation infrastructure must be improved including AMI services. Domestic sea transportation has improved a little bit with the establishment of Marshall Island Shipping Company.
v) Lack of activities-other than water sports. There is a need for more local products.
vi) The cost of doing business in RMI: The key concerns highlighted include abrupt policy changes, taxes, land issues, access to credit, and immigration policies on foreign workers.
vii) Tourism workers need better training. Some of the issues include poor customer services, poor language skills –English/Japanese/Chinese.
viii) Substandard infrastructure and facilities: The key issues include lack of quality accommodation, transportation infrastructure, power, water and sewer, cruise ship facilities in outer islands and docking facilities, inconvenient and costly long distant calls, no internationally recognised rating system, inadequate wireless internet system.
ix) Insufficient visitor information
x) Safety for visitors.
xi) Flying to RMI is costly and cumbersome.
xii) Lack of facilities to support sea based tourism. There are limited cruise ship facilities, lack of marketing and advertising to yachts, cumbersome outer islands permit system and lack of safe mooring.
xiii) Poor policy and planning. The key issues include visa policy, zoning and poor incentives.
xiv) Need to improve on international marketing: MIVA needs to do more to market the country to the world.

3.3.4 Recommendations

The NTDP sets out the broad goals, objectives and the action that must be taken to develop the tourism industry. Some of the key recommendations include the following:

i. RMI must identify products with the strongest tourism and export appeal through 'niche market research' and seek technical and financial assistance to support their growth.

ii. RMI needs to fully utilize the grants that are provided by JICA ($8-12 million) per year to develop tourism. However, the Government must show commitment to tourism before it goes out to seek donor funding.

iii. RMI should liberalize the tourism industry but reserve the small business operations for Marshallese citizens.

iv. The Government must immediately privatize AMI and pursue options to allow the entry of private investors into the domestic sea passenger business to outer islands.

v. The Government must push for dramatic improvements to outer island runways, especially in key atolls with greatest tourism potential.

vi. The Government must engage with Continental Airlines on options for better pricing, scheduling, and service options. It must also capitalize on RMI's existing landing rights in Honolulu and Fiji to facilitate better air transport services and restore and sustain airline services to the south, connecting the RMI with Australia and Fiji. The Government must strongly support continuation and increase of JAL charter business and work on the airline information package.

vii. The Government should take urgent measures to utilize the initiative by Continental Airlines to introduce 3 flights from Japan.

viii. The Government must take measures to improve access to finance.

ix. All tourism stakeholders must engage RMI to improve overall business and economic policies to encourage growth of private sector and start ups.

x. Policies such as taxation, immigration, labor and others must be reformed to enable business growth.

xi. The Government must reformulate the National Investment Policy Statement.

xii. The Government must identify islands and regions with best suitability for small-scale, sustainable tourism resort development. It must establish an inventory of suitable and free-and-clear islands and areas (non disputed) for investment promotion and facilitation.

xiii. The Government must begin aggressive investment promotion campaign targeting high-end resort developments and investors.

xiv. The Government must re-consider tax holiday for hotel and related investors.

xv. The Government must improve the basic infrastructure and services: airports, sea ports, roads, telecommunications, water, power and sewer.

xvi. MIVA must work with the Registrar of Corporations, review and comment on foreign investment business license applications that propose tourism-related investments, to ensure that proposed investments meet the minimum standards.

xvii. MIVA, immigration, labor and EPPSO should work together to improve tourism statistics.

xviii. The Airport Authority should allow MIVA to conduct exits surveys at the airport.

xix. Import procedures must be streamlined to avoid a situation where importing goods requires going through many offices.

xx. The Government must increase the marketing funds to MIVA. This should be seen as an investment and not a loss to the Government.

xxi. More effort should be put on product development, because if you cannot dive or fish there is very little to do.

xxii. Enforce environment laws (waste management) to ensure that all public places are well maintained.

xxiii. RMI should adopt international hotel standards.

xxiv. Technical and financial assistance must be provided to promote existing strengths in tourism resources and link it to various local agricultural and fisheries products.

xxv. RMI should promote high end low, impact tourism and put adequate regulatory measures in place to protect the environment and encourage sustainable tourism.

4 PARTICIPATION OF RMI IN MERCHANDISE TRADE

This section covers RMI's performance in merchandise trade, classification of imports, import markets, RMI's tariff structure, export performance, composition of exports, export markets and measures to promote exports. Other non-tariff barriers affecting trade in goods and measures that are necessary to facilitate trade will also be discussed.

4.1 Trade in Goods

RMI's performance in merchandise trade has been very poor. Its balance of trade for goods and services has always been in the negative (deficit). In 2010, the value of merchandise exports from RMI was $32.3 million and that for imports was $125.5 million (f.o.b). There was a deficit of $93.2 million.

Table 41: RMI;s balance of trade in goods, FY00-FY10

(US$ millions)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Goods and services balance	-93.1	-97.1	-78.4	-89.0	-87.1	-100.7	-100.6	-108.8	-109.5	-127.5	-136.2
Goods balance	-62.5	-64.7	-49.3	-57.9	-53.2	-61.7	-64.1	-69.6	-69.8	-73.3	-93.3
Exports of goods	15.5	13.9	15.1	17.5	18.8	23.5	17.9	18.3	20.2	20.8	32.3
Re-exports	12.7	11.9	13.3	15.3	17.5	20.4	17.0	15.5	15.1	15.9	21.1
Copra/ coconut oil	2.4	1.6	1.4	1.9	0.9	2.6	0.4	2.2	4.4	2.0	2.4
Fish	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	2.8	8.8
Imports of goods f.o.b.	77.9	78.6	64.4	75.4	72.0	85.1	82.0	87.9	90.0	94.1	125.5
[31]"Exports", non-resident fishing vessels	na	28.3	35.2	33.7	44.1	56.0	47.1	81.2	66.7	65.2	84.8

EPPSO (BOP) revised data: May 2011,

The table below shows US exports to RMI and US imports from RMI[32]. This means that the bulk of the US grants as well as other grants are used to finance the import bill. Even though the information in the table below may not be entirely accurate, it shows that the US is RMI's major import and export market. However, disaggregated data on the major commodities that were traded between RMI and the US is not readily available.

Table 42: US Trade with Marshall Islands

USD millions	Exports	Imports	Balance

[31] Pelagic fishing vessels operated economically from abroad are treated as non-resident; thus, their sales are not included in exports in the main data

[32] http://www.census.gov/foreign-trade/balance/c6810.html#2009. The total may not add due to rounding. The table reflects only those months for which there was trade.

2009	77.6	13.7	63.9[33]
2008	25.1	19.3	5.9
2007	22.9	11.7	11.2
2006	15.5	14.4	1.0
2005	75.5	17.2	58.3
2004	18.8	12.1	6.7
2003	28.2	27.1	1.1
2002	28.8	9.5	19.3
2001	26.5	5.5	21.0
2000	60.4	5.2	55.2

SOURCE: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233

4.1.1 Classification of Imports

The RMI's import bill is largely dominated by fuel, food and beverages. In effect, RMI's classification of imports for 2009 and 2010 shows that foodstuff imports account for about 30% of the import bill. The major items in this category include meat and fish imports especially poultry, canned meat, canned fish, beef meat, pork meat, fish, non-fish seafood.

Other major food items imported include rice, fruit and vegetables, sugar and confectionary, bread, cakes, biscuits, ramen, noodles, pasta, milk and cream and ice cream. Beverages including, soft drinks, beer, spirits, water, and wine also constitute a significant portion of the import bill. It is clear that a huge chunk of RMI's funds are spent on food and beverages rather than importation of industrial and capital goods that can be used for production of value added goods and services[34].

Table 43: Imports to RMI by product category and value: 2009 - 2010

COMODITY/HS SECTION	VALUE ($) 2009	Share %	VALUE ($) 2010	Share %
I : ANIMALS & ANIMAL PRODUCTS	4,958,179	7%	5,929,037.77	8.1%
II : VEGETABLE PRODUCTS	5,662,145	8%	4,516,096.18	6.2%
III : ANIMAL OR VEGETABLE FATS	600,398	1%	468,949.48	0.6%
IV : PREPARED FOODSTUFFS	11,550,403	15%	11,076,028.27	15.1%

[33] Data from RMI Customs however indicate as follows: 2009 imports from US (including Guam and Hawaii) = $ 49,473,300; 2010 imports from US = $ 49,055,589.

[34] Information on fuel imports is not available, thus possibility of substantial gap in the data

V : MINERAL PRODUCTS	21,942,777	29%	22,967,227.67	31.3%
VI : CHEMICAL PRODUCTS	2,427,029	3%	2,425,499.71	3.3%
VII : PLASTICS & RUBBER	2,397,974	3%	2,409,166.07	3.3%
VIII : HIDES & SKINS	62,729	0%	47,886.68	0.1%
IX : WOOD & WOOD PRODUCTS	1,890,884	3%	2,075,570.21	2.8%
X : WOOD PULP PRODUCTS	1,646,395	2%	852,238.60	1.2%
XI : TEXTILES & TEXTILE ARTICLES	968,998	1%	1,000,648.11	1.4%
XII : FOOTWEAR, HEADGEAR	255,394	0%	274,088.15	0.4%
XIII : ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS	366,074	0%	342,216.85	0.5%
XIV : PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, METALS	5,231	0%	15,181.98	0.0%
XV : BASE METALS & ARTICLES THEREOF	4,128,836	6%	4,237,292.30	5.8%
XVI : MACHINERY & MECHANICAL APPLICANCES	10,103,329	14%	7,054,704.62	9.6%
XVII : TRANSPORTATION EQUIPMENT	4,275,545	6%	6,047,894.84	8.2%
XVIII: INSTRUMENTS - MEASURING, MUSICAL	350,252	0%	310,978.93	0.4%
XIX : ARMS & AMMUNITION	1,757	0%	2,673.03	0.0%
XX : MISCELLANEOUS	1,198,567	2%	1,191,506.12	1.6%
XXI : WORKS OF ART	246	0%	307.51	0.0%
PERSONAL EFFECTS			77,894.40	0.1%
Total	**74,793,144**	**100%**	73,323,087.48	100%

Source: RMI Customs Department

4.1.2 Import Markets

RMI's major import markets are the US Mainland, Guam, Japan, Hong Kong, Australia, Korea, China, Philippines, Taiwan and New Zealand.

The table below show imports by trading partner[35]

Table 44: Import by trading partner (c.i.f USD'000) in RMI:2002 - 2005 and 2009 - 2010

	2002		2003		2004*		2005		2009		2010	
Country	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	7,282	10.78	10,079	13.4	6,438	9.5	5,833	8.5	3,779	5.0	3877	5.3
Fiji	170	0.25	199	0.3	277	0.4	368	0.5	102	0.1	461	0.6
Guam	4,632	6.86	8,519	11.3	9,853	14.6	9,245	13.5	20,180	27.0	12,560	17.1
Hawaii	0	0.00	5	0.0	3	0.0	5	0.0	131	0.2	120	0.2
Hong Kong	3,261	4.83	2,465	3.3	2,868	4.2	2,432	3.6	1,951	2.6	1,702	2.3
Korea	120	0.18	55	0.1	1,728	2.6	1,544	2.3	1,879	2.5	760	1.0
Japan	4,428	6.56	3,660	4.9	5,145	7.6	5,393	7.9	3,094	4.1	4,697	6.4
New Zealand	938	1.39	2,538	3.4	842	1.2	2,338	3.4	2,493	3.3	2,174	3.0
Philippines	1,309	1.94	1,102	1.5	1,459	2.2	4,024	5.9	1,828	2.4	1,927	2.6
Singapore	268	0.40	847	1.1	333	0.5	450	0.7	1,505	2.1	1,309	1.7

Taiwan	1,907	2.83	2,145	2.9	1,835	2.7	1,683	2.5	2,304	3.0	2,263	3.0
Mainland USA	40,353	59.76	40,691	54.1	32,720	48.4	32,231	47.1	29,160	40.0	36,374	49.6
Others	2,851	4.22	2,930	3.9	4,157	6.1	2,944	4.3	6,445	8.6	5117	6.9
Total	67,520	100.00	75,235	100.0	67,658	100	68,490	100	74,779	100	73,323	100

Source: SPS and RMI Customs, Revenue and Taxation, Ministry of Finance.

4.1.3 RMI's Import regime

The Import Duties Act governs the import regime in RMI. It does not apply to or in relation to the importation of goods to the United States Army Kwajalein Atoll (USAKA). The Act also stipulates that an import license is required to import alcohol and tobacco for re-sale. The Secretary of Finance shall solicit applications for a license through an invitation for bids. The Minister shall issue no more than 30 licenses for tobacco and alcohol each financial year.

The Marshall Islands Energy Company (MEC) and Kwajalein Atoll Joint Utility Resource, Inc. (KAJUR) are exempted from paying import duties on lubricating oil and diesel fuel oil imported by, for, or on behalf of, or sold to them solely for the purpose of power generation. However, they pay duties for fuel sold to fishing vessels.

Ad valorem tax is paid on the cost, insurance and freight (C.I.F.) value of the goods, however, for goods imported on aircraft, the ad valorem tax is paid on the free on board (F.O.B.) value of the goods. The table below summarizes the RMI's tariff structure. Foodstuffs[36] are levied at 5% and non-food products at 8%. However, there are also specific duties and different rates for luxury products, alcohol and tobacco, fuel, mixed drinks, soft drinks and vehicles.

Table 45: RMI's Tariff structure for food stuff

1. Foodstuffs.. 5%
2. Gasoline... 0.25 cents per gallon
3. Jet A-1... 0.08 cents per gallon
4. Diesel.. 0.08 cents per gallon
5. Motor Vehicles (whose values can be determined in the Kelly's Blue Book)................. 15% of value stated in the Kelly's Blue Book or of accompanying invoice, whichever is higher, provided that in no case shall the duty assessed be less than $1,500.00.
6. Motor Vehicles (whose value cannot be determined in the Kelly's Blue Book)................. New Motor Vehicles - $2,500.00................. Used Motor Vehicles - $1,500.00
7. Public Transport.. 5%
8. Tobacco, and cigarettes .... $1.00 per pack of 20 rolls

36 "Foodstuffs" means all consumables including rice, flour, fresh and frozen vegetables and fruit, sugar and sugar confectionery, baby food and other food preparation, poultry products, animal products, canned foods, snacks foods, bakery items, prepared cereals, condiments such as salt, pepper, spices, cooking oil and ketchup.

9. Cigars.. 151%
10. Other tobacco (Copenhagen) .... $2.75 per 34.2 grams or 1.2 oz
11. Beer... $0.50 cents per can or 12 oz. unit
12. Wine.. $2.75 per gallon
13. Spirits... $12.00 per gallon
14. Mixed drink... 26%
15. Soft drinks - carbonated beverages.......... 0.01666 per 1 oz. - non-carbonated and artificially flavored beverages..................10%

In addition to the above tariffs, the College of Marshall Islands is entitled to certain percentages and amounts deducted from import duties as indicated in the table below.

Table 46: Contribution to the College of Marshall Islands

Contribution to CMI
(a) Tobacco, and cigarettes................$0.25 per pack of 20 rolls (b) Cigars...1%
(c) Other tobacco (Copenhagen).........$0.25 per 34.2 grams or 1.2 oz
(d) Beer...$0.25 cents per can or 12 oz. unit
(e)Wine..$0.25 per gallon
(f) Spirits..$2.00 per gallon
(g) Mixed drink.................................1%
(h) "soft drinks"
• carbonated beverages.............$0.00833 per 10 oz
• non-carbonated and artificially flavored beverages….5%

4.2 Export Performance

The main merchandise exports include fish, coconut oil, copra cake and handicrafts. However, there is no disaggregated data on exports.

Table 47: RMI merchandise export, FY00 to FY10

(US$ millions)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Exports of goods	15.5	13.9	15.1	17.5	18.8	23.5	17.9	18.3	20.2	20.8	32.3
Re-exports	12.7	11.9	13.3	15.3	17.5	20.4	17.0	15.5	15.1	15.9	21.1
Copra/ coconut oil	2.4	1.6	1.4	1.9	0.9	2.6	0.4	2.2	4.4	2.0	2.4

Fish	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.8	2.8	8.8
[37]"Exports", non-resident fishing vessels	na	28.3	35.2	33.7	44.1	56.0	47.1	81.2	66.7	65.2	84.8

Source: EPPSO, 2011

There is also a need to gather data on export composition and the contribution of each export product to total exports. If the BOP residency definition is followed to the letter, about $84.8 million will be added to the exports of fish in 2010. If this view is taken, then RMI should be getting more money in terms of tax revenue. However, the RMI-based fishing companies operate as offshore companies because the money received from these export sales does not even come to RMI and the local offices either do not know or claim not to know the export value of fish. The vessel crew is paid overseas and from an economic perspective, there are very little benefits to RMI from these "export activities" by RMI-based fishing industries. This is an important issue which needs to be resolved by the Ministry of Finance, EPPSO, R&D and the fishing industry.

For RMI to boost its exports, it should move towards value-addition in coconut products and fisheries (its main export products) rather than relying on primary commodities. The Trade Policy must support the development of small cottage industries and encourage value addition in the fisheries sector agriculture and light manufacturing. The Government should consider identifying outer islands that are suitable for development and provide the necessary infrastructure that is required including a liberal regulatory environment.

The major export markets for RMI goods include the US, Japan, Australia. However, there is no disaggregated data on RMI's key export markets as well as the value of products that were exported to those markets.

4.2.1 Measures to promote Exports

(a) Export Development Strategy

The Government must provide the necessary support in order to assist the private sector to produce value added goods that can be exported. For RMI to succeed in promoting its exports it needs a clear export development strategy which identifies the key products that can be targeted for export development and promotion. The private sector already has an idea about the key products that have potential for export and these include a number of value added coconut products, handicrafts, noni products, fish products including tuna, tuna steaks/fillets, tuna loins, tuna pouches amongst other things.

In order to implement the export development strategy, RMI needs to:

[37] Pelagic fishing vessels operated economically from abroad are treated as non-resident; thus, their sales are not included in exports in the main datas

- Set aside land in outer islands that can be used for industrial development and provide all the relevant infrastructure
- promote investment and development
- promote value addition and enhance exports
- consolidate existing markets and diversify into non-traditional markets
- enhance the competitiveness of its products on the regional and international markets
- develop an export culture and positive change of attitude among the business entrepreneurs ; and
- exploit its comparative advantages and develop new products.

(b) Trade promotion officers

RMI needs to have trade promotion officers in its major trading partners and strategic markets to promote its products and services. The RMI embassies must play a vital role in promoting trade, investment and tourism. The NTFC should assist with promoting exports, consolidating existing markets and opening new markets. This body should be responsible for information gathering and dissemination, research as well as assisting exporters, particularly SMEs in exporting to new markets. FSM, RMI and Palau should consider establishing an FAS Trade and Investment Centre in the US to market and promote goods and services from the three countries. This could be modelled on PITIC offices but adjusted to suit the US and FAS requirements. A similar initiative can be explored in Europe as well.

(c) Participation in international fairs and expos

RMI should participate actively in international fairs and expos and the Government should assist by securing space in certain strategic international trade fairs, where specific products from small and medium scale companies will be exhibited. The space can be offered to these companies at concessionary rates in order to make them cost effective. Small and medium scale industries will have the opportunity to promote their products and be exposed to international trends in quality and technology. There should be export promotion mission in key markets such as US, Japan, Australia, EU, China and New Zealand, and ambassadors and trade officials should actively market RMI products and services. The Government has been assisting traders with subsidised transportation to take their products to Ebeye for trade shows. There should be a regular assessment of the benefits of such promotion activities to identify ways in which the services can be improved.

(d) Export incentives

The Government should place great emphasis on export enhancement and put various export incentives to assist exporters. The main objective of incentives should be to create an enabling operational business environment for exporters. Export incentives should be put in place after consultation with all stakeholders. Some of the incentives that may be considered include tax incentives, targeted and time bound transport subsidies, free trade zones, promotion and marketing assistance and freight subsidy schemes to diversify exports.

(e) Trade Website

A trade website must also be created to allow information sharing and discussion of problems affecting producers, importers and exporters. A database of potential investments, importers and exporters must also be maintained.

4.2.2 Trade Facilitation

In order to facilitate trade, RMI needs to reform its customs procedures and adopt the state-of-the-art software for customs business being recommended by the World Customs Organisation and the Oceania Customs Organisation (OCO). There is a need to standardize and harmonize import and export procedures and documents to ensure swift movement of goods. According to the 2012, World Bank Report on the Ease of Doing Business, it takes 21 days to export and 33 days to import goods. Fees, formalities connected with importation and exportation must also be standardized and the trade regulations must be published regularly. All the red tape that is associated with clearing goods at customs must be reduced to a minimum and RMI should consider adopting a single window system for clearing imports rather that requiring the importers to go to various agencies. This wastes time and resources and the costs incurred will be passed onto the consumers who in the final analysis will bear the brunt of the customs red tape. The amount of time that is taken to clear goods should be reduced to a minimum.

Streamlining and reforming customs can also minimize corruption and smuggling of goods at the borders and also ensure efficient collection of revenue. A number of developing countries that have reformed their customs and utilized the latest technologies have actually witnessed an increase in the amount of customs revenue collected.

There is also a need for capacity building and provision of the necessary facilities to enable the customs officials to implement trade facilitation regulations and measures, and at the same time monitor imports and exports. Customs officials need to be trained on other technical issues such as rules of origin, customs surveillance and how to combat customs fraud and irregularities. This is crucial for RMI to access the benefits under the Economic Partnership Agreement that is being negotiated with the European Union. A comprehensive review of the customs code is warranted in order to facilitate trade in the RMI. Some of the issues relating to trade facilitation can be addressed through regional cooperation and assistance from the donors in this area is much needed.

RMI also needs to establish a Competent Authority to deal with EU export standards including the sanitary and phytosanitary measures (SPS). Food safety laws need to be reviewed and RMI should cooperate with regional and international institutions to get assistance to build its capacity in this area. The Ministry of R&D –MIMRA should cooperate with fisheries exporters and address all the standards that are required for RMI products to qualify for the export markets. RMI should fully utilize any successor programme to the Regional Trade Facilitation Programme (RTFP) that is provided under PACER. All the issues pertaining to standards and conformance need to be addressed through sub-regional or regional cooperation.

The Animal and Plant Inspection Act requires the Chief of Agriculture (within the Ministry of R&D) to issue regulations pertaining to quarantine, and to monitor and enforce those regulations and the Act. The "Export Meat Inspection Act" requires the Chief of Agriculture to inspect all meat for export. The "Endangered Species Act" requires the Secretary of Resources and Development to promulgate, monitor and enforce regulations regarding endangered species in the RMI. The implementation of this act is critical to the conservation of the Marshall Islands' biodiversity. RMI Quarantine laws also need to be reviewed and aligned with international practices and standards. The quarantine department also needs to be strengthened and endowed with the capacity to ensure that imports or exports are safe and free from any disease that may pose a threat to animal, plant and human life and health.

It should be noted that RMI does not allow imports of agricultural products from any other nation except the US. However, if food products come from other Asian countries via the US they can be accepted.

4.3 Domestic Trade Policies and Instruments

The major problem in RMI is that the private sector is too small and does not have capacity to produce goods and services that can be exported globally. In order to boost production, RMI needs to introduce measures to address the supply-side constraints. The main focus should be on promoting production and value addition in a few niche agricultural products and fisheries. The Government needs to put in place quality infrastructure and services to promote trade and investment, including tourism. The Trade Policy contributes to achieving the goals in the SDPF and resources must be prioritized to boost domestic production in priority sectors. There is also a need to align the Compact funding to build infrastructure needed to support the private sector and also to fund trade-related projects.

RMI needs to build its capacity to produce and supply the export markets. Building capacity to trade should be a key national priority and assistance from donor agencies and its major trading partners is needed for this purpose. RMI should also consider developing a comprehensive national export strategy to strengthen its export capacity. The strategy should identify products and sectors that should be targeted and prioritized for export development. It should also target the products that can be produced locally to substitute imports. A lot of emphasis should be put on value addition to local resources. Other organisations like the UNDP, ITC and Commonwealth have also assisted developing countries in this area.

A comprehensive Skills Development Initiative is needed in order to develop the necessary skills that are required in the relevant sectors of the economy. There is a need to identify skills and the institutions which can be targeted for developing these skills. Vocational training schools in tourism, fisheries and agriculture, construction, nursing, science and technology amongst other things are vital in this initiative. In areas where RMI has no capacity to produce relevant skills, it should partner with regional and institutional organisations.

Policies relating to research and development, competitiveness, industry protection policy, subsidies, incentives, market regulation of key export sectors need to be reviewed and updated to address the changing global needs.

The tariff structure needs to be adjusted in order to identify products that must be liberalised and those that need to be protected in the context of international trade negotiations. RMI needs to identify those industries that it has potential to develop in future and this should be reflected in the tariff structure. Some agricultural, fisheries and textiles products may also need to be exempted from trade liberalisation. It is also important to note that due to global changes, it is difficult to identify industries that will need to be protected in future and the Government does not have a good track record in picking winners, hence the need for private sector consultation.
RMI does not depend much on other levies and charges for revenue. Local governments charge other forms of taxes such as sales tax. RMI also has a few non-tariff measures that are applied to imports and these include import licenses on alcohol and tobacco, license for copra export, quarantine regulations on agricultural products and those that seek to protect health and safety of plants, animal and human beings.

RMI does not impose export taxes. However, there were arguments from certain ministries in favour of levying export taxes on export of unprocessed fish.

The Government provides a lot of subsidies to the copra industry and also to the transportation sector. This support is necessary to compensate for low commodity prices and improve product quality. Freight subsides are needed to compensate for high transportation costs and also to provide services to outer island routes which may not be viable. However, these subsidies must be reviewed to ensure that they are transparent, targeted, reaching the intended beneficiaries and achieving the ultimate Government goals.

The Government also needs to provide assistance for agricultural research and development. Funding can be given to institutions to support the development of three or four products with export potential. The Marshall Island Development Bank should play a vital role in supporting the private sector with credit.

RMI should put in place contingency measures to protect its industries against unfair practices such as dumping, subsidized products and the sudden influx of imports. In order to use these measures in a least trade restrictive manner, RMI should introduce legislation and mechanisms for imposing anti-dumping duties, countervailing measures and safeguard measures.

Recommendations

i. RMI must build its capacity to produce food products and other products where feasible, in order to reduce the import bill and promote exports.

ii. RMI must work with SPC and other regional organisations to improve the sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) laws.

iii. The Government should identify domestic measures and policies to boost production capacity, protect sensitive sectors, enhance transparency on subsidies and ensure that the subsidies are targeted; time bound and do not distort resource allocation and hinder participation of the private sector in the economy.

iv. RMI must reform its customs laws to simplify, harmonise and streamline import and export procedures to facilitate the movement of goods.

v. RMI need to develop a comprehensive export strategy and adopt measures that will facilitate exports. The private sector should be supported to focus on adding value to fisheries products, coconut products, noni and handicraft.

vi. RMI must take measures to assist the private sector to fully utilise the existing market access and to diversify into other markets.

vii. RMI should establish a vibrant trade website that will provide relevant information to traders and investors.

viii. The Government must prioritise human resources development and develop skills that are needed to enhance trade in agriculture, fisheries, tourism, manufacturing and handicraft.

ix. RMI must adopt the 2007 Harmonized System that is fully compatible with the World Customs Organization (WCO) rules and gather the latest trade data (disaggregated by tariff line and trading partner, quantity, and import duty) for the recent three years (2008-2010).

x. RMI must amend the customs legislation to require exporters to complete export declarations for statistical purposes.

xi. RMI should introduce a regulation requiring importers to submit their trade data in electronic format, so as to stem the perennial problem of missing or poor handling of files, among other benefits. This will require training (e.g. through seminars) of the staff of these importers prior to the introduction of legislation to this effect.

xii. RMI must take concrete measures to ensure that information on import activities by all enterprises are provided as and when required.

5 THE MARSHALL ISLANDS INVESTMENT REGIME

This section discusses the general laws regulating investment in RMI, the investment trends in RMI and the country's performance on the World Bank Ranking on the Ease of Doing Business. Recommendations on how to create a friendly trade and investment environment are also addressed here. Additionally, this section will address a number of laws and regulations that are also relevant for the section on trade in services.

5.1 General Laws Regulating Investment in RMI

Investment in RMI is currently regulated by the 2004/2005 National Investment Policy Statement (NIPS). There is also a 2006 Revised Draft National Investment Policy Statement (NIPS) which seeks to introduce certain amendments. However, these documents need to be updated.

The Investment Policy encourages private sector development in fisheries, tourism, manufacturing and agriculture in order to meet development goals. However, the 2006 Draft NIPS recognises that fisheries and tourism hold the most comparative advantage.

According to the current NIPS, the Trade and Investment Division of the Ministry of R&D is responsible for facilitating and promoting investment and providing policy advice to Government. Under the Foreign Investment Business License Act of 1990 [10 MIRC Ch 5], non-citizen investments are required to obtain a Foreign Investment Business License (FIBL) from the Ministry of Finance. The FIBL Act defines a non-citizen investment as "any person who is not a citizen of the Republic, or any corporation, joint venture, association, partnership or other legal entity in which a person or persons who are not citizens of the Republic own an equity interest".

The RMI uses the United States dollar as its national currency and there are no restrictions on the exchange of foreign currency, or the repatriation of profits, dividends or investment capital.

The current NIPS provides that if investments do not fall within the reserved list, every effort is made to issue the FIBL within 7 working days of application. If it is not clear whether the investment falls within the reserve list or not, a decision can be made within 15 days.

According to the NIPS, the only factor that is taken into consideration before the FIBL is approved is whether the proposed investment falls within the reserve list or not. However, the 2006 Draft amendment proposes to add another requirement that investors must not have a criminal record involving dishonesty, or must not be considered undesirable according to RMI law.

The investor must also apply for an Employer Identification Number (EIN) for tax purposes and for making employee health and social security contributions. The EIN can be issued within a day. A foreign investor can incorporate as a domestic limited company or register as a foreign entity under the Business Corporations Act [52 MIRC Part I]. Investors must register with the Registrar of Companies in the Office of the Attorney General (AG). According to the Draft NIPS the initial cost of registering a domestic company and the annual fee are $ 250 and $100 respectively. The initial cost of registering a foreign entity and the annual fee are $1,000 and $500 respectively.

(a) Labor and Immigration

The Ministry of Foreign Affairs is responsible for dealing with all the issues pertaining to work permits under the Labor (Non-Resident Workers) Act, 2006. The employer can apply for a permit to the Secretary of Foreign Affairs who will consider the application. All applications must be submitted by prospective employers between 01 July to 01 September and a penalty is charged for any applications outside this period. The Secretary shall make a decision within 21 days. Except for a foreign investor and family work permit, all applications for work permits must be submitted by the employer while the non-resident worker is outside RMI.

In order to obtain a work permit, the foreign investor must have a foreign business license, police and health clearance, clearance from the Ministry of Finance, MISSA and local government. No bond is required.

Under the occupational shortage list (OSL) work permit, if the employer is a foreign investor, he has to produce the FIBL, proof that no resident worker meets the requirements of the occupational category specified in the Occupational Shortage List, provide a valid police and health clearance, the prescribed fee and bond payment. In 2006, RMI developed a list of occupations that were in short supply e.g. health, accountants, lawyers and other professionals.
For those that do not fall under the OSL, they can apply for a general work permit. If the employer is a foreign investor, an FIBL will be required. In addition, there must be proof that the

position has been advertised in the local media for 30 days, evidence that there was no suitably qualified citizen worker, evidence of minimum education and experience, and payment of the prescribed fee and bond.

A temporary work permit can be provided for up to 6 months. The foreign investor needs to produce an FIBL and a letter stating the reason why the worker is required and the contract. On arrival, the non-resident worker must produce a valid return air ticket and a letter. A bond is not required in this case.

The Non-Resident Workers (Fee) Amendment Act of 2009 requires employers to pay $250 per foreign worker per quarter but this may be exempted by Cabinet for qualified export projects. An employer who is a not a Marshallese citizen is required to pay $250 if he or she receives any remuneration for such a position. Only a foreign employer who is also receiving remuneration is required to pay $250 but a Marshallese employer is not required to pay this amount. The National Training Fund was established under the Industries Development Act of 1991. It is administered by NTC and Secretary of Finance for the purposes of training Marshallese citizens.
The Labor Act requires all employers to ensure that at least 50% of the workforce is Marshallese (quota). All employers are required give first preference to employment of Marshallese. Non-resident workers may be recruited only to supplement local labor and if there are no qualified citizens. The Federal Agencies, US contractors and local contractors shall give employment preference to US and RMI citizens, nationals and permanent residents of the United States. Citizens from Freely Associated States (FAS) are not required to apply for work permits.

Upon approval of an application for a work permit, the Chief of Labor shall make a request to the Immigration Division to for the issuance of a work visa. The Immigration Act, 2006 provides for a residence visa (R-1) for up to 5 years; diplomatic visa (D-1) up to 2 years; business visa (B-1) up to 2 years; general visa (G-1) up to 2 years; work visa (E-1); student visa (S-1) up to 1 year; visitor's visa (V-1) up to 3 months and transit visa (T-1) up to 3 days. The cost of a visa is $200. In addition to the work permit and visa an entry permit will be issued on arrival.
The application should be submitted 30 days after the local advertisement. The employer must produce a police and health clearance which show that the person does not have a criminal record and communicable diseases. An effort will be made to make a decision within 21 days and a permit may be issued for a year subject to renewal on annual basis[38]. However, the permit can only be renewed if the employer shows that there are no suitable citizens available to fill the position.

According to the Labour Act (2006), the employers are required to bear the costs of repatriating non-resident workers; the application fee for a permit is $ 100 within the period and $150 outside the period. If the application is approved, the employer will be required to pay a bond of about

[38] After screening the application the Labor department will send the papers to immigration for processing.

$1000 if the applicant is from the Forum Island Countries; $1500 if from Asia and Philippines; $,500 if from Europe; and $2000 if from the U.S. However, the U.S., Palau and FSM citizens are exempted from paying the bond and do not need work permits[39].

Foreign investors with a FIBL can get an automatic work permit. All non-citizen investors and non-resident workers and their immediate families must obtain entry permits and alien registration cards from the Immigration Office at $250 per person. The entry permits and registration cards are issued for a year but can be renewed annually thereafter. Foreign investors can enter the country under a 30 day visitor's entry permit and convert to a non-resident work permit then obtain alien registration once in the country. However, non-resident workers must obtain the entry permits and alien registration cards prior to arrival in the country. Applicants must be free from AIDS, medically fit and have no criminal record and a decision may be made within 30 days from submission date.

According to the Minimum Wage Act 1986, the minimum wage is $2.00 per hour. Non-citizen employees employed by a private employer authorized to invest or conduct any industry or business in RMI shall be exempt from minimum wage. Qualified export oriented projects may be exempted by Cabinet.

It is important to note that RMI has been facing a lot of problems with people coming in as visitors but overstaying, especially those from Asia. The Immigration Act was amended in 2006 and illegal immigrants are trying to legalize their stay. There is also a need to have a synergy between immigration and labour. A regulation along this line is currently being drafted. Under the new Act, only dependents under 18 will be allowed into the country.

All non-resident workers pay bond but visitors from the Forum Island Countries can come in without visas and stay for up to 3 months. However, visitors from Forum Island countries have to apply for entry permits within 14 working days. The entry permit fee is $200. It was noted that an entry permit fee of $50 is being charged on an annual basis. This should be discouraged. There is also a fee of about $180 for the work permit. Business visitors are currently limited to stays of up to 2 years and pay $250. Only the Director can approve immigration permits.

The immigration department must also monitor the number of RMI citizens going out of the country as well as those returning to RMI. Currently, there is no stamping requirement when RMI citizens come back. The sea port is also another area that poses some immigration challenges as many people are also coming in through the ports. There is also no provision in the immigration Act to monitor migration under the Compact.

---

[39] The RMI requested the other FAS to reciprocate and this issue was also raised during the Micronesian Summit and subsequent MTC meetings.

It was also noted that the Government offers jobs to tourists but when the private sector wants to hire them, they are told that they must go back to their respective countries before they can apply for work permit.

(b) Taxation

The National Government and Local Governments have authority to levy tax to raise revenues for Government operations. Both levels of Government treat non-citizen investments and workers the same as their citizen counterparts in terms of taxation. Investors are required to pay Gross Revenue Tax (GRT), and make mandatory contributions on behalf of each worker they employ in order to support the social security and the health insurance system.

The Government requires all investors to pay tax on the gross revenues they earn from their operations in the Republic of the Marshall Islands (Gross Revenue Tax). The GRT is paid quarterly and includes a minimum payment of $80 on the first $10, 000 earned plus 3% of gross revenues earned in excess of this minimum amount. There is no corporate tax on business profits.

Employers must withhold and pay a tax imposed on employee wages and salaries, and personal income tax for workers is 8% on the first $10, 400 of gross wages and salaries earned and 12% for income above this threshold. Employees with gross annual wages less than $5,200 are allowed an exemption of $1,560 per year.

All employers are also required to make mandatory quarterly contributions on behalf of each worker they employ in order to support the country's social security and health insurance systems. Both payments are calculated based on employee's covered earnings which are defined as the compensation paid up to $5,000 per quarter. The social security tax amounts to a total of 14% of an employee's covered earnings, with the employee and employer contributing 7% each. The health fund amounts to a total of 7% of covered earnings, with employee and employer contributing 3.5% each. Investors are required to apply to the Social Security Administration to register their business and obtain a Tax Identification Number.

RMI has not signed double taxation treaties with any country. However, under the Compact, United States citizens may be relieved of their liability to pay tax in the United States on income earned in the Republic of the Marshall Islands. To be eligible they must have resided in the Marshall Islands for at least 183 days of the taxation year.

Local governments have the authority to levy sales taxes. They also issue business licenses for businesses operating in their areas of jurisdiction. Each local Government determines its own rates and administration procedures. Non-citizen investors are also required to obtain an FIBL before applying for a local Government business license.

Both foreign and local investors can apply to the Minister of Finance for exemptions from paying taxes and duties. The exemptions are available to both non-citizen and citizen investors and can be applied for by submitting a letter to the Minister of Finance.

Investors intending to establish in the following export-oriented sectors can be exempted from paying GRT for a five-year period:

- off-shore or deep sea fishing
- manufacturing for export, or for both export and local use
- agriculture
- hotel and resort facilities

In order to qualify for an exemption, the investor must make an investment of at least US$ 1 million, or provide employment and wages in excess of US$ 150,000 per annum to citizen workers.

Those who invest in seabed hard mineral mining in the EEZ can be exempted from paying all taxes, duties and other charges except taxes on wages and salaries, individual income tax and social security contributions. In order to qualify for the exemption, investors must pay the Government a royalty, production charge or combination of production charge and a share of net proceeds accruing from the mining activity.

(c) Foreign Exchange

The Government does not impose any restrictions on non-citizen investors borrowing domestically or on citizen investors borrowing from abroad. The Government does not impose any restrictions on domestically based banks making foreign exchange available to their customers.

The Government encourages all investors to re-invest capital and profits in the country. All investors are allowed to repatriate profits, dividends and investment capital acquired through the operation or disposal of their investment. However, all banks must report transfers of funds from the country over a 24-hour period that is in excess of US$10,000. This requirement is a result of the Government's international money laundering commitments.

(d) Access to Land

Most of the land in RMI is customary. Though some alienated private land exists, no land is available for purchase by non-citizens under the Real and Personal Property Act [24MIRC Ch 1]). However, private and customary land can be leased and the Government places no limits on the term of a lease. Lease rental values are negotiated and agreed by the parties involved. A standard leasing agreement has been created and a land register established under the Land Recording and Registration Act 2003 [24 MIRC Ch 4].

Non-citizen investors wishing to access land for development must negotiate lease agreements directly with customary groups, or in the case of alienated land, with Marshallese citizens that own the land. The investor can contact the Land Registration Authority for all relevant information[40]. The Authority is responsible for creating a voluntary register of customary land and establishing an effective legal framework for recording all documents related to land, and registering ownership rights, leases, easements and mortgages. The Government has expanded the land interests that may be mortgaged to include the ownership interest in land, as well as leaseholds.

(e) Environmental Protection Agency

The Environmental Protection Agency is responsible for protecting the environment including marine water, environmental impact regulations, solid waste management and ozone depleting substances. The Government requires environmental impact assessments (EIA) of all new development projects that may have a significant impact on the environment. The National Environmental Protection Act 1984 [35 MIRC Ch 1] applies to both national and foreign investment projects. The Government also requires all investors to obtain permits to move earth and dispose of solid waste. In addition, investors are required to obtain approvals for how they intend to manage their trash[41].

It was noted that it is very expensive (about 11% of the total cost of the project) to conduct an Environmental Impact Assessment. The EIA will be conducted by the investor and the EnPA will be responsible for reviewing it. It is a requirement that the developer should be independent from the consultant doing the EIA. It takes not more than 30 days to review the business proposal and determine whether the EIA is required. If the EIA is not required, a decision can be made within 2-3 weeks. However, if the EIA is required, it could take about 6 months because this also involves consulting the public[42].

---

[40] Land Registration Authority was established in March 2003

[41] The 2006 Draft has more details on earthmoving permits in the construction sector.

[42] Some of the projects that have potential environmental impact included the EIA for the dry dock which had to be re-done. There were also concerns on disposal of waste from the first loining plant into the ocean. Some of the waste is now being used to produce fish meal but the sites are also smelly. Another issue that was raised concerns the disposal of raw sewage into the ocean.

The EnPA compliance task force visits companies every week on random basis to check those selling water or food to ensure that they comply with the law. RMI is striving to comply with international environmental standards and capacity building is required to enforce environmental laws.

While it is clear that the objective to protect environment is paramount, it should not be pursued in a vacuum. A practical approach to this issue as opposed to arm chair criticism is likely to be successful. All the approaches to environmental actions should be grounded in fact and scientific justification. This must also take into account the costs of the measure on the general public, especially the poor. The measure must be necessary to protect the environment and that it must not be more trade restrictive than is necessary. For example, in 2009, a Bill proposing to ban the use of plastic products that were polluting the atmosphere did not go through because this was going to raise the costs for the poor.

(f) Protection of Investment

The Government guarantees that it will not expropriate non-citizen investments or take measures that will have a similar effect, except for a public interest purpose and on a non-discriminatory basis, and against the prompt payment of adequate and effective compensation. This guarantee for the protection of persons and their property is enshrined in the Constitution. It forms an integral part of the Government's assurance to all investors that their investments are protected within the limits of the laws of the country. The Foreign Investment Business License Act of 1990 [10 MIRC Ch 5] also provides that if an activity is added to the reserve list after the FIBL has been issued, the license cannot be revoked or cancelled.

The table below provides a list of economic sectors and business activities that are reserved solely for citizen investors[43].

Table 48: RMI's reserved occupational list

Reserve List
1. Small scale agriculture for local markets
2. Small scale mariculture for local markets
3. Bakeries and pastry shops
4. Motor garages and fuel filling stations
5. Land Taxi Operations, not including airport taxis used by hotels
6. Rental of all types of motor vehicles
7. Small retail shops with a quarterly turnover of less than US$ 1,000.00 (including mobile

[43] The reserved list is under review and a revised list is expected to be published in 2012.

	retail shops and/or open-air vendors/take-outs)
8.	Laundromat and dry cleaning, other than service provided by hotels/motels
9.	Tailor / sewing shop
10.	Video rental
11.	Handicraft shop
12.	Delicatessen, Deli Shop or Food take-out

5.2 The Ease of Doing Business in RMI

This section looks at RMI's investment regime and the assessment that was undertaken by the World Bank Report on the Ease of Doing Business. The objective is to use these recommendations, where appropriate, to improve RMI's business environment.

The major problem in RMI is that there is no disaggregated data on the source of investment, the key sectors where investment is going into and the annual value of investment. This information is necessary in order to formulate a comprehensive investment policy and to decide which sectors to liberalize and which ones to reserve for the local citizens.

From the outset, it is important to note that the RMI business environment is not conducive for business for a number of reasons. Some of the issues relate to its location and other natural factors that cannot be changed by human beings. However, other factors relate to practices, policies, laws, attitudes that can be changed. This section focuses on some of the key issues that have been highlighted by the World Bank report on the ease of doing business that need to be addressed[44].

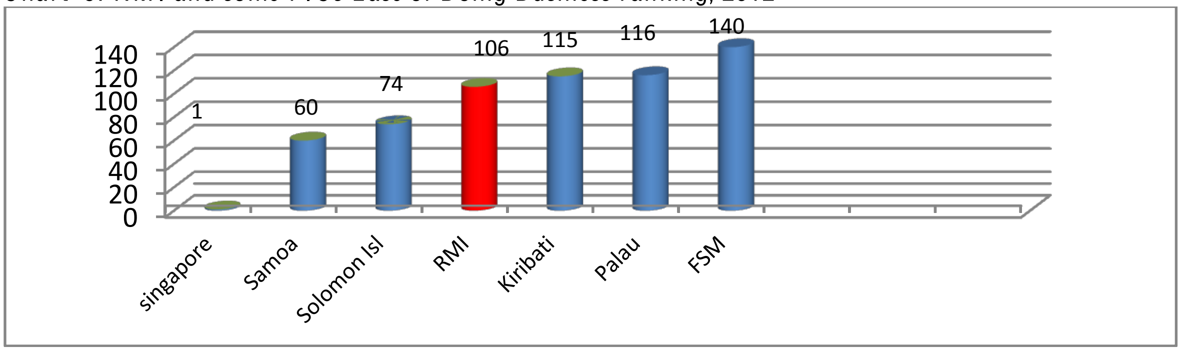
From the chart below, RMI was ranked number 106 out of 183 countries in the 2012 Report on the Ease of Doing Business[45]. In the Eastern and Asian region, RMI was ranked number 16 out of 24.

[44] It is also important to point out that the methodology that is being used by the World Bank has its own weaknesses because it does not take into account issues such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders), the security of property from theft and looting, the transparency of Government procurement, macroeconomic conditions or the underlying strength of institutions.

[45] This represents a backward move from 2010 and 2011 ranking when RMI was ranked 98 and 102 respectively.

Ease of Doing Business-Global Ranking (2012)[46]

Chart 6: RMI and some FICs Ease of Doing Business ranking, 2012



The data highlights the degree of obstacles to doing business in RMI and identifies the source of those obstacles that policymakers need to address when reforming their investment policies. The report looks at a set of regulations affecting ten stages of a business cycle and these are: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

RMI did not perform well in the following areas: procedures involved when starting a business, registering property (RMI is the worst out of 183 countries in respect of registering properties), getting credit, protecting investors, paying taxes, trading across borders and enforcing contracts. The table below shows RMI's performance and its ranking on various stages.

Table 49: RMI's performance in individual indicators of Ease of Doing Business ranking, 2012

Marshall Island's Ranking in Doing Business 2012	
Rank	Doing Business 2012
Ease of doing business	106
Starting a business	52
Dealing with Construction Permits	8
Employing Workers	4
Registering Property	183
Getting Credit	78
Protecting Investors	155
Paying Taxes	96
Trading Across Borders	66
Enforcing Contracts	63
Closing a Business	135

The table below provides detailed information on RMI's performance over the ten categories.

[46] Ranking benchmarked to June 2011

Table 50: Summary of Ease of Doing Business indicators

Summary of Indicators - Marshall Islands		
Starting a Business	Procedures (number)	5
	Time (days)	17
	Cost (% of income per capita)	16.2
	Min. capital (% of income per capita)	0
Dealing with Construction Permits	Procedures (number)	10
	Time (days)	55
	Cost (% of income per capita)	33.7
Employing Workers	Difficulty of hiring index (0 - 100)	0
	Rigidity of hours index (0 -100)	0
	Difficulty of hiring index (0 - 100)	0
	Rigidity of employment index (0 -100)	0
	Redundancy costs (weeks of salary)	0
Registering Property	Procedures (number)	no practice
	Time (days)	no practice
	Cost (% of property value)	no practice
Crediting Credit	Strength of legal rights index (0 -10)	4
	Depth of credit information index (0 -6)	0
	Public registry coverage (% of adults)	0
	Private Bureau coverage (% of adults)	0
Protecting Investors	Extent of disclosure index (0 -10)	2
	Extent of director liability index (0 - 10)	0
	Ease of shareholder suits index (0 -10)	8
	Strength of investor protection index (0 -10)	3.3
Paying Taxes	Payments (number per year)	21
	Time (hours per year)	128
	Profit tax (%)	52.9
	Labor tax and contributions (%)	11.8
	Other taxes (%)	0.1
	Total tax rate (% profit)	64.9
Trading Across Borders	Documents to export (number)	5
	Time to export (days)	21
	Cost to export (US $ per container)	945
	Documents to import (number)	5
	Time to import (days)	33
	Cost to import (US$ per container)	945
Enforcing Contracts	Procedures (number)	36
	Time (days)	476
	Cost (% of claim)	27.4
Closing a Business	Recovery rate (cents on the dollar)	17.9
	Time (years)	2
	Cost (% of estate)	38

(a) Starting a Business

This sub-section looks at the procedures that are required to incorporate and register a new firm before it can legally operate. There are 5 procedures involved and it takes about 17 days and costs about 16.20 % of gross national income per capita to start a business in the Marshall Islands. The 5 procedures involved include checking the uniqueness of the proposed company name, having the company charters and documents notarized, registering the company with the Registrar of Corporations, obtaining the employer identification number at the Marshall Islands Social Security Administration and applying for business license from the relevant licensing authority.

New Zealand has one procedure and it takes only one day to register a business. In Samoa, it takes about 9 days to register a business. RMI should aim to reduce the number of days it takes to register a business and streamline the procedures.

The representative fee schedule for business licenses (in Majuro) is as follows:

- Retail business license: $150
- Banks: $5,000
- Professional: $3,000
- Hotels: $500

The fee for professional licenses is very expensive and this could be a deterrent to professional businesses setting up in RMI.

Table 51: Procedure for registering business in RMI

No.	Procedure	Time to complete	Cost to complete (USD)
1	Check the uniqueness of the proposed company name	1	100
2	Have company charters and documents notarized	2	10
3	Register the company with the Registrar of Corporation	5	250
4	Obtain the employer identification number at the Marshall Islands Social Security Administration Apply for a business license from the relevant licensing Authority	2	20
5	Apply for a business license from the relevant licensing authority	7	150

(b) Registering Property

RMI ranks very poorly on the aspect of registering property because the practice does not exist. That is why it is ranked the last on this category. However, Palau is ranked number 5 out of 183 and this shows that RMI can learn one or two things from Palau and improve access to land.

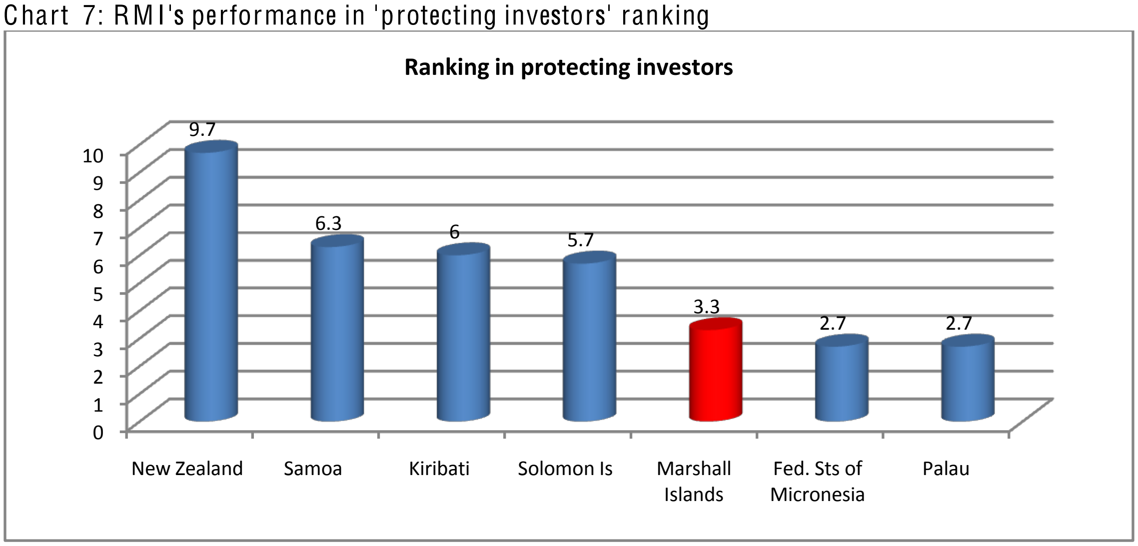
(c) Getting Credit.

This focuses mainly on access to information on credit and protection of legal rights for lenders and borrowers through collateral and bankruptcy laws. RMI is ranked number 78 out of 183 in this category. RMI's score is low on access to credit information and very poor on the legal rights index. FSM is doing better on the strength of legal rights index and RMI can learn something from its neighbour.

(d) Protecting Investors

RMI is ranked number 155 out of 183 in this category. RMI's investment laws are not adequate to protect investors. In the Pacific, Samoa (ranked number 27) is a good example of a country that is doing better in terms of protecting investors. According to the World Bank Report, the presence of legal and regulatory protections for investors explains up to 73% of the decision to invest.

Chart 7: RMI's performance in 'protecting investors' ranking

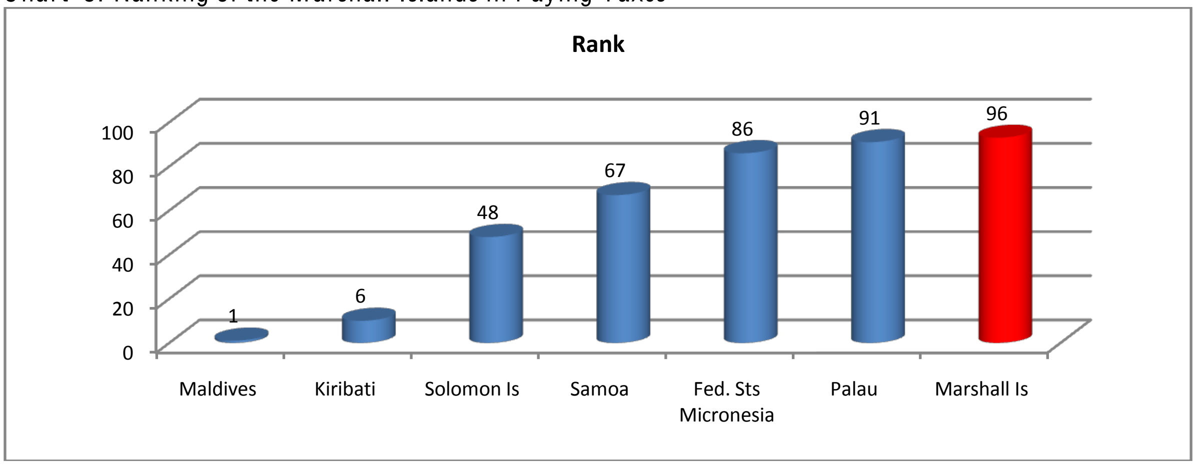


* The higher the score, the greater the investor protection

(e) Paying Taxes

RMI is ranked number 96 out of 183 with regards to paying taxes. One way to enhance tax compliance is to ease and simplify the process of paying taxes. An average business has to pay taxes about 21 times a year and this takes about 128 hours per year. Maldives and Kiribati are some of the countries that are doing better in terms of paying taxes. In Maldives, companies pay tax only once per year and 7 times in Kiribati. In RMI the total tax rate is 64.9% compared to 31.8% for Kiribati. The total tax rate measures the amount of taxes and mandatory contributions payable by the company during the second year of operation. This amount, expressed as a percentage of commercial profit, is the sum of all the different taxes payable after accounting for various deductions and exemptions.

Chart 8: Ranking of the Marshall Islands in Paying Taxes



Note: the lower the number the better the ranking.

Table 52: Paying Taxes in RMI

Tax or Mandatory Contribution	Payments (number)	Notes on Payments	Time (hrs)	Statutory tax rate	Tax base	Total tax rate (% profit)	Notes on TTR
Vehicle tax	0	paid jointly		fixed fee		0.03	
Fuel tax						0.09	
Health insurance contribution						3.95	
Social security contributions						7.9	
Gross revenue tax						52.9	
Totals	21		128			64.9	

The names of taxes have been standardised. For instance income tax, tax on company's income are all named corporate income tax in this table. When there is more than one statutory tax rate, the one applicable to Taxpayer Co is reported. The hours for VAT include all the VAT and sales taxes applicable. The hours for Social Security include all the hours for labor taxes and mandatory contributions in general.

(f) Trading Across the Borders

RMI is ranked number 66 on trading across the borders. Tariffs, quotas and distance from large markets greatly increase the cost of goods or make it difficult particularly for small island states to trade. Many traders face numerous hurdles when exporting or importing goods. There are many delays at the border and many traders lose money while others just give up. The potential gains from trade facilitation may be greater than those arising from only tariff reductions.
Some of the issues that are considered include import and export procedures for trading a standard shipment of goods by ocean transport. The documents recorded include port filing documents, customs declaration and clearance documents, as well as official documents exchanged between the parties to the transaction.

All the fees associated with completing the procedures to import or export the goods are included, such as costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or duties. Those countries that have efficient customs, good transport networks and fewer document requirements, and fast and cheap import and export procedures can be more competitive. If there are many documents, this may lead to corruption in customs and smuggling.

In 2010, the cost of importing or exporting per 20 tonne container was $945. The cost for importing for Singapore is about $439. In RMI, about 5 documents are required to import or export and it takes about 21 days to export and about 33 days to import.

Table 53: RMI's performance in trading across borders, FY08-FY10

Trading Across Borders data	Doing Business 2008	Doing Business 2009	Doing Business 2010
Rank	..	59	64
Cost to export (US$ per container)	765	875	945
Cost to import (US$ per container)	765	875	945
Documents to export (number)	5	5	5
Documents to import (number)	5	5	5
Time to export (days)	21	21	21
Time to import (days)	33	33	33

In general RMI is doing better than a number of Pacific countries when it comes to trading across borders. However, there is still room for improving.

Chart 9: **Trading across borders; RMI's Ranking, 2012**

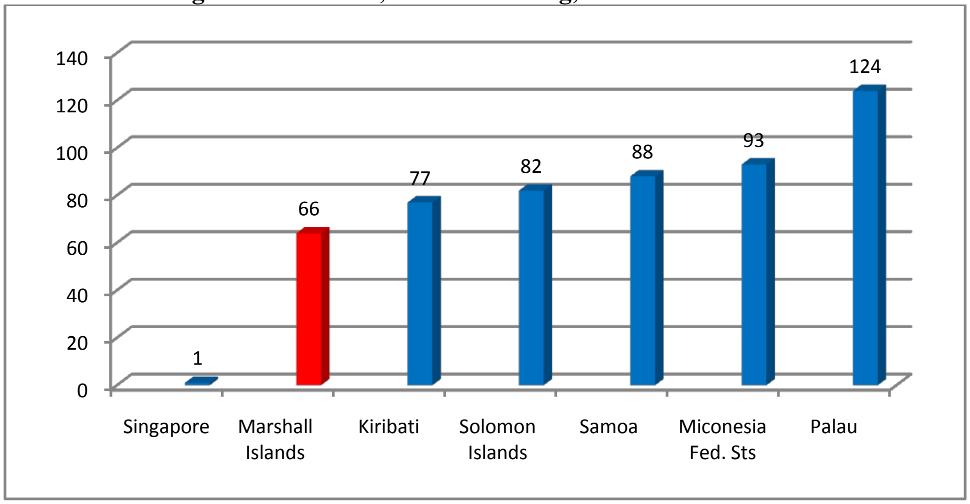


Table 54: Procedure for Trading Across the Borders in RMI

Nature of Export Procedure (2009)	Duration (days)	U$$ Cost
Documents preparation	7	120
Customs clearance and technical control	1	25
Ports and terminal handling	11	250
Inland transportation and handling	2	550
Totals	21	945

Nature of Import Procedures (2009)	Duration (days)	U$$ cost
Documents preparation	18	120
Customs clearance and technical control	2	25
Ports and terminal handling	12	250
Inland transportation and handling	1	550
Totals	33	945

The documents that are required for export are the bill of lading, cargo release order, commercial invoice, customs invoice, customs export declaration and packing list. The documents required for import are bill of lading, cargo release, commercial invoice, customs and import declaration and packing list.

(g) Enforcing Contracts

RMI was ranked number 63 with regards to enforcing contracts. There are 36 procedures involved and it takes about 476 days costing about 27.4% of the claim. Again in this category RMI is doing better than Kiribati, Samoa, Solomon Islands, Palau and FSM. However, there is still room for improvement.

(h) Closing a business

RMI is ranked number 135 out of 183 and it takes about 2 years to close a business costing about 38% of the estate and only 17.9 cents on every dollar can be recovered. Palau ranks number 59 and is doing better than many pacific countries in this category. Bankruptcy systems help to reorganize viable companies and close down unviable ones. If bankruptcy law is inefficient, unviable businesses linger for years, keeping assets and human capital from being reallocated to more productive uses. This affects the amount claimants can recover and this can be deterrent to investment.

5.2.1 Top reformers

Some of the key reforms that were undertaken globally which may be relevant to RMI include the following:

i) Belarus: Tax payments were made more convenient through increased use of electronic systems—reducing tax compliance times. Business start-up was eased by simplifying registration formalities and abolishing the minimum capital requirement.

ii) Colombia: Access to credit improved because of the new credit information law that guarantees the right of borrowers to inspect their own data and new rules that make it mandatory for credit providers to consult and share information with credit bureaus. The tax burden on businesses was eased with the introduction of electronic tax filing and payment, and some payments were reduced. An amendment to the Company Law strengthened investor protections by making it easier to sue directors in cases of prejudicial transactions between interested parties. Implementation of an electronic declaration system has expedited customs clearance.

iii) Egypt, Arab Rep: Access to credit information has expanded with the addition of retailers to the database of the private credit bureau. Company start-up was eased by the removal of the minimum capital requirement.

iv) Kyrgyz Republic: Access to credit was enhanced by making secured lending more flexible and allowing general descriptions of encumbered assets and of debts and obligations. The tax burden on businesses was eased by reducing the rates for several taxes and the number of payments. Business start-up was eased by eliminating the minimum capital requirement, reducing the registration time, and abolishing various post-registration fees and the need to open a bank account before registration. The elimination of six previously required documents and the simplification of inspection procedures have sped up trading across borders.

v) Liberia: The trade process was expedited by creating a one-stop shop bringing together various ministries and agencies and streamlining the inspection regime.

vi) Macedonia, FYR: Investor protections were increased by regulating the approval of transactions between interested parties, increasing disclosure requirements in annual reports, and making it easier to sue directors in cases of prejudicial transactions between interested parties. Business start-up was simplified by integrating procedures at a one-stop shop.

vii) Rwanda: Getting credit was made easier with a new secured transactions law and insolvency act to make secured lending more flexible, allowing a wider range of assets to be used as collateral and a general description of debts and obligations. In addition, out of court enforcement of collateral has become available to secured creditors, who also now have top priority within bankruptcy. A new company law has strengthened investor protections by requiring greater corporate disclosure, director liability, and shareholder access to information. By implementing administrative changes—such as increased operating hours and enhanced cooperation at the border, along with the removal of some documentation requirements for importers and exporters—Rwanda has improved trading times.

viii) Samoa-eased business start-up by passing a new company act that removed the minimum capital requirement and simplified other various procedures. The act cut 26 days, 4 procedures, and three-quarters of the cost of starting a company. Samoa also enacted a new corporate law and a law introducing receivership, easing the process of closing a business.

Recommendations

(i) RMI must adopt the recommendations that are contained in the World Bank Report on the Ease of Doing Business and use them to make the necessary reforms.

(ii) The Government must reform its labor and immigration laws to make them more transparent, friendlier to foreign investment.

(iii) RMI must monitor what the other countries including those in the Pacific are doing in terms of investment reforms and use the best practices to reform its laws.

(iv) RMI must gather disaggregated statistics on annual foreign investment by year, origin, sector, equity composition.

(v) RMI needs to review its reserve list to ensure that it reflects the nature of the RMI economy and only reserve those activities where Marshallese have capacity to participate in.

6 PARTICIPATION OF RMI IN TRADE IN SERVICES

Most of the issues identified under the section on investment are very relevant for trade because foreign investment plays a vital role in promoting trade in goods and services. It is clear that all the export activities on the fisheries industry that have been successful in RMI have been led by foreign investors. Foreign investment also plays a critical part in providing various infrastructural services such as transportation, telecommunication and tourism amongst others.

It is clear that for any industry to be competitive in the production of goods, all the infrastructural services including transportation, energy, water, telecommunication, ports and distribution must be improved. These issues as well as the regulatory reforms recommended by the World Bank Report on the Ease of Doing Business need to be addressed in order to create an environment that is conducive for trade in goods and services, enhance competitiveness of industries and reduce the cost of doing business in RMI. This section provides information on the relevant laws governing trade in services in RMI, analyses these laws and provides recommendations on how to improve these laws to promote trade in services.

6.1 The General Agreement on Trade in Services

This sub-section looks at the four modes of supply and the classification of trade in services. The General Agreement on Trade in Services (GATS) is the most comprehensive multilateral agreement regulating trade in services at the World Trade Organisation (WTO). It defines services by the mode in which they are delivered. Mode one is cross-border supply and just as in the case with goods, the service crosses the border. The suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other. An example of this is where a user in RMI receives services from abroad (US) through its telecommunications (internet) or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training or architectural drawings, freight transport services. The delivery of the service can be effected, by telephone, fax, internet or other computer mediated links, television or the sending of documents, disks, tapes, etc. by mail or courier.

Mode two is consumption abroad. In this case, the consumer goes abroad to consume the service. For example, if a US citizen travels to RMI to enjoy the diving tourism facilities, RMI is exporting its tourism services to the US. Conversely, RMI nationals can move abroad as students or patients to consume services in the US. This also covers ship repair abroad, where only the property of the consumer moves or is situated abroad.

Mode three is commercial presence. For example, the service is provided in RMI by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (e.g. bank, hotel group or construction company). An example of this is Bank of Guam which has a branch in Majuro.

Mode four refers to the temporary movement of natural persons abroad to supply a service. An individual moves to the country of the consumer in order to provide a service, whether on his or her own behalf or on behalf of his or her employer. For example, a Marshallese moves to Guam temporarily to provide a service within the US as an independent supplier (e.g., consultant) or employee of a service supplier (e.g. consultancy firm, hospital, construction company). Other examples include an auditor from a US company coming to RMI to audit Compact reports, or provision of entertainment services by a self-employed professional foreign entertainer who is temporarily on tour in the host economy.

Presence of natural persons covers only non-permanent employment in the country of the consumer. However, GATS provides no definition of "non-permanent" employment. Mode four covers short-term employment of foreign doctors or teachers, intra-corporate staff transfers and short-term employment of construction workers or paid domestic helpers.

One sector can involve all the four modes of services, for example, under the health sector, a patient in RMI can receive tele-dignosis from a doctor in US (mode 1), and if the condition becomes worse, the patient in RMI will have to go to the US and be treated in a hospital (mode 2), then when the patient gets better, he will be sent back to RMI to a private hospital in Majuro owned and operated by a US firm (mode 3). Then the doctor from the US comes to RMI once a month to check the patient (mode 4).

The Services Sectoral Classification list - GNS/W/120 (negotiating list and not a statistical classification) classifies services into twelve categories and these are:

1. Business services: These include professional services, computer and related services, research and development services, real estate services, rental or leasing services without operators and other business services.
2. Communication services: These include postal services, courier services, telecommunication services, audiovisual services and other.
3. Construction and related engineering services: These include general construction work for buildings,general construction work for civil engineering, installation and assembly work, building completion and finishing work and other.
4. Distribution Services: These include commission agents' services, wholesale trade services, retailing services, franchising and other.
5. Educational Services: These consist of primary education services, secondary education services, higher education services, adult education, other education services
6. Environmental Services include sewage services, refuse disposal services, sanitation and similar services and other.
7. Financial Services include all insurance and insurance-related services, banking and other financial services (excl. insurance) and other.
8. Health Related and Social Services include hospital services, other human health services, social services and other.

9. Tourism and Travel Related Services include hotels and restaurants (incl. catering), travel agencies and tour operators services, tourist guides services and other.
10. Recreational, Cultural and Sporting Services (other than audiovisual services) include entertainment services (including theatre, live bands and circus services), news agency services, libraries, archives, museums and other cultural services, sporting and other recreational services and other.

11. Transport Services include maritime transport services, internal waterways transport, air transport services, space transport, rail transport services, road transport services, pipeline transport, services auxiliary to all modes of transport and other transport services
12. Other Services not included elsewhere.

According to the WTO, services account for about 30 to over 70 per cent of production and employment, depending on resource structure and level of development of an economy. The share of services trade in total world trade is about 20 percent, on a BOP-basis. However, this does not count the full value of trade through commercially present foreign suppliers. In 1995, the total export of commercial services for developing countries (WTO members) was 24% compared to 76% for developed countries. In 2008, the figures were estimated to be 28% and 72%, respectively and developing countries had slightly improved their participation in exports of commercial services.

The major sectors that contributed to exports in 1995 were travel (34%), transport 26% and other commercial services (40%). However, in 2008, the structure had changed and travel had decreased to 26%, transport to 23% and other commercial services had increased to 51%. Under others, the sectors that saw a rapid growth in exports between 2000-2006 are computer and information services, which had an annual average growth of 17%, followed by insurance (16%), financial services (14%) and communication (13%).

In RMI, the services balance deteriorated from - $30.4 million in 2000 to -$42.8 million in 2010. The major exports of services include transport related services, fish processing, travel, and telecommunications. The total exports of services were around $11.3 million in 2010. The value for services imports increased from $39.9 million in 2000 to $54.1 million in 2010. The major services imported by RMI are transport, passenger services (mainly airline), freight and postal services, travel and business services[47].

Table 55: RMI services balance, FY 2000 to FY 2010.

(US$ millions)	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010

[47] It is important to note that statistics on trade in services are always difficult to compile and there is no readily available disaggregated data on imports and exports of services and how much trade in services contribute to GDP. Furthermore, it is difficult to get statistics on trade in services based on the four modes of supply as described above. However, these statistics are normally found in the balance of payments and

Services balance	-30.4	-32.2	-29.0	-30.9	-33.8	-38.9	-36.3	-39.0	-39.5	-50.4	-42.8
Exports of services	*9.5*	*9.1*	*10.4*	*11.6*	*10.8*	*10.2*	*10.2*	*10.0*	*10.2*	*10.5*	*11.3*
Transport related	2.2	2.0	2.2	2.4	2.2	3.2	2.8	2.6	2.3	2.3	2.6
Travel	2.6	2.4	2.8	3.1	3.0	3.1	3.1	2.9	2.7	2.8	2.8
Telecommunication	1.2	1.1	1.1	1.0	0.9	0.8	0.9	0.9	0.9	0.8	0.8
Fish processing	2.5	2.5	3.2	4.3	3.7	2.0	2.3	2.3	3.0	3.3	3.7
Imports of services	*39.9*	*41.3*	*39.4*	*42.7*	*44.5*	*49.1*	*46.5*	*49.0*	*49.8*	*64.6*	*54.1*
Transport	20.8	20.6	19.0	21.6	22.5	25.5	26.0	27.2	28.0	25.9	25.6
Passenger services, airlines	7.0	7.4	7.8	8.8	10.3	11.1	12.2	12.9	12.9	12.2	10.9
Freight and postal services	13.8	13.2	10.9	12.8	12.2	14.4	13.8	14.4	15.1	13.7	14.6
Travel	9.5	10.9	10.7	11.0	11.7	12.2	8.7	8.7	8.9	9.8	10.4
Health Fund	1.9	2.0	2.0	2.1	1.9	2.1	2.2	2.6	2.7	2.9	2.0
Business services	5.9	6.2	6.3	6.5	6.7	7.4	7.7	8.7	8.2	9.5	11.9
Repair of aircraft	~	~	~	~	~	~	~	1.8	1.8	1.4	~
Technical assistance	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Other	1.3	1.2	1.0	1.0	1.2	1.3	1.3	1.2	1.3	1.6	1.8

6.2 Basic rules when Liberalizing Trade in Services

The section will give a quick overview on the general rules that apply to trade in services, the process of scheduling market access and national treatment commitments and the benefits of liberalising trade in services.

Under the General Agreement on Trade in Services, the most-favoured-nation (MFN) treatment is a general obligation which forbids any form of discrimination between services and service suppliers originating in different countries. Members must apply the same conditions to services and service providers from all other WTO member countries. Countries were allowed to list MFN exemptions only for 10 years.

Another general obligation is transparency, which required requires WTO members to publish all trade-related measures and establish national enquiry points to respond to other members' information requests. GATS has other rules that govern trade in services that need to be referred to when interpreting the commitments that are scheduled by member states.

In addition to the general rules there are also specific commitments dealing with market access, national treatment and any additional undertakings that are negotiated by members and inscribed in national schedules. Article XVI deals with market access restrictions and Article XVII with national treatment and Article XVIII deals with additional commitments[48]. Measures inconsistent with both Art. XVI and XVII must be listed in the market access column only.
The limitations listed in Article XVI are:

i) the number of service suppliers, e.g. only 3 licences for commercial banks.
ii) the value of transactions or assets, e.g. foreign banks limited to 30 percent of total domestic assets of all banks.
iii) the number of operations or quantity of output, e.g. restrictions on broadcasting time available for foreign films.
iv) the total number of natural persons, e.g. in any investment in tourism the number of local employees shall not be less than 80%.
v) the type of legal entity or joint venture, e.g. foreign companies need to establish subsidiaries.
vi) foreign capital participation, e.g. foreign companies shall hold up to 49% of capital.

The economic needs test can be applied on the first four limitations, e.g. distribution: "the number of and impact on existing stores, population density, geographic spread, impact on traffic conditions and creation of new employment". A limitation can be based on the number of new hotels based on past arrivals. The ENTs should not refer to the quality of service or ability of supplier. The focus should be on measures limiting market access rather than on implementation mechanisms (e.g. licensing requirements) or relevant laws and regulations.

Unlike Article XVI which provides an exhaustive list, Article XVII provides an open ended definition on national treatment. The requirement is to provide treatment that is "no less favourable than accorded to own like services and services suppliers". The treatment can either be formally identical or formally different treatment. The relevant benchmark is that there should be no modification of "the conditions of competition" in favour of own like services or service suppliers[49]. The following can be used as guidelines:

i) discriminatory subsidies and other fiscal measures.
ii) nationality and residency requirements on mode 3, e.g. for you to open real estate business you must have resided in the country for 5 years.
iii) discriminatory licensing/registration/qualification/training requirements.
iv) technology transfer requirements.
v) prohibitions on land/property ownership.
vi) limitations on insurance portability, education grants.

---

48 See also S/CSC/W/34).
49 Further guidelines can be found in S/L/92.

The common national treatment limitations concern the eligibility of foreign suppliers for subsidies, restrictions on foreign land ownership or the requirement for the foreign owned hotels to train locals. Other countries give domestic suppliers of audiovisual services preference in the allocation of frequencies within the national territory. This is explicit discrimination based on origin of service supplier.

It is important to note that the structure of schedules, number of commitments, sectors covered or levels of liberalization are not defined in GATS. However, the WTO/120 classification and the UN Central Product Classification List (CPC) list can be used as guidelines and the commitments must be made as clear as possible.

The table below illustrates how a services schedule looks like. Horizontal limitations apply to trade in services in all scheduled sectors unless otherwise specified and the main purpose is to avoid repetition. They can take the form of a limitation or of a positive undertaking.

Table 56: Sample schedule of Horizontal (Services) commitments

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons			
Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
I. Horizontal Commitments			
ALL SECTORS INCLUDED IN THIS SCHEDULE	4) Unbound, except for the temporary presence for up to three years of the following categories of persons: A. <u>Services Salespersons</u> … B. <u>Intra-corporate Transferees</u> … Executives … Managers … Specialists … Professionals … C. <u>Personnel Engaged in Establishment</u> …	3) Unbound for subsidies. Acquisition of land subject to Governmentapproval. 4) Unbound , except for measures concerning the categories of natural persons referred to in the Market Access column.	

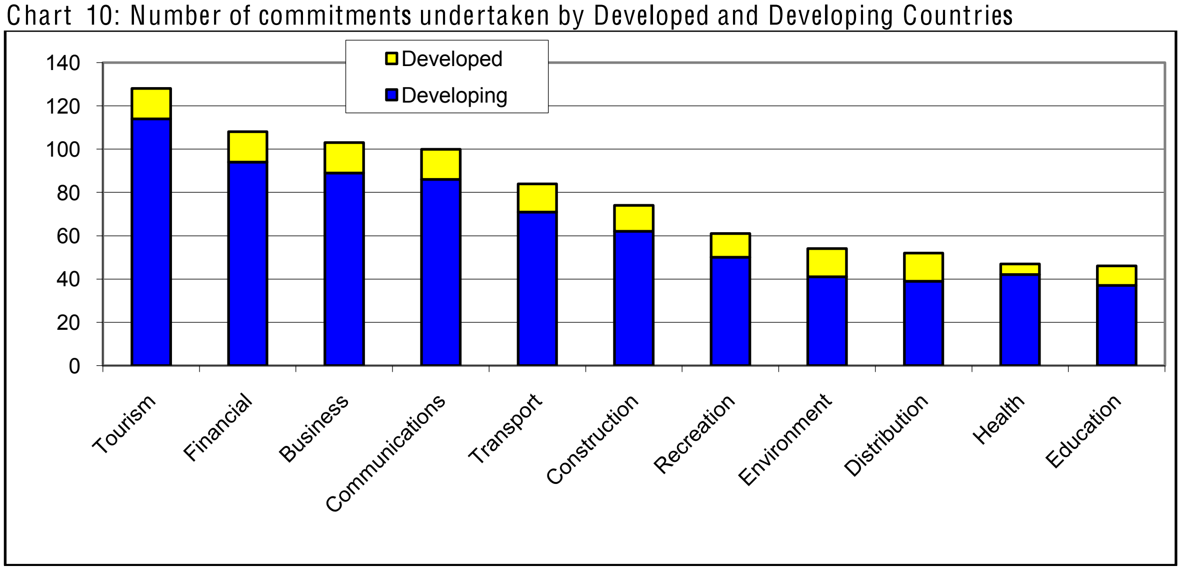
Table 57: Sample of Sector Specific Commitments

2. Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments

Life insurance	1) Unbound, except for the supply of life insurance to foreign persons residing in ... 2) Unbound, except for the supply of life insurance to foreign persons residing in ... 3) None 4) Unbound except as indicated in the horizontal section	1) None 2) None 3) None 4) Unbound except as indicated in the horizontal section	

It is important to note that assuming specific commitments does not prevent Governments from regulating those sectors or the licensing suppliers for quality purposes. However, they will be required to ensure that the relevant standards, requirements and procedures do not constitute unnecessary barriers to trade. They must not be more burdensome than is necessary to ensure the quality of the service.
According to the WTO, many countries have made the highest number of commitments, on tourism, followed by financial services, business services and telecommunication. For further information see the chart below.

Chart 10: Number of commitments undertaken by Developed and Developing Countries



Aside from exports, the other benefits of making commitments on trade in services include enhancing transparency and binding of autonomous reforms thereby enhancing credibility. Liberalising trade in services enhances competition and curtails private-rent seeking behaviour. It also allows the country to regulate its services properly to protect public policy. Services improve the overall infrastructure support that is required to produce goods, thus enhances the competitiveness of a country.

6.3 Regulations Governing Trade in Services in RMI

Most of the horizontal regulations applying to trade in services have been discussed on the section dealing with investment under foreign investment, labour and immigration and land issues. This section will deal with restrictions that apply to specific sectors.

6.3.1 Communications

a) Postal services

The Postal Service Act 1983 [38 MIRC Ch 1] provides that the Marshall Islands Postal Service has exclusive privilege over the distribution of mail.

b) Telecommunications

The Telecommunications Authority Act 1990 [40 MIRC Ch 1] provides that the National Telecommunications Authority (NTA) has 'the exclusive right to engage in the erection, construction, installation, maintenance, operation, and management of domestic and international telecommunications services in the Republic, subject to the authority that has been granted to others by the Republic to engage in such activities or that may be granted; provided that any such future grant of authority:

i) does not adversely affect the financial ability of the Authority to serve the outer islands
ii) shall not permit the operation of a public switch system.

The NTA is by law a private corporation and 70% of its shares are owned by the Government, 20% by Treasury and 10% by RMI citizens as provided for by law. The NTA is run by an 8 member board 7 of whom are appointed by the Government. Currently, it employs about 142 local workers and 3 expatriates. The NTA is the sole provider of telecommunication services in the RMI. It has been operating profitably and has declared dividends about six times.
In 2006, the Government introduced a Telecommunications Policy - which was endorsed by Cabinet - to allow phased in competition in the mobile and internet sector. However, the

legislation required to give effect to this Policy has not yet been passed by the Nitijela[50]. The key recommendations were to open the ISP, mobile sector, TV and radio, regulate tariffs and e-government.

Some of the key challenges facing the telecommunications sector include the fact that the market is very small. In this context, NTA urged the Government to exercise caution when introducing competition. NTA also indicated that the internet and mobile sectors are the most lucrative parts of the telecommunication industry and if competition is allowed, it may be difficult for the Government to operate the other costly sectors such as the land line and also to provide services to outer islands.

Currently, the quality of internet services, mobile phones especially international calls is not good. There is no roaming facility. However, NTA is trying its best to improve services to the nation. For example, when GSM technology was introduced, subscription in the mobile sector increased from 1000 subscribers to 13000 subscribers in less than 3 years. However, NTA is not yet commercially viable. Its coverage of outer islands is very low. It has 70 sites in the outer islands and there are about 1200 outer islands that need to be covered. It is very difficult to provide services to these outer islands because about 70% of the population resides in the urban islands (Majuro and Ebeye). The best way to provide services to outer islands would be through satellite technology, but it is very expensive.

Another issue which makes it difficult for the telecommunication sector to be liberalised is the fact that NTA has an RUS loan of about $52 million. The issue is further complicated by the fact the Government also guaranteed the RUS loan. Part of the loan is for infrastructure and about $21.5 million is for the fiber optic. The fibre optic was put in place in April 2010 and the capacity will increase to 2.5 billion gigabytes.

RMI also needs an IT Policy to maximize the benefits of the increase in bandwidth. The education and health sectors need to be looked at to see how they can maximize the benefits of an increase in bandwidth.

Notwithstanding the challenges that NTA will face when subjected to competition, there is a need to look at the telecommunication sector objectively. NTA has been providing services for years and there has been a slow uptake in technological developments. The overall goal in the telecommunications sector should be to provide quality services to the general public and the business community. Without competition, merely having the fiber optic does not guarantee efficient and quality services. For the benefits of the fiber cable to be fully utilized, there should be competition in the mobile and internet sector to fully utilise the excess bandwidth.

[50] A Bill was filed in 2008 for the second time to introduce phased competition but it was rejected by the Nitijela. The Bill was endorsed by ITU and PIFs. It was revived in 2009 but senators were urged not to support it.

The Government should carefully monitor the developments in the telecommunication sector and consider introducing phased in competition in the internet and mobile sector. It was observed that Digicel has been successful in providing telecommunications services in the Pacific as well as the Caribbean region. However, it was noted that some of the countries have also experienced some problems with Digicel. For this reason, it is important for RMI to conduct a detailed study on the impact of liberalizing this sector in light of the RUS loan, the size of the market and the implications of introducing competition. A lack of competitive pressure in the telecommunications sector has not only resulted in the slow uptake of technological progress but has also led to limited efficiency gains. Trade in this sector is affected by the monopoly of NTA and this scares away potential investors. The monopoly, also affects the tourism industry because most tourists would want quality telephone and internet services to communicate with their home countries. Liberalisation of internet and mobile phones should be considered but the basic telecommunication services (public switch) may remain closed.

Trade liberalization is important because it brings internal efficiency. One of the concerns that has been raised is that competition may hinder NTA from fulfilling other social goals such as providing services to the outer islands and the poor through a system of cross-subsidization - using revenues from segments like urban areas or international calls. However, while this is a genuine concern, it cannot be used as the reason not to introduce competition and the potential benefits that the whole nation will get. If liberalization is sequenced properly, and the right regulatory framework, which amongst other things guarantees universal access, is put in place, liberalization will pay dividends and improve performance.

Other countries in the Pacific including Fiji, Vanuatu, PNG and Samoa have incorporated this universal obligation when Digicel was given a license. The liberalization of this sector will help in facilitating the transfer of new technology and create an environment which is conducive for investment and private sector development. This sub-sector plays a vital role in business as indicated by the increasing trade through mode one and investment under mode three. Most trade is now taking place via the internet. Many people prefer to buy goods online, pay bills, taxes, and perform other banking transaction online. Tourism services can be advertised online. Education, health and can be provided via the internet or telephone. Marketing of products as well as information on market trends can be provided within seconds via the internet. In order for RMI to be fully prepared for this revolution in the ICT sector, some revolution in its telecommunication sector is warranted. The introduction of the fiber cable alone without effective competition and a good regulatory framework will not deliver the benefits. RMI should consider seeking assistance from the World Bank or other institutions to introduce a good regulatory regime and consider gradual introduction of competition in this sector. This will contribute to trade and investment and reduce the costs of doing business in RMI.

Due to its location, RMI has the potential to develop other business in the telecommunication sector including call centers. However, for this to happen proper planning and human resources development will be required in order to take advantage of the potential that will be offered by the fiber cable.

c) Audiovisual services

The Radio Communication Act 1993 [40 MIRC Ch 3] establishes the Ministry of Transportation and Communications as the spectrum manager. It was also noted that the Telecommunications Act does not cover radio and television.

6.3.2 Financial Services

Insurance and insurance-related services

There are no evident restrictions on the licensing and operation of insurance service providers. There are at present two foreign and one domestic insurance provider in RMI.

Banking and other financial services

There are at present two commercial banks operating in RMI and the Marshall Islands Development Bank. The Banking Act 1987 [17 MIRC Ch 1] regulates the conditions and procedures for the granting of banking licenses. A "domestic bank" is defined as a bank established or incorporated in the Republic and a "foreign bank" means a bank established or incorporated outside the Republic. There are separate and distinct licensing regulations, capital requirements and operational restrictions on domestic and foreign banks. There are few regulations applying to foreign banks and if a foreign bank is of international repute the insurance requirement can be waived.

Both a domestic bank and a foreign bank must apply for a banking license. Some of the requirements when applying for a license for a domestic bank include the following:

- the amounts of authorized capital and paid-up capital
- a letter or document from the Federal Deposit Insurance Corporation (FDIC) of the United States of America, or other approved body indicating the current insurance covering deposits held
- an initial non-refundable application fee of $500

Some of the information that is required when applying for a license for a foreign bank include:

- the latest annual report and audited financial statements of the bank, which financial statements shall provide figures for two (2) years and show that the bank's capital complies with the requirements of either Section 120 or 124 dealing with capital requirements and reserve funds
- evidence of insurance by FDIC or other approved body relating to deposits in the Republic. However, the Commissioner may, with the approval of the Cabinet, waive the

requirement of such insurance, in the case of any bank of international repute, if there is no such requirement under the law of the country where such bank is incorporated[51]

A domestic bank licensed to do local banking business shall at all times maintain capital stock in an amount not less than one million dollars originally paid up in cash. Every domestic bank licensed to do banking business shall maintain a reserve fund. The bank will be required to contribute not less than twenty-five percent (25%) of its profits until the amount of reserve fund is equal to the paid-up capital[52]. As seen above, a foreign bank must either have the required capital or a reserve fund. The Federal Deposit Insurance Corporation (FDIC) plays a critical role in supervising the banking system and ensuring a sound and stable financial system. The banking system is also regulated by the RMI Banking Commissioner who heads the Banking Commission.

The Bank of Marshall Islands started with $1 million but it now has about $26 million. It only makes short term investments. There are only two commercial banks in RMI and the market is too small. According to the Bank of Marshall Islands, the Bank of Hawaii withdrew in 2002 and there is no room for a third bank. It was recommended that the Government should put in place measures to ensure that foreign banks are responsive to customer needs. They should not take all the deposits out of the country without re-investing. They should also be required to maintain a certain percentage of their capital locally.

It was noted that most consumers do not qualify to get loans, while businesses qualify only if they have assets as collateral. However, the introduction of the secured transaction law is expected to improve the situation. Small businesses with past problems of repaying their loans can be given loans if guaranteed by the Marshall Islands Development Bank.

The loans for consumers are pegged at 15% and business at 11%. There are plans to lower commercial rates to make it easy for the private sector to access credit. The major loans are consumer loans but the bank has been encouraging micro-loans. About $800 000 was given under the micro-lending scheme within 2008 to 2010 and the bank wants to give more. It has also introduced the micro-loan scheme to the outer-islands. The Bank is also collecting produce from the outer-islands and selling it in major centres. The future plans include extending this scheme to 3 ships to cover more outer-islands.

Tobolar has a problem of paying for freight and they give tickets and not cash. Tobolar is planning to open an account with the bank, which will in-turn authorize the ship to pay cash.

---

[51] Presently, only the Bank of Guam has obtained such insurance.

[52] Money in the capital reserve cannot be used by the bank without permission from the Banking Commission

The bank is also planning to buy a freezer to be able to buy fish from outer islands and sell it in Majuro. Currently, the bank has only one ship which buys produce. The Bank also has the Marketing Services Corporation which will be responsible for marketing.

The Micro-loan facility has about $300 000 and the maximum that can be borrowed is $10 000. The interest rate is 8% for 2 years. The payment rate has been good. The facility funds fishermen-boats engines, pigs and chicken farming, outer-islands copra collection and handicraft. The major success stories in-terms of lending are the handicraft, fishing, sewing (dress making) and bakery. ROC has been assisting small businesses with financial services to buy fuel from Majuro and sell it to outer-islands.

The Bank is trying to open a branch in Hawaii to help the private sector to do business in Hawaii because the bank does not issue credit cards. There are also limited wire services and for this reason many people moved their money to bank of Guam.
The bank has plans to venture into purse seine fishing and plans to raise public funds and buy boats. The Bank of Marshall Islands also suggested that it has the capacity to run Tobolar, and even to venture into tourism. It is interested in entering into a joint venture with the local private sector.

It was also noted that even though the IMF recommended that the MIDB should not be involved in lending because it will be competing with commercial banks, the reality on the ground is that MIDB is not competing but supplementing the lending market. Bank of Marshall Islands cannot fill the market. MIDB gives consumer loans at 14% mainly for housing. The MIDB also provides guarantee, but they do not have a strong capital base. 90% is from bank of Marshall Islands.

The bank welcomes competition, but indicated that the Government needs to help the local bank first. For example, the Government does not bank with the Bank of Marshall Islands because of Compact requirements (FIDC). The Bank also needs access to the US central payment system.

6.3.3 Transportation

The Ministry of Transport and Communication (T&C) is mainly responsible for regulatory oversight of various agencies. The operational functions have been transferred to the various agencies. The Ministry of T&C is responsible for regulating ports, airports, the Micronesian Shipping Commission (MSC), cruise ships and air transportation. Some of the key laws regulating the transportation sector include the Ports of Entry Act, Civil Aviation Act, Port Authority Act and Maritime Act.

(i) International Maritime Transport

The Republic of the Marshall Islands is a member of the Micronesian Shipping Commission (MSC) which regulates International Maritime Transportation among FSM, RMI and Palau. The MSC arrangement dates back to the Trust Territory days and was formalized in 1997. The three states have different interests but have realized that the MSC is for the good of all. The MSC Board consists of Ministers of Transport from RMI and FSM and the Minister of Public Infrastructure Industries and Commercial Development in Palau.

The MSC is responsible for issuing license routes, managing competition and administering entry into the international shipping services of FSM, Palau and the Republic of the Marshall Islands. Licences of 5-year duration are issued, but subject to annual review. Route licensing and "competition management" may act as restrictions to market access, possibly national treatment depending on how the licensing system is applied.

Operators pay an entry assurance fee of $5000, reduced from a previous fee of $10 000, but could be increased again. In 2009, MSC issued licenses to about 12 companies among many applications. All companies are free to apply for licenses but there is a grading system. The tariffs cannot change without approval from MSC. The new room for operators and the number of vessels allowed depends on volume. According to the Government agencies, despite a few political issues, the MSC has worked in most parts.

While the Government understands that increasing the number of shipping lines calling on the country will bring about competition, other important factors need to be carefully considered and weighed. One of such factors is the country's limited customer base. Being included with the other members of the Micronesian region increases the potential volume of cargo available to a company. The MSC, therefore, ensures that shipping lines operating within the region are committed to meeting the interests of all its member countries.

It should be noted that a US company-PMNO-which used to operate the Pacific Micronesia line went bankrupt because of cut throat competition. It should also be noted that simply opening up the market does not mean that operators will come or that prices will go down or that the quality of services will improve. Nauru and Kiribati, for example, opened up their transport shipping sector but nobody came in. Kiribati, Tuvalu, Nauru, Wallis and Futuna are considering establishing an arrangement similar to MSC in order to protect the interests of carriers as well as consumers. Carriers need assurance that there is volume and this is reviewed on an annual basis to see if there is a room for a new operator. This also addresses the problem of fly-by night operators who disrupt the services.

(ii) Domestic shipping

The Government currently owns and operates most shipping services within the country. The Government established the Marshall Islands Shipping Corporation (MISC) which is responsible for providing services between Majuro and outer-islands for both cargo and passengers. The MISC is a Government company run by a 5 member board. Its main business is transporting copra from the outer islands. The company has 4 ships and the Government still provides subsidies to the tune of $1 million per year. The Government subsidises some routes and contracts are awarded on an annual basis through a tender process.

The Ministry of Transport and Communication gives a certificate of registry for safety purposes. Foreign investors are not allowed to operate inter-island boats. The Domestic Watercraft Act 90/92 and the relevant regulations provide further details. The Ministry of Finance controls the entry into the domestic shipping sector. Sometimes MISC operates on charter basis to FSM and Kiribati, and FSM also brings its own boats.
The Government encourages private investment and greater competition in the transportation sector, where feasible.

(iii) Air Transportation

There are poor transportation services to the outer islands mainly because there is no competition on inter-island air transportation. Air Marshal Islands is the only Airline that is servicing the domestic market, although it is not a statutory monopoly. Air Marshall Islands has 2 planes and is sole provider of domestic air services. Foreign investors are interested in this market but the Government does not seem to have plans to open the sector. There are also poor international air transportation services because Continental Airlines is the sole airline that is servicing international routes.

(iv) Land Transportation

There are a number of concerns that were raised by local citizens with regard to land transport. Land transportation business is limited to RMI citizens only. The Government is developing regulations for land taxi.

(v) Port Authority

The Port Authority is a monopoly agency that controls all port operations. The Port Authority was established in 1996 under the 1994 Act. It was merged with the Airport in 2003. The Port Authority is a statutory agency of the government. It is semi-autonomous and does not receive subsidies from Government.

There is only 5% assistance on airport but the Port Authority has to come up with a matching fee. The Airport Improvement Project which is a $40 million project, aims at improving the airport for the next 3 years. The US Federal Aviation Authority assistance used to be included in the Compact under the TT days but has been excluded. The Government is trying to make it a permanent feature.

The Port Authority also controls all sea-port operations, and the private sector is not allowed to operate sea-port services except stevedoring services which are currently being provided by a private company. All foreign boats and all commercial vessels require pilotage to ensure that they are brought to the port safely. However, there was a concern that PPF boats are RMI flagged and should not be subjected to this requirement. Every boat passing through RMI is subjected to wharfage fees which are very expensive. The cost depends on volume or weight of cargo, whichever is greater. International wharfage is $3 per revenue tonne and domestic wharfage is $2 per tonne. The vessels are also charged for bunkering –water and anchorage. Domestic vessels are charged about $60 for all the services per month. Dockage is allowed for a maximum of 1 day at 6 cents per gross tone. The Cabinet sets the fees for the Port Authority.
It would be good for RMI to assess the effectiveness of the Port Authority and how its services, including pricing structure affect trade and investment. The Government should also allow more competition in this sector and improve transparency of regulations.

6.3.4 Business Services

RMI does not have adequate regulations on business services and many professional services are open to foreign services suppliers. For example, lawyers are only required to pass the local bar exams. However, RMI needs to strengthen its legal and institutional framework to be able to ensure that the people coming in as professional services suppliers have genuine qualifications.

6.3.5 Distribution Services

The RMI wholesale and retail sector is one of the sectors that contributes a lot to GDP, employment and economic development. This is a sector where many local citizens have the capacity to participate in. The Government needs to recognise the role of foreign operators in this sector to ensure that there is a consistent supply of quality goods and services. However, the reserve list needs to be reviewed to allow Marshallese citizens to participate actively in this sector and close existing loopholes.

It was noted that the reserve list does not make a distinction between naturalized Marshallese and indigenous Marshallese citizens. Some businesses are registered under the names of indigenous Marshallese although in practice they are owned and operated by foreigners. It was recommended that the AG should review some of the matters related to the reserved list and ensure that there is proper enforcement of the law.

6.3.6 Tourism

Tourism is one of the priority sectors in RMI. The key services in RMI include hotels and restaurants, travel agencies, diving, tour guides and fishing. The Government needs to introduce laws to deal with monopoly, anti-competitive practices and restrictive business practices affecting this sector. Existing laws should be reviewed to allow foreign investors to participate in this sector, especially in the high end tourism services where the local people do not have capacity to invest in. Some tourism services such as boat chartering, tour guides, charter boats, bed and breakfast should be reserved for the local people. Foreign investors should be required to hire and train local people.

The other services that support tourism, including air transportation (both inter-island and international), telecommunication (mobile and internet), should be improved or liberalised. Tourism should bring mutual benefits to the visitors and the nation. To this end, there is a need to promote natural pride, eco- tourism, cultural and environmental awareness. The Government should give more incentives to environment friendly tourism investments (e.g. green resorts).

6.3.7 Energy

The Energy section falls under the Ministry of R&D and is responsible for coordinating, planning and implementing mainly renewable energy projects. The Marshall Islands Energy Company is a 100% Government owned and is the sole supplier of electricity in RMI. Most rates are subsidized by the Government. MEC is also responsible for managing sewer and water. The company has been struggling to supply power to the whole nation. MEC is currently implementing a robust reform plan to streamline operations and ensure that the company is fully accountable. It also wants to make fuel sales a profitable business.

The company imports its diesel from South Korea and the bulk of it is used to generate electricity while the excess is sold to the public and fishing vessels.

MEC has an RUS loan of about $7 million. The company only makes money from fuel sales and the rates it charges to its customers are not sustainable. These rates are regulated by the Government. The company is also responsible for supplying renewable energy especially solar power in outer-islands. The company has about 4 000 customers, which is a very small market and some of them do not pay in time. However, MEC will install a new cash power meter to solve some of these problems. If the tourism industry grows, this could also broaden the customer base for MEC.

The Government is trying to provide solar power to outer islands and about 58% of the outer-islands have been covered. It is now expanding to cover schools, health establishments, the Ministry of T&C and outer-islands. The Energy Unit has an MOU with MEC which is responsible for installation and maintenance. Individuals pay $100 for installation and $5 per month for maintenance but the payment rate is about 40%. The EU provided about $4.2 million under the 9th European Development Fund (EDF) of which 80% went to solar projects and 20% to MEC (for fuel) when the Government declared a state of emergency.

Japan has also agreed to assist with solar - a project worth about $4 million - and the power will be supplied to Majuro hospital. This could be expanded to other Government buildings.

The Government adopted the Energy Policy in 2009, which targets electrification of urban households by 2015. MEC will be introducing pre-paid meters and improving the distribution of power. There will also be a study on bio-fuel and mixing coconut oil with gas. Some of the challenges include transportation to bring copra from outer islands. Further, there is no equipment to check moisture. It was also noted that most businesses are not selling energy efficient light bulbs or refrigerators. There is a proposal to impose a fine on businesses that will charge exorbitant prices on energy efficient products. The Government was urged to consider a tax on non-energy efficient product and to remove taxes on energy efficient products.

An option that could be considered is a regional initiative on bulk fuel purchasing. It is however highly likely that such an initiative may face some challenges because at the end of the day, market forces will dictate the prices. Logistical costs will also make it expensive because of geographical location.

The Government was also urged not to take over the fuel facility from Mobil as was done by FSM; because there could be problems of quality and reliability. There is also a need to ensure that the pipes are safe, and do not pollute the environment.

6.3.8 Construction and related engineering services.

These are regulated by the Ministry of Public Works, and include all forms of civil engineering services, construction of roads, culverts, ports, houses and others.

6.3.9 Recreational, Cultural and Sporting Services

These exclude audiovisual services but include entertainment services (including theatre, live bands and circus services), news agency services, libraries, archives, museums and other cultural services, sporting and other recreational services and other.

6.3.10 Educational Services

These consist of primary education services, secondary education services, higher education services, adult education, and other education services.

6.3.11 Environmental Services

These include sewage services, refuse disposal services, sanitation and similar services and others.

6.3.12 Health Related and Social Services

These include hospital services, other human health services, social services and other.

6.4 Temporary Movement of Natural Persons and Remittances

RMI has a large section of its citizens living in Guam, US main land and other US territories. However, data on the actual number of the RMI citizens living abroad and the amount of remittances that they send to RMI is not readily available. This issue is complicated by the fact that RMI does not have laws on out migration and it's very difficult to monitor workers migrating abroad.

According to the 2006 General Accounting Office Report, it was estimated that about 15,000 Marshallese had migrated to the United States. Although there is no reliable data on remittances, the 2002 household survey suggests that RMI citizens send more money out to RMI emigrants than they receive in remittances. This is mainly because RMI emigrants work mainly in low skilled jobs because of inadequate education and vocational skills. The 2003 U.S. census of FSM and RMI migrants in Hawaii, Guam, and the Commonwealth of the Northern Marianas Islands (CNMI) confirms this characterization, showing that almost half of the emigrants live below the poverty line.

There is also a need for a framework to deal with companies that come to RMI to hire workers to work in the US. RMI also needs to consult the training institutions to update them on the relevant skills that that are in short supply abroad, e.g. construction in Guam.

RMI is interested in participating in a number of labor mobility schemes including the Recognised Seasonal Employer scheme offered by New Zealand. However, RMI's request to participate in the scheme was not accepted. RMI, together with other PACPS have also requested the EU to provide a comprehensive offer on temporary movement of natural persons to Europe.

In order to benefit from the labor mobility schemes, RMI needs technical and financial assistance to be able to train its people and provide them with required skills. As aforementioned the major reason why RMI is not benefiting more from remittances despite its favourable access into the US labor market is that most of its citizens do not have the relevant qualifications. It was noted that most people go to Arkansas without basic English language skills and end up being ill treated. To this end, it was recommended that the Government should consider screening out people going abroad. The AG could ensure that the citizens get basic language training before they can be issued a passport.

6.4.1 General Conclusion and Recommendations

It is clear that when investors are looking for places to invest they look at a number of factors including the availability of resources, labor, transportation, market access, the cost of doing business amongst other things. Investors will be looking at different locations and the competition for investment becomes very tight especially in small Pacific countries that have a lot of natural disadvantages. While small island nations cannot change their geography or their size, there are certain things that they can do that will influence investors' decisions to invest in their countries. One thing that clearly needs to be addressed is the institutional and regulatory business environment. In this context, RMI needs to reform its trade and investment laws to make them more business friendly.

The need to improve the regulatory laws was also identified by the PDP Australia entitled *Stocktaking of Limitations and Restrictions Applying to Trade in Services in the Pacific (2007)*. It concluded that the regulatory environment is constraining foreign investment in the Pacific and in RMI in particular. There are inadequate laws regulating trade and investment and in many instances laws are changed frequently thereby creating uncertainty for trade and investment. Furthermore, there is lack of transparency and widespread use of administrative discretion in the awarding of various licenses.

6.4.2 Recommendations

- (i) RMI should review its trade-related laws and ensure that there are adequate regulations before trade in services is liberalized.
- (ii) RMI should consider liberalizing trade in services and making commitments on tourism, transportation including domestic air transportation, services provided by port authorities, telecommunication especially the mobile and internet sector, business services and environmental services.
- (iii) The Government must allocate sufficient resources on education and vocational training to produce the relevant skills that are needed to develop the economy and also fully utilize the labor market access that RMI has with the US, as well as other markets.
- (iv) RMI should consider giving three year work permits to managers, specialists as well as other skilled workers rather than requiring them to renew the permit on annual basis. The permits and alien registration cards for non-residents need to be streamlined and be renewed after three years rather than being renewed annually.
- (v) The Government must review the reserve list and identify the activities that should be reserved for the local citizens especially boat chartering, tour guides, charter boats, bed and breakfast as well as close loopholes in wholesale and retail.

7 TRADE-RELATED ISSUES

This section looks at RMI's trade-related issues including, taxation, competition, Government policy, corporate governance, intellectual property, trade and environment and trade and gender. Trade-related issues play a vital role in creating a conducive business environment.

7.1 Taxation

The RMI Government levies and collects GRT, import duties and income taxes. Local governments reserve the right to levy business license fees and sales taxes. These taxes and fees vary by locality. The National Government manages the tuna resources and collects revenues from the access fees. The revenue base for RMI is eroding due to declining external grants, increasing debt servicing, and potential loss of trade taxes due to various trade agreements that are being negotiated. A Report for the Pacific Islands Forum estimates that there could be a loss of 25 percent of total revenue (excluding grants) for RMI.[53] In order to deal with these issues, RMI needs to reform its tax laws.

The GRT taxes gross revenue even when there are losses, discourages investment, cascading tax if the goods pass through more than one business, taxing potential exports making them less competitive in international markets.

The national Government collects import tariffs, GRT, Personal Income Tax, immovable property tax and a number of smaller taxes relating to rents and non-resident taxpayers. RMI places an 8% duty on imported goods, unless otherwise specified. There are items with specific import duties, including gasoline, vehicles, tobacco products, alcohol and other beverages.

The Government does not levy export taxes on goods or services from the RMI but requires disclosure. The Local governments (especially Majuro and Kwajalein) collect sales taxes, excises and hotel tax as well as some other small fees and charges. The Marshall Island Social Security Administration (MISSA) collects pension and health contributions totalling 10.5 percent of gross wages paid from both the employer and employee. The main sources of tax revenue in RMI are wages and salaries tax, the GRT and import duties. The table below indicates the main taxes that are paid in RMI:

Table 58: Main taxes paid in RMI and their rates.

Tax Type	Tax Rate
Wages and salaries tax	Wage income: 0-$1,560 0 percent $1,560-$5,200 8 percent (with first $1,560 being exempt) $5,200-$10,400 8 percent (no exemption for first $1,560) >$10,400 12 percent[54]
GRT	$80 if gross revenue less than $10,000 3 percent of gross revenue if greater than $10,000
Import duties	Standard rate 8 percent Food & public transport 5 percent (some basic food is exempt) Fuel:

[53] N. Soni, B. Harries, and B. Zinner-Toa, 2007, *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries*, Report for the Pacific Island Forum, September

[54] According to proposed tax reforms all income up to $4160 will be exempt from the income tax, while incomes falling within the bracket of $4,161and $10,400 will be taxed at 8%. Further, income of between $10,401 and $20,800 will be taxed at 12% and any income above $20,800 will be taxed at 16%.

	• Gasoline	0.25 cents per gallon
	• Jet and Diesel	0.08 cents per gallon
	Motor vehicles	Greater of $1,500 or 15 percent of Kelly's Blue Book value (if no Blue Book value then $2,500 for new and $1,500 for used vehicles)
	Tobacco:	
	• Cigarettes	$1 per pack of 20 rolls
	• Cigars	151 percent
	• Other	$2.75 per 34.2 grams
	Alcohol:	
	• Beer	$0.50 per can or 12oz unit
	• Wine	$2.75 per gallon
	• Spirits	$12 per gallon
	• Mixed drinks	26 percent
Immovable property tax	3 percent of gross income from leased property	
Hotel and resort tax	8 percent of the daily room rate	
Non-resident gross income tax	10 percent of the gross income earned on non-resident contracts	
Local Governmentsales taxes (the local governments also raise revenue from business license fees and other minor taxes and fees)	Majuro Local Government (MALGOV):	
	• General sales tax	4 percent
	• Sales tax on alcohol	25 percent of c.i.f. value
	• Sales tax on tobacco	25 percent of c.i.f. value
	• Fuel tax	4 percent
	• Hotel room tax	$3 per room per day
	Kwajalein Atoll Local Government (KALGOV):	
	• Wholesale sales tax	10 percent
	• Sales tax on alcohol	Specific rates
	• Gross rent tax	4 percent
	• Fuel tax	$0.06 per gallon
	• Hotel room tax	$2 per room per day
Retirement fund contribution	Employer	7 percent of gross wage and salary
	Employee	7 percent of gross wage and salary
	Self Employed	14 percent of presumed wage (twice highest paid employee or if no employees, 70 percent of gross turnover)
Health fund contribution	Employer	3.5 percent of gross wage and salary
	Employee	3.5 percent of gross wage and salary
	Self Employed	7 percent of presumed wage

In RMI, income tax represents the biggest own-source revenue item for the Government, estimated at around $10.8 million in 2010 while GRT was revenue was $6.2 million, and import duties was $7.7 million in the same year. Tax compliance in RMI is reportedly very low, especially for import duties (40-60%).

Table 59: RMI's Tax Revenue, 2006–08

	2006	2007	2008
(US$ million)			
Taxes	25.1	27.1	26.0
Income Tax	11.0	11.2	11.0

Gross Revenue Tax	4.9	5.9	5.8
Import Taxes	7.8	8.5	7.8
Fuel Tax	0.8	0.9	0.9
Other Taxes	0.5	0.5	0.6
(Percent of GDP)			
Taxes	17.3	17.9	17.1
Income Tax	7.6	7.4	7.2
Gross Revenue Tax	3.4	3.9	3.8
Import Taxes	5.4	5.6	5.1
Fuel Tax	0.6	0.6	0.6
Other Taxes	0.3	0.3	0.4

Source: Ministry of Finance

Table 60: FICs own revenue as a % of GDP

	REVENUE	GDP (milns
	% GDP	USD
PAPUA NEW GUINEA	33%	4908
FIJI	24%	2711
SAMOA	27%	418
VANUATU	20%	358
SOLOMON ISLANDS	28%	298
FEDERATED STATES OF MICRONESIA	11%	237
COOK ISLANDS	30%	176
TONGA	38%	160
PALAU	27%	142
REPUBLIC OF THE MARSHALL ISLANDS	23%	138
KIRIBATI	91%	79
TUVALU	96%	20
NIUE	90%	12
NAURU	n.a.	n.a.

Source: 2007 study by Nik

RMI is in the process of undertaking a substantial tax reform with a view to strengthening the tax administration and enforcement, as well as provide ways and means to ensure fiscal sustainability and promote sustainable private sector growth. It is also hoped that the tax base shall be broadened and the system would be made fair and equitable and be more attractive to foreign investors.

According to a study by Nikunj Soni (2007) on *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries*, it was clear that a resident team of tax experts will be required for several years for there to be successful implementation. It is estimated that tax reform and introduction of a VAT takes a minimum of two years. However, a detailed study by Baunsgaard and Keen (2005) suggests that in the most extreme circumstances, low-income countries may take up to 10 years to fully implement tax reforms such that the tax revenue-to-GDP ratio reach pre-liberalization rates.

The tax reform is even more necessary at this moment when RMI is contemplating entering into various trade agreements. It is important for the tax reform to be sequenced properly with trade liberalisation to avoid revenue losses. RMI should also consider the option of reserving some sensitive import duties for tariff revenue or industry protection in future and these issues need to be taken into account in trade liberalisation.

In a country like RMI, which is dominated by the service industry, the most appropriate tax regime would be one based on a mix of consumption and income taxes rather than on trade taxes. Minimal tax incentives and exemptions will avoid rent-seeking behaviour on the part of tax payers, increase Government revenue collection activities, and facilitate more simple, efficient and trustworthy collections agencies. Providing tax incentives to promote investment is unlikely to be cost effective. The best strategy for sustained investment promotion is to provide a stable and transparent legal and regulatory framework and to put in place a tax system in line with international norms. Tax holidays and investment subsidies are among the least meritorious.
The study by the Nikunj Soni (2007) *on Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries* indicates that an effective customs administration should have:

- a clear separation between the setting of tax policy and its administration
- simple and transparent laws and regulations
- protection of confidentiality of taxpayer's information
- a performance criteria, including revenue targets and service expectations, and the resources required to meet them
- professional customs administrators who are well trained and well paid
- a code of conduct for the staff that clearly spells out expectations and consequences of non-performance
- an effective internal audit function; and a clear and effective appeals procedure and, more generally, an atmosphere that encourages taxpayers to raise issues of interpretation of the tax laws and their administration (for example, through discussions with industry associations).

The Ministry of Finance should gather data on the number or value of exemptions given and set clear and transparent procedures for exemptions

7.2 Competition Policy

RMI has a patchwork of legislation dealing with competition-policy issues but there is no comprehensive regulatory and institutional regime to deal with this issue. Some of the laws include the Unfair Business Practices Act which deals with some matters that are normally addressed under the competition law. The Consumer Protection Act is another related law that seeks to protect the interests of consumers.

RMI needs to put in place a competition policy to promote and manage competition in the economy and address all the anti-competitive or trade restrictive practices which may disadvantage the local producers and consumers. A competition policy can be used to create an environment where the monopolistic tendencies of big companies in RMI can be addressed. Competition is good because it can promote efficiency and effective delivery of quality goods and services. The competition policy should be framed in such a way that it allows foreign competition, but at the same time giving due regard to the local sensitivities. Some of the anti-competitive practices can best be addressed at a regional level and RMI must participate actively in any of these initiatives.

7.3 Government Procurement

Government procurement constitutes a major part in international trade and billions of dollars worth of goods and services are traded by governments worldwide. Even though it is normally exempted from major trade agreements, there is a need to ensure that the Government procurement procedures meet international procurement standards. This is good from an accounting and reporting point of view especially from those countries that rely on donor funding. Furthermore, transparent and competitive procurement procedures ensure that the citizens have access to quality goods and services at reasonably cheap prices. Procurement procedures can also be designed in such a way that preferential treatment can be given to small and medium enterprises to ensure that they also benefit from the Government tendering procedures. This can be done by giving preference to domestic companies below a certain threshold.

RMI has a fairly comprehensive Procurement Act of 1988, revised in 2003. However, there will be merit in reviewing the Act to incorporate best procurement standards and strengthen the regulatory and institutional mechanism. Clearly laid down procurement rules and standards will go a long way in curbing corruption and conflict of interest and this enhances the value of the taxpayer’s money and more importantly, it will raise RMI’s image with the donors. There is also a need to put in place deterrent penalties for those flouting the procurement rules. The private sector and the judicial system need to be vigilant in this respect to ensure that the rules are enforced.

7.4 Corporate Governance

RMI also needs to adopt a comprehensive Corporate Governance Framework to ensure that public companies, Government enterprises and departments are run according to the best corporate practices. It has been proven that for private or public companies to be effective, there should be an effective and independent board of directors and relevant committees. The process for selecting office holders or board members should be transparent and only skilled and experienced people should be allowed to take such positions of responsibility. There should be a system in place to ensure financial accountability and responsibility, ethics, risk management, performance evaluation and succession planning. All these issues can be best addressed in a corporate governance framework. If a country does not adhere to sound corporate governance practices investment will flow elsewhere. It is also believed that poor corporate governance practices contributed significantly to the demise of public fishing companies in RMI and other projects.

7.5 Intellectual Property Rights (IPRs)

Aside from the Unauthorized Copies of Recorded Materials Act, 1991, RMI does not have adequate laws dealing with intellectual property rights. In order to promote investment and encourage innovation, RMI needs to adopt comprehensive laws to protect copy rights, patents, trademarks, geographical indications and designs. There have been frequent adverts in the press giving trademark cautionary notices, but this is an ineffective way of protecting trademarks. IPR legislation need to be supported by strong implementing institutions and regimes and the judiciary must play a vital role in upholding and enforcing IPRs. IPR is not only for big companies but even SMEs can develop their products, license them, improve the quality of their products and services, brand their products and market them effectively.

There is also a need to establish a sui generis system to protect traditional knowledge, bio-diversity and genetic resources. The Pacific Island Forum Secretariat is already running a pilot project that seeks to establish international rights to protect Traditional Knowledge and Cultural Expressions and this project should be extended to include RMI.

Protection of IPR is also important for health and safety reasons. In 2005, total world goods exports amounted to $10.3 trillion (IMF: 2005) and total counterfeit goods exports constituted about $0.2 trillion. By value, the OECD estimates the counterfeit goods trade at roughly $200 billion in 2005. About 70% of the counterfeits, based on the origin of seized pirate products, originated in East Asia, above all China. Some of the items that are pirated include knockoff rolexes, designer luggage, ray-bans, lower-priced medicines, food and household goods. Specific examples include foods like instant coffees, butter, and alcoholic drinks; personal products like tampons, toothpaste, razor blades and medicines- from cough syrup to HIV treatments. RMI needs to include a provision in its Customs Act empowering customs officials to seize imported IPR infringed goods. The customs must also be well trained and strengthened to fulfil this task.

7.6 Trade and Environment

In an effort to develop and promote exports in agriculture, fisheries and tourism care must be taken to protect the environment to ensure that economic growth boosted by exports in these sectors is sustainable. Positive measures must be taken to ensure that there is balance between trade interests and environmental interests. If the environment is not protected, this may have enormous consequences in future, not only on economic development but also on social lives of many people. At the global level, efforts are being made to take urgent and targeted measures to protect the environment and minimize the impact of climate change and RMI should participate fully in this process.

It is heartening to note that RMI has adopted the Micronesian Challenge, which is a commitment by RMI, CNMI, Guam, Palau and FSM to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020. This challenge exceeds the goals set by international treaties, which call for countries to conserve 10% of terrestrial and marine resources by 2010 and 2020 respectively. It calls for Micronesian leaders to work together at the regional level to confront environmental and sustainable development issues.

There is also a need to conserve offshore fisheries to ensure sustainable trade and clean investments in the fisheries sector. This becomes crucial when RMI is considering promoting more investments in fish processing. A thorough environment impact assessment should be conducted and plans must be made on how to dispose the waste.

The relationship between trade and environment should be examined closely to ensure that the quest to promote trade does not lead to depletion of natural resources, pollution of the land, air and water. Agricultural production must not lead to deforestation, soil erosion and land degradation. The harvesting of marine resources must be monitored and managed properly to ensure that there is no over-exploitation. Even though there are costs involved RMI should endeavour to use clean technology in any form of business or manufacturing venture. Assistance must be sought from the developed countries to assist RMI to have access to clean development mechanisms.

There are also proposals at the WTO to eliminate duties on “environmental products” and to remove restrictions on “environmental services”, thus offering greater opportunities for environmentally friendly goods worldwide. RMI should also consider promoting trade in goods and services that are environmentally friendly and impose high taxes on and regulate those products or services that cause harm to the environment. However, other considerations such as revenue loss and the cost of goods and services to the poor should also be taken into account.

7.7 Trade and Gender

It should be noted that women in RMI have been marginalised for a long time and they have not been playing an active role in politics, trade as well as in other domains. In line with international conventions and best practices that seek to mainstream gender into development, it is very important to ensure that the Trade Policy includes measures that promote the participation of women in trade. Women are normally involved in labour intensive sectors such as agriculture, handicraft and fish processing, therefore there should be some positive measures to ensure that the interests of women are fully taken into account. The Government must also ensure that issues affecting women are reflected in trade agreements so that women's interests are not left out or affected negatively by these agreements.

WUTMI and the MICNGOs have been playing a vital role in RMI to ensure that the issues of particular interest to women are addressed fully. For example, when it was realised that most local handicraft shops were overstocked, WUTMI started buying the handicrafts from the outer islands. Before 9/11/2001, transit passengers used to be allowed to enter Majuro freely and buy handicraft. However, they are no longer allowed to come in and buy these products thus restricting the selling of handicrafts. Most crafters are in the outer islands and when there is no ship they cannot bring their products to Majuro. AMI is unreliable, and there are only 3 ships servicing the outer islands. Some people from the outer-islands do not know where to sell the handicrafts and have fallen victim to thieves and conmen. Most of the women are breadwinners and therefore need a market for their goods.

The other small businesses include the selling of salt fish and breadfruit from outer islands. There is a special pandanus tree that is also used for weaving and there is a therefore need to grow more of these trees and sell to other islands.

When the price of copra fell, men also joined the handicraft industry. The FAO project on sustainable livelihoods is supporting women to plant all kinds of crops including water melons, pumpkin and pandanus. They were in addition supported in the producing of pandanus juice. The women were also successful in collecting data for the turtle conservation project. WUTMI has been getting support from New Zealand and UNICEF to promote gender equality and deal with other social problems affecting women such as early pregnancies and substance abuse amongst other things.

7.8 Recommendations

The following recommendations need to be implemented in order to improve RMI's trading environment:

(i) RMI should reform its tax system and adopt a consumption tax and other recommendations that have been proposed by the tax reform task force to enable RMI to participate in trade negotiations without losing revenue
(ii) RMI should also consider identifying a list of sensitive products that should be exempted from trade agreements
(iii) The Ministry of Finance should gather data on the number or value of exemptions given and set clear and transparent procedures for exemptions
(iv) The Government should consider reviewing its Government procurement laws and incorporate recent best practices on Government procurement while protecting the interests of local citizens.
(v) The Government should work with the Forum Secretariat, WIPO as well as other agencies and introduce a comprehensive regulatory and institutional framework dealing with intellectual property rights as well as bio-diversity, traditional knowledge and cultural expressions.
(vi) RMI should introduce a code of corporate governance and adopt best practices on public and private corporate governance
(vii) The Government should take measures to ensure that trade and investment is undertaken in a manner which does not undermine the environment.
(viii) The Government should take measures to promote and facilitate trade in environmental goods and services and restrict trade on products that harm the environment.
(ix) The Government should ensure that the interests of women and other disadvantaged groups are included in trade-policy making and trade negotiations

8 MARKET ACCESS AND TRADE NEGOTIATIONS

This section looks at the trade agreements that are already in place or those that RMI is negotiating. These trade agreements should enhance market access for RMI's goods and services and provide Aid for Trade to enable RMI to build its capacity to produce goods and services in an efficient manner and supply the global market. Some of the agreements that are covered include the Pacific Island Countries Trade Agreement (PICTA), the Economic Partnership Agreement (EPA), the Pacific Agreement on Closer Economic Relations (PACER) Plus, the Compact Agreement with the US and the World Trade Organisation (WTO).

8.1 The Pacific Island Countries Trade Agreement (PICTA)

The main objective of PICTA is to promote regional integration among the fourteen Forum Island Countries (FICs). It was supposed to serve as a stepping stone for FICs to participate in the increasingly liberalized global economy. The original rationale for PICTA is that it was supposed to serve as a 'training ground' before FICs negotiate free trade agreements with other countries such as the EU, Australia and New-Zealand. The FICs need to pursue regional integration in order to avoid being marginalized from the global system. Leaders also adopted the Pacific Plan in 2005, which seeks to promote deeper and broader integration in the Pacific as a strategy for pursuing the main goals of economic growth, sustainable development, good governance and security. Regional integration becomes an imperative in light of the decline in aid to RMI and it also helps to sustain outward looking trade policies.

PICTA seeks to reduce ad-valorem tariffs to zero by the year 2015 for developing countries and 2017 for least developed countries (LDCs) and small island states (SIS). Non-advalorem duties will be eliminated by 2020 and 2021 respectively. For those products that qualify for the negative list exemption, tariffs will be reduced to zero by 2020 for developing countries and 2021 for LDCs and SIS. However, non-tariff barriers such as quotas must be eliminated immediately. The tables below show the timetable for tariff cuts under PICTA.

Tables 61 (a – h): Timetable for tariff cuts under PICTA

62 a.

Non-(LDCs and SIS) – ad-valorem tariff					
	Maximum tariffs on goods from				
Base tariff on goods on entry into force	1.1.2007	1.1.2009	1.1.2011	1.1.2013	1.1.2015
> 20%	20%	15%	10%	5%	0%
> 15% but not more than 20%	15%	10%	5%	0%	
> 10% but not more than 15%	10%	5%	0%		
not more than 10%	0%				

62 b.

Ad valorem tariffs on originating goods which are imported into Small Island States and Least Developed Countries shall be reduced and eliminated according to the following timetable:							
Maximum tariff on goods from:							
Base tariff on goods the entry into force of this Agreement	*1.1.2009*	*1.1.2011*	*1.1.2013*	*1.1.2015*	*1.1.2017*		
More than 25%	25%	17.50%	10%	5%	0%		
More than 20% but not more than 25%	20%	15%	10%	5%	0%		
More than 15% but not more than 20%	15%	10%	5%	0%			
More than 10% but not more than 15%	10%	5%	0%				
not more than 10%	5%	0%					

62 c.

Non-(LDCs and SIS): specific or fixed tariff					
Maximum specific or fixed tariff on goods, as a percentage of base tariff (value) from					
8.1.1	1.1.2007	1.1.2009	1.1.2011	1.1.2013	1.1.2015
% of Base Tariff (value)	80%	60%	40%	20%	0%

62 d.

Specific tariffs and fixed tariffs on originating goods which are imported into Small Island States and Least Developed Countries shall be reduced and eliminated according to the following timetable:						
Maximum specific or fixed tariff on goods, as a percentage of base tariff (value) from:						
	1.1.2009	*1.1.2011*	*1.1.2013*	*1.1.2015*	*1.1.2017*	
% of base Tariff (value)	*80%*	*60%*	*40%*	*20%*	*0%*	

For locally produced sensitive products to be included in the negative list and be entitled to a longer period of protection with higher tariffs, they must be locally produced, be produced by another PICTA member (risk of competition) and not currently being exported. This protection is not permanent and tariffs on such goods must be reduced to zero by 2020 for developing countries and 2021 for LDCs and SIS. RMI should come up with a negative list of products that it wants to shield from liberalization until 2021.

62 e.

Non-(LDCs and SIS) – ad-valorem tariff (Negative list)									
Maximum ad valorem tariffs on goods from:									
2007	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Tariff	40%	35%	30%	25%	20%	15%	10%	5%	0%

62 f.

Ad valorem tariffs on goods listed by Small Island States and least Developed Countries as excepted imports shall be eliminated according to the following timetable (negative list):										
Maximum ad valorem tariffs on goods from:										
1.1.2007	1.1.2012	1.1.2013	1.1.2014	1.1.2015	1.1.2016	1.1.2017	1.1.2018	1.1.2019	1.1.2020	1.1.2021
Base tariff	50%	40%	35%	30%	25%	20%	15%	10%	5%	0%

62 g. Non-(LDCs and SIS): specific or fixed tariff (negative list)

Maximum specific fixed tariff on goods, as a percentage of base tariff (value), from:										
	1.1.2007	*1.1.2012*	*1.1.2013*	*1.1.2014*	*1.1.2015*	*1.1.2016*	*1.1.2017*	*1.1.2018*	*1.1.2019*	*1.1.2020*
% of base tariff	100%	85%	70%	60%	50%	40%	30%	20%	10%	0%

62 h. LDCs and SIS minimum specific or fixed tariff on goods, as a percentage of base tariff

LDCs and SIS Maximum specific or fixed tariff on goods, as a percentage of base tariff (value), from:										
% of base	1.1.2007	1.1.2012	1.1.2013	1.1.2014	1.1.2015	1.1.2016	1.1.2017	1.1.2018	1.1.2019	1.1.2020	1.1.2021

tariff	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%

Alcohol and tobacco have been excluded from liberalisation but the Ministers are expected to consider this issue in future. For products to qualify to trade under PICTA, they must meet the 40% local content criteria. At the moment, PICTA covers trade in goods only and about 3% of all FICs imports originate in other FICs.

PICTA allows members to protect their infant industries using protective tariffs for a maximum period of about 10 years for developing countries and 15 years for LDCs and SIS. The Agreement also allows countries to take some safeguard measures in the event that there is a sudden and unforeseen influx of imports as a result of eliminating tariffs. Other flexibilities that are built into the agreement include the general exceptions, balance of payment exceptions, provisions on amendment of the agreement and even withdrawal.

According to a 2007 study commissioned by the Forum entitled "The Potential impact of PICTA on smaller Forum Island Nations" the negative impact of PICTA on RMI is minimal.

Table 62: The Potential Impact of Revenue Loss under PICTA

The Potential Impact of Revenue Loss under PICTA		
Country	Filmer's calculation of estimated cumulative loss of total tax revenues from the PICTA (1998 data)	FIC tariff revenue as percentage of Government revenue (incl grants, 2005 data)
FSM	..	0.01%
Kiribati	14%	3.31%
Nauru	2%	-
Niue	..	1.30%
Palau	..	-
RMI	..	-
Tonga	3%	7.13%
Tuvalu	13%	1.58%

.. impact is negligible - data not available

RMI will not lose a lot of revenue because it imports about 80% of its goods from the US. Close to 20% of its imports comes from other countries and very little comes from FICs.
According to a 2007 study by Watergall Consulting Limited, entitled*: Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries,* RMI will not lose much revenue from PICTA.

The table below shows that total revenue constitutes about 23% of GDP. However, in the Pacific the best method to use is revenue loss as a percentage of total revenue rather than GDP because the GDP figures are not always correct.

In terms of revenue loss as a percentage of total tax revenue, RMI is expected to lose 0% from PICTA trade. If RMI adopts consumption tax under the current proposal the revenue loss will be neutral.

Table 63: **Revenue loss as % of total tax revenue from FTA's**

	PICTA	EPA	PACER Plus	MFN US	Total	Error	Recurrent Revenue as % of GDP	Tax revenue as % of Recurrent Revenue
Cook Islands [1]	1	0	9	0	10	3	26%	85%
Federated States of Micronesia [2]	0	0	3	37	40	4	5%	42%
Fiji [3]	0	0	4	0	4	1	19%	79%
Kiribati [4]	8	0	37	1	46	12	26%	29%
Nauru [5]	1	5	100	7	100	Na	Na	7%
Niue [2]	0	0	20	0	20	5	113%	20%
Palau [6]	0	0	0	6	6	1	27%	73%
Papua New Guinea [7]	0	0	2	0	2	1	33%	93%
Republic of the Marshall Islands [8]	0	0	7	28	35	1	23%	81%
Samoa [7]	2	0	11	3	15	5	27%	86%
Solomon Is lands [9]	1	0	4	0	6	2	28%	90%
Tonga [2]	8	0	24	2	33	12	38%	83%
Tuvalu [10]	22	0	13	0	35	9	96%	40%
Vanuatu [2]	3	1	20	0	25	3	20%	90%

Source: Watergall 2007
*this assumes no substitution effects or other externalities either positive or negative
However, the table does assume that most PIC economies do not have fully competitive domestic markets
1 – in 2006 Cooks removed almost all import duties. This cost has been absorbed into the 2007 budget
2 – Using average data for 2003 – 2005
3 - Using average data for 2003 – 2005 adjusted for 2006 tariff / exercise changes
4 – Recurrent revenue calculated using 2005 only due to gradual decline in interest, fish and other non tax sources of income
5 – Using aggregate data for 2005 & 2006
6 - Using average data for 2001 – 2003
7 – Using 2005 data
8 – Using aggregate data for 2003
9 - Using 2003 – 2005 average adjusted for 2006 changes in tariffs to 10% tax rate
10 – Using 2004 – 2006 average

The ratio of 'FIC' imports in this case is very low and somewhat volatile, but hovers around 0.5% for the years that data is available.

Table 64: RMI /Fiji import ratios

Year	1995	1996	1997	1998	1999	2000
Percentage of total imports from Fiji	0.82%	0.59%	0.51%	0.50%	0.70%	0.68%

Assuming that Fiji will be the major import source in FICs, the impact of PICTA will be very small.

Quantifiable economic benefits from PICTA are not expected to be huge because intra-regional trade volume is currently very low. However, some of the benefits expected from PICTA include a big domestic market of about nine million people thereby increasing their export chances, and this is also good for attracting investors. PICTA can also lead to improved efficiency as industries exploit economies of scale due to expanded "local" market. More exports may lead to increase in output which in turn leads to employment and more income. Lowering tariffs is expected to lead to lower prices and a wider product choice for consumers. PICTA promotes regional integration as an initial step towards more extensive liberalization and it provides experience in negotiating FTAs. It also creates the basis for negotiating FTAs with other regions.

Like any other trade agreement there may be costs associated with PICTA and measures need to be put in place to minimize the costs and maximize the benefits to ensure that in the final analysis, the agreement will result in a win - win situation. Some of the costs involved include adverse social impacts arising from “adjustment costs” associated with removal of tariff barriers; administrative operational costs; small revenue loss through tariff reductions (only serious in Tuvalu and Kiribati); introduction of consumption-based taxes (to replace lost tariff revenue).

The RMI has been granted a waiver on PICTA and this allows it to ratify PICTA without being obliged to offer the same trade preferences to U.S.

There are five FICs that are already trading under PICTA with effect from 01 January 2007, namely Cook Islands, Fiji and Samoa and August 2007 for Vanuatu and Niue. Tuvalu in April 2010 also announced its readiness to trade under PICTA. Kiribati, Nauru, PNG, Solomon Islands and Tonga have completed notification, but yet to announce readiness to trade. RMI and Palau have not yet signed PICTA. FSM signed but has not yet ratified PICTA.

It is clear that RMI is already lagging behind. For the country to benefit from PICTA there is a need to boost production and export capacity, and transportation links with the other island countries must also be improved.

RMI needs to expedite the ratification process and start trading under PICTA. After ratification, RMI should notify other PICTA members and inform them about the specific issues related to PICTA trading. Some of the issues involved and steps required include: providing information on the MFN tariff schedules; information on any conversions of specific rates; information on the existence of any trade distorting measures; any other information relating to PICTA trading, for example, status on the endorsement of changes to the Agreement; negative lists; PICTA tariff reduction dates; details of legislative changes to trade under PICTA; thoughts on inclusion of alcohol and tobacco, and Government procurement; requests for PICTA technical assistance, legislative and procedural changes; announcement of PICTA readiness and trading.

8.1.2 Extension of PICTA to Trade in Services

The Forum Trade Ministers have agreed that PICTA be extended to trade in services. According to the studies that were commissioned by PIFS, FICs were recommended to initially liberalize a minimum of four out of the seven sectors that were identified for liberalization[55]. Some of the sectors make sense to liberalize regionally, while others should be liberalized with a multilateral framework in mind – due to economic efficiency and scale.

It is recommended that telecommunications and financial services be liberalized multilaterally, on MFN basis and air services be liberalized among the Forum Island members. Air Services are covered by the Pacific Islands Air Services Agreement (PIASA). Inter-FIC and Intra-FIC shipping services for all FIC shipping companies must also be liberalized regionally. Health and education services may also be included in FIC free trade in services arrangements (subject to limitations due to social and public-good nature of these services). Certain sub-sectors of the tourism industry may also be included in the free trade in services agreement.

It is recommended, just as Trade Ministers have urged, that FICs should ensure that liberalization commitments that they enter into with third countries do not supersede the commitments they give to PICTA parties.

8.1.3 PICTA and Temporary Movement of Labor

The proposal to broaden PICTA to include Temporary Movement of Natural Persons (TMNP) was considered in 2001. The objective of the TMNP scheme is to draw from labor surpluses within the region to meet national skill shortages and stimulate skills development. In 2008, Pacific ACP (PACP) Trade Ministers agreed to develop a framework for a TMNP scheme that:

- considers using a two tier approach, whereby recognized professionals could move freely amongst FICs, and semi-skilled / trades professionals would be subject to a mechanism based on minimum quotas
- benefits should extend to FIC nationals and persons with the right of permanent residence in a FIC, irrespective of their place of residency

The 2009 Report tilted, Study on the Pacific Island Countries Trade Agreement (PICTA) Temporary Movement of Natural Persons (TMNP)scheme by, Eco-Consult Pacific Limited, defines Tier 1 as *professionals* who have acquired a minimum of a bachelors degree from a recognized university with three years work experience and if required, a license to practice. Tier 2 is defined as *semi-skilled/trades professionals* with a minimum qualification of a diploma,

[55] The seven sectors are financial services, telecommunication, transport (air and maritime), tourism & travel, educational service, health services and professional services.

or a certificate with three years of experience or certificate with five years experience and a license to practice if required.

The national Labor and Immigration offices will have to play a vital role in implementing this scheme. In RMI the Immigration Department is responsible for border control, ports of entry frontline management, passports and visa issuance, compliance and citizenship. The department would facilitate operations of the scheme. The Labor Division should play a facilitating role in policy formulation and implementation and issuance of work permits. The Labor Division is responsible for labor market monitoring and the identification of sectors where labor shortages exist. It developed the OSL in 2006. The Division will also be responsible for determining quotas if they are required under the scheme as well as monitoring compliance and enforcement.
The South Pacific Board for Educational Assessment (SPBEA) will play a vital role in developing a Pacific Regional Qualifications Register (PRQR) and the National Qualification Authorities (NQAs) in the assessment and recognition of qualifications for the purpose of the scheme.

For the scheme to be useful, it must be simple to administer and offer easier employment opportunities into other FICs than any other schemes or arrangements.
RMI need to gather data on expatriate workers and labor market data and use it as a basis of economic needs tests, where appropriate.

The 2009 report recommends initiating implementation of the TMNP scheme with a first phase of 2-5 years' duration that uses the two tier approach. It also proposes minimum quotas for TMNP tier 2 workers that are unlikely to impact domestic labour markets and overburden FICs immigration authorities. The lessons learnt during the first phase will be used to improve the scheme.

FIC nationals, permanent residents in FICs, and any persons who have the right of permanent residence in a FIC, regardless of whether or not they are resident there, are eligible to participate in the TMNP scheme.
Whilst awaiting the completion of the PRQR by SPBEA, FICs should negotiate Mutual Recognition Agreements (MRAs) to ascertain the minimum qualifications and work experience required for the two tiers.

National or regional bodies should be responsible for licensing, however, for immigration purposes, it is proposed that acquiring a license to practice should be a post-entry requirement subject to enforcement by the appropriate authority in the country. If there is no licensing authority for a specific trade or profession, FICs could consider the issue of temporary licenses until such time they are able to develop their respective licensing authorities. Regional licenses can be developed in future and considered.

Countries are not allowed to use ENTs especially for the first phase because the movement of people will be controlled by market forces. The draft PICTA TIS protocol states that each FIC shall determine the numerical limit, if any, on natural persons that may enter their territory each year. Countries should determine the quota stating the minimum number of workers that applies to tier 2 while leaving the option to take in additional workers if and when required. The quota should also be phased out as soon as possible but prior to phase 2.

Table 65: Proposed minimum quota for FICS (for tier 2 only)

Countries	Workforce size	Minimum Tier 2 Quota
Niue, Tuvalu, Nauru	<5,000	20
Cook Is, Palau	<10,000	30
Marshall Is, Kiribati, FSM, Tonga, Samoa	<50,000	40
Solomon Is, Vanuatu	<100,000	50
Fiji	<500,000	250
Papua New Guinea	<500,000	500

The draft PICTA-TIS provides for the eligibility requirements for workers to qualify for the TMNP scheme and they consist of proof that they:

- are a national or permanent resident of a FIC
- are in good health and are of good character
- satisfy the required qualifications, skills and experience
- have received a valid employment offer from an employer in an FIC and, where a quota applies, were selected for participation in the scheme.

If the above requirements are met, the TMNP national authorizing authority will then issue a certificate or stamp that confirms the applicant's compliance with the criteria of the TMNP scheme. The report recommended that the Immigration department be designated as one agent that will manage this scheme. However, in RMI the department of Labor is well suited for this task. Fees charged by the issuing authority for processing applications for temporary entry should be confined to administrative costs only. The draft PICTA TIS Agreement provides that applicants for the TMNP scheme would only pay fees when applying for a TMNP certificate in the home country.

In accordance with the draft PICTA-TIS, FICs may not require any advance approval procedures, requests, evidence of labor certification, work permits or other procedures of similar effect, as a condition for authorizing temporary entry of TMNP workers, other than those required under the protocol. To this end, an entry visa (called a *PICTA TMNP Visa*) can be issued on arrival of the TMNP worker in a host country, and that this visa serves as a work permit. The duration of temporary entry is limited to the length of the contract, or to a maximum of 3 years, whichever the soonest. However, bonds will still be required and workers will not be allowed to switch employers.

The spouse and dependent children should be given permission to enter and reside in line with permissions granted to the TMNP worker and, if the spouse qualifies under either tier, he or she must be allowed to work in the host country, subject to fulfillment of the requirements for registration under the scheme.

During the PICTA Meeting that was held in March 2010, some of the issues that were raised include:

i. The need to ensure adequate monitoring and compliance of immigration dimensions of the PICTA TMNP Scheme, and that immigration departments be adequately resourced to facilitate the scheme.
ii. The scheme must simplify existing administration requirements and increase employment opportunities. The scheme must improve on current arrangements and must offer an easier route into employment within the region.
iii. The need to consider qualifications rather than occupations-based tiers
iv. Countries need to be cautious in imposing conditions on qualifications which may act as a deterrent to the temporary movement of skilled and semi-skilled workers.
v. The need for the PICTA TMNP Scheme to recognize qualification acquired by Pacific workers outside the region
vi. The quota proposed in the study represented a guaranteed minimum for Countries to commit to should they choose to participate in the PICTA TMNP Scheme
vii. The need for careful drafting of the TIS legal text to accommodate overlaps between Mode 4 commitments and TMNP
viii. The need to ensure that the PICTA TMNP Scheme promotes labor mobility among Countries and does not impose unnecessary burden on Pacific workers intending to participate in the scheme
ix. The need to exercise caution on including Tier 3 in the PICTA TMNP scheme as lower skilled labor mobility arrangements are often bilaterally agreed among sending and receiving Countries
x. The absence of an established and liberal labor mobility scheme among Countries could disadvantage them in their labor mobility negotiations with other partners
xi. PICTA TMNP Scheme should aim to offer benefits above and beyond arrangements with other partners
xii. The impact of labor mobility scheme such as the PICTA TMNP scheme on those Countries that have special arrangements with USA, New Zealand and Australia

It was recommended that the PICTA TMNP Scheme should consider using qualifications as Tiers, in addition to categories of professions. The possibility of the exclusion of quotas from the scheme, as the requirement for job offers to be made prior to entry for Tier 2 would in itself control the flow of workers intending to participate in the PICTA TMNP Scheme.[56]

8.1.4 PICTA and Government Procurement (GP)

Part III of PICTA, provides that a Protocol on Government Procurement must be developed and included as part of PICTA within two years of the latter coming into force. PICTA came into force on 13 April 2003 and trading under the agreement commenced on July 1, 2007 for some countries. In 2007, PACP Trade Ministers endorsed a framework by which FIC governments may undertake liberalization of their current procurement system.[57] Government procurement expenditures as a percentage of GDP is quite significant in FICs including in SIS.

The table below shows that Government Procurement expenditure as a percentage of GDP for relatively small countries ranges from 23-115%. It is high in Kiribati (115%), Tuvalu, Palau, Niue, RMI (30%), Cook Islands, Nauru and Tonga (23%) for 2008. These are relatively small countries that rely on donor funds which are then used to procure goods and services. In general, the private sector in these countries is very weak and does not have the capacity to procure goods and services that are required by the nation. Government Procurement as a percentage of GDP in fairly big countries such as Solomon Islands, Fiji, Samoa, PNG, Vanuatu ranges from 5-16%.

Table 66: Government and Government Procurement expenditure as a percentage of GDP

	Cook Is	FSM	Fiji	Kiribati	Marshall Is	Nauru	Niue[58]	Palau	PNG	Samoa	Solomon Is	Tonga	Tuvalu	Vanuatu
A	826.7	235.9	4648	81.9	149.2	26.9	20.5	164.2	18551	1372	3436	505.7	31.9	45901
B	103.2	152.9	1509	165.7[59]	98.9	6.2[60]	21.9	86.2	7007	487.6	1210	166.0	19.1	11799
C	36%	65%	325	20%	66%	23%	107%	52%	38%	36%	35%	33%	60%	26%
D	75.9	70.0	392.0	94.5	45.3	6.75	6.4	52.0	2783	178.0	165.0	118.0	10.8	7344
E	26%	30%	8%	115%	30%	25%	31%	32%	15%	13%	5%	23%	34%	16%

Source: i) ADB Key Indicators for Asia Pacific 2008; ii) SPC Statistics

A: Gross Domestic Product (GDP) in local currency (millions)
B: Government total expenditure in 2007 (unless otherwise stated) in local currency (millions)
C: B as a percentage of GDP
D: Government Procurement expenditure in 2007 (unless otherwise stated (estimate)) in local currency (millions)
E: D as a percentage of GDP

[56] It is hoped that negotiations PICTA TMNP Scheme will be finalized for it to take effect before the end of 2012.
[57] In order to assist FICs to progress work on Government Procurement, the Pacific Islands Forum Secretariat commissioned a study tilted, Pacific Economic Development Agency, 2010, Study on Procurement Policies and Practices in FICs and Recommendations on the inclusion of Government Procurement in the Pacific Island Countries Trade Agreement. The study concluded that the majority of Government procurement regimes in FICs have rudimentary frameworks, lack clear regulation and enforcement mechanism, lack transparency and accountability, and have inadequate capacity and ineffective procurement processes and procedures.

[58] Includes donors' support for Niue's trust Fund, 2006
[59] Includes revenue from Reserve Equalisation Fund.
[60] 2005

Government procurement is defined as "the contractual transaction process initiated by a Government agency to purchase, rent, lease or hire purchase with or without the option to buy, a good, service or construction work from national, regional and global suppliers for the sole benefit or use of government. Some of the issues that have been proposed to be covered under PICTA include:

- All goods, services and construction acquired for the sole benefit or use of Government and not to be procured with the view to commercially resell that procurement to a third party
- Procurements by local governments, State Owned Enterprises, central Government and all other organs of the state and non-Government organizations procuring goods, services or construction work with public funds
- De-jure preferences favouring domestic suppliers, but such discriminatory policies to be gradually dismantled according to the liberalization timetable agreed upon by PICTA parties
- Exception of some type of procurements, especially those related to national security and other procurements of national interest, from the requirement of open tendering and transparency
- Joint procurement or bulk purchasing as an alternative mechanism that will bring cost savings and value for money.

Some of the benefits expected from increased transparency and the liberalization of Government Procurement include increased specialization, competition efficiency or value for money procurement and accountability.

RMI should assess the costs and benefits of participating in Government procurement under PICTA including the impact of these policies on its affirmative procurement policies and preferences that are given to locals.

It is proposed that FICs retain their own national thresholds but the regional threshold for goods and services could be SDR 75,000 (or US$119,000) and SDR 2.5m (US$4m) for construction, and the global threshold to be SDR 150,000 for goods and services and SDR 6.5m for construction. As a SIS RMI, should consider asking for special and differential treatment. Some of the recommendations for inclusion of GP in PICTA, and for which RMI should advocate include:

i. PICTA liberalization be done in two phases. Phase I (minimum 6 years) will focus on enhancing transparency in FICs GP systems and development of PICTA GP rules. Phase II should focus on liberalization actions and this can commence two years before Phase I is completed.
ii. PICTA parties adopt a common definition for GP, and cover the procurement of goods, services and construction by all levels of government, and state owned entities where GP

above the regional and global thresholds will have to be advertised regionally and globally respectively.

iii. There be exemptions for national security, and other specific procurements requested and approved by PICTA parties.

iv. The regional and global thresholds, and the advert must be open for *a minimum of 40 days for open tendering and* 25 days for limited tendering for all tenders advertised regionally and globally.

v. It is recommended that technical specifications for tenders follow international standards and/or acceptable national standards, and should be written not to create unnecessary obstacles to international trade and competition, save where agreements have been reached on certain specification that are unique to Pacific Island Countries.

vi. There must be a right to challenge the bidding process.

8.1.5 Recommendations

i. RMI should consider acceding to PICTA after the tax reform is finalized

ii. RMI must table draft trade in services offers under the PICTA Trade in Services Agreement on business services, tourism and transportation (air and maritime) including domestic air services before end of 2010.

iii. The Government, in particular, R&D, Labor and Immigration Department must work together to analyze the proposed PICTA Temporary Movement of Natural Person initiative and submit recommendations to the NTFC.

iv. RMI should analyze the proposal to include Government Procurement under PICTA and make recommendations to the NTFC.

v. RMI should utilize the marketing services that are provided by the Pacific Islands Forum Secretariat (PIFS) under the Pacific Islands Trade and Investment Commission (PITIC) Offices based in Auckland, Sydney, Beijing, and Tokyo.

8.2 The US Market

As was highlighted above, the US is RMI's major trading partner and RMI has a special preferential trade arrangement under the Compact. It is important to note that the US as a WTO Member is prohibited by the MFN obligation from giving special preferences to a special group of countries without extending the same benefits to WTO Members. Thus the US had to obtain a waiver from the MFN obligation to be able to grant preferences to FAS and this waiver was extended in 2006 to 2016. This section will look at the Compact provisions providing for preferential access to the US market, the major competitors into the US market, the compensation for lost tax and trade preferences and how RMI can improve its market access to the US market.

8.2.1 RMI Access to the US Market

According to the 2010 Harmonized Tariff Schedule of the United States, products of the Freely Associated States (FAS) are entitled to duty free access under the Compact of Free Association Act of 1985 as amended in 2004. However, there are some few restrictions. RMI in turn is required to give most favoured nation (MFN) treatment to the US with regards to any free trade agreements that it signs with third parties with the exception of PICTA parties.

Most of the products from RMI enter the US duty free and the US has 0% tariff for fresh or frozen tuna, fresh or frozen tuna fillets, 6-12% for canned tuna in water and 35% for canned tuna in oil. Under the MFN most fisheries products especially fresh and frozen fish under chapter 0304 and 0305 enter the US market duty free and in a few cases they attract a low duty of 3-6%. Under the Generalized System of Preferences, most of these are enter the US market duty free[61].

Table 67: US import duties on major fisheries products

Product Description	MFN rate	Special rate
0302.70.20 00 Sturgeon roe	15%	Free (A,AU,BH,CA,CL,E,IL,J,JO,MA, MX,OM,P,PE) 1.8% (SG)
Crabmeat 0306.14.20 00	7.5%	
0304.91.90 00 Other (sword fish).	6%	Free (A,AU,BH,CA, CL,E,IL,J,JO,MA, MX,OM,P,PE,SG)
1604.13 Sardines, sardinella and brisling or sprats: In oil, in airtight containers: 1604.13.10 00 Smoked sardines, neither skinned nor boned, valued $1 or more per kg in tinplate containers, or $1.10 or more per kg in other containers: 1604.13.20 00 Neither skinned nor boned 1604.13.30 00 Skinned or boned 20% Free	Free 15% 20%	Free (A+,AU,CA, CL, D, E, IL, J, JO,MX,P,PE) 1.8% (SG) 6.6% (MA) 7.5% (BH) 12% (OM) (A+,AU,BH, 30% CA,CL,D,E,IL,J, JO,MA,MX,OM,P, PE) 6% (SG)
Tunas and skipjack: In airtight containers: 1604.14.10 In oil	35%	Free (A+,AU,BH, CA,D,IL,JO,MA, MX,OM,P,R) 10.5% (CL,SG) 28% (PE).

[61] http://www.usitc.gov/publications/docs/tata/hts/bychapter/1000gntoc.htm

Not in oil: 1604.14.22 In containers weighing with their contents not over 7 kg each, and not the product of any insular possession of the United States, for an aggregate quantity entered in any calendar year not to exceed 4.8 percent of apparent United States consumption of tuna in airtight containers during the immediately preceding year, as reported by the National Marine Fisheries Service	6%	Free (A+,AU,BH, CA,D,IL,JO,MA, MX,OM,SG) 0.4% (R) 0.8% (P) 1.8% (CL) 4.8% (PE)
Tunas and skipjack (con.): In airtight containers (con.): Not in oil (con.): 1604.14.30	12.5%	Free for (A+,AU,BH, 25% CA,D,IL,JO,MA,MX,OM) 0.8% (R) 1.8% (P) 1.5% (SG) 3.7% (CL) 10% (PE).

Table 68: Interpretation notes

Products Eligible for Special Tariff Treatment. Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the "Special" sub column, are as follows:
Generalized System of Preferences . . . . A, A* or A+
United States-Australia Free Trade Agreement . . . . AU
Automotive Products Trade Act . . . . B
United States-Bahrain Free Trade Agreement Implementation Act . . . . BH
Agreement on Trade in Civil Aircraft C
North American Free Trade Agreement: Goods of Canada, under the terms of general note 12 to this schedule. . . . . CA Goods of Mexico, under the terms of general note 12 to this schedule . . . . MX
United States-Chile Free Trade Agreement CL
African Growth and Opportunity Act . . . . D
Caribbean Basin Economic Recovery Act . . . . E or E*
United States-Israel Free Trade Area IL
Andean Trade Preference Act or Andean Trade Promotion and Drug Eradication Act . . . . J, J* or J+
United States-Jordan Free Trade Area Implementation Act . . . . JO
Agreement on Trade in Pharmaceutical Products . . . . K
Dominican Republic-Central America-United States Free Trade Agreement Implementation Act . . . . P or P+
Uruguay Round Concessions on Intermediate Chemicals for Dyes L
United States-Caribbean Basin Trade Partnership Act . . . . R
United States-Morocco Free Trade Agreement Implementation Act . . . . MA
United States-Singapore Free Trade Agreement . . . . SG
United States-Oman Free Trade Agreement Implementation Act . . . . OM
“United States-Peru Trade Promotion Agreement Implementation Act . . . . PE

The table above shows that the US already provides better preferential access to a number of countries and this is further eroding the preferences that were granted to the FAS.

It should be noted that for the products from RMI to qualify for duty free treatment, they must comply with the US rules of origin. This means that exporters in RMI must ensure that the value of the local content that is included in any products that are exported to the US must be 35%. In order to meet this 35% requirement, RMI is allowed to use about 15% of the value materials from the US. However, for RMI to be able to fully utilise these preferences, the tolerance rule must also apply to other neighbouring countries including Asia.

Tunas and skipjack, prepared or preserved, not in oil, in airtight containers (1604. 14.22) weighing with their contents not over 7 kilograms each, in an aggregate quantity entered in any calendar year from the FAS not exceeding 10 percent of United States consumption of canned tuna during the immediately preceding calendar year will enter the US duty free. The consumption level will be determined by National Marine Fisheries Service.

The following products do not qualify for duty free:

- tunas and skipjack, prepared or preserved, not in oil, in airtight containers weighing with their contents not over 7 kilograms each, in excess of the quantity afforded duty-free entry
- textile and apparel articles which are subject to textile agreements
- footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, the foregoing which were not eligible articles for purposes of the Generalized System of Preferences on April 1, 1984
- watches, clocks and timing apparatus of chapter 91 (except such articles incorporating an optoelectronic display and no other type of display)
- buttons of subheading 9606.21.40 or 9606.29.20
- any agricultural product of chapters 2 through 52, inclusive, that is subject to a tariff-rate quota, if entered in a quantity in excess of the in-quota quantity for such product

The US Tariff Act also imposes graduation criteria, which is not found in the Compact agreement. The Compact states that duty free may be limited by section 503 (b) of title v of the Trade Act of 1974 (19 U.S.C. 2463 (b)). This section sets out the articles that may be considered import sensitive; they are similar to those enumerated in section 242 (c) of the Compact. However, the 2010 US Tariff Schedule imposes further restrictions which are not stipulated in the Compact. It provides that: *Whenever a freely associated state—*

(A) has exported (directly or indirectly) to the United States during a calendar year a quantity of such article having an appraised value in excess of an amount which bears the same ratio to $25,000,000 as the gross national product of the United States for the preceding calendar year (as determined by the Department of Commerce) bears to the gross national product of the United States for calendar year 1974 (as determined for purposes of sections 503(c)(2)(A)(i)(I) and 503(c)(2)(A)(ii) of the Trade Act of 1974 (19 U.S.C.2463(c)(2)(A)(i)(I) and 2463(c)(2)(A)(ii)); or

(B) has exported (either directly or indirectly) to the United States during a calendar year a quantity of such article equal to or exceeding 50 percent of the appraised value of the total imports of such article into the United States during that calendar year;
then on or after July 1 of the next calendar year the duty-free treatment provided under subdivision (b) of this note shall not apply to such article imported from such freely associated state.

Section 2463(c) provides for withdrawal of duty free status when a country becomes competitive in producing a particular product. The special treatment may be reinstated if the product does not exceed the limit imposed. However, these provisions can be waived under the *de minimis* rule.

8.2.2 RMI's Major Competitors in the US Market

The US is a good market for services in particular mode four (job market), tourism and a potential market for agricultural products. However, with regards to the fishing industry, it is important to note that most canneries based in the US have closed and the market for imported canned tuna has expanded rapidly since the 1970s. Tuna processing plants in the US are loin-only plants and there is only one tuna cannery left on the US mainland – the Bumble Bee plant in Los Angeles and Puerto Rico, which solely uses tuna loins in the production process (does not process any whole round fish). Thus the US is a major market for tuna loins that are to be processed (i.e. into cans). Prices for canned tuna dropped since 1999-2004 and have been flat since then at $16/carton.

The US market for imported fresh and frozen tuna is more stable but generally lower in value than the Japanese market. The US has a commercially significant (although niche) market for tuna fillets and steaks and the US market for fresh-chilled tuna is of considerable economic importance to RMI.

The US imports of seafood increased from about $10 billion in 2000 to about $14.2 billion in 2010. Exports were slightly above $2.5 billion in 2000 and increased to about $4.3 billion in 2010. The top species imported (by volume) include shrimp, salmon, tuna, groundfish, freshwater fish, crab, and squid[62].

Table 69: US Top 10 Imports in 2010, by value.

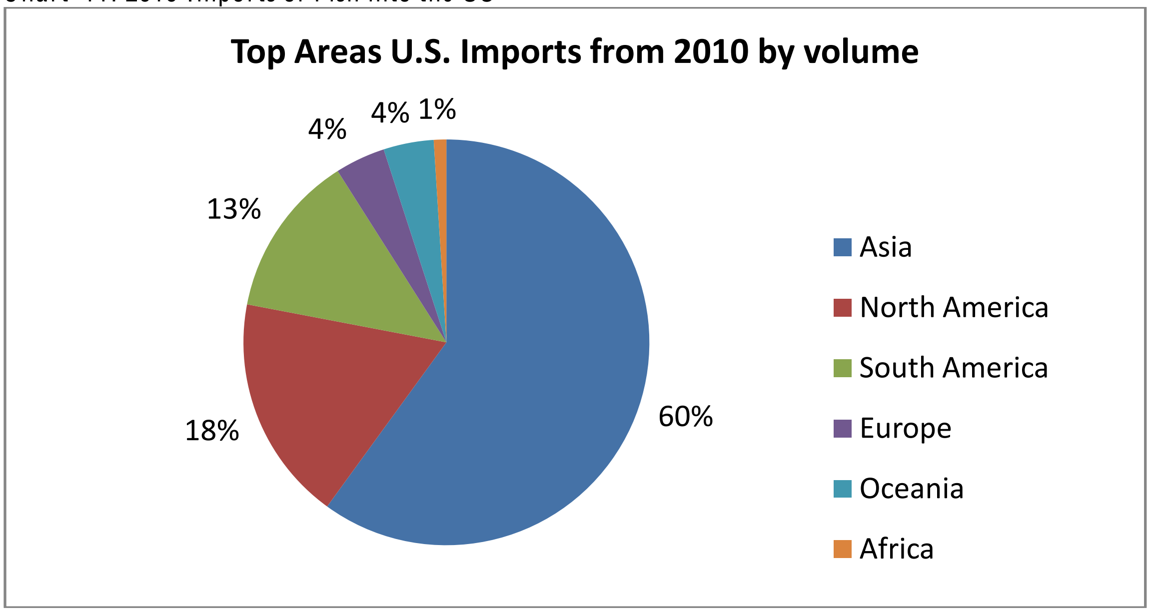
US Top 10 Imports in 2010 By Value
1 - Shrimp (Fresh and frozen) ---$4.27 billion
2 - Freshwater (Fresh and frozen – fillets and steaks) ---$1.14 billion
3 - Salmon (Fresh and frozen – fillets and steaks) ---$1.06 billion
4 - Tuna (Fresh and frozen – whole) --$680.2 million
5 - Tuna (Canned) ---$659.6 million
6 - Salmon (Fresh and frozen - whole) --- -$651.6 million
7 - Crabs (Fresh and frozen) -- -$623.7 million
8 - American lobster (Fresh and frozen) -- -$596.3 million

62 http://www.nmfs.noaa.gov/fishwatch/trade_and_aquaculture.htm

9 - Crabmeat (Canned) -- $482.9 million	
10 - Groundfish (Fresh and frozen – fillets and steaks) --- -$431.8 million	

About 60% of imports of seafood into the US come from Asia, followed by North America, South America, Europe and Oceania.

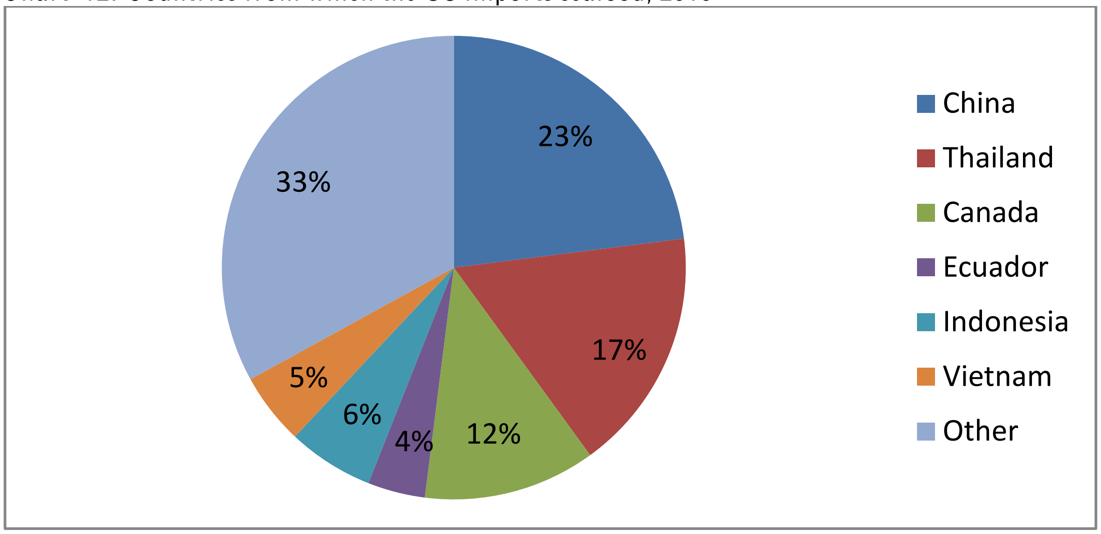
Chart 11: 2010 Imports of Fish into the US



Source: National Marine Fisheries Service, 2010

The major exporters of seafood to the US are China, Thailand, Canada, Chile and Ecuador.

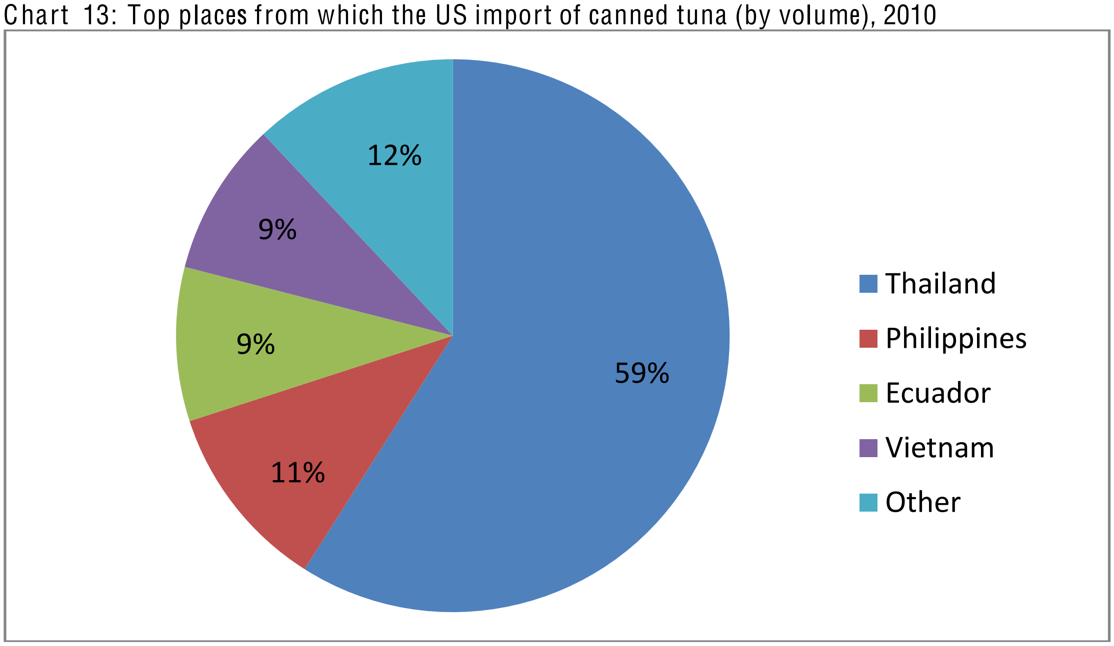
Chart 12: Countries from which the US imports seafood, 2010



Source: National Marine Fisheries Service, 2010

The US imports most of its canned tuna from Thailand, Philippines, Ecuador and Indonesia. Any canning industry in the RMI is likely to face stiff competition from these countries that already have access to cheap labor, raw materials, economies of scale as well as good transportation links to the US which RMI does not have.

Chart 13: Top places from which the US import of canned tuna (by volume), 2010



8.3 How to Improve Market Access into the US

As noted above, RMI has preferential access into the US market; however, it is unfortunate that these preferences have not been fully utilized. This is mainly because the private sector in RMI does not have adequate capacity to produce and supply products to the US market. Aside from the natural disadvantages that affect the private sector in the RMI, the efforts by the private sector to export to the US are further hampered by:

- infrequent, inadequate and expensive transportation to the US market
- the fuel prices that are on an upward spiral
- Continental Airlines, which has imposed stringent restrictions on cargo
- non-tariff barriers such as technical barriers to trade, sanitary and phytosanitary standards
- unfavourable rules of origin- 35% value addition (15% allowance).
- With respect to tuna and skipjack that is 'prepared or preserved' in airtight containers and not in oil, exports cannot exceed 10% of US consumption of canned tuna during the immediately preceding calendar year' which was 45.8 million cases in 2005
- Preference erosion

According to several industry interviewees, consulted by the Forum Fisheries Agency (FFA), the major factors accounting for the failure of offshore tuna investment in RMI include governance issues, dependency on US grants and slow or non-utilisation of preferences. The FFA study recommends that the FAS 'need to move away from mass consumer/mass market and shift to boutique production'. They 'need to stay focused and be less greedy, and look at quality issues and niche markets'. It was suggested that tuna in pouches were a key potential, despite competition from Ecuador.

One US industry representative also suggested that 'the Compact states should go for duty free status to be competitive'.

In order to improve its market access into the US, RMI should try to negotiate better trade terms similar to those that were given to American Samoa, which receives zero-duty on exports of canned tuna to the US market compared to 35% on tuna in oil which is imposed on products from RMI. Furthermore, American Samoa has access to section 936 of the Internal Revenue Act which provides tax credit to US companies investing in American Samoa.

The US law states that production for US military and other Government contracts must be undertaken on US soil and use fish from the US fleet. Canneries in Pago Pago also benefit from this captive market. RMI should negotiate with the US and be allowed to supply this market.
The preferences that were given to RMI by the US have been eroded because the US has extended even better tuna preferences to other countries under the Andean Trade Preference Act (ATPA 1991 reviewed in 2004) which covers Bolivia, Colombia, Ecuador and Peru. The

Caribbean Basin Economic Recovery Act (CBERA) was renegotiated in the early 2000s and preferential treatment was extended to canned tuna. This scheme extends duty-free access for canned tuna to the US market to Haiti, Costa Rica, Netherlands Antilles, Panama and Trinidad & Tobago. Trinidad & Tobago is a major supplier of albacore loins to Bumble Bee's cannery in Puerto Rico. CBERA has a potential duty preference higher than those in ATPA. There is also a threat from the Thai-US FTA. All these factors point to the fact that RMI is under pressure from the global tuna producers and any industries that are established in RMI will have to face this competition especially when the preferences are gone.

Some positive measures must be taken to assist the RMI private sector to fully utilize the trade preferences. Lack of utilization of preferences has been a major problem affecting many preferential schemes including those that are granted to the Africa, Caribbean and Pacific Sates by the European Union (EU). Poor countries are granted market access but no adequate technical and financial assistance is provided to assist the private sector to fully utilize these trade preferences.

For RMI to benefit fully from the labour agreement that it has with the US, there is a need for increased technical and financial assistance to develop technical and vocational training institutions in areas such as health, tourism and construction. Compact funding should be fully utilised to improve these services. This will facilitate the movement of people to the US and enable them to take skilled jobs and earn remittances. These remittances can be used to develop the RMI economy and this has the potential to fuel private sector growth and development. RMI needs to put in place measures to collect data on remittances and to encourage the use of remittances for productive purposes.

In order to promote private sector development and export capacity, some of the issues raised above need to be addressed urgently. There is a need for the US to provide technical and financial assistance in the form of Aid for Trade. Some of the technical assistance can be provided into RMI directly and other assistance can be provided by institutions that can be based in one of the Freely Associated States; hence the need to talk to Palau, FSM and other US territories to enhance cooperation on trade and private sector development. Arrangements to set up a proper legal framework for the Micronesian Trade Committee (MTC) should be sped up so that the MTC can serve as platform for collaborative action in this respect, while other arrangements, if necessary, are being sought.

Consequently trade relations with the US should be strengthened to include the Aid for Trade component which will assist the RMI to develop its production and export capacity. The key issues that need to be addressed and funded under the Aid for Trade funding mechanism include:

- technical and financial assistance to implement the Trade Policy

- assistance to develop trade in agriculture, tourism and fisheries with a focus on value addition
- technical and financial assistance to upgrade the tourism infrastructure and market tourism
    - assisting local operators to meet demands and needs of US tourists, including product development and training to required standards of service provision;
    - training in the management of environmental impact of new tourism products developed for the US market;
- technical and financial assistance to upgrade vocational education training institutions, targeting those sectors with a potential for exports such as health, construction and tourism
- assisting RMI to negotiate better transportation arrangements with Continental or other US Airlines to ease transportation problems
- entering into arrangements with the US including its territories to assist exporters to meet technical standards and requirements such as SPS and TBTs
- assisting the private sector to address supply side constraints and to build their capacity to trade
- providing loans to SMEs at reasonably affordable rates
- establishing export promotion agencies that are responsible for assisting exporters to meet standards and other technical requirements in export markets
- assisting RMI to carry out regulatory reforms that are required as preconditions for opening up the services sectors and also to enhance competition and effective delivery of quality services
- strengthening competition and intellectual property regimes to avoid trade restrictive practices and promote foreign investment
- assistance to supply institutional markets in the US (e.g. the military where RMI citizens are serving)
- deepening the US-RMI trade relations by removing restriction on canned tuna in oil and textiles through relaxing rules of origin

All the activities listed above require an injection of financial and technical assistance in order to promote private sector development.

Another equally important issue is the need for RMI to discuss the Most Favored Nation (MFN) treatment provision in the Compact Agreement and assess its impact on RMI if it decides to sign a goods agreement with the EU or under PACER Plus with Australia and New Zealand. According to a study that was done by Watergall in 2007, RMI is expected to lose about $4,961 million from the MFN obligation.

Table 70: **RMI's Estimated Revenue loss** resulting from the MFN obligation

Total recurrent revenue collection 2003 (USD 000)	25,900				
	PACP	EU	ANZ	US	Total loss
Value of lost revenue (USD 000)	20	-	1,272	4,961	6,253
% of total recurrent revenue loss 100%	0%	0%	-5%	-19%	-24%

Source: ADB database 2005 plus author assumptions
No change in trade flows, no externalities, oligopolistic business environment.

RMI should negotiate with the US on *whether* or *how* the MFN provision shall be applied. If the US applies the MFN provisions in their strict form, RMI will lose a lot of revenue from US imports and this will severely undermine economic growth and private sector development. Since RMI does not have major trade with the EU, the US should consider granting RMI an MFN exemption to allow it to conclude a trade in goods agreement with the EU. The trade in goods agreement with the EU will not affect the US exports since the EU is a distant supplier.
Alternatively, the RMI can request for technical and financial assistance from the US to undertake a comprehensive tax reform as discussed above. If RMI moves towards a consumption tax based system and eliminate import duties, it will not lose revenue when it signs trade agreements. This will be the preferred option, if the US refuses to exempt RMI from the MFN obligation as was done under PICTA.

8.3.1 Compensation for lost Tax and Trade Preferences

It should also be noted that RMI had negotiated favourable tax and trade preferences in its original Compact. However, these benefits were abolished in 1986, when the U.S. Congress passed enabling legislation to put into effect the Compact of Free Association between the U.S. and RMI. The first Compact Agreement had incorporated a number of provisions that would have given RMI special tax and trade concessions that were meant to serve as the engine for economic growth and stimulate private sector development. Unfortunately, the U.S. Congress, in the process of authorizing programs and funding levels that were part of the agreed Compact, deleted or modified a number of those provisions. In this process, Section 254 of the original Compact agreement which would have provided American taxpayers an exemption of all U.S. income taxes if they resided in the RMI for 183 days per year and paid RMI taxes was modified. This provision would have provided a powerful instrument for economic growth as some US citizens would have moved to the RMI to enjoy its climate while benefiting from a tax "holiday" in the U.S.

Equally important is the deletion of section 936 of the US Internal Revenue Services Act, which provides for tax credit to US companies. This is the main provision that enabled the canneries in American Samoa to survive. By changing the RMI from the status of a US possession to a freely associated state, RMI also lost some of the trade benefits which are enjoyed by US possessions such as American Samoa and was never fully compensated for this loss.

It is patently clear that RMI has suffered major losses as a result of the deletion or modification of trade and tax provisions. According to a study that was conducted by KPMG in 1994, tilted *Economic and Financial Impact of section 11(d) of the Compact of Free Association with the Republic of the Marshall Islands*, it is estimated that the loss that RMI suffered as a result of this is about $210 million and the US has provided only $10 million to the Investment Development Fund (IDF) to compensate for the loss and a few Federal programs[63]. This amount has already been exhausted; however, the US indicated that upon a showing of additional adverse financial and economic impact, an additional $20 million could be provided.

The report argues that the section 936 incentives were beneficial for pharmaceutical industries mainly because of the huge benefits in terms of tax exemption that applied to intangible assets that were mainly as a result of research and development. It can also be argued that the incentives could have been effective also in attracting the fishing industries as in American Samoa. Another potential industry then was the textiles industry.

In September 2009, RMI submitted a report claiming compensation for the lost, trade and tax incentives and in addition to the issues that were highlighted in the KPMG report, RMI argued that it was deprived of the special municipality rates for the bonds it issued. RMI issued bonds to pay past, mainly high interest foreign currency denominated debts that accrued during the protracted Compact negotiations and Congressional approval process, as well as new development financing for the Marshall Islands Development Authority (MIDA). This bond issue obligated Compact funds to its payment and this was allowed by the U.S. Departments of State and Interior.

Under the original Compact, Section 255 allowed the RMI to be treated as a possession of the United States. The modification of this section as stipulated in (Title IV 403(b)) removed this designation as of 31 December 1986. This modification of RMI's status meant that it was no longer eligible for a municipal rate type (tax exempt) financing for its bond issues. RMI ended up paying commercial rates even though the bond payments were backed by the US Government grant payments and the "full faith and credit" of the US Government. The table below shows the amount of losses that the RMI incurred as a result of these changes.

---

[63] The adjustment includes providing additional services (Section 111(a)) to include:
a. Federal Deposit Insurance Corporation,
b. Small Business Administration,
c. Economic Development Administration,
d. Rural Electrification Administration/Rural Utilities Service,
e. Job Partnership Act,
f. Job Corps, and
g. U.S. Department of Commerce programs and services relating to tourism and marine resource development.

Table 71: Impact of bond Issue Payments

Table 1: Impact of Bond Issue Payments						
Municipal of Compact Backed Bonds vs Municipal Rate Differential, 1987-2001						
	Bond 1		Bond 2		Bond 3	
Type	General Obligation		General Obligation		General Obligation	
Amount	$65,000,00		$20,000,000		$38,000,000	
Actual Duration	7/21/87-10/1/93		6/23/89-7/30/93		9/30/91-12/93	
Actual Rate & Interest Paid	8.96%	$56,916,667	10.44%	$7,885,258	9.53%	$6,634,233
Muny Rate & Indicative Interest Paid	6.20%	$13,288,667	6.60%	$4,984,932	5.80%	$4,040,667
Difference	$43,628,000		$2,900,325		$2,593,566	
	Bond 4		Bond 5		Bond 6	
Type	General Obligation		Limited Obligation		Limited Obligation	
Amount	$99,960,000		$30,000,000		$5,320,000	
Actual Duration	8/10/93-7/30-01		7/23/94-12/31/99		9/27/99-12/31/01	
Actual Rate & Interest Paid	5.46%	$23,442,563	7.60%	$7,631,033	6.50%	$378,459
Muny Rate & Indicative Interest Paid	4.30%	$19,143,816	5.30%	$5,596,005	5.00%	$225,781
Difference	$4,298,747		$2,035,028		$152,678	
Total Impact on RMI	$55,608,344					

Source: Please see attachment B for breakdown of each bond issue. The municipal Bond Rate for each bond was provided by Moody's Analytic Services based on a 10-year Aaa Municipal Bond estimate for the same month and year of each of the RMI bond issues.

Table 72: Tax, Finance and Trade changes overall impact on the RMI

	Category	Amount
1	Actual Impact of Bond Issue Payments	$55,608.344
2	Section 936 Tax Changes (base case)	$210,000,000
3	Garment Industry Impact	$15,000,000
	Subtotal	$280,608,344
4	Total Compensatory Adjustment Provided by USG	$36,340,000
5	Total Impact on RMI	$244,268,344

The table below shows the total amount that RMI received under the IDF as well as the US Federal Programs. From this table, it is clear that the compensation received under the IDF and other Federal Programs is inadequate to address the adverse impact that RMI suffered as a result of the withdrawal of the trade and tax benefits.

Table 73: Compensatory adjustments realized by the RMI, 1987 - 2001

Program/Service	Description	Total Contribution
Investment Development Fund	The IDF was placed within the Marshall Islands Development Bank to fund development-related	$10 million

	projects and investments.	
Federal deposit Insurance Corporation (FDIC)	No RMI registered bank has qualified for FDIC coverage. No FDIC programs or services were provided.	0
Small Business Administration (SBA)	The RMI has received the following disaster loans: Typhoon Zelda (November 1991), $221,400 home loans and $143,300 business loans; Typhoon Storm Axel (February 1992), $199,700 home loans and $72,500 business loans; Typhoon Gay (November 1992), $185,400 business loans. The loan funds are not counted as contribution since they were paid back with interest.	%40,000.

Program/Service	Description	Total contribution
	The RMI's Small Business Development Center received $200,000/year since 2000 to help fund activities (and is matched with RMI Government funding). SBA awards the funds to the Small Business Development Center of the University of Guam. Thus the estimated contribution during the original Compact term is $40,000.	
Economic Development Administration	No known application of EDA programs to the RMI	0
Rural Electrification Administration (REA)/Rural Utilities Service (RUS)	Has supplied finances to the Marshall Islands National telecommunication Authority with a loan of $18,8 million in 1989 (still being paid back) and a supplemental loan of $3.9 million in 1993 (paid back); a loan to the Marshall Islands Energy Company (MEC) in 1987 of $12,5 million (still being paid back) is guaranteed by the RUS. Since these are loans there is no net compensation to the RMI, since financing could have been sourced from other development finance institutions.	0
Job partnership Act/Job Corps	The estimated compensation is per the Annual RMI Audit Report for federal programs (1987-2001)	%26,3 million
US Department of Commerce Programs and services related to tourism	No known services have been provided to the RMI	0
US Department of Commerce Programs and Services related to marine resource development	The National Marine Fisheries Service provides loans for two private US-related fishing company investments both of which are now defunct. The RMI has taken a significant loss on both ventures	0

RMI submitted that it also lost preferential treatment in the garment industry, and this injured economic opportunities and growth. The RMI claimed that this loss cost RMI workers an annual payroll of approximately $1 million per year or $15 million over the life of the original Compact. Since the money is aimed at compensating the losses that RMI suffered as a result of the deletion of the trade and tax benefits, it should be used for trade-related activities which are meant to support private sector development and building their capacity to trade, and to attract foreign investment. These activities include securing the investments needed to expand the country's capacities to produce competitively traded goods and services and to market them internationally as provided in the RMI Trade Policy as briefly articulated above. This could be accomplished through the promotion of small and medium scale joint venture undertakings between private

RMI and U.S. business firms and through the establishment of trade-related, technical training institutions in the tourism, fisheries, and agricultural sectors.

If the above actions are taken, they can go a long way in promoting private sector development and the capacity of RMI producers to produce goods and services that can compete effectively in the global market. This will assist RMI to meet its ultimate objective of sustainable economic growth, development and self reliance.

8.3.2 Recommendations

i. RMI must consult with the US to improve its access into the US market through relaxation of rules of origin, removal of duties on canned tuna in oil, removal of quotas on tuna in airtight containers, and access the US institutional market including the military.

ii. RMI should work with Palau and FSM under the Micronesian Trade Committee to address the MFN issue as well as other matters relating to compensation for lost trade and tax preferences.

iii. The Government should assist the fisheries industry to have free access to the US market for Vacuumed Precooked Tuna Loins. The requirement to slit the vacuum bag to meet the requirement of free-access is too costly for RMI.

iv. The US should provide technical and financial assistance to support RMI to implement the Trade Policy.

v. RMI Government should enhance inter-agency collaboration on trade policy issues, including on trade-related issues in the Compact with the US. With respect to the Compact there should be a permanent arrangement for collaboration between the RMI Compact office and the department of trade, on all trade-related issues arising under the Compact.

8.4 The Pacific Agreement on Closer Economic Relations

The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) which was signed on 14 July 1980 and entered into force in 1982 provides duty and quota free access to the Australian and New Zealand markets for all products originating in Forum Island Countries (FICs). It is a non-reciprocal agreement, which means that the FICs are not required to provide duty free access to Australia and New Zealand.

The Pacific Agreement on Closer Economic Relations (PACER) is an arrangement between the FICs on one hand and Australia and New Zealand on the other. It is not a free trade agreement, but provides technical and financial assistance under the Regional Trade Facilitation Programme (RTFP). The RTFP provides assistance on customs, standards and conformance and sanitary and phytosanitary measures. RMI has signed PACER but it has not yet ratified the Agreement.

PACER also contains provisions for future trade negotiations between FICs and Australia and New Zealand (ANZ) including economic and technical assistance to help FICs implement trade liberalisation measures and facilitate "adjustment".

The overall goal of PACER plus is to facilitate sustainable development in FICs. The parties seek to gradually and progressively establish a single regional market, which includes Australia and New Zealand. This will assist the FICs to integrate into the global economy. PACER envisages the negotiation of Forum-wide trade arrangements 8 years after PICTA enters into force (2011). However, if FICs enter into free trade negotiations with developed countries (e.g. EPA) they are required to enter into consultations or free trade negotiations with ANZ. It should be noted that Fiji and PNG have already signed an Interim EPA Agreement and this has triggered PACER consultations.

The Forum Leaders agreed to launch negotiations in August 2009 and several meetings have been held to progress PACER Plus negotiations.

RMI does not have much trade with Australia and New Zealand. Australian exports to RMI in 2010-11 totalled $2.3 million (composed essentially of medicaments and meat). Australia's imports from RMI in the same period totalled $485 000 (principally animal feed).[64]. RMI has also been exporting copra cake to Australia. Exports from New Zealand in 2009 (July) were NZ$3.95 million and the main exports were wood and aluminum windows. There were no imports from RMI[65].

According to the study that was conducted by Watergal in 2007, RMI may lose about 1,272 million dollars from the PACER Plus agreement. RMI needs to conduct a study on the costs and benefits of participating in PACER Plus. If the benefits outweigh the costs it would be good for RMI to sign the agreement.

However, it should be noted that exports to ANZ have been negligible mainly because of transportation, lack of production capacity, strict SPARTECA rules of origin. It should be noted that Australia's MFN rates on fish products are already low (5%) and the preference margin is very low. The preferences granted to RMI have also been eroded because of the free trade agreements that ANZ have entered into.

[64] http://www.dfat.gov.au/geo/marshall_islands/marshall_islands_brief.html
[65] http://www.mfat.govt.nz/Countries/Pacific/Marshall-Islands.php

At the moment it appears as if the major obstacles to trade between RMI and Australia and New Zealand are the capacity to produce quality goods in the required quantity and in a consistent manner. There are a number of supply-side constraints that need to be addressed. PACER plus should provide technical and financial assistance to assist both the Government and the private sector to address these supply-side constraints and build the capacity of the private sector to produce goods and services that can be exported competitively.

Another issue that needs to be tackled is the transportation arrangements between north and south. For RMI to be able to export to Australia and New Zealand there must be reliable and reasonably priced transport.

If the supply-side constraints and the transport issues are addressed, then the other issues that need to be addressed are SPS and TBT issues. There will be a need to provide technical and financial assistance to the Government as well as the traders to be able to meet the export requirements in Australia and New Zealand. Another equally important issue is the need to relax the rules of origin from the value added approach to change in tariff classification. The overall idea is to make it easy for RMI exporters to source raw materials from cheap sources and be able to undertake substantial transformation which will result in change in tariff classification of non-originating materials.

Rules of origin can also play a vital role in attracting investors in RMI, especially if they are simple and predictable. The rules of origin should also not impose unnecessary burden on traders. RMI needs to identify the products that are being affected by the SPARTECA rules of origin which requires 50% value addition and suggest possible changes.

The 2007 SPARTECA ROO Review paper suggested that a Change of Tariff Classification (CTC) approach could significantly ease access of FICs' exports to the Australian and New Zealand markets. FICs are already in the process of adopting the 2007 HS and this will assist them to use the CTC approach. Australia has used this approach in a number of FTAs. However, in a few cases where substantial transformation of materials and products cannot be demonstrated through the CTC, then product specific rules or the value addition approach has been used.

Australia and New Zealand have provided derogations to Fiji and Samoa. The SPARTECA (TCF Provisions) Scheme (S-TCF) allows firms to utilise Excess Local Area Content (ELAC) points accrued from the manufacture of certain TCF products qualifying under SPARTECA to help meet the content requirements for otherwise non-qualifying goods. When Fiji complied with productivity, training and audit and compliance requirements, Australia reduced the Minimum Local Area Content (MLAC) under S-TCF from 35% to 25% in 2008 on textiles, clothing and footwear products imported into Australia. The SPARTECA-TCF Scheme will expire on 31 December 2011.

RMI should support the CTH method as opposed to the value-added methodology which requires that originating materials and processing in the parties to the FTA to contain a minimum percentage of the cost of the exported product. The major problems of the vaue-added methodology include the following:

- the calculation of costs can be time-consuming and administratively burdensome for RMI and traders (record keeping)
- using a single value-added threshold for all goods does not take account of the different proportions of materials, labor and capital which are used in production in different industries. Goods with high capital or labor content can easily meet the value-added threshold and those with lower labor and capital content will be penalized
- uncertainty due to shifts in exchange rates and fluctuations in international prices of materials

The CTC method has been adopted in the Australia's agreement with the United States (includes a PSR), Thailand-Australia Free Trade Agreement (TAFTA) but PSR and value-added requirements have been used mainly in the textiles and apparel area. The FTA with Chile, the ASEAN group of countries and its agreement with New Zealand uses a PSR based on a CTC approach. The CTC approach is objective because there is a single, clear rule for each tariff line. It is predictable, easy to administer and understand for small and medium-sized enterprises (SMEs) in RMI and does not require extensive calculations and record keeping. The non-preferential ROO negotiations within the WTO have also recommended the CTC approach.

CTC can also be used with Specific Product Processing method which requires non-originating materials to undergo a specified production process prior to export. It is normally used in chemical and plastics products. For example, if a chemical reaction results from the combination of materials produced in an FTA party with those originating from outside the FTA parties then the good produced from the reaction is eligible for preferential duty rates without having to meet the requirements of a CTC test.

Goods that are wholly obtaining automatically qualify as originating without any need to satisfy an additional test. However, if imported materials from third parties are used, the materials must undergo substantial transformation.

Aside from trade in goods, RMI should also explore opportunities on human resources development, vocational training in key sectors and labor mobility. In terms of labor mobility, PACER Plus must contain a legally binding chapter on labor mobility to allow RMI citizens to move to Australia and New Zealand for employment purposes and provide the level of access that is comparable to what RMI has under the Compact or to what Australia provides to New Zealand and vice versa. For the agreement to be beneficial, Australia and New Zealand must provide assistance to RMI to upgrade its educational services, especially the vocational training institutions to allow RMI citizens to develop the relevant skills that are needed in promoting trade and investment and export the surplus skills to Australia and New Zealand.

With regards to services, Australia and New Zealand must provide technical and financial assistance to assist RMI to introduce the relevant laws and institutional mechanisms required to regulate services. As highlighted under the section dealing with services, RMI does not have adequate laws regulating services and should be allowed time to address this before opening up its services sectors. PACER Plus must adopt the GATS positive list approach and allow RMI to select the sectors that it wants to liberalise and impose the relevant restrictions. It should also contain effective and operational provisions on special and differential treatment. The Agreement must contain an enhanced mode four proposal which will allow RMI citizens to move to Australia and New Zealand to supply services easily. This should be accompanied by mutual recognition agreements to facilitate trade in services between the parties.

Australia and New Zealand must also provide technical and financial assistance to RMI to develop its tourism sector and to facilitate tourism between ANZ and RMI. In this context, it will be important for ANZ to work with RMI and all the relevant industry people to address transportation issues affecting the tourism industry.

On trade related issues, since there is already work ongoing on intellectual property and traditional knowledge, PACER Plus should focus on building the capacity of RMI on intellectual property, bio-diversity, traditional knowledge and cultural expressions rather than adopting onerous rules that are beyond RMI's capacity. During the national consultations it was clear that RMI is not ready to adopt rules on IPR but the focus should rather be on capacity building in this area.

Assistance must also be provided to build regulatory and institutional capacity on competition policy, trade facilitation, transparency in Government procurement and investment. Initially, the focus should be on capacity building and institutional strengthening and not adopting legally binding rules that are subject to the dispute settlement system. Positive measures to promote investment in FICs must also be considered including relevant tax incentives.

The Agreement must also contain a predictable, legally binding chapter on development cooperation to ensure that there are sufficient resources to implement the agreement.
The agreement must be flexible enough to allow RMI to decide whether to participate in trade in goods or not.

8.4.1 Recommendations

i. RMI must conduct a cost-benefit analysis on PACER Plus and identify RMI's offensive and defensive interests, opportunities, adjustment costs, technical and financial assistance as well as other measures that are required to address production and supply capacity to enable the private sector to produce quality goods and services which can be traded in a consistent manner. The study must be in line with RMI's development plan and promote the objectives of RMI's Trade Policy.

ii. The study must recommend concrete measures on development cooperation under PACER Plus to ensure that there is adequate, predictable and legally binding commitments on technical and financial assistance to implement the agreement and to exploit the opportunities offered by the it.

iii. The Agreement must have a strong development dimension, incorporate the principle of special and differential treatment; asymmetry and take into account the unique and special circumstances of Compact States.

8.5 Japanese Market

The Japanese market is a good market for fisheries, tourism and agricultural products. However, with regards to fisheries, it is important to note that the Japanese tuna fleet has been declining but it remains the most important in the Western and Central Pacific Ocean (WCPO) and it catches more tuna in the WCPO than any other country. The best market is the sashimi market and the average price for fresh big eye and yellow fin since 2003 have been good.

The top ten exporters of fresh or chilled yellow fin tuna to Japan in 2005 were Indonesia, Sri-Lanka, Palau, Thailand, Taiwan, Maldives, Philippines, Vietnam and Fiji. The total value of imported fresh/chilled yellow-fin tuna in 2005 was about $158 million compared to $128 million in 2007 mainly due to decline in catch levels. The unit price per kg was $7.35. In 2007, the major exporters were Indonesia, Palau, Thailand, Sri-Lanka, Taiwan, PNG, Guam, Maldives, Philippines and Fiji. The unit price per kg was $7.59.

Table 74: Top 10 Yellow fin Tuna (Fresh or chilled) exporters to Japan, 2005-2007

Yellow fin Tunas(Fresh or Chilled) : Top Ten Exporters to Japan(2005～2007)												
	World	Indones ia	Palau	Thailan d	Taiwan	Sri Lanka	PNG	Guam	Maldi ves	Philippi nes	Fiji		
2005												
Ranking		1	3	4	5	2	12	13	6	7	10		No.9:
US$	157,778, 465	48,752, 268	12,445, 227	12,168, 021	11,925, 153	18,108, 487	4,724, 931	2,942, 645	9,483, 793	9,212,7 69	5,231, 154		(Vietna m)
KG	21,476,4 81	6,411,6 28	1,580,7 82	1,918,6 72	1,589,3 43	2,523,5 05	780,35 8	419,06 4	1,352, 322	1,188,6 39	666,97 2		

Unit Price/KG	US$7.35	US$7.60	US$7.87	US$6.34	US$7.50	US$7.18	US$6.05	US$7.02	US$7.01	US$7.75	US$7.84		
2006													
Ranking		1	3	4	8	2	6	11	5	7	9		No.10:
US$	139,512,106	36,135,562	14,491,879	13,253,134	6,985,934	15,150,622	7,626,336	4,786,684	8,898,075	7,469,331	5,319,231		(Australia)
KG	19,077,917	4,908,535	1,753,739	2,010,450	930,785	2,287,018	1,279,829	602,974	1,247,953	936,774	614,424		
Unit Price/KG	US$7.31	US$7.36	US$8.26	US$6.59	US$7.51	US$6.62	US$5.96	US$7.94	US$7.13	US$7.97	US$8.66		
2007													
Ranking		1	2	3	5	4	6	7	8	9	10		
US$	128,471,777	43,161,978	14,325,427	11,415,212	9,957,362	10,034,670	7,775,060	5,396,226	5,006,489	4,197,269	3,711,803		
KG	16929122	5564165	1705216	1693252	1364497	1352652	1192134	699315	704595	504676	442090		
Unit Price/KG	US$7.59	US$7.76	US$8.40	US$6.74	US$7.30	US$7.42	US$6.52	US$7.72	US$7.11	US$8.32	US$8.40		

In 2005, the value of fresh or chilled bigeye tuna imported in Japan was about $134 million and it decreased to $117 million in 2007. The major exporters in 2007 were Indonesia, Palau, Guam, Thailand, Australia, Sri-lanka, Maldives, Fiji, Vietnam and FSM.

Table 75: Bigeye Tunas(Fresh or Chilled) : Top Ten Exporters to Japan(2005～2007)

Bigeye Tunas(Fresh or Chilled) : Top Ten Exporters to Japan(2005～2007)												
	World	Indonesia	Palau	Guam	Thailand	Australia	Sri Lanka	Maldives	Fiji	Vietnam	FSM	
2005												
Ranking		1	2	11	9	5	4	3	12	10	18	No.6:
US$	133,743,116	54,144,609	16,583,379	2,579,916	4,208,435	6,543,966	7,509,853	9,088,864	2,530,882	4,153,351	830,032	(Philippines)
KG	16,930,229	7,134,872	1,812,583	369,685	635,916	553,423	1,091,594	1,330,236	305,826	555,310	96,423	No.8:
Unit Price/KG	US$7.90	US$7.59	US$9.15	US$6.98	US$6.62	US$11.82	US$6.88	US$6.83	US$8.28	US$7.48	US$8.61	(Singapore)
2006												
Ranking		1	2	5	6	8	4	3	10	13	9	
US$	123,258,779	37,358,643	24,653,750	7,773,689	5,699,838	3,840,728	8,730,470	10,339,828	2,689,476	2,348,726	2,791,580	No.7:
KG	15,876,070	5,287,593	2,883,466	964,127	821,511	334,972	1,288,414	1,403,427	279,873	288,228	301,130	(Philippines)
Unit Price/KG	US$7.76	US$7.07	US$8.55	US$8.06	US$6.94	US$11.47	US$6.78	US$7.37	US$9.61	US$8.15	US$9.27	
2007												
Ranking		1	2	3	4	5	6	7	8	9	10	
US$	117,322,941	53,292,642	13,198,688	10,529,189	6,975,788	6,818,296	5,761,617	3,882,204	2,788,220	2,352,571	2,159,523	
KG	14,565,302	6,857,097	1,545,980	1,349,610	1,008,225	667,272	783,675	504,351	313,805	272,809	259,631	
Unit Price/KG	US$8.05	US$7.77	US$8.54	US$7.80	US$6.92	US$10.22	US$7.35	US$7.70	US$8.89	US$8.62	US$8.32	
(Note)US$1=JPY90.39 in												

In 2005, RMI was the number one 'exporter' of strip-bellied bonito frozen fish to Japan. It supplied about $14 million worth. In 2007, RMI was number 4 and the other competitors were Indonesia, Taiwan, Philippines, Thailand, FSM, Kiribati, Belize, Vietnam and South Korea.

Table 76: Strip-bellied Bonito(Frozen) : Top Ten Exporters to Japan (2005～2007)

Strip-bellied Bonito(Frozen) : Top Ten Exporters to Japan (2005～2007)												
	World	Indonesia	Taiwan	Philippine	Marshall Is.	Thailand	Micronesia	Kiribati	Belize	Vietnam	South Korea	
2005												
Ranking		2	5	3	1	9	None	7	None	12	11	No.4:（Comoros）
US$	42,623,355	11,079,856	3,514,703	5,552,245	14,232,918	652,279		803,998		24,448	47,739	No.6:（PNG）
KG	52,007,974	12,190,510	5,653,170	6,140,818	18,953,980	679,500		1,069,760		24,920	30,946	No.8:（Moldives）
Unit Price/KG	US$0.82	US$0.91	US$0.62	US$0.90	US$0.75	US$0.96		US$0.75		US$0.98	US$1.54	No.10:（Malaysia）
2006												
Ranking		3	5	2	1	4	None	6	None	8	11	No.7:（Northern Mariana Is.）
US$	40,091,162	7,451,216	2,454,189	9,427,069	15,954,662	3,089,192		908,062		352,406	17,530	No.9:（Moldives）
KG	50,448,722	7,812,499	4,889,270	11,769,370	20,713,310	3,070,890		1,202,940		379,190	14,891	No.10:（China）
Unit Price/KG	US$0.79	US$0.95	US$0.50	US$0.80	US$0.77	US$1.01		US$0.75		US$0.93	US$1.18	
2007												
Ranking		1	2	3	4	5	6	7	8	9	10	
US$	35,553,823	11,322,046	7,806,402	7,137,568	5,789,250	1,123,071	967,384	657,867	310,246	227389	72998	
KG	31,306,067	8,932,042	7,427,053	6,980,740	5,122,960	913,150	689,690	669,830	205,850	209,170	50,279	
Unit Price/KG	US$1.14	US$1.27	US$1.05	US$1.02	US$1.13	US$1.23	US$1.40	US$0.98	US$1.51	US$1.09	US$1.45	
(Note)US$1=JPY110.39												

It should also be noted that about 65% of domestic canned tuna demand is met by production in Japan (100,000mt of final product per year) and 35% of canned tuna is imported mainly from Thailand. The market share of domestic canneries has declined because of cheaper product from Thailand. Japan's market for canned tuna has remained stagnant at around 100,000mt per year for 20 years and only 10% of the volume of tuna consumption in Japan consists of canned tuna. The Japanese tuna canning industry was initially established with Government encouragement as an export-orientated industry to supply the US market, but Japanese canneries do not export any canned tuna because they are no longer cost-competitive on international markets. In an attempt to overcome high operating costs, the canning industry is increasingly utilising imported frozen loins, the same approach of tuna canneries in France, Italy, the US and (increasingly) Spain.

Japan's tariffs are very low. It imposes a 3.5% import tariff on products of chapter 0304, which applies to all imports of fresh and frozen tuna, and up to 10% for products of 0305 (flour meals and pellets for human consumption) and a 9.6% tariff on most types of canned tuna. However, internal taxes and charges total 14-15% of the fish price. Japan has never applied its GSP to non-processed tuna and its GSP for canned tuna offers very limited commercial utility to FICs - only 2.4% lower than the MFN. The logical conclusion is that there is less room for a cannery based in RMI to supply the Japanese canned tuna market or to improve the preferences.

Based on the statistics from the Pacific Islands Center, RMI has significant trade with Japan[66]. The exports from RMI to Japan increased from $3.5 million to a peak of $26.5 million in 2004 before declining to about $8 million in 2007. The major exports were frozen strip-bellied bonito (skipjack), frozen yellow fin and fresh or chilled big-eye tuna and a little contribution from fresh or chilled yellow fin.

Table 77: Japan's Import from Marshall Islands (USD 000s)

Items	2003	2004	2005	2006	2007	Total
Foodstuffs	3,527	26,574	20,992	18,532	7,922	77,547
Meat & Edible Meat Offal	29	0	0	0	0	29
Fish, Crustaceans, Molluscs	3,408	26,452	20,811	18,236	7,589	76,496
・Yellow fin Tunas, Fresh or Chilled	686	1,139	348	31	0	2,204
・Bigeye Tunas, Fresh or Chilled	2,716	4,677	1,893	124	2	9,412
・Other Fish, Fresh or Chilled	6	52	100	0	0	158
・Yellow fin Tunas, Frozen	0	4,591	3,448	2,120	1,797	11,956
・Stripbellied Bonito, Frozen	0	15,819	14,233	15,955	5,790	51,797
・Fillet & Meat of Fish, Fresh or Chilled	0	174	789	5	0	968
・Adductors etc, Live, Fresh or Chilled	0	0	0	2	0	2
Products Classified by Material : Others	90	122	181	296	333	1,022
・Ornamental Fish Like Carp & Goldfish	90	122	181	296	333	1,022
Raw Materials	0	13	14	16	65	108
Manufactured Products	28	4	58	49	14	153
Special Commodities (Re-Import Goods etc)	20	47	102	14	356	539
Total	3,575	26,638	21,166	18,612	8,357	78,348

RMI imports from Japan increased from $127 thousand in 2003 to $594 thousand in 2007. The major imports include manufactured products and foodstuffs.

Table 78: Japan's Export to Republic of Marshall Islands, 2003 - 2007

(US$ 1,000)						
Items	2003	2004	2005	2006	2007	Total

[66] http://www.pic.or.jp/en/stats/ex_marshall.htm

Foodstuffs	629	203	203	412	516	1,963
Fish, Crustaceans, Molluscs	483	55	50	0	0	588
Prepared Foodstuffs, Beverages	146	148	153	412	513	1,372
Coffee, Tea, Spices	0	0	0	0	3	3
Raw Materials	0	11	0	0	0	11
Mineral Fuels (Petroleum and Petroleum Products)	0	30	0	282	2,771	3,083
Manufactured Products	126,159	264,323	204,214	366,868	590,891	1,552,455
Chemicals	374	484	526	389	910	2,683
Machinery and Equipment	124,983	261,640	202,472	365,827	589,000	1,543,922
・General Machinery (Other than Electric)	1,154	1,617	1,875	2,308	3,420	10,374
・Electrical Machinery	674	1,013	518	351	654	3,210
・Transport Equipment *	123,049	258,405	199,654	363,000	584,832	1,528,940
・Precision Instruments	106	605	425	168	94	1,398
Textiles	313	100	201	69	142	825
Metal Products	344	1,624	627	356	615	3,566
Nonmetallic Mineral Products	61	129	225	3	4	422
Products Classified by Material : Others	46	228	86	132	121	613
Miscellaneous Manufactured Articles	39	118	77	92	99	425
Special Commodities (Re-Export Goods)	583	740	582	116	104	2,125
Total	127,371	265,307	204,999	367,678	594,282	1,559,637
* Mainly tankers and other vessels exported only for ship registration in the Marshall Islands						

8.5.1 Recommendations

i. RMI must work with the Japanese Government to ensure that RMI gets the maximum benefits from its tuna resources.

ii. RMI must seek technical and financial assistance from Japan/China/RoC to implement the Trade Policy.

iii. RMI must explore other products that can be exported to Japan including noni, handicrafts and tourism services.

iv. RMI must work with China/RoC and Japan to deepen its trade, development, investment cooperation with Asia.

8.6 Economic Partnership Agreement (EPA)

The Cotonou Partnership Agreement which was signed in 2000 is an international agreement between 27 members of the European Union (EU) and 79 members of the African, Caribbean and Pacific (ACP) group. The agreement covers development cooperation, trade and political relations between the EU and ACP countries. The relationship between the EU and ACP countries dates back to 1963, however, the ACP group was formalised in 1975 and this relationship was governed by a series of Lome Conventions. The Lome Conventions provided non-reciprocal trade preferences to ACP countries and were found to be inconsistent with WTO rules because they discriminated against other non-ACP developing countries.

In order to maintain the non-reciprocal trade preferences, the EC and ACP countries secured a WTO waiver, which expired on 31 December 2007. The Cotonou Agreement seeks to usher in a new trade relationship based on reciprocity and WTO compatibility, while giving the desired flexibilities to ACP countries. The new trade arrangement is the Economic Partnership Agreement that is currently being negotiated. At the all-ACP level, negotiations on EPAs started in September 2002 and the Agreement was expected to enter into force on 01. January 2008.

The first objective of EPAs is to foster smooth and gradual integration of ACP states into the world economy, taking into account their development priorities. The ultimate goal is to promote sustainable development and eradicate poverty. The second one is to enable ACP states to play a full part in international trade, especially in multilateral negotiations and to help them manage the challenges of globalization thereby facilitating their transition to the liberalized global economy. The third objective is to enhance the production, supply and trading capacity of ACP sates and their capacity to attract investment thereby creating new trading dynamics; strengthening trade and investment policies and the capacity of these countries to deal with trade-related issues. The fourth one is to ensure that the economic and trade cooperation is implemented in full conformity with WTO rules, including special and differential treatment taking into account the different levels of economic development. The Cotonou Agreement also makes it clear that EPAs must promote regional integration. RMI needs to assess the final EPA agreement to ensure that these objectives are met.

At the beginning of the negotiations, the PACPS wanted the EPA to cover trade in goods, services, investment, fisheries and development. The EU is also pushing for the inclusion of other trade-related issues such as competition policy, intellectual property rights, Government procurement and trade facilitation. The PACPS agree that these issues are important but they want the EU to provide technical and financial capacity to enable them to build their regulatory and institutional capacity on these issues first before they undertake legally binding commitments. The PACPS do not want binding rules on these trade-related issues as they may pose enormous administrative costs. Furthermore, some of the rules that are being proposed by the EU go beyond the WTO rules and they will constrain policy space and limit development options in PACPS.

The PACPS also see very little benefits in signing a trade in services agreement if the EU does not agree to the comprehensive PACP proposal on Temporary Movement of Natural Persons and the related technical and financial assistance required to assist the PACPS to fully utilise opportunities arising from such a scheme. PACPS also wanted assistance to upgrade their vocational schools.

8.6.1 Trade in Goods

A trade in goods agreement will cover agricultural, forestry, fisheries and manufactured products. Currently, RMI does not export major products to the EU and its imports are also very minimal. If RMI wants to benefit from the liberal rules of origin, especially the global sourcing provisions in fisheries (e.g. tuna loins and canned fish), it will be required to submit a market access offer liberalising 80 percent of its trade by value and tariff lines and sign a trade in goods agreement. The advantage of signing a goods agreement is that RMI will have an opportunity to venture into value addition in the fisheries industry and export to the EU market under favourable rules of origin. This will allow the processors in RMI to have a wide choice of markets.

However, RMI will be required to sign onto to the legal text which contains rules that go well beyond the WTO and constrain policy space. These issues include the prohibition of export taxes and the most favoured nation (MFN) clause which requires RMI to give the EU whatever benefits it gives to major third economies. The MFN restricts RMI from negotiating favourable deals with such major economies because those countries will be fully aware that whatever concessions they get from RMI will also be given to the EU. The other contentious issues include stringent requirements on substantially all the trade (80% of trade value and tariff lines), strict rules on infant industry protection, stringent rules of origin on fresh and frozen fish (0304 and 0305), the non-execution clause which will allow the EU to suspend trade preferences if RMI violates human rights and other principles of democracy and good governance.

Despite the above contentious issues, the EU has relaxed rules of origin for some fisheries products but not for those products that may be important to small islands states like RMI. For fisheries products from RMI to be eligible for the preferential rules under EPA, they must either be ‘wholly obtained’ or be ‘sufficiently worked or processed’ in RMI. Under the Interim EPA, for fish to be wholly obtained, they must be caught by a vessel which is 50 per cent owned by nationals or companies of the parties to the agreement. The owners of vessels must hold EU or ACP country passports and the vessels must be flagged and registered by one of the parties.
With regards to the concept ‘sufficiently worked or processed products’, it should be noted that there has been a slight change on the value tolerance (or *de minimis*) provision of 15 per cent. If

processors do not have sufficient wholly obtained fish, they can use up to 15 per cent value tolerance for non-originating inputs of fresh or frozen fish in the manufacture of fish products. This provision is better than the one that was in the Cotonou Agreement, because it is broader and less administratively complex. The tolerance provision in the Cotonou Agreement required the exporter to do so on a single species, single consignment and single consignee basis and only a few exporters utilized it. However, 85% of the value of fish must emanate from originating sources.

The most important change in the rules of origin is the one on global sourcing or change in tariff heading. Regardless of where the fish is caught or the status of a vessel's flag, registration or ownership, the fish is deemed originating as long as it is transformed from being fresh or frozen (HS chapter 3) into being a pre-cooked, packaged or canned product (HS 1604 and 1605). PACPS also wanted the global sourcing rule to also apply to fresh and frozen fish under chapter 0304 and 0305 but the EC has not accepted this yet.

However, the most important challenge for PACP processors is that the fish that is used should meet the mandatory EU Sanitary and Phytosanitary measures. The vessels catching the fish must be registered and approved by the local Competent Authority, which is in turn regulated by the Health and Consumer Protection Directorate (DG SANCO). It is understood that even if these vessels are certified by the Competent Authorities in their respective countries, PACPS may not get qualifying fish. Another hurdle is to comply with the IUU regulations that were introduced by the EC in 2010.

The fact that RMI does not have major trade with the EU means that the impact of competition from the EU and loss of tariff revenue will be minimal. However, RMI may lose revenue because of the most favoured nation obligation in the Compact. According to the study by Watergall (2007), RMI could lose up to 25% of its total revenue if the impact of the Compact obligations is taken into account. However, the revenue loss may be recovered – as aforementioned - by adopting a consumption tax while eliminating import duties and/or by entering into negotiations with the US on *whether* or *how* the MFN will be applied.

Table 79: Revenue loss as % of total revenue from FTA's

Revenue loss as % of total revenue from FTA's							
	PICTA	EPA	PACER	MFN	Total	Error	GDP (mn
	only FICS	Only EU	ANZ	US			USD
Papua New Guinea	0	0	2	0	2	1	4908
Fiji	0	0	3	0	3	1	2711
Samoa	1	0	12	3	16	5	418
Vanuatu	2	1	18	0	22	3	358
Solomon Islands	1	0	4	0	6	2	288

Federated States of Micronesia	0	0	1	6	8	1	237
Cook Islands	2	0	6	0	8	3	176
Tonga	6	0	19	2	27	10	160
Palau	0	0	0	1	1	1	112
Republic of the Marshall Islands	0	0	5	20	25	1	138
Kiribati	4	0	15	0	19	5	79
Tuvalu	8	0	5	0	14	4	20
Niue	0	0	7	0	7	2	12
Nauru	0	0	6	0	6	1	n.a
Notes: GDP data for 2005 except for Tuvalu (2001), Niue (2004) and Tonga (2004)							

8.6.2 Services

Services negotiations are based on the WTO General Agreement on Trade in Services modalities. There will be a general agreement with basic disciplines and obligations that apply to the parties and a schedule of specific commitments where countries use a positive list approach to identify the services sectors that they want to liberalize and the market access and national treatment restrictions that they want to impose. The agreement also allows parties to regulate services. However, it is important for RMI to identify all the restrictions that it wants to put in place and the conditions that can be imposed. The agreement must be compatible with the WTO, meaning that there should be substantial sectoral coverage without excluding *a priori* any sector or mode of supply. There are also flexibilities that are allowed for developing countries.

The services sector is another area where RMI stands to benefit from EPAs. Most of the services have been discussed above. RMI needs technical and financial assistance to strengthen key infrastructural services, to upgrade its technical and vocational education training schools and put in place the right regulatory and institutional framework which takes into account social equity, environment, cultural sensitivities and sustainable development. The regulatory regime must be put in place before liberalization and technical and financial assistance will be required to ensure that RMI develops the capacity to export services such as tourism, low-skilled and skilled labour (temporary movement of natural persons) and other services where RMI can develop export capacity.

8.6.3 Fisheries

Under EPA, the Pacific ACP initially proposed a Multilateral Fisheries Partnership Agreement (MFPA) with the EU but the EU made it clear that they were not interested in the MFPA. The current version is now a watered down fisheries chapter which has very little value but may be of symbolic importance. However, the EC is now insisting that they want some components of the fisheries chapter, especially the 5% guarantee access to the purse seine fisheries sector for them to relax rules of origin on fresh and frozen fish (0304 and 0305).

RMI together with the other PACPS has requested assistance to develop the fisheries industry to enable RMI to maximise the benefits from its tuna resources. Rather than relying on access fees, RMI should move towards value addition to its tuna resources and export them to the EU market as well as other markets. RMI also requires assistance to establish a Competent Authority to be able to meet the EU SPS requirements. Assistance will also be required to comply with the EU IUU regulations.

The EU is one of the biggest single markets for tuna. It is important to note that the US market is stagnant and the Japanese market is in decline. Around 90% of total tuna catch by the EU is from Spanish and French vessels but only a few Spanish purse seine fleets are active in the WCPO. The most important tuna canning countries in the EU are Spain, Italy and France and production in France and Italy has been relatively stable since the mid-1970s. However, canneries in Spain have experienced considerable growth. Spain supplies most of the tuna but imports a marginal amount of canned tuna.

The canneries in the EU survive mainly because of tariff protection. The tariff for fresh/chilled fish fillets (0304) is 15% (GSP 14.5%) and frozen fish fillets is 18 % (GSP 14.5). For prepared and preserved tuna in oil (1604), not in oil, in pouches, tuna loins for use under 1604, the MFN tariff is 24% whilst the GSP rate is 20.5%. These tariffs offer huge preferential margins for ACP countries that are party to the EPA. The current negotiations at the WTO as well as free trade agreements that are being negotiated by the EU with non-ACP countries threaten to erode such preferences.

It should also be noted that the EU production of tuna is declining but there is a booming market in the EU for tuna loins classified under the HS code as ‘for further processing under 1604’ (i.e. to be canned- 0% universally), which are categorized under a different tariff chapter heading than tuna fillets for direct human consumption. In general terms, exporting tuna to the EU remains a viable economic endeavour because the market volume is very large and it is continually growing. In fact, canned tuna consumption in the EU is the driver for the global purse seine and tuna canning industries as consumption is stagnant in Japan and has declined in the US. Compared to the US, canned tuna is a relatively high value product in the EU and has consistently fetched a higher aggregated retail price than in the US. There is also a growing (albeit niche) market in the EU for tuna fillets and steaks for direct human consumption, partial reprocessing or even simple repackaging under tariff headings other than Chapter 1604 (i.e. tuna imported as frozen or fresh fillets under tariff heading 0304).

Despite declining demand by EU-based canneries, the average price for imported frozen tuna in the EU has risen significantly since 2000. However, the export of whole round fresh chilled tuna from RMI to markets in the EU is unlikely to ever prove a fruitful avenue because of high airfreight costs and poor connections.

From the discussion above, it is clear that the canning industry in Japan is no longer exporting, there is only one canning plant left in the US and the EU canneries are facing high operational costs and are shifting towards importation of loins rather than whole tuna. The tariffs which protect these industries are being threatened by the WTO negotiations and free trade agreements and the preferences that are given to ACP countries are also facing inevitable erosion. This raises an important question for RMI; in light of the fact that canneries in major developed countries are losing competitiveness to Thailand and other low cost producers in South America; will RMI be able to develop long-term competitiveness and survive after the preferences are gone? This is a question that RMI should bear in mind when assessing potential investors to ensure that genuine investors are allowed to operate and develop long-term competitiveness to avoid what happened in the garment industry in a number of preference-receiving countries when textiles preferences expired.

8.6.4 Investment

RMI needs a lot of assistance to improve the investment climate and its ranking on the Ease of Doing Business as discussed above. The investment regime must focus on protecting the rights of investors and their investments and this needs to be balanced with the right of the Government to regulate investment to meet public policy objectives. The need to reform EU investment institutions to make them more friendly and accessible to SMEs is also a key issue for the RMI. The European Investment Bank (EIB) and the EU Centre for Development of Enterprises (CDE) are essential for supporting SME development. However, the EU is not interested in negotiating a separate investment agreement and wants investment to be included under trade in services.

8.6.5 Aid for Trade

Aid for Trade will be required to assist RMI to adjust to the liberalisation shocks and also to implement the various obligations and make the necessary regulatory reforms. Technical and financial assistance is also required to assist RMI to address its production and supply side constraints. Without a comprehensive package on Aid for Trade, EPA would be a meaningless agreement. All the stakeholders must identify their needs and priorities to ensure that their requests for technical and financial assistance are included in the EPA negotiations. RMI should also ensure that the commitments on Aid for Trade are couched in legally binding language and implementation of the agreements should be contingent on provision of such assistance. If technical and financial assistance is not forthcoming, RMI should not be required to implement the agreement.

Several studies were conducted to assess the adjustment costs that may be required under EPA. The first one was a Commonwealth Secretariat study by Milner in 2005, which estimated that the ACP wide adjustment costs would be 9 billion Euros and the PACPs costs were estimated to be 642 million Euros. Another United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) study by Smith estimated the adjustment costs over a five year period to be about 170 million Euros for the Pacific. The Scollay report (2007) estimated the PACP costs to be about €159,621,250. Now that the agreement is almost complete, it would be good to assess the actual costs of EPA and the necessary reforms that need to be undertaken.

The EU indicated that funding for EPA will come from the Pacific Regional Indicative Programme (PRIP)-EDF 10 and the National Indicative Programme. The two focal sectors that have been identified for funding under EDF 10[67] are Regional Economic Integration (€45 million) and Sustainable Management of Natural Resources (€40 million). The other funding is earmarked for a non-focal sector. This will bring the total amount of funding available under the EDF to €95 million. The EC member states have also agreed to provide additional resources under the Aid for Trade Strategy, and PACP requested that they be given at least their historic share of aid which translates to about €25 million per year. However, given the amount of resources needed to implement EPA and to enable RMI to benefit from the agreement, more resources will be required. The EU has also indicated that all the funding will come through under the EDF and no additional funding will be provided.

It is important to note that in 2009, only 35 million was allocated to fund Aid for Trade projects.

8.6.6 Recommendations

i. RMI must sign the comprehensive EPA to allow the fisheries industry to benefit from the liberal rules of origin that have been offered by the EU.

ii. MIMRA must establish the Competent Authority to enable RMI to export fisheries products to the EU.

iii. RMI/MIMRA must work with the PNA/FFA/PACPS to address the trade/fisheries issues in the EPA negotiations to ensure that RMI's objectives of maximizing its return from its resources are realized.

[67] Other sectors such as fisheries, tourism, ICT, environment, human resource development etc… were considered to be cross-cutting issues and would form part of the two focal areas.

8.7 Micronesian Trade Committee

The Micronesian Trade Committee (MTC) was established in Pohnpei in 2008 by the trade Ministers from FSM, RMI and Palau following the recommendations from the Micronesian President's Summit in 2007. The MTC provides for a platform for the Freely Associated States to discuss trade issues of common interest including those arising from the Compact agreement, trade among the three countries and to develop common positions on other trade negotiations such as PICTA, PACER Plus and EPA.

Some of the issues that are currently being addressed by the MTC include the compensation for lost trade and tax preferences as a result of the amendment of the original Compact by the US Congress. The MTC is also working on formalising the MTC Secretariat and is also discussing other issues on how to promote trade among the three countries.

8.7.1 Recommendations

i. RMI must work with FSM and Palau under the MTC to address trade issues that are common to FAS.

ii. RMI should support the establishment of the MTC Secretariat and seek funding for the operation of the Secretariat.

iii. The FAS should consider having a trade and investment mission in the US to promote trade, investment , tourism and linking the FAS producers of goods and services with the buyers in the US market.

8.8 The World Trade Organization (WTO)

RMI is not a WTO member but other island countries such as Fiji, Papua New Guinea, Solomon Islands and Tonga are WTO members. Other countries that are acceding to the WTO are Vanuatu (since 1995) and Samoa (since 1998).

The advantages of joining the WTO include:

- benefiting from the technical and financial assistance programmes for small and vulnerable economies
- participating in multilateral negotiations and shaping global trade rules to suit the needs of small islands
- trade policy review mechanism, which reviews trade policies and practices for WTO members
- locking in commitments, which gives certainty and predictability to traders
- market access to WTO members.

In general, the costs of WTO membership will include:

- adjustment costs
- regulatory reform to comply with WTO rules
- administrative burden on RMI in terms of implementing the agreements
- very little benefits in terms of market access

Given that the potential benefits from WTO membership are likely to be outweighed by the costs, it may appear to be premature for RMI to consider joining the WTO. RMI's trading partners are already WTO members and have already adopted trade policies that in one way or the other influence RMI even though RMI is not a WTO member. RMI is also represented at the WTO by the Forum Geneva Office.

8.8.1 Recommendations

(i) RMI should work closely with the PIFS Office in Geneva to address any issues affecting RMI including fisheries subsidies, preference erosion, non-tariff barriers as well as other relevant issues.
(ii) RMI should work with the US to ensure that the waiver on Compact is extended beyond 2016.

8.9 Guidelines for Trade Negotiations

During the consultations it was clear that the trade negotiations should bring development benefits to RMI and assist the nation to address the key supply-side constraints and shortcomings in infrastructural services hindering trade and development. Some of the key guidelines and recommendations that were raised by the participants as key principles that should be followed during trade negotiations include the following:

i. RMI must be given the option to opt out of the trade in goods agreement, until the MFN issues with the US are addressed.

ii. In the event that RMI decides to participate in the trade in goods agreement, the agreement must be asymmetric and incorporate special and differential treatment, allowing RMI to liberalize not more than 80% of its trade value or tariff lines.

iii. Rules of origin must be improved and be based on change in tariff heading.

iv. RMI must be given maximum flexibilities and policy space in order to protect its infant industries, impose export taxes and use trade defence measures.

v. Trade Agreements must include a chapter on development cooperation providing predictable, adequate and legally binding Aid for Trade based on the five categories identified by the WTO task force on Aid for Trade.

vi. Technical and financial assistance must assist RMI to address the supply-side constraints, build production capacity, and address transportation and marketing issues. Assistance must be also be provided to address SPS, TBT, customs issues, tax reform, adjustment costs amongst other things.

vii. RMI must be allowed to use the GATS positive list when participating in trade in services negotiations.

viii. Assistance must be provided to assist RMI to participate effectively in the tourism sector and to address issues relating to transportation, telecommunication and the financial sector.

ix. Technical and financial assistance must be provided to enable RMI to introduce the necessary regulatory and institutional framework before opening up trade in services.

x. Technical and financial assistance must also be provided to assist RMI to upgrade its education system including the vocational training institutions.

xi. Trade Agreements must provide predictable and legally binding access on labor market that is comparable to what RMI has under the Compact.

xii. RMI must reform its tax policy first before signing onto trade agreements.

9 AID FOR TRADE

In 2005, the Sixth WTO Ministerial Conference that was held in Hong Kong highlighted the importance of Aid for Trade as essential in assisting developing countries to implement trade agreements and to exploit the market access arising from trade liberalisation. Paragraph 57 of the Hong Kong Ministerial Declaration provides that Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure [emphasis] that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.

Furthermore, the Ministers recognised that Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA. They requested the Director-General of the WTO to create a task force that shall provide recommendations on how to operationalise Aid for Trade. The Task Force was requested to provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. The Ministers also requested the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General

Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans.

The WTO Task Force concluded that Aid for Trade can be divided into the following five broad categories:

- Trade policy and regulations. This may include training of trade officials, technical support for trade policy formulation and implementation of trade agreements
- Trade development. This may include investment promotion, business support services
- Trade-related infrastructure, including physical infrastructure
- Building productive capacity
- Trade-related adjustment. This may include assistance to introduce accompanying measures to assist RMI to benefit from trade liberalisation
- Other trade-related needs

The PACP Trade Ministers in 2009 also adopted the Pacific Aid for Trade Strategy which identifies a list of regional and national needs. The list of regional needs included about 14 AfT projects and the total cost of these projects is shown in the table below. However, only about 35 million Euros was provided by the EC to implement the regional projects. The regional projects that have been selected are:

Table 80: Selected AFT regional projects.

AfT Cat.	Pr. No.	Project Title	Cost (US$)
1.1	RG-1	Support to IPR in the Pacific Region	7,710,000
1.4.2	RG-2	Trade Facilitation in Customs Cooperation	18,102,484
2.7.3	RG-3	Pacific Regional Tourism Capacity Building Programme (PRTCBP)	9,931,360
1.1; 1.2	RG-4	Pacific Regional AfT Technical Assistance Programme (PRAfTAP)	18,580,000
2.7.2	RG-5	Regional Support to Value Chain for Selected Agricultural Products	2,200,000
2.7.4	RG-6	Regional Labour Mobility	6,135,000
1.1.3	RG-7	Regional Trade Facilitation in SPS and Food Safety	5,150,000
1.2.3	RG-8	Establishment of the Office of the FIC Chief Trade Advisor (OCTA) for PACER Plus Related Activities	15,658,436
2.7	RG-9	Enhanced sustainable livelihoods through facilitating increased trade and product diversification	18,732,900*
2.3	RG-10	Strengthening Pacific Technical and Vocational Education and Training and Skills Development	10,404,000*
2.7.1	RG-11	Development of sustainable tuna fisheries in Pacific ACP countries (DevFish II)	11,816,000*
1.1; 1.2	RG-12	Melanesian Spearhead Group Secretariat Capacity Building and Institutional Strengthening – Enhancing Economic Integration at the sub-regional level	11,816,000*
1.2.2	RG-13	Pacific Regional Agricultural Market Access Program	13,076,000**
2.1	RG-14	Export Pacific	TBD
		Total	*149,312,180*
**1euro = 1,44 USD; ** 1 AusD = 0,84 USD*			

However, in adopting the Pacific AfT Strategy, PACP Trade Ministers noted that a lot of work was still required to identify and prioritise national AfT projects. The Trade Policy will assist RMI to identify the priority AfT projects that will be submitted to RMI's trading partners and donors.

10 RECOMMENDATIONS AND IMPLEMENTATION

Implementation of the Trade Policy must be based on a realistic and doable strategy to minimize difficulties in the implementation phase. It could be based on three pillars. The first phase would be a fast track based on full utilization of the current market access arrangements. The second phase would be a short term component integrated into the development plan for developing export-oriented industries to fully exploit not only the current markets but also new niche markets. The third one would be a medium to long term export based industrialisation strategy. The three strategies can be launched in tandem. The main issues in each phase would be to build the supply-side production and export capacity to produce competitive goods and services, and full exploitation of the market access that RMI has for goods and services.

The first objective focuses on domestic trade policy analysis and formulation of negotiating strategies, the second one deals with trade negotiations under PICTA, EPA, PACER Plus, US, the MTC and WTO. The third pillar focuses on an independent dimension of trade policy; which is institution building throughout all the phases of intervention, and this will enable integrated design, implementation, coordination and monitoring of RMI's trade policy. It will also include building the capacity of the private sector to fully exploit opportunities arising out of trade agreements. The following matrix can be used to illustrate the implementation of this trade policy framework.

Table 81: Illustration of TPF implementation

	Supply-side Policies	Market access and Entry policies	Trade policy Institution Building
Fast track recommendations	Secure technical and financial assistance to address supply-side constraints and facilitate investment and private sector development	Exploit existing market access opportunities (utilise preferences to the US, EU, ANZ)	Trade policy institution building and improving capacity in R&D, establishing the NTFC
Short term (5 years) recommendations	Support export oriented and import-substitution industries, where feasible.	Improve market access and entry for key potential products and services through regional and multilateral negotiations	Capacity Building programme for trade policy formulation, negotiations and implementation and exploiting market access opportunities
Medium to long-term recommendations	Institute enabling policy environment for trade, investment, manufacturing and services	Increase market access and entry through positive measures.	Sustainable capacity in trade policy formulation, negotiations and implementation and exploiting opportunities.

The first pillar focuses on supply-side policies under the fast track section and seeks to strengthen production and trade performance by finding new or expanding existing markets for key export products in agriculture, fisheries and tourism. The idea is to concentrate on quality and produce products consistently to maintain the market and enough volume to fill the containers. Tourism potential can also be expanded with a focus on the high end market. Technical and financial assistance will be needed to assist the private sector to improve production efficiency and outputs, and to conduct negotiations and marketing to find new markets. Most exporters are too small in scale or they are just starting and will need initial assistance from donors and trading partners. RMI can also work with the Pacific Islands Trade and Investment Commission in Auckland, Beijing, Sydney and Tokyo. RMI should consider having an FAS trade mission in the US and the EU.

The second pillar is embedded in the development plan which seeks to promote the agriculture, fisheries and tourism sectors. Promoting agriculture will contribute towards addressing health issues and food security, and there are small opportunities for export of niche products. The main service sector is tourism and export of skilled and lower skilled labor. Policies must be put in place to boost production capacity and good quality products to ensure that the products become competitive in international markets. However, for RMI to develop competitiveness, the other infrastructure related services also need to be improved. RMI needs to boost its negotiating capacity to derive meaningful benefits from trade negotiations. There is a need to put in place mechanism for national consultations (NTFC) and follow up of trade issues and training of skilled trade negotiators. Support is also needed for import substitution industries. The continued existence of these industries is important because they provide employment and pay tax.

The third pillar can be implemented simultaneously with the first two. This focuses on creating an enabling policy environment for manufacturing and semi-manufacturing industries including SMEs, prioritizing value addition of many RMI products. Incentives must be made available to those industries using a substantial portion of local inputs. The main focus is on identifying and developing manufacturing base in RMI for the domestic and export markets. The development of the services sector is also important especially infrastructural services and tourism.

The trade policy must be implemented within a wider development policy and all the other social issues need to be taken into account because these may derail even the limited development that may have taken place. It is important for the trade policy to be integrated into a wider development strategy. Issues such as population growth, environment and health need to be addressed. Trade facilitation, especially supporting transportation networks, financing facilities for SMEs, small cottage industries and agricultural extension to improve production and output should be encouraged. Other non-tariff barriers as well as the SPS and TBT issues also need to be addressed.

RMI needs to take stock of the skills that it needs and address the labor supply issues affecting production. The trade policy must also be linked to the Millennium Development Goals (MDGs). The public sector reform must continue to ensure that RMI develops trade policy formulation capacity. Other issues such as unemployment problems affecting mainly the youths and women should also be prioritized.

A monitoring mechanism should be established at the official's level and at the highest policy level. There is a need to assess progress on an annual basis and propose remedial action. RMI should mobilise international support for the endogenous capacity building project on trade. The capacity of the Trade and Investment Division to function effectively must be strengthened. Support may be sought from donors to develop institutional and human resources in order to enhance institutional capacity in trade analysis, trade policy formulation, trade negotiations and supply capacities and exploiting market access opportunities. Government personnel handling trade should be trained in trade negotiations and such training must also be conducted in selected tertiary institutions. Full recommendations and matrix of implementation are contained in Annex 2.

List of participants in the Trade Policy Consultations

NTFC consultative meeting; May 3, 2012			
Name	Email/Contact	Position	NTFC Member
Jerry Kramer	jkramer@piimajuro.com	Chamber of Commerce	Yes
Deborah K. Shoniber	dshoniber@piimajuro.com	Chamber of Commerce	Yes
Brenda Alik-Maddison	gm@visitmarshallislands.com	Chamber of Commerce, President	Yes
Richard A Bruce	rbruce@rmimoe.net	Assistant Secretary - AFHR	Yes
Fred Muller	frederick.muller@gmail.com	RMI Ambassador to Fiji	No
Ramsey Reimers	ramseyreimers@rreinc.com	RRE	No
Kino S. Kabua	kinokabua@gmail.com	MOFA Sec.	Yes
Phil Philippo	phil.philippo@gmail.com	Sec. of T&C	Yes
James Myazoe	tcmi@ntamar.net	TCMI	No
Sam Lanwi, Jr.	blanwi@gmail.com	MIMRA	sub-committee
Jackeo Relang	jackeo.relang@gmail.com	MOFA Senior Policy Advisor	Yes
Jack Jorbon	jjorbon@yahoo.com	Assistant Attorney General	Yes
Bruce Bilimon	mhcustom@ntamar.net	Assistant Secretary of Finance	Yes
Gee L. Bing	ocidirector@ntamar.net	Director, Compact Office	Yes
Wallace Peter	wallace.iakwe@gmail.com	IA Assistant Secretary	Yes
Daisy Alik-Momotaro	moiasec@gmail.com	IA Secretary	Yes
Molly Helkena	mhelkena@yahoo.com	IA Assistant Secretary	Yes
Lucia Guavis	elefahandicraft@hotmail.com	MIAHB	Yes

Mattlan Zackhras	namdrikalele@gmail.com	Senator	No
Thomas Kijiner, Jr.	rndsec@gmail.com	R&D Secretary	Yes
Rebecca Lorennij	rlorennij@hotmail.com	Deputy Secretary R&D	Yes
Iva Reimers-Roberto	iva1909@yahoo.com	Trade Official	Yes
Theresa Kijiner	renijik@yahoo.com	Trade Official	Yes
Laban Konelios	lkonelios@gmail.com	Trade Official	Yes
Salome Andrike (COC)	Salome.Andrike@united.com	GM	Yes
Jefferson Barton	jeffersonbarton@hotmail.com	EPPSO	Yes
Angeline Heine	gelheine@gmail.com	R&D	Yes

Plenary Session 20-21 May 2010		
NAME	ORGANISATION	CONTACT DETAILS
1. Brenda Alick Maddison	MOE	bdikmad@yahoo.com
2. Maybelline A. Bing	EPPSO	planning@ntamar.int
3. Daisy Alik Momotaro	WUTMI	Wutmi26@gmail.com
4. Nora Zhang	PPF	norazhang@ppfmajuro.com
5. Gee Leong Bing	MOFA/OCI	ocidirector@ntamar.net
6. Walter Myazoe , Jnr	MRD	wmyazoe@gmail.com
7. SULTAN KOREAN	BOMI	skorea@ntamar.net
8. Steve Philie	Chamber of Commerce	sphillip@moylaus.net
9. Reynold Tan	MIFV	reynoldtan@ltfv.com
10. Henry CAPEVE	MRD	kikurto@yahoo.com
11. Wilbur Heine	MIA	wilburheine@yahoo.com

12. Divine Waiti	Nitijela	Nitijelacounsel@gmail.com
13. Anjanette M Kattil	MOFA	Akattil5@gmail.com
14. Itibo. P. Tofinga	MOF	tofingas@hotmail.com
15. Bruce B	MOF	mhcustom@ntamar.net
16. Rebecca L	R & D	
17. Katina A. Peter	Frank 'R'	talianna@ntamar.net
18. Melissa Kramer	PIL	mkramer@piimajuro.com
19. Sam Lamui, Jnr	MIMRA	sklj@mimra.com
20. Paul Toryakwe	drmmigration	
21. Daniel Timothy	customs	customsfmi@ntamar.net
22. Kathryn Relang	WUTMI	Wutmi26@gmail
23. Nora Zhang	PPF	norazhana@ppf.majuro.com
24. Kayo Yamaguchi . kotton	MOF	kykotton@gmail.com
25. Bonny Taggart	MICNGOS	micngos@gmail.com
26. Miram Jebraum	wutmi	Wutmi36@gmail.com
27. Mr Kramer	Private Sector	

Plenary 11-12 November 2009

NAME	ORGANISATION	CONTACT DETAILS
1. Katie Relang	WUTMI	Wutmi26@gmail.com
2. Evelyn Lanki	MALOG	evelynlanki@gmail.com
3. Carmen Bigler	WUTMI	

4. Marie L. Maddison	WUTMI/NTC	ntcdr@ntamar.net
5. Dolores deBrum- Kattil	MIVA	Dolores@visitmarshallislands.com
6. James M. Myazoe	TCMI	tcmi@ntamar.net
7. Laurence Edwards II	AG's Office	Lau2ed@hotmail.com
8. Jefferson Barton	Secretary, MoF	jeffersonbarton@hotmail.com
9. Tommy Kijiner Jr.	Secretary, R&D	rndsec@gmail.com
10. David Paul	MEC	dpaul@mecrmi.net
11. Jerry Nathan	R&D	rmitisd@ntamar.net
12. Rebecca Lorennij	Deputy Secretary, R&D	rlorennij@hotmail.com
13. Bruce Bilimon	MoF	mhcustoms@ntamar.net
14. Kilon Ishiguro	MICS	molikjr@gmail.com
14. Tony Muller	NTA	tony.muller@ntamar.net
15. Bokmej Bokmej Jr	Farmer's Assoc.	
16. Henry Capelle	R&D	kikurto@yahoo.com
17. Itibo Tofiaga	MoF	Tofinga45@hotmail.com
18. Roena Allen	T&C	roenaallen@yahoo.com
19. Junior Ain	Compact Office, MoFA	jaini@ntamar.net
20. Wallace Peter	IA	wallace.iakwe@gmail.com
21. Matt Zackhras	Minister for R&D	namdrikalele@gmail.com
22. Waylon Muller	MoF- Procurment/Sup	prosuply@ntamar.net
23. Robert Pinho	RRE	pinhorobert@yahoo.com
24. Carlos Domnick	DAR/ MIBA	darsales@ntamar.net

List of Participants who were consulted during the sector-specific consultations (9-20 Nov 2009)

Date	Organization	Contact person	Time	Contact Details
9-Nov	Economic and Policy Planning Office (EPPSO)	Carl Hacker, Director	8-10am	planning@ntamar.net
9-Nov	Attorney General	Mr. Frederick Canavor Jr., Attorney General	10-11am	
10-Nov	Customs, Revenue & Taxation	Mr. Bruce Bilimon, Assistant Secretary of MOF	9-11am	mhcustoms@ntamar.net
10-Nov	Resources and Development	Mr. Thomas Kijiner, Jr., Secretary, Ms. Rebecca Lorennij, Deputy Secretary	2-4pm	rndsec@gmaill.com/rlorennij@hotmail.com
13-Nov	Ministry of Foreign Affairs (MOFA)	Ms. Kino Kabua, Secretary of MOFA	10-12pm	
13-Nov	Marshall Islands Marine Resources Authority (MIMRA),	Mr. Glen Joseph, Director	2-3pm	
13-Nov	Marshall Islands Energy Company	Mr. David Paul, General Manager	3-4pm	dpaul@mecrmi.net
13-Nov	National Telecommunications Authority (NTA)	Mr. Anthony Muller, General Manager	4-5pm	tony.muller@ntamar.net
16-Nov	EPA	Mrs. Deborah Manesse, General Manager	1-11am	
16-Nov	Immigration	Mrs. Tanga Lanwi, Acting Chief	11-12pm	rmiimmig@ntamar
16-Nov	Marshall Islands Visitors Authority (MIVA)	Mrs. Dolores Debrum Kattil	2-3pm	dolores@visitmarshallislands.com

16-Nov	Marshall Islands Fishing Venture (MIFV)	Mr. Lu Hong jian, Acting General Manager	3-4pm	lu_hongjian@itfv.com
16-Nov	PII (construction)	Mr. Jerry Kramer, CEO	4:30-6pm	
17-Nov	PPF (fishing co)	Mr. Don Xu, Vice President	8-9am	
17-Nov	Far Enterprises	Mr. Francis Reimers	7-9pm	francistreimers@hotmail.com
18-Nov	Ports Authority	Mr. Joe Tiobech	9-10am	
18-Nov	Ministry of Transport and Communication	Mr. Wilbur Allen, Deputy Secretary	10:30-11:30am	
18-Nov	Energy Office	Ms Angeline Heine, Chief of Energy	12-1pm	
18-Nov	Tobolar (copra)	Mr. Wilfredo Candilas	1-2pm	
18-Nov	Marshall Islands Resort	Mr. William Weza, General Manager	2-3pm	
18-Nov	Independent Consultants	Mr. Benjamin Chutaro & Benjamin Graham	5-6:30pm	
19-Nov	Customs, Revenue & Taxation	Mr. Junior Zachkras, Customs Officer	8-9am	
19-Nov	Farmers Association	Mr. Jabukja	9-10am	
19-Nov	College of the Marshall Islands	Mr. Hess, President	10:30-11:30am	
19-Nov	Chamber of Commerce	Mr. James McClean	12-1pm	Tide Table
19-Nov	Marshalls Islands Business Association	Mr. Carlos Domnick	1-2pm	
19-Nov	Bank of Marshalls	Mr. Patrick Chen, President Mr.Sultan Korean	2:3:30pm	

19-Nov	Marshall Islands Development Bank	Mr. Amon Tibon, General Manager	4-5pm	
19-Nov	Marshall Islands Council of NGOs	Mrs.Bonnie Taggart	5-6pm	
20-Nov	National Training Council	Ms. Marie Maddison, Director	9-10am	
20-Nov	WUTMI	Mrs. Daisy Momotaro	10-11am	
20-Nov	R&D	Mr. Mattlan Zachkras, Minister of R&D	11-12pm	

Consultation with Donors, Trading Partners and CROP Agencies

	Name	Contact Details	
1	Malcolm Ponton Adam Janssen	Tel: 3313633	malcolm.ponton@ec.europa.eu adam.janssen@eeas.europa.eu
2	Sai Too Go Tarataake Teannaki	Tel : 3304177	stoogo@spto.org tteannaki@spto.org
3	Eric Z S Liao	Tel : 331 5922	zsliao@mofa.gov.tw
4	Nathaniel Tuiseke Paul Meredith Selwa Nandan Paul Iramu Dr. Saia Kami	Tel : 331 3110	nathanielt@ocosec.org PaulM@ocosec.org selwan@ocosec.org PaulI@ocosec.org saiak@ocosec.org
5	Chris Cocker Elenio Yap Apiame Cegumalua	Tel : 337 0733 Ext :35456 Ext : 35458 Ext : 35335	ChrisC@spc.int ElenioY@spc.int ApiameC@spc.int
6	Matthew Davies Margaret Cotton	Tel : 330 4866	mdavies@imf.org mcotton2@imf.org
7	James Movick, DDG and Len Rodwell	Consulted via email	
8	Australian High Commissioner in Suva	Consulted but still waiting for feedback from capital	
9	New Zealand High Commissioner Suva	Consulted	

		but still waiting for feedback from capital	