

Aid-for-trade should support the Pacific's 'hidden strength': smallholder agriculture

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Date : February 21, 2014



This post summarises a recent [working paper](#) on the future of agriculture in the Pacific islands, prepared by Wesley Morgan for [Asia and the Pacific Policy Studies](#).

In January 2014 the Australian Minister for Foreign Affairs, Julie Bishop, announced Australian aid would be re-focussed towards near neighbours in the Asia-Pacific region. She also announced that '[aid-for-trade](#)' would form a key strategy for improving living standards. While much could be done to help Pacific island states take advantage of international trade, it is important that support is directed where it is needed. Aid must help to develop supply side capacity and address market access issues. Australia also needs to review quarantine restrictions which stymie potential Pacific exports.

'Hidden strength' of Pacific economies

Agriculture is easily the most important economic sector for the Pacific island countries – providing the greatest source of livelihoods, cash-employment and food security for more than eight million people across the region. Typically, food production dominates the sector – with 'village-level' farmers growing and distributing a large quantity and varied range of fresh vegetables, root crops, nuts, fruits and flowers. Because many of these farmers focus on growing food for their own families, or to share with others through socially-embedded systems of exchange, traditional food production is often under-represented in national accounts and has been identified as a '[hidden strength](#)' of Pacific economies.

Development policy should build on this hidden strength. A key challenge is to find ways to commercialise traditional systems of farming and improve cash-generating opportunities, without sacrificing community cohesion and local food security. Other sectors – particularly tourism and mining – are important in some Pacific countries, but these are unlikely to provide the volume of job opportunities required to meet the needs of growing island populations. Thus the [focus of policy for employment and for economic growth should be on promoting opportunities in agriculture](#).

Islands of opportunity: new incomes from high value crops

For much of the 20th century commercial agriculture in the Pacific was dominated by large-scale colonial plantations geared toward the export of bulk commodities – especially copra, coffee, cocoa and sugar. Over recent decades, however, the smallholder sector has been fastest growing, particularly in Melanesia. The sector has also proved to be remarkably price-sensitive, with many farmers choosing what to grow based on the vagaries of international markets.

Smallholders in the Pacific are unlikely to compete either on price or volume with low-cost, high-volume producers in South-East Asia. Island growers face inherent cost disadvantages. 'Village-level' production involves small economies of scale, input costs are high, natural disasters are common and transport between islands is often expensive and/or infrequent. In short, growers need to receive considerable returns to compensate for these unavoidable costs.

To take advantage of international trade in the 21st century, smallholder producers in the Pacific will need to focus on high-value, low-volume exports. Thankfully, opportunities abound, and island producers already export a range of high-value agricultural products to markets across the globe (see Table 1 below). Furthermore, many of these exports *complement* traditional systems of food production without supplanting them. Thus Pacific smallholders are growing food around and underneath high-value crops destined for export. Crops like sandalwood (and other high-value timbers), noni trees, indigenous nuts or kava are all suitable for inter-cropping in smallholder food gardens and village plantations.

| Region | Key niche agricultural products |
|------------|--|
| Melanesia | High-value plantation timber, fair-trade sugar, bottled water, virgin coconut oil, coconut products (cosmetics, furniture etc), fresh tuna (sashimi), 'single source' cocoa and coffee, kava, fresh fruit and vegetables, indigenous nuts, fresh flowers, preserved spices, organic beef, pearls |
| Polynesia | Virgin coconut oil, cosmetics, black pearls, noni juice, dried organic fruits, spices, single source cocoa and coffee, kava, fresh fruit and vegetables (particularly squash), indigenous nuts, fresh fish, vanilla |
| Micronesia | Virgin coconut oil, coconut products, import substitution |

Marketing key to improved returns

The flip-side of the high costs associated with island agricultural production is that many places in the Pacific are inherently marketable. Remote and 'exotic' locations, warm and happy people, and 'clean and green' production fire the imagination of would-be consumers. Sophisticated marketing strategies which use the Pacific 'brand' to stand out from the crowd are one way of targeting discerning buyers who are prepared to pay more for island produce – a price premium that is vital to offset high costs of production. An example of successful marketing for a niche product is that of Fiji Water, which has become a drink-of-choice in Hollywood and has even been seen wetting the lips of US President Obama. Indeed [in some years Fiji Water alone has accounted for up to 20% of all Fiji's exports](#).

Another way to stand out from the crowd, and to improve returns to growers, is through fair trade or organic certification. Here, consumers are prepared to pay a price premium for Pacific produce if they know products are good for the environment and for people. In recent years sales of fair-trade labeled products have increased dramatically in Australia and New Zealand (particularly for coffee and chocolate). In rural Papua New Guinea, more than [10,000 people currently benefit from community projects funded by improved returns for fair trade coffee](#). In Samoa hundreds of farms are certified as organic, and a women's business organisation sources organic coconut oil for a multinational cosmetics retailer.

Both fair-trade and organic certification can be an expensive process, requiring regular assessment by external auditors, and costs can outweigh returns to growers. Improved returns require farmers working together to absorb these costs. [In 2011, 4000 members of a Fijian sugarcane growers' cooperative started receiving a 'fair trade premium' from British sugar-company Tate and Lyle](#) – which now retails the sugar with a Fairtrade label. Another way to minimise certification costs is to develop Pacific-appropriate standards. In 2008 a regional 'Pacific Organic Standard' was endorsed by regional Ministers of Agriculture and an '[Organic Pasifika](#)' labelling system has been developed. The next steps are to develop guarantee systems for organic produce and to seek 'equivalency' for organic standards in potential export markets.

Quarantine restrictions are a major barrier

Developing export pathways is key to growing Pacific agriculture. It's no good harvesting high-value papaya or ginger or cut-flowers if there is no way to get produce to consumers who are prepared to pay top dollar for them. A key challenge is transport – is there any way to get to market? But perhaps an even bigger issue is market *entry*. Quarantine restrictions have been identified as the [weakest link in the Pacific's horticultural export marketing chain](#). Here the Australian government could do much to help speed up quarantine assessments for island produce. Michael Finau-Brown, who heads a cooperative of growers in Fiji, argues that at the current rate of assessment it would take two lifetimes for Australian quarantine agencies to approve for import the full range of fruits and vegetables Fijian growers are *now ready* to supply to Australian consumers.

[Australia's 2011 aid review](#) found that quarantine restrictions should be based on firm science and should not place undue restrictions on agricultural exports from neighbouring countries. Nonetheless there is little doubt that Australian policymakers maintain restrictions that keep out more price-competitive Pacific island produce. Ginger exports from Fiji are a case in point. Fijian biosecurity authorities made a formal market access request for fresh ginger in 2003. A decade later the Australian Department of Agriculture, Forestry and Fisheries completed [a risk analysis which found ginger imports from Fiji should be permitted](#) subject to specified phytosanitary measures. However, Australian farmers successfully lobbied for a Senate inquiry into 'the effect on Australian ginger growers of importing fresh ginger from Fiji'. While that inquiry remains ongoing, fresh ginger exports to Australia remain on hold.

Regional cooperation is vital

Australia and New Zealand are currently negotiating a regional trade agreement with 14 Pacific island countries (PACER-Plus). Money earmarked as 'aid-for-trade' often goes to helping Pacific governments engage in international trade negotiations. However, if PACER-Plus simply requires island countries to restate, or sign on to, rights and obligations similar to those included in the World Trade Organisation's Agreement on Sanitary and Phytosanitary (SPS) Measures, it will do little to expand agricultural trade. Aid-for-trade funds allocated to lengthy negotiations, for agreements of doubtful benefit, could be put to better use developing supply-side capacity and addressing market access barriers in a more direct way.

This is not to say all existing aid-for-trade is misdirected. Current donor-funded projects in the Pacific do aim to resolve quarantine issues, improve trade related infrastructure, provide information regarding international market opportunities, improve production techniques, maintain quality of supply, and develop new marketing and branding initiatives. Many of these aid-for-trade projects are subject to short-term funding cycles, and much could be done to coordinate support to would-be agricultural exporters on an ongoing basis. However, the good news is that there is significant potential for the export of high value crops and improving exports will reap widespread benefits for decades to come.

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