

Trade Policy Review Body  
21-22 September 1998

## TRADE POLICY REVIEW

### SOLOMON ISLANDS

#### Minutes of Meeting

#### Addendum

Please add Section VII (attached) to document WT/TPR/M/45.

---

## VII. CONCLUDING REMARKS BY THE CHAIRPERSON

1. The first Trade Policy Review of the Solomon Islands was conducted by the Trade Policy Review Body on 21-22 September 1998. These remarks, prepared on my own responsibility, attempt to summarize the salient points of the discussion. They are not intended as a full report; details of the discussion will be reflected in the minutes.

2. The discussion developed under three main themes: (i) background and current economic crisis, (ii) main sectoral issues, and (iii) other specific issues related mainly to its membership of the WTO.

#### *(i) Background and current economic crisis*

3. Members recognized that the Solomon Islands faced immense and numerous economic difficulties. Mismanagement by the previous government had led to unsustainable levels of public debt, which could not be repaid from exports at a sustainable level. Concentration of exports in three product groups (timber, fisheries and copra) and two principal markets (Japan and the EU, particularly the United Kingdom) meant that the economy was highly vulnerable to external price developments. The effects of the Asian economic downturn had been particularly severe for the timber sector, reducing world prices by two-thirds.

4. Members recognized the dilemmas confronting the Solomon Islands' Government, in particular, the tension in policy-making between environmental and trade considerations, given the need to service the debt. They asked what routes the authorities considered possible to resume economic growth and promote sustainable trade.

---

\*English only.

5. Members welcomed the efforts being made by the Solomon Islands' Government in economic reform. They stressed the need to continue the process, particularly in respect of taxation, in order to increase revenue while promoting exports. Tariff rationalization was welcomed, although rates remained relatively high and disparate, and a temporary tariff surcharge of 10 per cent had been implemented in the 1998 Budget, with no time limits. The effectiveness of export taxes was questioned and alternative means of increasing fiscal revenue (such as stumpage fees or resource rent taxes) were suggested. Members emphasized the need to introduce a transparent structure of taxation (including VAT) with minimal scope for Ministerial discretion in application.

6. Questions were asked about the Government's investment policies, including the utility of the negative list, and the effectiveness of incentives. Clarification was sought on the development of investment in particular sectors, including telecommunications and tourism.

7. In response, the representative of the Solomon Islands outlined steps that the Government had taken to address the twin problems of unsustainable debt burden, which it inherited upon coming to power, and the continuing unsustainable exploitation of forestry. The Government had succeeded in reducing outstanding government debt from SI\$185 million to SI\$140 million in an attempt to restore fiscal balance. In addition, the Asian Development Bank had approved a loan to assist the Government in meeting its objective of balancing the budget.

8. In order to avoid these problems in the future, the Government intended to reduce its dependence on forestry and to diversify into other activities, such as tourism, mining and the domestic processing of raw materials; for example, all copra was now to be processed locally for export. As regards exports of canned tuna, the delegation appealed to the EU to maintain existing Lomé preferences so as to enable Solomon Islands' producers to compete with other exporters. The delegation also appreciated the contribution of the STABEX programme to agricultural development. The Government realised that it could not continue to rely on trade taxes for revenues and was seriously considering progressively reducing such taxes and their replacement by a VAT.

9. In recognition of the fact that the private sector must be the engine of growth in the economy, the Government had involved the Chamber of Commerce in its reform programme. It also recognized weaknesses in the administration of the Investment Act and was taking steps to increase its transparency. In addition, the Government was evaluating the role of investment incentives in the Act with a view to rationalising their use and removing discretion in their administration. The negative list was not at present in application.

(ii) *Main sectoral issues*

10. Members commented on the heavy reliance of the economy on a few sectors, namely timber, fish and copra. Questions were raised on sustainable management of timber resources, and how the current "break" from logging brought about following the collapse in timber prices could be used by the Government to implement such policies. In this connection, Members also raised questions on the Government's views on the allocation of logging and fishing licences, including the auctioning and under-utilization of such licences. The need to maintain international competitiveness in timber and fish in the face of the erosion of market access to the EU market under Lomé tariff preferences and reduced timber prices, were also matters of concern. The Government referred to rules-of-origin restrictions imposed under the Lomé arrangements for preferences as limiting the development of their fisheries industry.

11. The role of downstream processing of fish and timber was discussed. Some members saw adverse effects on developing efficient processing industries from export taxes on unprocessed resources. Members requested clarification on the government's intention to prohibit round log

exports in 1999. The Government indicated its commitment to promoting downstream processing as a way of improving the economy's resilience and development. In its view, export taxes on unprocessed products can play a useful role in this regard.

12. Some members agreed with the Solomon Islands that the vulnerability of the economy to world price changes, especially for copra, was worsened by the effects of export subsidies by some WTO members on edible oilseeds. Members from the Cairns Group emphasized their aim to obtain strengthened multilateral disciplines on the use of such trade-distorting policies.

13. The Government raised the possibility of its multilateral partners organizing a debt-environment swap as a means of enabling the Government to service its debt while at the same time implementing sustainable forest management.

*(iii) Other specific issues*

14. Members welcomed intentions by the Government to review its legislation and to bring its policies into conformity with its WTO obligations, and saw achievement of these multilateral obligations as making an important contribution to its reform efforts. Members requested additional information on steps to be taken in areas, such as TRIPs, customs valuation, preshipment inspection, standards and state trading. Members asked the Solomon Islands whether there were any impediments to implementing such consistent policies.

15. The Government reiterated its commitment to meeting its WTO obligations with the aid of technical assistance. A number of members offered the possibility of providing such assistance. The Government was urged to accelerate WTO adherence if possible.

16. Members referred to the Solomon Islands' membership of regional arrangements, such as the Melanesian Spearhead Group, and asked that it further explain its view on their usefulness. The delegation reaffirmed its support for the closer integration of the Pacific island countries, in particular through the Melanesian Spearhead Group, and a wider regional free trade area.

17. A number of Members raised the need for the Solomons to improve efficient delivery of basic service inputs, such as telecommunications and transportation. They saw additional GATS commitments in services such as telecommunications as playing an important role in this context, and asked the Government for its views and policies towards liberalising services and expanding its multilateral commitments in the coming round of negotiations. Members also encouraged the Solomons to implement policies aimed at deregulation and privatization of key service industries.

18. The Government indicated its intention to proceed with divesting its ownership in Solomons Telekom within the next couple of months, and the possibility of allowing new entrants.

*(iv) Conclusions*

19. The Chair felt this was a particularly interesting review in that it has brought into focus some key issues with wider applicability: in particular, how to reconcile policies of environmental sustainability and the steps necessary to generate foreign earnings (especially in circumstances where a government is coping with significant debt servicing burdens), and also the question of how small economies heavily reliant on a very limited number of products can maximize returns on production.

20. The review has shown very clearly the serious difficulties faced by the Solomon Islands, as a small, least-developed, island economy with a limited resource base. Some of these are inherited from previous economic mismanagement; others are due to external problems, including the dramatic

results of the Asian crisis, erosion of preferences and the effects of subsidization of competing products.

21. We have also had a substantial discussion on the vulnerability of an undiversified economy to both commodity booms and external shocks. A number of delegations have addressed issues of diversification, sustainability and resource conservation, the role of export taxation; the effects of Lomé preferences; and the prospects for establishing efficient downstream processing. We hope that the signals given by Members will help the Solomon Islands in establishing a more viable economic base. One issue of overwhelming importance is the creation of a stable environment for future trade and investment, with minimal scope for discretion. Tariff reforms have already begun and, again, a stable basis for trade is crucial.

22. The present Government has underlined its commitment to economic reforms and the Trade Policy Review Body has given its strong encouragement to the process. We hope that the Solomon Islands Government will, as a follow-up to this review, be able to benefit from the technical cooperation opportunities that are being offered to it and will thereby be able to participate more effectively in the WTO Agreements and benefit from the multilateral system. We wish the Solomon Islands well in coping with the present difficulties and promoting its economic recovery and future development.

---