

PRODUCTIVE SECTORS

A GROWING BUSINESS

Growth in productive sectors such as agriculture, fisheries and manufacturing is necessary for Tonga to diversify its economy. There is major potential in these and other sectors, as *Business Advantage* discovered.

AGRICULTURE

Tonga is very much an agricultural society and has a history of supplying Pacific neighbours such as Australia and New Zealand with agricultural exports that goes back many decades. It is estimated that 30% of Tonga's workforce is employed in the farm sector.

Under the country's Constitution, males at the age of 16 are entitled to a grant of an 8-acre 'tax allotment' in the countryside (in addition to some town land) on which to grow crops for their families. Thus, there is a tremendous degree of agricultural expertise and knowledge in the islands—one reason why over 1500 Tongan farm workers were welcomed in 2009 by Australia's and New Zealand's seasonal labour schemes.

Most Tongan families therefore still grow their own crops, including cassava, coconut, taro, kava, yams, breadfruit and watermelon.

As the 2008 Asian Development Bank report *Transforming Tonga* noted, 'Tonga has a good growing climate and is well-placed geographically to serve winter markets in both the southern and northern hemispheres.'

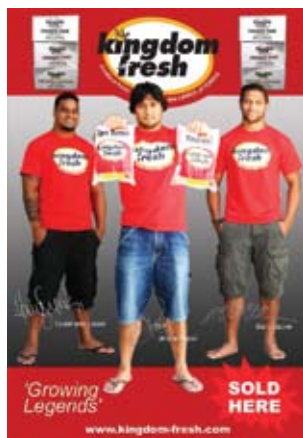
'We can grow anything if we have the right market,' notes Paul Taumoepeau, President of the Tonga Chamber of Commerce. 'Soils are very good, especially on [the main island of] Tongatapu.'

'The soil is a lot more fertile than many other places in the Pacific,' agrees David Edwards, whose company Export Culture, exports yams, taro and cassava to New Zealand under the high profile 'Kingdom Fresh' brand.

Low Productivity

Given the natural advantages Tonga has in agriculture, why is Tonga under-producing, to the extent that as much as 60–70% of the country's available arable land is under-utilised?

There are several answers. Firstly, Tonga currently lacks full access to key markets such as Australia, New Zealand and the European Union (EU) due to biodiversity and quarantine issues. As these first-world markets have been more stringent in the requirements they place on imported agricultural products, so Tongan exports have suffered, with farmers often lacking the expensive packaging and processing plant and equipment necessary to make their crops export-ready.



EXPORT CULTURE MAKES USE OF WELL-KNOWN TONGAN RUGBY PLAYERS TO MARKET ITS YAM, TARO AND CASSAVA IN NEW ZEALAND.

Secondly, Tonga currently lacks a sustainable, high-value cash crop. In the late 1990s and early 2000s, that crop was squash pumpkin, thousands of tonnes of which were exported to Japan and Korea. When the squash price fell due to stronger international

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competition, however, much land was left fallow in the absence of a viable alternative.

Finally, the very smallholder system that has created Tonga's agricultural expertise tends to mitigate against the creation of larger agribusinesses, which would benefit from economies of scale. For this reason, cooperatives or outgrower programs would seem most suitable models for Tonga.

'The key to Tonga's prosperity is to find a product which is economically viable for smaller growers,' notes Aisake Tu'iono, President and Chairman of the Tonga Growers Federation, which represents 1400 growers across the islands.

High potential

Notwithstanding the hurdles, there are positive signs for Tonga's farming sector, which has the opportunity not only to export but also, in a country where so many commodities are imported, for import replacement.

Market access should improve once Tonga finalises its Economic Partnership Agreement with the EU—a move that should also benefit fish exports.

Strong capacity

With companies such as Export Culture, Tinopai Farm and Nishi Trading (which exports under the 'NT Tonga' brand), Tonga also has exporters with the know-how to brand and market produce overseas, in addition to the capacity to raise export volumes quickly, as Pousima Afeaki of Tinopai Farm, observes:

'Squash is relatively small now but, between 1989 and 2006, Tonga was shipping its annual crop of 15,000 tonnes in just one month to Japan. Our infrastructure is able to handle that kind of volume,' he tells *Business Advantage*. Tinopai Farm exports not only Japanese taro and coconuts, but has also developed an export market for value-added coconut products such as coconut oil moisturiser to Australia and New Zealand.

Coffee and vanilla are just two cash crops with the potential to develop further in Tonga.

'In 1999, there was a target of 500,000 to 700,000 trees by 2011/2012, but at the moment that is unlikely,' notes John Bath of the Tonga Development Bank, which handles the vast majority of loans in the agribusiness sector. 'Currently, there are about 120,000.'



COFFEE IS CURRENTLY PRODUCED FOR DOMESTIC CONSUMPTION BUT HAS THE POTENTIAL TO BECOME AN EXPORT EARNER.

As the result of the investment in the hot air treatment plant, New Zealand recently announced the approval for entry for avocado, breadfruit, chillies, eggplant, mango, papaya and tomatoes. With operators looking to invest further in plant such as post-harvest spraying facilities, fumigation chambers and hot air treatment plants to comply with import regulations, there is evidence that Tonga may begin soon to realise some of its rich potential in agriculture.

FISHERIES

Tonga's exclusive economic zone stretches over 750,000 square kilometres. Under its laws, only deep water long-line fishing is open to international businesses.

Tonga's fisheries industry has been in decline since its peak at the start of the century. A combination of over-fishing and rising costs has meant most of the country's fishing fleet is now in port,



with less than ten tuna boats currently operating. Even so, Tonga still exports restaurant-quality fish across the region, most notably to Hawai'i (deep water snapper and grouper) and Japan (tuna).

Tyranny of distance

'Tonga is the least competitive of the region's fishing industries because it's the furthest away from markets. It's therefore hard to invest,' says Tricia Emberson of Alatini, operator of Tonga's only operational onshore processing facility and the country's oldest fishing company.

While it will take time and some inevitable consolidation before Tonga's fishing industry is back on a solid commercial footing, there are some positive developments, such as trials to develop other deep sea varieties of fish such as blue nose and alfosino, as well as sea cucumber. A recently-created Fisheries Industry Association is also now advising Tonga's National Economic Development Council, improving the chances of increased synergy between the private and public sector.

MINING

Potentially, deep sea mineral extraction is another way for Tonga to derive income from the extensive exclusive economic zone surrounding its islands. Sitting within the rich mineral arc that runs from New Zealand through the Solomon Islands and Papua New Guinea, Tonga's sea bed could contain significant deposits of copper, gold, zinc and silver.

Three companies have been granted licenses to explore the sea bed within Tonga's waters, the most notable of which is Nautilus Minerals Inc, which is already operating in Papua New Guinea (see box). While the development of a new industry based on mineral wealth from the sea floor offers a tantalising prospect, much exploration and testing still needs to be done before this becomes a reality. In the meantime, Tonga is already benefitting through the payment of exploration license fees and the use of local services.

MANUFACTURING & RETAIL

While most manufactured goods are brought into Tonga, there are a number of manufacturing businesses, including the Royal Beer brewery and Tonga Pure Water, both of which cater primarily for the local market. A proportion of the building supplies used in the reconstruction on Nuku'alofa is also produced locally.

According to Hugh Clark, Vice-President of the Manufacturers Association of Tonga, the main challenges faced by local manufacturers are the high duty rates on raw materials and packaging; a lack of duty/excise protection from imported manufactured goods; and the high cost of utilities. These factors make it hard for local manufacturers to compete with imported goods. ■



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PRODUCTIVE SECTORS

CASE STUDY: NAUTILUS MINERALS



CREDIT: CSIRO

NAUTILUS' 2009 TONGAN EXPLORATION PROGRAM WAS UNDERTAKEN IN COLLABORATION WITH AUSTRALIA'S AUSTRALIAN NATIONAL UNIVERSITY AND CSIRO.

The creation of a new industry in Tonga based on deep sea mineral extraction is a distinct possibility, with Nautilus Minerals currently exploring inside the country's exclusive economic zone.

Best known for its pioneering mineral exploration on the floor of Papua New Guinea's Bismarck Sea, TSX and London AIM-listed Nautilus Minerals Inc started its interest in Tonga as far back as 2002.

'We were a fairly small company back then,' explains Chief Operations Officer Tony O'Sullivan. 'It wasn't until 2006 when we listed that we had the resources to fully engage with the Tongan Government.'

O'Sullivan notes that, while Tonga doesn't have a strong mining heritage, it does have a regulatory framework within which exploration companies can work, including Mining, Petroleum and Environment Acts.

Since 2006, Nautilus has conducted three separate exploration cruises in a 1200 km stretch of sea to the west of Tonga's islands (see map). The goal is to find massive sulphide deposits containing commercial quantities of copper, gold, zinc and silver.

The first task has been to map the sea bed using sonar, then analyse the water column sitting above it. Finally, a remotely operated vehicle (or ROV) takes rock samples from promising areas of the sea floor.

O'Sullivan says Nautilus has had 'some great results' so far: 'We've done the first two types of survey and some ROV work. And by no means have we exhausted the prospects.' Unlike the calm, sheltered waters of the Bismarck Sea, exploration in the Pacific waters around Tonga presents different operational challenges for Nautilus. A rougher sea and a larger exploration area has meant a different configuration for the exploration vessels.

Eventually, should minerals be found in economic quantities, they will be brought to the surface using technology developed for use in the deep sea oil and gas industry. Nautilus is currently refining its use for mineral extraction at its Solwara I field in Papua New Guinea.

In UK-based Anglo-American, Canada's Teck Resources and Russia's Gazmetall, Nautilus has some of the world's leading mineral companies as its major shareholders. These significant backers, plus the use of established technology, makes O'Sullivan feel Nautilus is well-placed to lead development of a new export industry for Tonga and elsewhere in the South Pacific.

Ultimately, the chance to create a new industry in Tonga, with benefits to the country in both direct revenues and

the development of local support industries around the Port of Nuku'alofa, is appealing.

'Once it's successful, there'll be plenty of others lined up behind us,' he enthuses. 'There's plenty of room in this industry for a number of players.'



NAUTILUS' EXPLORATION TENEMENTS.



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