

PRODUCTIVE SECTORS

THE SOLOMONS' TROPICAL ADVANTAGE

The Solomons is looking to build on its natural advantages in agriculture, principally its warm tropical climate, fertile soils and its predominantly organic farming methods.

Agriculture and fishing provide the mainstay of the Solomon Islands economy, employing up to 75% of the workforce, with most working in subsistence agriculture. A warm, tropical climate, good soils and reliable rainfall make the Solomon Islands an ideal place to produce a range of agricultural commodities. The major cash crops are palm oil, copra, and cocoa. A small amount of coffee is produced, and studies are currently investigating the feasibility of cultivating rice on a large scale.

While exports of cocoa and copra are on a fairly small scale, they have enjoyed strong growth in recent times, partly thanks to higher international prices. More than 40,000 tonnes of copra were exported in 2008, raising about US\$20 million in export revenues, with 4,500 tonnes of high-value cocoa generating US\$9.5 million.

PALM OIL

All the same, it is palm oil that is the star of the local farm sector. At present, exports of palm oil derive entirely from Guadalcanal Plains Palm Oil Limited's (GPPOL) plantation at Tetere, 40 km from Honiara (see box). There are plans for new palm oil plantations, however, such as the Auluta Basin Palm Oil project on Malaita. In what was generally a rather sobering assessment on the outlook for the Solomons economy, it is worth pointing out that the World Bank's recent Sources of Growth survey identified the potential of palm oil output to treble by 2013, if certain conditions were met.

ONSHORE PROCESSING & MANUFACTURING

Palm oil aside, there is little onshore processing carried out in the Solomons. Copra is generally exported, rather than higher-value coconut oil. Local manufacturing centres around import

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substitution, with companies such as Solomon Breweries, Szetu Enterprises (bottled water and soft drinks) and Solomon Islands Tobacco Limited (see page 18) producing consumables for the local market.

Solomon Breweries, which produces the Sol Brew brand of beer, completed a major expansion of its factory in 2008. Its modern, stainless steel production facility in the Ranadi industrial area of Honiara is based on German technology. Indeed, one of its shareholders is Germany's world-renowned Warsteiner Group, along with Denmark's Royal Unibrew and Australian investment firm Kator.

Prior to the tensions, the engine room of the Solomons' agricultural sector had been the Russell Islands Plantation Estates Limited (RIPEL), a 10,000-hectare plantation in Central Province that produced copra, coconut oil and cocoa. However, RIPEL's production collapsed during the period of civil unrest and it remains out of action due to land and labour disputes.

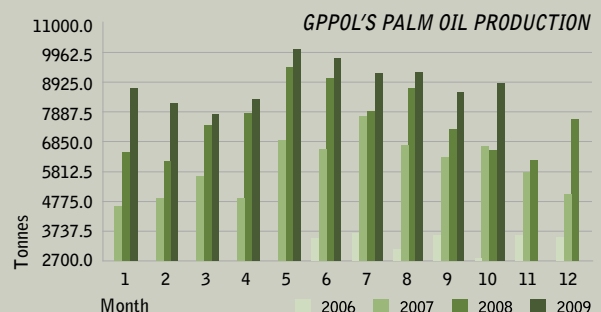
The growth of the agribusiness sector will depend on how quickly additional onshore processing facilities can be added. Besides expansion of GPPOL's milling capacity, and the establishment of complementary palm oil projects elsewhere around the country, the re-opening of RIPEL's copra crushing mill (to convert copra to coconut oil) could also contribute.

CASE STUDY: GUADALCANAL PLAINS PALM OIL LIMITED

Guadalcanal Plains Palm Oil Limited (GPPOL) continues to expand at a healthy rate. The 6,500-hectare plantation at Tetere was neglected during the tensions but revived in 2004 by new owners, PNG-based New Britain Palm Oil Limited. Processed palm oil is shipped to the European Union where it is utilised by food and cosmetics producers.

'The areas that GPPOL had replanted in 2006 and 2007 (1800 hectares) are now coming into production and will be in full flow by mid 2010,' General Manager Harry Brock told Business Advantage. 'Soon we will be looking to increase the capacity of the mill to cater for our increased production.'

The price of palm oil is highly volatile and, after soaring to record highs in 2008, it has slumped in 2009. Although it is expected to recover slowly in 2010 as the global economy picks up, Brock says that GPPOL is also seeking



to add value by emulating its parent company in becoming a producer of fully traceable and sustainable palm oil 'from palm to plate'.

'It is important that we continue to be a legally, socially and environmentally responsible member of the community and it is hoped that we achieve certification early in 2010,' Brock adds.

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MANAGING THE OCEAN'S RESOURCES



CREDIT: SOLTAI

SOLOMONS TUNA IS SOLD TO THE EUROPEAN UNION.

The Solomons' fisheries sector is on the up and has the potential to grow quickly.

Most onshore fisheries activity is located in Noro in the Western Province. The sector is the country's second largest export earner, and is a major employer. It also has the potential to grow quickly and sustainably.

The two main domestic players are National Fisheries Development (NFD), operated by global fishing conglomerate Trimarine (www.trimarinegroup.com), and state-owned Soltai (formerly Solomon Taiyo).

Soltai has had a difficult history since the upheavals of the late 1990s, surviving only through government support, but it is now progressing towards commercial viability. NFD's purse-seine fishing fleet sells tuna to Soltai's processing plant at Noro. Soltai produces frozen tuna loins, which it exports through Trimarine for canning in the European Union (where the Solomons has preferential access), and canned tuna that it sells domestically and in the Western Pacific.

Soltai plans to expand to about double its current production, making more efficient use of new private equity capital and long-term institutional funding. There is also room for at least one more fish processing operation, possibly based in the central Solomons, where Korean and Taiwanese investors have reportedly expressed interest.

According to Soltai's Chairman, Tony Hughes, there's also a good opportunity to revive the Solomons' pole and line fishery, which lapsed with Soltai's retirement of its dilapidated fishing fleet. This can be more sustainable, as well as appealing to the ethical consumer.

LUXURY ACCOMMODATION HAS ARRIVED IN HONIARA

- New international standard hotel in central Honiara
- Private park-like setting with mature trees
- Conference facilities, restaurants, bars, pool and night club
- 48 executive hotel rooms with private balconies on the water's edge
- 27 one, two, and three bedroom serviced apartments and suites

Contact: Heritage Park Hotel, Mendana Ave, Honiara, Solomon Islands
Tel +677 24007 **Fax** +677 21001 **Email** info@hph.com.sb **Web** www.hph.com.sb

FORESTRY PLANTATIONS THE KEY TO SUSTAINABILITY

A steep decline in revenues from the Solomon Islands' main export earner, timber, has been predicted for some time. Logging has been carried out at unsustainable levels for many years, meaning that the resource is rapidly becoming depleted.

In 2009, the country had an unexpected taste of things to come as the global financial crisis hammered the industry. Orders from key markets such as China, South Korea and Japan dried up, as wholesalers slashed their inventories in the face of plummeting consumer demand.

The Solomon Islands Central Bank estimated at the beginning of 2008 that logging accounted for as much as 40% of government revenues, and up to 70% of export receipts, so inevitably the government's finances were hit hard and austerity measures were consequently announced in April 2009. According to Austin Holmes, President of the Solomon Forest Association, by the end of 2009 the situation had improved but 'orders are still at 60-70% of the peak of mid 2008'.

Looking ahead three to five years, Holmes agrees that 'there could well be a sharp tail-off, but it is exaggerating to say that the sector's output will ever drop to zero.'

Finding export markets is getting tougher though. Australian wholesalers demand guarantees that the product they are buying derives from a sustainable source, 'but many Solomon Island concessions are simply too small to justify getting certification.' The obvious long-term strategy for the industry involves sustainably managed plantations, but this will take time to develop. There are two forestry plantations already in operation—Kolombangara Forest Products Limited (KFPL), on Kolombangara

and Eagon in central New Georgia. Both are still in the development stage. With plantable areas of between 12,000 and 14,000 hectares each, these are small by industry standards, and some form of close association between them has been mooted. KFPL is a joint venture in which the government's investment agency, Investment Corporation of Solomon Islands, holds 40% and a foreign private investor 60%, while Eagon is 100% Korean-owned.

In perhaps the single biggest impact of the global economic downturn on the Solomons, the US-owned investment fund holding 60% of KFPL's equity collapsed in 2008, and its investment in KFPL has been on the market throughout 2009. At the time of writing, a purchase by an Asian forestry enterprise interested in diversifying into plantations seems the most likely outcome. ■



CREDIT: KFPL

THE SOLOMONS' NASCENT PLANTATION SECTOR WILL TAKE TIME TO DEVELOP.

A LONG-ESTABLISHED MANUFACTURER

As a long-established foreign investor, manufacturer, exporter and distributor of consumer goods, Solomon Islands Tobacco (SITCO) is very familiar with many of the challenges that doing business in the country presents.

Owned by British American Tobacco, SITCO has maintained manufacturing operations in the country since before independence, has persevered through the 'tensions' and was one of the first companies to begin re-investing after the arrival of RAMSI.

SITCO's General Manager Ritesh Dass, who hails from Fiji, has noticed some significant improvements in the business



MAJOR EMPLOYERS SUCH AS SOLOMON ISLANDS TOBACCO HAVE NOTED AN IMPROVEMENT IN LOCAL BUSINESS CONDITIONS OVER THE PAST TWO YEARS.

climate in the two years he has worked in the Solomons.

'It is definitely getting easier to deal with the Government and public service in general. The Government is paying more attention to the needs of the business community and trying hard to attract investors,' he tells Business Advantage.

For instance, inadequate customs controls were making life difficult for local wholesalers and retailers alike, enabling unscrupulous traders to undercut competitors by selling illicitly imported goods. This situation is now improving, thanks to a government initiative supported by RAMSI.

Dass also notes an improvement in the overall business climate, citing recent advances in banking services as an example.

He is, however, concerned at recent tax increases: 'the tobacco excise has gone up again in 2009, and further private sector tax increases to support Government revenue shortfalls look possible.' Besides the obvious impact on trade, he also fears this will encourage illicit imports.

Another ongoing challenge is infrastructure:

'Even on the main island, only 50% of roads are paved,' says Dass. With this figure dropping to 4% for the country as a whole, distribution of consumer goods can be a challenge. To improve its market reach, SITCO has recently entered into an arrangement with a domestic coastal shipping firm that specialises in servicing the more far-flung parts of the Solomons archipelago.