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THE EXPLOITATION AND DEVELOPMENT OF PACIFIC ISLANDS RESOURCES

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PREFACE

This paper is based on a talk given to staff and students at the University of the South Pacific, Suva, on 31 March 1977, as part of the University's Pacific Week celebrations. It deals with the problem of resource development in the South Pacific and the various measures Pacific countries can take to ensure that they gain maximum benefit from this development. In recognition of the vital role of foreign investment in resource development in the Pacific region, especially in respect of large technically complex projects, particular attention is given to alternative forms of arrangements by which overseas know-how and development funds can be secured without imposing too much of a burden on host Pacific countries. The paper also points to the need for a hard, serious look at the potential for regional co-operation in the development of the region's resources, particularly in the areas of fisheries, conservation and research.

Few countries of the South Pacific region are at all generously endowed with natural resources capable of commercial exploitation, Papua New Guinea and Fiji perhaps being the most well-placed in this respect. The special situation of Nauru and New Caledonia (and to a lesser extent Ocean Island), which are dependent on the presence of rich deposits of a single mineral, is also well known. Several other countries such as the Solomon Islands, the New Hebrides and Western Samoa possess a number of resource areas potentially capable of making significant contributions to the national product and economy. However, for a large number of Pacific countries the situation is characterised by an exceptional poverty of exploitable natural resources, though admittedly the possibility of intensive development of marine resources is ever present. These specially disadvantaged countries include Niue, the Gilbert Islands, Tuvalu, Tokelau and the Trust Territory of Micronesia. An Asian Development Bank report on the economies of the Gilbert Islands and Tuvalu recently summed up the resource situation of these territories (to take an example) in the following terms: "There are no forests, no pastures, no cattle herds and no hydropower potential." [(1)]

Despite their slender resource base, the majority of Pacific countries look upon the development of their natural resources as the surest basis - and for some the only possible source - for achieving sound economic growth and, ultimately, a state of self-reliance. This conviction is further strengthened by the generally bright prospects projected for natural resource and associated products in the international economy. The potential for development lies not only in tapping land and sea resources (agriculture, forestry, fisheries, minerals) but also in the utilization of a readily available and adaptable labour supply and the physical and cultural attractions of Pacific countries for tourist and industrial development. As yet few

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Thanks are due to A.L. Dahl, Regional Ecological Adviser, and R.E. Kearney, Skipjack Programme Coordinator - both of the South Pacific Commission, for clarifying a number of points discussed in this paper. It might be noted that this paper deals primarily with the development of the Pacific region's natural resources; it therefore neglects the very important problem of human resource development.

[(1)] Asian Development Bank, Economic Report on Gilbert and Ellice Islands, Pasay City, 1975, P.2.

Pacific countries have gone far in determining the range and scale of their resource potential, though it is clear that this process is being accelerated. The same can also be said of the various possibilities for exploiting new sources of wealth from the land and sea as, for example, the extensive-pine growing scheme initiated by Fiji and various methods of aquaculture.

Given the comparatively limited availability of resources and the crucial importance of what is available for future development, Pacific countries need to face the question of how to utilize these resources in such a way that they gain maximum benefits from their development. This is a problem which I should like to explore further in this paper; but let me say here that it is also one with which many Pacific countries have been grappling for some time, with the result that some have now been able to develop a fairly clear picture of what they want. Thus, many countries insist as a matter of policy that a substantial part of profit earnings from resource development projects involving foreign companies must accrue to the host country; and that a controlling - or at least a substantial - interest remains in the hands of the host country. Furthermore, there is widespread awareness of the social and environmental aspects of resource exploitation and the need, as an integral element of a wise resource policy, to provide proper safeguards against its possibly harmful and destructive effects. Particular concern has been shown for projects involving non-renewable resources such as minerals and petroleum. This awareness contrasts strikingly with the situation prevailing as recently as ten years ago, when many key resource projects in the region were literally handed over to foreign investors in traditional robber-baron-style reminiscent of nineteenth century capitalism, as witness Bougainville Copper in Papua New Guinea and Potlatch Timber in Western Samoa.

The rather promising trend just described may give an unduly bright picture of resource development in the Pacific region. As you know there are one or two countries in the region which approach the question of resource utilization with little sense of social responsibility. One finds examples of almost pure exploitation - a concern to mine and extract as fast as technical and economic conditions allow. Scant regard is given to devising management policies in this field; to maximizing benefits to the local economy and people; and to the social and environmental consequences of resource exploitation. Very much a question of man's inhumanity to nature!

What then is the right way to develop Pacific Islands resources so as to maximise the benefits to Pacific countries? There are, in my view, a number of measures which Pacific countries must take as vital pre-requisites to achieving this objective.

First, given that basic information on the range and scale of resources is available, it is necessary to formulate a clear resource development policy.[2] This should provide a guideline on Government thinking and intentions to private investors. Policy guidelines in this area should embrace such factors as the role of natural resources development in overall development planning; official attitudes to participation by foreign investors; relative development priorities; and attitudes to resource renewal and conservation. Policies so formulated should take fully into account the possible interactions between different types of development projects.

A second desirable pre-requisite is the formulation of guidelines and regulations governing foreign investment. Participation by foreign companies is usually necessary for the development of large-scale, technologically complex, and costly projects. Normally the required capital, technical know-how and skills, managerial and supervisory skills and related inputs are not available locally in adequate supply. Clear guidelines on priority areas and investment terms and conditions are needed from the very beginning in order to reduce the element of

[2] Data on resource availability cannot, of course, ever be complete. In a Pacific context, for example, particular resources of value to the outside world could be present but remain as yet unidentified; a pre-existing resource can suddenly take on a new value as a result of changes in world market conditions; while advances in technology can make possible the identification of new development possibilities for resources which had hitherto been largely unutilized. A good example of the dynamic nature of resource utilization is the new possibilities associated with the tapping of soft-energy sources such as solar, tidal and wind power.

uncertainty among foreign investors (as well as locals) and to avoid later misunderstanding and possible infringement on official positions. Among the areas which need to be covered and clarified are: the degree of allowable foreign investment, minimum level of local ownership and control, investment incentives, taxation policy, freedom to remit funds in and out of the country, investment guarantees, training requirements and administrative structures for facilitating and servicing foreign investment.

Guidelines relating to investment incentives, which most Pacific countries now provide, are particularly important since they largely determine the way the financial benefits of a project are distributed during the tax concession period. In designing suitable incentive schemes, Pacific countries should seriously consider according favourable treatment to projects which make maximum use of local resources, including labour. In the past, large-scale technologically complex projects, as opposed to small-sized resource-based undertakings, tended to be generously treated with long periods of tax-free holidays and accelerated depreciation allowances. I found in 1972, for example, that Western Samoa's Enterprise Incentives Act provided no incentives for a number of small but worthwhile resource projects such as honey-making, commercial pig-raising, poultry-farming and cattle-raising while manufacturing and tourist activities were treated liberally. Happily, this bias has since been corrected in an attempt to encourage local activity in these fields.

A third pre-requisite is the protection of the local interest in negotiations with foreign investors. Foreign companies normally have an arsenal of technical, legal, financial and marketing expertise at their disposal and are therefore in a potentially powerful position in negotiations with less developed countries. These countries need to take appropriate measures to counteract the disparity in bargaining strength of the foreign companies or they will find that any agreement entered into for the development of a particular resource is likely to be heavily biased in favour of the foreign party. A variety of measures is available for acquiring the necessary expertise including obtaining a professional negotiator on a short-term contractual basis and tapping outside aid organizations and bilateral sources. Developing Pacific countries negotiating on the basis of their own home-grown expertise do so at their own peril.

The fourth necessary measure is an assessment of local capacities for resource development. This entails a realistic appraisal of local managerial, entrepreneurial and technical skills, capital availability and infrastructural facilities. It also involves an identification of specific lines of activity which local entrepreneurs can handle effectively. In this regard, Papua New Guinea's National Investment Priorities Schedule containing, among other things, a list of individual activities reserved exclusively for Papua New Guineans is worth examining. It may be that local capacity in this area is absent except in a few small areas. The point is, however, that many lines of activity are left open for foreign investment when they could just as well be handled by locals.

The above requirements are perhaps self-evident and are presently generally met by the majority of Pacific countries, including Papua New Guinea, the Solomon Islands, Fiji, Western Samoa and Guam. There is, however, a further criterion - perhaps less heeded than those noted above - which Pacific countries would be remiss to ignore, viz. an appreciation and assessment of alternative forms of arrangements available for resource development in cases where significant overseas participation is necessary for capital and technical reasons. The point is that many forms of possible arrangements are available which can ensure that Pacific countries not only retain control of natural resource projects but receive a substantial share, if not the whole, of profit. I should like to describe briefly some of these possibilities:

(I) Joint-venture agreements - This is a widely-used form of arrangement between a foreign investor and a local partner (which may be a government or its agency) that guarantees that a share in distributed profits accrues to the host country. A disadvantage of this arrangement is that the host country may be committed to the raising of substantial capital funds, by way of equity, which it may not have or may find difficult to obtain. Levels of local ownership can vary widely but a share sufficient to give a controlling interest to the host country is now common. Joint-venture agreements can be negotiated providing for a so-called 'reversion' arrangement. This means that the assets of the company are turned over to the local partner, usually without any compensation, after a certain predetermined period. The transfer can be carried out in stages or can take place at a specific point of time.

(II) Overseas borrowing - International capital markets can be tapped for resource development, though this is not always easy or possible in the case of the smaller Pacific countries. Loans can often be obtained at concessionary terms. Separate arrangements can be made for procuring technical help where this is necessary.

(III) Management and technical agreements - Technical, management and marketing expertise can be obtained from abroad in return for the payment of franchise, management and various kinds of technical fees. It is often possible to obtain overseas expertise of this kind cheaply or in exchange for a small equity interest in a project, by granting the foreign investor the right to sell capital equipment and raw materials to the company and to provide servicing facilities.

(IV) A super-profit tax on natural resource ventures - This tax, which can perhaps be levied along the lines suggested by Garnaut and Clunies Ross, has a particular relevance to mining and other raw material-based ventures subject to wide price swings.[(3)] Its application ensures that once a company realizes a certain level of profitability sufficient to give it a reasonable return on capital, a substantial or the greater share of profit above this level can be skimmed

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(3) Garnaut and Clunies Ross talk about a 'resource rent' for natural resource projects which is seen as a progressive tax on profits with the progression related to realized profitability. The general principle underlying this tax '...is that no tax is collected until funds have been recovered at a rate of return which approximates to the minimum rate of return that must be expected before investment in order to make projects appear to private investors as worth undertaking. Beyond this threshold rate of return, a substantial proportion of additional net assessable receipts is collected as tax...'. See R. Garnaut and A. Clunies Ross, 'Using natural resources to achieve national goals', paper submitted to Fourteenth South Pacific Conference, Rarotonga, September/October, 1974, pp. 2-3.

off as tax by the host country. A big advantage of this scheme is that it can be levied regardless of whether or not the host country has an equity in the project.

(V) Foreign aid - International and bilateral aid bodies can be approached as sources of capital and technology and as possible sources of assistance in actually preparing and initiating a natural resource project. Resource development projects under bilateral aid are now fairly common in the Pacific and promise to grow in importance e.g. New Zealand aid to Fiji, Western Samoa, the Cook Islands and Niue. Aid so provided is usually presented as a package deal incorporating technical, capital, management and, most important, market aspects.

There are other kinds of potential benefits in resource development which Pacific countries need to explore and exploit to their advantage. One relates to processing possibilities associated with the development of resources. The aim here should be to promote the local processing of raw materials to as to maximise the benefits for the host country in terms of value added, employment, foreign exchange earnings and related spread and secondary effects such as training in new skills and the use of by-products. Viewed realistically, of course, processing opportunities may be limited by trade barriers imposed by high income countries on imports of finished or semi-finished natural resource products - a factor which needs to be taken into account. They can also be limited by the ready availability of a market for the unprocessed raw material as opposed to processed products, regardless of trade restrictions. It may also be that scarce capital funds can be put to more productive use in other sectors as compared with a processing venture. All these possible constraints need to be investigated in examining proposals for the establishment of processing activities.

Another potential benefit is the opportunity for the development of indigenous entrepreneurship and small-scale industries that normally arises with the establishment of a major resource project. Some of these opportunities may occur in response to the demand for a variety of inputs by the main project itself, for example, for carrier transport, supply of basic raw materials and components and repair outfits. Others may be the result of the higher level of purchasing power from wage payments made possible by the project, as, for example, petty trading, tailoring, hair-dressing, furniture-making, sandal-making and sale of handicrafts and traditional foods. These opportunities widen the potential benefits of a large resource project in terms of stimulating indigenous entrepreneurship, training effects and the extension of money-earning opportunities.

Needless to say, much prior planning work is necessary in order to realize the full benefits of processing and small-industry possibilities. Possible enterprises in this area should be identified, and followed by practical measures to facilitate their establishment. Such measures would include training programmes to build up necessary skills, an analysis of possible markets, and a survey of power sources, transport needs and other items of infrastructure. Inadequate planning would result in the non-realization of opportunities and a possible encounter with bottlenecks that could impair the smooth development of the main project itself.

There are two more matters I should like to raise here - the potential of regional organizations for resource development and development finance.

Regional co-operation in the development of the region's resources is embodied in the work of a variety of regional and sub-regional organizations, not to mention a profusion of international aid and related organizations. Among these are the regional universities, the South Pacific Commission and the South Pacific Bureau for Economic Co-operation. The case for a regional approach in many major areas of resource development is well-known. Pacific countries share many common problems in the resource field, including a shortage of capital and technical expertise. They have in common such forms of resource exploitation as fisheries development, production of basic foodstuffs, conservation of resources, trade promotion and basic research and survey work on resource potential. All share in the exploitation of certain migratory fish species. A joint effort in selected areas of resource development therefore makes good sense in terms of pooling resources and development experience, and achieving cost savings by economies of scale and by the initiation of regional resource management and conservation measures. In certain cases, as for example, tuna fishing, a lack of co-operation would result in a situation close to chaos and, potentially, an enormous loss of income to the region.

The South Pacific Commission, to take an example, is playing a part in the development of Pacific resources, particularly in the areas of agriculture, technology, fisheries, conservation and environmental management. In its current work programme a particularly high priority is given to a project to investigate and assess the region's skipjack tuna resources - one of the region's greatest potentials.

Assessing the region's stocks of tuna and their potential for development is no easy matter. Data on basic aspects of the industry are fragmentary and far from up-to-date. Such evidence as has been put together (e.g. Kearney of the South Pacific Commission) gives only a rough idea of the industry, and is summarized below.[(4)]

Firstly, it appears that tuna of various species accounted, in 1974, for 94 per cent of the Pacific region's total fish catch, a proportion equal to 400,000 tonnes valued at about A$160 million in unprocessed form and A$500 million processed. (At current prices the value of this catch comes to approximately A$300 million unprocessed and A$750 million processed - enormous amounts.) More than half of this catch, or just over 200,000 tonnes, was skipjack. Secondly, of the total tuna catch in that year, only 13 per cent, or abour 52,000 tonnes, was taken by vessels registered in the developing island countries; the rest was taken by Japanese, Korean and American vessels. Thirdly, the Pacific region accounted for about two-thirds of the world's skipjack tuna catch in 1974 - an estimated 396,689 tonnes out of a total world catch of 587,650 tonnes. Fourthly, Pacific countries are at the point of assuming a strategically powerful position in relation to tuna fishing once 200 mile zones are declared, for more than half the waters within the South Pacific Commission area will become exclusive economic zones under the jurisdiction of individual Pacific Islands. Finally, it appears that catches of skipjack tuna in particular could be increased substantially without a detectable deleterious effect on stocks.

[(4)] See R. E. Kearney, 'A Regional Approach to Fisheries Management in the South Pacific Commission Area', SPC Occasional Paper, Noumea, 1976.

The above fragments of information suggest therefore that the potential for tuna fishing, especially skipjack, in the region is enormous, and that participation in development to date by Island countries has been minimal. The opportunities are there for Pacific countries to grasp.

The South Pacific Commission has been active in promoting a regional approach to the development of skipjack tuna resources over a number of years. It has, for example, organised an annual meeting of an Expert Committee on Tropical Skipjack to discuss developments and technical problems of interest to the region in this field. It has also formulated a Skipjack Survey and Assessment Programme designed to carry out an extensive skipjack survey to establish such factors as size of stocks, migration patterns, areas of concentration, breeding areas and optimal size of catches. Funds amounting to A$2.1 million are being sought from outside sources for the three-year project and New Zealand, Australia and the United Kingdom have already pledged full support and committed funds while Japan, France and the United States are expected to do likewise in the near future. Prospects for offers of assistance by other countries and the speedy implementation of the project are good.

Skipjack tuna provides a good example of a resource which, by its geographical spread and cost of exploitation, as well as the cost of management and surveillance at the later stages, lends itself to regional development.[(5)] Any other approach can only be a second best alternative - and a poor one at that.

Finally, there remains the question of development finance - the problem of raising local and foreign funds for resource development. Large amounts of capital are often needed for development in this field, particularly in minerals, fisheries and forestry development. While some countries are in an advantageous position in this respect, many others are severely handicapped: they lack the potential for attracting investment funds, they have few bankable projects, lack knowledge on international

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[(5)] In fact the possibility of establishing a regional fisheries agency of some sort for the Pacific region is presently under consideration; it is envisaged that such an agency could be responsible for co-ordinating, managing and supervising the development of deep sea fisheries in the region. The crucial pre-requisite for an effective agency would appear to be the participation of all Pacific countries as members in the agency.

credit bodies and, in many cases, have poorly developed domestic credit facilities which, in turn, discourages the inflow of foreign funds from established lending organizations. Is there not scope for providing a regional mechanism for mobilizing and channelling funds for resource development - funds from the developed countries and lending bodies outside the region and from lending sources within the region itself? The idea of a regional development bank has been under study by the South Pacific Commission for some years now but has not aroused sufficient interest on the part of Pacific countries. A modified, perhaps less grandiose, version might, however, gain support. Failing that, the possibility of establishing a regional Pacific reserve or development fund for natural resource development, especially for medium-sized projects, might be considered as another possibility. In any event collaborative action to accelerate the flow of development funds into the region and to improve their allocation and utilization should be given serious consideration if the region's resources are to be wisely and effectively developed.

To conclude - I have, in this talk, attempted to outline some of the measures that Pacific countries can take to ensure that they gain maximum benefits from the exploitation of their natural resources in terms of financial benefits, ownership and control, processing activity, employment and stimulus to indigenous entrepreneurship. I have also considered the question of a regional approach to resource development and the part that regional organizations such as the South Pacific Commission, can play in this field. Implicit in what I have said about regional co-operation is the view that the full potential for collaborative action in regional natural resource projects has not been fully recognized, let alone realised. Such an approach makes good sense economically and technically, but more than that, it is an approach which gives scope for a more equitable sharing-out of the region's wealth - from the 'haves' to the 'have nots' in the region.

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