SUMMARY

1. Since Vanuatu's accession to the WTO in 2012, its economy has grown at an average annual rate of around 2.3%. Vanuatu's GDP per capita is now some US$2,900. Most of the population live in rural areas where subsistence farming, fishing and the production of cash crops such as kava, coconut and cocoa are the main sources of livelihood. However, strong population growth and a rapid urbanization rate are exercising increasing pressure on land and other natural resources. The authorities expect that Vanuatu will graduate from LDC status in a few years.

2. Vanuatu has a high risk of natural disasters, especially from cyclones, earthquakes, volcano eruptions, and tsunamis. In 2015, large parts of the country were devastated by Category 5 Cyclone Pam. Infrastructure and transport links among islands also remain a challenge.

3. Inflation averaged some 2% annually over the review period. Public debt has increased greatly over recent years, mainly due to rising expenditure and lower income levels arising from Cyclone Pam, from around 26% of GDP at end-2015 to 51% in 2017. Vanuatu's current account deficit amounts to around 10% of GDP.

4. Trade is very important for Vanuatu's economy; the combined value of exports and imports equalled around 106% of GDP in 2016, up from 93% in 2011. Tourism, cattle and logs are the main exports; Vanuatu's main trading partners include Australia, Fiji and New Zealand. Foreign direct investment is significant, with the main subsectors being tourism, telecommunications, food, and wood processing. Vanuatu's vulnerability to natural disasters and the weakness of its infrastructure are some of the challenges it faces in attracting more investment.

5. The Ministry of Foreign Affairs, International Cooperation and External Trade is responsible for formulating and coordinating Vanuatu's international trade policy; the Ministry is also responsible for bilateral, regional and multilateral trade and investment negotiations. Vanuatu's Trade Policy Framework, which was prepared in 2012 and is currently being updated, has the objectives of, *inter alia*, mainstreaming trade into Vanuatu's national development strategy, and enhancing development through increased exports of goods and services. Vision 2030, its policy document, aims to achieve stability, sustainability and prosperity for the country by 2030 through, *inter alia*, increasing trade and investment opportunities and reducing barriers, increasing access to markets for exports, requiring all new trade agreements to demonstrate tangible benefits in the national interest, and stimulating economic diversification.

6. Vanuatu acceded to the WTO on 24 August 2012; it is in the process of establishing a Permanent Mission in Geneva to foster its participation in the WTO. At the time of accession to the WTO, Vanuatu committed to submit notifications. It has submitted few notifications to the WTO; as at 31 December 2017, notifications were outstanding in the areas of: agriculture (export subsidies); IPR (Article 69 in conjunction with the TRIPS Council Decision of 1995); the TRIMs Agreement; import licensing procedures; quantitative restrictions; customs valuation; rules of origin; the Integrated Database for imports for 2016; subsidies and countervailing measures; state trading enterprises; and GATS. While Vanuatu has not yet ratified the Trade Facilitation Agreement, it has notified its Category A, B, and C commitments to the WTO. It has not been involved in any dispute settlement cases.

7. Vanuatu grants at least MFN treatment to all of its trading partners. It is party to several overlapping regional agreements. Under the Melanesian Spearhead Group (MSG) Trade Agreement, the Pacific Island Countries Trade Agreement (PICTA), and the Pacific Agreement on Closer Economic Relations, it has preferential trade agreements with other countries and territories in the South Pacific. Vanuatu also benefits from some non-reciprocal preferential trade arrangements, including the Generalized System of Preferences offered by some WTO Members. Australia and New Zealand provide duty-free and quota-free market access to Vanuatu exports under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), while the European Union provides duty-free and quota-free access to Vanuatu exports under the Everything but Arms initiative.

8. Under the Business Licence Act, foreign investors must obtain, *inter alia,* a certificate from the Vanuatu Investment Promotion Authority before applying for a business licence. Most business activities are open to foreign investment. For activities such as tourism, retail shops, coastal

shipping, and certain professional or business services, foreign investment is allowed as long as the operation meets minimum thresholds specified in the relevant legislation. Some activities are reserved for Vanuatu citizens. These include businesses engaged in the export of sandalwood and kava; manufacturers of handcrafts and artefacts; service providers of kava bars, road transport, residential building and construction, and commercial cultural feasts; commercial fishing in Vanuatu's inshore waters; and the small scale production of sawn timber.

9. In 2013, Vanuatu adopted legislation to give effect to the WTO Agreement on Customs Valuation. The average time for customs clearance in Port Vila was three days and seven hours in 2017; according to the authorities, this was greatly reduced with the inauguration of a new berth in 2018.

10. Vanuatu's simple average applied MFN tariff is 9.3% in 2018, up from 9.2% in 2012; the small increase is due mainly to changes in the HS nomenclature. All but two tariff lines are *ad valorem*. The highest rates, of 75%, 55%, and 40%, apply to 56 tariff lines, comprising tobacco products and alcoholic and non-alcoholic beverages. 26% of tariff lines are duty-free. Vanuatu does not use tariff rate quotas or seasonal tariffs. It has bound all of its tariff lines. For three tariff lines, applied rates exceed bound rates.

11. A value-added tax of 15% applies to all goods and services, except those that are exempted or zero-rated. Excise duties apply to tobacco products and alcoholic beverages. A law on trade contingency measures was enacted in 2013; no measures have yet been taken. Import prohibitions apply to, *inter alia*, certain agricultural products. Certain goods, including alcohol, certain drugs, certain foods, right-hand drive motor vehicles, and certain whiskies, are subject to import licensing.

12. Exporters are required to register in ASYCUDA World. An export duty of 5% plus VT 3,000 per cubic metre is applied to wood in the rough or roughly squared. Licences are required for exporting cattle, cocoa beans, cocoa, copra, lavender oil, and tea-tree oil. Vanuatu does not provide any export subsidies. It does not have any public finance, insurance, or guarantee schemes for exporters. Export prohibitions apply, *inter alia*, to certain marine animals.

13. Vanuatu does not have any major incentive schemes, as it does not levy income tax on individuals or companies. Import tariffs are exempted on materials used for tourism, manufacturing or processing, and mineral exploration. The Bureau of Standards, established in August 2017, oversees the development and adoption of standards. Several pieces of legislation make up the SPS regime, which is overseen by Biosecurity Vanuatu. No TBT or SPS notifications have been submitted to the WTO. Standard setting is in the early stage of development. No specific trade concerns have been raised against Vanuatu's TBT or SPS measures. The authorities indicate that a Competition and Consumer Protection Act, with provisions on price controls, is being drafted.

14. Various state-owned enterprises dominate sectors such as broadcasting, postal services, and transport. Their activities accounted for around 2% of GDP in recent years. Their performance has been declining, resulting in significant costs to the Government. According to legislation, discrimination against foreign participation is not allowed; about 60% of government procurement is provided by foreign suppliers. Vanuatu is not party to the Agreement on Government Procurement. More than half of the public procurement processed by the Central Tender Board was through open tendering. Vanuatu's IPR legislation covers the main areas of the TRIPS Agreement. The Vanuatu Intellectual Property Office, the institution responsible for protecting IP rights, was established in 2012. It is in the process of setting up a Patent Division and a Design Division, and its Trademark Division was set up a few years ago. IPR enforcement at the border is the responsibility of Customs, which requires importers to prove the genuineness of their goods. Vanuatu's IPR regime is in the early stage of development. The authorities consider that more technical training is needed to improve IPR protection.

15. Agriculture plays a key role in Vanuatu's economy, with around 80% of the population depending on subsistence farming. The agriculture sector (including fisheries and forestry) accounts for more than 20% of GDP and virtually all of merchandise exports. The simple average applied MFN tariff rate on agricultural tariff lines (WTO definition) is 16.9%, higher than the average rate on non-agricultural tariff lines (8%). Imports of beef originating in Europe, and copra

are prohibited. The main agricultural export items are copra, kava, coconut oil, cocoa, and beef, while the main agricultural import items are rice, pastry, chicken meat, wheat flour, beverages and cigarettes. Agricultural development has been constrained by, *inter alia*, a lack of access to finance, and land disputes. The Agriculture Sector Policy, covering the period between 2015 and 2030, suggests using tax incentives to reduce business costs. According to Vanuatu's notification to the WTO, all its support measures have been under the "Green Box", and the majority were for crop extension, pest and disease control, and training.

16. Licences are required for commercial fishing, and licensing fees, an important source of government revenue, are higher for foreign vessels than for local ones. Difficulties facing the fisheries sector include a lack of data, difficulties for fishermen in obtaining bank loans and insurance coverage, and a lack of infrastructure and transport links among islands. Vanuatu currently has no fish processing factories; the export of fish is minor. Imports of fish originate mainly from Australia and New Zealand. The fishing and trading of sea cucumber and green snail are banned, and the exportation of coconut crab and rock lobster is prohibited. Duty-free fuel was provided to fishing vessels until 2017.

17. A significant constraint for business in Vanuatu is the availability, cost and reliability of electricity and other utilities: 83% of rural households lack access to electricity, compared to 20% of urban households. The main energy source is diesel combustion, contributing to about 80% of the total electricity generated, while windmills, and hydro and solar power produce the rest. The Utilities Regulatory Authority (URA) regulates the provision of electricity in Vanuatu. Electricity tariffs are either reviewed or set by the URA. Small customers are charged significantly less than the regional average due to cross-subsidization from large and business customers, who pay significantly more than the regional average.

18. The services sector, accounting for about two thirds of Vanuatu's GDP, is a net foreign exchange earner. Services exports accounted for 87% of Vanuatu's total exports (of goods and services) in 2017. Vanuatu made specific GATS commitments in 10 services sectors, and scheduled horizontal commitments on commercial presence and the presence of natural persons for all 10 sectors.

19. The financial services sector is overseen by the Reserve Bank of Vanuatu (RBV), which is the Central Bank. Under the Financial Institutions Act, there is no difference between capital requirements applied to locally-owned banks and those applied to foreign owned ones. Three of the four commercial banks operating in Vanuatu are foreign owned. Their performance has been improving after Cyclone Pam, due mainly to the RBV's accommodative stance in the aftermath of the cyclone, when it lowered the statutory reserve deposit requirement and the liquid asset requirement. During the review period, interest rates remained high and large interest rate spreads persisted, reflecting the high cost and high risk of credit, arising from small scale, vulnerability to shocks, and the geographic dispersion of the islands. The insurance sector remains small.

20. The telecommunication services sector has been developing fast, with significant increases in subscribers and market revenue; the mobile penetration rate increased from 12% in 2007 to 85% in 2017 while, during the same period, the fixed line penetration rate fell from 4.6% to 1.6%. Any person, local or foreign, may apply for a telecommunications licence issued by the Telecommunications and Radiocommunications Regulator (TRR) – the sectoral regulator. Two companies provide fixed line, mobile and Internet services; both are foreign invested.

21. To facilitate Vanuatu's ICT development, which faces geographical and topographical challenges as the population is spread across numerous islands, the Government launched a Universal Access Policy, with the aim of making ICT available to 98% of the population by 2018. The authorities state that the target has already been reached, as ICT is available to 98.8% of the population.

22. Transport services remain a major constraint to economic development. Airports Vanuatu Limited (AVL), a government-owned company, operates three international airports in Vanuatu. The other 26 domestic airfields are regulated by the Civil Aviation Authority Vanuatu, the sectoral regulator. Air Vanuatu, a government-owned enterprise, provides air services linking Vanuatu's islands. Reflecting the costs incurred when providing universal transport services, the Government

provides loans and guarantees to Air Vanuatu to help cover its losses. Foreign participation in cabotage is allowed, if provided for under the Air Services Agreement (ASA) between Vanuatu and the country from which this foreign carrier originates.

23. Maritime transport is of vital importance to Vanuatu, as the country is composed of 83 scattered islands. Under the Maritime Sector Regulatory Act No. 26 of 2016, which entered into force in 2017, the Office of the Maritime Regulator (OMR) was set up to administer domestic ship registration. Vanuatu Maritime Services Limited (VMSL), a domestic private company, is contracted by the Government as the international shipping registry administrator. Foreign investment is allowed in coastal shipping (excluding vessels that exclusively provide transport to foreign tourists) only when the carrying capacity of the vessel is above 80 tonnes. Vanuatu has no legislation on cabotage; in practice, foreign vessels are not allowed to provide cabotage services in Vanuatu, except during particular periods such as natural disasters.

24. Tourism is the mainstay of the economy and a major foreign exchange earner. The number of tourist arrivals, mainly from Australia, New Caledonia and New Zealand, recovered in recent years from a significant drop in 2015 caused by Cyclone Pam. Some types of tourism services (such as tour agents, tour operators, commercial cultural feasts, guest houses, bungalows, and hotels and motels) are reserved for Vanuatu citizens; foreign investment is allowed if the annual turnover is above a certain threshold. The sector is dominated by foreign investment, while local investors remain in smaller, less capital intensive businesses. Accessing capital is one significant constraint for establishing or expanding businesses owned by Vanuatu citizens. The Government developed the Vanuatu Strategic Tourism Action Plan 2014-2018 as a guideline for the development of tourism services.