The Con/Dominion of Vanuatu?

Paying the Price of Investment and Land Liberalisation - a case study of Vanuatu's Tourism Industry

By Claire Slatter, Revised September 2006

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Preface

Oxfam commissioned this case study in the hope of stimulating debate around the issue of tourism in the Pacific and the role of international trade agreements.

Tourism is a large and growing industry for many Pacific Island nations. Roughly a million tourists visit the region each year and tourism is the largest foreign exchange earner for several Pacific ACP countries.[1] The majority of tourists come from Australia and New Zealand, with significant numbers also arriving from the United States, Japan and Great Britain.[2] Many of the tourism operators in the Pacific are small and medium size enterprises (SMEs), with only a few large hotel operators, mostly in Fiji.

The tourist industry has both costs and benefits for countries which choose to seek the tourist dollar. Good governance of the industry involves optimising the benefits to local people and the economy, while minimising social, environmental and cultural costs. However, the ability to regulate in this way could be constrained or even removed by commitments in international trade deals. For example, commitments under the General Agreement on Trade in Services (GATS) at the WTO may make it very difficult for Pacific countries to introduce new regulations to share economic benefits with local communities or to protect the environment because any foreign tourism operator affected by the regulations can ask their home government to complain to the WTO on the basis that the regulations are an unnecessary barrier to trade.

The Vanuatu tourism industry provides a cautionary tale. The following case study shows that the industry has far more costs and fewer benefits than it should for local people and the Vanuatu economy. Its benefits accrue overwhelmingly to foreign companies and wealthy expatriate residents, who have taken advantage of Vanuatu's current lack of effective regulation to reap fat profits, while leaving the social, cultural and environmental costs to be borne by the ni-Vanuatu. The case study also highlights the rash of land sales on Efate that are enriching real estate agents but leaving ni-Vanuatu landless and with only a small fraction of the land value.

If this situation is to be turned around, Vanuatu needs to undertake major reform of its laws and practices. It will only be able to do so if it retains the policy space it needs. This policy space is currently at risk in several looming trade agreements: the Economic Partnership Agreement (EPA) with the EU, moves to restart Vanuatu's suspended negotiations to accede to the WTO,[3] and PACER, the proposed free trade deal between all Pacific Forum countries, including Australia and New Zealand.

Because negotiations on the EPA are currently underway, with the EU pushing for a deal to be concluded by the end of 2007, its potential to constrain the ability of Pacific countries to regulate their tourism industries in the public interest is discussed in Appendix one to this case study.

An earlier draft of this paper was presented to the "Pacific Civil Society Conference on Trade Negotiations" held on 15 June 2006 in Nadi, Fiji. Civil society groups from across the Pacific have established national networks to provide public information and influence policy. In Vanuatu, the Advocacy Coalition on Economics (ACE) is working on trade and investment issues that affect Vanuatu, including the implications for land ownership, use and benefits.

We hope this case study provides a useful contribution to the debate about trade and investment in the Pacific. Although each Pacific country's situation is unique, there are common lessons to be learned.

Barry Coates
Executive Director

Introduction

With its stunning array of natural and cultural attractions - active volcanoes, white and black sand beaches, pristine coral reefs, shipwreck dive-sites, ritual land-diving and custom dancing, not to mention French cuisine – it is no surprise that Vanuatu's tourist industry is its main income earner, accounting for between 50 and 75% of the country's Gross Domestic Product (GDP).[4] But in Vanuatu's liberalised, tax-haven economy, it is expatriate investors in tourism services who are primarily reaping the profits from tourism. What is more, foreign real estate companies are fuelling a tourism-linked frenzy of land sales in Vanuatu. The tourism boom, triggered both by investment liberalisation policies implemented under an Asian Development Bank (ADB) -directed structural adjustment programme, and a rash of recent land sales on Efate, may seem to signal successful economic growth. But ni-Vanuatu are being marginalised and dispossessed in the process. What is more, investment liberalisation may be opening the door to some highly dubious and socially undesirable investments. The story of Vanuatu's progression down the path of investment liberalisation and its social consequences as illustrated by the tourist industry holds lessons for other Pacific Island states.

Vanuatu's Investment Liberalisation - Imported 'wisdom' or foreign domination?

According to ni-Vanuatu John Salong, it all began with the 1995 Tourism Development Master Plan drawn up for the Vanuatu Government by the United Nations Development Programme and the World Tourism Organisation.[5] The Master Plan reflected the then emerging `economic wisdom' of liberalisation which favoured opening up national economies and resource bases to foreign investors. It proposed turning Vanuatu into a tropical paradise destination through large-scale tourism resort development. The country was to be divided into 'tourism precincts'[6], with three international gateways - Vila, Luganville and Tanna. The Master Plan's prescriptions, Salong says, were 'classic WTO' - Vanuatu was to liberalise its economy, change property ownership to allow the privatisation of its beaches and reefs, establish an investment promotion body, and offer tourism investors tax breaks and other concessions for developments undertaken within the tourism precincts.

The thinking behind the Tourism Master Plan (TMP) flew in the face of Vanuatu's longstanding self-reliance philosophy and development strategy, as espoused by the Vanuaku Party Government which had held power from 1980, when Vanuatu gained independence, to 1991, when the party lost the election. Although major resort development as envisaged in the Plan did not take place, other elements of the Plan were implemented as part of the ADB-directed and financed Comprehensive Reform Programme (CRP) which commenced in 1997.[7] The Tourism Master Plan has continued to inform Vanuatu's tourism policy and an updated version has guided tourism development since 2003.[8]

Among other things, the CRP brought about comprehensive liberalisation of Vanuatu's economy and legislatively locked in a commitment to opening the door to foreign investment, particularly in tourism. One of the first pieces of legislation passed as part of the CRP was the Foreign Investment Promotion Act (No 15 of 1998). The Act formally established the Vanuatu Investment Promotion Authority (VIPA) to `expeditiously facilitate, promote and foster foreign investment in Vanuatu'.[9] It also laid down the process to be followed in receiving and approving foreign investment proposals, the conditions binding foreign investors, the entitlements of an approval certificate (which include 'absolute entitlement to repatriate earnings and other monies'), and made provision for joint ventures and other partnerships with foreign investors. Two schedules to the Act list prohibited investments, and investments and occupations that are reserved for Vanuatu citizens.

In 2000, at the instigation of then Prime Minister, Barak Sope, Vanuatu's parliament went a step further by passing two more investment-facilitating laws. The Electronic Transactions Act, as PM Sope explained it, was a re-draft of a Commonwealth of Bermuda law and its purpose was to set out the rules for 'making a legal contract using digital records'. The E-Business Act enabled the establishment of electronic businesses in Vanuatu with the objective, as PM Sope put it, of establishing 'an Internet Free Trade Zone where businesses can conduct legitimate trading activities over the Internet and take advantage of Vanuatu’s low tax structure to earn greater profits.'[10] PM Sope saw the internet as providing a "level playing field" in terms of distance from markets, and Vanuatu as having a distinct advantage over many other countries by being able to 'offer a low tax regime as a way of attracting funds to [its] shores'. He foresaw a number of benefits deriving from facilitating e-commerce, including the attraction of internet and computer experts and technology to Vanuatu, the boosting of Vanuatu's national banking institution, and an anticipated additional $300,000 for state coffers within two years from internet site registration fees.

VIPA's Role in Investment Liberalisation

Under the Vanuatu Investment Promotion Act, VIPA has multiple functions. It is a one-stop-shop investment approval and licensing body, a regulatory body, and a promoter/facilitator of foreign direct investment in Vanuatu.[11]

Monitoring the activities of foreign investors to ensure that they are complying with the conditions of their approvals/permits/licences is listed as one of VIPA's functions, and it has the power to revoke licences. This regulatory framework is weak however, as VIPA lacks resources for effective monitoring and regulation of foreign investors. According to VIPA's CEO, Joe Ligo, some investors channel money to ni-Vanuatu to set up front operations for them, while some scam operators have bypassed VIPA and gone directly to ministers for approval to set up their businesses, providing kickbacks to those who oblige them with unauthorised ministerial approvals.[12] Much of VIPA's staff’s time is taken up in resolving investor complaints.[13]

VIPA's regulatory role appears to be secondary to its investment facilitation and liberalisation role. Indeed, promoting foreign direct investment in Vanuatu and securing bilateral Investment Promotion and Protection Agreements (IPPAs) appear to be VIPA's primary role. It has invested in investment promotion website software with the aim of creating a trade and investment electronic one-stop shop to promote and facilitate foreign direct investments into Vanuatu. VIPA's website enables intending investors to submit immigration, labour, customs and other licence application forms via internet. Between 2003 and 2004, VIPA worked with a consultant from the World Bank's Foreign Investments Advisory Service (FIAS), to produce a National Investment Policy for Vanuatu.

The signing of an IPPA with the British Government in 2003 is claimed as a major achievement, and similar bilateral IPPA agreements are being sought with France, China, Japan, USA, Australia, New Zealand, and New Caledonia.[14] VIPA sees these bilateral investment agreements as placing Vanuatu in an advantageous position vis-à-vis the WTO and the Cotonou agreements[15]. In fact, these agreements commit Vanuatu to a level of investment liberalisation which most developed country member states of the WTO would balk at.

In 2003 and 2004, tourism investments topped contributions to new investment in Vanuatu, with Australian investors constituting 41% of new investors in 2003, and contributing the most in investment value in both 2003 and 2004. To further boost tourism, the Vanuatu Government declared 2005 the Year of Tourism, and extended it to 2006 as well. It increased its budgetary allocation to tourism by 50 million Vatu in 2005, bringing to 150 million Vatu the total allocation for the year to tourism.

The fiction of reserved investments

While VIPA aims to become a 'competent promoter and facilitator of Foreign Direct Investment in Vanuatu and internationally,'[16] its governing legislation in theory includes a degree of protection against complete foreign takeover of the economy. Schedule 1 (Part 2) of the Foreign Investment Promotion Act designates a number of small and medium sized investments (in tourism, trade, manufacturing, services and fisheries) as 'Reserved Investments'.

These are supposedly off-limits to foreign investors - only *citizens* of Vanuatu and companies that are 'wholly controlled by persons who are *citizens* of Vanuatu or have all of their shares owned or controlled by persons who are *citizens* of Vanuatu' may run these businesses or hold these jobs.[17] In reality, not only are these regulations often flouted, there is also a widely held misconception that the reservations limit participation in these areas to *ni-Vanuatu* (the indigenous people of Vanuatu) rather than to Vanuatu nationals, including naturalised citizens. The misconception appears to be shared by trade officials, and even the CEO of VIPA interchangeably uses the terms `ni-Vanuatu', `locals' and `citizens' when discussing reserved industries and occupations, although the Act is unequivocal in its reference only to 'citizen/s'.

Photo 1: A ni-Vanuatu in traditional dress prepares to greet tourists, February 2006

In the tourism industry, reserved investments include:

- guest houses where the number of beds is less than 50, or the number of units is less than 10, or where annual turnover is less than Vt20m;
- bungalows, where the annual turnover is less than Vt30m;
- motels and hotels if the total value of the investment is less than Vt10m or the annual turnover is less than Vt20m;
- local tour agents/operators where the investment is less than Vt50m or with annual turnover of less than Vt20m;
- commercial cultural feasts;
- manufacture of handicrafts and artifacts;
- Road transport operators - public taxi and bus services.

If the intention of the Foreign Investment Promotion Act was to reserve small and medium-sized enterprises in tourism for local people and especially for ni-Vanuatu, as is widely perceived, this is not being realised. In several reserved investment areas, despite strong evidence of entrepreneurship among ni-Vanuatu and considerable external support for their efforts to get a fair share of the tourism pie, expatriate investors and Vanuatu citizens of European descent (including naturalised citizens) have set up successful businesses (sometimes with ni-Vanuatu as 'sleeping partners', to get around the reservation) and have come to dominate the market.

What is currently happening in Vanuatu's tourism sector illustrates well the perils of rapid investment liberalisation in the contexts of a weak regulatory framework and inadequate protections of the interests of local people.

Ni-Vanuatu Bungalow businesses

Under the framework of the TMP, the Vanuatu Government began to encourage the concept of building rural bungalows with a view to spreading the benefits of tourism to the islands beyond Efate, and drawing ni-Vanuatu into the industry as small-scale rural accommodation providers.

The idea was actively promoted by Provincial Councils and it caught on fast. A large number of ni-Vanuatu built bungalows using their own resources in the expectation of seeing an influx of tourists and running a lucrative business. They were to be sorely disappointed. Bungalow building took place in the absence of infra-structural development to support rural tourism, preparatory work to ensure that standards were met, and marketing support for bungalows.

An association of bungalow operators, the Vanuatu Island Bungalow Association (VIBA) was formed. It had a marketing arm called Island Safaris, funded by donors including NZ and the EU. Working in tandem, these two organisations operated with some initial success. However, competition from foreign-owned operators, combined with various management difficulties, saw VIBA and Island Safaris fall into disarray.

Today, ni-Vanuatu bungalow owners, most of whom receive few, if any, tourists from one end of the year to the next, struggle to get their 'products' advertised by wholesalers in the industry. Some of them complain bitterly about having built bungalows on the advice and encouragement of government and about their bungalows having deteriorated or been destroyed by a cyclone.

Some work is being done to try and salvage the situation, including an EU project supporting tourism education and training in Vanuatu which has drawn on the talents of Wan Smolbag Theatre Group to produce educational radio programmes and a comic book on rural tourism.

The Bungalow Owners

Nauko Isaac (Manager of *Sunset Bungalow*) and Erick Saman (Manager of *Tanna White Beach*) were in Vila to try and market their accommodation businesses in Tanna. They had both produced colour brochures for their respective bungalows, and were seeking support from tourism wholesalers based in Vanuatu. Until 5 years ago, both Erick and Isaac were working for Van Air, Vanuatu's former domestic airline, so they are not new to the tourism business.

There are about 9 bungalow operators in Tanna. Five of these are run by ni-Vanuatu. The bulk of the business appears to go to the four run by expatriates, particularly Whitegrass, which has an agent in Vila marketing to wholesalers.

Nauko and Erick set up their bungalows with their own money and without any assistance at all from the government. Isaac said he spent about 600,000 Vatu building and furnishing the 6 bungalows (total capacity - 9 guests) and setting up a restaurant. Erick spent about 500,000 Vatu setting up his four bungalows (total capacity - 12 guests) and restaurant. The rates they charge (between 2,000 and 4,000 Vatu per bungalow) are lower than those charged by the expatriate-owned alternatives, but in the last three years, *Erick* says he has only had local visitors to Tanna staying in his bungalows -mainly government officers who come to Tanna to run workshops, and they don't come very often. The rest of the time his bungalows have mostly been lying empty.

Isaac has good connections with a few tour companies in Vila, which provide him with three or four tourists a month. He has also benefited from word-of-mouth recommendations from satisfied customers.

Erick and Isaac say they are doing better than the other ni-Vanuatu bungalow operators on Tanna. They say marketing is very important and operators have to advertise themselves with good brochures which show their prices, and advertise on the internet. They said the bungalows run by expatriates were better quality than theirs, but a lot more expensive, at 7,000 - 8,000 Vatu a night. Both their bungalows have electricity - Isaac has a generator - and are run as family businesses with their wives and other family members handling all the cooking and cleaning work.

Ni-Vanuatu rural bungalow owners are currently stymied by infrastructural problems such as inter-island transport constraints, standards issues and marketing difficulties, although the recent introduction of high-speed boats promises to improve prospects for rural businesses. One of the main problems is bungalows are not being promoted much either abroad or domestically, and pre-paid tourism packages arranged via overseas wholesalers tend to exclude them. A few lucky communities may benefit from being picked as adventure tourism destinations, but for the most part, investment in bungalows has not brought much income for ni-Vanuatu people.

Boutique Resorts, Land Sales and Strata Titling

While island bungalows lie empty, expatriate investors with access to capital and markets have successfully moved into the small and medium range tourism accommodation market, leasing land and beachside properties to set up 'boutique resorts' and pricey `bed and breakfast' accommodation units. It is possible that their annual turnover does take them over the 20 million Vatu limit reserved for citizens, but VIPA says it is monitoring VAT returns to make sure.

Late in 2005, the *Vanuatu Daily Post* reported that two thirds of Efate had been 'bought up' by foreign investors. Almost the whole of the Efate coastline is reportedly now in foreign hands. The rash of land ‘sales' (actually 75-year leases) has been triggered by proposed hotel/resort/lifestyle property developments and the expectation on the part of custom landowners, in some cases, of lucrative returns by way of a share of profits in the case of hotels/resorts, in addition to annual lease payments. ‘Sales’ are negotiated directly between investors and custom owners as no regulatory authority exists. Attempted interference by government after agreements have been reached, as in the case of Etmat Bay which was sold to an Australian by custom owners in Erakor Village, may be fiercely resisted by those custom landowners involved in the sale.[18]

Some of the land purchasers are not genuine investors in tourism but speculative buyers. Several developers are engaged in building 'dream homes' for expatriates on the beach-side blocks they have acquired, and marketing these abroad (with price listings in Australian and NZ dollars) through foreign real estate companies. Vanuatu's 2004 telephone directory lists 12 real estate/property development companies operating in the country but much of the marketing of Vanuatu beachside properties is done via internet.[19] Colour brochures distributed by real estate companies testify to a current boom in land and property sales, particularly on Efate. In the words of one of our government informants, 'There are a lot of shonky real estate agencies and corrupt ministers who are ripping off their people'. In several cases, agricultural land leases have been converted to commercial use.

Customary ownership of land in Vanuatu is constitutionally enshrined (Chapter 12:73). Non-ni-Vanuatu may lease land for up to 75 years for commercial use but may not own land. It is a constitutional requirement for government consent to be obtained for all land transactions between 'an indigenous citizen and either a non-indigenous citizen or a non-citizen' (Chapter 12:79:1), and there are constitutional provisions for government to withhold consent if the transaction is 'prejudicial to the interests' of the custom owner or owners of the land, the indigenous citizen (where he is not the custom owner), the community in whose locality the land is situated, or the Republic of Vanuatu (Chapter 12:79:2).

The Real Estate Agent

A white researcher ("Susan"), posing as an investor looking for a block of land for retirement or investment, called in to one of the real estate agents in Port Vila in May 2006. The agent, a long-term expatriate resident of Vanuatu, showed Susan schemes of two large subdivisions 10 to 15km along the coast from Vila. He indicated that a US government grant to tar seal the coastal ring road made such developments very attractive.

His sales pitch for the 5,000m^2 sections included:
- sections seemed to double in value on every re-sale;
- there were no worries with renewing the lease because the traditional landowners would never be able to afford to terminate, as they had to buy all improvements at market value;
- the annual lease fee was very low (A$150-odd) and unlikely to increase much since the landowners just didn't tend to ask for much;
- Susan could ensure the exclusive use of "her" beach by keeping a couple of big dogs and a shotgun and making sure locals believed she would shoot them if they tried to land fishing boats there.

The agent did acknowledge that he ended up in court over every subdivision, because the land owners always got upset when they found out how much each subdivided section was being sold for. He said they just didn't understand that most of the value was added by the real estate agent doing all the work on the subdivision. He seemed happy with the level of protection he received from the Vanuatu legal system in these disputes.

While Susan and the agent were talking, a messenger arrived returning a rejected valuation request that the agent had filed with a government agency. Valuations were now required to be obtained from a registered valuer in Vila who had been awarded a government contract to do valuations. The agent was furious, and after the messenger had gone, told Susan that it was outrageous that he had to go to someone he appeared to assume would be incompetent. (Subsequent enquiries with a ni-Vanuatu official revealed that the valuer in question is a highly-qualified professional and the former head of the Government Valuation office).

Despite these protective provisions in the constitution, custom landowners, often blinded by the offers of easy cash, do not appear to appreciate the state playing the role of protector of the longer-term interests of present and future generations of custom landowners. Without capital, know-how and other support to be able to commercially develop their land themselves, many custom-owners have come to see the sale of portions of their land - namely their beachfront sections - as a windfall. Some custom landowners reportedly seek out buyers, approaching real estate agents to assist them 'sell' their land.

Vanuatu's land policy has been a target of pro-liberalisation policy advisors. During WTO Working Party negotiations on Vanuatu's accession to the WTO, strong pressure was put on Vanuatu by some members of the Working Party, including the USA, to commit to reforming its land laws, to allow private (and foreign) ownership.[20]

The Vanuatu government adamantly resisted these pressures. But, ironically, its passing of the Strata Titles Act in 2000 has effectively opened up a market in land, and is essentially paving the way to virtual dispossession. By enabling leased land to be further subdivided and on-leased to other buyers the Strata Titles Act has intensified the land grab and frenzy of land sales on Efate. It has also effectively legalised the alienation of Vanuatu land. The Act provides for the registration of `strata plans', the subdivision of land into two or more 'strata', the transfer, lease and mortgage of subdivided lots, and the issuing of separate certificates of title for each lot. It essentially empowers the holders of land leases to subdivide land and on-sell lots, and apparently without reference to custom landowners, since it includes no requirement that consent for sub-divisions be first obtained from custom-owners.

This is in effect a piece of legislation that liberalises landholding and encourages trading in land. It completely subverts the provisions of Vanuatu's Constitution enshrining ownership rights in custom-owners. As Director of Wan Smolbag Theatre Group, Peter Walker, put it, 'It's a con to say that the land of indigenous people is safe because land cannot be sold. Land leased for 75 years is as good as owned. If you have to pay for improvements made on the land then even in 75 years time, who will be able to buy back their land? Meanwhile four generations will not be able to use/access the land'. As land increasingly becomes commodified and land sales increase, land disputes among ni-Vanuatu are on the rise. A newly-established Lands Tribunal now handles land dispute cases which used to dog the regular courts. According to a women's rights NGO spokesperson, Merilyn Tahi, some of the land disputes have ended in violence, with people being killed, and houses being burned down.

There is a visible and widening divide between white wealth and black poverty as a result of the land sales and property development boom, which could be a time bomb. As one of our expatriate informants commented 'As a social scientist, I see the possible consequences further down the track - it's a social problem which will erupt later and lead to resentment of tourism and of tourists. The signs are already there - the high fenced walls to keep people out, on the coasts one will see more and more of these exclusive zones for the privileged few; people who once had access to the sea as a source of livelihood and recreation no longer have it.' A ni-Vanuatu interviewed put it more bluntly: `This is Condominium coming back, this is colonialism coming back…it won't be long before we will be slaves'.

One positive development on the land front is that the Ministry of Lands, under its dynamic new Director, Russel Nari, has commenced consultations in the provinces in preparation for a Land Summit, planned to be held in September 2006. It is hoped that the outcome of the consultation process and the summit will be a compact between the state and landowners under which government will be able to play a stronger role in protecting the interests of landowners by laying down and enforcing standard requirements.

The Custom Landowner's Story

Silas Kalfabun of Erakor Village, Efate, Vanuatu, is a custom landowner. As the only male amongst his siblings he holds the position of head of his family even though he was the last born in his family. As a custom landowner, he recognises the inter-generational responsibility vested in him. Not only must he be mindful of the fact that he must look after the interests of his own two sons and his sisters' four sons, but of their male descendants as well. The land is their collective heritage.

Silas's family land had never been surveyed or legally registered before, but after other custom-owners in Erakor agreed at the end of 2004 to lease the beachfront areas of their land to an Australian investor, Kerry Patton, for A$30 million, Silas decided to get his family's land properly surveyed and registered. He now holds a registered title to the land that has been in his family for generations.

Silas Kalfabun

Silas is the only custom landowner in his village who decided against giving up his beachfront for 75 years to the Australian investor. The investor said he would build a 5-star hotel on the land and that the people of Erakor village would be given employment in the hotel. Although the offer of cash was tempting, Silas hesitated. He said he thought about it and thought 'the land gives us everything - it is my family's future - and the future of future generations'. He also believed that what they were being offered for their beachfronts was a pittance. He told the investor his beachfront was worth 450 million Vatu. Although the investor retorted that that was 'bullshit', Silas was not far wrong. No 5-star hotel has yet been built at Etmat Bay and may never have been seriously planned. Instead, the land has been subdivided into more than 100 individual strata-title blocks which are being offered for sale via internet, reportedly for 68 million Vatu each.

The 37 or so landowners at Erakor who agreed to the long-term lease received 15 to 35 million Vatu, depending on the acreage. As all monies received from the 'investment' had to be shared by each custom landowner with members of his extended family, the amounts individually received were quite small. Many of those who received payments used part of it to either purchase a bus or build a home in the village.

Asked how the loss of Etmat Bay had affected the village, Silas said the other villagers can no longer use the access roads they used to use to get to the sea, nor do they have any place on the beach to leave their canoes. The area is now completely out of bounds for them. They even had to agree not to fish in the waters surrounding the land they have sold.

Editor’s note, 7 September 2006: It seems likely that even more of the land at Erakor will be leased - since the original release of this paper it has come to light that Silas has been involved in negotiations to lease out his land, although thus far they have been inconclusive.

The theme of the land summit will be `Sustainable Land Management and Fair Dealing'. For some landowners it may be a bit like trying to close the gate after the horse has bolted, but for others it will not be too late. To some extent, Vanuatu's hands may already be tied. It may for instance have already exposed itself (through state guarantees to investors via bilateral IPPA agreements or investment protection clauses in national legislation) to the risk of being sued by land/property investors if their investments are put at risk.

The Trade Union Organiser

Trade unionist Joseph Niel referred to an 'expatriate community versus locals' situation as having emerged in Vanuatu. He said tourism sector liberalisation had not only attracted land speculators and other con-men, posing as tourism investors, the tourism boom had brought about 'more exploitation of ni-Vanuatu workers'. The industry pays notoriously low wages, and the three largest hotels/resorts have the reputation of not just paying their workers more poorly than small bars and restaurants, but also of subjecting them to longer working hours without compensation. Moreover, according to Joseph, most hotel workers had been intimidated and demoralised by seeing unionised workers victimised during recent labour disputes and strikes in Vanuatu. 'Ni-Vanuatu workers have been down-trodden for too long and have come to see unions as a waste of time', he said. Vanuatu's minimum wage is 20,000 Vatu a month. But many workers in the industry are actually paid much less than this, some as little as 16,000 Vatu [21] Le Meridien's ni-Vanuatu Assistant Manager, William Pakoa, confirmed that 'compared with all other industries, hotel workers are the worst paid'. He said most hotel workers lived in the shanty town at the edge of Port Vila and that the tourist industry had indeed 'contributed to the growth of the shanty town'.[22]

The role of wholesalers - Promoting Vanuatu or selling high-priced products?

An industry which is highly sensitive to political and currency fluctuations, tourism is often over-nurtured and highly-subsidised by governments. When the Vanuatu Government declared 2005 the Year of Tourism it increased its budgetary allocation for tourism by 50 million Vatu, bringing to 150 million Vatu its subsidisation of the industry that year. The amount was matched by Air Vanuatu and was supposed to also have been matched by the private sector, but was not, with the expatriate hoteliers arguing that they made their contribution through provision of free stays when wholesalers come to town.

There is a cosy relationship between big hotels/resorts and wholesalers. The bigger hotels in Vanuatu reportedly rely on wholesalers for about 80% of their bookings. Le Meridien, Le Lagon and Iririki Resort are the three largest hotels/resorts in Vanuatu. All three are foreign-owned. They offer package deals through wholesalers, including discount deals during the low season. They dominate tourism promotion in Vanuatu, even though much of the cost of tourism promotion is actually borne by the Vanuatu government. As one of our informants put it 'they are supposed to sell Vanuatu as a destination, not Iririki or Meridien Resorts. Only recently have they begun to do more destination marketing'.

Wholesalers are paid large commissions (between 20 and 25%) for the work they do in selling travel and accommodation packages. Wholesalers are known to favour higher-charging service providers to maximise their commission earnings. With the emergence of boutique resorts in Vanuatu, all competing at the upper end of the tourism market, budget accommodation providers such as bungalow operators don't stand much of a chance. Even hotels in the medium range may be passed over in favour of higher-priced alternatives. One hotelier reported that she had been told by tourists that they had tried to book with her hotel on the internet and had been told it was full, but this was untrue. Only a few bungalow operators are being assisted by locally based wholesalers in Vanuatu.

A recently launched website, worldhotel-link.com, set up by the World Bank-sponsored International Finance Corporation (IFC) is aimed at boosting the tourist industry in Pacific Island countries and elsewhere by offering an internet-based hotel bookings/payments system.[23] Whether any bungalow owners have yet benefited from this service could not be ascertained.

Photo 2: Port Vila taxi drivers wait for fares, February 2006

Cruise Tourism - Who Gets What, and Who Decides

Since 2000, the number of cruise ships visiting Vanuatu has been steadily increasing. Four large cruise ships visit Vanuatu regularly. One carries 600 passengers, the others carry 1500. Additionally, about 10 smaller ships, each with about 100 passengers, visit Vanuatu each year with ‘explorers' aboard, bound for Ambrym. Cruise ships make stops at Port Vila, Mystery Island, Pentecost, Vala Island, Champagne Beach, Luganville and Lauren Bay.

Cruise ships' ports of call receive regular income in the way of docking fees paid to local administrative authorities, and handicraft and food sales. South Seas Shipping, which is the local agents for P&O, estimates that cruise ships contributed about 1.2 billion Vatu to the Vanuatu economy in 2005, with more spent in Vila and Luganville than in the islands. On cruise ship days a lot of money is reportedly earned in Pentecost, Epi and Mystery Island.

Cruise tourism numbers may come to rival stop-and-stay tourists in Vanuatu. Last year an estimated 300,000 visitors came to Vanuatu by ship. Among the benefits brought by cruise tourism is the employment provided for ni-Vanuatu crew. P&O is reported to have been employing 150 ni-Vanuatu on its vessels since 2002. Ni-Vanuatu are the only Pacific Islanders working on P&O cruise ships. Training for this work is provided by Institut de Technologie de Vanuatu (INTV), South Seas Shipping and, for marine engineering and fire-fighting jobs, by the Maritime/Seaman's College on Luganville. According to Captain Klaus, head of South Seas Shipping, the local agents for P&O, the minimum wage earned by cruise ship workers is A$500 a month, but some ni-Vanuatu earn A$5,000 a month, working on commissions and receiving a gratuity for each voyage.

The impacts of cruise tourism have not all been positive, however. South Seas Shipping's practice of using a single transport operator for transporting P&O Cruise passengers provides another illustration of the marginalisation of ni-Vanuatu in the tourism sector. Adventures in Paradise (an expatriate-owned company with a sleeping ni-Vanuatu partner) reportedly holds a virtual monopoly over domestic transfers of cruise ship tourists in Vila, depriving dozens of ni-Vanuatu owner-operators of a fair share of tourist spending. Adventures in Paradise does hire around 18 to 20 ni-Vanuatu-owned buses to augment their own tour buses, but local taxi and bus drivers wanted to be able to independently (and more cheaply) transport cruise ship tourists to their hotels or to tour sites on Efate. When Hideaway Hotel refused to accept cruise ship passengers brought to the hotel independently by local taxi and bus operators, there were incidents of 'ugly confrontation' at the wharf between ni-Vanuatu taxi and bus operators and the tour company, and P&O responded by suspending its scheduled stops in Vanuatu until the matter was resolved.

Mystery Island

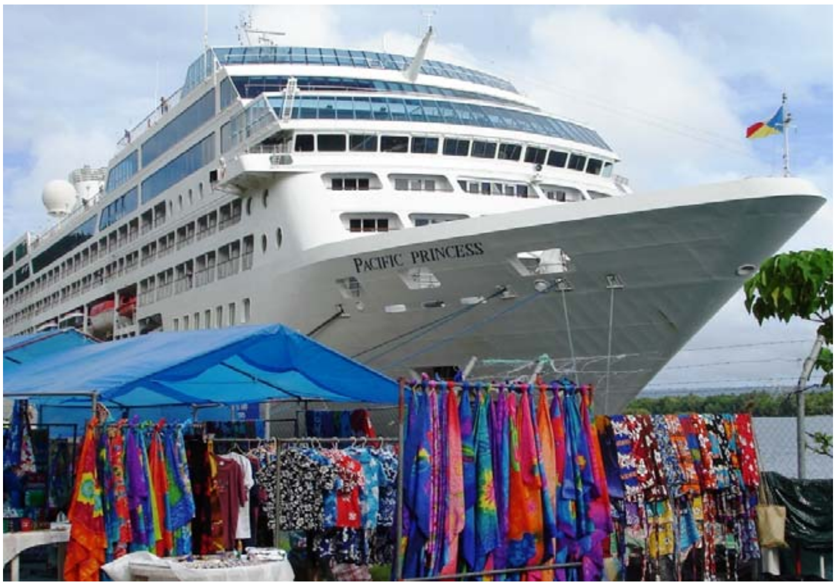
The uninhabited Mystery Island plays host several times a month to P&O cruise ships bearing up to 1500 tourists, who spend a day soaking up the sun and frolicking in its pristine waters before sailing off to another island destination. The custom owners live on 'the mainland', Aneityum. They have exclusive control of this natural attraction and have sought to both protect it, and use it for a small scale eco-tourism programme. Francois Wanieg and Naukai Silas, who serve on the community committee which manages Mystery Island, were interviewed about the island.

They explained that the natural attractions of Mystery Island are its rich and protected marine life - it was declared a Marine Reserve Park by the committee five years ago so no-one is allowed to fish in its waters or glean marine products from its reefs. It is a natural aquarium and they want to keep it that way. The 2,000 people to whom Mystery Island belongs only fish around the mainland. Cruise ships anchor offshore and tourists are brought to the island in smaller boats. All rubbish is carted back to the cruise ship by the ship's crew.

Attempts by the committee to run bungalows on Mystery Island have not been successful. Apart from the cruise ships, few tourists come. When the cruise ships come to the island, only the women selling handicrafts and local produce (pineapples and coconuts) make money. The ships are reported to set up their own lunch barbeques on the beach, with food from on board.

In creating the marine sanctuary at Mystery Island, the custom-owners of Mystery Island had no assistance from anyone. It has been entirely their own initiative and they have shown both good custodianship of their natural heritage and a strong spirit of economic self-reliance in undertaking this project. The community has also put the income from the cruise ships to good use. The children of Aneityum had to leave the island to attend high school until cruise ship money was used to build a junior secondary school in 2001. The school has more than 80 pupils, some of whom come from other islands and classes are offered up to year 10.

An Adventures in Paradise spokesperson claimed that P&O 'controls what tours they sell on board and how much they sell them for', and that Adventures in Paradise was ‘just their agent and just do the tours they pre-book on board.’[24]



According to informants in the industry, Adventures in Paradise is only one of a number of expatriate-owned tour companies using ni-Vanuatu 'sleeping partners' to get around the regulations and complaints have been filed with VIPA about them.

Photo 3: Vendors’ wares at the dock in Port Vila, February 2006

P&O defends its exclusive transport arrangements, saying that it had had bad experiences with a ni-Vanuatu operator in the past. It required good quality, reliable service, and Adventures in Paradise provided what was required. It also complained that there were too many taxis and buses in Vila.[25]

The Owner-Operator

Gilbert Kanegai has been a public transport provider since 1984. He said taxi operators had started to be adversely affected by expatriate tour operators from around 1991, when government first began trying to grow the tourism industry. Tour operators book on board or offer packages which tourists purchase on board. The government has also been issuing too many licences and a lot of ni-Vanuatu are investing in taxis, public transport and buses because 'this is the only sector in which ni-Vanuatu have an opportunity to invest'. He said that the 2005 Tourism Year promotion had meant nothing to the taxi and bus drivers who are still trying to get some of the crumbs from the tourism boom. 'If the tourism office could find a way of helping us get bookings from abroad in packages, that would be good', he said. 'We know all about the product - we know all about Efate and where to take people on the island where the capital is. If only government could understand [our needs] and work to get us some assistance. It is not just a matter of giving us licences - the tourism office should be helping us to get a share of pre-bookings. It’s the only thing that we ni-Vanuatu can do.'

Gilbert reported that most drivers who borrow to buy their vehicles are having to pay 80,000 Vatu a month (about NZ$1,100) over 2 or 3 years in loan repayments. Gilbert says on a good cruise ship day, a taxi driver can easily earn 10,000 Vatu. On a bad cruise ship day, he would be lucky to make 5,000 Vatu.

Transport is not the only area where ni-Vanuatu are marginalised. P&O’s single-operator arrangements appear to extend to other in-port services, such as the provision of food parcels for tourists which in Vila is handled by a single, expatriate-owned company.[26]

Casinos

In the hope of attracting a new type of visitor to Vanuatu, tourist-only casinos were legalised in the 1980s, with a single casino operator (a foreign-owned tourist hotel) being licensed. However, the move does not appear to have generated any increase in tourist numbers. Nor has it generated any economic growth for Vanuatu – the casinos are owned and operated by foreigners and all of its profits are repatriated abroad. None of the profits from casinos is reinvested in the country.

Tragically, casinos not only fail to benefit Vanuatu economically, they have created a significant social problem. Casinos were opened up to locals in 2000 because, as one of our informants put it, 'politicians wanted to play'. Six years on, it is commonly acknowledged that casinos are today mostly patronised by poorer ni-Vanuatu, including women market vendors. In other words, the high social costs of gambling are being borne primarily by those who can least afford to gamble with their incomes in the vain hope of striking it rich. Wages and earnings regularly gambled away sentence the families of gamblers to daily deprivation and misery. Out of concern for the growing gambling problem in Vanuatu, the Vanuatu Association of NGOs (VANGO) has recently established an advocacy coalition to work on the issue.

Conclusion

The pattern that has emerged in Vanuatu is one where most of the benefits from the tourism boom are flowing to foreign investors and expatriate residents, with ni-Vanuatu scrambling for the crumbs from the table. Where locals need space to learn and develop, as in the bungalow and transport businesses, they tend to be deprived of the chance to do so by the harsh realities of a market that demands compliance from day one with the standardised expectations of an international industry that has grown to maturity elsewhere.

The drive to grow the industry and attract foreign investment is bringing its own problems, particularly in terms of land ownership issues. Regulations to protect the interests of ni-Vanuatu people in relation to both land ownership and economic opportunities are all too easy for sophisticated expatriates to circumvent.

Tourism could in theory provide sustainable livelihoods for ni-Vanuatu communities. The fact that it is largely failing to do so is a signal that the approach to the industry needs to be rethought. In order for this to be possible, Vanuatu needs to preserve its policy space, so that it can make any changes to laws and regulations that may be necessary. Signing up to obligations at the WTO, or under an Economic Partnership Agreement with the EU, could permanently deprive Vanuatu of the possibility of moving towards a better model for its tourism industry.

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Appendix One

What is at stake in the Economic Partnership Agreement?[27]

Locking in commitments

The commitments mooted for services and investment under the Economic Partnership Agreement (EPA) are in many cases designed to formalise existing concessions and incentives already provided by the Pacific members of the African, Caribbean and Pacific (ACP) group. Rich country negotiators are often keen to suggest that locking in current practice cannot be harmful, and can only help countries wanting to provide reassurance to nervous investors. But there are real issues to be considered around such locking-in of existing practice.

Governments learn by experience. Rich country governments are constantly modifying their own laws and regulations to make them better, in light of experience. The ability to do this could be severely constrained, or eliminated altogether, by an agreement on services or investment. This would be especially true of an agreement that was modelled along the same lines as the WTO services agreement (the "GATS"), which contains a lot of provisions relevant to investment.

The GATS makes it possible for foreign investors to complain about any regulation that makes it harder or more expensive for them to do business, or that puts conditions on how they operate. For example, they could complain about being forced to make a service available to everyone who needs it, or about environmental restrictions or requirements to involve local people or use locally-produced materials in their operations.

The exact extent to which GATS does restrict governments' power to regulate in the public interest is one of the big unknowns at the WTO. The uncertainty is one of the reasons why many developing countries have been very cautious about making commitments in services. Developing country negotiators are currently battling to clarify this issue at the WTO, and they are resisting pressure to sign up to new commitments in the meantime.

There is also the question of unintended side-effects. Rules designed to encourage beneficial investment in tourism may also allow access in other areas that governments had not intended to be open to foreign competition. Allowing foreigners the right to get involved in waste management, for instance, could leave the door open to foreign control of water supplies.

Pacific countries need to be very careful before signing up to long-term or permanent[28] commitments, lest they find that in an effort to provide transparency and certainty for foreign investors, their ability to legislate in the best interests of the nation has been compromised.

Investment

The current level of foreign investment in the Pacific ACP states is tiny. It is barely adequate to cover depreciation of current assets. The size and development levels of most Pacific ACP economies present a barrier to foreign investment. One study found that for a venture to be attractive to overseas investors it needed to be 50-100% more profitable than a similar investment in a large, developed economy.[29]

When it comes to the question of investment in small and medium enterprises (SMEs) owned by local people, the situation is even worse. Large, internationally-owned banks are reluctant to lend to small businesses, particularly those such as tour operators that have little collateral.[30] Although regional funding bodies exist, such as Pro€Invest and the European Investment Bank (EIB), these tend to be geared towards large businesses and are not available to most Pacific tourism operators.

In the hope of encouraging new foreign investment, there is a proposal to include an “Investment Promotion and Protection Agreement” (IPPA) in the EPA. Essentially, this is a kind of “investors’ rights” agreement. It would commit Pacific ACPs to provide a predictable and transparent “investment environment” and relax barriers to EU investment in the tourism industry (among others). Specific commitments which are likely to be requested of the Pacific countries include:

- guarantees of at least equal treatment for foreign investors
- protection from expropriation of assets by the state
- no restrictions on transfer of capital and profits out of the country
- limited use by host countries of performance requirements
- ‘realistic and practical’ taxation arrangements

Would investment be increased?

One of the main reasons for including services and investment provisions in an EPA is to encourage EU investment, but, as ‘The Way Forward’ document notes, “even Pacific ACP States that have faithfully followed the prescriptions for economic reform of their external advisers, such as Samoa, have found that this has not been rewarded by any significant increase in the inflow of foreign direct investment.”[31]

The United Nations Conference on Trade and Development (UNCTAD) notes that ‘there is no empirical evidence to link any significant increase in FDI [Foreign Direct Investment] flows to developing countries with the conclusion of GATS.’[32]

Existing EU investment flows are negligible. Investment from the EU at the SME-scale that is most likely to benefit local people seems particularly unlikely due to the large distance from Europe and the small scale of the Pacific economies. Many Pacific ACP countries already have very favourable investment regimes, including tax holidays, waiving of import duties, wage subsidies, staff training tax concessions, accelerated depreciation schemes and so on.

What could the Pacific ask for in return?

As it is unlikely that flows of investment would move in the opposite direction in the near future (ie from the Pacific into the EU), the main commitments that would be sought from the EU would be:

- improve access to EU investment funds such as Pro€Invest and the EIB by, for instance, setting up regional branches and providing finance on a scale more suitable for SMEs
- set up an insurance scheme to help protect investors against the risks of investing in small economies with non-western land tenure systems
- help with regulatory reform
- promotion of investment in the region

Pacific Islands Forum (PIF) secretary Greg Urwin noted in 2005 that ‘financial facilities currently available through CDE, ProInvest and the European Investment Bank were not optimal for the Pacific region.’[33] There is a proposal to try to make these services more useful to the Pacific as part of the EPA negotiations. However, these facilities were made available to the ACP as part of the Cotonou agreement that runs until 2020, so it is unclear why commitments in services and investment should be bartered away for a facility that is already available, but needs to be better tailored to meet the Pacific’s needs.

Appendix Two

Vanuatu's Comprehensive Reform Programme (CRP)

Vanuatu's Comprehensive Reform Programme (CRP) was originally claimed to be a national initiative. This was a fiction encouraged by the holding of a government-organised National Summit to secure public support and 'ownership' of the 'reforms'. In fact, the CRP was designed by the Asian Development Bank (ADB) and by the time the Summit was convened the CRP was a fait accompli.

How did Vanuatu's CRP come about? Vanuatu was beset by an economic and political crisis in the mid-1990s. Arising from chronic balance of payments problems, stagnant GDP, a politicised public service and frequent votes of no-confidence in the government, the crisis came to a head in riots over concerns that the Government may have raided the Vanuatu National Provident Fund (VNPF), the State pensions account, to deal with the fiscal crisis. Economic and political crises typically provide a golden opportunity to international financial institutions to introduce structural adjustment programmes. The ADB was quick to seize the opportunity to talk the Vanuatu Government into undertaking comprehensive economic restructuring and civil service reforms. The CRP was in effect an agreement for a loan of US $20m which was provided on the condition that Vanuatu implemented a set of radical changes to its economy and regulatory regime. It's no secret that a major portion of the loan went to pay for the 40 foreign consultants brought in by ADB to implement the CRP.

The CRP was also closely linked to Vanuatu's application in 1995 to join the World Trade Organisation (WTO). Many of the policy changes that Vanuatu was required to make under the CRP were justified by reference to demands expected to be made of Vanuatu during accession negotiations. So well did the CRP prepare Vanuatu for accession that Vanuatu has now liberalised its economy and trade way beyond other countries in the region, and ahead of most other Least Developed Countries (LDCs) which are already members of the WTO. Among the policy changes put in place under the CRP were changes to the tax structure, including replacing most import tariff revenue with a 12.5% Value Added Tax (VAT), down-sizing the public sector by 10-15%, radical legislative reforms, and privatising various state-owned enterprises. These policy changes were rationalised by the argument that they would raise government revenue and balance the budget, improve the efficiency and transparency of the public service, and encourage private-sector led growth.

Today there is a general consensus in Vanuatu that the CRP failed to meet its objectives. According to Gay & Joy, the CRP introduced a 'new set of problems', among them, the conversion of government-owned enterprises from `publicly accountable' monopolies to `private unaccountable' monopolies, a staggering external debt (mostly from ADB foreign currency loans which, by 2002, amounted to 31.2% of Gross Domestic Product) and the loss of valuable expertise from unnecessary civil service downsizing, without any compensatory cost-saving.[34] The initial savings in the government's wage bill were cancelled out by the costs incurred in hiring more expensive (and less experienced) short-term consultants.[35] The timing of civil service retrenchments also undermined revenue collection under the new tax system[36]. Today, the public service may be considered more transparent than before the reforms[37], but many doubt that it is any more efficient.[38] The loss of tariff revenue was not fully replaced by VAT,[39] and the sale of profitable state assets such as the Department of Civil Aviation only compounded the Government's revenue loss.[40]

The negative social impacts of the CRP have been widespread, and the burden of the reforms has fallen heaviest on Vanuatu's rural and urban poor.[41] Civil service down-sizing and cost-cutting severely impacted on the delivery of rural services, especially in remote areas. Ordinary people, particularly in rural areas, were also hit hard by VAT price hikes imposed on basic commodities by unscrupulous traders. Post-reform, unemployment and crime rates have risen significantly and there is now a growing problem of peri-urban slums.[42] The CRP also axed rural people's only real access to credit by closing down the Development Bank of Vanuatu.[43] The final major problem created by the CRP is the re-payment of the ADB loan - Vanuatu now has a major debt-servicing problem it did not have before and repayment of the ADB loan has not even begun.[44] When it does, in 2007, Vanuatu's economic difficulties will be compounded, and its social consequences significantly aggravated.

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[1] The Cook Islands, Fiji, Samoa, Tonga and Vanuatu.
[2] Figures from the South Pacific Tourism Organisation (SPTO) website, http://www.spto.org.
[3] For a full account of the history of Vanuatu's accession negotiations, see Lennon (2005).
[4] This compares with 5-10% for Solomon Islands, 21-30% for Fiji, and 41-50% for Palau and Guam (EED/Equations, 2005:6)
[5] Vanuatu Tourism Master Development Plan (1995), A Report prepared by the United Nations Development Programme and the World Tourism Organisation for the Government of Vanuatu.
[6] Four types of precinct are outlined in the TMP (2004-2010) - tourism centre precincts (in urban or metropolitan areas, close to an international airport, with access to good shopping and modern conveniences and services), resort precincts (rural coastal areas conducive to leisure and recreational activities), natural and cultural precincts (close to villages, offering opportunities for cultural exposure, hiking and access to other natural/cultural attractions) and historical precincts (with limited access to preserved historical and archaeological sites).
[7] See Appendix 2 for a summary of the CRP and its impacts.
[8] *Vanuatu Tourism Development Master Plan 2004-2010,* Vanuatu National Tourism Development Office, Port Vila
[9] Vanuatu Foreign Investment Promotion Act No 15 of 1998.
[10] The E-Business Act of 2000, The International Companies (E-Commerce Amendment) Act No. of 2000, Companies (E-Commerce Amendment) Act No. Of 2000, A plain English explanation by Hon. Prime Minister Barak T. Sope Maautamate, MP www.vanuatugovernment.gov.vu/government/library/Explanation%20of%20the%20ecommerce%20acts.html
[11] VIPA receives and screens investor applications, assists intending investors to secure all necessary permits and approvals, and issues and receives payment for licences. VIPA is also tasked with promoting foreign investment in Vanuatu and regulating the activities of foreign investors.
[12] In some sectors, such as forestry, legal power to license logging and saw-milling operations is still vested in the minister, which has been a matter of concern for some time to the Business Forum, a lobby group of government regulators.
[13] VIPA reports for 2002 to 2004 indicate that this work in resolving complaints has saved it from being hit with court cases by investors.
[14] VIPA Annual Report (2003:4)
[15] Ibid.
[16] VIPA Annual Report (2003:6).
[17] Article 3.1 (b) Vanuatu Foreign Investment Promotion Act, No 15 of 1998:6. Emphasis added.
[18] An attempt by VIPA to alert custom landowners to what they were signing away on in the Etmat Bay case met fierce resistance from the landowners, who almost ran the VIPA board members off their land.
[19] TransPacific Real Estate (http://www.transpacificproperty.com), for instance, provides comprehensive information on its web-site to prospective property investors in Vanuatu, explaining why land prices are going up in Vanuatu, 'the real reason people invest in Vanuatu' and advertising Vanuatu's 'excellent land ownership system'. In addition to listing land and properties for sale, it summarises the many advantages of investing in property in Vanuatu. Amongst other things it advises that 'You do not have to be a resident of Vanuatu or have employment in Vanuatu to purchase commercial or residential property and generate income from this property. You will not pay income taxes in Vanuatu on any income that your investment earns although the company will have to participate in the sales tax process and pay other government fees such as businesses licences etc'. The fees and licenses involved are a 2% stamp duty and a 5% registration fee, but TransPacific informs investors that `These costs are not applicable if the current lessee is a company or trust and the buyer simply buys the shares of the company or buys the trust with all its assets', and that 'You can purchase the lease as a Vanuatu International Company or as a Trust to maximize tax benefits to yourself if necessary.'
[20] Customary land ownership systems in the Pacific have come to be considered by free-market economic policy advocates a (if not *the*) primary barrier to new investment, and a major risk factor for existing investments, particularly hotel and other tourism investments which are dependent on security of land leases. EU GATS requests made of both Papua New Guinea and Solomon Islands in 2000 included the elimination of restrictions on foreign ownership of land . (GATSwatch 2003).

[21] Interview with Max Willie who has worked in the hotel industry for nearly 14 years and now works for Shooters Bar in Vila, February 2006.

[22] Pakoa argued that 'wages cannot be raised because occupancy rates are up and down' and most of the workers were unskilled. To try to help compensate for the low wages paid to hotel workers, Pakoa (who started in the industry as a porter) established the Hotel and Motel Workers Association in 1999. Amongst other things, the Association secures discount benefits from leading traders for its members. It is not a trade union and its membership of 756 possibly exceeds the number of workers in the industry who are members of the Vanuatu National Workers Union. A majority of unionised hotel workers are Le Meridien employees.

[23] The project's Vanuatu site www.Vanuatu-Hotels.vu is run by a locally based company, Vanuatu Standby Accommodation (which acts as the local partner of VHL). A free advisory service 'to assist local operators in developing their business' is reportedly offered by the owners of VSA, as part of a VHL programme to assist ni-Vanuatu-owned and operated bungalows and medium sized accommodation operations (*Island Spirit* 2006:27).

[24] *Vanuatu Daily Post*, February 16, 2006

[25] The view that there are too many licensed taxis and buses in Vila is shared by others, and ni-Vanuatu investments in public transport businesses are closely linked to land sales. Willie Wilson Neribo, president of the Land Transport Association, said there was no control on licences and more were being issued now than before because three different authorities were issuing licenses - the Municipalities, the government (Ministry for Internal Affairs) and SHEFA Province (covering Efate, Epi and Tongoa Islands). He estimated that there were about 600 licensed vehicles now in Vila and this was the main problem. He said there had been a flood of imported vehicles coming into Vanuatu in the last 4 years - mainly imported from Korea by three Korean importers.

Much of the money received by ni-Vanuatu from land 'sales' has been invested in vehicles which are used both as public transport vehicles ('buses') as well as for tourist transfers and independently organised tours of Efate. According to Merilyn Tahi, 'Everyone is buying buses now - it is seen as a way of fast money making'. Ni-Vanuatu predominate as bus and taxi operators and handling transfers and local tours is one sector of the tourist industry which should be accessible to them. This was evidently the intention of the framers of the Vanuatu Foreign Investment Promotion Act, in reserving tour agents and operations with annual turnover of less than 20 million and 50 million Vatu respectively for citizens.

[26] A study of cruise tourism in the Caribbean (which enjoys 47% of the cruise tourism market and is assisted by economic incentives, infrastructural and advertising support from Caribbean states) raises attention to the monopoly dimensions and other worrying aspects of this particular mode of tourism, and to the fact that affected countries need to address these in the GATS by placing limitations under Maritime Transport Services (MTS), not under Tourism Services, as cruise ships are classified under MTS and not under Tourism Services (ibid:23) Cruise tourism companies in the Caribbean (where cruise tourists outnumber stop-over tourists) have few linkages with local economies (providing most of the 'local experience' on board e.g. handicrafts/souvenirs, cultural performances), discourage tourists from going into port citing 'safety' issues, keep their bars, shops and casinos open while docked, net most of their profits from on-board sales averaging $300 per tourist per day (Klein 2003, cited in Equations/EED (2005), and often own exclusive resorts on private islands to which they privately shuttle their passengers (Equations/EED 2005:22).

A far more worrying dimension of cruise tourism is its environmental impacts from the common practice of dumping ship wastes at sea which are carried back to shore, and of polluting harbours and coastal areas while docked (ibid:32). International conventions and protocols governing the dumping of wastes in the ocean are often flouted by cruise ships with impunity as many of them are registered outside their country of origins (`flags of convenience' ) to `take advantage of tax incentives and cheaper labour' and are therefore hard to prosecute/penalise (ibid:32). A list of toxic effluents' commonly released by cruise ships shows a range of wastes from photo processing wastes, dry cleaning fluids, printer cartridges, unused pharmaceuticals, batteries, bilge and oily water residue, to glass, cardboard, aluminum and steel cans (ibid:32). According to Captain Klaus, P&O cruise ships do not dump waste at sea at all. He said they are permitted to off-load up to 50 cubic metres per ship of 'dry garbage' in Vanuatu. The ship had to declare what the waste comprised and it did not include toxic or fuel waste, mostly packaging waste. The waste was uplifted by Vanuatu's Quarantine Department in Vila and Luganville.

[27] The Economic Partnership Agreements (EPAs) are currently being negotiated by the African, Caribbean and Pacific group of countries and the European Union. They are set to replace the existing non-reciprocal trading arrangements (under Lome and Cotonou) with a possibly broad-ranging reciprocal trade agreement that could include goods, services, investment and fisheries.

[28] The EPA is open-ended and effectively indefinite, in contrast to Cotonou, which expires in 2020.

[29] Hughes, Anthony, and Havelock Brewster, (2001) *Lowering the Threshold: Changing Private Investors' Perceptions by Reducing the Cost and Risk of Investment in Least Developed, Small and Vulnerable Economies*, Commonwealth Secretariat, London, p.5.

[30] *Regional Tourism Strategy for the Central and South Pacific, Appendix I, Tourism: The Regional Context.* (May 2000), SPTO, available at http://www.spto.org.

[31] Ibid.

[32] UNCTAD, (1999) 'Assessment of Trade in Services of Developing Countries: Summary of Findings', p.4. Available at http://www.unctad.org/en/docs/poitcdtsbd7.pdf

[33] Urwin, Greg, (2005) opening remarks at the 'PROFIT in the Pacific Tourism Investment Conference: Creating Partnerships', Nadi, Fiji.

[34] Gay, Daniel & Joy, Roy Mickey (n.d.) `Vanuatu', Paper reviewed by ESCAP, pp. 278-279.

[35] Lennon, Shuna (2005) Make Extortion History, Oxfam International. Available at: www.oxfam.org.nz/imgs/pdf/bp79_make_extortion_history.pdf

[36] Ibid.

[37] Gay (2004)

[38] Interview with VIPA head, Joe Ligo, February 2006.

[39] As Lennon (2005) points out, VAT is 'much more difficult to collect than import taxes' and 'compliance rates were initially very low and are only recently starting to match the rate for other collections'.

[40] Lennon (2005)

[41] For more details of social impacts see Lennon (2005), from whose paper the details in this appendix are drawn.

[42] Lennon (2005)

[43] According to Joe Ligo (VIPA head), the Vanuatu Development Bank was one of the casualties of the CRP. It had become very politicised, with ministers interfering in loan applications, but its closure came after he had become its Chief Executive Officer and the Bank had shown a profit for the first time in 16 years. He had asked to be given five years to turn it around, but the decision was taken to close it down. The Development Bank used to provide loans at 16%, compared with the National Bank (the only credit option now available to people) which lends at 23%. (Interview with the author in February 2006).

[44] Interview with Ralph Regenvanu, Vanuatu Cultural Centre, February 2006.