



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

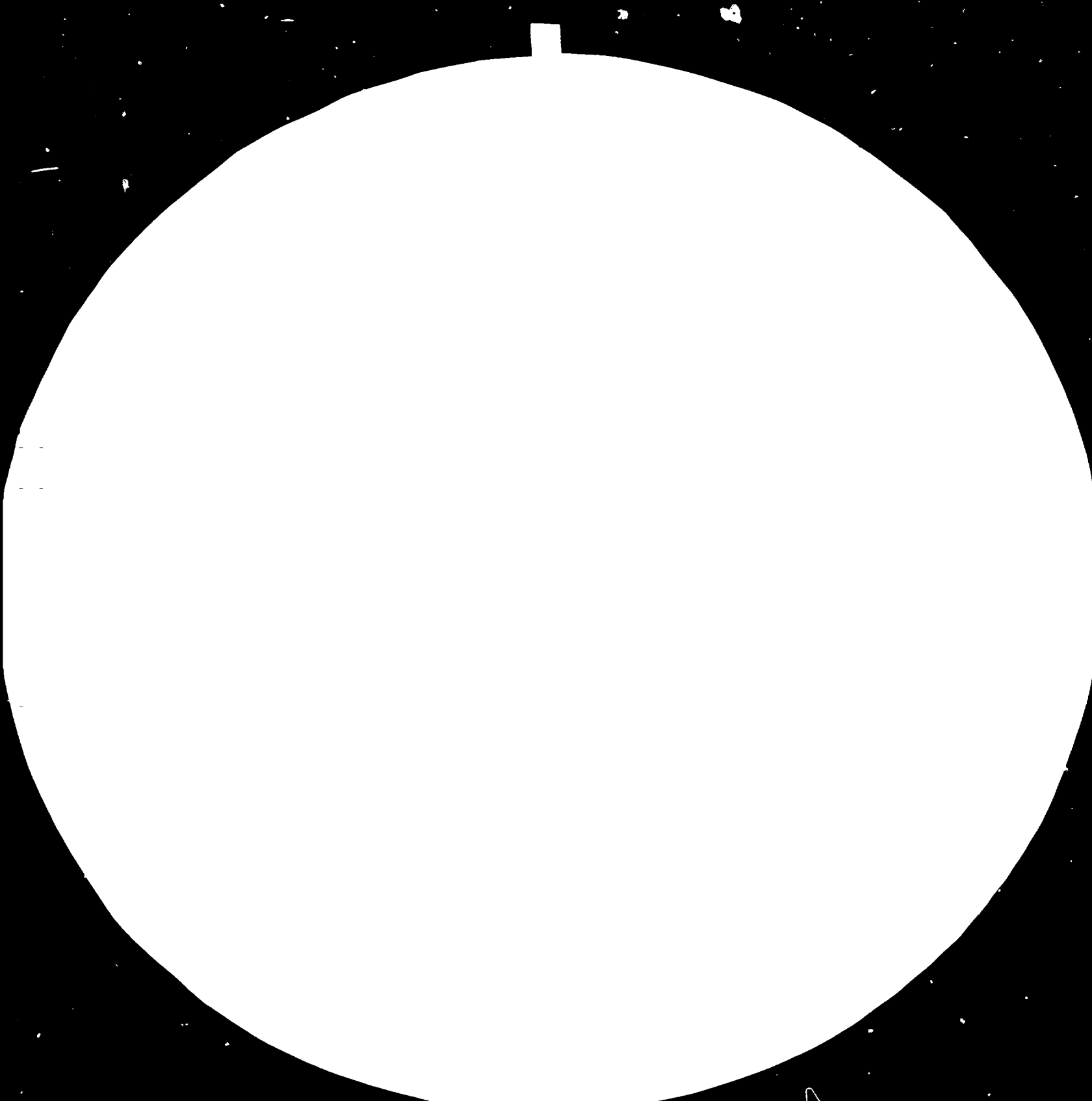
FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org





MICROSCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS
1963-A
THIS CHART WAS PREPARED BY MATERIALS DIVISION
AT THE NATIONAL BUREAU OF STANDARDS

RESTRICTED

14271

DP/ID/SER.B/487
19 December 1984
ENGLISH

Samoa

INDUSTRIAL DEVELOPMENT DIAGNOSIS

SI/SAM/79/801

SAMCA

Terminal report*

Prepared for the Government of Samoa
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

Based on the work of Paul Chen-Young,
industrial development consultant.

United Nations Industrial Development Organization
Vienna

* This document has been reproduced without formal editing.

V.64-94467

Explanatory Notes

Value of the local currency -

T = Tala = West Samoan Dollar = WS\$

during the period of the project in terms of United States Dollars:

	<u>End of period rates</u>	<u>Period average</u>
US\$/Tala 1978	0.7144	0.7251
1979	0.3976	0.9156
1980	0.9199	0.9418

Measures

Cocoa - in long tons; 1 long ton = 1.016 metric tonnes

Abbreviations

ADB	-	Asian Development Bank
NPF	-	National Provident Fund
PMD	-	Produce Marketing Division
WSTEC	-	Western Samoa Trust Estates Corporation

ABSTRACT

The project SI/SAM/79/801 - Industrial Development Diagnosis - was initiated in March 1979 and terminated in June 1979. Based on appropriate surveys an operative strategy and programmes for developing the manufacturing sector are recommended. The protection of industries, incentives for enterprises, promotion of industrial investments as well as export promotion and import replacement activities are problems being discussed. They are proposed as tools and policies to foster industrialization.

Due to the importance for the country a note on the development of tourism was included in the report.

Responding to a request from the Government in September 1984 the studies prepared by the recruited consultant Mr. Paul Chen-Young were reviewed by UNIDO's Industrial Planning Section and issued in a terminal report.

	<u>Table of Contents</u>	<u>page</u>
Explanatory Notes		2
Measures		2
Abbreviations		2
Abstract		3
Table of Contents		4
PART I	: STRATEGY AND PROGRAMMES FOR DEVELOPING THE MANUFACTURING SECTOR	7
	A. Introduction	7
	B. Objectives	7
	C. Strategy for Manufacturing	8
	D. Specific Programmes	8
	E. Output Prospects	13
PART II	: PROTECTION FOR THE MANUFACTURING INDUSTRIES	17
	A. Introduction	17
	B. Recommendations	17
	C. Technical Note on Protection for the Manufacturing and Processing Industries	19
PART III	: PROPOSED AMENDMENTS TO THE ENTERPRISES INCENTIVES ACT	26
PART IV	: REVIEW OF CURRENT EXPORT AND IMPORT REPLACEMENT ACTIVITIES	33
	- Introduction	33
	- Copra	33
	- Cocoa	35
	- Bananas	35
	- Taro	36
	- Annatto Seeds	36
	- Kava	36
	- Husked Coconuts	36
	- Avocados	37
	- Fisheries	37
	- Timber	37
	- Industry	38
	- Handicrafts	42
	- Tourism	42
	- Energy Saving	44
	- Export Incentives	46
	- Marketing Research and Export Promotion	46
	- Long-term Policies	47

	<u>Page</u>
PART V : PROPOSED ECONOMIC STRATEGY AND SUMMARY OF CURRENT EXPORT AND IMPORT REPLACEMENT ACTIVITIES	50
A. Introduction	50
B. Proposed Economic Strategy	50
- Copra	52
- Cocoa	52
- Banana	52
- Taro	53
- Other small crops	53
- Fisheries	53
- Timber	53
- Industry	53
- Handicrafts	54
- Tourism	54
- Energy	55
- Export Incentives	55
- Marketing Research/Export Promotion	55
- Long-term Policy	56
PART VI : PROPOSAL FOR A NATIONAL INVESTMENT FUND	57
1. The Concept	57
2. The Rationale	57
3. Capitalization of the Fund	57
4. Operation of the Fund	58
5. Management of the Fund	59
PART VII : NOTES FOR THE TOURISM CHAPTER OF THE DEVELOPMENT PLAN 4	60

<u>Annexes:</u>	<u>Page</u>
Annex 1 : Potential Projects Identified for Implementation/ Study during the Current Plan Period	62
Annex 2 : Nominal and Effective Rates of Protection for Selected Industries	64
Annex 3 : Estimates of Local Market Size for Selected Products	65
Annex 4 : Selected Data on Firms Approved under the Enterprises Incentives Act	66
Annex 5 : Illustrative Example to Show How to Calculate the Effect of Changes in the Tariff Rates on Profits and Effective Protection	68
Annex 6 : Financial and Economic Information (Proposed Change)	70
Annex 7 : Enterprises Incentives Act 1965	71
Annex 8 : Export Forecasts for 1979 and 1980	91
Annex 9 : Forecasts of Goods and Services Deficits for 1979 and 1980	92
Annex 10: Government Shareholdings in Industrial/Tourist Enterprises	93

PART I: STRATEGY AND PROGRAMMES FOR DEVELOPING THE MANUFACTURING SECTOR

A. Introduction

Over the Third Five Year Development Plan period, there was modest success in implementing projects identified. Among the larger import substitution industries identified, a brewery was established; a feed mill plant became operational; and a cigarette factory was established. Negotiations are being finalized with the Asian Development Bank for a loan to modernize and expand the soap factory. Another project identified, baby weaning food, is still being developed and could be implemented in the current Plan period. In addition to those import substitution projects identified in the Plan, factories were established for the manufacture of a wide range of products, such as garments, footwear, food processing, paints, steel fabrication, plastics, paper products, mufflers, soft drinks and meats.

Of the projects identified for exports, only coconut cream production became a reality and the immediate growth prospects for this product are favourable. The decision was taken to proceed with the coconut oil mill and a loan has been finalized with the Asian Development Bank for implementing this project during the current Plan period. Another major export project, the processing of fresh fruits, was studied and attempts are being made to attract an overseas partner for developing the project, even on a phased basis.

To date a total of 55 enterprises have been established under the Enterprises Incentives Scheme.

In the current Plan period, Government will continue to promote industrialization with import substitution industries and those with export potential. The key constraints to industrialization in Samoa are, however, recognized, namely, a small local market, high freight rates, and import barriers on certain products in markets such as Australia, New Zealand and the United States of America. But there is scope for further industrial development and projects will be promoted within the context of objectives consistent with national priorities.

B. Objectives

The national objectives are:

- (a) economic development to satisfy the basic needs of the Samoan people in terms of employment, food, clothing, shelter, health, education and transportation.
-

- (b) more widespread public participation in the economic development of the country; and
- (c) a more balanced development to strengthen the country's economic base.

C. Strategy for Manufacturing

Those general objectives provide the framework for a development policy aimed at increasing the welfare of the Samoan people. The strategies to be employed in developing the manufacturing sector for meeting the national objectives will be:

- (a) more intensive use of existing plant capacity to increase income and employment;
- (b) to generate more foreign exchange earnings and/or savings from existing enterprises;
- (c) more intensive use of local raw materials;
- (d) to provide programmes which will ensure a greater participation of smaller type enterprises in the industrialization effort;
- (e) to promote investment in existing and new enterprises which will produce goods for basic needs, through import substitution, and for exports;
- (f) to promote the use of labour-intensive technology wherever possible, so as to maximise employment; and
- (g) to encourage the location of industry at resource base as a means of accentuating industrial decentralization.

D. Specific Programmes

The following are the specific programmes for the manufacturing sector during the current Plan period.

1. Tariffs have been reviewed and it is proposed that they be re-structured to ensure that they are used not only for revenue purposes but as a development tool. Thus, in general, low rates will apply for imported raw materials and high rates on imported final goods. These changes will have three consequences:
 - (a) low tariffs on items such as textiles and tools will lower the cost to many small operators and enable them to benefit from an industrial development policy aimed at maximum public participation

- (b) low tariffs on raw materials will reduce the burden on enterprises which currently have to pay high tariffs on the termination of the concessions period; and
- (c) because of the low tariffs on raw materials, many enterprises may be able to proceed with their investment more expeditiously than would have been the case if application for concessions were being sought under a system of high tariffs on raw materials.

2. A more deliberate policy on protection will be used to facilitate the development of local enterprises. Details are as follows:

- (a) Since the administration of the Enterprises Incentives Act, the rate of protection seems fairly high and there are indications that it is reasonably effective. Conceptually, it is not only the nominal tariff rate on the finished goods which reflects the true protection. The import coefficient, the rate of duty on raw materials, and the value added must be taken into account to measure the "true" or "effective" rate of protection.^{1/}
- (b) Protection is a necessary device to facilitate import substitution but it will not be used indiscriminately to encourage the production of most imports - especially in small economies where the market size precludes economies of scale. The emphasis will be on the production of goods to substitute for imports which are used to satisfy the basic needs of the population, to create employment, exports and the greater utilization of local resources. Unless such a policy is followed, import substitution industries for non essential items, such as electrical goods, will be encouraged. Once these assembly industries are established, the pressure to provide foreign exchange for "knocked down materials" will be great, especially when unemployment in the assembly plant will result from an inadequate supply of foreign exchange. The result of such a development then becomes the institutionalization of a consumer taste pattern to support a non-essential import under the rationale of

^{1/} The effective rate of protection is defined by:

$$e = \frac{Tf - (Tm \times M)}{V}$$

Where: e is the effective rate of protection; Tf is the nominal duty on imported final goods; Tm is the nominal duty on imported raw materials; M is the ratio of raw materials to output; and V is the ratio value added to output.

industrialization. Such industries shall not have any priority during the Plan period and can only be considered in exceptional circumstances if they are completely export-oriented.

- (c) Over the previous Plan period, the small operator was discriminated against because of the small size of his operation and the process for obtaining incentives. Accordingly, ^{that} special low rates will be applied on select industries so/~~all~~ small private operators as well as larger enterprises will receive the same concessionary rate on raw materials without having to apply to the Incentives Board.
- (d) Because of the economies of scale in the developed countries, coupled with export subsidies from certain countries, overseas suppliers are often in a better position to sell goods at a lower price than the goods produced locally. This is so even with the high tariff on imports. The policy of charging higher tariffs on the imports of finished goods should increase the competitiveness of locally produced goods. However, Governments in some developing countries have still found it necessary to purchase locally produced goods at a price of up to 10% above the import price in those cases where it can be demonstrated that local firms are not able to compete with imported products. Government will therefore review its/^{national} purchasing policies with a view to discriminate in favour of locally produced goods and will also ensure that local productive enterprises receive preference in the allocation of foreign exchange.
- (e) Protection will be granted only to enterprises making a minimum economic contribution. One acceptable measure is local value added which is being used in other Pacific countries and in the Caribbean and it is proposed that a minimum local value added of 25% be used when concessions are being sought.
- (f) Where an/^{existing} enterprise is seeking additional tariff concessions over and above that available (or granted but expired), adjustments in the tariff rates will have a direct effect on profitability and on the degree of protection. Government will therefore review the importance of tariff changes on profitability when assessing applications for concessions and protection.

3. The Enterprises Incentives Act is to be amended to ensure that more objective criteria are established for a more expeditious implementation of the Act and that concessions received bear some relationship to the economic contribution of enterprises. Among the major amendments being considered are the following:
- (a) Discontinuing the requirement of setting values on imported items subject to concessionary rates thereby removing the need for an expanding enterprise to have to seek additional approval on raw materials, spare parts, and additional equipment during the concession period.
 - (b) Discontinuing the practice of granting import tariff concession on items partially used and on motor vehicles used outside the plant to avoid abuse.
 - (c) Granting income tax concession to enterprises without any limitation to invested capital.
 - (d) Granting full duty free tariff concession to enterprises with a minimum local value added of 25% for approved plant and equipment, ^{building materials,} spare parts, and raw materials to be imported.
 - (e) Granting full income tax concession and duty free tariff concession to enterprises with a minimum local value added of 35%.
 - (f) To encourage exports of non-traditional goods, all enterprises operating in an "approved export industry" would be entitled to income tax concession for 5 years on the overall profits of an enterprise in the same proportion as its exports to total sales, provided that there is a minimum increase of 15% in export value over the previous period.
4. A major Export Development Programme for non-traditional exports will be introduced. The key features of the programme are:
- (a) A special scheme to be developed with the commercial banks to provide pre-shipment finance on confirmed export orders. It is expected that such funding will be over and above the normal working capital financing provided by the banks.
 - (b) An Export Development Fund is to be established for the principal purpose of subsidizing freight rates and thereby correcting one of the principal obstacles to exports of non-traditional products. The initial funding will be \$70,000 or approximately

10% of exports of such products in 1977 and should be adequate to provide a 33% subsidy on freight rates for the first year. If the programme proves successful, Government will finance the Fund on a regular basis after taking into account export performance.

- (c) A marketing promotion officer with a knowledge of production planning and practical sales and promotional experience in markets in Western industrialized countries, preferably with a good knowledge of food processing, will be recruited with the assistance of an international or bilateral agency. Such a person would have the principal responsibility for developing non-traditional exports and would identify markets; set export targets with local producers; assist them in the actual mechanics of exporting; and to train a local counterpart. In addition, steps will be taken to recruit short term specialized marketing specialists in fields such as crafts and garments to identify markets based on local production potential.
5. An Industrial Technical Assistance Programme, with the emphasis on local investors, will be developed. Government will seek external assistance to recruit an industrial expert who will devote full time to servicing the industrial sector. Services to be provided will include: identifying projects potentially suitable for Samoa; using industry projects prepared by organizations such as UNIDO, USAID, EEC, Japan Consulting Institute and China Productivity Center to prepare pre-feasibility studies; to provide advice on how to start a business to local investors; and to train a local counterpart.
6. A Factory Building Programme providing "shells" to be partitioned and leased to manufacturers will be implemented at the industrial estate. To avoid the danger of having un-occupied factory buildings, the programme will start on a modest basis with about 12,000 sq.ft of suitable space and will be expanded if there is adequate effective demand. This programme would be of special benefit to investors who do not have enough capital to invest in buildings. Moreover, by implementing the project at the industrial estate, advantages would be gained from easier access to ancillary services.

7. A National Investment Fund is to be established. On the basis of a preliminary proposal, shares now held by Government in manufacturing and tourist enterprises would be transferred to the Fund whose functions would include:

- (a) the monitoring of Government investments.
- (b) initiating equity investment in new ventures with local and overseas partners in projects whose viability has been established; and
- (c) encouragement of financial intermediaries, private businesses, and individuals to participate in its investments by the sale of units/shares based on the combined value of all of its investments. It would therefore serve as an investment fund and could be expanded to include all other Government held equities in commercially viable enterprises. By encouraging public participation, the Fund would foster national savings by providing an investment instrument and it would also enable a larger segment of the population to benefit from the growth of industry. Initially, the Fund would be capitalized on the basis of equities held by Government in viable tourist/industrial enterprises and could be in the order of \$1.6 million.

8. A National Consumer Protection Board is to be established with representatives from a broad cross-section of the community to receive industries and to assess consumer complaints, price, quality and availability of local goods.

E. Output Prospects

As to the likely investment required by the manufacturing sector during the current Plan period, the most practical approach is to tabulate the estimated capital cost for selected projects and to make allowance for additional projects. Listed below are some estimates, although a more detailed list of potential projects is shown in the Appendix.

<u>Project</u>	<u>Fixed Capital Cost</u> <u>Estimates</u> (\$000)	<u>Source of Estimate</u>
Coconut Oil	2,900	ADB Loan Document
Fruit Processing (small)	850	Study by Beca Carter
Milk (prepared)	1,250	Food Processing Laboratory
From mill	250	" " "
Broiler industry	750	" " "

Coconut cream	590	1978 Study for Samoa Tropical Products
Soap factory	850	WSTEC estimates
Paper products	100	Approved enterprise
Furniture	500	Dept. of Economic Development "guesstimate"
Prepared meats	200	" "
Garments	200	" "
Factory building	250	" "
Miscellaneous	<u>500</u>	" "
	9,190	

When compared with projected lending to the industrial sector by the Western Samoa Development Bank, the \$9,190 million for the Plan period 1980-1984 do not appear to be optimistic since the bank's projected lending to the Industry for 1980 and 1981 is \$4.189 million.

In terms of employment, in 1976 "manufacturing" accounted for 712 workers or 4.2% of employment in the modernized sector. A survey undertaken in 1979 showed that there was no change in manufacturing employment.

Of the industries identified for import substitution, some are already established but there is further scope for expansion. With the change in tariffs and other protection measures to be introduced during the current Plan period, it should be easier for local industries to increase their local market share. Also, there are now over 40 applications awaiting approval under the Enterprises Incentives Act, which is a good sign that investors are responding to the import-substitution investment opportunities. With the import value of \$6 million for the industries identified there should be scope for substantial savings in foreign exchange as a result of local production and packaging of bulk imports.

For the export oriented industries the main processed and manufactured goods are canned coconut cream and timber, with exports of \$222,300 and \$142,900 respectively, in 1978. In 1980 there should be a significant increase in the exports of coconut cream to \$700,000 due to the installation of new machinery and equipment. The industry also has good potential for exports to the United States once the product can satisfy U.S. health regulations. The feasibility of establishing another coconut cream factory is now being explored and coconut cream could be one of the leading non-traditional exports. However, problems of supply of raw materials are being encountered and more careful planning and collaboration with WSTEC is needed if the full export potential of the product is to be developed.

There is a good market for Western Samoa hardwood in Australia and other developed countries and the increased production of Samoa Forest Products showed result in exports of approximately \$550,000 by 1980.

Other industries, such as the Brewery, Rothmans Cigarette Factory, Match Factory and Brugger Industries, have been established to produce for both the local market and export. Sales of beer to other Pacific countries have shown a potential for increased exports. Exports commenced in March 1979 and are expected to total \$250,000 for 1980. Export sales of cigarettes from the factory at Vaitele are projected to rise to \$100,000 in 1980. The Western Samoa Match Company presently has orders of \$50,000 for matches to be exported to Pacific countries, and orders of \$420,000 for the export of splints. It is estimated that exports in 1980 will rise to a total of \$750,000. Brugger Industries produces mainly for specific export contracts, and present indications are that exports could total \$500,000 by 1981.

A number of other enterprises in Western Samoa are exporting on a limited scale. The textile printing and garment industry has the potential for greatly increased export sales, but at the present time the companies producing garments are producing on a small scale and are unable to afford the necessary export promotion that is necessary to increase exports. Annatto seed processing has commenced with a view to exporting to New Zealand but problems in the supply of the annatto seed is leading to relatively low production and limited exports. Soap production by WSTEC is expected to expand with the introduction of new plant and equipment in 1980.

The export promotion programme in the current Plan period should provide exporters with greater assistance and incentives to become more export conscious. Total exports should rise significantly, giving greater diversification in the economy and less dependence on the export earnings of the two major agricultural products. With the export promotion programme it should be possible to increase

exports of the non-traditional goods from existing enterprises to \$2.5 million per annum by the end of 1980. This figure could be greatly exceeded when new export oriented industries are established. One that is expected to earn some \$3 million annually is the coconut oil mill but such exports, will be at the expense of copra — at least in the initial years until copra output is substantially increased. A modernized soap factory could also generate annual export earnings in the order of \$200,000.

PART II: PROTECTION FOR THE MANUFACTURING INDUSTRIES

A. INTRODUCTION

Many problems have been experienced in the granting of concessions for protection. Consequently, Cabinet took the decision that it would defer action on all applications until a policy paper on protection was prepared by the Department of Economic Development for consideration by Cabinet. The technical paper attached to the following set of recommendations is an attempt to deal with the problem.

B. RECOMMENDATIONS

1. Only those industries which will satisfy the basic needs of the population in terms of present imports for housing, clothing, food, health, education and transportation, and which will be of significant benefit to the economy in terms of employment, use of local materials and exports, will be encouraged with protective measures.

2. Caution will be exercised in the promotion of import substitution industries which produce non-essential items.

3. Government will charge lower tariff rates on imported raw materials for the manufacturing sector and higher tariff rates on finished goods.

4. Government will provide protection by lower tariff rates on raw materials for those industries in which there could be widespread public participation with concession benefits not going to only a few select firms. Such industries will be designated by Cabinet upon the recommendation of the Incentives Board. One obvious industry is "Garments".

5. There will be no discrimination among enterprises in any one industry. All enterprises will be charged the same tariff rate on raw material. Government will not encourage unfavourable competition among local industries by granting concessions to any new enterprise when those of existing enterprises terminate.

6. Besides higher tariff rates on non-essential imports, consideration will be given to using licences and foreign exchange allocation to restrict imports e.g. beer, cigarettes, soft drinks, paints, sausages, electrical appliances and motor vehicles. But price, quality and adequacy of local supply will be taken into account.

7. Government will encourage local manufacturing when justified by purchasing local goods at up to 10% above the price of comparable imported goods. This is to protect against dumping and unfair competition from overseas suppliers.

8. Raw materials for producing local goods to meet the basic needs of the population will be given high priority in the allocation of scarce foreign exchange. Every effort will be made to ensure that local production is not hampered by insufficient foreign exchange allocation to local enterprises.

9. No enterprise will be granted protection unless it can demonstrate that a minimum economic contribution, expressed by local value added, will be made. The Board will specify from time to time what it considers to be an appropriate "local value added" (i.e. sales less all overseas payments). A suggested value is 25%.

10. Where an enterprise seeks special tariff concessions on raw materials, Government will consider the extent of its economic contribution, the effect of tariff charges on the company's profitability, loss of government revenues and any other concessions being received by the enterprise.

11. Government recognizes that protection has to be reviewed on an industry basis from time to time and that it is only one tool to encourage the development of industry.

C. TECHNICAL NOTE ON PROTECTION FOR THE MANUFACTURING
AND PROCESSING INDUSTRIES

1. Protection may be applied by various techniques, such as, specific taxes, import surcharges, advance deposit on imports, export taxes and subsidies, multiple exchange rates, quotas, licences, exchange control, and tariff rates on raw materials and on competitive imports. In Western Samoa, the main tool used is the tariff rate. But because tariffs on raw materials are high and fairly close to the same rate on finished goods, the tariff structure has been used mainly as a source of revenue rather than as a deliberate developmental tool.

2. Conceptually, it is not only the nominal tariff rate on the finished goods which reflects the true rate of protection. The import coefficient, the rate of duty on raw materials, and the value added must be taken into account to measure the "true" or "effective" rate of protection.^{1/} As shown in Annex 2. from a sample of eight firms receiving concessionary tariff rate on raw materials, seven were enjoying an effective rate of protection of over 100%. At the full tariff rate, the effective rate of protection ranged from 35% to 66% for five firms. The rate of protection is therefore fairly high and there are indications that it is reasonably effective. From Annex 3, most of the industries which commenced operations accounted for more than 50% of the local market. Other selected data for firms are shown in Annex 4.

3. Protection is a necessary device to facilitate import substitution but it should not be used indiscriminately to encourage the production of most imports — especially in small economies where the market size precludes economies of scale. The emphasis should be on the production of goods to substitute for imports which are used to satisfy the basic needs of the population in terms of material for housing, clothing, food, health, education and transportation. Unless such a policy is followed, import substitution industries for non essential items, such as electrical goods, will be encouraged and will make it more difficult to introduce import restrictions on non-essential items. Once these assembly industries are established, the pressure to provide foreign exchange for "knocked down materials" will be great, especially when un-employment in the assembly plant will result from an inadequate supply of foreign exchange. The result of such a development then becomes the institutionalization of a consumer taste pattern to support a non-essential import under the rationale of industrialization.

^{1/} The effective rate of protection is defined by:

$$e = \frac{T_f - (T_m \times M)}{V}$$

Where e is the effective rate of protection; T_f is the nominal duty on imported goods; T_m is the nominal duty on imported raw materials; M is the ratio of raw materials to output; and V is the ratio of value added to output.

4. As pointed out, the tariff rates are not being used as a deliberate instrument to foster development. This can be corrected by charging lower rates on raw materials and higher rates on finished goods. Also, to minimize revenue loss, a system of substituting excise duties on certain finished goods produced locally could be introduced. Under a tariff system, competition will tend to keep local prices down and would discourage a pricing policy of local goods to earn windfall profits. If the local product were to be sold at a pre-exercise price to reflect the decrease in material cost, any substitution of the excise tax for the reduction in the import duty would not necessarily increase local output. Only a larger market share would result in an increase in output. Hence, the tariff on the imported good should be increased and/or import controls introduced.

5. If the policy of low import tariffs on raw materials were to be offered to all persons engaged in the processing of raw materials into a finished product for selected industries (e.g. imported textiles for the garment industry), there is the danger that commercial enterprises which are charged an excise duty on production would be at a disadvantage to small operators from whom it would be difficult to collect excise duties. While this possibility is recognized, it is Government's policy to modify the incentive scheme to industry to facilitate both the large and the small operator, especially since the small operator has not enjoyed many concessions because of the small size of his operation. Therefore, from time to time select industries will be designated as approved industries allow both small operators and other enterprises to obtain special concessionary rates on raw materials without having to apply to the Incentives Board. One obvious industry which could be declared as "approved" with a special concession rate on imported raw materials is "Garments".

6. There are cases where new enterprises are seeking concessions which have expired for/^{an}existing enterprise within an industry. If such concessions were to be awarded, unfair competition would be created against the existing enterprise. To avoid such an anomaly, Government will administer the incentives in such cases on the basis of two principles: (a) it will not foster unfair competition and will charge one tariff to all enterprises within an industry; and (b) it will not encourage new entry into an industry by the granting of concessions where existing enterprises within that industry are "adequately" serving the local market. In determining "adequacy", matters of price and quality, along with market share, will be taken into account. As a rough guide the local market could be deemed as being "adequately serviced" if local production accounted for 75% of the market.

7. An analysis of the Customs Tariffs was undertaken to identify those items for which tariff changes could be considered to reflect the policy of low tariffs on raw materials and high tariffs on final goods. On the basis of current tariff rates, the estimated tax contribution in 1977 would be \$3.499 million. Using the same import values and the proposed changes in the tariffs, the implied tax contribution would be \$5.536 million. The net tax contribution when the new rates are compared with the old rates would be plus \$37,000.

8. Since some imports will be replaced by local production, while others will decrease because of the price elasticity of demand, further adjustments could be made to show the net difference between customs duty collected on declining imports of final goods. This relationship will have to be watched carefully but the calculations for the changes in the tariff structure show that it would be a feasible proposition to modify the tariffs without the need for imposing excise duties on a widespread basis. Moreover, the major import items for which import substitution is taking place (e.g. beer and cigarettes) are already subject to excise duties.

9. While the proposed tariff adjustments covers a large number of items, no changes have been proposed for alcoholic beverages, cigarettes and motor vehicles. These are obvious items on which the import tariff could be increased.

10. Increases in the tariff rates invariably lead to an increase in the cost of living. With "Food" representing 61% of "All Items" in the Consumer Price Index; and with imported meats representing about 8% of "Food", imported meats would represent approximately 5% of "All Items" in the Price Index. The proposed tariff rate on imported meats is 50% or an increase of 47% from the present rate of 34%. The implied increase in the Consumer Price Index from the new tariff on meats would be 2.3%. Substantial increases have been proposed for other import items but a major reduction has been proposed for textiles, an item which is used mainly by the entire population. A crude "guesstimate" on the impact of the proposed tariff changes on the Consumer Price Index is an increase of about three percentage points.

11. Because of the economies of scale in the developed countries, coupled with export subsidies from countries such as Australia and New Zealand, overseas suppliers are often in a better position to sell goods at a lower price than the goods produced locally. This is so even with the tariff on imports. Governments in some developing countries have found it necessary to pay a premium of up to 10% above the import price in those cases where it can be demonstrated that local firms are not able to compete with imported products. Government will therefore review its purchasing policies with a view to discriminate in favour of locally produced goods.

12. Foreign exchange budgeting will be rigidly adhered to in the foreseeable future. This means that the priority in allocating foreign exchange should be to basic commodities and essential goods. This is now down to a certain degree, but the present policy needs to be re-inforced since enterprises in the distributive trade now have a great degree of flexibility with their imports. Moreover, certain manufacturing enterprises producing goods needed for development are experiencing difficulties in obtaining foreign exchange and may have to curtail their operations. Such a bottleneck defeats the industrialization effort by causing disillusionment and dampening investor initiative. Accordingly, the proposals in Cabinet submission by the Department dated 7 May 1979 are supported and are listed below:

- (a) Imports of goods and services should be classified on a functional basis e.g. oil, basic food, raw materials, services and debt payments, capital goods (machinery), motor vehicles and other imports. Projections should be made of the foreign exchange that is likely to be available for the rest of 1979 and for 1980 and should be allocated along the functional categories indicated.
- (b) After meeting the basic import requirements in terms of oil, basic foods, debt repayments, and raw materials and spare parts, what is left should then be allocated to the other import categories.
- (c) To avoid administrative bureaucracy, foreign exchange should be allocated to enterprises (Government and private) to meet payments in the priority categories. All other payments would be allocated on a pro-rata basis to commercial enterprises who are importing the other types of goods, although some of these enterprises may be allocated part of the foreign exchange reserved to purchase basic commodities.

13. Protection will be granted only to enterprises making a minimum economic contribution. One acceptable measure is local value added which is being used in other Pacific countries and in the Caribbean. Local value added is calculated by subtracting the following items from the amount the manufacturer receives from the sale of his products, ex factory:

- (a) Value of all raw materials, fuels, components imported from outside Western Samoa.
- (b) Wages and salaries paid to workers who are not nationals of Western Samoa.

- (c) Profits remitted to individuals or companies outside Western Samoa.
- (d) Any amounts paid to foreign companies or individuals resident outside of Western Samoa for technical services, management fees, etc.
- (e) Allowable depreciation on imported machinery, plant and equipment, and spare parts.

It is proposed that a minimum local value added of 25% be used. Local value added could be modified to provide a special bonus for using local labour by the formula:

$$\frac{V(100 + W)}{V100}$$

Where "V" is used value added and "W" is wages and salaries paid to nationals expressed as a percentage of total sales.

14. Where an enterprise is seeking additional tariff concessions over and above that available (or granted but expired), adjustments in the tariff rates will have a direct effect on profitability and on the degree of protection. The question of efficiency and its effect on profitability must be recognized but the practical implication is that those enterprises industries earning a high rate of return are in a stronger position to do without the concessions while the others are in a weaker position to operate without the concessions. To illustrate:

	<u>Case A</u> (£)	<u>Case B</u> (£)
Sales	174,529	492,000
Material	82,305	309,764
Duty (25%)	27,435	44,885 (duty 12.7%)
Net Profit	30,007	63,040
Duty (42%)	34,568	139,394 (duty @ 45%)
Adjusted Net Profit	22,874	(31,469)
Net Worth	71,408	113,535
Capital Employed	71,930	197,441
Adj. Net Profit/Net Worth	32%	-
Adj. Net Profit/Capital Employed	32%	-

With Case A, the company could absorb an increase in the tariff rate from 25% to 42% and still earn an attractive return of 32% on net worth. With Case B, the company would be earning a high rate of return of 55% on net worth before the

new rates on raw material. However, if the new rate of 45% were imposed, a once profitable company would incur losses and be forced to discontinue operations. In both cases it is assumed that the upper limit on prices is set by competitive imports.

15. Many measures exist to calculate profitability performance but, for the manufacturing sector, it is suggested that the two realistic measures are the ratio of net profit to net worth (i.e. paid up capital and reserves) and to capital employed (i.e. net worth plus short and long term borrowings). Returning to Case A, the rate of return is high even after paying the high rate on raw materials, since a rate of return of 20-25% on net worth is satisfactory. But even though it would be earning 32% on net worth after the increased tariff, the effective rate of protection would fall from 67% to 45%. (See attached illustrative example on the computation of effective protection in Annex 5. The company would then have to use a more competitive pricing policy in order to maintain its profit levels by aiming for a larger share of the local market. Policywise, therefore, it would be to the country's benefit to raise the tariff rates on raw materials.

16. With respect to Case B, a situation exists whereby the company is doing extraordinarily well at the 12.7% concession rate on raw materials but would be forced to close at the 45% normal rate. Therefore, since the Government's tariff policy is the determining factor on whether the company operated profitably or not, a fundamental policy question has to be faced i.e.: Should not the Government set selected target profit rates for industries receiving concessions, especially those whose incentives have expired and additional benefits are being sought?

17. It would seem inescapable that Government has to set profit rates as guidelines to be used by the Department of Economic Development in evaluating applications for additional concessions. Such rates should NOT be publicised to avoid cries of regimentation and controls by the business sector. Referring again to Case B, if a rate of return of 20% on net worth (which would correspond to about 12% return on capital employed) were considered as reasonable, the implied net profit would be \$22,707, instead of \$63,040 at the concessionary tariff rate and a loss of \$31,469 at the normal rate. Additional tax revenue would be \$40,333, resulting in total import duty on raw material at \$85,218. The implied new tariff rate would then be 28% and the effective rate of protection would fall from 127% to 71%. Again, there should be positive national economic benefits by increased competition with the local company aiming for a larger share of the local market to maintain profit levels.

18. In suggesting guidelines on profits it should be emphasized that no rigid formula or rate of return should be adhered to since the capital structure of enterprises will differ. Nevertheless, because changes on tariff rates will have a definite effect on profitability, in deciding on the level of tariff rates which would be justified when additional concessions are being sought, the Department should, as a matter of policy, do the necessary calculations to trace the effect of such changes on the profitability of enterprises.

19. On a final note it is recognized that protection is only one of the many tools to foster industrialization. Accordingly, other complementary policies will be pursued in the strategy to develop the manufacturing sector.

PART III: PROPOSED AMENDMENTS TO THE ENTERPRISES INCENTIVES ACT

(For the Enterprises Incentives Act 1965 see Annex 7).

1. Short Title: No changes
2. Interpretation:
 - (a) Correct "Enterprise means the person" to "Enterpriser means the person".
 - (b) "Minister" means the Minister of Economic Development and not Minister of Finance and Economic Development.
 - (c) Substitute "Tax concession period" instead of "Tax holiday period" and delete "business licences" from the sentence.

Delete "any period up to five years" and substitute "five years" to avoid arbitrariness in award of the concession period as now exists.
3. Administration of the Act: No change
4. Establishment and members of Incentives Board:
 - (a) Para 2 (a) - delete "voting"
 - (b) " 2 (a) (ii) - delete
 - (c) " 2 (b) - delete "The following
 - (e) Add a paragraph to the effect that Cabinet may appoint two other members from the public.

Note: The proposed amendment means that the Minister will be the only elected politician on the Board. His position as Chairman is justified on the grounds that he has de jure responsibility for industrial development and should be intimately involved in decision-making. In some countries Ministers do not sit on Boards. But because of Samoa's size and leadership tradition, it would be prudent for the Minister to serve as Chairman. But there are valid reasons not to have elected members of the Legislative Assembly on the Board to avoid politicising the Board's work. The Minister would, however, appoint two other members from the public to provide a balance to the technocrats (the Director, Financial Secretary, Commissioner, and Collector) whom should be members in their own right and not as non-voting members. Under the proposal, there would be a total of nine members of equal rights and responsibilities, except the Chairman who should always have a casting vote in the case of an equality of votes.

5. Deputies of members of Board: This entire section should be deleted.
6. Terms of appointment: Delete all references to deputy members.

7. Meetings:

- (a) Delete "voting" when preceding members (since it is superfluous) and all references to deputy members.

Note: All members will have voting rights.

- (b) In para 7 (2), substitute the word five instead of three so that a quorum would be five.
- (c) After para 7 (7) add "A Member of the Board shall declare interest and shall not participate in the deliberations on any application in which a member has a direct or indirect financial interest."

8. Remuneration and allowances of Board members:

No changes, but check references to clause (ii) of Section 4.

9. Members and officers to maintain secrecy:

In para 9 (2) substitute "thousand tala" instead of "hundred pounds".

10. Application for approval order:

- (a) Para 2 (c) should be simplified. A suggested re-wording is as follows:

"The nature of the new enterprise or expansion of existing enterprise, the resulting product or service, the price at which the applicant expects to be able to market the product or service, and a financial forecast of operations for at least the first 5 years".

- (b) Para 2 (d) should be expanded to include "the estimated market size".

- (c) Para 2 (e) should be amended. A suggested re-wording is as follows:

"A description of the project cost showing the fixed and working capital requirements and the estimated source and form (cash or otherwise) of financing".

- (d) Para 2 (f) should be amended to exclude vehicles and partial use of imported items at concessionary customs duty rates. A suggested wording is as follows:

"A description and estimation of the cost of building materials, and other articles which the applicant claims will be required exclusively for the establishment, expansion, operation or conduct

of his enterprise and for which application is being made to obtain concessionary customs duty rates".

- (e) Paras 2 (g) and (h) should be excluded since approvals from the relevant Authorities would have to be obtained before the commencement of operations. Furthermore, the processing of applications for concessions may be unduly held up while applications for approvals are being processed. (See 14-h).
- (f) In para 2 (i) add the words "terms and" before "conditions" and delete all words after "initially". It is unrealistic to expect a description of the duties of each employee over a 10 year period.
- (g) In para 2 (k) substitute five instead of ten.
- (h) In para 2 (n) add the words "if available" after survey.

11. Existing enterprise producing similar product: The first sentence should be substituted by the following:

"The Director, if he considers that the enterprises may unduly affect any existing enterprises producing a similar product in Western Samoa after taking into account market size, capacity utilization, efficiency, and profitability of existing enterprise(s), shall" —

The reason for the proposed change is that specific criteria do not now exist as a result of which differences in legal interpretation of this paragraph have arisen.

12. Director to report to Board: No changes

13. Board to report to Cabinet:

Delete para 13 (2), and substitute the phrase: "After the Board has considered an application, it shall submit its decision to Cabinet along with any other information as may be required by Cabinet".

14. Cabinet may approve enterprise:

- (a) Delete "Cabinet may approve enterprise" and substitute "Board may approve enterprise" and for all paras in this section substitute the word Board for Cabinet.
- (b) Add to para 14 of (a) the words "in accordance with the conditions specified in paras 18 and 21".

- (c) Delete para 14-1 (d) since this is already covered in para 11.
 - (d) Add to para 14 (3) "The decision of the Board on each application shall be final unless there is a dissenting vote in which case the application shall be submitted to the Cabinet".
 - (e) Delete para 14-4(b), add a new para as follows:

"The concessions awarded in accordance with the provisions of paras 18 and 21".
 - (f) After para 14-4 (b), add a new para as follows:

"The concessions awarded in accordance with the provisions of paras 18 and 21".
 - (g) In para 14-4 (c), substitute the word "concession" for "tax holiday".
 - (h) Add para 14-4 (d) "Any other condition which the Board may decide to impose" (e.g. approvals from the Directors of Works and Health and availability of title).
 - (i) Delete para 14-4 (e) since it refers to partial use of an article.
15. Notification of order or refusal: No changes
16. Subsequent application: No changes
17. Extension of tax holiday period
- (a) Change title to "Extension of concession period".
 - (b) Substitute the word "concession" for "tax holiday" in the second line.
 - (c) Substitute "Board may grant additional concessions" for "Board may grant an extension of that period".
18. Relief from customs duty:
- (a) In para 18-1, substitute the word "concession" for "tax holiday".
 - (b) Delete para 18-3 since the implication is that Board would, in para 18-1, set a value on the imports of raw materials and, if such a value were exceeded, the enterprise would need to seek additional approval for more raw materials. The setting of values on raw materials is unnecessary and only creates additional red-tape. Once materials to be used in an approved enterprise have been granted concessionary duty rates, the enterprise should be permitted to import all requirements until the end of the concession period.

- (c) Delete para 18-5 since concessions should not be granted to items which will be partially used. There are too many administration problems involved to estimate the "proper" percentage use of the item and supervision. This provision could also lead to abuse.
- (d) Add a new paragraph to read: "An enterprise seeking duty free concession shall demonstrate that it will contribute a minimum of 25% local value added as defined in para 21 and the review provisions after the first three years and the next two years to determine whether the local value added contribution has been satisfied. In cases where the local value added is below the 25% minimum, the enterprise shall be charged the normal tariff rates.
- (c) Add a para as follows: "Enterprises receiving duty free concession for the importation of approved plant, equipment, spare parts and raw materials, will enjoy that privilege during the concession period.

19. Special provisions relating to articles acquired free of customs: No changes

20. Restriction upon disposition of articles acquired free of customs duty:
No changes.

21. Relief from income tax:

- (a) The first section paragraph 21-1 should be substituted to incorporate the proposed concessions below but with reference to the Income Tax Ordinance 1955. After spelling out the proposed changes below, continue with the paragraph: "Provided that, if at the end income tax".
- (b) Correct para 21-2 for the deletion of para 31-3.
- (c) Delete para 21-3 since the tax holiday period is to be generalized and need not be limited to capital invested by shareholders. In many cases investors are concerned not only with their own invested capital but with total capital employed by the enterprise, i.e. the net worth of the company plus short and long term borrowings.
- (d) In para 21-4 substitute "the dividends and profits" for "dividend be received from profits". The reason for this amendment is that in certain countries, like the United States, income earned abroad, but not repatriated as dividends, may be subject to tax.

Only "approved enterprises" providing a minimum economic contribution expressed in terms of local value added to sales shall be entitled to any income tax concession.

Local value added is calculated by subtracting the following items from the amount the manufacturer receives from the sale of his products, ex factory:

- (a) Value of all raw materials, fuels, components imported from outside Western Samoa.
- (b) Wages and salaries paid to workers who are not nationals of Western Samoa.
- (c) Profits remitted to individuals or companies outside Western Samoa.
- (d) Any amounts paid to foreign companies or individuals resident outside of Western Samoa for technical services, management fees, etc.
- (e) Allowable depreciation in imported machinery, plant and equipment, and spare parts.

Local value added could be modified to provide a special bonus for using local labour by the formula: $\frac{V(100+W)}{V+100}$, "V" is used value added and "W" is wages and salaries paid to nationals expressed as a percentage of total sales.

Two types of income tax concessions are proposed:

- (a) The Minister will from time to time designate certain products or industries, depending on their complexity, as "approved" for the purpose of granting income tax concession. Enterprises manufacturing the "approved product" would seek approval to be designated as an "approved enterprise" and would be obliged to contribute a minimum local value added of 35% in order to be eligible for an income tax holiday. No enterprise would be entitled to income tax concession if the local value added contribution were less than 35%.
- (b) The Minister will from time to time designate an industry on an "approved export industry". Subject to a minimum 25% local value added contribution, all enterprises operating in an "approved export industry" would be entitled to income tax concession for five years on the overall profits of an enterprise in the same proportion as its exports to total sales,

provided that there is a minimum increase of 15% in the value of exports over the preceding period.

In respect to (a), annual and technical reports submitted to the Commissioner would be assessed on the basis of the averages of the first three years and the immediate next two years to determine whether the stipulated local value added contribution had been satisfied. In respect of (b), the moving average for three years would be used or, in the case of a newly established enterprise, annual sales until the three year moving average can be established.

To illustrate the income tax concessions being proposed under (b).

Assume total sales of \$100,000 of which exports are \$20,000 in Period 1. If in Period 2, sales were to increase to \$150,000 and exports to \$40,000, exports as a percentage of total sales would be 27% and exports would have increased above the minimum 15% requirement. Therefore, the enterprise would be entitled to an income tax concession of 27% and would pay tax on 73% of profits. If in Period 3, total sales were to increase to \$200,000 and exports to \$45,000, the enterprise would have increased exports by only 12.5% and would therefore not have met the minimum requirement and would not be entitled to any income tax concession. If in Period 4, exports were to increase to \$55,000 out of total sales of \$210,000, the enterprise would have achieved the minimum increase in exports of 15% and would be entitled to an increase of tax concession of 25%. Note that only the increase in exports were used as the basis for granting income tax concession, in Period 2 the enterprise would have been entitled to a 100% income tax concession instead of the 27% as a result of stipulating the concession in terms of the ratio of exports to total sales.

22. Annual Report: No change
23. Excusing compliance with Business Licences Ordinance 1960: To be deleted.
24. Revocation of approval order:
After the word "unsatisfactory" in para 24-1 (e),
add para 24-1 (d) as follows: "The enterpriser fails to comply in respect of the requirements of paragraph 22" and complete with "may call upon future actions".
25. Head of State may amend schedule: No changes
26. Offences:
 - (a) Delete "in default of payment thereof to be" and substitute "or imprisoned for a term not exceeding twelve months".
 - (b) Delete para 24-3.
27. Repeal and Services: No changes.

PART IV: REVIEW OF CURRENT EXPORT AND IMPORT REPLACEMENT ACTIVITIES

Introduction

1. Our paper (p.p. 7-13) on the state of the economy drew attention to several problems connected with the country's trade situation. These can be summarized as follows: (a) a progressively widening gap between exports and imports which, in 1978, amounted to \$32.0 million tala; (b) an acceleration in commodity imports reaching \$40.0 million tala in 1978; (c) a lethargic export performance which in spite of generally favourable prices reached only \$8.0 million tala in 1978; (d) a continuing decline in the volume of export staples especially cocoa and banana; and (e) a sharp fall in our international reserves which at the end of 1978 amounted to just over \$4.0 million tala.

2. The large gap of \$32.0 million tala between export and imports appears to have triggered off considerable public concern. It should be said at the outset, however, that just looking at the export-import gap gives a misleading and inaccurate picture of Western Samoa's overall balance of payments position. For one thing, it does not account for earnings of foreign exchange from other sources such as tourism, personal remittances, unilateral grants and loans made in the international market. It also does not take into account the country's borrowing capacity which may be well under-utilized. Nonetheless, the present outcry over the state of the country's balance of payments - exaggerated or not - have pinpointed the need for corrective action on the part of the government. Government has already, in fact, acted to reduce imports; and seems well aware of the need to strengthen and further expand exports.

3. As requested by Cabinet, this paper will present some proposals designed to stimulate exports and to effect more import saving activity. In recognition of Cabinet's interest in seeing some quick results, this submission pays particular attention to guidelines and suggestions whose possible implementation will bring about results in a reasonably short period of time. Proposals on long term projects and policy are given later in the paper, but in much less detail.

4. To assist Cabinet in its deliberations on these matters, we have appended two tables forecasting the country's exports and trade balances for 1979 and 1980 (Annexes 8 and 9).

Copra

5. In 1978, there was a sharp decrease in the volume of copra exports compared to the previous year: from 17,754 to 13,793 metric tons. However, viewed from a long-term perspective this is not as dramatic an occurrence as may seem at first sight: over the last 25 years, production has always fluctuated sharply from one year to the next, with exports ranging from below

10,000 to over 19,000 tons. Moreover, the latest monthly report from the Copra Board indicates that production is now slightly rising again. The problem appears to be not that production has suddenly declined, but rather that copra exports have not increased for several decades.

6. A long-term problem demands a long-term solution. In the case of copra, some solutions have been talked about for years: replanting of old stands, development of higher-yielding varieties of coconut palms, application of fertiliser, keeping plantations free of weeds.

7. The replanting scheme has been extensive, but so far it has failed to raise copra production.

8. The development of hybrid varieties is a long-term exercise which is expected to take another five years. An immediate strategy is to boost the production of the old stands by the application of fertiliser, until such time as new varieties became available.

9. The problem of better management of the plantations (application of fertiliser, cleaning of weeds, more efficient collection of nuts etc.) must be looked at immediately.

10. It is suspected that a significant proportion of the coconuts is not being collected by the farmers, mainly those in distant areas and in areas where harvesting is difficult because of heavy weed growth. As a measure to boost exports in the short run, this Department supports the proposal for a campaign to collect coconuts, as made by the Agriculture Department in a paper dated 26/4/79 and now implemented by WSTEC. It is essential that we study the reasons why plantations are not managed better, in order to determine what will be the best measures we can take to maximise production. In particular, the profitability of copra production must be compared with that of other crops. A sample survey should be carried out in a combined effort of the Department of Agriculture and Economic Development.

In addition, the purchasing programme of the Copra Board needs a thorough review to see whether the Board should itself be more involved in the purchasing of coconuts for conversion into copra in order to improve quality.

11. A proper assessment must be undertaken to ascertain the most advantageous manner in which the coconut should be exported (i.e. as copra, coconut oil, coconut cream and husked nuts). The indications are that when the new

coconut oil mill comes on stream, the demand for coconut mill will be in the vicinity of 25,000 tons per annum and there will be competing claims on available supply which might not reach that target. A detailed and comprehensive supply/demand plan with criteria for rationalization for the optimum use of coconuts in terms of foreign exchange earnings is a matter of great urgency.

Cocoa

12. During the 1950's and 1960's, cocoa exports ranged from 3,000 to 5,000 long tons per year. In 1972, however, exports dropped to a mere 1,500 tons and since then they have remained near that level. In 1977 the figure rose to 2,157 tons, but in 1978 it dropped again to 1,182 tons, mainly due to bad weather. The long-term decline appears to be caused by the black-pod disease,

13. On the price side, the situation has been very favourable for many years; prices have risen steeply since 1970, even though they have come down from a soaring maximum in 1977. For the future, too, prospects are good because of a tightening supply situation and the recently concluded International Cocoa Agreement, which will safeguard the interests of exporters,

14. However, although returns are high, the black-pod disease continues to dampen the enthusiasm for the crop, especially among small producers who cannot afford high risks. The disease has so far not been eradicated, but measures can be taken to reduce its impact. It is therefore imperative that more extension workers be made available to advise and to encourage them to adopt such measures as the early removal of affected pods.

15. Much of the cocoa now being exported is of low grade. Export revenue could be greatly increased if more of the cocoa would be of higher grade. To achieve this result, it is planned to establish a number of fermentaries and drying facilities at suitable locations in the major cocoa-producing areas. It is vital that early action be taken to have such fermentaries established.

Bananas

16. Banana exports have declined from well over a million cases in 1958 to a mere 15,000 cases in 1978. Reasons for this are the high incidence of diseases like black-spot leaf and bunchy-top, and the unattractive price. Diseases not only reduce output, but they also cause a steep increase in production costs (chemicals, etc.) Furthermore, they necessitate a more sophisticated management than the village farmer can provide. As to the

price, the present price for export bananas is only a trifle higher than the price the producer can get on the local market, whereas the quality requirements for export bananas are much higher.

17. Under the present circumstances the role of the village sector should be to produce bananas mainly for the local market. However, large-scale production units using modern equipment and sophisticated management which can profitably compete on the world market should be encouraged.

Taro

18. Taro exports have been booming over the last 18 months with exports reaching a record of about 114,000 cases with an approximated value of \$1.2 million in 1978 and the taro export figures for the first quarter of 1979 are very promising indeed. It is forecast that export earnings for taro will exceed \$1.5 million by the end of 1979 with more aggressive overseas marketing.

Annatto Seeds

19. According to the Produce Marketing Division (PMD) 110 tons of annatto seeds were exported during 1978 representing a value of about \$60,000. The PMD forecasts a slight increase of annatto seeds exports with a total volume of 120 tons valued at about \$67,000 for 1979. Exports of processed annatto seeds show promise with an estimated value of \$20,000 in 1978, and could be about the same in 1979. Encouragement should therefore be given to processing a higher proportion of production of annatto seeds in order to generate more export earnings.

Kava

20. The PMD in 1978 recorded a total of 10 tons of kava being exported valued at little over \$31,000 and forecasts slightly less than \$80,000 for 1979. (However, there are some discrepancies between the PMD figures and the figures provided by Customs as they recorded only about \$10,000 worth of kava in 1978).

Husked Coconuts

21. In 1978, 2,000 bags of 30-nuts each have been exported according to the PMD. The total value of these exports totalled about \$7,000 and the forecasts for 1979 are 6,000 bags to be exported worth about \$21,000 tala.

Avocados

22. A total of 1,200 cartons of avocados at an average price of \$4.00 tala were exported during 1978 giving total export earnings for this crop of \$4,800 tala. The FMD forecasts an increase of exports of avocados for 1979 to 2,000 cartons valued at \$8,000 tala.

Fisheries

23. Although the introduction of the alia fishing boats has greatly improved the capacity to tap deep-water fish resources, a number of problems is being encountered. One of these is technical: more openings have to be blasted in the reef, but the other problems are of a socio-economic nature.

24. Firstly, many of the alia have had to be repossessed because fishermen were not able to repay their loans. The boats are not individually owned and the fishermen have to share profits with many others. This may well reduce their incentive to maximise production, particularly since fishing is extremely hard and demanding work.

Secondly, fishermen complain that the high cost of fuel is prohibitive, even though they get a partial duty rebate.

25. The problems facing the local fishing industry are complex but yet a programme has to be devised to encourage the development of the industry. It will therefore be necessary to conduct a socio-economic-financial study to see whether it is the right strategy to depend on individual fishermen to supply the country's needs or whether Government itself through a Corporation should become heavily involved in commercial fishing and hire local fishermen. A continuing effort needs to be made to develop deep sea fishing for processing and export.

Timber

26. Timber exports have been doing fairly well over the last few years, and for 1979 exports of 2 million super board feet are anticipated. However, Samoa Forest Products will not be able to expand its production very much. Therefore, efforts to increase revenue from timber must concentrate on better utilization of current production. Below are listed some measures that could be considered:

- (1) A careful assessment of how to strike the best balance between import and export of timber and other wood products. On the one hand, Samoan high-grade hardwood should not be used locally for purposes where cheaper kinds of timber may also be used, even if

part of this has to be imported. On the other hand, some of the timber might profitably substitute for timber that is now being imported.

- (2) Efforts to develop new markets for our high-grade timber. At present, we only export timber to other South Pacific islands and fitches to Australia. It is possible that more profitable markets could be found in New Zealand, Australia and other countries, provided a regular supply of these markets could be ensured.
- (3) Utilization of waste, both from logging and sawmilling operations. Chips could be used to make some panel product or as fuel to produce energy, although the feasibility of the latter is doubtful.
- (4) Much forest is being cleared each year for agricultural purposes (the Chief Forest Officer, in his annual report for 1978, estimates at least 2,800-3,000 acres). Much of the wood that is being felled there is not utilized. At present, portable sawmills are being demonstrated in villages under the Forest Extension Project, and a number of villages have expressed their intention to buy this equipment through the Rural Development Fund. Mini-sawmills should improve the utilization of logs. On the other hand, we must be aware that the introduction of this equipment may also encourage the villagers to clear more forest, since this will become much easier. Such a development would have serious consequences for the state of the forest resources.

Industry

27. Development of industry in Western Samoa has been assisted by the enactment of the Enterprises Incentives Act 1965 which provides assistance for businesses commencing operations and expanding production, by allowing duty concessions on imports of capital equipment, building materials, vehicles and raw materials and a tax holiday period for up to five years. To date 55 enterprises have established under the Enterprises Incentives Scheme with total employment of over 1,400 local employees.

28. The rate of industrial development has increased rapidly over the past few years, with most businesses producing goods for the domestic market. Imports have been reduced by a significant amount by the import substitution effect where enterprises manufacture a range of products that would otherwise

have to be imported. From the results of a recent industrial survey, it is estimated that import substitution will lead to a replacement of imports to the value of WS\$5.2 million in 1979 - a rise of \$1.5 million over 1978, from local manufacturing of such products as clothes, roofing iron, barbed wire, ice cream, soft drinks, beer, cigarettes, matches, industrial and medical gases, paper products, and wood products.

29. The main export items of processed and manufactured goods are canned coconut cream and timber, with exports of \$280,000 of the coconut cream and \$142,900 of timber in 1978. In 1979, there will be a significant increase in the exports of coconut cream, due to the installation of new machinery and equipment. Export sales are expected to rise to \$500,000 in 1979/80 with a further increase to \$1 million in 1980/81 with the installation of new equipment. This industry has great potential for exports to the United States market whenever the product meets the strict health regulations for importation into the U.S. Support should be given in the development of this industry, not only in continuing technical assistance for raising product quality, but marketing promotion for the overseas markets, and closer co-operation with WSTEC which supplies most of the coconuts for the canned coconut cream production. If no assistance is given in ensuring an adequate supply of coconuts, in meeting product quality tests, and in promoting the product, export sales will be well below the projected figures.

30. With the development of timber operations by Samoa Forest Products, increases in the export of timber are expected for this year. There is a good market for Western Samoa hardwood in Australia and other developed countries and the increased production by Samoa Forest Products will result in exports of approximately \$550,000 for 1979 with the same value for 1980. In the future every effort should be made to develop a wood processing industry to produce a higher value product from the hardwood, such as an export oriented furniture or wood products industry. For the local market, treatment of the timber will be commenced in July to enable local timber to be used for building and construction thereby replacing imports of timber from overseas.

31. Other industries such as the Brewery, Rothmans Cigarette Factory, Match Factory and Brugger Industries have been established to produce for both the local market and export. Sales of beer to other Pacific countries have shown a potential for increased exports. Exports commenced in March 1979 and are expected to total \$150,000 for 1979, rising to \$250,000 for 1980. Export sales of cigarettes from the factory at Vaitele are projected to commence in October 1979, with a value of \$20,000 for 1979 rising to \$100,000 in 1980.

The Western Samoa Match Company presently has orders of \$50,000 for matches to be exported to Pacific countries, and orders of \$420,000 for the export of splints. It is estimated that exports in 1980 will rise to a total of \$750,000. Brugger Industries produces ^{metal products} mainly for specific export contracts, and present indications are that exports will total \$100,000 for this year, rising to \$500,000 for 1980.

32. A number of other enterprises in Western Samoa are exporting on a limited scale. The textile printing and garment industry has the potential for greatly increased export sales, but at the present time the companies producing garments are producing on a small scale and are unable to afford the necessary export promotion that is necessary to increase exports. Annatto seed processing has commenced with a view to exporting to New Zealand but problems in the supply of the annatto seed are leading to relatively low production and limited exports. Soap production by WSTEC is expected to expand with the introduction of new plant and equipment in 1980. For 1979 exports of soap are estimated to total \$70,000 with an expansion of \$100,000 in 1980.

33. For industries that are presently exporting limited quantities, with the potential for export expansion, the products produced in Western Samoa are often uncompetitive in other markets due to high transportation costs, and the assistance given to exporters from other countries by their Government. Several industries have the potential and excess capacity to increase production with very little additional investment required. The introduction of export incentives would encourage these enterprises to expand production and export sales.

34. For businesses that are producing goods for the domestic market there is competition from imported products which can be produced at a lower cost by overseas companies that use large scale production. There are benefits to Western Samoa from industry being established in this country not only to replace imports and provide a base for export production, but also to increase employment, worker skills and use of local resources.

35. A protection scheme for local businesses is being developed at the present time to amend the Enterprises Incentives Scheme to encourage local businesses to increase production. A policy paper recommending certain changes in the Enterprises Incentives Act has been prepared for submission to Cabinet. (see p.p. 26-32)

36. A number of enterprises have applications under consideration by Cabinet. The Enterprises Incentives Board has recommended certain incentives for firms in the short term, so that these can be reviewed when the protection scheme is implemented. Of the applications outstanding, there are several proposed enterprises that are expected to produce for the export market. The development of the honey industry with a great potential for export sales to Australian and Asian markets should be supported since the company Sabco Limited, has developed over 1,000 bee colonies with expected exports of \$50,000 in the first year of operations. Other export oriented ventures with applications awaiting approval include a bag manufacturing and vegetable processing. It is recommended that a decision be taken on applications for Enterprises Incentives as soon as possible so that the applicant companies can commence production without undue delay.

37. The level of exports of processed and manufactured products will largely depend on the policies implemented by Government. If export promotion and assistance to exporters is given, the total exports will rise significantly, giving greater diversification in the economy and less dependence on the export earnings of the two major agricultural products. With no further assistance it is estimated that exports of processed and manufactured goods will total \$1.6 million for 1979, an encouraging rise from the 1978 level of \$903,200. The potential exports are a lot higher. With export promotion assistance and incentives exports for 1979/80 could rise to \$2.5 million.

38. A continuing effort should be made, with government assistance, to establish further manufacturing and processing industries in Western Samoa. Potential export oriented industries include furniture and wood products, coconut by-products such as coir fibre and shell charcoal, desiccated coconut, fruit and juice processing, textile printing and garment manufacture, processing of cocoa and secondary products, and partial manufacturing for a number of products especially those requiring a high labour content.

39. As the range of locally produced manufactured and processed goods expand, we need to be more concerned about product quality in order to protect local consumers against possibly inferior low quality products. Government should consider setting up a consumer protection unit within an existing department for the purpose.

Handicrafts

40. There are encouraging signs that handicrafts have a good potential for increased export earnings. Sales in 1978 financial year increased by 13% to \$129,242 over 1977 and, for the first month of 1979, sales have increased by 33% over the period in 1978. Approximately 90% of its sales earn foreign exchange and there is a strong demand for more handicrafts from Europe and Hawaii. Sales could increase to \$250,000 over the next 5 years but the following strategy should be adopted:

- (1) The Corporation should continue to operate on a commercially viable basis but its objective is not to generate profits for paying dividends. The emphasis must be for the Corporation to serve as a vehicle for the expansion of the handicraft industry.
- (2) Expanded production along with quality control is vital to any planned expansion of this industry. Accordingly, the Corporation should: (a) employ five extension workers from its own resources to prepare standards, set production targets and assist in quality control at the village level; and (b) double the number of purchasing depots to ninety.
- (3) Overseas promotion should be strengthened by the Corporation to assess potential market size and opportunities and to ensure that sales revenue is being maximized.

Tourism

41. As tourism is recognized by government as one of the primary growth poles in the struggle for development of Western Samoa, government's commitment must be such as to allocate sufficient resources both financial and human within the context of a comprehensive and well conceived tourism plan with immediate appropriate legislation to facilitate the balanced development of the industry. Inasmuch as tourism offers an opportunity for increased economic development, the growth of the industry should not take place solely because of economic considerations. The broad ramification of that growth must be recognized and must take into consideration all factors as they affect life of people in the years ahead.

42. One of the main objectives of tourism development should be to generate foreign exchange earnings and a positive effect on the national balance of payments. As government is presently facing a problem with foreign exchange

earnings, this could be alleviated somewhat from the tourist industry point of view by considering the execution of the following proposals:

- (a) It is undesirable to discriminate between residents and visitors, when the latter are being encouraged to visit Western Samoa, and it is therefore proposed to increase the present airport departure tax to a flat rate of \$3 in order to generate revenue to finance a tourism promotion programme. With 59,027 departures in 1977 of which Western Samoans accounted for 23,613, the increase from \$2 to \$3 for visitors and from \$1 to \$3 for Western Samoans, the extra revenue would be \$35,414 from visitors and \$47,226 from Western Samoans. With the expected increase in visitor arrivals to about 38,000 in 1979, the tourism promotion fund could be in the order of \$100,000. Policywise, all collections from the departure tax should be channelled into a special tourism promotional fund for the proposed Visitor Bureau. The total amount would then be about \$195,000 which would roughly correspond to the additional revenue from the increase in the departure tax plus the present budget of \$30,000. As a short-term strategy revenues received from the departure tax would be available for tourism promotion.
- (b) Set up a duty free shopping centre for visitors in town. This is one of the main attractions for visitors to places such as American Samoa, Fiji, Hong Kong and Singapore. In a recent survey also for visitors to Western Samoa, a number of respondents remarked that the country lacks activities including shopping. A proper legislation or regulation through a Tourism Act should be considered as soon as possible.
- (c) A long term objective which government should seriously be considering now before the costs escalate is the upgrading or resiting of a new wharf. As government is well aware, cruise ships have shied away from entering our port in the last five years because of the insecurity in berthing at the wharf due to heavy swells particularly during bad weather. Cruise ships are very popular in places such as Tonga and American Samoa and this would be a great opportunity to tap this type of tourist market so that everyone from handicraft vendors, hotels, taxi drivers to nightclubs could increase their earnings considerably than it is at present. Another important long term objective is to implement the proposed expansion of Faleolo

Airport, and supporting facilities to accommodate increased travel.

- (d) More promotion of Western Samoa should be considered and trunk airlines such as Continental and Air New Zealand could be approached for their assistance in arranging familiarization trips for key travel agents and tour wholesalers to update their knowledge and files on Western Samoa. Promotion should initially be concentrated in areas such as Australia, New Zealand, and North America.
- (e) Tax incentives should be broadened in the Enterprises Incentives Act under "visitor support facilities" to include film production. Increased activity and exposure of Western Samoa through film making would result in attracting more visitors.
- (f) Government should seriously consider improving the present Convention Fale at the Hotel Tusitala. This would include the provision of air-conditioning units, provision of acoustics, microphones and other amenities. Western Samoa could attract more small conventions or seminars if we had the proper facilities in the country. Convention business is one of the mainstays of the economy of Hawaii and is still growing.
- (g) Consider construction of an additional hotel in the light of expected high occupancy rates of existing hotels.

Energy Saving

43. The recent increase in oil prices makes it even more urgent for us to design an energy policy. A two-pronged approach is needed:

- (1) Replacement of oil by cheaper sources of energy
- (2) Measures to economise on energy consumption.

Replacement of Oil

44. Firstly, work on the two planned hydro-electric power schemes should be sped up as much as possible. These schemes have been under consideration since the 1960's. The possibilities for more such schemes should be investigated, since there are many waterfalls with an all-year-round supply of water. Several small hydro-electric power stations might be feasible.

45. Secondly, wind power would definitely be a good source of energy in many places and a plant is being established to utilize this source, which can be used to drive waterpumps (now mainly diesel-operated) and also to generate electricity, particularly the larger types.

46. Thirdly, there is great potential for the use of solar energy. There are now small solar energy generators on the market, at a cost of approximately WS\$300, which generate sufficient electricity to light a house under Northern European conditions, even on cloudy days. Under Western Samoan conditions, two or three of these appliances could easily light a whole village. Furthermore, it is reported that, in our own country, Eruggers Industries is in the process of developing a stove that works on solar energy.

47. Fourthly, Wood Fuel Project presently being considered for Savaii should be implemented immediately. The plant to be connected with the sawmill in Savaii will use waste from this mill as fuel. Also important might be the generation of electricity through burning coconut palm chips, the more so because the removal and disposal of old felled coconut palms is often a problem in replanting operations.

Measures to Economize

48. A first measure to decrease fuel consumption should be the banning or restricting of high-consumption vehicles and encouraging the import of vehicles that consume less fuel. For private cars, a prohibition on importing cars with a cubic capacity of over 1,200cc would go a long way. For vans and pick-ups, a limit of 2,000cc might be considered. Small motorcycles and mopeds, with a cubic capacity under 100cc, are very economical in fuel. To create an even more favourable price advantage for small automotive units, the duty charged on cars should be increased or the rates on motorcycles decreased. Bicycles are, of course, even cheaper in fuel; at present they are almost unavailable. Thus, the import of bicycles at low duty is also recommended.

49. Such measures would significantly reduce our fuel needs. In addition, increased duty on gasoline might also induce people to economize on fuel consumption. The duty on diesel oil might better be kept at the same level, lest public transport and cargo transport be affected. The former would victimise particularly people with low incomes, whereas the latter would generate an overall rise in prices.

50. Finally, a publicity campaign might be contemplated, encouraging the public to economize on energy and advising how this can be done.

Export Incentives

51. To date, the incentives available to industry in Samoa are not specifically geared towards export development. In recognition of the vital role which exports must play and the need to expand non-traditional exports, export incentives should be introduced as part of an overall strategy for the development of the manufacturing/processing industries. The following should be considered:

- (1) Income tax concessions on export earnings
- (2) Subsidization of freight rates in exports of non-traditional goods.
- (3) The commercial banks and the Western Samoa Development Bank should collaborate to introduce a system of pre-shipment financing in order to provide working capital over and above normal overdraft facilities to finance firm export orders booked.
- (4) To encourage export promotion, bona fide expenditure incurred (e.g. overseas promotional visits, the preparation of marketing material, market studies, participation in trade fairs) and approved in advance by the Department of Economic Development, may treat such expenses as a tax credit to deducted from income tax payable, provided that in any financial year such credits should not exceed 5% of taxes payable.
- (5) In the allocation of foreign exchange, Government will give priority to manufacturers whose export sales represent a significant share of total sales.
- (6) Assistance is to be sought from an international agency for the provision of an export promotion officer to identify export markets, to encourage and to guide local industry to take advantage of export possibilities, to undertake export studies, and to promote export industries in Samoa.

Marketing Research and Export Promotion

52. Marketing Research and Export Promotion is being strengthened in the Department of Economic Development. A specialised unit has been established and a local graduate from Victoria University, Wellington, is devoting full time to this work. Soon a marketing expert provided by FAO will join the Department of Economic Development.

53. Essentially the Marketing Research and Export Promotion Unit will involve itself in studies and efforts to increase exports of both agricultural and manufactured products. It will undertake research and promotion that can be useful to the Produce Marketing Division (PMD) export developments and provide support services and information to Western Samoa Trade Promotion missions travelling overseas.

Long Term Policies

54. The Government's development policy in the long term, particularly in relation to exports, must be based on a realistic appreciation of available land and sea resources not to mention the natural beauty of the country. This will invariably dictate a development policy based on an extensive exploitation of natural-resourced based possibilities - the development of agriculture, fisheries, related processing activities and tourism. Industries falling in this category have many advantages for a country like Samoa - it draws on already existing resources, maximizes local inputs including labour, can be developed as large units and face less limited export markets.

55. It follows from the above that the best prospects for promoting exports are agricultural and related processing activities. This involves identifying the most viable projects and designing the most effective way of promoting actual development. On the latter it seems that the promotion of agriculture should focus on village agriculture via, for example, the already operational Village Development Programme. This approach, however, should be accompanied by the promotion of larger commercial ventures capable of achieving results within a reasonable time span, say, up to five years. Such a two-level attack appears to require at this time a particularly strong effort to establish large plantation units using modern management methods.

56. Detail on major development projects will be given in the Fourth Five Year Development Plan which is currently being formulated. However, the following would appear to be the most promising activities for Western Samoa to pursue in the long run:

- (1) Copra - Continue efforts to improve productivity via such means as the application of fertilisers, selective replanting and the use of high yielding varieties. A study to find out the most advantageous use of the coconut (e.g. copra, coconut cream, oil, husked coconut) should be undertaken as a step towards maximizing earnings. Further efforts at developing coconut by-products should be encouraged.

- (2) Cocoa - The promotion of a number of sizeable commercial plantations, perhaps initially based on the development of some of the existing land held by government. For a start perhaps, invite the Commonwealth Development Corporation, which has already shown an interest, to undertake a joint venture, with 1,000 acres as minimum size. In time cocoa processing will become feasible.
- (3) Banana - Persevere with current experiments at promoting commercial operations. If successful, such operations should be multiplied.
- (4) Fisheries - Begin technical studies of a possible large-scale tuna fishing and / ^{the} feasibility of a joint venture with Japan or other countries like South Korea, Taiwan and the USA. Right to fish in the Fisheries Zones of neighbouring Islands would have to be negotiated as also eventually national jurisdiction limits.
- (5) Cattle - Continue the building up of stocks and pasture development work. Aim for complete import substitution initially, but later for meat exports and the development of processing activities such as meat canning and hide processing.
- (6) Fruit processing - Identify the most promising lines such as possibly citrus, limes, passionfruit and coconut cream. Then determine suitable processing arrangements as well as supply sources for fruit. A partnership with an established overseas partner would be advantageous.
- (7) Furniture and wood-working - To utilize local wood for furniture etc. for both the local market and exports. A joint venture with an overseas company would be appropriate as design, workmanship, marketing and skills training aspects are important.
- (8) Tourism - The pick-up in tourism resulting from the recovery of the world economy means that Samoa will need another hotel of international standard within the next two or three years. This need should now be investigated and studied. A stronger effort should be made to attract tourists from Japan and South East Asian countries and a joint venture in hotel building with one of these countries should be considered as it would lend more variety to existing facilities.

(9) Organizational -

- (a) Establishment of a Government Development Corporation similar to WSTEC should be considered to act as a further catalyst to the country's development. WSTEC seems to have reached an optimum size and any further major expansion may severely tax management. A new development corporation would easily attract funds from overseas.
- (b) Establishment of a National Economic Policy Advisory Council to advise Government on development and planning policy matters. Membership could comprise top economists and planners in the country as well as representatives from the private sector. This will ensure better planning/ policy co-ordination and a regular flow of soundly-based and informed advice to government.
- (c) Setting up a small conservation unit that would advise upon and be responsible for environmental planning. This would complement present development planning approaches in which environmental matters have not figure prominently.

PART V: PROPOSED ECONOMIC STRATEGY AND SUMMARY OF CURRENT EXPORT AND
IMPORT REPLACEMENT ACTIVITIES

A. Introduction

1. A detailed appraisal of Samoa's export and import replacement situation along with proposals and recommendations for strengthening the country's overall balance of payments is given in part IV: Review of Current Export and Import Replacement Activities. The major findings of the above Review are summarised in this part V together with an opening section on proposed economic strategy which does not appear in part IV. The present part highlights key proposals and recommendations which Cabinet should consider for implementation. Also included here, as Annexes 8 and 9, are forecasts of exports and trade balances for 1979 and 1980 which should be useful as background to discussions.

Proposed Economic Strategy

2. The balance of payments has to be tackled using short term measures which will quickly improve the situation while longer term measures are being developed. The fundamental problem is how to maximize the use of scarce foreign exchange while narrowing the trade gap and generating other types of capital inflows. This requires a strict policy of foreign exchange budgeting i.e. allocating available foreign exchanges in terms of national priorities and to ensure that the country does not spend more than what is available and thereby exhaust the country's foreign resources. This is now being done to a certain degree but should be reinforced. Accordingly, the following steps are being proposed:

- (1) The country's existing foreign resources should not be allowed to fall below the present level (i.e. the equivalent^{of}/two weeks value of imports) and should be built up to at least the equivalent of two months value of imports.
- (2) Imports of goods and services should be classified on a functional basis e.g. oil, basic food, raw materials, services and debt payments, capital goods (machinery), motor vehicles and other imports. Projections should be made of the foreign exchange that is likely to be available for the rest of 1979 and for 1980 and should be allocated along the functional categories indicated.
- (3) After meeting the basic import requirements in terms of oil, basic foods, debt repayments, and raw materials and spare parts, what is left should then be allocated to the other import categories.

- (4) To avoid administrative bureaucracy, foreign exchange should be allocated to enterprises (Government and private) to meet payments in the priority categories. All other payments would be allocated on a pro-rata basis to commercial enterprises who are importing the other types of goods, although some of these enterprises may be allocated part of the foreign exchange reserved to purchase basic commodities.
- (5) A thorough review is being undertaken of imports to determine which items should be placed under licensing and those on which the tariff rate should be increased. A major programme of import restriction will have to be introduced. We feel that a stiffer tariff - and even import restrictions - should be placed on items such as cigarettes, beer, ice cream, soft drinks, electrical appliances, and motor vehicles. Where stricter import controls are introduced steps will be taken to safeguard the public's interest, especially in terms of prices and quality.
- (6) Export targets should be set in conjunction with local producers and export assistance provided to enable them to achieve targets. Examples of the type of assistance are indicated in Paras.18-19
- (7) A more aggressive promotional campaign to attract private foreign investment, preferable with local partners, is to be introduced. In this respect, Government should establish a National Investment Corporation for (a) holding all of Government investments in existing enterprises; (b) identifying new opportunities and for investing in joint ventures; and (c) encourage more widespread participation in enterprises.
- (8) The promotional budget for tourism should be increased and a more aggressive but selective marketing campaign is to be undertaken.
- (9) ^{Inaugurate a} savings promotions scheme to encourage local people to save more and perhaps to transfer back funds presently being held overseas. Government should consider issuing national development bonds and exempt interest from tax up to a maximum amount.
- (10) Cut budget expenditure by means which would cause the least disruption; for example cutting down on some non-essential government imports and slowing down or deferring certain budgetted projects which have a particularly ^{big} impact on foreign exchange and which are not externally financed.

(11) Consider carefully other policy options for strengthening the balance of payments and international reserves. Some possibilities are currency devaluation, more commodity^{aid} and increased soft-term loans and grants. The present exchange rate discourages export of non-traditional goods and export subsidies (e.g. freight rates) should be considered since it will lower the effective price of Samoan exports. Devaluation is not recommended as an effective measure at the present time.

3. The main products and strategy capable of strengthening exports are given as follows together with a comment on long term policy.

Copra

4. Despite a long standing replanting programme, sustained increases in copra production have not materialised with the major constraints apparently being poor management; old trees; lack of proper cleaning of plantations; and a low collection rate for nuts. Government should consider carrying out a sample survey of current problems facing copra and of possible ways to increase production. High-yielding hybrid varieties should be promoted even if it means slowing down present replanting efforts. Of more immediate importance is the launching of a campaign to collect coconuts in line with a previous proposal made by the Department of Agriculture. Additionally, the economics of the proposed copra mill should be re-examined in the light^{of} disappointing copra production.

Cocoa

5. Government needs to make a vigorous effort to arrest the long-term decline in the export of cocoa for which world market prospects are highly favourable. The control of black pod is essential. A short term measure is to improve the quality of export beans, so as to maximise earnings per given quantity, by the establishment, perhaps by the Cocoa Board, of cocoa fermentation and drying facilities. The Commonwealth Development Corporation should be approached to join in a joint venture in cocoa.

Banana

6. This crop as an export product faces formidable problems relating to various plant diseases; quality; increasing local consumption; and, in general, low return on investment. We feel that it has poor prospects as a major export crop for small-holders and that the major emphasis here should be given to ensuring supply for local consumption needs. This does not preclude continued support for larger commercial operations which are capable of operating profitably.

Taro

7. A vigorous effort is needed to develop new markets for this product which is likely to reach \$1.5 million tala in export sales in 1979. This should be given top priority as the market potential could well be \$3 million tala reachable within a short period of time.

Other Small Crops

8. Best prospects are annatto; kava; husked coconuts and avocados. Export values are small, but they could help diversify exports and should be persevered with. Annatto in particular could be developed as an important export industry.

Fisheries

9. A major potential; an immediate need is to investigate the current state of the village fisheries programme based on the alia as, evidently, there are problems over loan repayment; high cost of fuel; and marketing. Government should actively pursue a policy of developing commercial deep sea fishing for processing and export as well as for the local market. It should also examine the possibility of reducing the importation of canned fish.

Timber

10. Samoa Forest Product seems unlikely to substantially expand exports beyond 2 million super board feet estimated for 1979, so that a major effort should be made to improve the utilization of local timber, many species of which are extremely attractive. A major effort should be directed at utilizing local wood presently wasted; to develop new timber treatment processes; open up new markets for high grade timber; and to encourage furniture making.

Industry

11. Exports from Samoa's fledgling manufacturing and processing sector amounted to \$900,000 in 1978, but could probably exceed \$1.5 million in 1979/80. Significant increases in export sales are expected for coconut cream, while this will be reinforced by sales from newly established ventures especially beer; cigarettes; matches and splints; and metal products. Additional export potential might also be realised from textile printing and garments; annatto; and soap; not to mention honey. And several products such as frozen passionfruit, mango and papaya being promoted by the Food Processing Laboratory, Alafua, show promise.

12. The export potential of local industry is far higher than might be expected; even in the short run exports could reach \$2.5 million if government could provide appropriate assistance measures. This includes export incentives, export finance; and market promotion. Government assistance in respect of coconut cream; soap; and textiles in particular could pay heavy dividends in foreign exchange earnings.

13. It is urged, as a start, that Government consider closely for implementation the proposals set out below on export promotion. A unit to act as a watchdog over the quality of locally produced products should also be considered.

Handicrafts

14. The Handicraft Corporation is a useful export activity with sales of \$129,000 tala in 1978, 90% of which were in the form of foreign exchange. It could double sales within five years if it could be reorganized as a more effective vehicle for the expansion of the handicraft industry. Thus, it should be encouraged to undertake more marketing promotions overseas and to hire more staff to promote quality control and set production targets. The number of purchasing depots could also be substantially expanded.

Tourism

15. With tourism a key source of foreign exchange earnings, new initiatives are needed to ensure further expansion. This should take place within Government's overall philosophy of controlled growth and, possibly, through new legislation as a basic framework for future development. We urge Government to examine closely the following proposals which, if implemented, would give the local industry a further thrust:

- (a) intensify promotional work overseas to attract tourists;
- (b) raising the airport departure tax from \$2 to \$3 to finance a special fund which the Tourist Bureau could channel into tourist promotion;
- (c) upgrade the Apia wharf so as to attract cruise ships and their "tourist shopping";
- (d) extend benefits under the Enterprises Incentives Scheme to include film-making which generally provides good publicity for Samoa;
- (e) upgrade the Convention Fale at the Hotel Tusitala and actively promote Apia as a regional convention centre;

- (1) encourage the construction of an additional hotel taking into account the increasing occupancy rate on existing hotels;
- (2) enact legislation allowing for the establishment of duty free shopping in Apia.

Energy

16. Samoa's oil and fuel imports are substantial and rising rapidly. This coupled with the certainty of regular increases in world oil prices make it essential for Samoa to design an energy policy. It is urged that the various alternatives for replacing oil as a source of energy be examined, especially the further development of hydro-electric power and the use of wind power, solar energy and wood chips.

17. Government should also introduce measures designed to economise on fuel consumption; for example, import restriction on high energy consumption vehicles, a reduced duty rates on motorcycles and mopeds, higher duty on gasoline, and a publicity campaign on energy conservation.

Export Incentives

18. The point has been reached where special export incentives and related measures of assistance should be provided in order to stimulate non-traditional exports. It is recommended that tax exemptions should be accorded to an enterprise which has been able to increase the proportion of exports to total sales over some base period (which should be a moving average). (An export incentives programme is now being prepared as a part of a new set of proposals for industrial development.)

19. Further assistance, possibly via the Development and Commercial Bank, in the form of export finance (over and above normal overdraft limits) should be considered. Government should also examine other form of export assistance including export/marketing promotion, priority in foreign exchange allocations and the possibility of securing the services of an export promotion officer from an international aid organization.

Marketing Research/Export Promotion

20. The Department of Economic Development is being strengthened to handle this kind of work which is vital for opening up new markets. In particular the Marketing Research/Export Promotion Unit will assist the Produce Marketing Division (PMD) and provide back-up information and material to Western Samoa Trade Promotion Missions travelling overseas.

Long term Policy

21. Western Samoa's long term development policy must be based firmly on a realistic appreciation of the country's stock of human and physical resources. This would appear to dictate a policy geared to the exploitation and development of such natural resource-based industries as cocoa production and processing, coconut products, fisheries, cattle, fruit processing, furniture and woodworking and tourism. In developing these resources a greater emphasis should be given to large commercial operations, including joint ventures with such bodies as the Commonwealth Development Corporation, capable of maximizing exportable surpluses. This should be paralleled by a continuing effort to strengthen small-scale village agriculture.

22. Three possible organizational innovations are proposed for Government's consideration: the establishment of another WSTEC-like development corporation; the creation of a National Economic Policy Advisory Council; and the establishment of a small environmental planning unit.

PART VI: PROPOSAL FOR A NATIONAL INVESTMENT FUND

The Concept

A Fund to acquire equity in existing commercial enterprises and to stimulate new investment by sponsoring and participating in equities of commercially viable enterprises. The Fund would serve as a new investment outlet for financial intermediaries, such as insurance companies and the National Provident Fund, private companies and individuals. In doing so, it would facilitate the flow of savings into investment and provide the opportunity for more widespread public participation in commercial enterprises in the manufacturing sector. It is envisaged that the Fund would concentrate its investments for capital growth and not for investment income.

The Rationale

1. New investments and programmes are needed to encourage savings for investment as was recognized in Development Plan 3.

2. Because of Samoa's size, only in very exceptional cases is adequate equity finance available from potential investors. As a result, there are many cases where equity participation has been offered on an ad hoc basis to various participating investors. A larger pool of resources would provide a readily available equity base for making investments.

3. Equity capital is concentrated in the hands of only a very few Samoans as a result of which the opportunity to benefit from the growth of the commercial/industrial sector is not available to many potential investors.

4. By establishing a Fund with investments in different enterprises it should be possible to minimize risk.

5. The Western Samoa Development Bank does not usually make equity investments. Establishment of the Fund would provide the means for providing equity capital to complement development and working capital available from banking institutions.

6. The National Investment Fund would facilitate a more rationale approach to managing Government's equity investments by developing the expertise to assess investment alternatives and to monitor more effectively Government's equity portfolio since there is now no clear cut policy on Government investments.

Capitalization of the Fund

7. Government's total equity investment in enterprises would be used as the basis for calculating its share of the net worth of enterprises as shown in Annex 10, although the viability of each enterprise would be assessed.

For the nine enterprises shown, paid up capital is \$3,097,350 and net worth (i.e. paid-up capital plus reserves) is \$2,509,652, the difference being attributable to the negative net worth of \$31,023 for Western Samoa Hotel Co. from a paid up capital of \$500,000. Government's shareholdings ranged from 10% to 98% and the total value of its net worth, based on its share of the capital of individual companies, is \$1,667,160 as against an investment of \$1,771,607. Thus, if Government shareholdings were to be transferred to the National Investment Fund at current net worth, Government would stand to lose approximately \$100,000. But that would be only a book loss from the transfer since Government would still be holding the entire stock units of the Fund until such time as the public responded to the offer to purchase stock units. Furthermore, if the scheme were to be supported by the financial intermediaries and the public, the size of the Fund would increase and substantial new investments with national economic benefits could be undertaken.

Operation of the Fund

8. Assuming that Government were to sell its shares to the Fund for the price of \$1,667,160, it would receive 1,667,160 stock units. Any funds received from the sale of stock units at \$1 each would be available to the Fund for investment in new equities and for short term deposits or the purchase of short term Government securities. Thus, if the Fund were to be increased to \$2 million by selling 332,840 stock units for \$332,840 in the first year, Government's holdings in the Fund would still be 1,667,160 units while new purchasers would hold 332,840 units. Assuming that the net worth of the companies in which the equities are invested increased by 7% and deposits earned 7%, the value of Net Worth would increase to \$1,783,861 and that of the short term deposits to \$356,139 giving a total value of \$2,140,000 or \$1.07 per stock unit.

9. Since there is virtually no securities market in Western Samoa, in order to introduce a certain degree of liquidity where purchasers of stock units would have some assurance that they could obtain cash by selling their stock units should they wish to do so, the Fund would always keep a certain amount of its resources in liquid form (i.e. short term deposits or Government securities) for encashment to repurchase stock units. Guidelines would have to be worked out to set maximum encashments, especially by institutions holding large blocs of stock units.

10. To illustrate, if it were stipulated that stock units purchased would have to be held for a minimum period of 2 years during which period Government would guarantee that the value of each unit would increase at 7% per annum (i.e. a rate comparable with Government securities rate), at the end of the period purchasers could be permitted to encash all units bought and held for the period at the guaranteed rate. If purchasers had to sell

before the two year period, they could be paid the original purchase price i.e. \$1.00. If the investments were successful and the value of each stock unit increased to \$1.14 instead of the \$1.07, new purchasers would have to pay \$1.14. The price at which the units sold would be re-purchased by the Fund could be between \$1.07 and \$1.14. Therefore, by guaranteeing a rate similar to the savings rate, purchasers of stock units would experience no financial loss but at the same time would stand to gain as the value of the enterprises in which the investments are made increases. The converse holds true in case of losses but the investor is protected by the floor price to be guaranteed by Government.

11. The guarantee by Government is vital to the success of the Fund and it would be taking no more of a risk than if Government were to issue its own securities to raise funds from the public and to invest in enterprises as it now does, but through the consolidated fund.

12. From preliminary discussions with the National Provident Fund, there would be interest in participating in the Fund and the NPF's cash flow could support an annual investment of \$500,000. Interest has also been expressed by WSLAC although annual investable funds for equities would not be more than \$50,000.

Management of the Fund

13. A Board of Directors would be appointed by Cabinet. Suggested composition is:

Director of Economic Development
Financial Secretary
Manager, National Provident Fund
Manager, Western Samoa Development Bank
Three members of the public

14. The Board would invest only in commercially viable enterprises which are likely to earn a fair return on capital. Investments undertaken on the basis of national considerations other than profitability would not be made by the Fund.

15. The Board would appoint a Manager for the day to day operation of the Fund. (A Manager with a Secretary should be adequate to operate the Fund).

Action Required: Subject to Cabinet approval, the recruitment of a person with accounting/financial background as manager-designate and an expert for a period of 2-3 months to establish the Fund.

PART VII: NOTES FOR THE TOURISM CHAPTER OF DEVELOPMENT PLAN 4

1. Begin the chapter with the objectives as stated in the paper "General Report on the Future Development of the Visitor Industry in Western Samoa".
2. Specify the targets aimed at in the current Plan
 - (a) Visitor accommodation (existing plus new)
 - (i) type
 - (ii) size
 - (iii) location
 - (iv) timing
 - (b) Occupancy rates - suggest a figure of 65-70% since the 85% used in the last Plan was unrealistic. The projected occupancy rates should be on an annual basis and related to available visitor accommodation.
 - (c) Tourism expenditure each year according to:
 - (i) stopovers
 - (ii) cruise-ship visitors

The per-visitor expenditure in 1977 could be outdated and does not include cruise-ship visitors. New surveys should be undertaken as a matter of urgency and the findings used in the current Plan. Also, the 45% foreign exchange retention in Development Plan 3 is probably exaggerated. The ratio is likely to be much lower.
 - (d) Visitor attractions
 - (i) type - be specific (e.g. water sports, development of cultural shows, scenic sites, restaurants)
 - (ii) location
 - (iii) guesstimates on use by number of visitors and nationals
 - (e) Training of nationals - categories:
 - (i) in-service
 - (ii) overseas
 - (f) Higher ratio of local food to imported food used in hotels.

3. Programmes to achieve Targets

(a) Construction

- (i) visitor accommodation
- (ii) infrastructure, e.g. pier, airport
- (iii) cost of construction of (i) and (ii)

Spell out Government policy on foreign investment - the areas to be reserved for Samoans, e.g. small hotels, guest houses and ancillary services. Also specify Government policy on development areas for hotels.

- (b) Establishment of a National Tourist Board along the lines indicated in draft "Tourist Traffic Act 1978". While it is proposed to have a Visitors Bureau, it might not be necessary to create a new entity under the Board, since in many countries the Board itself undertakes the functions outlined for the Visitors Bureau.

(c) Marketing strategy and promotion by Board

- (i) overseas - in conjunction with hotels and airlines
- (ii) locally - in conjunction with the Education Department and the Ministry of Youth, Sports and Culture.

- (d) Preparation of training programmes by Board in conjunction with hotels and with external technical assistance.

- (e) Planned tour and programmes for greater utilization of visitors of local attractions, e.g. cultural shows, visits to villages, sightseeing.

- (f) Programme with hotels for using more indigenous food.

- (g) Market research.

- (h) Preparation of a detailed economic/sociological/physical plan for tourism.

4. Estimated Cost of Personnel Requirements of Tourist Board

- (a) Capital cost
- (b) Operating budget
- (c) Type and number of personnel.

Annex 1

Potential Projects Identified for Implementation/Study
during the Current Plan Period

1. Selected Import Substitution Industries and their corresponding Import
Values in 1977 are:

	(\$000)
Frozen poultry	248
Fish (fresh or frozen)	75
Prepared fish	933
Milk (preserved and fresh)	389
Butter	230
Vegetable oils and fats	294
Soaps and detergents	145
Prepared meats	718
Macaroni and spaghetti	115
Biscuits, cakes and pastries	104
Preserved vegetables, jams, juices	60
Garments	426
Linens and other furnishings	58
Footwear	67
Toys	42
Varnishes and paints	189
Cosmetics and toilet preparations	137
Disinfectants, insecticides, etc.	200
Household plastic products (to partially substitute for glass and ceramic products)	255
Furniture	108
Brooms and brushes	25
Wood products	614
Poles and posts	120
Printing paper, exercise books, envelopes and postcards	174
Barbed wire	69
Nails, staples, etc.	58
Bolts and nuts of iron and steel	77
Netting or fencing of iron and steel	100

2. Export Oriented Industries:

Coconut oil
Fish products
Fruits and juices
Coconut cream

Desiccated coconut
Activated carbon
Cocoa butter, powder and related products
Beers and cigarettes
Garments
Printed fabrics
Bags and travel goods
Wigs and hair pieces
Costume jewellery
Crafts
Soft and wooden toys
Paints
Soaps and detergents
Cosmetics and toilet preparations
Hardboard
Footwear
Assembled electronic products
Computer card processing services

The above industries are only indicative of industries with import substitution and export development potential. Government is prepared to consider all industrial proposals where it can be demonstrated that a meaningful economic contribution can be made to Western Samoa.

Annex 2

Nominal and Effective Rates of Protection for Selected Industries

Industry	Nominal Duty on Imported Finished Product	Nominal Duty on Raw Material Input (full rate/incentive rate)		Coefficient of Material input	Proportion of Final Output that is Value Added		Effective Protection Rate		
		Full rate	Incentive Rate		Full Rate	Incentive Rate	Full Rate	Incentive Rate	
<u>Garments</u>									
Island Styles	60%	52%	52%	25%	39%	39%	121%	121%	
Tiresa o Samoa	60%	52%	5%	37%	62%	45%	66%	129%	
<u>Screen Printing</u>									
Island Styles	52%	52%	15%	51%	49%	33%	51%	133%	
<u>Steel Fabrication</u>									
Iron and Steel Fabrication Ltd.	45%	45%	13%	63%	48%	29%	35%	127%	
<u>Meat Products</u>									
Samoa Meats	34%	34%	34%	40%	47%	47%	42%	42%	
<u>Food Processing</u>									
Aunty Lanu's Cake Factory	53%	26%	10%	48%	40%	34%	101%	142%	
Sunshine Bread and Biscuit Co.	58%	22%	22%	49%	32%	32%	148%	148%	
<u>Bag Manufacture</u>									
J. Wiseman	42%	42%	0%	32%	17%	31%	168%	135%	
<u>Paints</u>									
Samoa Paints	42%	42%	25%	48%	49%	45%	45%	67%	

Annex 3

Estimates of Local Market Size for Selected Products

Industry	Total local sales of local companies	Exports	Local Sales of Local Companies	Imports	Total Market Size	Imports as a ratio of the Domestic Market
Garment	140,000	18,500	158,500	483,368	641,868	75.3%
Footwear	200,000	-	200,000	67,612	267,612	25.3%
Food Processing - biscuits and cakes	323,000	-	323,000	104,200	427,200	24.4%
- confectionery	-(started late 1978)	-	-	115,238	115,238	100%
- ice cream	160,000	-	160,000	40,000(est)	200,000	20%
Paint	245,000	50,000	295,000	160,000	455,000	35.2%
Steel Fabrication	702,000	-	702,000	412,383	1,114,383	37%
Paper products	-(started 1979)	-	-	371,656	371,656	100%
Wind generators	-(new product)	-	-	-	-	-
Breweries	-(started late 1978)	-	-	600,000	600,000	100%
Metal Products	-(started 1979)	-	-	403,148	403,148	100%
Mufflers	50,900	-	50,900	N/A	-	-
Soft Drinks	550,000	-	550,000	8,615	558,615	1.5%
Gas Manufacture	238,000	-	238,000	Negligible	238,000	0%
Bag Manufacture	7,700	-	7,700	27,155	34,855	77.9%
Wood Products	150,000	-	150,000	99,154	249,154	39.8%
Cigarettes	-(started 1979)	-	-	896,187	896,187	100%
Match Manufacture	-(started 1979)	-	-	32,177	32,177	100%
Meat Products	510,000	-	510,000	639,521	1,149,521	55.6%

Annex 4

Selected Data on Firms Approved Under the Enterprises Incentives Act

Name of Enterprise	Industry	Incentives - Duty	Tax Free	Equity Capital	Net Worth	Capital Employed	Sales	Profits	Employees
Island Styles	Garment	CE, BM, RM Vehicle	8 years	65,000	59,455	125,092L	119,000	7,900	32
Tiresa o Samoa Creations		CE, BM, RM Vehicle	2 years	18,300	22,135	34,615L	13,000	1,900	8
Design Pacific		CE, BM, RM Vehicle	5 years	77,000			25,000	2,000	21
S.C. Percival		CE, RM, Vehicle	5 years	10,000(est)			1,500	-	3
South Pacific Industrials	Footwear	CE, BM Vehicle	3 years	21,000			175,000	20,000(est)	10
Van Bortel		CE, BM, RM Vehicles	6 years	20,000			20,000	-	5
Faleseevae		CE Vehicle	3 years	10,000			5,000	-	5
Sunshine Bread & Biscuits	Food Processing	CE Vehicle	3 years	45,000	66,309	73,787	245,000	10,200	28
Aunty Lanu's Cake Factory		CE, BM, RM Vehicles	5 years	10,000			93,000	6,000	14
Samoa Tropical Products		CE, RM Vehicle	3 years	75,000	83,955	118,955	239,000	6,800	110 ^{on}
Samoa Snack Foods		CE, RM Vehicles	3 years	40,000			-	-	12 ^{on}
Supreme Ice Cream		CE, BM Vehicles	5 years	60,000			160,000	20,000(est)	15
Samoa Paints Limited	Paint	CE, BM, RM Vehicles	2 years	30,000	66,245		295,000	34,000	12
Samoa Iron and Steel Fabrication	Steel Fabrication	CE, BM, RM Vehicles	4 years	110,000	113,535	197,441	492,000	64,000	13
Samoa Roofing & Builders Supplies		RM	-	50,000	51,863	51,863	210,000	19,000	5
Papa Industries	Paper Products	CE, BM, RM Vehicles	3 years	50,000			-	-	12
Wind Power	Wind Generators	CE, BM, RM Vehicles	3 years	20,000			-	-	4
W.S. Breweries Limited	Beer	CE, BM, RM Vehicles	5 years	1,000,000			-	-	60
Brugger Industries	Metal Products	CE, BM, RM Vehicles	5 years	45,000			-	-	12
Automotive Exhaust Systems	Mufflers	CE, RM Vehicles	4 years	20,000			10,900	(3,600)	3
Cordtz Engineering		CE, Vehicle	-	8,000			40,000	3,000(est)	6
Apia Bottling	Soft Drinks	CE, BM Vehicles	5 years	105,000			350,000	35,000(est)	30
Curry's Cordials		CE	-				200,000	20,000(est)	51

Name of Enterprise	Industry	Incentives - Duty	Tax Free	Equity Capital	Net Worth	Capital Employed	Sales	Profits	Employees
Samoa Industrial Gases	Gas manufacture	CE, BM, RM Vehicles	5 years	123,500	129,752	226,396	238,000	25,000	12
J. Wiseman	Bag manufacture	CE, BM, RM Vehicles	5 years	52,000			7,700	(6,000)	4
Samoa Wood Products	Wood Products	CE	2 years	9,000			150,000	20,000(est)	19
Rothmans Industries	Cigarettes	CE, SM, RM Vehicles	3 years	200,000			-	-	42
W.S. Match Company	Match manufacture	CE, BM, RM Vehicles	5 years	100,000			-	-	10
Pacific Meat Packing Co.	Meat Products	CE, Vehicle	3 years	5,500			200,000(est)	1,000	15
Samoa Meats		CE, RM Vehicles	3 years	50,000	56,782	56,782	180,000	20,000	6
W.S.T.E.C.		CE, BM, RM	-	-			130,000	44,000	31

Notes: CE = Construction Equipment
BM = Building Materials
RM = Raw Materials

Annex 5

Illustrative Example to Show How to Calculate
the Effect of Changes in the Tariff Rates on
Profits and Effective Protection

A. General Information

1. Name of Company: ABC Ltd.
2. Concessions Now Being Received:
 - a) Duty free import of machines
 - b) Concession rate on raw materials
 - c) Income tax holiday
3. Date of Production: 1974
4. Date of Termination of Concessions: 1979
5. Products Manufactured/Processed/Assembly
 - a) Men's and Boys' Shirts
 - b) Men's and Boys' Underwear
6. Industry: Garment
7. Estimate Size of Local Market for Products \$500,000
8. Estimated Share of Local Market \$200,000
9. Capacity Utilization of Machines on:
 - a) 1 shift : 80%
 - b) 2 shifts : Nil
10. Normal Tariff Rate on:
 - a) Raw Materials (T_m)40%
 - b) Final Goods (T_f)50%
11. Concession Tariff Rate in Raw Materials (T_g)15%
12. Concession Being Requested:
 - a) Raw Material
 - b) Final Good

	<u>Concession Rate</u>		<u>Normal Rate</u>	
15. Effective Rate of Protection:	$\frac{.50 - (.15 \times .36)}{.42}$	= 106%	$\frac{.50 - (.40 \times .36)}{.42}$	= 85%
16. Ratio Net Profit to Net Worth:	$\frac{18,000}{60,000}$	= 30%	$\frac{500}{60,000}$	= 1%
17. Assumption: Ratio of Net Profit to Net Worth of 20% is reasonable. Implied Net Profit = .20 x 60,000 = 12,000				
18. Difference between net profit with concession duty rate and implied net profit: 6,000 (lines 11 and 17)				
19. Implied amount of duty: 10,500 + 6,000 = 16,500 (lines 4 and 18)				
20. Implied new duty rate: $\frac{16,500}{70,000}$ = 24%				
21. Effective Rate of Protection with implied new duty rate	$\frac{.50 - (.24 \times .36)}{.42}$	= 98%		

Effective Rate of Protection is Expressed as:

$$e = \frac{T_f - (T_m \times M)}{V}$$

Where: e is the effective rate of protection

T_f is the import tariff on finished goods

T_m is the import tariff on raw materials (Normal, Concession Implied)

M is ratio of imported raw material (CIF) to Output

V is ratio of value added to output

Annex 6

Financial and Economic Information - (Proposed Change)

		<u>1977</u>
1. Raw Materials - CDV - Value		70,000
2. Insurance, freight etc.		10,000
3. Normal Duty - 40% of CDV - Value		28,000
4. Concession Duty Rate - 15% of CDV - Value		10,500
5. Value of Raw Materials - with normal duty rate		108,000
6. Value of Raw Materials - with concession duty rate		90,000
7. Value of Output:		
a) Sales	200,000	
b) Changes in finished stocks	<u>20,000</u>	220,000
8. Net Worth (i.e. Paid-up Capital and Reserves)		60,000
9. Capital Employed (i.e. Net Worth and Long term and short term borrowings)		160,000
10. Net Profit - with normal duty rate		500
11. Net Profit - with concession duty rate		18,000
12. Value Added:		
	<u>Normal Duty</u>	<u>Concession Duty</u>
a) Net Profit	500	18,000
b) Interest	2,000	2,000
c) Depreciation	2,000	2,000
d) NPF	200	200
e) Other indirect taxes	200	200
f) Wages and Salaries	<u>60,000</u>	<u>60,000</u>
Sub-total	64,900	82,400
g) Duty	<u>28,000</u>	<u>10,500</u>
VALUE ADDED	\$92,900	\$92,900
13. Ratio of Raw Materials to Output:	$\frac{80,000}{220,000}$	= .36
14. Ratio of Value Added to Output:	$\frac{92,900}{220,000}$	= .42

ENTERPRISES INCENTIVES ACT 1965

Western Samoa

ANALYSIS

Title	
1. Short Title	16. Subsequent application
2. Interpretation	17. Extension of tax holiday period
3. Administration of Act	18. Relief from customs duty
4. Establishment and members of Incentives Board	19. Special provisions relating to articles acquired free of customs duty
5. Deputies of members of Board	20. Restriction upon disposition of articles acquired free of customs duty
6. Terms of appointments	21. Relief from income tax
7. Meetings	22. Annual Report
8. Remuneration and allowances of Board Members	23. Excusing compliance with Business Licences Ordinance 1960
9. Members and officers to maintain secrecy	24. Revocation of approval order
10. Application for approval order	25. Head of State may amend Schedule
11. Existing enterprise producing similar product	26. Offences
12. Director to report to Board	27. Repeal and Savings Schedule
13. Board to report to Cabinet	
14. Cabinet may approve enterprise	
15. Notification of order or refusal	

AN ACT to encourage the establishment and expansion of enterprises in Western Samoa, by making provisions for the grant of certain relief from customs duties, income tax and business licence fees to persons engaging in approved enterprises; and for purposes incidental to or connected with any of the foregoing purposes. (21 October 1965).

BE IT ENACTED by the Legislative Assembly of Western Samoa in the Parliament assembled as follows:-

1. Short title - This Act may be cited as the Enterprises Incentives Act 1965.

2. Interpretation - In this Act, unless the context otherwise requires, -

"Approval Orders" means an order approving an enterprise made under section 14 of this Act;

"Approved enterprise" means an enterprise in respect of which an approval order has been made under section 14 of this Act; and means only the expansion of the enterprise where the approval relates only to such expansion;

"Board" means the Incentives Board establishment by section 4 of this Act;

"Collector" means the Collector of Customs;

"Commissioner" means the Commissioner of Inland Revenue;

"Date of production", in respect of an enterprise, means the date of production specified in an order approving that enterprise, which shall not be later than the date set out opposite the class of that enterprise in the Schedule to this Act;

"Department" means the Department of Economic Development constituted and established by the Economic Development Act 1965:

"Director" means the Director of Economic Development appointed under the Economic Development Act 1965:

"Enterprise" means an enterprise of one of the types set out in the Schedule to this Act:

"Enterprise" means the person authorised by an approval order to conduct an approved enterprise:

"Minister" means the Minister of Finance and Economic Development:

"Tax holiday period", as to customs duty, income tax and business licences, or any one or two of them, means any period commencing from an approval order coming into force, and -

- (a) Ending at the expiration of any period up to five years from the date of production, as ordered by Cabinet in the approval order, or, if not so ordered at the expiration of such five years; or
- (b) Ending later if and as granted by Cabinet under section 17 of this Act.

3. Administration of Act - The Department, under the control of the Minister and subject thereto of the Director, shall be charged with the general administration of this Act.

4. Establishment and members of Incentives Board - (1) There is hereby established a Board to be called the Incentives Board.

(2) The Board shall consist of -

(a) The following voting members -

(i) The Minister, who shall be the Chairman;

(ii) Two other members of the Legislative Assembly,
to be nominated by the Assembly and appointed
by the Cabinet;

(iii) A member of the Chamber of Commerce of Western
Samoa, who is a citizen of Western Samoa to
be nominated by the Chamber and appointed by
the Cabinet; and

(iv) A planter, who is a citizen of Western Samoa, to
to be appointed by Cabinet; and

(b) The following non-voting ex officio members -

(i) The Director, who will also act as Secretary to
the Board;

(ii) The Financial Secretary;

(iii) The Commissioner; and

(iv) The Collector.

5. Deputies of members of Board - Cabinet shall also appoint -

(a) Two other members of the Legislative Assembly to be nominated
by the Assembly to be the respective deputies of the two
members of the Assembly appointed to be members of the
Board;

(b) Another member of the Chamber of Commerce who is a citizen of
Western Samoa to be nominated by the Chamber to be the
deputy of the member of the Chamber appointed to be a
member of the Board;

(c) Another planter to be the deputy of the planter appointed
to be a member of the Board.

(2) Each deputy shall act for the member whose deputy he is whenever that member -

- (a) Dies or resigns or is removed from office; or
- (b) From any other cause whatever is not available or eligible or is otherwise unable to act as a member of the Board.

(3) When a deputy is called on to act in consequence of -

- (a) Any of the contingencies specified in paragraph (a) of subsection (2) of this section, he shall continue to act until a substitute member has been appointed; and
- (b) Any of the contingencies specified in paragraph (b) or sub-section (2) of this section, he shall continue to act until such time as the member whose deputy he is again able to act.

(4) In every case where a non-voting ex officio member of the Board is absent from a meeting of the Board, a deputy appointed by him may attend and act at the meeting in his stead.

(5) The fact that any deputy attends and acts at any meeting shall be conclusive proof of his authority to do so, and no person shall be concerned to enquire whether the occasion has arisen which authorises or requires him to do so.

(6) Terms of appointments - (1) Subject to the other provisions of this Act, the members and deputy members of the Board to be appointed by Cabinet shall be appointed for a term of three years, but may from time to time be reappointed.

(2) Any member or deputy member of the Board appointed by Cabinet may at any time be removed from office by Cabinet for loss of qualification, disability, bankruptcy, neglect of duty or misconduct proved to the satisfaction of Cabinet; or at any time resign his office by written notice given to the Minister.

(3) If any member or deputy member of the Board appointed by Cabinet dies or resigns or is removed from office, or if any deputy member is appointed to be a member, his office shall, as soon as practicable, be filled by the appointment of a new member or deputy member as the case may be in the same manner as in the case of the vacating member or deputy member.

(4) Subject to the other provisions of this Act, every member and deputy member appointed under subsection (3) of this section shall hold office by virtue of appointment for only the residue of the term of the vacating member or deputy member.

(5) Unless a member or deputy member of the Board appointed by Cabinet sooner vacates his office, he shall continue in office until his successor is appointed, notwithstanding the expiry of the term for which he was appointed.

7. Meetings - (1) Meetings of the Board shall be called by the Director on the instructions of the Chairman.

(2) The quorum for any meeting shall be three voting members.

(3) Every question before a meeting of the Board shall be decided by a majority of the votes of the voting members (including their deputies if any) present at the meeting.

(4) Every meeting of the Board shall be presided over by the Chairman, or, if he is not present, by a voting members or deputy of a voting member appointed by the voting members and deputies of voting members who are present.

(5) At any meeting of the Board the Chairman or other voting members or deputy of a voting member presiding shall have a deliberative vote, and, in the case of an equality of votes, shall also have a casting vote.

(6) A resolution in writing signed, or assented to by letter or telegram or cable, by a majority of the voting members of the Board or their deputies shall be as valid and effectual as if it had been passed at a meeting of the Board.

(7) Except as otherwise provided in this Act, the Board may regulate its procedure as it thinks fit.

8. Remuneration and allowances of Board members - (1) There may be paid, from moneys appropriated by the Legislative Assembly for that purpose, to each member of the Board appointed under clause (ii), clause (iii) or clause (iv) of paragraph (a) of subsection (2) of section 4 of this Act who is not a full-time salaried employee of the Government.

(a) Any travelling expenses reasonably incurred by him in respect of the performance of his duties as a member of the Board; and

(b) Such sum as Cabinet from time to time approves in respect of each day or part of a day which such member spends upon the business of the Board.

(2) Any such approval may be expressed to operate from the date thereof or an earlier or later date, and if not so expressed shall operate from the date thereof.

9. Members and officers to maintain secrecy - (1) Every member of the Board, every officer of the Department, and every other person engaged or employed in connection with the work of the Board or the Department, shall maintain and aid in maintaining the secrecy of all matters which come to his knowledge when carrying out his functions or duties under this Act, and shall not communicate any such matters to any person, except for the purpose of carrying this Act into effect.

(2) Every person who wilfully acts in contravention of subsection (1) of this section commits an offence against this Act, and shall be liable to imprisonment for a term not exceeding three months or to a fine not exceeding one hundred pounds or to both.

Cf. 1958, No. 110, s. 6 (N.Z.).

10. Application for approval order - (1) Any person who is desirous of establishing or expanding an enterprise in Western Samoa may apply to the Department for an order approving such enterprise.

(2) The applicant shall supply to the Department, with his application, the following information:

- (a) Full name, address and present occupation or main business of the applicant, and, if the applicant is a public or private company, where incorporated;
- (b) Full name of the enterprise;
- (c) The nature of the new enterprise or expansion of existing enterprise, the resulting product or service, the anticipated volume of operations during each of the first ten years of production, where and how the product or service is to be marketed, and the price at which the applicant expects to be able to market the product or service;
- (d) The number of existing enterprises producing a similar product and their annual production, if known;
- (e) The estimated sources, amounts, form (cash or otherwise) and purposes of the capital intended to be expended on the enterprise during each of the first ten years of production; a description and estimation of the cost of physical structures to be erected or added and of capital equipment, including vehicles, to be purchased;
- (f) Any building materials, plant, vehicles, machinery, tools (other than hand tools), raw material and other articles which the applicant claims will be required for the establishment, expansion, operation or conduct of his enterprise, and which he applies to be allowed to obtain wholly or partly free of customs import duty, and as to each of them whether it will be wholly or only partly used for those purposes, and, if only partly used, the extent of such part use;

- (g) The locality in which the enterprise or expansion will be situated and the site on which any factory will be erected, with approvals in writing to that locality and site from the Directors of Works and Health;
- (h) The nature of the title to that site held or expected to be obtained by the applicant, certified in writing by the Director of Lands;
- (i) The conditions under which workers will be employed, including salaries, wages and any provision for amenities, and housing of the workers, and the numbers of Western Samoa and of other workers intended to be employed initially, and during each of the first ten years of production, and a description of the duties of each employee;
- (j) The provisions intended for apprenticeships for or other training of Western Samoa workers, so as to increase the proportion of such workers employed in the enterprise;
- (k) The nature, source and amounts of raw materials intended to be used by the enterprise during each of the first ten years of production;
- (l) The date on or before which it is expected that -
 - (i) Work on the enterprise will commence, and
 - (ii) The enterprise will produce in marketable quantities the product intended to be manufactured or otherwise produced, or the service intended to be rendered;
- (m) The full names of the principals or intended directors, their addresses, bank and other financials references, previous background and experience in the product or service to be rendered;
- (n) An estimated product cost analysis (including operating costs) and a copy of a product or service marketability survey;

(o) A copy of any other survey obtained as to the prospects of the enterprise; and

(p) Such other information as the Department may require.

11. Existing enterprise producing similar product - The Director, if he considers that the enterprise may unduly affect any efficient existing enterprise producing a similar product in Western Samoa, shall -

(a) Call on the applicant to pay to the Department the cost of publishing a notice pursuant to paragraph (b) of this section;

(b) When that cost is paid to the Department, cause a notice to be published at least in three issues of a newspaper or newspapers published in Apia stating the nature of the application which has been made, and that objections thereto and the grounds thereof will be considered if lodged in writing in triplicate with the Department, with a copy to the applicant, on or before such day as may be specified in the notice; and

(c) Consider any objections which may have been received pursuant to the notice, and any reply thereto which the applicant may deliver in writing in triplicate to the Department, with a copy to the objector, within two weeks of the last day for lodging objections.

12. Director to report to Board - The Director shall analyse and investigate each application, and shall then submit each application to the Board, together with any objections thereto and any replies to any objections, and together with the Director's report and recommendation on the application.

13. Board to report to Cabinet - (1) The Board may refer any application back to the Director for further information, analysis or investigation, and a revised report and recommendation.

(2) After the Board has considered an application, it shall submit the same to Cabinet, together with all papers relating thereto received from the Director, and together with the recommendation of the Board with regard thereto.

14. Cabinet may approve enterprise - (1) Cabinet may by Order approve any enterprise in respect of which an application has been made in accordance with the provisions of section 10 of this Act, with or without conditions, if it is satisfied that -

- (a) The enterprise will be a benefit to the economy of Western Samoa;
- (b) It is in the public interest so to do;
- (c) It is either a new enterprise, or the expansion of an existing enterprise;
- (d) It will not unduly affect any existing efficient enterprise producing a similar product in Western Samoa; and
- (e) If the enterprise is to be conducted by a company, the company is or will be incorporated under the Samoa Companies Order 1935 (Reprint S.R. 1956/126 New Zealand), or registered thereunder.

(2) In all other cases Cabinet shall refuse to make such an Order.

(3) The decision of Cabinet on each application shall be final.

(3A) For the purpose of determining the date of termination of each tax holiday period of the approved enterprise, Cabinet shall consider the amounts of capital which the enterprise proposes to invest in the enterprise, and the periods, and the periods during which the enterpriser proposes to invest each amount of capital, and such other factors as Cabinet thinks fit.

(4) Each approval order shall specify -

- (a) The date on or before which work on the approved enterprise is to commence;
- (b) The date of production of the approved enterprise; and
- (c) The date of termination of each tax holiday period of the approved enterprise; and
- (d) Each article which Cabinet is satisfied about, and directs to be specified in the approval order, in terms of subsection (1) of section 13 of this Act; and

(e) Each article which Cabinet is satisfied about, and directs to be specified in the Approval order, in terms of subsection (5) of section 18 of this Act, with a statement of the extent to which it may be free of customs duty on importation into or purchase in Western Samoa.

(5) Each approval order shall come into force on the day it is made, irrespective of whether it is later formally drawn up a signed or otherwise perfected.

15. Notification of order or refusal - As soon as convenient after Cabinet has made a decision on an application, the Director shall -

- (a) Publish, at least in one issue of a newspaper published in Apia, a copy of the approval order made, or a notice that Cabinet has refused to make such order;
- (b) Send to the applicant, the Financial Secretary, the Commissioner and the Collector a copy of the approval order made, or a notice in writing that Cabinet has refused to make such order; and
- (c) Send to each objector a notice in writing stating the purpose of Cabinet's decision.

16. Subsequent application - No person who has been refused an approval order under section 14 of this Act, or has had his approval order revoked under section 24 of this Act, shall renew his application or make fresh application for the approval of the same enterprise until after the expiration of six months from the receipt by him of notice in writing of that refusal or revocation.

17. Extension of tax holiday period - On an enterpriser applying in writing to the Department, before the end of one of his tax holiday periods, for an extension of that period, and furnishing such information as the Department requires, the Board may recommend and Cabinet may grant an extension of that period up to any time not later than the expiration of ten years after his date of production. The decision of Cabinet on any such application shall be final, but shall not preclude a further application

before the end of any extension of that period which falls short of the expiration of such ten years.

18. Relief from customs duty - (1) Every enterpriser conducting an approved enterprise shall be entitled, from his approval order coming into force to the end of his tax holiday period, as to customs duty to import into Western Samoa free of customs duty, those building materials, plant, vehicles, machinery, tools (other than hand tools), raw materials and other articles which Cabinet is satisfied will be required, and will be wholly used, for the establishment, expansion, operation or conduct of the enterpriser's approved enterprise, and which are specified in the approval order made by Cabinet under this section.

(2) Any enterpriser aggrieved by the refusal of the Collector to admit any such articles free of customs duty or to refund customs duty on any such articles purchased in Western Samoa may, within two weeks of such refusal, appeal therefrom to the Board, whose decision shall be final.

(3) Cabinet may, by supplementary order, made at any time during the enterpriser's tax holiday period as to customs duty, allow to be imported into Western Samoa free of customs duty, or to be purchased in Western Samoa with benefit of refund of customs duty, on such terms and conditions as may be stated in the order, any raw materials and any other articles which Cabinet is satisfied will be required, and will be wholly used, for the establishment, expansion, operation or conduct of that enterpriser's approved enterprise.

(4) Notwithstanding anything hereinbefore contained, the Collector shall not be bound to refund customs duty or any article purchased in Western Samoa if that duty amounted to less than 20 tala.

(5) Notwithstanding anything hereinbefore contained in this section, where Cabinet is satisfied that any article will be required, but will not be wholly used, for the establishment, expansion, operation or conduct of an approved enterprise, Cabinet may, in the approval order, or in a supplementary order made at any time during the enterpriser's tax holiday period as to customs duty, allow that article to be imported

into Western Samoa partially free or at a reduced rate of customs duty, or to be purchased in Western Samoa with benefit of a partial refund of customs duty, and in either case to such extent, and on such terms and conditions, as Cabinet thinks fit.

19. Special provisions relating to articles acquired free of customs duty - Every enterpriser conducting an approved enterprise who imports into Western Samoa any article free or partially free of customs duty, or who purchases in Western Samoa any article on which he obtains a refund or partial refund of customs duty, under the provisions of section 18 of this Act, shall -

- (a) Keep a record in such form and containing such particular as may be required by the Collector of the articles so imported or purchased by him;
- (b) Cause such articles to be marked with such mark and in such manner as may be required by the Collector; and
- (c) Permit the Collector or any person authorized by him at any reasonable time to inspect such record and to examine any such articles for the purpose of satisfying himself of the accuracy of the particulars in relation to such articles contained in such record.

20. Restriction upon disposition of articles acquired free of customs duty - No article acquired by any enterpriser free or partially free of customs duty under the provisions of this Act shall be sold, given away or otherwise disposed of by that enterpriser except -

- (a) In the case of an assignment of his approved enterprise, for the purpose of which such article was acquired to the assignee of such enterprise; or
- (b) Upon the enterpriser paying to the Collector the customs duty on the value of the article sold given away or otherwise disposed of, which value shall be the value thereof at the date of the sale gift or other disposal as assessed by the Collector less any customs duty already paid by him on the article and not refunded; or

(c) After the expiration of five years from the date of the acquisition of such article.

21. Relief from income tax - (1) An enterpriser conducting an approved enterprise shall, during his tax holiday period, as to income tax be exempt from the payment of income tax under the Income Tax Ordinance 1955 in respect of all income arising out of the approved enterprise but shall be subject in all other respects to the provisions of the Income Tax Ordinance 1955.

Provided that if the end of his tax holiday as to income tax period does not coincide with the end of the financial year of his approved enterprise, the income for the financial year in which the last day of the tax holiday as to income tax period falls shall be apportioned between the parts of the said financial year which respectively precede and follow the end of his tax holiday period as to income tax, on the basis of the number of days falling within each period, and the income thus attributed to the part which precedes the end of his tax holiday period as to income tax shall be exempt from income tax.

(2) Subject to the limitations contained in subsections (3) and (4) of this section, where an approved enterprise is conducted by a company, any dividends or profits paid to the shareholders of the company, or any of them, during the company's tax holiday period as to income tax, or within two years thereafter, out of the income arising from the company's approved enterprise during its tax holiday period as to income tax, shall not be taken into account in ascertaining the chargeable income or the rate of tax of such shareholders.

(3) The provisions of subsection (2) of this section shall only apply to the extent that the total amount of dividends or profits paid to a shareholder as therein mentioned does not exceed the total amount invested by the shareholder in the approved enterprise up to the end of its tax holiday period as to income tax.

(4) The provisions of subsection (2) of this section shall not apply to any shareholder who would become liable by any law of his country of residence to pay additional income tax owing to the fact that the dividend he received from the profits of an approved enterprise was not subject to income tax in Western Samoa.

(5) During the tax holiday period of an enterpriser the assets of his approved enterprise shall be depreciated by such amounts as are normally allowed under the Income Tax Ordinance 1955 for wear and tear; and at the end of his tax holiday period as to income tax the written down values of the assets of his approved enterprise shall be treated as commencing values for computing future depreciation allowances for income tax purposes.

(6) Subject to the limitations imposed by section 57 of the Income Tax Ordinance 1955, any loss incurred by an enterpriser in the conduct of his approved enterprise, on balance over the whole of his tax holiday period as to income tax may be set off against his income arising from his approved enterprise after his tax holiday period as to income tax. For the purposes of subsection (3) of that section 57, the loss shall be deemed to have been incurred in the last year of assessment of the tax holiday period as to income tax.

22. Annual Report - There shall be submitted by the enterpriser to the Department, with a copy to the Commissioner, within six months of the close of each financial year of his approved enterprise during his tax holiday period as to income tax a report in writing on the conduct and progress of the enterprise during the past financial year together with the annual accounts for that year duly audited by an auditor approved by the Director. Such accounts shall contain a statement giving full particulars of all capital expended on the enterprise, show how this capital has been depreciated during the financial year in question, and generally contain sufficient information to show whether or not the enterprise has complied with all conditions of his approval order during that financial year. The enterpriser shall answer all questions put to him by the Department or the Commissioner relevant to such accounts, and

shall allow an officer of the Department or the Commissioner to enter his business premises and inspect the same and inspect and take copies of or extracts from his books and records.

23. Excusing compliance with Business Licences Ordinance 1960 -

Notwithstanding anything to the contrary in the Business Licences Ordinance 1960, no enterpriser shall be liable, for the duration of his tax holiday period as to business licences to obtain or pay for any licence under the provisions of the Business Licences Ordinance 1960, in respect of all or any part of his approved enterprise.

24. Revocation of approval order - (1) The Director, if he considers that -

- (a) The information furnished in an enterpriser's application is false in a material particular; or
- (b) There has been undue delay in the commencement of his approved enterprise or in the production of its product in marketable quantities; or
- (c) His enterprise is not being conducted in accordance with the terms of his application or his approval order or this Act; or
- (d) Where the enterpriser is a company, there has been a significant change in its shareholding or control; or
- (e) The conditions relating to the employment of labour or the housing of workers in his approved enterprise are unsatisfactory; may call upon the enterpriser to supply in writing within one month an explanation, and an assurance as to his future actions.

(2) If the Director does not receive such explanation and assurance within such period, or if the Board considers and Cabinet holds one or other of them to be unsatisfactory, Cabinet may revoke the approval order made under section 14 of this Act from such earlier current or later date as Cabinet thinks fit.

(3) When any approval order made under section 14 of this Act has been revoked under the provisions of subsection (2) of this section, Cabinet shall cause a notice in writing to that effect, and as to the date from which such revocation takes effect, to be sent to the enterpriser, and to be published at least in one issue of a newspaper published in Apia.

(4) The provisions of sections 18, 21 and 23 of this Act shall cease to apply to such enterpriser as from the date from which such revocation takes effect.

(5) Within three months from the date of revocation if made to take effect from an earlier or current date, and if from a later date then within three months from the date from which such revocation takes effect, the enterpriser shall pay to the Collector in respect of all articles acquired by him free or partially free of customs duty under this Act, customs duty calculated as if the articles have been disposed of under paragraph (b) or section 20 of this Act as at the date from which such revocation takes effect:

Provided that the Board shall have power to remit all or part of such customs duty on the ground of hardship.

(6) Any sum which may be payable to the Collector under the provisions of subsection (5) of this section may be recovered by the Collector in a Court of competent jurisdiction as a debt due to the Independent State of Western Samoa.

(7) When the date from which the revocation of an approval order takes effect does not coincide with the end of a financial year of the enterpriser, then his chargeable income in respect of the financial year in which his enterprise ceases to be an approved enterprise shall be subject to tax under the Income Tax Ordinance 1955 as if no approval order had been made under this Act covering that year, and such tax shall be recoverable accordingly.

(8) When the date from which the revocation of an approval order takes effect does not coincide with the end of a calendar year, then within one month from the date of revocation if made to take effect from an earlier or current date, and if from a later date then within one month from the date from which such revocation takes effect, he shall be liable to comply with the provisions of the Business Licences Ordinance 1960 in respect of the calendar year during which the revocation of the approval order takes effect.

25. Head of State may amend Schedule - The Head of State, acting on the advice of Cabinet, may from time to time by Order add to, vary or amend the Schedule to this Act:

Provided that no amendment to the Schedule shall affect the date of production specified in an approval order made before the amendment comes into force.

26. Offences - (1) Every enterpriser conducting an approved enterprise who contravenes any of the provisions of section 19 of this Act shall be guilty of an offence and on conviction thereof shall be liable to a fine not exceeding one thousand tala and in default of payment thereof to be imprisoned for a term not exceeding twelve months.

(2) Every enterpriser conducting an approved enterprise, or any other person, who contravenes any of the provisions of section 20 of this Act shall be guilty of an offence and on conviction thereof shall be liable to a penalty not exceeding three times the duty payable on the articles in respect of the disposal of which he contravenes such provisions, and in default of payment thereof to be imprisoned for a term not exceeding twelve months.

(3) Every enterpriser who fails to furnish the report or any accounts or information required by section 22 of this Act within the time stipulated therein or to answer promptly any relevant question put to allow any entry inspection or taking of copies thereunder, shall be guilty of an offence and on conviction thereof shall be liable to a fine not exceeding four hundred tala or to imprisonment for a term not exceeding six months, or to both such fine and imprisonment.

27. Repeal and Savings - (1) Paragraph(s) of subsection (1) of section 47 of the Income Tax Ordinance 1955 is hereby repealed.

(2) Notwithstanding that repeal, any declaration of exemption made by the Minister prior to that repeal, up to the amount specified in that declaration, shall remain in force up to the next date on which it would have been annually reviewed if that paragraph(s) had not been repealed.

(3) Notwithstanding anything hereinbefore contained, the whole of the enterprise of any company which has the benefit, on this Act coming into force, of a declaration of exemption made by the Minister under that paragraph(s) shall be deemed to be eligible for an application under section 10 of this Act and the making of an approval order under section 14 of this Act.

Provided however that Cabinet shall have power to restrict the reliefs which the making of such an approval order would afford to the company under section 18, 21 and 23 of this Act had it not been for this proviso.

SCHEDULE

Sections 2 and 25:

<u>Types of enterprises eligible for approval under this Act:</u>	<u>Date of production, in each case from the date of the approval order:</u>
1. Factory for the processing of any of the following primary agricultural or pastoral products:	
(a) Fruit crops, such as bananas, pineapples and pawpaws	2 years
(b) Short-term industrial crops, such as coffee and sugar	2 years
(c) Pulse and grain crops, such as rice, beans and corn	2 years
(d) Minor livestock, such as poultry and pigs	2 years
(e) Fruit tree crops, such as avocado, citrus and cashew	5 years
(f) Long-term industrial crops: macadamia and coconuts cocca	10 years 5 years
(g) Major livestock, such as cattle	5 years

2. Factory of any other description	1½ years
3. Hotel and visitor support facilities	2 years
4. Fisheries and fisheries development	2 years
5. Afforestation	20 years
6. Research and research development	2 years
7. International Shipping operating any vessel having a gross tonnage of no less than 1000 tons.	5 years

Annex 8

EXPORT FORECASTS FOR 1979 AND 1980

Item	Value (tala)			
	1977	1978	1979 ¹⁾	1980 ¹⁾
Copra	4,608,000	3,615,000	3,750,000	3,500,000 ²⁾
Cocoa	5,875,000	2,645,000	2,600,000	3,000,000
Taro	337,000	1,127,000	1,250,000	1,500,000
Banana	61,000	56,000	41,000	50,000
Timber	185,000	209,000	300,000	500,000
Annatto seeds & Processed annatto		80,000	87,000	100,000
Kava		31,000	80,000	100,000
Husked nuts		7,000	21,000	30,000
Avocadoes		4,800	8,000	10,000
Passion fruit (frozen)		5,000	35,000	60,000
Mango (frozen)		1,000	3,000	10,000
Papaya (frozen)		2,000	8,000	12,000
Coconut cream		280,000	500,000	1,000,000
Beer			150,000	250,000
Cigarettes			20,000	100,000
Matches & splints			470,000	750,000
Metalcrafts			100,000	500,000
Soap			55,000	100,000
Handicrafts		129,000	200,000	250,000
Others	518,000	63,200	100,000	250,000
TOTAL:	11,584,000	8,255,000	9,778,000	12,072,000

1) Forecasts

2) More coconuts and copra being processed.

If coconut-oil mill commences operation in 1980 the total value of oil exports might be higher than the value for copra exports.

Annex 9

FORECASTS OF GOODS AND SERVICES DEFICITS FOR
1979 AND 1980

	Value: (tala)	1977 ¹⁾	1978 ¹⁾	1979 ²⁾	1980 ²⁾
Exports		11,500	8,500	10,000	12,000
Imports		32,500	40,500	48,000	55,000
Trade deficit		21,000	32,000	38,000	43,000
Travel/Tourism receipts		3,500	6,000	8,000	10,000
Remittances Receipts		5,500	9,000	12,000	15,000
Goods and Services deficit		12,000	17,000	18,000	18,000
Foreign Aid		9,000	15,000	18,000	18,000

Note: All these figures except the 1977 and 1978 export/import figures are provisional estimates.

1) Provisional

2) Forecasts

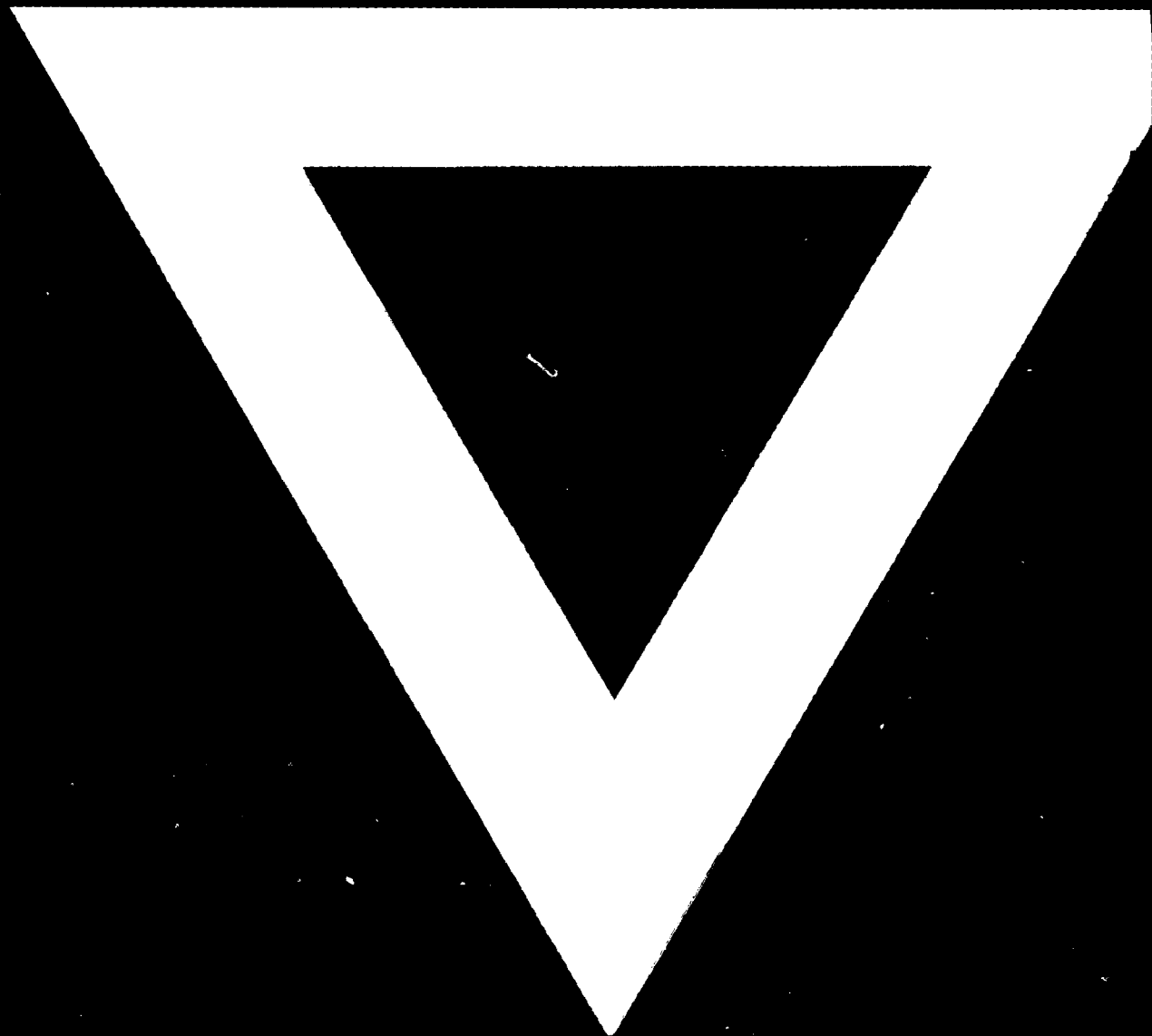
Annex 10

Government Shareholdings in

<u>Name of Enterprise</u>	<u>Paid up Capital</u>	<u>Amount of Capital Held by Government</u>
Western Samoa Hotel Co.	900,000	399,952
Samoa Industrial Gases	120,350	20,000
Samoa Tropical Products	75,000	15,000
Samoa Iron & Steel Fabrication Ltd.	90,000	12,000
J. Wiseman (South Pacific) Ltd.	67,000	32,000
Western Samoa Breweries Ltd.	1,000,000	675,655
Brugger Industries	45,000	9,000
Rothmans Industries	200,000	20,000
Samoa Forest Products	600,000	588,000
	<u>\$3,097,350</u>	<u>\$1,771,607</u>

Industrial/Tourist Enterprises

<u>Govt. Capital as % of Total</u>	<u>Net Worth</u>	<u>Govt's shares of Net Worth</u>	<u>Net Profits Last Fiscal Year</u>	<u>Name of Govt. Appointed Director (if any)</u>
44.4	(13,774)	(6,116)	(47,845)	Neroni Slade
16.6	129,752	21,539	25,072	
20.0	83,955	16,791	6,786	
13.3	113,535	15,100	35,358	Hans Kruse
47.8	52,300	25,000	-	A. Hutchison
67.5	1,000,000	675,655	-	Neroni Slade
20.0	45,000	9,000	-	Hans Kruse
10.0	200,000	20,000	-	A. Hutchison
98.0	916,173	897,849	66,173	A. Hutchison
	<u>\$2,509,652</u>	<u>\$1,674,818</u>		



85.05.22

AD.86.07

II I 5 5 1 1
