



PACIFIC ISLANDS FORUM



Pacific
Trade
Invest
New Zealand

FREIGHT SUBSIDY REPORT 2021



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Background

The COVID-19 pandemic severely impacted worldwide supply chains to levels previously unseen. Air and sea cargo were considered essential services to allow the uninterrupted movement of essential goods. Very early into the pandemic though, a global shortage/s of essential goods became apparent, revealing fault lines in the all-too-reliant logistical systems.

Developed countries with large industries and sophisticated processes came to a grind once port congestions due to vessel and container shortages hindered the movement of goods across borders, many of whom were facing nationally imposed lockdowns and restrictions on movement of people. Port congestions at major ports world-wide compounded by road and hinterland connectivity constraints added to the supply chain quandaries of world economies. Early into the pandemic in 2021, the grounding of the Ever-Given cargo carrier in the Suez Canal led to its closure resulting in further delays of ships heading for Europe which added to the increasing constraints on ship and port capacity in that part of the world.

The ripple effects of the pandemic on global economies continued unabated throughout 2021 and into 2022 as the demand and supply of maritime transportation sector was significantly impacted by container shortages, labour shortages, and long ship turnaround times impacting on air and seaport operational capacity.

Other compounding adverse effects caused worldwide freight charges to dramatically rise, presenting an additional challenge to recovery efforts. But why did freight rates increase dramatically and with such speed? One obvious reason is the global demand for goods purchased online aided by the stimulus packages caused more demand than expected. The high demand was met with supply constraints at the ports; changes to hinterland routes lead to containers being left behind or not delivered where they were needed and there were records of ports being missed out on by cargo carriers.

The reality for the Blue Pacific economies without the luxury of access to multiple sea and air cargo carriers meant small businesses faced little to no option but to pay the inflated freight costs imposed by carriers.

The 4th Ocean's Forum held in Kenya brought global attention to the maritime supply chain crisis calling for resilient supply chains to support the ocean economy which make up just under USD400 billion from maritime transport and related activities.[1]

(1) It is estimated that in 2018 the total export value of the ocean economy was \$2 516 billion, with ocean-based goods estimated at \$997 billion, and ocean-based services at \$1 520 billion. Source: (UNCTAD,2021)

Concept

For the Pacific Trade Invest network it was quite apparent that export volumes from across the Blue Pacific economies were not so much as diminishing due to the lack of supply of raw material, rather that exporters were financially challenged to meet their international orders due to extremely high freight costs.

The cost of freight had escalated in a short span of time to 30 – 40% and rising. Notably, the vast majority of SMEs place heavy reliance on imported raw materials for manufacturing. The same businesses are fiscally handicapped to confront high freight costs.

Within this environment and largely driven by its own survey results[2] Pacific Trade Invest New Zealand and the Pacific Islands Forum Secretariat pooled resources for a pilot project to offer a short-term relief to exporters to cushion high freight costs.

The Freight Subsidy Programme (FSP) was executed over three months from October to December 2021. Offered as small grants of up to NZ\$2,500 on a cost-share basis exporters were required to meet a prescribed criteria including documentation as proof of concept. The criterion required exporters to (a) have a registered business (b) a valid export licence; (c) have documentary evidence of export capability for at least three years; and (d) be operating for a minimum of three years.

From 55 applications received by the deadline, 45 applications were deemed to have met the criteria and were processed for the panel's consideration. Nine applicants received grants of less than NZD \$2,500 while 34 applicants received the maximum amount.

Notable industries included Agriculture, Fisheries, Timber, Steel, Consumer Packed Goods, Cosmetics, Plastics, Furniture, Apparel, Crafts, & Manufacturing.

Applications were reviewed by a panel of four, comprising the PTI NZ, PTI Australia and PIFS.

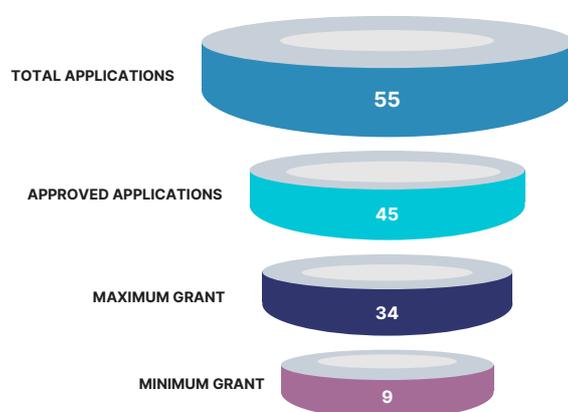


Figure 1 : Application and grant figures

(2) PTI Network Business Monitor Survey

Impact

In the final assessments, it was noted that the cost of freight tallied for all 55 applications had a total value of NZD5.4m against an application total value of around NZD690,000.

At the close of the FSP, a total of NZD102,000 was disbursed to the 45 successful applicants. This amount represented 1.9% of their total freight value in 2021 alone.

In comparison, the 45 successful applicants had a combined global export value exceeding NZD \$49m, while export volumes to New Zealand alone constituted approximately 21%.

The Freight Subsidy Programme revealed the extent of the Pacific region's global export markets – 41 destinations in 2021.

Around 1355 direct employees were positively impacted by the freight subsidy, of which 459 (34%) were women.

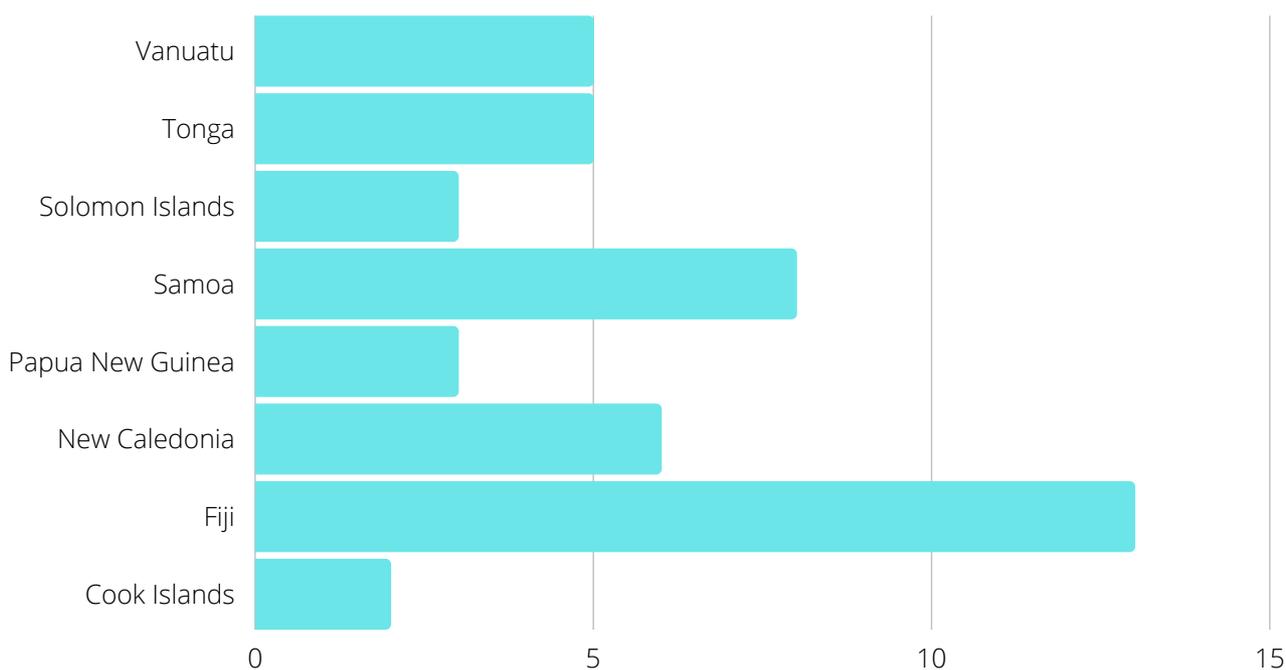


Figure 2 : FSP grant recipients by country

Industry breakdown

Agriculture

The majority of FSP recipients represented the agriculture sector with 19 of the 45 applicants involved in the production, processing, and distribution of agricultural goods. Cacao (four companies) and coconuts (three companies) were sub-industries of consequence in this sector.

19 companies had freight valued at NZD599,157 representing 28% of the total value of exported goods, held at NZD7,519,317.

Of the 19 companies, nine companies export to New Zealand, eight to Australia and/or Asia, seven to North America, six to Europe, two to the Middle East, and three of the companies export to Pacific Island countries in the Blue Pacific. According to documentary evidence, export volumes totalled approximately 2,000 metric tonnes with varying shipment sizes from 500g for products such as kava or noni juice to over 250,000kg for chocolate, cacao and assorted root crops.

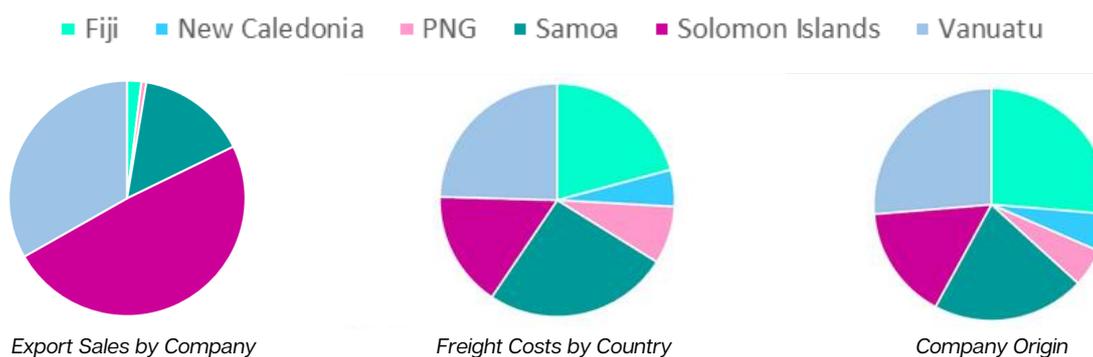


Figure 3 : FSP grant recipients by country

Two of the 19 companies are women owned or led.

The project assessment noted that a coffee producer and exporter from Papua New Guinea who operates a successful e-commerce platform with a direct-to-consumer shipment worldwide had significantly higher freight costs than others despite a partnership with DHL.

Though agricultural companies from the Solomon Islands numbered only two, they represented nearly half of the total industry export sales. The companies operate in the cacao and coconut sub-industries. The higher relative freight costs of Papua New Guinea and Fiji are due to direct-to-consumer shipments.

« Commodities like coconuts are price sensitive and margins are small. We ship CIF because buyers want landed prices so our profits have nearly all been absorbed by extra freight costs. Any assistance we can get is always gratefully received. »

- Vernon Smith, Coconut BioEnergy

Fisheries

Exporters in the fisheries sector were found to have large export volumes to North America and Asia, more specifically the USA and Japan.

Five companies from Samoa, New Caledonia, and Tonga had freight costs valued at NZD638,029 representing approximately 0.2% of the total value of exported fisheries products, which had a value of NZD4.12 million.

From the information gathered from the five companies who export fish and fisheries products world-wide, export volume exceeded 280,340kgs or 280 metric tonnes in the months preceding the application period.

Two out of the five companies who applied export their catch to American Samoa for further processing; one company is currently exporting seafood to New Zealand; one company which specialises in the processing and export of sea cucumbers exports to China; and one company exports fresh and frozen tuna to the European market.

Of the five companies, three are women owned or led. Together they employ just under 50 women. The companies report having made a positive impact on more than 4,000 members of the wider community, such as families, delivery drivers and supply chain partners.

Applicants report how the COVID-19 pandemic has significantly affected the exporters in the fisheries sector with heavy losses experienced due to closed borders, shipping and airline schedules affecting unaffordable freight costs and labour shortages.

Fish exports from Tonga increased by more than 200 percent.

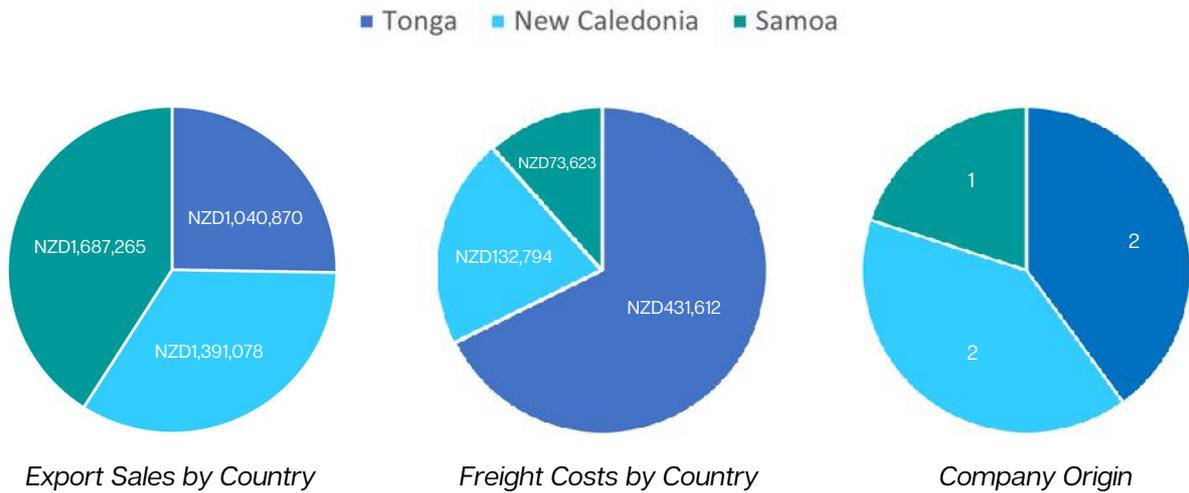


Figure 4 : Fisheries Industry Figures

One exporter who lost the Hawaii market due to the shutdown of air cargo service, was forced to look for other markets while attempting to sell wholesale online to off-load large volumes of stock and to support local fishermen suppliers.

Documentary evidence pointed to a drop in domestic consumption in New Caledonia due to the hospitality and tourism market shutting down and workers having lower disposable income due to job losses.

Despite representing over a third of the total export sales, the company from Samoa had the lowest freight costs due to inter-region market destinations. The two companies from Tonga had the longest trade routes and therefore represent a higher amount of the industry freight costs.

Health & Beauty

The FSP drew four applications from the Health & Beauty Industry based in Vanuatu, Fiji, and the Cook Islands, with three out of the four companies being women owned or led.

These companies produce skincare using local, raw ingredients and export them directly to consumers and retailers across the globe. All four companies reported losses in revenue from the loss of the tourist market. They have shifted their businesses to e-commerce platforms to sell directly to consumer to keep their businesses afloat. For example, a ni-Vanuatu skincare business exports to consumers in Europe, North America, Asia, South America, Pacific Islands, Australia, and New Zealand, while another sends un-treated oil to Australia, New Caledonia, and the USA for further processing.

All four companies spent a total of NZD 76,280 on freight and exported goods worth NZD 231,689 (freight costs were approximately 32% of the value of the goods). The approximate export volume of the four companies in the Health and Beauty industry was 2951kgs, with approximately half of the shipments being small (under 10kg) direct-to-consumer packages.

« We would like to thank PTI New Zealand for all their hard work in implementing this initiative, along with the NZ Government and the people of New Zealand for their generosity in helping small Pacific Island businesses in this very difficult time. »

- Barry Roche, Volcanic Earth

Manufacturing

The manufacturing industry constitutes two sub-sectors; construction material and commercial goods (four companies), and FMCG (seven companies).

Two of three construction businesses are owned / located in Fiji with the other located in New Caledonia. The fourth company is also Fiji based and exports paper products to Tuvalu, Samoa, Marshall Islands, Kiribati, Nauru, Tonga, Solomon Islands, and Papua New Guinea. Other notable findings included:

- the average freight rate was approximately 16% of the value of goods
- total export volume of 870,900 kg
- exports to pacific island countries
- total export sales of NZ\$5,280,357

against total amount paid for freight was NZD270,840. Their total export volume was reported as 870,900kg.

Seven companies who applied operate in the FMCG sector, namely of packaged food products are based in Fiji, Tonga, Samoa, New Caledonia, and Papua New Guinea.

This was the sub-industry with the most significant value figures, viz-a-viz:

- NZD44,262,697 total value in 2021
- NZD3,407,025 total freight costs with an average freight cost of 16% of the value of goods
- Export markets include New Zealand and Australia and USA
- Total export volume of 972,600 kg (down from 2020 figures)

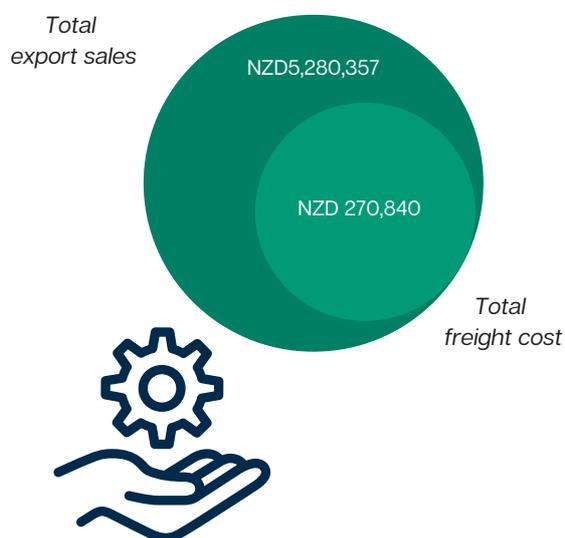


Figure 5 : Total Export Sales vs Total Freight Cost for the Manufacturing Industry

« We are very grateful and humbled in the assistance given by PTI NZ as this in lieu benefits our small growers in Tonga that financially depend on their crops for a living. »

- Moses Manu, J.M. Exports

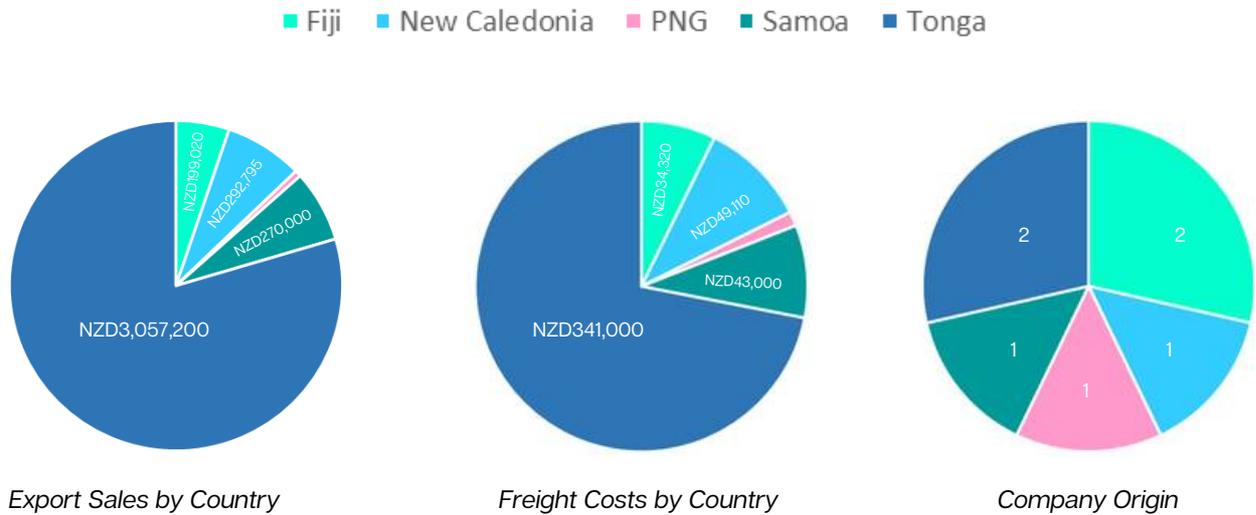


Figure 6 : Manufacturing Industry Figures

The graph above excludes a large FMCG manufacturer based in Fiji as the export sales of this company far exceeded the total exports sales of the remaining six companies combined. The two companies based in Tonga support the Pacific diaspora in New Zealand, Australia, and the USA.

Creative Industries

For the purposes of reporting, the creative industries sector consolidates information for the textile industry, as well as handcrafts, homeware, jewellery, and cultural goods.

Four out of the five companies who successfully applied are women owned or led.

Freight costs combined for all five companies amounted to NZD30,425, with freight costing on average, 44% of the value of goods. Their total export sales valued NZD84,201 for around 230 kg of goods exported by two of the five companies alone based in Tonga and Papua New Guinea. Information derived from their applications indicate modest size business operations which support rural women. Other information states that the businesses have little negotiating power with logistics providers due to their low volume shipments.

One Fijian artisan has a significant global market, shipping to locations in North America, Asia, and Europe, as well as to the New Zealand and Australian markets. The remaining two companies are based in Cook Islands and Samoa. All five businesses shipped to Australia, and four to New Zealand.

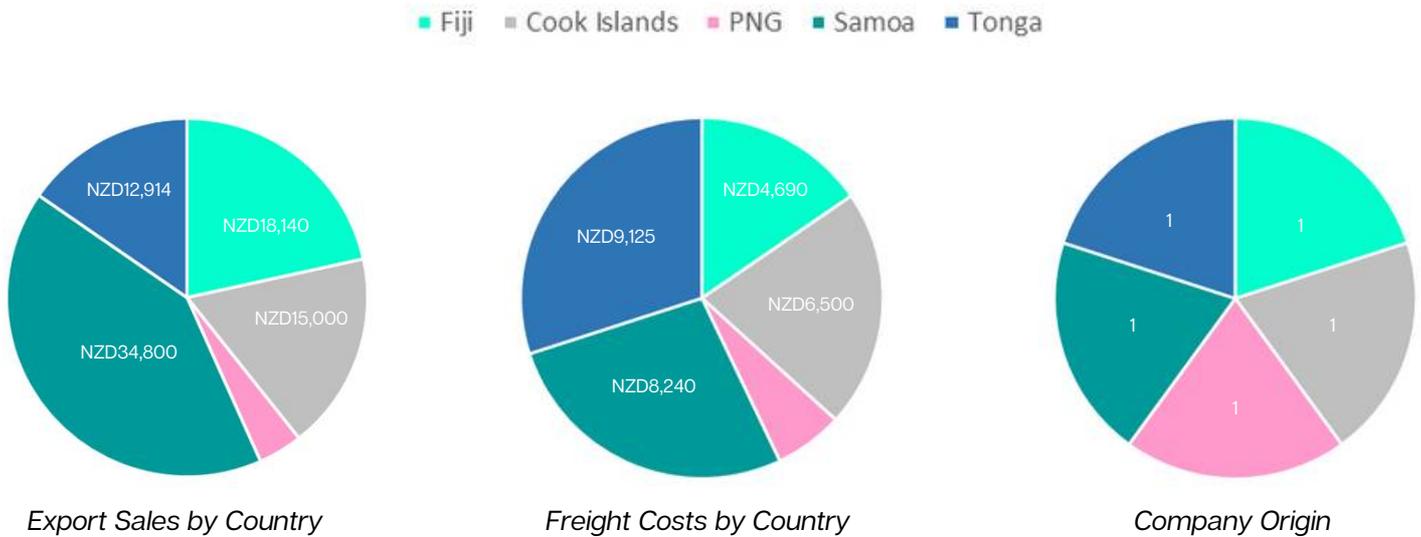


Figure 7 : Creative Industry Data

The two companies with the highest export sales figures and lowest relative freight costs (Fiji and Samoa) successfully used e-commerce to maintain sales throughout the pandemic as well as selling higher value, niche products.

Services

A company from New Caledonia was the sole applicant in this industry, exporting technical hardware and digital services for the aquaculture goods and services.

In 2021 the company exported NZD303,798 worth of goods and services (approximately 12,985kg), and paid NZD19,860 in freight. The lower average freight costs can be attributed to the services component of export sales and the fact that the export destination markets are located in the Pacific – Fiji, Kiribati, and French Polynesia.

The most prolific market opportunities for the Blue Pacific remain in the agriculture sector. The Health and Beauty and Creative Industries sectors are expanding their market reach as consumers turn towards ethical, natural products that have a story and positive social influence. FMCG is currently most successful in countries with higher population numbers of Pacific diaspora, although companies that produce artisan products are finding success in European and Asian markets.

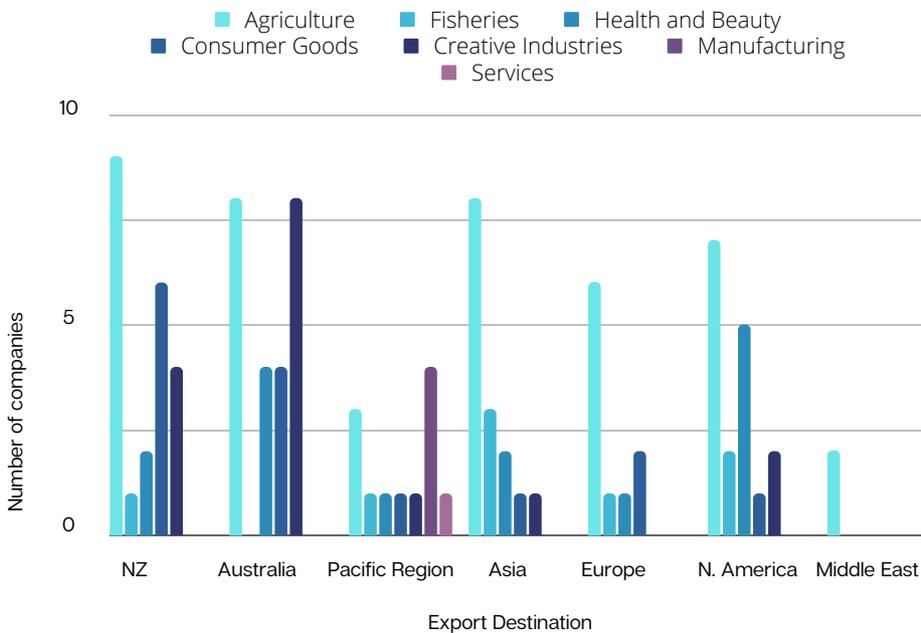


Figure 8 : Export Destination Market by Industry

This graph shows the total export value by industry broken down by originating country. Again, a large Fijian-based FMCG company has been excluded from this graph, though the total figure can be seen in brackets.

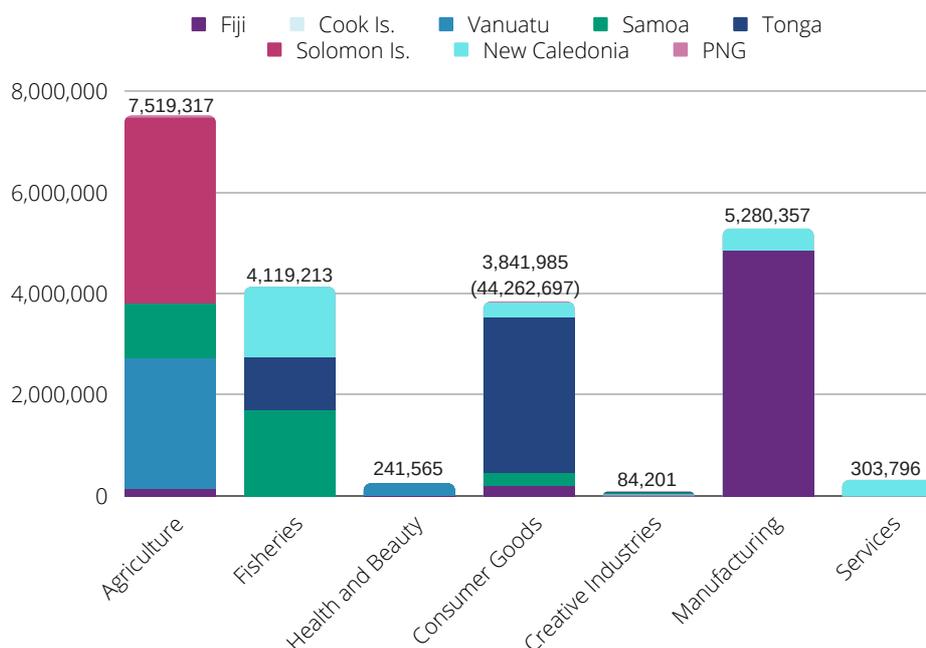


Figure 9 : Export Sales Value by Industry (NZD)

Case Studies

Dynamic Supply - Vanuatu

Dynamic Supply Vanuatu is a wholesaler, exporter, and retailer in the food service and hospitality industry.

Over the last three years, Dynamic Supply worked alongside Trade, DARD, and Biosecurity to create a new opportunity for Vanuatu-grown Tahitian limes in the New Zealand market. Many trial runs were conducted prior to COVID-19. After a few learnings and hard work, Vanuatu finally achieved export pathway clearance.

During that time, COVID-19 had completely disrupted supply chains; freight had increased as much as 500% and shipping options were extremely limited for ni-Vanuatu exporters.

With a small grant received under the FSP to offset some of their freight costs, Dynamic Supply was able to fulfil a small order of 800 kg of fresh limes to New Zealand.



Cacao Fiji - Fiji

Cacao Fiji faced a difficult year without the additional pressures caused by COVID-19. Destruction from Category 5 cyclones early in the year significantly damaged many of the cacao farms, causing a drastic supply decline and suffocating the organisation's cash flow. Freight exponentially increased in cost, and the non-availability of LCL containers further impeded export capability as it meant the more affordable sea-freight option was not a choice.

In order to remain sustainable and generate cash flows, Cacao Fiji had no choice but to choose the much more expensive air freight. Doing this, they were able to ship 1MT for the month of December to USA, and a further 1MT to Auckland, New Zealand. Without the support of the Freight Subsidy Programme grant, this would have been prohibitively expensive and may have meant the cocoa

products could not be exported at all.

Cacao Fiji has been consistently educating cocoa farmers and providing technical training aftermath of cyclone. The organization has continued to provide valuable market access for cocoa farmers in the mainland, so ensuring the products reach the export destination is of utmost importance, and the grant allowed Cacao Fiji to focus on what they do best.



Vaoala Vanilla - Samoa

COVID-19 has introduced many additional challenges for Vaoala Vanilla, in particular, the prohibitively high cost of freight.

Since the launch of the online store in August 2020, Vaoala Vanilla has seen steady growth of international purchasing for its vanilla and community produced items. There is one of the few e-commerce businesses in Samoa. The biggest challenge for their e-commerce business is the inability to receive credit card and PayPal payments directly to the merchant's local bank account, instead they must use an international bank account which for a small enterprise is an added cost they could well do without.

Operating an e-commerce business relies heavily on freight service providers. In Samoa, DHL and FedEx offer freight services which comes at a significant cost especially when airfreight must be tracked by the shipper.

The added costs are passed on to the consumer by the shipper including shipping costs which is often found to be two to three times more than the cost of the product. With international consumers expecting cheap, if not free, and fast delivery, this is a large hurdle to overcome for SME businesses. Profit margins are much slimmer so as to maintain modest sales levels.

Online sales in 2021 represents 18% of Vaoala Vanilla total revenue for the same period. Domestic sales and vanilla consultancy & training revenue for 2021 represent 33% and 49% respectively of the total revenue.

The company reported that the FSP was a much-welcomed relief as it helped to lower operational costs and boost cashflow which in turn helped keep their customers happy.



Volcanic Earth - Vanuatu

Volcanic Earth is a skincare company based in Vanuatu. As a direct result of the COVID-19 pandemic the company lost their domestic market when the borders closed so they decided to quickly shift their business online. This created many issues with freight delays and increased expenses being central.

Notably while Vanuatu Post did maintain their standard shipping rates, they did increase their Tracking fees on two occasions which affected online sales for Volcanic Earth as their website was set at current postage rates. Through Vanuatu Post, goods are shipped once a week[1]. The delays caused by erratic shipping schedules in Port Vila, meant packages were delivered to overseas customers well over the normal weekly to fortnightly timeframe, often attracting unsavoury reactions from their customers.

To overcome some of these challenges and to maintain a foot-holding in their markets, Volcanic Earth arranged to hold inventory stock with a shipping agent in Australia to act as a distribution center for countries which Vanuatu Post do not service. The downside to this alternative approach is the high postage rate by Australia Post which are essentially the same for small parcels weighing up to 250grams.

Volcanic Earth reported that the PTI NZ Freight Subsidy Programme helped to soften the negative impact Covid had on international shipping in all its forms



Hot Glass Fiji - Fiji

Prior to 2020/21, Hot Glass Fiji had exported chiefly by hand of the purchaser - overseas visitors came to the studio, brought work, and carried it with them when they returned overseas. Occasionally items were ordered from and sent overseas via a shipping company, but up to 2020 it became apparent that Hot Glass would have to develop new strategies to remain a viable business.

Adaptation plans were two pronged: boost domestic sales, and at the same time build up eCommerce and target exporting. Hot Glass was fortunate to have already built a domestic market. Joining with Fiji's "Love Your Locals" campaign, offering discounts on glassblowing experiences, boosting attendance at local markets, and focusing on social media campaigns all contributed to successfully growing the customer base.

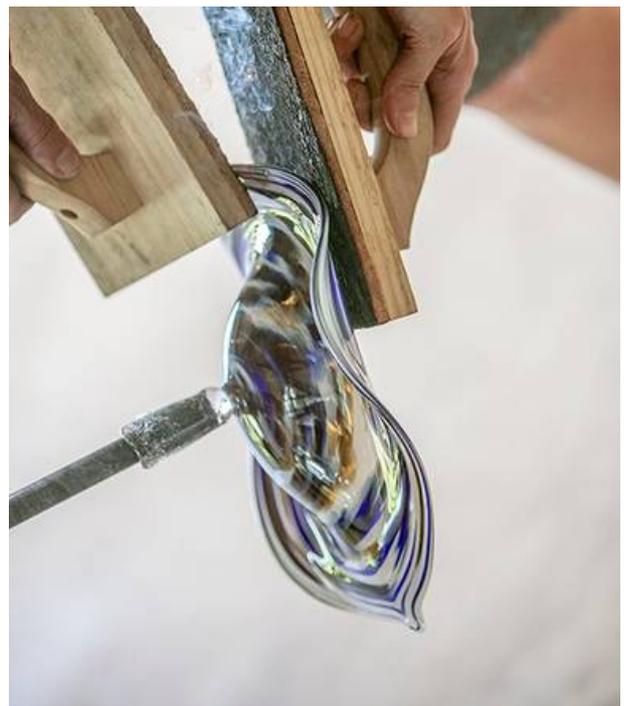
At the same time, Hot Glass redeveloped the website shop to appeal more to overseas customers. The use of a DHL add-on gave customers an immediate freight cost, and extensive research into the most appropriate payment gateways was done. These combined strategies have allowed a certain amount of success, and enabled Hot Glass to remain operational, albeit on a more limited basis. COVID-19 has still caused problems and delays with shipping, market access, and overall business costs.



The biggest issue Hot Glass has faced over the pandemic has been the rising cost of freight. Hand-blown glass is a little different to ship than many other products, being both fragile and customized. There is no ability to standardize or consolidate shipping as each order is unique and ordered by request. This leads to an overall higher shipping cost than large volume shipments. Even with the DHL add-on, actual costs can vary by up to 20% of the quoted price, frustrating customers.

The biggest concern faced by Hot Glass now and in the future is the rising cost of importing the raw materials (glass cullet), both in the freight and the inflated product costs.

The PTI NZ Freight Subsidy Programme has been a great support in dealing with the increased freight costs, and as Hot Glass has now started separating export and domestic sales figures, they will be able to track growth of the export market more accurately and implement further strategies to continue growing.



Aqueens International - Papua New Guinea

Aqueens has seen a significant decrease in export volumes since the pandemic began affecting global economies. Freight has increased substantially, and the FPS grant has allowed Aqueens to stay in business and keep export operations above water for a little longer.

In 2021, some of the import partners in New Caledonia attempted to source products from Aqueens again, but the volumes are relatively small, and PKE is a low value export commodity. Aqueens has the capacity to export around 100MT to New Zealand but must compete on products from neighbouring Malaysia and Indonesia, whose freight options are significantly cheaper and more consistent.

Aqueens used other methods to maintain business operations, moving into copra meal, as a way to diversify export operations and improve the resilience of the business.

Since the majority of Aqueens export are low value, any freight subsidy received goes directly to the export freight and is highly appreciated. This was the first freight assistance package that Aqueens received.

« To sum up what the PTI NZ freight subsidy as done for my company is simply, it has put an extra cent into my company's operations in 2021, basically keeping our export operations above the water during this period. »

- John Hobart, Aqueens International

« We have been struggling with major increases in international freight charges across the region and to have such assistance towards our freight is a blessing. »

- John Hobart, Aqueens International

Solomons Gold - Solomon Islands

Solomon Commodity Exports buy and processes cacao for export, predominantly to the Asia Pacific region. The headquarters and factory are located in Honiara; cacao is sourced from all the major provinces, including some remote places, so a great deal of inter-island shipping is engaged to bring the cacao in for processing and consolidation in Honiara.

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In 2020 and 2021, Covid severely disrupted the shipping services, resulting in reduced vessels calling in, container shortages, and increased costs in general. Solomon Islands required vessels to quarantine offshore for 14 days before calling into port – and as a result, exporters were hit with additional storage charges.

While the FSP grant did not cover the full increase in costs experienced, it was much appreciated and helped subsidise some of the costs the company continue to experience. The feedback received was overwhelming with many expressing gratitude, with the common theme of well-timed relief for many struggling exporters.

« The subsidy has assisted us to stay in business and assist rural communities generate incomes and livelihood – thank you’. »
- Bob Pollard, Kokonut Pacific Solomon Islands





Pacific Trade Invest
New Zealand

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