

**Statement by Vanuatu Representative on Vanuatu's Graduation from LDC
2012 Triennial Review of Least Developed Country Category
New York USA, January 17, 2012**

Mr. Chairman,
Distinguished Members of the Committee for Development Policy
Distinguished Delegates from UNCTAD
Ladies and Gentlemen

It is indeed a great honor and privilege for me to address this meeting on behalf of the government and people of Vanuatu. I would like to thank Ms Ana Luiza Cortez Secretary of the Committee for Development Policy for the invitation extended to the Government of Vanuatu to attend this meeting and also to allow us to present our views on graduation from LDC. I would also like to extend our appreciation to the Committee for Development Policy for the preparation of the impact assessment report which will help informing the decision of the committee on whether Vanuatu graduates or remains an LDC

The effort put into the Ex-ante Impact assessment of likely consequences of graduation of Vanuatu from least developed country category shows the commitment of the Committee in ensuring that if Vanuatu graduates it needs to know the potential impact on trade related support, preferential market access and official development assistance

Mr. Chairman,

Vanuatu was considered eligible for graduation by the Committee for Development Policy first in 2006 and again in 2009, however the Vanuatu Government opted to maintain its LDC status until policy interventions a put in place to target the impact of graduation and secondly for the data inconsistencies to be addressed accordingly. Vanuatu like any small island developing state continues to experience many development challenges despite our modest economic growth throughout the last decade. Due to the susceptibility to extreme external economic shocks, distance from and dependency on external markets, and constant natural disasters owing to our location in the "Pacific-rim of fire" and "Pacific cyclone belt", Vanuatu has still to be considered one of the most vulnerable countries in the world.

It is therefore our opinion that the Vanuatu Government still needs to build a resilient and sustainable economy as a pathway for post LDC as unforeseen consecutive natural disasters and economic shocks would devastate our economy. Vanuatu recognises that graduation is inevitable, whether sooner or later. Therefore the Vanuatu Government is delighted that the Istanbul Programme of Action platform has considered a smooth transition period for graduating countries. Vanuatu sees the smooth transition period as a precondition to any eventual graduation to ensure that negative impacts are addressed through policy interventions targeted towards our vulnerabilities and capacity development

Economic progress

Vanuatu continued to enjoy positive growth for the past 8 years at an average of 5.0 per cent, as a result of the country's commitment to economic reform policies. As a result of this growth the country's GDP per capita continued to increase and so is the GNI per capita of the country. Despite our positive growth, we continue to face very significant challenges in particular an economic dualism seeing some growth in the urban areas coupled with underdevelopment and lack of any economic infrastructure in the rural areas. Whilst the economy continues to grow the government is concerned that the rural population is not benefiting from this growth as the rural population's income opportunities are dependent on commodities that are unfortunately susceptible to world commodity prices which regrettably also influence production levels locally.

The government believes in wealth distribution therefore if we want to spread the growth to the rural areas partnership with the private sector and civil society, together with enhanced support from donors is vital. It is the government's view that the rural economy and its people have to be empowered which means providing the necessary education to enable them to venture into business and providing them with capital to invest in the productive sectors such as agriculture, trade and tourism. This is the only way to continue to sustain the Vanuatu economy through the creation of value addition and job creation. The government with the help of development partners will do its part by investing in infrastructures, agriculture and trade. Until such time as the gap between the rural and urban income is closed Vanuatu will continue to face significant challenges in its path to inclusive development.

The risk of Vanuatu being affected by the ongoing financial crisis faced by developed countries is also of great concern to the government. In particular, the reduction in financial assistance due to LDC graduation is likely to be compounded with the effects of the current economic crisis due to the fact that stagnation or reduction in developed countries' economic growth is likely to reduce official development assistance and private investments in the short to medium term.

Trade facilitation

Mr Chairman,

Vanuatu being a member of LDC has allowed the country to benefit a lot in regards to the preferential trade terms extended to LDCs by developed countries. In the event that Vanuatu graduates from LDC we will lose our access to LDC special and differential treatment. This would mean that our exports will be affected as some of the country's main exports, such as fish, beef and copra are likely to face higher tariffs in key export markets. This would mean increase in the price of these exports in the importing countries which will eventually affect the competitiveness of our products.

It is noted through the impact assessment report that graduation will impact trade preferences for a number of our products in certain destinations. In the event that Vanuatu loses its trade preferences, coconut oil exported to the EU will face a tariff increase from 0% to 4.4% beginning in 2018, unless Vanuatu signs the EPA which is still under negotiations. The EU market for coconut oil represents 97% of our export

market for coconut oil. This means that if there is an increase in tariffs and the EU buyers turn to other exporting countries that have preferential treatment the coconut industry in Vanuatu will collapse meaning the rural economy will collapse as copra is one of the main income earner for the rural population. In regards to Japan from 2015, fish will face a tariff increase from 0% to 3.5% and beef will face an increase from 0% to 38.5%. The Japanese market represents 98% of our export market for beef therefore losing our special market access would mean that beef, one of our most valuable products, will be far more expensive and possibly uncompetitive. Our fish to Thailand will also see an increase in tariff from 0% to 3.5% after graduation. Thailand and Japan together represent 91% of our export market for fish therefore likely to have an impact on our fish exports as fish from other LDCs may be cheaper. Fish, beef, and coconut oil represent at least 30% of Vanuatu's total exports meaning that the loss of trade preferences will have a significant negative impact on our exports which will put at serious risk on the sustainability of our development.

The government recognises the importance of trade to facilitating economic growth and this loss of special preferential treatment will have a great impact on the economy if not addressed carefully. The government will make best use of the transition period to develop options for products that will be affected the most by way of identifying new markets or negotiating trade agreements with some of the importing countries such as Japan and Thailand, to ensure that we continue to enjoy some market access to these countries. However, it is well known that trade negotiations take significant time and effort, meaning that a three year time-interval may not be sufficient to avoid disruption to our export markets. These considerations should therefore be fully taken into account when deciding over Vanuatu's LDC graduation.

The government is committed to increase production and improve our export supply capacity. It is hoped that doing so would increase our share of global trade and also enable us to value add. However, distance to markets, poor infrastructure and high cost of transport, lack of access to capital, and very high cost structure represent serious constraints that will be difficult to overcome over the short-term. The government is also committed to work with importing countries to address the technical and health related barriers that are put in place by developed countries to ensure that our exports meet the importing countries conditions.

Overseas development assistance

Mr Chairman,

Vanuatu is pleased to note from the impact assessment report that our major bilateral development partners have indicated that our graduation will not impact the development assistance they are currently providing to Vanuatu and any future development assistance. This goes a long way towards addressing our fears of losing development assistance as we continue to depend on ODA to finance our socio-economic development aspirations. It is therefore in our interest that development assistance targets our structural weaknesses even in the event of graduation. The cost of infrastructure in a country such as ours is very high therefore development assistance is necessary to finance some of the essential infrastructures to facilitate trade and socio-economic development.

The Vanuatu government also notes from the report that once out from LDC Vanuatu will lose some concession from certain multilateral development partners. Despite this the Vanuatu government is pleased to note that current arrangements will not be affected until after the transition period lapse. We note that graduation will be taken into consideration in the 11th EDF with the EU, and also Vanuatu will lose certain benefits from the UN after the 3 years transition period. We also note that if Vanuatu graduates its contribution to the UN peace keeping operations budget will increase.

Economic Vulnerability

Mr. Chairman,

Vanuatu ranks as one of the highest disaster prone country in the world due to our location in the "Pacific rim of fire" and Pacific cyclone belt", meaning that we are prone to frequent earth quakes and threat of tsunamis and frequent cyclones resulting in damages to infrastructure which seriously hamper our socio-economic development. Whilst some of this can be addressed through policy interventions, the remoteness of the islands and its proness to natural disasters cannot be fixed therefore poses a great risk for a small country such as Vanuatu.

In addition to this, climate change is a very serious challenge for us as it threatens our development gains. Our coastal areas are being washed away resulting in resettlement of coastal communities to higher ground and our traditional food crops are no longer producing the same yields as they used to so we are in need of new hybrids or varieties of crops that can produce better yields to meet both domestic and export demands. The impact of climate change for us is real. It calls for the redistribution of our already scarce resources meant for socio-economic development to adaptation and mitigation programmes.

In the event that we graduate it is likely that Vanuatu will lose access to certain climate funding. As an LDC, we are still having difficulties in accessing the funds earmarked for climate change projects due to stringent procedures. We anticipate greater difficulties upon graduation if these measures are not carefully address. These are areas that the CDP will need to be able to address in order to create confidence to countries who are graduating.

Health and Education

Mr. Chairman,

Vanuatu attaches great importance to the social sectors particularly in the areas of health and education as after all a healthy and educated population will help a country to prosper. The government has for the last nine years allocated an annual average of 35 percent of is national budget to the two sectors. It is true that our social indications in both education and health have improved considerably. However, we have consistently argued that despite historical improvements these are mostly evident in the urban areas while the improvements in the remote areas are less evident. Due to the dispersion of the islands access to health services are still limited and school fees levied still hinder parents from remote islands from sending their children to school. The government with assistance from development

partners will continue to pursue improved quality of education and access to better health services.

Transition Strategy

Mr Chairman,

If after careful consideration of all the available evidence the Committee for Development Policy were to recommend graduation, the Vanuatu government strongly urges the Committee to make sure that Vanuatu continues to enjoy the privileges provided to LDCs as per the transition clauses of the Istanbul programme of Action. The government believes that this transition period will enable Vanuatu and its development and trading partners to put in place policy interventions to address the possible negative impact of our graduation from LDC to support Vanuatu's post LDC life. Vanuatu would like to ensure that its development and trading partners including the UN continue to provide assistance to support the transition of Vanuatu out from LCD to avoid sudden reductions in financial and preferential treatment

On Vanuatu's side the government will established a committee to work on policy interventions to address the negative impact of getting out of LDC. The committee will be tasked to work with development and trading partners to work on a smooth transition strategy and also to review and monitor the transition process to ensure that Vanuatu ease into a sustainable development path

Let me also make an additional point in this regard. Transition period is a temporary measure intended to ensure smooth passage from LDC to a Developing Country. However, it does not provide remedy to the "permanent challenges" of vulnerability. The CDP and the international community should seriously consider this. Our smallness, susceptibility to negative impacts of climate change and vulnerability to natural disasters are "permanent characters" that no transitional measure could ease within the transitional period. So, once the transitional period lapses, and as negative impacts of climate change deepens with the scaling back of climate change funding, our people will face even more challenges. Then we will have to return to this table to debate this issue again.

The UN will need to ensure that proper UN General Resolutions are adopted to ensure that Smaller Island States graduating from LDC continue to enjoy certain preferential treatment. This is not due to their development status, but due to their permanent characteristics outlined. We have to isolate the issue of these permanent challenges with the issue of positive growth in economy. Growth fluctuates, but our smallness and vulnerabilities remain.

Let me take this opportunity, in concluding, to express Vanuatu's hope that the CDP will fully consider the potential negative impacts of Vanuatu's graduation in light of the points we have put forward.

I thank you for your attention.

