



Doing Business in Kiribati



Location

The Republic of Kiribati (pronounced Kiribass) is a nation of 33 low-lying atolls divided into three island groups: the Gilbert Islands, the Line Islands and the Phoenix Islands. Located in the central Pacific, it is the only country situated on both sides of the Equator. Tarawa atoll, the capital and main island of the Gilbert Group, is 11 hours ahead of Greenwich Mean Time. The country received notoriety during the millennium celebrations as the first nation to greet the new millennium.

The total land area of Kiribati is 700 square kilometres and the islands are dispersed over a vast portion of the northern part of the South Pacific Ocean. The Exclusive Economic Zone (EEZ) covers an area of 3.6 million square kilometres.

Kiritimati (Christmas Island) is the largest atoll (48% of the nation's land area) and is the administrative centre of the Line and Phoenix groups of islands.

Banaba is an extremely remote, isolated island several hundred kilometres to the west of the Gilbert Group. It is a raised atoll rising several tens of metres above sea level where extensive phosphate deposits were mined from the turn of the century until 1979. Royalty payments from Banaba's phosphate sales were built up over the years into the Revenue Equalisation Reserve Fund (RERF), the income of which supports the recurrent expenses of the government of Kiribati.

The population of Kiribati is approximately 93,706 the majority of whom live on the island of Tarawa. The people of Kiribati are known as I-Kiribati (pronounced 'I-Kiribass').

Government

Until independence in 1979, Kiribati was part of the Gilbert and Ellice Islands and was administered as a British colony. Today it is a democratic republic within the Commonwealth.

At a Glance

Population: 93,706 (2006)

Land Area: 700 square kilometres

EEZ: 3,550,000 square kilometres

GNP: A\$171 million (2005)

Major Industries: fisheries, agriculture, remittances, copra

Merchandise Exports (FOB): A\$8,374,000 (2006)

Major Exports: fish, copra, coconut oil, seaweed

Merchandise Imports (CIF): A\$84,223,000

Major Imports: food and live animals, machines, transport, manufactured goods, mineral fuels and beverages and tobacco

Currency: Australian Dollar

The President is both head of state and head of government, and is elected by members of the parliament known as the Maneaba ni Maungatabu. The Maneaba ni Maungatabu is a 42-member unicameral parliament, comprising 40 members elected for a four-year term by adult universal suffrage. A seat is also reserved for Banabans now living on Rabi Island (Fiji Islands), and for the Attorney-General, who sits as a non-elected Member of Parliament. The Speaker is elected to office by members of parliament but is not a member of parliament.

The President appoints the cabinet, which comprises the President, Vice-President, Attorney-General and no more than ten ministers. The current President is Mr. Anote Tong who succeeded in the August 2007 elections.

Economic Profile and Performance

Although its land mass is small and isolated, Kiribati has a huge EEZ with a wealth of marine resources making up part of its income generation which includes license fees from foreign fishing vessels, export of copra and sea weed. Remittances from its 1,000 or so seamen also contribute to its economy.

In 2006 economic growth slowed to an estimated 0.9% with small increases in government activities, wholesale and retail. Inflation rates were estimated at 1.5% in the same year and the trade deficit has widened over the years. The country is dependent on imports with only a small amount of products exported overseas. The country's largest source of foreign exchange earner, contributing 43% of total government revenues is from fishing license fees; this is followed by import duties contributing largely to the government's revenue source. Kiribati's Revenue Equalization Reserve Fund currently stands at A\$666 million (October 2006).

As a low-lying atoll nation, it is highly vulnerable to climate change and natural disasters, including coastline erosion. Furthermore, Kiribati is susceptible to fluctuations in fishing license fees, and in addition, returns on the revenue fund that supports essential government spending depends on the performance of international stock and bond markets.

Like many other small Pacific Island nations, Kiribati also faces relatively high costs of imported fuel, due to small volume shipments and limited storage facilities. Infrastructure development is a key challenge and its telecommunication costs are high. International air connections to the capital, Tarawa, are provided by Air Pacific, Air Marshall Islands and Our Airline (formerly Air Nauru) but at a high cost that dissuades tourism. Domestic travel by air and sea are both costly and irregular.

This high cost of travel and inadequate infrastructure limits the potential for tourism which could be an alternative avenue for development in the islands offering game fishing, natural beauty, bird watching and diving. A revised National Development Strategy (NDS) is currently being developed for 2008 – 2011 to follow from the 2004 – 2007 strategy. This NDS focuses on six key policy areas, that is, partnership of public and private investment in infrastructure and production, equitable distribution of services and economic opportunity, improving public sector performance, equipping people to manage social and economic change, sustainable use of natural resources and physical assets, and preserving financial reserves (the RERF) whilst using it to finance development.

Source: ADB Asian Development Outlook, 2007

Industry Sectors

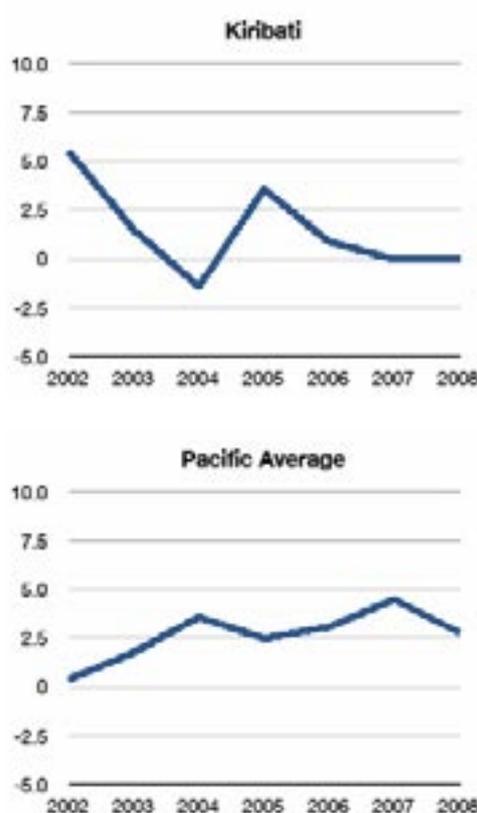
Agriculture: Most of the working population is involved in subsistence agriculture; its key agricultural export is copra whilst their other major agricultural product includes taro and breadfruit. Production for copra in 2005 was 6,194 tonnes and having an export value of A\$1,094 million.

Construction: There are only a few local companies undertaking small projects in Kiribati. The large-scale projects are usually contracted to overseas companies.

Finance and Business Services: The ANZ bank, Bank of Kiribati and the Development Bank of Kiribati are the only banks in Kiribati. There are also a number of accountants and lawyers.

Manufacturing: The country has a limited manufacturing base consisting mainly of a

GDP Growth (%) 2002-2008



Source: ADB Asian Development Outlook, 2007.
2007 and 2008 are estimates.

tuna jerky factory and local handicraft outlets.

Marine: Given its extensive EEZ, marine resources are its largest economic sector and the added advantage of being located in the migratory zones for tuna stocks. Fishing license fees are linked to the size of catch and fluctuate from year to year. In 2006 license fees contributed to 87% of non-tax income.

The Atoll Seaweed Company, a state owned enterprise based in Tarawa, sources seaweed products from around the country for export to Japan. There also exists a small but lucrative live tropical aquarium fish export project in the outer islands targeting Hong Kong and Hawaii.

Mining: The Banaba Phosphate Mine (the royalties from which formed the basis of the Revenue Equalisation Reserve Fund) ceased operation in 1979 when the phosphate was said to have been exhausted. Otherwise, there are no known mineral deposits elsewhere in the country.

Tourism: The government has an 'action plan' in place to encourage investment in this sector and also in improving its infrastructure. Its targeted areas for tourism development are in Kiritimati in the Line Islands, Tarawa and some selected outer islands in the Gilbert Group. Tourist arrivals in 2005 were recorded at 3,037 with the majority of holiday makers coming from Australia.

Wholesale/Retail: A range of imported consumer goods and locally made products such as fresh fish and some fruit and vegetables are sold through wholesale/retail outlets on Tarawa and the outer islands.

Because of its small area, there is limited natural forest available for timber processing. Kiritimati (Christmas) Island is the site of a Japanese National Space Development Agency (NASDA) tracking and monitoring station.

Imports and Exports

Kiribati's exports totalled around A\$8 million in 2006 and were made up mostly of fish, copra and coconut oil. Its imports totalled A\$87 million in that year and comprised largely food and live animals; machines, transport and equipment; manufactured goods; mineral fuels and beverages and tobacco.

A major source of Kiribati's foreign exchange is through the licensing of foreign fishing vessels, it also receives fishing revenue under the multilateral fisheries treaty signed with the USA and the EU whilst bilateral fisheries arrangements are in place with Japan, Taiwan, the Republic of Korea and Spain. Most of its catch is exported to canneries in Thailand and Puerto Rico and a small amount of high-quality fresh fish is exported to Australia and Japan.

Its main export destinations were Japan, Bangladesh, Europe and the United States. Imports were sourced mainly from Australia, Fiji, Japan and New Zealand.

Labour and Human Resources

Ten percent of the population is employed on salaries or wages, mainly in the public sector, whilst the rest are involved in subsistence fishing and farming or working on fishing vessels. The major commercial activity is the harvesting of coconuts for the export of copra and seaweed production. Underemployment and unemployment levels are high in Kiribati especially among the younger age groups. Census data show 41% of the total population is less than 20 years old and increases pressure for both school places and jobs. Consequently, the government has identified human resources development as one of the key platforms of its National Development Strategy.

Higher education, including university level programmes and post-secondary vocational technical training is provided by the government and the University of the South Pacific. The largest secondary education facility in Kiribati is the Tarawa Technical Institute, which offers a number of courses in a wide range of vocational disciplines, including building and carpentry, computer and business studies, adult education and engineering. The Japanese-funded Maritime Training Centre up-skills 100 fishing vessel crew a year. The government is putting policies in place to provide further vocational training in areas of need by the public and private sectors.

The country does not at present have minimum wages legislation, although enactment plans are underway. The Ministry of Labor estimates the 'non-legislated' minimum to be between A\$1.50 and A\$1.60. The hotel industry is partly unionised. Employers and



employees must contribute to a superannuation fund at a rate of 6% each.

Infrastructure

Under the Comprehensive Reform Programme, the government's investment policy remains one of encouraging and welcoming foreign investment.

Overall infrastructure on Kiribati is quite rudimentary, however on Tarawa a well-developed and maintained sealed road system is in place. A few transports link both among the islands of Kiribati and externally provided by both government and private sector operators. International shipping is primarily serviced by Bali Hai Lines, Chief Container Services and Kiribati Shipping Services Limited, which provide direct services to Australia and Asia. There are several shipping companies that carry freight and/or passengers between Tarawa and the three neighboring outer islands. International airline connections are serviced by Our Airline and Air Pacific.

Telecommunications, including domestic and international telephone, facsimile and mobile service systems and Internet services are provided by Telecom Services Kiribati Limited (TSKL), a company fully owned by the Government of Kiribati.

As water is scarce, improving the supply and quality of water resources has long been a priority of the government. Further improvements to the quality and supply of water are being made.

Electricity is generated by imported petroleum products and generators are used in most parts of the country.

Two banks operate in Kiribati – the Development Bank of Kiribati and the Bank of Kiribati which tracks foreign exchange reserves and domestic currency demand.

A small industrial park of eight one-room factory shells exists on Tarawa and a Business Advisory Centre is operated by the Ministry of Commerce, Industry and Tourism.

Investment Policy and Regulations

Foreign investment in Kiribati is generally encouraged and no discrimination is shown between foreign and local investors. Foreign investors must apply to the Foreign Investment Commission which evaluates applications according to the provision set out in the Foreign Investment Act. Foreign Investments are controlled under the Foreign Investment Act 1985; the Foreign Investment Regulation 1986 and the Foreign Investment Policy 1996.

Investments that may conflict with established domestic enterprises or impact on the use by nationals of lands or natural resources are dealt with on a case-by-case basis. Average time in processing investment applications to time of approval may take up to three months.

All proposals put to the Commission are considered under the following guidelines:

- The potential employment of I-Kiribati;
- Net export contribution;
- Balance between local resource exploitation and the size of the foreign investment;
- The potential for transferring to I-Kiribati foreign managerial and technical skills required in the enterprise;
- The extent of competition with local enterprises; and
- The impact on social and natural environments.

The Commission may approve investment plans in which capital input is less than A\$250,000; larger investments are referred to the national cabinet.

If the application is accepted, the Foreign Investment Commission often sets permanent criteria relating to employment, training of local staff and production targets, including a timetable for implementation. To ensure compliance, the firm is expected to submit quarterly progress reports and annual accounts, which contain a revenue statement and balance sheet.

The government of Kiribati imposes restrictions on foreign investment only where local expertise or industry already exists (for example, handicrafts) or where the local, natural or social environment could be adversely affected.



Some investments are subject to restrictions and others are closed to foreign investments, these include:

- Local industries: piggery farming; poultry farming; lobster salad exportation; domestic inter-island shipping; wholesaling;
- Scarce endangered species: coconut crab harvesting; turtle hunting; giant clam harvesting; bone fishing and berried female lobster harvesting;

A range of incentives are available on a case-by-case basis and of which the investors are to initiate any such request for assistance.

Examples of incentives and concessions available include but not limited to:

- Pioneer status: a company that wishes to establish a pioneer business or industry in Tarawa or Kiritimati may apply to the Internal Revenue Board for pioneer status. This allows for a reduced tax rate of 10% for up to five years;
- Customs duty concessions: import duties are generally low and full or partial exemptions of import duties may be granted on capital items. This includes building materials, plant and equipment, furniture and fittings and boats;
- Direct government investment: the government may assist through government involvement or through joint-venturing a project. Assistance might be in the form of a financial contribution or through another resource contribution such as land; and
- Development of infrastructure: assistance may be provided for development projects, such as tourism.

Trade Relations

Kiribati has non-reciprocal trade agreements with Fiji and is a signatory to the South Pacific Agreement on Regional Trade and Economic Co-operation (SPARTECA) which grants duty-free access to the Australian and New Zealand markets. It is also a signatory to the Pacific Islands Trade Agreement (PICTA) where member countries agree to liberalize trade in goods. Kiribati is among the Pacific Islands Countries who are negotiating an Economic Partnership Agreement with the EU.

Land

The government of Kiribati owns about two thirds of the land area, most of which is in the Line and Phoenix groups. Although the land area is small, suitable land still exists in certain areas for development. The government has earmarked Christmas and the Fanning Islands in the Line group and Canton Island in the Phoenix group as prime areas for future development.

Foreigners cannot buy land in Kiribati; however, for investment purposes land can be leased on a long-term basis. The Lands Management Division of the Ministry of Home Affairs and Rural Development handles all enquiries and approvals for government land.

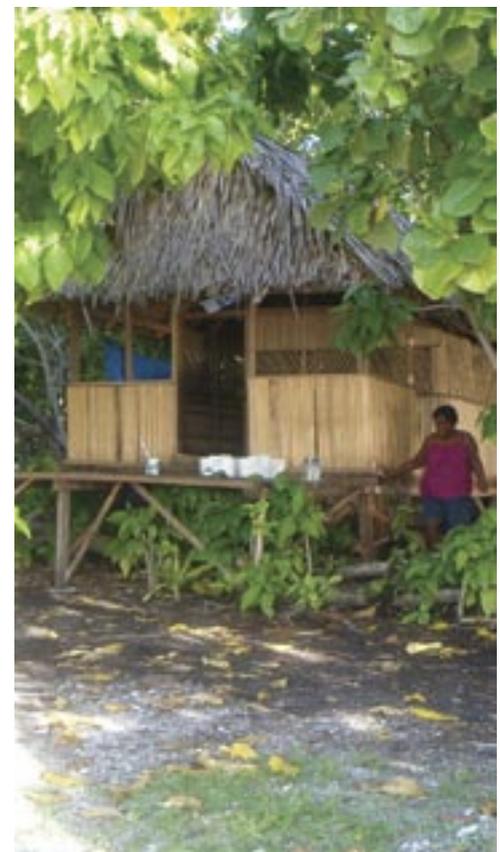
Foreign investors may enter into direct negotiations with private landowners on the terms and conditions for leasing. However, where the term of the lease is more than 21 years, the consent of the Minister of Home Affairs and Rural Development must be sought before the lease agreement is concluded.

Taxation and Other Regulations

The normal company tax is based on a flat rate of 25% of net profits for the first US\$38,500 and 35% for amounts in excess.

Personal income tax is at progressive rates and is applied to chargeable income (taxable income less allowable expenses) at the following rates:

First US\$1,120	Nil
US\$1,120 – US\$9,360	25%
US\$9,360 – US\$31,200	30%
US\$31,200 and over	35%





There is no foreign exchange control in Kiribati nor is there a central monetary authority. Investors may freely remit earnings, profits, fees, dividends, royalties, payments and capital abroad. At present, no export duty is charged on exportable items. There are also no restrictions on items for export, however, for marine products an export licence from the Fisheries Division of the Ministry of Natural Resources Development is required. Import duties are relatively low and exemptions might be provided for investment project items.

Investment Opportunities

In its National Development Strategy, 2004 – 2007, the government outlined a number of sectoral priorities in which they would like to engage the private sector. These priorities include;

- Increasing private commercial investment in marine and tourism resources; promoting new research-based openings for private capital and private investments;
- Promoting private-sector production and marketing of marine products, supporting a target number of marine products of the highest value and improving the transshipment by foreign vessels of these products;
- Participation in agriculture through the provision of support services to commodity industries, developing strategies for diversifying the agricultural base, facilitating value-adding of traditional crops and reviewing quarantine regulations;
- Providing a transparent and fully supported business environment and training service to diversify the small manufacturing base of the country; and promoting tourism-related investment in infrastructure required to support tourism development, including hotels and resorts, airports and ground transportation;
- Implement streamlining of foreign investment regulatory system;

A range of projects exists in all areas of the economy but the following sectors offer the greatest opportunities for foreign investors:

Agriculture: Successful trials have been conducted in the growing of *Euchema*, a red algae from which Carrageenan (a stabilizing gel used in pet food and cosmetics) is produced, and joint-venture opportunities exist for the farming and processing of this product. Opportunities also exist in the copra industry by value-adding to the resource, including the production of palm oil butter, coconut cream and oil products.

Marine: With the vast stocks of tuna migrating through Kiribati's massive EEZ, there are opportunities in the seafood capture and export industry, as well as onshore processing. Opportunities also exist for projects involving pearl, seaweed and milk fish farming.

With the upgraded port facilities capable of servicing overseas fishing trawlers, an opportunity for a ship repair and slipping operation also exists, given the number of foreign fishing vessels passing through the area.

Tourism: The tourism industry is largely underdeveloped and there are opportunities to establish a range of accommodation facilities from small guest houses to resort-style accommodation, as well as diving and fishing tour services. A sea sports centre on Tarawa is currently being proposed, this would involve the establishment of an integrated sailing, water-skiing, windsurfing, scuba diving and sea angling venue targeting incoming overseas visitors.

Useful Contacts

FOREIGN INVESTMENT COMMISSION

Ministry of Commerce, Industry and Tourism
PO Box 510, Betio, Tarawa, KIRIBATI, Phone: (686) 26 157 / 26 158, Fax: (686) 21 824 / 21 082

INTERNAL REVENUE BOARD

Ministry of Finance and Economic Planning
PO Box 67, Bairiki, Tarawa, KIRIBATI, Phone: (686) 21 307, Fax: (686) 21 824 / 21 082

KIRIBATI CHAMBER OF COMMERCE

PO Box 550, Betio, Tarawa, KIRIBATI, Phone: (686) 26 351, Fax: (686) 26 332



The Pacific Islands Trade & Investment Commission, Sydney

Who We Are and What We Do

We are one of four overseas agencies of the Suva-based Pacific Islands Forum Secretariat (PIFS). PIFS has other overseas offices located in Japan, New Zealand, and the People's Republic of China.

We work closely with a network of government and private sector agencies in the 14 Pacific Islands who are members of Pacific Islands Forum.

Our aim is to improve the capabilities of their private sector; in particular in enterprise, export and tourism development.

Our Functions

1. To assist Pacific Island enterprises develop sustainable business and trade activities.
2. To assist Pacific Island governments and private sector service providers develop their tourism potential.
3. To support private sector growth in the Pacific Islands, including promoting intra-regional investment.
4. To support business linkages between government and enterprises in the Pacific Islands and Australia through efficient and effective dissemination of market information.

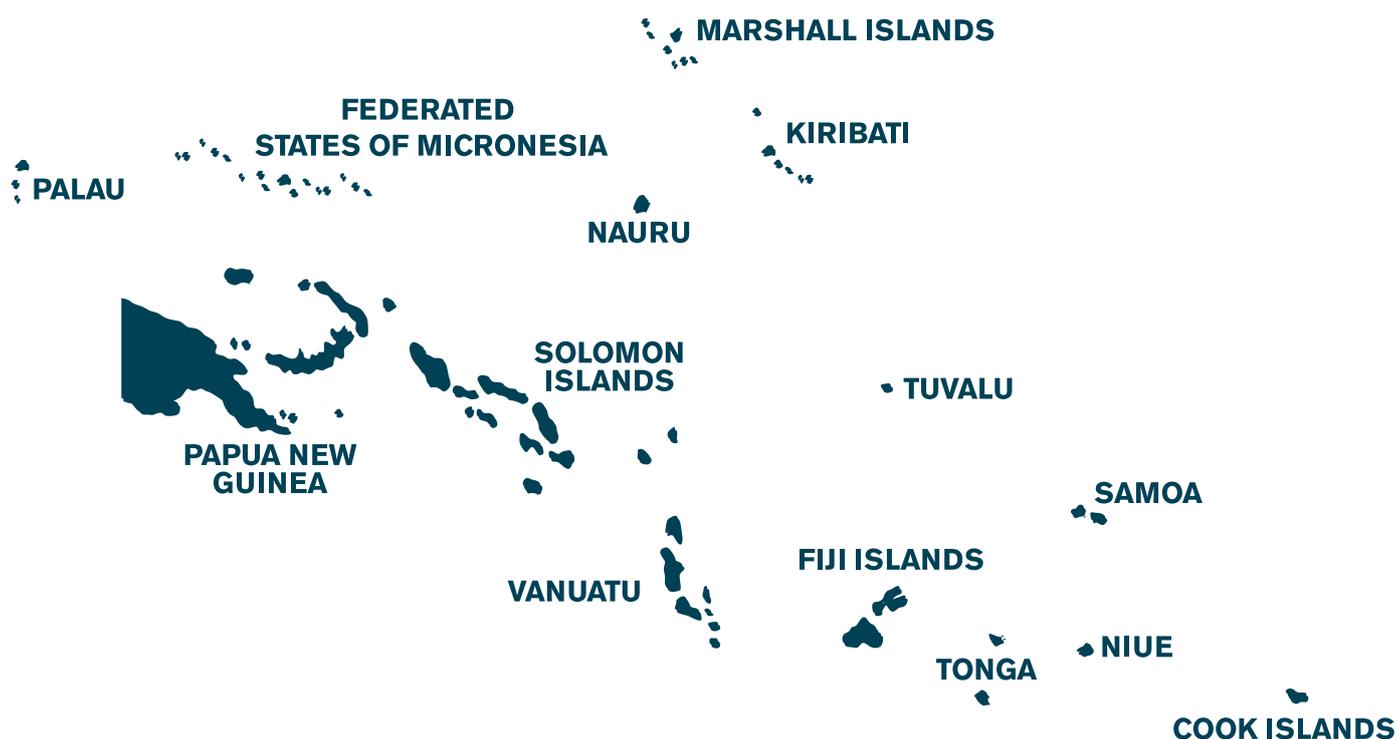
Out Special Projects Unit

- Supports private sector development in 14 Pacific Islands Countries.
- Promotes intra-regional investment development.
- Supports the business development programs of Small Island States (SIS).
- Supports skills development, including through capacity building initiatives.

Our Newsletters

Our newsletter provides practical information about trade, tourism and investment trends in the Pacific Islands and Australia. Pacific Outlook also contains up-to-date information on developments on regulatory changes and requirements for trade and industry in the region.

Our newsletters are published on a bi-monthly basis. Register online at www.pitic.org.au for your free subscription.





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