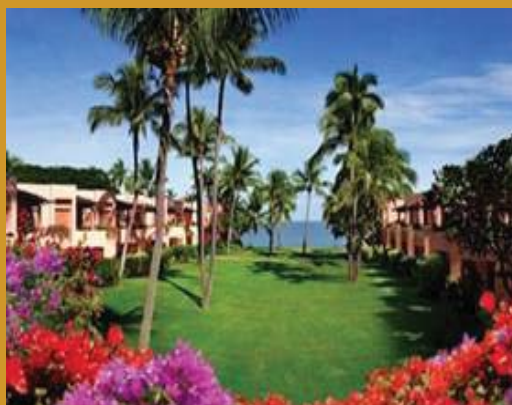
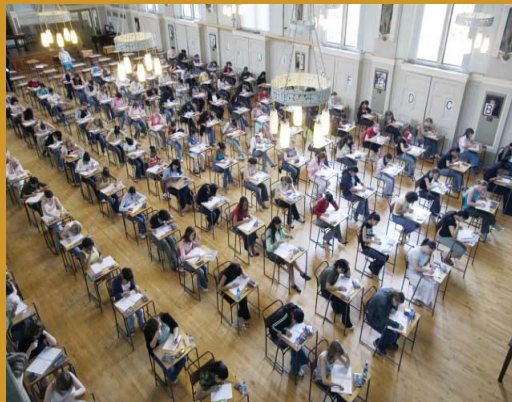


2008 Fiji Islands Budget Summary

An Overview of the Fiji Government 2008 Budget
23rd November 2007



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| <p>SUVA</p> <p>8th Floor, Civic Tower 262 Victoria Parade P.O. Box 200 Suva Fiji Islands</p> <p>Ph: (679) 331 3955 (679) 331 5199 Fax: (679) 330 0981 (679) 330 0947</p> <p>Partners</p> <p>Jenny Seeto e-mail: jenny.seeto@fj.pwc.com</p> <p>Chirk Yam e-mail: chirk.yam@fj.pwc.com</p> <p>Ilaitia Boila e-mail: ilaitia.r.boila@fj.pwc.com</p> <p>Jerome Kado e-mail: jerome.kado@fj.pwc.com</p> | <p>LAUTOKA</p> <p>52 Narara Parade P.O. Box 54 Lautoka Fiji Islands</p> <p>Ph: (679) 666 0400 (679) 666 1055 Fax: (679) 666 1798 (679) 666 4671</p> <p>Partners</p> <p>Nitin Gandhi e-mail: nitin.gandhi@fj.pwc.com</p> <p>Wiliki Takiveikata e-mail: wiliki.takiveikata@fj.pwc.com</p> |
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Should you wish to discuss any aspect of the budget or any other matter, please contact us.

This Fiji Budget commentary has been prepared to provide a prompt overview of the general issues raised in the 2008 Fiji Budget. It does not cover exhaustively the subjects discussed. When specific issues occur in practice it may be necessary to refer to the laws and regulations and to obtain appropriate professional advice.

Whilst every care has been taken in the preparation of this publication, no warranty is given as to the correctness of the information it contains and no liability is accepted for any statement or opinion, nor for any error or omission.

23 November 2007

2008 Fiji Budget

PricewaterhouseCoopers

Level 8, Civic Tower
262 Victoria Parade
GPO Box 200
Suva, Fiji Islands
Telephone +679 3 313 955
+679 3 315 199
Facsimile +679 3 300 947
+679 3 300 981

“Building a Platform for Quick Recovery and Sustainable Growth”

The Interim Government’s second Budget was presented to the nation by the Minister of Finance, National Planning and Sugar Industry, Mr Mahendra P Chaudhary. This Budget builds on the policies and strategies in his April 2007 Mini-Budget with the theme of **“Building A Platform for Quick Recovery and Sustainable Growth”**.

The Minister acknowledged that to maintain the Interim Government’s targeted net deficit of 2% of GDP, inherited high debt levels constrained it from considering any expansionary policies. To achieve this net deficit against expected 2007 GDP decline of 3.9%, the Interim Government premises its medium term approach on policy platforms including a return to democratic rule with good governance, public sector reforms, financial institution reform, effective utilization of land resources, social and community development.

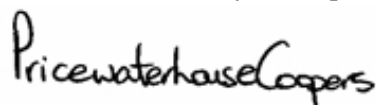
The ailing sugar industry has been given a lot of attention in the budget.

The key tourism industry segment will, from 1 January 2009, enjoy two replacement incentive packages: one based on deductions for expenditure, and the alternative being a 7 year tax free holiday subject to a minimum capital expenditure of \$10 million. Hotel Turnover Tax has been increased to 5 percent effective 1 April 2008. ICT continued to attract attention with the 10 year tax holiday extended to investments outside the Kalabu ICT Zone.

Many of the taxation policies announced will require, before going forward, detailed policy clarification on its application to ensure taxpayer confidence in its application. Details on some of the measures announced are lacking to enable a proper analysis of its impact, such as the 150% deduction for reinvestment of retained profits and the capping of foreign head office expenses.

Other taxation amendments place greater compliance requirements on taxpayers, and the onerous obligation of being held liable for the delay in the lodgement of tax returns has been placed on Accountants and Tax Agents. However the zest displayed in this direction is misguided in some instances as adequate remedial provisions already exist in the legislation. The tax system should ensure that the appropriate stakeholder including the tax office is held responsible for the implementation of the tax legislation.

PricewaterhouseCoopers is pleased to provide a commentary and analysis of the 2008 Budget. Should you have any queries on the Budget or our analysis, please do not hesitate to contact any of the partners.



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SPOTLIGHT ON THE 2008 BUDGET

(a) Economic Indicators

| | 2008 Budget | 2007 Revised | 2007 Revised Budget |
|--|------------------------|-------------------------|------------------------------------|
| Real GDP | \$3,030.1m | \$2,966.0m | N/A |
| Expected growth/(decline) | 2.2% | (3.9%) | (2.5%) |
| Net budget deficit – amount | \$116.5m | (\$22.4m) | \$100.7m |
| - % of Nominal GDP | 2.1% | 0.4% | 1.7% |
| Anticipated sugar production | 281,000 tonnes | 268,000 tonnes | N/A |
| Visitor arrivals | 540,000 | 510,000 | N/A |
| Total government debt – amount | \$2,957m | \$2,803m | \$2,680m |
| - % of nominal GDP | 50.8% | 50.3% | 52.8% |
| Overall balance of payments surplus | \$94m | \$37m | N/A |
| Foreign reserves (includes cash with agencies abroad) – October 2007 | N/A | \$930.6m | N/A |
| Inflation | 2.5% | 3.5% | 3.1% |
| Revenue from sale of interests in State Owned Enterprises | \$12m | \$12m | \$6m |
| Interest payments – amount | \$179.2m | \$173.6m | \$173.6m |
| - % of total operating expenditure | 14.8% | 14.8% | 14.7% |
| | 2006 | 2005 | 2005 |
| Contingent liabilities | \$3,036.7m | \$2,780m | N/A |

(B) Revenue Measures

Income Tax Act and Value Added Tax (effective from 1 January 2008)

- ✚ Increase in individual tax threshold from \$8,840 to \$9,000.
- ✚ Export Income Deduction to remain at 50% in 2008.
- ✚ The word pension to be defined in section 2 of the Income Tax Act (ITA) to avoid misunderstanding in the application of section 17(50) and 110.
- ✚ Incentives available to the Kalabu ICT Zone (10 years tax holiday) will also apply to investment outside the zone; subject to certain conditions.
- ✚ 150% tax deduction on capital investment (excluding motor vehicles / furniture and fittings) will be made available to approved companies engaged in import substitution activities.

Detailed guidelines should be formulated to define activities qualifying

- ✚ 150% Tax Deduction on Retained Earnings to foreign owned companies incorporated in Fiji including a branch which re-invests its earnings or profits in Fiji

A qualifying time line ought to be incorporated to avoid future claw back

- ✚ For foreign owned companies, FIRCA will introduce a cap on the repatriation of head office expenses to home country.

This measure is contrary to internationally accepted established practices and should be carefully reviewed. Other solutions apart from a cap maybe considered

- ✚ FIRCA will introduce a cap on entertainment expenses allowable for tax purposes. *Any caps should duly recognise the norm applicable to different businesses*

- ✚ FIRCA to review the Dividend Regulations and investigate international practice and consider placing a cap to which dividends are to be exempted.

This can potentially lead to the same profits being taxed more than once

- ✚ FIRCA to enhance its IT system with the provision of a taxpayer portal from 2008.

- ✚ Introduction of tax deduction allowance of up to \$400 for interest on housing mortgage for first home buyers.

Whilst appearing generous by extending a deduction to first home owners, at the same time the removal of VAT refund on \$50,000 of new home construction makes the cashflow assistance negligible

- ✚ The Land Transport Authority and the Exporters Club Limited will be exempt from paying income tax

- ✚ Income tax exemption in respect of Fiji Television Limited and the Fijians Trust Fund will be removed.
- ✚ Tax exemption of dividend from Unit Trust of Fiji will be removed to ensure consistency of the treatment of unit trusts.
A future timeframe for its implementation should be considered due to CMDA sanctioned prospectus
- ✚ Removal of 150% tax deduction in respect of donations of police vehicles.
- ✚ A 150% tax deduction will be available for cash donations of more than \$100,000 made to the Sports Fund approved by the Commissioner of Inland Revenue based on specific criteria.
Criteria should be transparent and binding
- ✚ FIRCA to make amendments to rules relating to valuation of employee benefits
- ✚ A new provision to be inserted in the 11th Schedule to the ITA to define “Minister” as Minister responsible for Finance.
- ✚ Section 9A of the Income Tax Act is to be amended by replacing “(d) in the year of assessment 2004 – at the rate of 31 percent” with “in every subsequent year of assessment – at the rate of 31 percent”.
- ✚ Section 44 of the Income Tax Act is to be amended to include Accountants and / or Tax Agents to be held liable for the delay of lodgement of income tax returns.
This could potentially lead to the complete withdrawal by Accountants and Tax Agents from provision of services relating to the lodgement of tax returns
- ✚ Section 44A of the Income Tax Act is to be amended to include a provision dealing with the presumption as to the debt in properties that is under joint tenancy and not tenancy in common.
- ✚ Section 51(1) is to be amended to allow husband and wife to be registered as partnership for tax purposes.
- ✚ Section 54 is to be amended to allow lodgement of details relating to taxes collected under Sections 8A (non-resident miscellaneous tax) and 10A (royalty withholding tax). Return of withholding tax or dividend tax deducted to be lodged by taxpayers and the FIRCA will issue assessments to allow taxpayers to lodge objections to the same as appropriate.

- ✚ Amendments to the 6th Schedule of the Income Tax Act
Definition of “production activity” is to be redefined to ensure clarity; legislation will be clarified to state that ONE audio visual production should have ONE application; actual local spending must be provided at the end of each project; “Production” to be defined; investors can apply for ONE final approval; VAT Decree will be amended to state that “live broadcast” will deem to be export of services – hence will be zero rated; issues on “live broadcast” and “recorded” will be clarified; legislation to be clarified to distinguish between the Audio Visual Licence and the Studio Operators Licence; and legislation to be clarified that temporary Studio City Zone license must be used within the 12 months from the date of the issuance of the licence (use it or lose it).
- ✚ Measures will be looked at to encourage reinvestment of profits, which aligns the tax treatment of foreign companies incorporated in Fiji and branch operations.
- ✚ New provisions to be introduced for crediting of withholding tax deducted at source
- ✚ Provision to be introduced for taxpayers to lodge annual summaries of payments made to non-residents.
- ✚ Removal of withholding tax concession (for TNT)
- ✚ Section 94 of the Income Tax Act to include reports required to be lodged under Section 47A (Rental Income Reporting System).
- ✚ Introduction of interest on savings of up to \$200 to be exempt from income tax.
Exemption ought to apply to interest from any bank account
- ✚ Amendments to Small and Micro enterprises tax incentive provision
- ✚ Introduction of section 31 of the VAT Decree to be inserted in the ITA
- ✚ Taxpayers to advise the Commissioner of Inland Revenue of change in address or status to update records
- ✚ VAT exemption on government allocation for salaries and wages
- ✚ Removal of VAT refund for new dwelling house
- ✚ Introduction of sections 41A and 74A of the ITA to the VAT Decree
- ✚ Amendment to section 3(10) of the VAT Decree to deem a supply made from an employer to an employee as a benefit under the ITA (for clarification)
- ✚ Amendment to section 22 of the VAT Decree to require registration within 30 days (to be consistent with other Acts administered by the FIRCA)

 **New Tourism Incentive Package (Effective from 1 January 2009)**

Investors will be allowed either Standard Allowance or Hotel Investment Package



Standard Allowance

- 55% Investment Allowance on total capital expenditure provided there is no shift of revenue offshore.
- 150% tax deduction on expenditure for environmental protection and community support. Environmental protection activities include sewage treatment, potable water treatment, reforestation, erosion control. Community support includes wharves, roads, water supply.
- 125% tax deduction on expenditure for the upgrade of public infrastructure such as roads, sewage systems and water supplies.




Hotel Incentive Package

- 7 years tax holiday for Short Life Investment Package, capital investments not less than \$10 million.
- Import duty exemption on all capital goods (including capital equipment, plant and machinery) not available in Fiji that is used in carrying out the investment.


Hotel Turnover Act

-  Increase in hotel turnover tax rate from 3 to 5 percent effective 1 April 2008.
-  Amendment to HTT Act and the VAT Decree to reflect HTT and VAT component to be shown separately on invoices.











Gambling Turnover Act

-  Gambling Turnover Tax rate to increase from 10 to 25 percent.
-  Remittance to be made to the FIRCA on a weekly and not a monthly basis.
-  Tax on winnings to be deducted at source.
Presumably losses will be tax deductible too

Land Sales Act

-  Land sales tax exemption will be allowed (for developments) only to the “predecessor in title” and not to “any predecessor in title”.
This may constitute a form of capital gains tax

Customs Act

-  Reduction in fiscal duty on new bus for public transport from 27 percent to 5 percent imported by registered bus operators on or before 31 December 2010
-  Reduction in import excise rate on new buses for public transport from 15 to 5 percent imported by registered bus operators on or before 31 December 2010
-  Removal of concession on tyres
-  Amendments to include concessionary rate to be 27 or 60 percent of the existing specific rate whichever is greater for registered minibus operators and Liquefied Pressure Gas vehicles
-  Reduce the fuel rebate from 18 cents to 10 cents per litre for the Fiji Electricity Authority
-  For inter-island shipping vessels duty concession remains on ADO and IDO
-  Removal of 2 cents/kg concession on butane gas for manufacturers
-  Remove duty free concession on fabrics used in the manufacture of diapers and new duty rate of 5 percent will now apply
-  Increase in duty concession on copper cables and plastic pipes from 3 to 5 percent
-  Remove duty free concession and apply a duty concession of 5 percent on full cream powdered milk in bulk; liquid milk in bulk and bulk butter

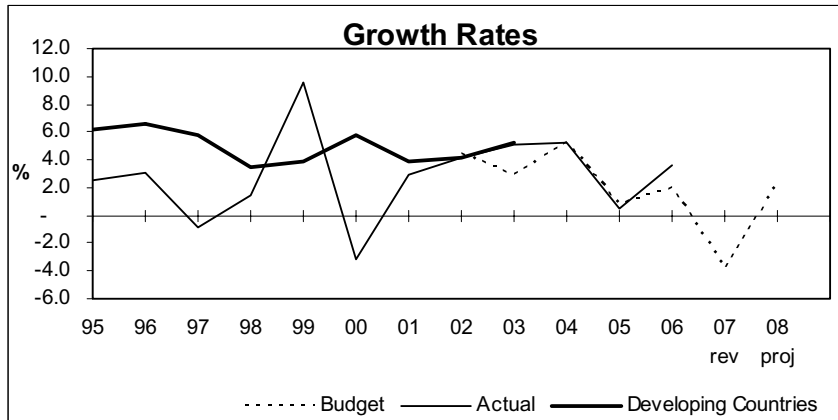
Fiscal and Excise Duty

-  Refer to Appendix 2 for Fiscal Rate Changes and Excise Changes

A. STATE OF THE NATION

1. Growth Rate

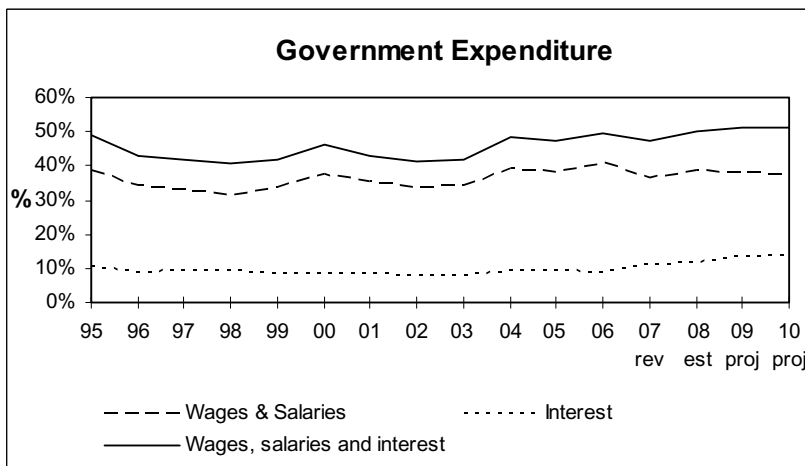
2008 = 2.3% (2007 Budget = 2 %, Revised 2007 = -3.9%)



Real GDP forecast of \$3,030 million in 2008. Tourist arrivals of 540,000 (2007 projected – 510,000) and sugar production of 281,000 tonnes expected for 2008 (2007 revised – 268,000 tonnes).

Source: 2005-2008: 2008 Budget Address Supplement
1994-2003 source: Reserve Bank of Fiji Press Release 18/2003

2. Wages, Salaries and Interest (% of Government expenditure)

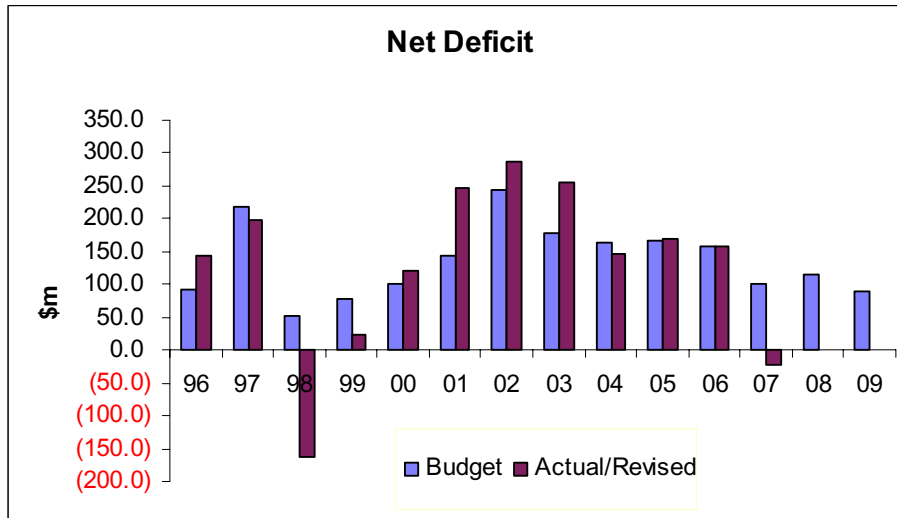


The wages, salaries and interest component of total government expenditure is expected to be 50 percent for 2008 and increase to 51 percent in 2009.

Source: 1994-2003 data: Reserve Bank of Fiji Quarterly Review, June 2005
2004 data: Budget Estimates 2006
2005 data: Revised Budget Estimates 2007
2006-2010 data: Budget Estimates 2008

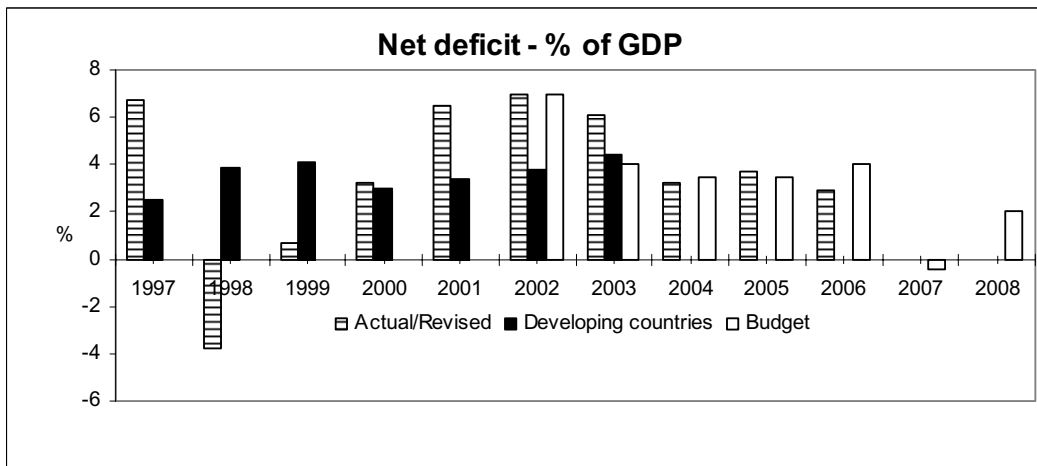
3. Budget Deficit

The gross deficit for 2008 is projected at \$370 million and the net deficit for 2008 is budgeted at \$116 million or 2 percent of GDP. In comparison, 2007 net surplus has been revised to \$22 million.



In 2008, the net deficit is projected to be \$117 million.

Source: 2008 Budget Estimates



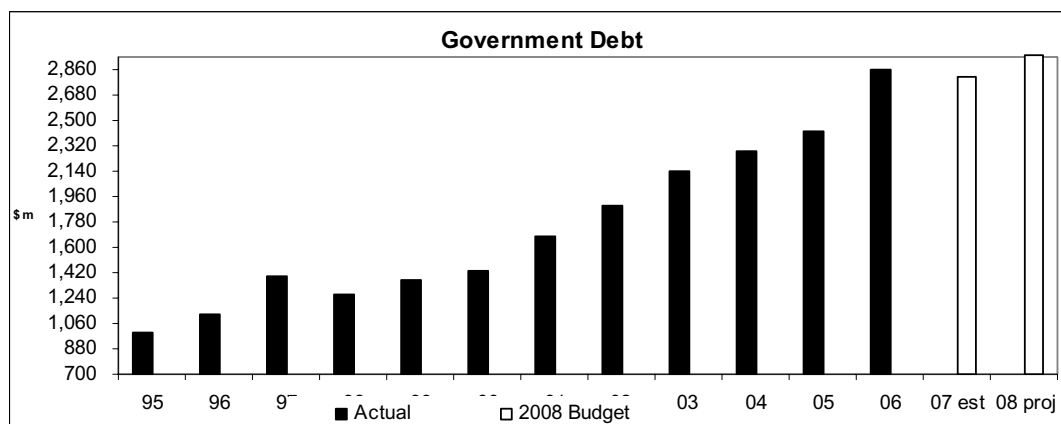
Source: 2008 Budget Supplement

4. Balance of Payments

Fiji’s overall balance of payments position declined in 2006 to a deficit of \$58 million (after adjustments for “errors and omissions” of \$568 million) from a surplus of \$223 million (after “errors and omissions” adjustment of \$420.1 million) in 2005. The overall balance of payment surplus in 2007 is projected at \$37 million (after “errors and omissions” adjustment of \$977 million).

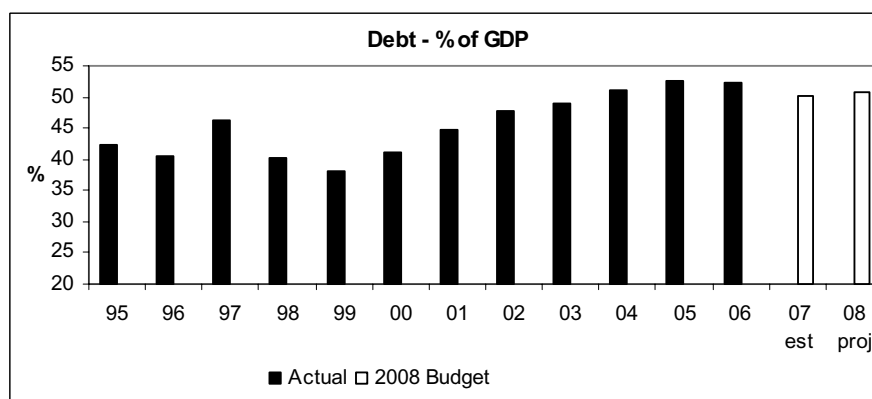
5. Government Debt

The government debt is expected to be \$2,957 million in 2008. The revised debt estimate for 2007 is \$2,803 million.



Source: 2008 Budget Supplement

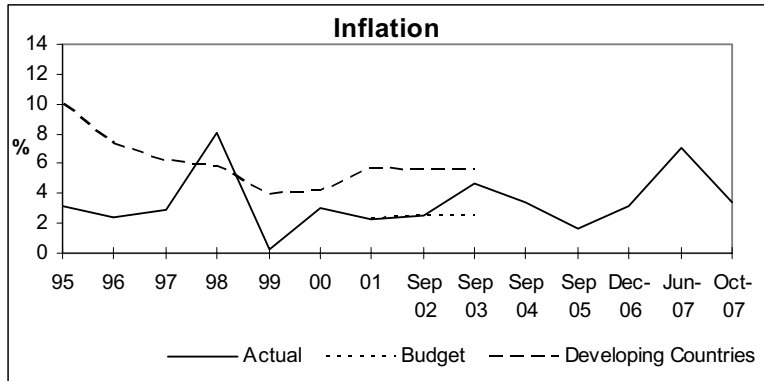
The Government’s medium term fiscal strategy is to reduce the Government debt to a sustainable level of 45 percent of GDP or below by 2011. For 2008 it is projected to be 50.8%. The 2006 projection has been increased by \$283.5 million in the 2008 Budget Supplement as compared to the 2007 budget figures.



Source: 2008 Budget Supplement

6. Inflation

Inflation fluctuated during the first ten months of 2007 reaching its peak at 7.1 percent in June. As at October 2007 the inflation rate was at 3.4 percent and the year end inflation is projected to be around 3.5 percent.



Source: 2008 Budget Address Supplement

B. GOVERNMENT STRATEGIC DIRECTION

1.0 ECONOMIC PERFORMANCE

The Minister stated that the Fiji economy had grown, on average, by 2.8 % over the last 5 years. The domestic economy is expected to decline by 3.9% in 2007.

Lower Government spending, the impact of the flash floods earlier this year that damaged the 2007 sugar cane crop followed by the drought in the cane areas, the slowdown in the building and construction sector, the absence of gold production at the Vatukoula Mines and lower tourist arrivals have all contributed to the projected contraction for 2007.

1.1 Monetary Policy

In May 2007, the Reserve Bank of Fiji (RBF) lowered the statutory reserve deposit ratio from 7% to 6%. This was aimed at injecting liquidity into the banking system and easing upward pressure on interest rates so as to facilitate investment and growth.

The RBF also encouraged commercial banks to lend to priority sectors, above the credit ceiling, to export oriented business, investment related projects and to the small business sector. Recently, it has relaxed certain exchange controls and reviewed the criteria for lending to non-resident businesses and individuals by domestic banks.

1.2 Inflation

The year end inflation forecast now stands at 3.5% and is expected to further decline to 2.5% in 2008 in line with the slowdown in wage and income increases this year, and the modest economic recovery expected next year.

1.3 Foreign Reserves

The Minister stated that late last year, official foreign reserves were around \$800 million, sufficient to cover around 3.7 months of imports of goods. He noted that foreign reserves stabilised during the course of the year as a result of falling imports and a small improvement in exports. The RBF's policy action in the form of exchange control regulations and credit ceiling together with a tight fiscal policy, contributed to stabilising the level of reserves.

At the end of October 2007, official foreign reserves were at \$931 million, sufficient to cover 4.3 months of imports of goods.

1.4 Economic Outlook - 2008

The Government has projected the economy to grow by 2.2% driven by the sectors of agriculture (including sugar), forestry and fisheries. The manufacturing, transport and communication, wholesale and retail trade, hotels and restaurants sectors are also anticipated to support next year's growth on the back of an expected improvement in tourist arrivals. Other sectors also expected to contribute positively to the 2008 growth outlook include the electricity and water, and building and construction sectors.

2.0 MAJOR ECONOMIC CHALLENGES

The Minister stated that while the economy is expected to grow in 2008 there were significant economic challenges facing the country. These challenges are:

- Low and volatile economic growth;
- High unemployment, and low wage rates, contributing to greater poverty;
- Exports continue to be stagnant creating undue pressures on the Balance of Payments position. Higher oil prices have raised our import bill;
- Our preferential trade agreements are being dismantled
- Our debt stock remains at unsustainably high levels;
- The size of government is large by international standards. This has resulted in insufficient resources being spent on capital development to properly maintain existing assets, let alone build new ones;
- Investment as a percentage of GDP remains well below 25%, which is an investment target that can lift growth to acceptable levels at 6% per annum; and
- Productivity growth has been extremely low by world standards.

3.0 MEDIUM TERM POLICY DIRECTION

The Minister announced that the Government's long term vision was for *Building a Better Fiji*. Leading on from this vision is the Government's new policy direction for 2008 to 2010 of "*Sustainable Economic Empowerment Development Strategies*" or "*SEEDS*".

There are six policy platforms to guide development initiatives in the medium term:

One: it commits to returning Fiji back to democratic rule, strengthening good governance, weeding out corruption and modernizing existing administrative systems;

Two: it commits to growing the size of the economy;

Three: it commits to reforming Fiji's public sector with the objective to reduce its size and increase efficiency and productivity;

Four: it commits to the reform of public financial institutions. This includes the further development of Fiji's capital markets, the promotion of rural banking and the

establishment of a Financial Services Commission;

Five: it commits to the greater and more effective utilization of Fiji's land resource. This includes putting in place a system that promotes fairness to tenants and landlords, and which encourages maximum return from the potential value of our land resource; and

Six: SEEDS commits to social and community development that promotes national unity, better health and education services, rural development, poverty eradication and social equity and environmental sustainability.

4.0 BUILDING A PLATFORM FOR QUICK RECOVERY AND SUSTAINABLE GROWTH

The Minister presented the following policy instruments through which the Government aims to achieve its targeted goals:

4.1 Export

Government intends to continue with the implementation of the National Exports Strategy programme to address the widening gap between imports and exports, and boost foreign exchange earnings.

Over the years, exports have stagnated resulting in pressures on the Balance of Payments position. The Minister announced the following export strategy to address this trend:

- To place significant emphasis on raising non-traditional exports;
- To encourage strategic investment in export oriented industries that add value to resource based sectors; and
- To create the enabling environment for private sector investment and export promotion.

In the short term, the Government intends to introduce selective incentives with specified time frames to assist in jump starting the economy as part of its economic recovery package.

The RBF has recently made certain changes to its Export Finance Facility (EFF). These changes will allow exporters to access finance from commercial banks and the Fiji Development Bank at concessionary interest rates. The Minister urged exporters to take maximum advantage of this facility.

The Minister expressed the Government's concern that a substantial part of Fiji's export income was not brought into the country and its affect on the Balance of Payments and Foreign Reserves as well as on Government revenue.

4.2 Import Substitution

Government has indicated that it will embark on a policy of building our capacity to replace imports and this is to be carried out on a selective basis. It intends to review specific import excise duties to support this policy, while protecting selected domestic industries.

The Minister stated that a major concern was the lack of action in producing domestically grown food products for the hotel industry. The Government therefore plans to put in place measures and initiatives whereby the hotel industry will work with the local farmers and manufacturers to reduce the hotel industry's reliance on the imports of fruits, vegetables, meat and marine products.

It is Government's intention to reduce the import content in the hotel industry by 50% from current levels, in the next 5 years. It will also continue with the rationalisation of the role of the Agricultural Marketing Authority and its merger with Foods Processors Limited with a view to privatising the merged entity as soon as practically possible.

4.3 Energy

The Minister stated that the fuel import bills had risen strongly over the years due to both increased demand as well as the escalating world price for oil. In 2006, Fiji's oil import bill was just over \$1 billion compared to \$332 million in 2000, accounting for one-third of the total import bill. Oil consumption by the Fiji Electricity Authority accounted for 10% of total oil imports last year.

To reduce this dependence on imported fossil fuels, Government intends to do the following:

- Continue with its renewable energy investments and assist in securing financing of the construction of an additional hydro-power facility in Nadarivatu;
- At the same time, it will work closely with the World Bank to identify and implement small renewable energy projects around the country, particularly in the Northern division where off-grid schemes are more viable at this stage; and
- Push ahead aggressively with investments on power cogeneration and ethanol production.

4.4 Investment

The Minister stated that private investment was still not at the level required to allow sustained economic growth. To encourage the private sector to take the lead role in raising investment levels, the Minister indicated that the Government intends to improve the business environment to a more dynamic and responsive level through comprehensive reforms and enabling measures.

The Minister stated that the RBF's monetary policy will be aimed at managing liquidity to achieve market-based interest rates which are attractive for investment and at the same time mobilise savings.

He stated that an area of continuing concern was the time taken to process investment approvals. Under the Foreign Investment Amendment Act, the Fiji Trade and Investment Bureau (FTIB) is required to register projects within 5 days of receiving proposals. He stated that the FTIB is currently averaging 3 days, and was working towards reducing this to 2 days.

He assured investors and potential investors, that the Government was addressing existing bottlenecks in the approval process which he maintained would be reflected in tangible results very shortly.

The Minister announced the allocation of a total of \$1.25 million to the Department of Town and Country Planning, the Office of the Registrar of Companies, and the Rural Local Authorities to boost their capacity in processing investment applications. The Department of Immigration has been allocated additional staff to process work permit applications.

4.5 Infrastructure Upgrade and Development

The Minister acknowledged that the current appalling state of our infrastructure is a major constraint to investment, and needs addressing urgently.

It is the Government's strategy to embark on Public Private Partnerships (PPP) to promote the development of infrastructure facilities through mutually beneficial agreements, aimed primarily at supplying public goods. This policy will give Government flexibility with regards to debt financing, by deferring costs.

A special unit has been established to promote PPP effectively in conformity with the key principles of accountability, value for money and appropriate risk transfer. Further, negotiations and preparatory works are underway to implement additional PPP projects in 2008.

4.6 Private Sector Development

The Government is putting in place the following strategies to promote private sector development:

- Improve the approval process of investment as previously mentioned;
- Remove the monopolistic structures that exist in utilities, communications and other areas;
- Rationalise tax structures and incentives to promote new industries and the small and micro enterprises;
- Help find markets for agriculture and other products;
- Help bring down the cost of doing business by streamlining public enterprises and public service delivery; and

- Promote good governance.

4.7 Productivity and Competition

The Minister stated that the Government is monitoring the implementation of the competition policy framework which promotes competition within the private sector. He stated that the Government is strongly committed to the deregulation of the telecommunications industry and announced that an agreement was reached with the Telecom companies on 20th November to dismantle the exclusivity arrangements which had existed for the last 18 years.

Appropriate legal and regulatory framework will be installed to:

- Promote competition and improve the range of telecommunication services;
- Reduce the cost of doing business;
- Support diversification of the domestic economy; and
- Promote Fiji's integration with the regional and global economy.

4.8 Trade Reforms

The Minister acknowledged that reforming Fiji's trade regime is fundamental to our continued co-existence with the rest of the world and that we must also endeavour to meet international standards prescribed by the WTO, among others.

It is the Government's aim to secure favourable rules of origin interpretation within the trade in goods agreement, allowing our goods duty and quota free access to EU markets. The Minister stated that the four sectors being considered for liberalisation in the trade in services agreement, included tourism, financial services, business and transport.

He further stated, that at the regional level, negotiations will continue to include services in the Pacific Island Countries Trade Agreement (PICTA) which will create opportunities for labour mobility at all levels, will continue.

4.9 Labour Reforms

The Employment Relations Act will be fully enforced in early 2008. It will establish mediation courts and Tribunals throughout Fiji to expedite the resolution of labour disputes. A sum of \$800,000 is allocated for this purpose.

4.10 Land Reforms

The Government is undertaking reforms to facilitate the easy use of land by commercial and business operators. The Minister stated that the reforms currently underway within the Native Land Trust Board will create an institution more responsive and proactive to safeguarding landowner interests while providing secure land access to tenants in an uncomplicated and transparent manner. Reforms and restructure will also continue within the Fijian custodian

institutions to improve their internal efficiency as well as addressing the needs of their stakeholders and customers.

4.11 Public Sector Reforms

The number of Ministries has been reduced from 17 to 13, in an effort to reduce the burden on the tax payers of paying for a bloated public service. The Minister stated that further reforms were essential to reduce the cost of Government operations.

4.12 Civil Service Reform

Emphasis will be placed on reducing recurring operating expenditure, particularly the salary and wage bill, to enable sufficient funding for Government's capital expenditure programme. This entails a reduction in non-critical areas of Government expenditure to allow savings to be diverted towards productive capital programmes.

Ministries have been directed to identify areas for reduction by 10% in 2008. A Steering Committee of key stakeholders has been established to drive productivity and improve efficiency within the public service.

4.13 Contracting Out Of Services

The Minister announced the Government's intention to contract out the maintenance of roads, water and sewerage infrastructure to private operators as soon as practically possible. This is with the aim to improve efficiency and achieve cost savings.

This will also be applied to the maintenance of existing infrastructure as well as to design-build and turnkey operations. The Government will undertake further consultations with PSC and the Unions on the implementation of this policy.

4.14 Financial Management Reforms

The Minister announced that progress had been made in reforming financial management within Government. The reforms were designed to minimise wastage, eliminate misuse of resources and corrupt practices.

He further reported that all ministries and departments were now technically on-line under the Financial Management Information System. This is expected to improve operational process efficiency and provide access to timely, accurate financial information and improved budgetary expenditure control.

Further work to be undertaken in 2008 include:

- Progressively review and reinstate the financial authorities of Permanent Secretaries, withdrawn in December 2006, procurement limits in particular;
- Establish a framework on Government's Accrual Accounting;
- Establish a cost recovery framework;

- Review implemented financial policies, and address gaps identified; and
- Implement new financial management initiative on the:
 - Central Tender Board
 - Procurement policy
 - Carryover of appropriation policy

4.15 Public Enterprise Reform

The Minister indicated that reforms in the Public Enterprise sector will continue to be aimed at greater productivity in the use of assets owned or managed by the public sector commercial entities.

The following Government departments have already been designated for reorganisation:

- Water and sewerage utilities
- Quarantine
- Maritime safety
- Government residential quarters
- Government Supplies
- Film and television broadcasting

5.0 FINANCIAL POLICY FRAMEWORK

Government recognises that financial services are essential to creating an environment conducive to private sector investment and economic growth.

The Minister indicated that Fiji is the first country in the South Pacific to voluntarily participate in the Financial Sector Assessment Program (FSAP) of the International Monetary Fund and the World Bank. The Minister stated that the FSAP report concluded that Fiji's financial system is sound and stable.

Government will continue to support further modernisation of the financial system. The RBF began to develop a state of the art payment system, Real Time Gross Settlement System (RTGS) also known as FIJICLEAR, which went live on 30 August 2007. The RTGS is expected to improve the existing financial infrastructure.

5.1 Financial Intelligence Unit (FIU)

Government will continue to support the FIU, which has the following functions:

- Responsible for the implementation and enforcement of anti-money laundering and combating financing of terrorism in Fiji;
- Assists in the detection, investigation and prosecution of serious financial crimes, including corruption and money laundering; and
- Work closely with law enforcement agencies to ensure the safety and integrity of Fiji's financial system.

The following measures will be adopted in 2008 to further strengthen this framework:

- Introduction of \$10,000 cash transaction and all international funds transfer transaction reporting by banks and other financial institutions that are covered under the Financial Transactions Reporting Act (FTRA);
- Introduction of \$10,000 Border Currency Reporting by all inbound and outbound passengers;
- Full implementation of the FTRA and Regulations;
- Providing ongoing awareness and training to financial institutions; and
- Introduction of online electronic reporting and database management system for cash, funds transfer and suspicious transaction reports.

5.2 Currency Notes and Coins

The new currency notes were unveiled in March 2007.

The RBF has also commenced a review of the structure, sizes and metal composition of coins.

5.3 Rural Banking

Government continues to promote the extension of banking services to the rural sector.

In 2008, the RBF will continue to work closely with all stakeholders in taking forward this initiative and also examine greater involvement by the banks in small and micro-finance initiatives.

5.4 Financial Services Commission (FSC)

The Minister indicated that there has been a call for the monitoring of fees and charges levied by banks, other financial institutions and entities engaged in the hire-purchase and leasing activities.

Government has moved to take action on this matter and establish a FSC / Ombudsman scheme. A budget of \$200,000 will be allocated in 2008 for this purpose.

The financial institutions will be consulted in the formulation of the new legislation.

5.5 Fiji National Provident Fund

Government has been exploring the possibility of deregulating the superannuation industry with the objective of promoting competition, widening choices available to contributors and improving members' returns. It is anticipated that a detailed study will be undertaken in the deregulation process of this industry.

5.6 Capital Market Development Authority

The Capital Market Development Authority is undertaking the following activities:

- A public awareness exercise to educate people on the benefits of investing and maintain confidence in our capital markets;
- Studying the impact of real time settlement on market trading activities;
- Changing its regulation approach to be risk-based and anticipate and deter illicit activities; and
- With the Ministry of Finance, set up a committee to progressively review legislation impacting the capital markets.

5.7 Remittances

The Minister indicated that remittances have grown in recent years to become a major source of the Balance of Payments. However, he also indicated that there was a sharp decline in recent remittances by as much as 30 percent on an annual basis.

Government is concerned with the high costs incurred in remitting money to Fiji, which could be as much as 30 percent of the sum remitted. The Minister indicated that he has asked the RBF to look into the matter urgently.

6.0 FISCAL POLICY FRAMEWORK

Government had estimated a net deficit of 2 percent of GDP in the 2007 revised budget, i.e., total budgeted expenditure and projected income of \$1.57 billion and \$1.47 billion, respectively.

However, the October outturn estimates total revenue to be around \$100 million lower than expected.

The Minister indicated that he has moved to tighten Government spending due to the eventual shortfall. Hence, the net deficit position for 2007 will remain at 2 percent of GDP.

7.0 MEDIUM TERM FISCAL POLICY FRAMEWORK

The Government's fiscal strategy will continue its focus on fiscal consolidation in the medium term. It announced that the IMF Mission to Fiji in September supported this policy. It rejected arguments for expansionary policies as appropriate strategies for our economy instead focusing on fiscal strategies already outlined and by switching more spending to capital rather than operating expenditure.

The following strategies were announced:

7.1 Debt

The Government stated that its debt stock had reached an unsustainable level, which it stated is a legacy from the previous government. Debt strategies to manage this will be:

- Restructure the debt portfolio to reduce debt servicing obligations;
- Continue to build up the sinking fund established this year to cushion the repayment obligation of the US\$150 million overseas bond issued in 2006;
- Prudently manage currency, liquidity, and interest rate risks; and
- Progressively promote a deep end liquid market on short and long term bond securities.

7.2 Revenue

Its medium term policies will also focus on ensuring a taxation system that is simple, broad based and provides a level playing field to stimulate investment and growth.

Increased tax compliance will continue to be the main focus in order to broaden the tax base. Towards achieving this, a special unit has been set up at FIRCA to review VAT refunds. The Audit Unit will also strengthen its efforts to eliminate fraudulent activities.

The Government has made a commitment to conduct a full review of all fees, fines and charges levied by various Government agencies.

Furthermore, it has warned tax payers that it will “come down heavily on those tax payers found guilty of flaunting the tax system and laws.”

7.3 Tax Concessions

The Government will continue to opt for a simple, fair and efficient system. The Minister stated however, that the current tax system is rife with concessions, some of which may have outlived their usefulness.

Government will continue to address and phase-out distortions in the tax system in order to restore fairness to the tax regime.

7.4 Expenditure

There will be 3 stages in the Government’s expenditure strategy as follows:

- Firstly, continue to target increased allocations for capital development;
- Secondly, to strictly monitor spending and strengthen expenditure management;
- Thirdly, support key economic and social sectors.

The Government’s medium term target is to increase its capital allocation to 25% of the total Budget. To support this there needs to be more capital formation and a switch of the driver of economic growth from consumption to investment.

It will continue to pursue reforms towards performance based budgeting in line with the Financial Management Act 2004. Ministries will be required to improve their expenditure planning. Furthermore, the Government will avoid borrowing to finance operating expenditure.

8.0 PRIORITY SECTORS FOR ECONOMIC RECOVERY

8.1 Sugar

The Government has indicated that it will continue with its sugar restructure programme to modernise and improve productivity in the industry. The Government is positive that Fiji can sustain production of 4.2 million tonnes of sugarcane.

The allocations in this area are as follows:

- \$5 million - Provide necessary support to the industry
- \$2 million - The drainage levy is being abolished and the Government has allocated \$2m towards assuming responsibility for drainage of cane fields

8.2 Agriculture

The Government recognises the significant opportunities potential in this area, for instance in the supply of market produce to the tourism industry. The Government renewed its commitment to removing impediments in the development of these opportunities, particularly towards its reforms in the administration of native land to ensure adequate land is available to farmers and that there will be fair benefits to the native landowners for the leasing of their land and likewise certainty and security of the tenure for the tenant on the terms of conditions of the lease.

The Ministry of Agriculture has been made the following allocations:

- \$1.3 million - To fund the Government's Import Substitution Programme
- \$2 million - Export Promotion Programme
- \$5.2 million - Towards river dredging, farm drainage and irrigation activities
- \$1 million - The Coconut Industry Development Authority
- \$150,000 - Towards quarantine programmes

8.3 Forestry

The Government stated that finalisation of the National Forest Policy and National Forest Inventory were significant milestones for the sector. As further commitment to the management and development of the forest resource, the Government made the following allocations:

- \$100,000 - National Forest Inventory
- \$500,000 - Upgrade of the Timber Utilisation and Research Division located in Nasinu

Furthermore, the sensitivity and importance of all stakeholders in the development of the mahogany industry was recognised. The Government has announced it will guarantee loan finance to the Fiji Hardwood Corporation Limited to develop the mahogany industry.

8.4 Fisheries

It was acknowledged that the Fisheries sector provides significant export earnings especially from the tuna industry.

The following allocations have been made to the industry:

- \$400,000 - upgrading of the Galoa hatchery
- \$400,000 - Pearl Development Programme
- \$400,000 - Seaweed Development Programme

8.5 Infrastructure

The current dilapidated condition of the essential infrastructure was recognised. The following allocations were made:

- \$56 million - Upgrade of regional water supplies and regional sewerage services
- \$40 million - Road infrastructure

8.6 Audio-visual Industry & Information Communication Technology

The Government stated that audio-visual and ICT industry have great potential for further development. In recognition of this, it announced that Funding for the Fiji Audio Visual Commission will continue in 2008.

It also announced that incentives similar to operators in the Kalabu Tax Free Zone will be extended to ICT operators setting up outside the Zone, provided that they employ a minimum of 50 workers.

8.7 Tourism

The Government projects that the Tourism Industry will rebound in 2008 with an anticipated estimated recovery in the visitor arrivals of 10%. Dialogue continues with Australia and New Zealand for the removal of negative travel advisories on Fiji.

Towards the development of this industry the Government has allocated \$12 million.

8.8 Rural and Regional Development

The Government stated that the development of rural areas and the creation of opportunities is a key component of its development strategies.

The Government thanked the Chinese Government for its offer of a concessional loan facility of \$242 million and announced that it intends to use this to upgrade rural infrastructure.

The following allocations have been made:

- \$2.5 million - The Rural and Outer Island Development Programme
- \$5.0 million - The Northern Division Programme
- \$4.6 million - Provincial Development, Self Help, and Community Development Projects

9.0 SECTORAL ALLOCATIONS

9.1 Education

The Government has stated that Education remains a major priority in recognition of the fact that the development of our human resources is a critical factor in national development.

The following allocations have been made:

- \$296 million - Ministry of Education
- \$36 million - University of the South Pacific
- \$8 million - Fiji Institute of Technology
- \$1.8 million - University of Fiji

9.2 Health

The Government is committed to upgrading Health Care facilities and has allocated \$139.5 million to the Ministry of Health including the following:

- \$9.5 million - Pharmaceuticals
- \$2.9 million - Consumables
- \$500,000 - HIV/AIDS prevention
- \$2 million - Upgrading urban hospitals
- \$2.5 million - Grant to Fiji School of Medicine
- \$1.7 million - Maintenance of health centres and nursing stations countrywide

9.3 Small and Micro-Enterprise Development

The Government recognises the development of small and micro enterprise development as a significant avenue to generate economic activity, particularly in the rural sector. The Government has made the following allocations:

- \$780,000 - National Centre for Small and Micro-Enterprises Development
- \$300,000 - Micro-finance capital grant
- \$200,000 - Support business incubation centre

9.4 Women

The Government acknowledged the important role women play in the development of Fiji. Government conceded that they remain disadvantaged in participating in the national decision making processes and that this anomaly must be addressed and remedied. Towards its support of women's development programmes the Government has allocated \$1.1 million.

9.5 Housing Programme

The Government believes that people deserve access to decent and affordable housing. The Government has made the following allocations towards this:

- \$5 million - Upgrade squatter settlements
- \$2 million - HART and the Public Rental Board

9.6 Care for the Elderly

\$5.6 million has been allocated to the Aftercare fund for war veterans. Government has also announced its intention to work with NGOs to set up senior citizens centers for social gatherings and recreation.

9.7 Disaster Management

- \$5 million - Disaster Rehabilitation Fund
- \$40,000 - National Disaster Management Office

9.8 Culture and Heritage

The Government acknowledged that we must protect and preserve our unique culture as our legacy to our children.

The following allocations have been made:

- \$1.3 million - Department of Culture and Heritage
- \$147,000 - National Trust

9.9 Sports

The Government commended the Rugby team in particular for their outstanding performance on the world stage. Towards the development of sports in Fiji the following allocations have been made:

- \$250,000 - Team Fiji's preparation and participation in the 2008 Beijing Olympics
- \$200,000 - Designated for the development of rural sporting facilities

9.10 Law and Order

Allocations have been made to the following:

- \$70.5 million - Fiji Police Force
- \$81.5 million - Fiji Military Forces
- \$13.7 million - Fiji Prisons Service

9.11 Good Governance

The promotion of good governance has been one of the key policy pillars of the Government. The Government believes in economic growth and social advancement in an ethical environment and is committed to tackling corruption within the public service and the public enterprises.

The Government commended the Fiji Independent Commission Against Corruption (FICAC) for its resolve in pursuing and stamping out corruption and abuse of public office. To accommodate the high level of complaints and the pending cases (1056 complaints received in total since FICAC's inception), FICAC will engage more staff in 2008.

Additional funding has been provided to the Office of the Auditor General, the Director of Public Prosecutions, and the Judiciary.

The Government has announced a new initiative of establishing a "National Council for Building a Better Fiji" which will work towards the restructure of the social, economic and political landscape of Fiji to a bright and equitable future for all its citizens. The Government has allocated the following to this purpose:

- \$3 million - FICAC
- \$400,000 - Establishment of National Council for Building a Better Fiji

9.12 General Elections

The Government has called again on the international community to assist in its endeavours to ensure that elections are held in March 2009.

\$3.5 million has been allocated for the preparatory works for the upcoming Elections.

APPENDIX 1

BUDGET ESTIMATES AND KEY INDICATORS

| | 2006 | 2007 | 2008 |
|-------------------------|---------------|----------------|---------------|
| BUDGET ESTIMATES | Actual | Revised | Budget |
| | \$m | \$m | \$m |
| Revenue | 1,401.3 | 1,356.8 | 1,411.4 |
| Expenditure | 1,558.5 | 1,334.4 | 1,527.9 |
| Net (deficit) | (157.2) | 22.4 | (116.5) |
| Loan redemption | 191.0 | 270.3 | 253.7 |
| Budget gross (deficit) | (348.2) | (247.9) | (370.2) |

| KEY INDICATORS | 2006 | 2007 | 2008 |
|-----------------------------------|---------------|----------------|---------------|
| | Actual | Revised | Budget |
| GDP at market prices (\$m) | 5,483 | 5,569 | 5,826 |
| Gross deficit as % of GDP | 6.4% | 4.5% | 6.4% |
| Expenditure as % of GDP | 28.4% | 24.0% | 26.2% |
| Real GDP (\$m) | 3,088 | 2,966 | 3,030 |
| Real GDP growth rate | 3.6% | (3.9%) | 2.2% |
| Outstanding government debt (\$m) | 2,863.1* | 2,803.4 | 2,957.1 |
| Growth in debt | 18.2% | (2.1%) | 5.5% |
| Total domestic exports (\$m) | 1,201.6 | 1,233.7 | 1,302.8 |
| Balance of payments (\$m) | (57.5) | 36.8 | 94.0 |
| Inflation | 3.1% | 3.5% | 2.5% |

* The 2006 projection has been increased by \$283.5 million in the 2008 Budget Supplement as compared to the 2007 budget figures.

**FISCAL RATE CHANGES AND EXCISE CHANGES
(effective immediately)**

1. TARIFF CHANGES

| POLICY | DESCRIPTIONS |
|--|--|
| Restructure of Tariff bands | From (0%, 3%, 15% & 27%) to (0%, 5%, 15% & 27%) Increase all items currently at 3% to 5% except raw materials will remain at the concessionary rate of 3%, under code 236 of the CTA. |
| Inspections traps, drain covers, gratings & the like | Increase fiscal duty rate from 3% to 15% |
| PC's & units thereof including part & accessories other than for schools Monitors & projectors excluding TV apparatus | Increase fiscal duty rate from 0% to 5% |
| Laptops | Increase fiscal duty rate from 0% to 15% |
| Mobile phones; coconuts fresh or dried; pineapple; guavas, mangoes & mangosteens; oranges; mandarin; lemons; pontoons/landing stages | Increase fiscal duty rate from 3% to 15% |
| New trucks, cab & chassis and trailers | Increase fiscal duty from 15 to 27% |
| Used & Reconditioned Trucks, cab & chassis and trailers | Impose Specific Fiscal Duty instead of the 15% current rate |
| New Earthmoving Equipment | Increase Fiscal duty from 3 to 5% |
| Used & Reconditioned earthmoving equipment | Increase Fiscal duty from 3% to 27% |
| White rice; paper bags, sacks & bio-degradable plastics; copper cables; rigid plastic pipes; flexible pipes, tubes & hoses; kitchenware including Bombay pots; leguminous vegetables; fish - canned prepared or preserved; meat - fresh, chilled or frozen; cement | Decrease fiscal duty from 27% to 15% |

| POLICY | DESCRIPTIONS |
|---|--|
| Plastic Bags | Imports of plastic bags will be banned |
| Used and Reconditioned Buses | Decrease number of duty bands & reduce specific duty rates as follows: <ul style="list-style-type: none"> • More than 10 persons including driver not exceeding 15 to \$10,400 • More than 16 persons including driver not exceeding 22 to \$12,400 • 23 and more persons including driver to \$16,500 |
| Used or reconditioned motor cars & other passenger vehicles | Decrease number of duty bands & amendments to specific duty rates as follows: <ul style="list-style-type: none"> • Not exceeding 1000cc to \$5,500 • Exceeding 1000cc but not exceeding 1500cc to \$7,350 • Exceeding 1500cc but not exceeding 3000cc to \$11,150 • Exceeding 3000cc to \$15,000 |

IMPOSITION OF IMPORT EXCISE DUTY

| POLICY | DESCRIPTION |
|---|----------------------------------|
| Trucks, cabs & chassis and trailers; used & reconditioned earthmoving equipment | Impose Import Excise rate of 15% |
| New earthmoving equipment | Impose Import Excise rate of 5% |

EXCISE CHANGES

| POLICY | DESCRIPTION |
|------------------------|----------------------------|
| Alcohol and cigarettes | Increase Excise duty by 3% |

CUSTOMS CONCESSION UNDER PART II & III CUSTOMS TARIFF ACT (CTA)

| POLICY | DESCRIPTION |
|---|---|
| Repeal of Code 113 (b) in Part II of the Customs Tariff Act (CTA) | Code 113 (b) to be repealed to remove the exemption on Golf buggy or cart Normal Duty Rate of 15% will now apply. |
| Expand Code 124 in Part II of the Customs Tariff Act (CTA) | Code 124 to be expanded to provide a concessionary rate of 15% on bio-degradable cornstarch bags. |
| Amend Code 228 in Part III of the Customs Tariff Act (CTA) | Reduce tourist ships & crafts period from 12 months to 3 months Reduce extension period from 6 months to 3 months upon Minister's discretion. |
| Amend Code 215 in Part III of the Customs Tariff Act (CTA) | Modification of the statement "All goods" in column 3 to read "Goods as approved by the comptroller". |
| Amend Code 230 in Part III of the Customs Tariff Act (CTA) | Column 3 to be re-worded to read "Goods as approved by the comptroller". |
| Amend code 235 in Part III of the Customs Tariff Act (CTA) | Modification with additional statement and paragraph number. Adding paragraph No. (i) before the word "Building" in column 3 and the statement "which are not manufactured or available in Fiji" after the word utensils in column 3. |
| Code 236 in Part III of the Customs Tariff Act (CTA) | Raw material to remain at 3% duty rate. |

2. *OTHER CHANGES TO FISCAL AND IMPORT EXCISE DUTY*

CUSTOMS CONCESSIONS UNDER SECTION 10 OF CUSTOMS TARIFF ACT (CTA)

| POLICY | DESCRIPTIONS |
|--|---|
| Bus Industry | <p>Reductions in fiscal duty rate on new buses from 27% to 5% imported by registered bus operators on or before 31 December 2010</p> <p>Reduction in import excise rate in new buses for public transport from 15% to 5% imported by registered bus operators on or before 31 December 2010</p> <p>Removal of concession on tyres</p> |
| Registered Minibus Operators Liquefied Pressure Gas(LPG) Vehicles | Amend to include concessionary rate to be 27% or 60% of the existing specific rate whichever is greater |
| Fiji Electricity Authority | <p>Reduce fuel rebate from 18 cents to 10 cents per litre</p> <p>Duty to be paid upfront and refund claims to be made from FIRCA</p> |
| Inter-Island Shipping Vessels | <p>Duty free fuel concession remain on ADO and IFO</p> <p>Full duty must be paid upfront and refund claims must be made from FIRCA</p> |
| Manufacturers | Remove 2 cents/kg concession on Butane Gas |
| Educational Materials and Stationery | <p>Remove “paper plates” and “disposable ball pen refill” from the list</p> <p>Add “ball pens” to the list</p> <p>Increase concessionary rate from 3% to 5%</p> |

| POLICY | DESCRIPTIONS |
|---|--|
| Duty free concession on fabrics used in the manufacture of diaper | Remove duty free concession on fabrics used in the manufacture of diaper New duty rate of 5% will now apply |
| Duty concession to Industries | Increase duty concession on copper cables and plastic pipes from 3% to 5% |
| Rewa Dairy Co-operative Ltd (RDCL) | Removal of duty free concession and apply a duty concession of 5% on full cream powdered milk in bulk; liquid milk in bulk and bulk butter |

Section 7: Amendments to the Customs Act (CA)

| POLICY | DESCRIPTIONS |
|---|---|
| Warehousing period on all Motor Vehicles, plant & machinery | Warehousing period for all motor vehicle, plant & machinery imported on or after the Budget announcement will only be warehoused for 4 months |
| Imports of motor vehicles (car, trucks and buses) | Imports of motor vehicle (cars, trucks and busses) of more than 4 years of age will be banned. |

NOTES