Pacific Institute
of Public Policy

Facilitating better trade outcomes for Pacific island countries

Key messages:

- Progress on PICTA implementation has proved difficult for most Pacific island countries and progress has since stalled.
- The main problem is the lack of motivation to pursue the agreement given the perception that PICTA will not deliver immediate economic benefits for many countries and in some cases is considered detrimental because of tariff cuts and resulting reductions to government revenues.
- The overall objective of PACER is to establish a framework for the gradual trade and economic integration of Pacific island economies into the international economy.
- Key PACER Plus demands from Pacific island nations include increased access to labour markets in Australia and New Zealand, and increased investment in agriculture and fishing to improve production capacity and productivity of these sectors.
- Technical assistance and funding mechanisms are in place to support Pacific island countries to develop trade capacity and better articulate national trade priorities.

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Pacific island countries are faced with increasing calls for both coercive regional integration and time bound trade liberalisation with the rest of the world. Emerging trade pacts require increased ownership and participation from the local communities, national governments, regional organisations and multi-lateral organisations, which in turn requires access to reliable information, openness and effective consultation. Partaking in trade debates offer new opportunities for non-governmental organisations, academics, trade unions, private sector representatives and the media to actively engage in balanced and well informed dialogue.

This paper gives a brief update on the emerging trade agreements being negotiated by Pacific island countries, these being the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA). It gives an update on the progress to date on PICTA and the PACER based on informal discussions held so far between Australia and New Zealand and the other Pacific Forum Island Countries (FICs) and offers a snapshot of what the FICs are seeking for inclusion in a PACER Plus agreement.

The paper also looks into some of the regional mechanisms being put in place to support the Pacific island countries to better prepare for negotiations and build trade capacity to tackle the challenges of trade liberalisation and facilitate the participation into regional as well as to other wider multi-lateral agreements such as the Economic Partnership Agreement (EPA) and the World Trade Organisation (WTO). These trade and technical assistance facilities include the Regional Trade Facilitation Programme (RTFP), Integrated Framework (IF), Aid for Trade (AfT) and the Trade and Development Facility (TDF).

Update on PICTA

The Pacific Island Countries Trade Agreement (PICTA) was signed in 2001. It came into force when the sixth country ratified the agreement on 18 April, 2003. Pacific island countries are generally reliant on tariff revenues to form the bulk of government revenues. PICTA was viewed as a compromise agreement to enable island states to first liberalise trade arrangements between themselves before considering any further trade arrangements with Australia and New Zealand. Negotiations on free trade agreements with Australia and New Zealand, to extend from the current PACER[1] agreement, are planned to begin by 2011 or whenever the Pacific island countries begin trade negotiations with any other developed country or bloc outside of the PACER group[2].

1. Pacific Agreement on Closer Economic Relations, signed by the PICs and Australia and New Zealand at the same time as the PICTA agreement

2. This was the so-called ‘trigger’ clause contained in Article 6 of the PICTA agreement.

The PICTA implementation failed to meet the timetable set out in the original agreement. A revised timetable was agreed by Ministers in December 2006, whereby tariff reductions by Pacific island countries other than the Small Island States (SIS)[3] and Least Developing Countries (LDCs)[4] would begin in 2007, and be completed by 2015 for non-excepted imports and by 2020 for excepted imports. Tariff reductions by SIS and LDCs would begin in 2009, and be completed by 2017 for non-excepted imports and by 2021 for excepted imports.

As of October 2008, six countries (Cook Islands, Fiji, Niue, Samoa, Solomon Islands and Vanuatu) have announced that necessary arrangements are in place to allow trading under PICTA. Tonga and Papua New Guinea have yet to notify their "readiness to trade". All SIS and LDC parties except Kiribati, Nauru and Tuvalu have notified their "readiness to trade". Three countries (Federated States of Micronesia, Palau and Republic of the Marshall Islands) have yet to ratify PICTA (Scollay 2008, p.4).

Although PICTA has passed the signing and ratification stage for most member countries, ratifying the treaty through Pacific Parliaments, implementing regulations and supporting legislation has proved difficult for most governments and progress has since stalled. The main problem is the lack of motivation given the perception that PICTA will not deliver immediate economic benefits for many countries. In some cases it is considered that PICTA may even have potentially negative impacts on individual countries in terms of overall economic welfare, especially through cuts in tariffs.

Through PICTA, the Pacific island nations are also negotiating for the temporary movement of people. Individuals from the member countries who possess one of the qualifications listed in the agreement would be given automatic right to unrestricted entry to the territory of other parties to the agreement for a defined period. The final agreement is expected to contain a list of qualifications for skilled and semi-skilled professions.

However, up to this point, a challenging question remains: will PICTA fulfil the vision of its architects as a 'stepping stone' for the eventual integration of the PICs into the wider and complex trade and economic blocs such as the WTO, PACER and the EPA? It is worth noting that many international studies have concluded that small developing countries get insignificant gains by setting up free trade areas amongst themselves given their small size and more or less similar factor endowments. Pacific island countries are no exception with their small market size, similarity in resources, low per capita incomes, lack of developed infrastructure, and manufacturers largely not geared for large-scale export.

3. Cook Islands, Kiribati, Nauru, Niue, Republic of Marshall Islands, and Tuvalu

4. Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu

Update on PACER

The Pacific Agreement on Closer Economic Relations (PACER) was opened for signature on 18 August, 2001 and entered into force on 3 October, 2003. The overall objective of PACER is to establish a framework for the gradual trade and economic integration of the economies of the Pacific Island Forum members[5] in a way that is supportive of sustainable development of the Forum island countries (FICs) and to contribute to their gradual and progressive integration into the international economy.

At the same time, FICs are under pressure to negotiate a Free Trade Agreement (FTA) with Australia and New Zealand. The timing and outcome of such negotiations remains uncertain. It may be reasonable to assume that offers made to the European Union by PACER members in the context of the EPA negotiations, may also be indicative of a willingness to liberalise in the context of an FTA with Australia and New Zealand (Scollay 2008).

The PACER Trigger

The PACER trigger is outlined in Article 6(3)(a) of the agreement which stipulates that, should any FIC party to PACER "commence formal negotiations for free trade arrangements which would include one or more developed non-Forum country, then that [FIC] shall offer to undertake consultations as soon as practicable with Australia and New Zealand, whether individually or jointly, with a view to the commencement of negotiation of free trade arrangements". It has been somewhat accepted that the inclusion of FIC members in the negotiations between the African, Caribbean and Pacific Group of States (ACP) and the European Commission on an Economic Partnership Agreement (EPA) have triggered the obligation assumed under Article 6(3)(a) of PACER.

At the 2005 Pacific Island Forum Trade Ministers Meeting (FTMM) it was agreed that there was a need to move beyond the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) between Australia and New Zealand and the FICs towards a more comprehensive framework for trade and economic cooperation to foster economic growth, investment and employment in the Pacific region. Also at that meeting, the Forum Secretariat was directed to commission a study to investigate the potential impacts of moving towards a comprehensive framework for trade and economic cooperation between Australia, New Zealand and the FICs; and undertake a gap analysis of FIC needs in respect to capacity-building, trade promotion and structural reform. Both studies have been completed by the Secretariat and have been endorsed by the respective FTMM.

In addition, at the 2008 FTMM held in the Cook Islands, the FICs submitted a proposal for the establishment of a Chief Trade Advisor (CTA) to lead negotiations on behalf of the FICs on a PACER Plus agreement with Australia

5. Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, PNG, Samoa, Solomon Is., Tonga, Tuvalu, and Vanuatu.

and New Zealand. The CTA office is tentatively earmarked to be hosted in Vanuatu. The details of the proposal are still to be worked out and agreed by the members.

PICs take of PACER

The 2007 FTMM stressed that any PACER Plus arrangement must be much more than a simple trade agreement to provide a workable framework for deepening regional trade and economic cooperation among the members. The overall objective of PACER was recalled and it was recognised that private sector and other non-state actors need to be involved from the beginning in both the development of policies and the design of initiatives to remove the barriers to trade. The Trade Ministers noted that future studies should be given the mandatory time to address the full scope of issues, including practical and hands-on advice and draw more fully on national expertise.

The FICs are now demanding that any PACER Plus agreement should include a provision for increased labour market access to Australia and New Zealand, particularly for low and unskilled Pacific workers. FIC leaders are also welcoming an increase in the labour mobility of professionals, managers and business entrepreneurs from Australia and New Zealand to assist in the capacity building of the FICs which could also enhance their trade competitiveness. Another key area of interest from the FICs is the need for increase investment in agriculture and fishing[6] to improve production capacity and productivity of these sectors in most FICs. These improvements would require some form or efficiency reforms and trade related capacity building that FICs envisage could be designed under PACER Plus.

Trade facilitation programmes: IF, RTFP, AfT and TDF

The Integrated Framework

The Integrated Framework (IF) stems from the 1996 World Trade Organisation (WTO) Singapore Ministerial Conference, and formed the WTO Action Plan for least developed countries (LDCs) to help boost LDC participation in the world trading system. The facility is composed of six multilateral institutions: the World Bank, WTO, International Monetary Fund (IMF), International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and United Nations Development Program (UNDP). The IF has two objectives: to “mainstream” (integrate) trade into the national development plans such as the Poverty Reduction Strategy Papers of least-developed countries and to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified by the LDC. The IF is being delivered in 46 LDCs out of which 6 are from the Pacific region, namely; Timor Leste, Solomon Islands, Kiribati, Samoa, Tuvalu and Vanuatu. Most of these countries have undergone the Preparatory and the Diagnostic Trade Integration Study (DTIS) phase of the IF programme. The final phase of the IF is to do with follow-up activities which include translating the diagnostic phase findings into the elaboration and validation of an action plan to serve as the work programme for the trade related technical assistance delivery.

6. Institute for International Trade 2008, p.2

The Regional Trade Facilitation Programme

The Regional Trade Facilitation Programme (RTFP) covers customs, quarantine and regional food standards. The programme was established in 2004 and is coordinated by the Pacific Islands Forum Secretariat. The RTFP programme evolved from the establishment of PACER, which itself provided for the development of an appropriate, efficient and transparent framework of trade facilitation measures in the Pacific region

This programme is focused on meeting the challenges of the Pacific LDCs in managing the interdependencies between the economic, social and environmental aspects of economic development, while tackling poverty issues and enhancing individual trading opportunities. Its activities aim to improve, harmonise and strengthen the valuable elements through practical implementation of customs procedures, sanitary and phytosanitary measures and standards and conformance processes within the FICs. The Forum Trade Ministers have reaffirmed support to the programme of work on trade facilitation under the RTFP. At the July 2008 FTMM, Ministers agreed on a course of action to enhance the effectiveness of the programme, including the establishment of a steering committee to oversee activities, and also welcomed a further contribution of NZ$500,000 by the New Zealand government to fund RTFP activities for 2008-2009 (FTMM: July 2008).

Aid for Trade (AfT) and the Trade Development Facility (TDF)

Another emerging trade facilitation tool currently being negotiated to help assist the FICs in their efforts to address the growing challenges and opportunities of trade liberalisation is the Aid for Trade (AfT) and the Trade and Development (TDF) mechanism. The AfT and TDF initiative seeks to assist developing countries to address demand and supply-side constraints that are inhibiting them from deriving the maximum benefits from trade. The WTO has divided AfT into six categories; namely trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, trade related adjustment and other trade related needs.

A roundtable meeting on AfT and TDF in October 2008, indicated that there was growing recognition that trade liberalisation alone was not enough to ensure greater benefits to FICs from international trade. The meeting noted that the FICs have a host of supply-side bottlenecks that currently hinders their performance and these needs could be addressed through the AfT programme to help realize some of the potential benefits of trade liberalisation. Recent discussions have also argued that AfT should not be a substitute for or compete with other development aid and should not be a substitute for trade liberalisation. The AfT programme is required to deepen structural economic reforms, enhance the productivity of the business sector and institute regulatory and institutional reforms to create an environment that is conducive for investment and the growth of exports. Stakeholders at the roundtable also agreed that addressing the supply-side constraints will need investment in key trade-supporting infrastructure sectors such as education, health and the development of human resources.

The way forward

PACER consultations have been triggered, however it remains unclear whether the Pacific island countries are ready to commence direct discussions with Australia and New Zealand. Some leaders have envisaged PICTA to be fully operational before any negotiations on PACER, and others seek to first further develop national trade positions. There maybe a split between those for and against an imminent consultation with Australia and New Zealand.

What is clear is that the Pacific countries will want a better deal in any PACER Plus trade agreement than they may have received from other recent multilateral deals such as the WTO or EPA. They have demanded labour mobility and investment provisions be among the key offers to be included in any PACER Plus deal. Drawing on the recent set backs and lessons learnt from the EPA negotiations with the European Union, some argue that the Pacific states should be better prepared to negotiate a more beneficial PACER Plus arrangement. However, what the EPA process seems to suggest is that island countries need more time to develop national priorities and that simply adopting a one-size-fits all approach may not be a politically or economically viable solution.

On PICTA, the trade in goods has been commenced by only 6 of the FICs since it was signed in 2001, that is after 8 years of it being concluded as a trade agreement. The implementation process has been slow, more as a result of the indecisiveness of the Pacific island governments as well as the cumbersome process and regulation it entails to fully implement the agreement. Recent discussions for a temporary movement of people in the PICTA agreement has gained increased support, mostly from the Small Island States most of which are lacking personnel for their small work force. Fast-tracking negotiations to finalise labour mobility arrangements may contribute to filling existing human resource gaps and building technical capacity.

Tackling supply-side constraints and improve Pacific island trade capacity requires considerable support on trade facilitation and technical assistance. Such support is on offer through the RTFP, the IF, and the AfT and TDF. The Pacific island countries must be more articulate when presenting proposals based on analysis of individual comparative advantage and long term national visions. This will also assist island states to secure financial support under the existing support mechanisms. Having said this, ultimately there must always be a clear, long term and sustainable national and regional strategy to ensure growth in the trade and economic sectors, even after government/donor assistance comes to an end.

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This briefing paper is based on extensive research and interviews with key Pacific stakeholders, and has been subject to peer review. A more detailed background paper on this topic is also available.

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