Offering a fair deal?

Options for the design of a new trade agreement between Australia, New Zealand and the Pacific island countries

What is PACER-Plus?

At the 2009 Pacific Island Forum Leaders' Meeting, held in Cairns, Australia, Pacific leaders agreed to begin negotiations for a regional trade agreement between the Pacific island countries and Australia and New Zealand (PACER-Plus).

The PACER-Plus negotiations are likely to result in a binding international agreement that will affect Pacific economies and societies for decades to come. PACER-Plus will have wide-reaching implications for all Pacific islanders. A new agreement could affect ownership of land, employment, how much tax people pay, how much they pay for goods at the local store, the prices they get for their produce at the local market, and even their ability to access services (like local clinics and schools).

Both the Australian and New Zealand governments have shown they are interested in negotiating PACER-Plus as a free trade agreement that will allow their firms to export more goods and services to the Pacific and invest in new enterprises in the island countries[1]. The Australian government explains that "Australia's primary motivation in supporting PACER Plus is to help the Forum Island Countries (FICs) to promote sustainable economic development. We nonetheless expect that improved market access may enhance some opportunities for Australian exporters, investors and service providers in Pacific markets"[2]. The Australian Trade Minister Simon Crean describes PACER-Plus as a "trade-plus' free trade and economic integration agreement"[3].

Is PACER-Plus a free trade agreement?

It doesn't have to be. There is no requirement for PACER-Plus to be negotiated as a reciprocal (two-way) free trade agreement. The design of a new trade agreement for the Pacific Islands Forum depends on the political will of the negotiating parties. Arrangements can be negotiated that help Pacific countries better use their access to Australian and New Zealand markets to grow export industries and provide jobs, without forcing Pacific countries to sign up to potentially damaging new obligations in return.

Do Pacific countries have special needs affecting their ability to trade with the rest of the world?

Yes. While the 14 island country members of the Pacific Islands Forum are very diverse – in geography, language, culture and natural resource endowments – they share common economic vulnerabilities by virtue of the fact that

[1] A 'national interest' assessment undertaken regarding the Pacific Agreement on Closer Economic Relations (PACER), the precursor to PACER-Plus, found that "without ratification of PACER, Australia would be denied an enhanced opportunity to negotiate better market access to Pacific markets for Australian business and industry while any other country could enjoy duty free access to FIC's for their goods".

[2] 'Pacific trade negotiations commence', see: http://www.aei.gov.au/AEI/MIP/Activities/09Activity24.htm

[3] Crean, S. McMullan, B. 2008. 'International engagement begins in own backyard'. *Canberra Times*. 26/8/08. Fairfax, Canberra

they are all *small island states*. Strung out as they are across a warm tropical ocean and along a major tectonic fault-line the Pacific island countries 'rank among the most vulnerable in the world to natural disasters'[4]. They are also *small*. 13 of the island nations have a population of less than one million people, and seven of those have less than 100,000 people – that is, less than the population of many smaller cities in Australia and New Zealand (like Darwin, Townsville or Dunedin). Smallness poses many challenges, including small domestic markets, relatively high governance and infrastructure costs, and a smaller pool of skilled labour to draw from.

Pacific island countries also face constraints arising from their isolation from the rest of the world. A 2006 study found that Pacific countries are not just a long way away from other places, but they are also some of the most expensive places in the world to get to and from, and export industries in the islands are reliant on infrequent transport links[5].

Taken together, these unique and inherent economic circumstances mean that it is difficult for island producers to compete with companies based in bigger, wealthier, nations. As the World Bank writes:

> 'Unfortunately, studies have shown that there is likely to be a permanent wedge between the cost of production in the Pacific and the world price in both manufacturing and services, making it difficult for the islands to compete in all but a few niche markets'[6].

Can a 'trade and development' agreement be designed just for the Pacific island countries?

Yes. The terms of the existing South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) could be dramatically improved under a new *economic cooperation agreement*. Such an agreement could help to overcome some of the disadvantages faced by potential Pacific exporters without forcing Pacific governments to remove policies aimed at supporting and protecting island producers.

What would a *fair* regional trade agreement look like?

An economic cooperation agreement designed to meet the special needs of the Pacific island countries would help to reduce non-tariff barriers for the export of Pacific goods to Australian and New Zealand markets. A new agreement could also build on existing labour mobility schemes – that currently allow some Pacific islanders to work in Australia and New Zealand on a temporary basis.

At the moment, manufactured exports to Australia and New Zealand (textiles from Fiji and car parts from Samoa for example) need special exemptions from the restrictive 'rules of origin' requirements of SPARTECA. These rules could be changed to allow more manufactured exports in the island countries.

Agricultural exports could be dramatically improved as well. The quarantine assessment of Pacific products could be made a priority – creating new 'export pathways' that would benefit Pacific farmers. Regional programs to combat pests (like fruit fly), and to help meet Australian and New Zealand standards for labelling and packaging, would also improve export opportunities. As part of any new agreement Australia could also review its restrictions on the import of commercial quantities of kava – which has damaged a key Pacific export industry.

New funding for trade-related infrastructure and marketing of Pacific produce would also help all sectors of island trade.

In acknowledgement of the unique constraints faced by Pacific producers, such a trade agreement would be *non-reciprocal*. It would not force Pacific countries to open their goods and services markets to unfair competition from Australian and New Zealand businesses, and would allow Pacific countries to maintain the policy space needed to grow local businesses, and support Pacific farmers.

Find out more

This fact sheet is produced by the Australian Civil Society Network on Pacific Trade, which links unions, churches and non government organisations that work to ensure trade rules for the Pacific island countries are fair and just.

For further information contact the network at pacifictrade@gmail.com

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[4] World Bank, 2006. *Not if but when: Adapting to Natural Hazards in the Pacific Islands Region*. The World Bank, Washington DC.

[5] See: Gibson, J. Nero, K. 2008. 'Why don't Pacific economies grow faster?,' in: Bisley, A. 2008. *Pacific interactions: Pasifika in New Zealand - New Zealand in Pasifika*. Institute of Policy Studies, Victoria University of Wellington, Wellington.

[6] World Bank. 2010. *Pacific islands development in 3D: Key findings from the World Development Report 2009.* The World Bank, Washington DC.