

**SUBMISSION TO THE DEPARTMENT OF FOREIGN AFFAIRS AND  
TRADE**

**ON THE COMMENCEMENT OF NEGOTIATIONS ON THE  
PACIFIC AGREEMENT ON CLOSER ECONOMIC RELATIONS  
(PACER PLUS)**

The commencement of PACER Plus negotiations could be an opportunity to set the Pacific Islands region, with the cooperation of Australia and New Zealand, on a new economic growth course. PACER Plus could act as the impetus for new ways of doing business in the Pacific, and trigger the development of better and more sustainable economic models.

Evidence from free trade agreements elsewhere suggests most Pacific Island countries should benefit from freer trade in the long term. A number of economies will, however, suffer from the impact of tariff liberalisation in the short term. Small and inefficient manufacturers will struggle to survive. A number of jobs in the formal and informal sectors will be lost.

The strong and organised opposition of civil society in the Pacific Islands region to PACER Plus negotiations should be taken seriously by governments. Non-government organisations, community-based organisations, churches and trade unions are closer to the population than many governments in the region, and have greater capacity to influence the opinion of voters on issues like trade.

The perception of many NGOs that the Australia and New Zealand governments are engaging in PACER Plus negotiations purely for their own benefit needs to be addressed through practical measures and through formal consultations.

The private sector, both formal and informal, needs to be closely involved in the consultation process and, to the extent possible, in the negotiations themselves.

**Revenue**

The revenue implications of PACER Plus to Pacific Island governments have been highlighted by a number of studies and are the principal concern of non-government

organisations which have expressed opposition to PACER Plus. The loss of tariff revenue is expected to be substantial.<sup>1</sup> Although there are a number of strategies that governments can employ over the longer term to mitigate this loss, the concerns about the short-term impact of revenue loss need to be addressed.

The impact of the global economic crisis on government revenues in the Pacific Islands region is instructive. At the Lowy Institute's 2-3 August 2009 conference, *The Pacific Islands and the World: The Global Economic Crisis*, a number of Pacific Island leaders called for more official development assistance (ODA) to be delivered through budget support. They said that in a situation where revenue had declined due to declining demand for exports or declining remittances, the capacity of governments to continue delivering basic services was threatened.

Australia and New Zealand should come to the negotiations prepared to offer a portion of ODA in budget support for a defined and limited period to countries that will lose revenue in the short term from tariff cuts. It will be difficult for Pacific Island governments to justify the benefits of PACER Plus to their constituents if the immediate impact is felt in declining service delivery.

### **Services**

Pacific Island governments and civil society have long held concerns that breaking up the monopoly of state-owned enterprises in the services sector will threaten the provision of services to rural or remote populations. Experience following reforms in the telecommunications and the aviation sectors in a number of Pacific Island countries has proved these concerns to be misplaced. The entry of mobile phone company Digicel to markets in six Pacific Island countries has improved mobile phone coverage in rural areas and dramatically increased connectivity. The liberalisation of aviation markets in a number of countries to allow other airlines access, and the subsequent improvement of tourism in those countries, has had wide benefits.

The liberalisation of education and health services will be a sensitive issue but can be presented as an opportunity for Pacific Island governments to improve the quality and range of services available to their populations. Governments should retain the right to regulate basic services in the public interest.

### **Labour mobility**

The inclusion of labour mobility provisions in PACER Plus is contentious. PACER Plus could provide significant benefits to Pacific Island countries if it enabled freer movement of skilled and unskilled labour throughout the region, including Australia

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<sup>1</sup> Institute for International Trade, *Research study on the benefits, challenges and ways forward for PACER Plus*. Adelaide, June, 2008, p.58.

and New Zealand. Australia has an opportunity to make PACER Plus a truly innovative trade agreement if it embraces the free movement of labour. Given the sensitivity of the issue for Pacific Island countries and for Australia and New Zealand, a separate series of consultations in the region on the advantages and disadvantages of including labour mobility in the PACER Plus agreement would be beneficial.

### **Investment**

PACER Plus will only facilitate faster economic growth if it facilitates and incentivises greater private sector activity in Pacific Island countries. Removing unfair restrictions on foreign investment will be an important outcome for PACER Plus negotiations. The removal of restrictions and freer trade provisions alone, though, will not encourage investment in small, difficult and remote destinations.

Pacific Island governments should be encouraged to see the benefits of providing incentives to foreign investors to employ local workers and reinvest in the community.

Australia could use the aid program to leverage investment into the region, through public-private ventures which reduce the high risk for the private sector. Australia also needs to play a role in attracting international financing for critical infrastructure in Pacific Island countries that will encourage foreign investors.

Australia could assist in the provision of high-quality independent technical advice to assist Pacific Island governments make decisions about foreign investment applications. This could help address concerns about unregulated foreign investors taking advantage of small island nations.

### **Confidence-building measures**

Australia needs to build confidence in the negotiation process. Agreement by leaders in Cairns to commence negotiations is only the first step in gaining the confidence of Pacific Island stakeholders. This confidence is necessary not only for the success of the negotiations themselves but for Australia's enduring relationships with the countries of the region.

Some early confidence-building measures that would help Australia's reputation in the region and help persuade Pacific Island populations that there will be benefits from freer trade follow:

- Remove the restrictions on kava imports to Australia imposed in June 2007. The restrictions were imposed in an attempt to limit the damaging impact of abuse of kava in Australian indigenous communities. Kava was a valuable export for a number of Pacific Island countries. Trade in kava may not have been significant from an Australian perspective before the restrictions were imposed, but the crop is symbolically important to Pacific Islands and there was potential for moderate growth in the export market. As the current restrictions were not imposed for bio-

security or health reasons, they can only be perceived as unfair to Pacific Island exporters. Lifting the restrictions and finding other ways to address abuse of kava by indigenous communities would send a positive signal to the region about Australia's preparedness to be fair in its approach to PACER Plus negotiations.

- Accelerate assistance under the Pacific Regional Agricultural Marketing Access Program announced in Australia's 2009-10 development assistance budget to help Pacific Island exporters meet Australian bio-security requirements.
- Simplify and extend the new labour mobility program in Australia to other horticultural districts. The slow take-up of the pilot program can be attributed to a number of factors, including seasonal constraints, complex procedures and the impact of the global economic crisis on Australia's employment profile. From a Pacific Islands perspective, when compared with New Zealand's RSE scheme, the Australian pilot program is underperforming.

These initiatives would not present a significant cost for Australia and would send an important message to Pacific Island populations and business about Australian good faith.

The governments of Australia and New Zealand could consider offering early returns at the conclusion of negotiating rounds. Early delivery of outcomes from the negotiations to Pacific Island countries could encourage early growth in trade and also help accelerate progress in the negotiations themselves. Rhetoric alone is unlikely to convince the detractors of PACER Plus but practical benefits are hard to ignore.

Early returns could be engineered through:

- Providing additional assistance with marketing and supply chains (in addition to that provided to help bio-security requirements) for Pacific Island enterprises.
  - This would help convince Pacific Island negotiators of the value of cultivating an export market in Australia.
  - This assistance could be delivered in the form of a package, which provided human and financial resources to enterprises with a proven capacity to produce goods to the local market and the potential to scale up to producing for the export market.
  - Considering an innovative way to bind this commitment for a set period of time. It is the usual practice and preference of governments to leave this type of assistance out of trade agreements. But without a guarantee going forward it will be difficult to "sell" the benefits of PACER Plus to Pacific Island countries whose only merchandise exports are agricultural.
- Assistance with revenue collection. Although many governments in the region, with the support of donors, have improved their revenue collection in recent years,

more assistance to limit the amounts of revenue being lost through capacity constraints would help.

- Increasing training opportunities for the private sector. Many Pacific Island enterprises are unable to scale up their production because they lack the skills or financial resources.
  - Training opportunities that targeted particular skills gaps in individual enterprises could help those enterprises develop their trading potential.
  - Such opportunities could be provided through the Australia-Pacific Technical College, through placements in Australian institutions or companies, and through additional scholarships.
- Provision of short-term budget support for countries suffering from loss of tariff revenue.

### **Consultative process**

The Australian Minister for Trade has committed to ongoing consultative processes occurring simultaneously with negotiations. Pacific Island leaders have also noted the need for national consultations to be undertaken with all stakeholders.

Consultation is critical in Pacific Island cultures. Pacific Island governments, however, lack experience in consulting with their private sectors and civil society representatives in the context of negotiating international treaties. The relative inexperience of Pacific Island private-sector representatives and communities in advocating their own interests with their governments in international trade negotiations mean that some Pacific Island governments will have difficulties negotiating in the best interests of their economies.

The commencement of PACER Plus negotiations while Australia holds the Chair of the Pacific Islands Forum represents an opportunity for Australia to take the lead in ensuring these consultative processes are comprehensive and fair. These stakeholders should include a range of private-sector representatives, informal-sector representatives and leaders of civil society organisations.

The dominance of the informal sector in providing employment and sustaining communities in the region, particularly in Melanesia, has to be seriously considered in negotiations. The informal sector may not be directly engaged in international trade now, but if PACER Plus is to deliver more economic opportunities in the region, the informal sector will have to be involved in taking up those opportunities.

Given that women tend to dominate the informal sector, deliberate and well-structured efforts should be made to include women in the consultative process. Convening consultations in rural areas with the informal sector and with women will be critical to

building wider public support for the negotiations and to making decisions that will deliver benefits to the majority of the population in Pacific Island countries.

While national consultations are rightly the sovereign responsibility of each Pacific Island country, the proposed unique nature of the PACER Plus agreement, with its focus on capacity building and development assistance, should allow for these elements to be enacted in the negotiating stage. Assistance with national consultations could be enabled by encouraging, and, if necessary, funding Australian and New Zealand private sector and civil society organisations with experience in cooperating with or advising governments on multilateral or bilateral trade agreements to advise their Pacific counterparts on lobbying strategies.

Australia has a tradition of consulting with the private sector and peak industry bodies in countries with which it has strong trading relationships, including New Zealand, the United States and Japan. There is no reason it should not also seek to do this in Pacific Island nations, just as Pacific Island governments should seek to consult with the Australian private sector.

Pacific Island countries should be encouraged and assisted to establish a program of public consultations accompanying the negotiations. The sensitivities of governments with little experience of this kind of public-private sector consultation could be managed if Australian and New Zealand government representatives conducted the consultations jointly with Pacific Island government representatives.

The talents and experience of members of the Australia Pacific Islands Business Council, the New Zealand Pacific Business Council, chambers of commerce and other private-sector organisations in the region should be mobilised to participate in consultations.

Australia's leadership of the region and its status as chair of the Pacific Islands Forum over the next year requires that it seek to lead this process.

### **Negotiating capacity**

Prior to the decision of Pacific Islands Forum leaders in Cairns to commence PACER Plus negotiations, a number of governments and civil society organisations had expressed concerns about the capacity of Pacific Island government trade officials to negotiate with their more experienced and better resourced Australian and New Zealand counterparts.

Australia and New Zealand have sought to address this by funding the Office of the Chief Trade Negotiator through contributions of \$500,000 per annum each. While this will go some way to providing the negotiating expertise to individual Pacific Island country negotiating teams, it is inevitable that Pacific Islands will perceive this position as being controlled by Australia and New Zealand.

Australia could improve this negative perception by encouraging countries outside the region to provide negotiating training and ongoing impartial advice to Pacific Island trade officials. Singapore and Japan have established programs that provide trade negotiations training and could be encouraged to extend this in a more systematic way to Pacific Island countries. A program of mentoring by experienced “third country” trade negotiators could provide Pacific Island trade officials with valuable negotiating skills.

## **Fiji**

The Pacific Islands Forum’s decision to exclude Fiji from PACER Plus negotiations will put the ultimate success of negotiations at risk. A regional trade and economic integration that excludes the second-biggest Forum Island economy is ultimately not credible. Fiji has a long-standing status as the trading hub of the region and has more negotiating experience and expertise than many other countries in the region.

The offer to brief Fiji officials during the negotiations is helpful. Australia will need to ensure that this briefing mechanism is used to ensure that views from Fiji are taken into account in the negotiations. Beyond briefing officials, this could be done through more active consultations with the private sector and civil society in Fiji, and could be managed at a non-government level. This would be consistent with Australian and New Zealand government statements that they will avoid taking actions that hurt the people or the economy of Fiji.



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