

## PACIFIC TRADE: PICTA free trade agreement

In August 2001, Pacific leaders met in Nauru and signed two regional trade agreements: the Pacific Islands Countries Trade Agreement (PICTA) and the framework Pacific Agreement on Closer Economic Relations (PACER).

Australia and New Zealand have been encouraging neighbouring island governments to adopt greater trade liberalisation. But in 2001, Pacific governments were reluctant to fully open their economies to greater investment and trade from their two largest neighbours. So PICTA is a first stage before Forum member countries begin negotiations for PACER-Plus, a regional free trade agreement which will include Australia and New Zealand. Beyond trade in goods, PICTA is now being extended to cover trade in services, including labour mobility between island countries.

### Pacific Islands Countries Trade Agreement (PICTA)

**Who?** PICTA includes the island countries which are members of the Pacific Islands Forum (PIF), but not the two largest Forum members, Australia and New Zealand.

**When?** Nine Forum Island Countries first signed on to PICTA in August 2001 (Cook Islands, Fiji, Kiribati, Nauru, Niue, Samoa, Tonga, Tuvalu and Vanuatu). The other Forum island countries joined between 2002 – 06 (Federated States of Micronesia, the Republic of the Marshall Islands, Republic of Palau, Papua New Guinea and Solomon Islands). Island nations that aren't full Forum members, like New Caledonia, are also studying whether to join PICTA. Ratification by six countries was needed for PICTA to come into force in 2003. The first four to ratify were Cook Islands, Fiji, Samoa, Tonga, then came Niue, Nauru, Kiribati and PNG. Vanuatu ratified in 2005 and Tuvalu in 2008.

**What?** PICTA requires island countries to gradually reduce tariffs (which are the taxes that governments charge on goods imported into the country from overseas). PICTA is now being expanded to cover not only trade in goods, but also trade in services (health, education, labour, tourism etc).

In line with the push for global trade liberalisation through the World Trade Organisation (WTO), Australia and New Zealand have been promoting free trade to their island neighbours through regional trade agreements.

Inter-island trade in the Pacific is relatively small, with most trade focused on countries of the Pacific Rim or Europe. But PICTA is seen as preparation for larger trade agreements with the major economic powers, in both goods and services.

By phasing out all barriers to trade (such as import tariffs, quotas which limit the amount of goods that can be imported, or licenses that require permission to import goods etc), most goods from other island countries could enter without restriction.

Under PICTA, developing island countries (such as Papua New Guinea and Fiji) must complete trade liberalisation by 2010, whilst the 'Least Developed Countries' and smaller island countries (Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon

Islands, Tuvalu, Vanuatu and Republic of Marshall Islands) have until 2012 to achieve this objective.

However most Pacific Island governments rely heavily on tariffs and import duties as a source of revenue. As governments remove tariffs, they must replace them with other taxes like Value Added Taxes (VAT).

If new taxes are added to basic goods that most people must purchase (cooking oil, flour, kerosene etc), this raises questions of equity and just development, particularly in countries where up to 80 per cent of the population are subsistence farmers whose income is derived largely from remittances or small-scale cash cropping.

### Goods and services

Currently PICTA only covers trade in goods (food, fish, clothes, equipment, etc). Trade in tobacco and alcohol was initially excluded so governments could study the possible impacts on taxes and public

health. There is also a provision under PICTA for countries to protect certain products considered to be particularly sensitive, but this protection is only temporary and must be phased out. Even small shifts in trade patterns have caused problems for small island neighbours (such as a 2006 dispute between Fiji and Vanuatu over tariffs on biscuits).

By March 2009, eleven countries had ratified PICTA, but only six countries are already trading under the free trade agreement – Solomon Islands, Cook Islands, Fiji, Samoa, Vanuatu and Niue. Other countries, such as Kiribati, Nauru, Papua New Guinea, Tuvalu and Tonga, are in the process of completing their domestic requirements prior to announcing their trading under PICTA.

The Federated States of Micronesia are yet to ratify PICTA while Palau and the Republic of Marshall Islands are yet to make a decision on their accession to PICTA. The French territory of New Caledonia is investigating the option of joining the regional agreement.

### Labour mobility

Even though the Pacific governments have been slow to embrace PICTA and there is limited evidence of its benefits, the agreement is now being extended to cover other areas.

In 2005, the Forum leaders' meeting agreed to extend PICTA, through "integration of trades in services, including temporary movement of labour". In March 2008, Pacific governments began negotiating the PICTA Protocol on Trade in Services (POTIS).

This includes the development of an inter-island labour mobility scheme known as "Temporary Movement of Natural Persons" (TMNP) program. This two-tiered scheme would allow professionals to move freely amongst Forum island countries while movement of trades and semi-skilled workers would be subject to a quota system.

In 2009, governments have been debating 'temporary' labour movement within the islands region, immigration quotas, the recognition of skills and qualifications and labour rights issues. These negotiations have fallen behind schedule as governments are nervous that they don't understand the implications.

### Free trade or trade justice?

In April 2008, Duncan Kerr, Australia's Parliamentary Secretary for Pacific Islands Affairs argued:

*"Trade is good. Open markets do matter. In the long term, it is trade more than development assistance that will reduce poverty. Open trade opens doors. Making trade easier and removing excessive regulations can have enormous benefits.... More trade will result in economic growth in the Pacific and for its people. It will reduce dependency and lead to more prosperity and sustainability."*

However NGOs and community groups in the Pacific are concerned that Pacific governments are coming under pressure to negotiate free trade agreements without adequate research, assessment, consultation with civil society and public education. They are critical of trade liberalisation agreements which:

- Restrict the rights of governments to regulate in the public interest, particularly to promote development and human rights
- Restrict development options
- Undermine public accountability for essential services like health and education
- Undermine the financial viability of government to deliver essential services and promote development and human rights
- Undermine the development of local business and employment
- Affect labour rights, especially in public sector

### Find out more:

Jane Kelsey: *A People's Guide to PACER: The Implications for the Pacific Islands of the Pacific Agreement on Closer Economic Relations (PACER)* (Suva: Pacific Network on Globalisation, 2004).

John Connell: "Towards Free Trade in the Pacific? The Genesis of the Kava-Biscuit War between Fiji and Vanuatu", *Geographical Research*, No. 45, 2007.

*This fact sheet is the first in a series produced by the Australian Civil Society Network on Pacific Trade, which links unions, churches and non government organisations. For further information, contact the network at pacifictrade@gmail.com*