

Facing the Challenge of Regionalism in the Pacific Islands

Rob Scollay
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- Fourteen independent Pacific island states
- Characteristics
 - very small and very diverse
 - five are LDCs
 - spread over vast area
 - W-E and N-S distances comfortable exceed US mainland
 - low levels of intra-island trade
 - heavy dependence on tariffs for government revenue
- special characteristics of small island states recognised in UN but not in WTO

Figure 1: Population of Forum Island Countries (1993 or later)

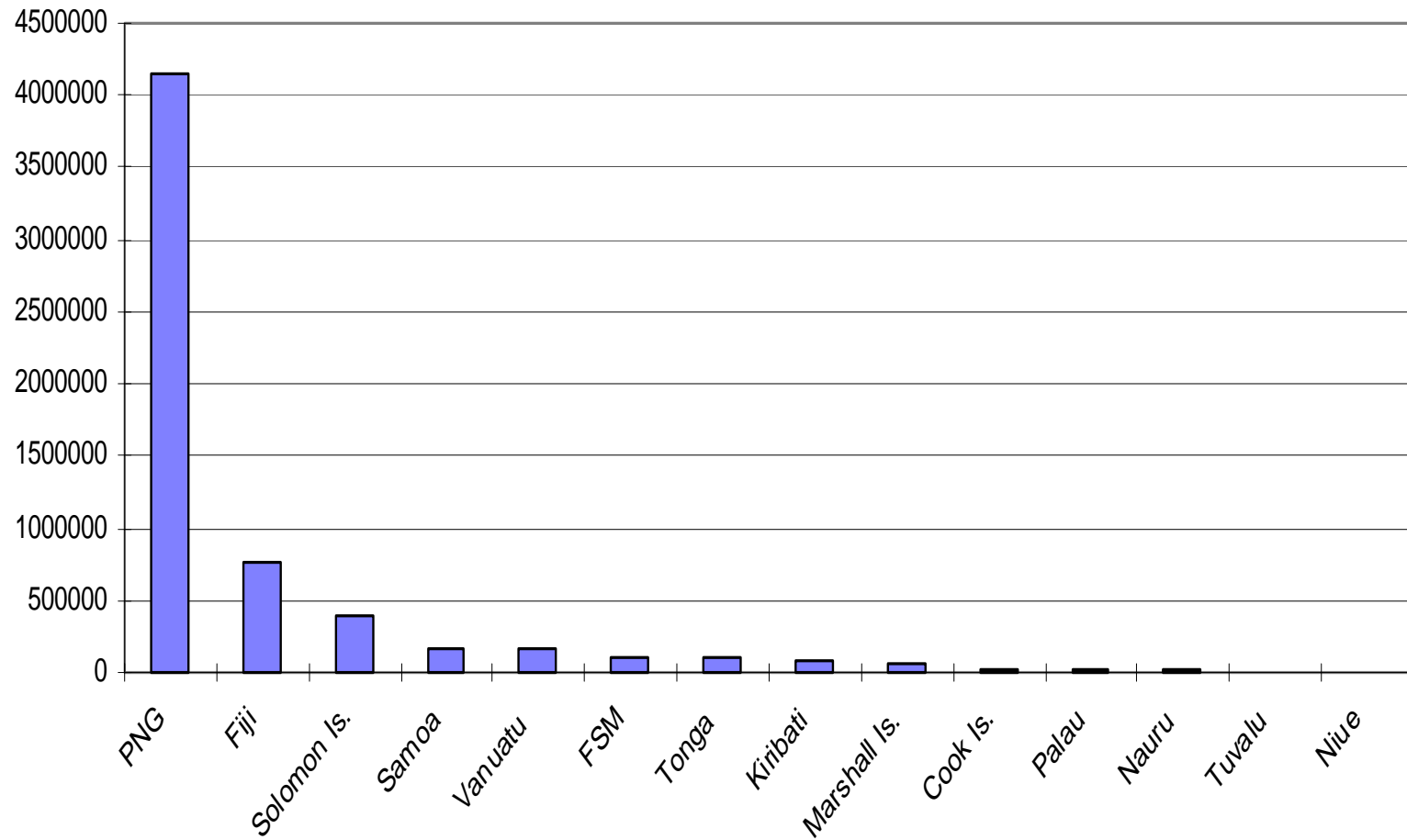


Figure 2: Nominal Gross Domestic Product (1)

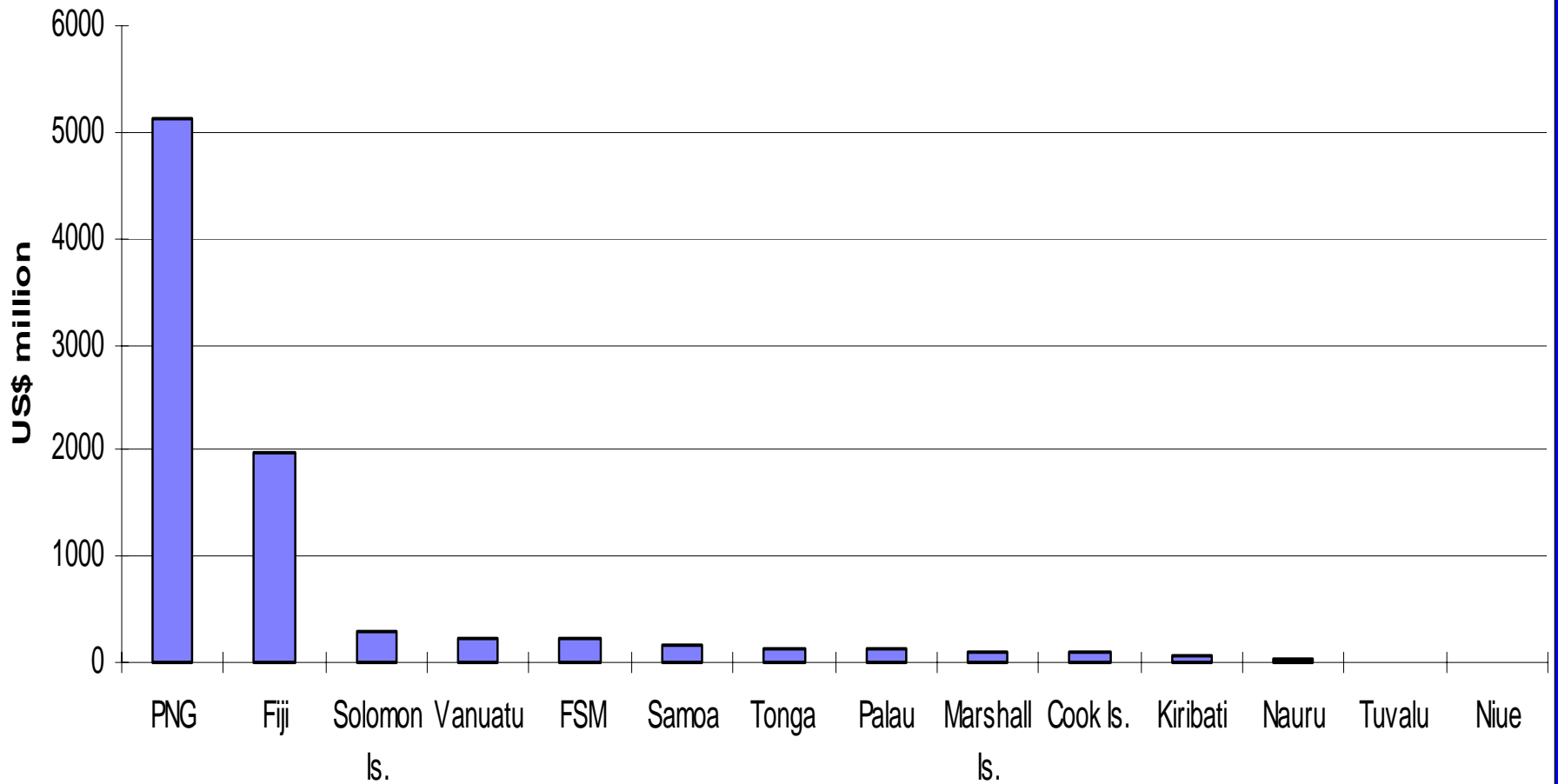


Figure 4: Nominal Gross Domestic Product per capita

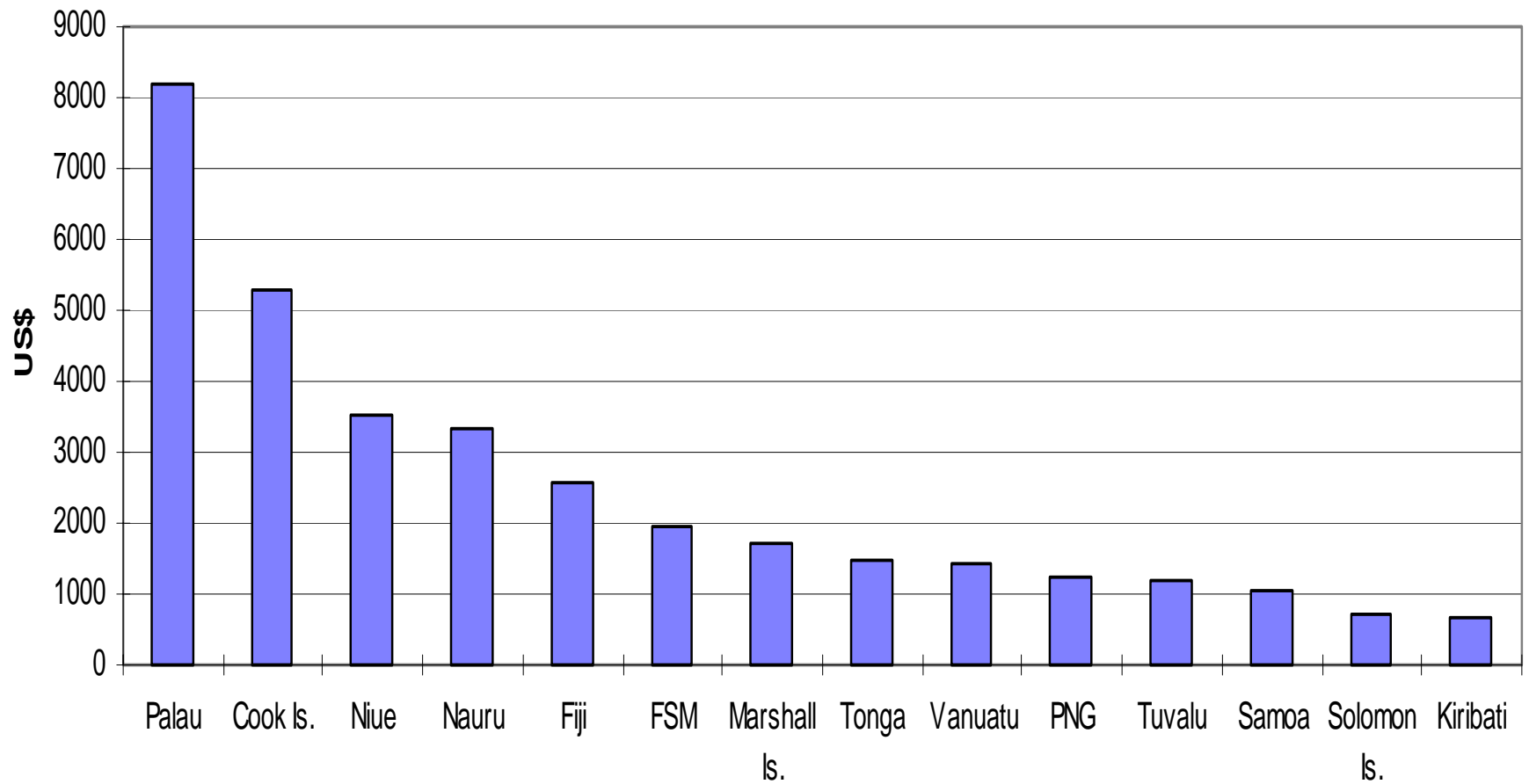


Figure 5 Trade with other FICs

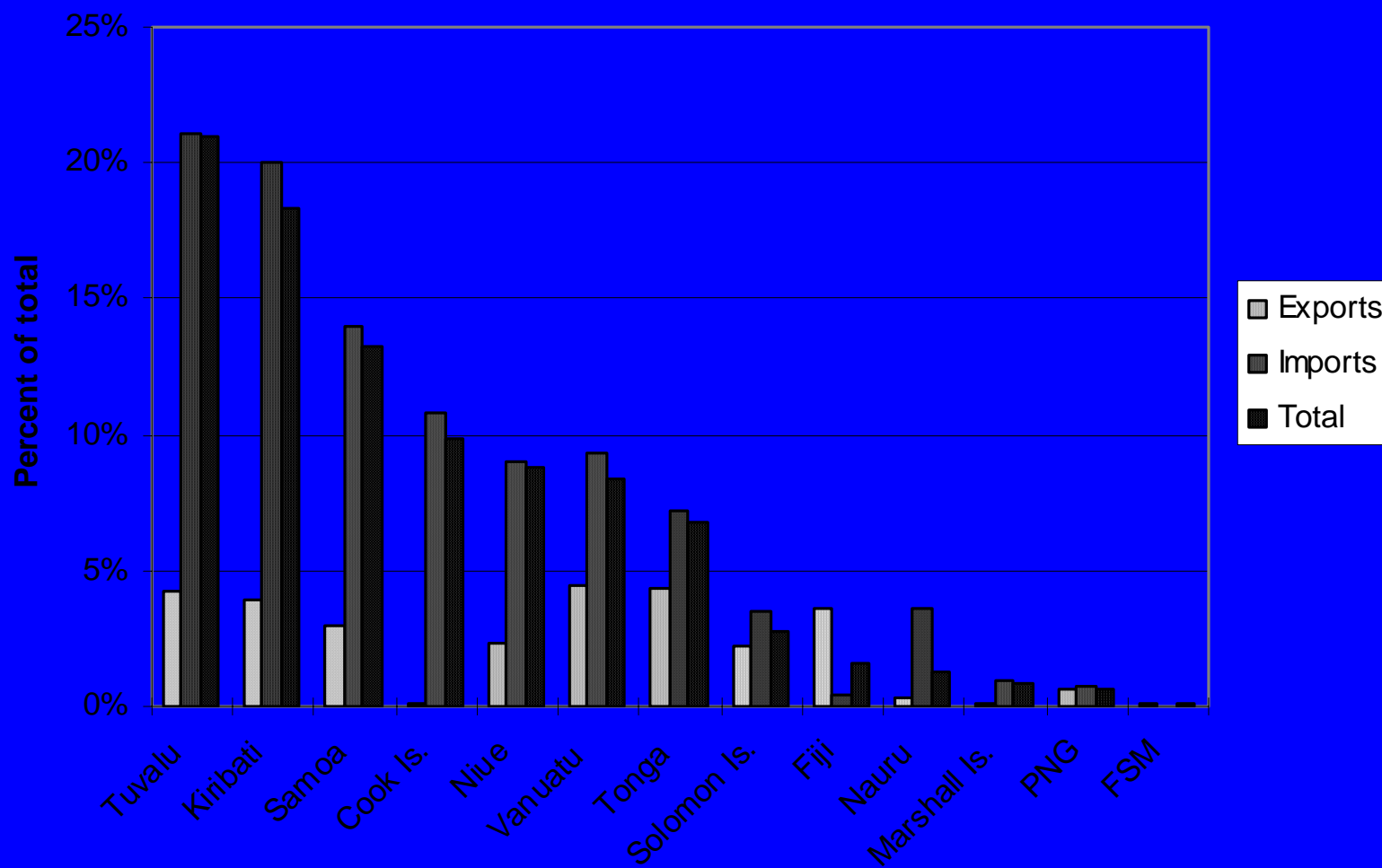


Figure 1.7 Tariff Collections as Percentage of Imports

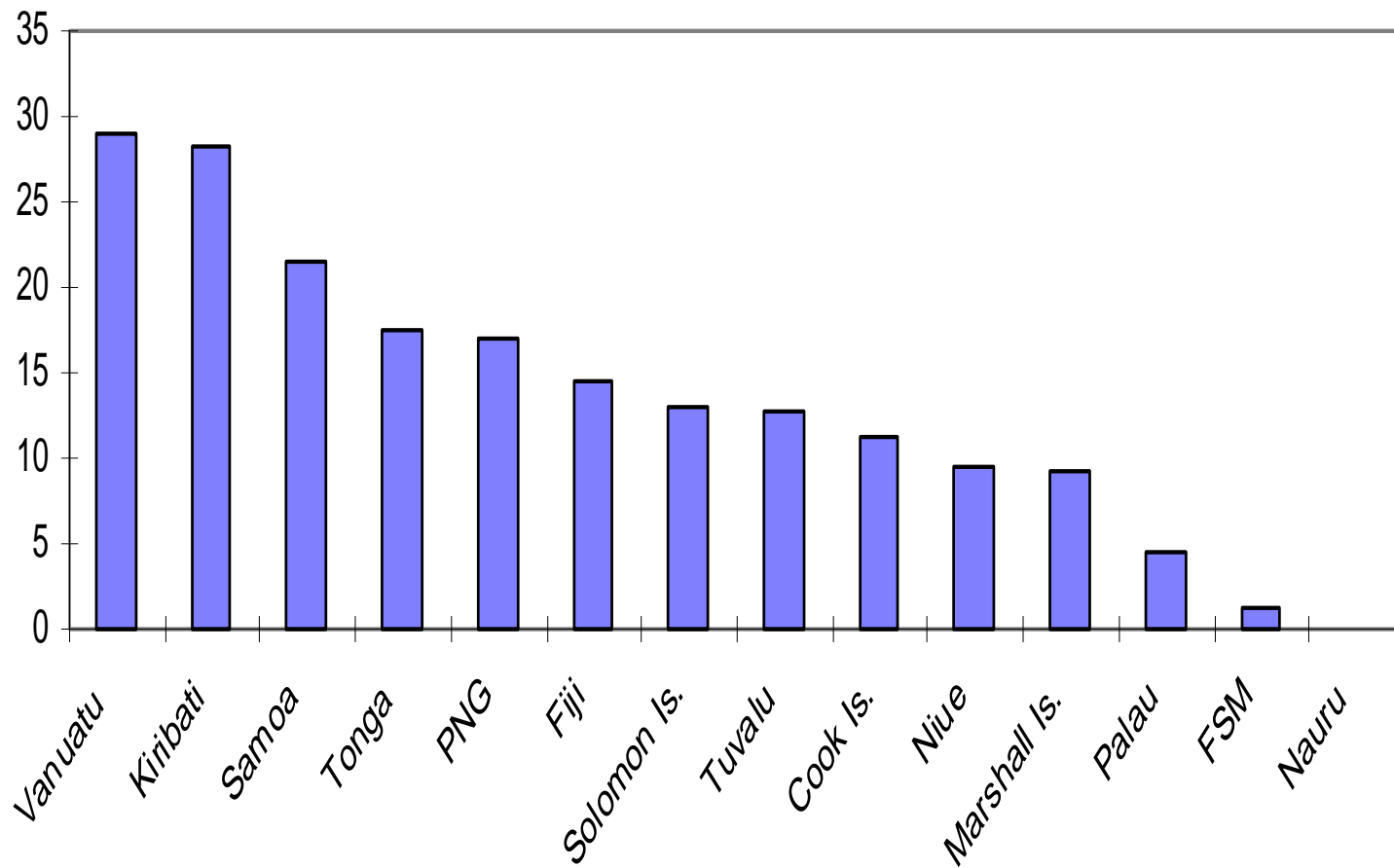
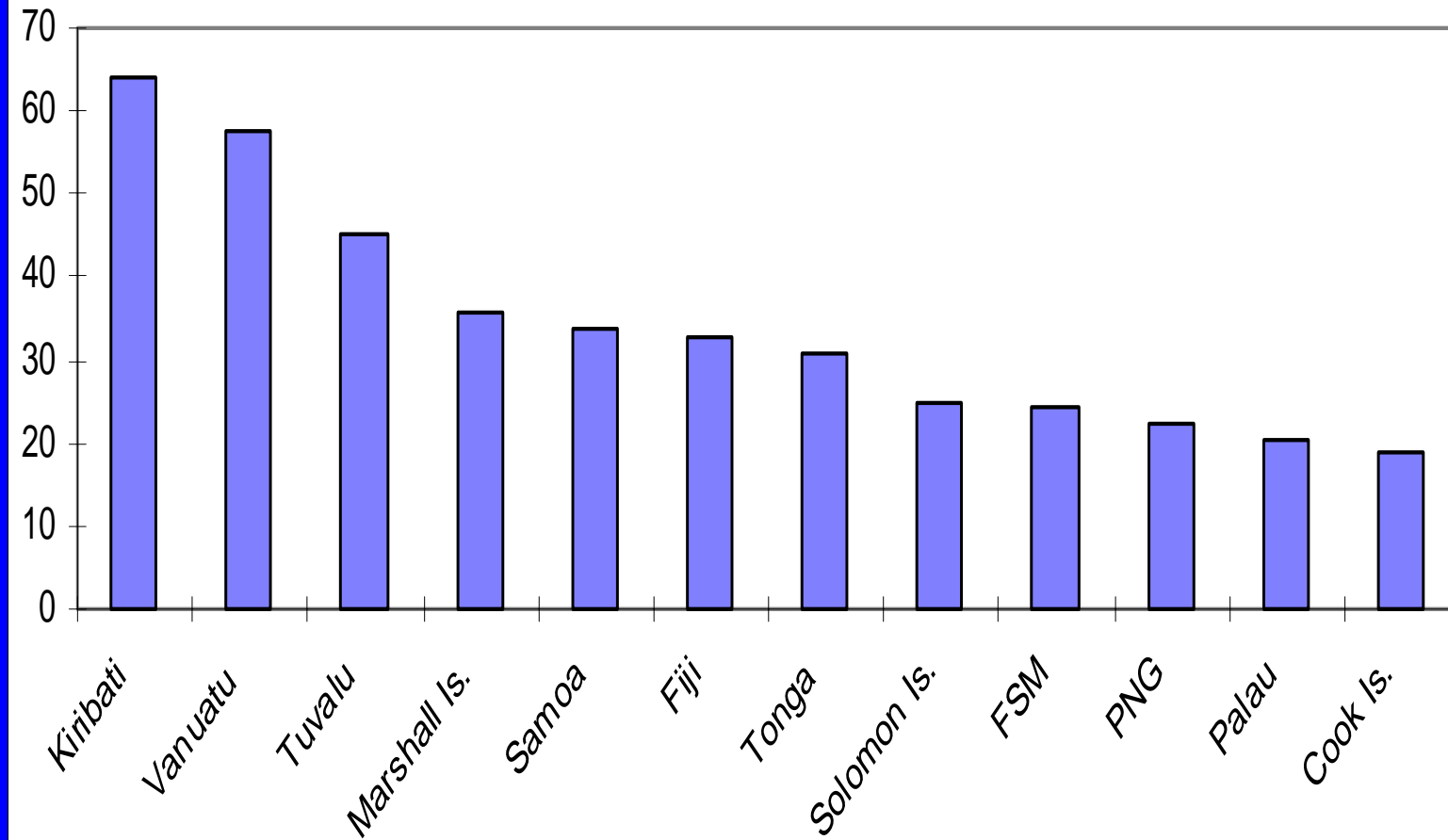


Figure 1.8 Tariffs as Percentage of Total Tax Revenue



Economic Relationships

- Pacific Islands Forum

14 Pacific island states plus Australia and NZ

- RTAs

- PICTA (FTA among Pacific island states alone)
- Lome/Cotonou Agreements
(non-reciprocal preferential agreement between EU and 76 ACP – African, Caribbean and Pacific states)
 - more favourable than GSP
- sugar protocol (one of several commodity protocols)
 - vital for Fiji
 - involves ACP states from all three ACP regions
- SPARTECA – non-reciprocal duty free access to Australia and NZ (basis of Fiji garment industry)
- PACER – framework agreement with Aust/NZ
- CFA – non-reciprocal agreement between “Compact states” and USA

- WTO
 - current members are Fiji, PNG, Solomons
 - applicants are Vanuatu, Tonga, Samoa

Some key considerations:

- “MFN” provisions requiring preferences given to other developed countries to be extended to the developed country partner included in
 - Cotonou
 - PACER
 - CFA
- industrial and export development heavily based on preferences
- ROO issues in SPARTECA and Cotonou
- preference erosion has been a “fact of life” for several years
- gradual integration into the global economy recognised as a necessary response

WTO status of trade agreements

- PICTA notifiable under the “Enabling Clause” of 1979 (involves only developing countries)
- Lome/Cotonou does not qualify under the “Enabling Clause”
 - involves a developed country partner
 - discriminates among developing countries
- GSP permitted under “Enabling Clause”
 - does not discriminate between developing countries
- Lome/Cotonou also fails to meet Article XXIV requirements because non-reciprocal
 - waiver obtained – expires 2007
- sugar protocol shown by “banana cases” to be vulnerable to challenge in WTO

Replacement of Lome/Cotonou Trade Arrangements

- Cotonou requires negotiation of replacement trade arrangements 2002-2007
- EU has indicated it will not seek further waivers
 - new arrangements must be “WTO compatible”
 - must satisfy Article XXIV
 - must be reciprocal

- EU's proposal (reflected in Cotonou) is for EPAs (Economic Partnership Agreements) with regional groupings of ACP states
 - seven groupings currently recognised (5 in Africa, Caribbean, Pacific)
 - possibility left open of alternative groupings or an ACP-wide agreement
 - sugar protocol to be reviewed “in context” of EPA negotiations
 - provision for “alternative arrangements” for ACP states unable to join REPAs
 - likely alternative is GSP
- Five Pacific island LDCs included in EU's “Everything But Arms” (EBA) Initiative

- EU share of imports relatively minor (typically less than 5%)
- “flow on” effects to trade with Australia, NZ and US highly significant
 - Australia/NZ typically account for 55-90% of imports (except CFA states)
 - US accounts for two-thirds of imports of CFA states
 - Implications for
 - government revenue
 - competition for domestic industries
- EU accounts for 15-25% of exports of larger non-CFA Pacific ACP states
 - sugar protocol crucial for Fiji

Other problems

- divergence of interests among Pacific ACP states created by:
 - availability of EBA for five Pacific ACP LDCs
 - Fiji's special situation with the sugar protocol
 - lack of trade between EU and CFA states
 - differences in tariff and tax structures
- how to integrate “sugar protocol” into EPAs
- how to assess value of sugar protocol entitlement
- capacity limitations

Key “rules” issues in negotiations on Article XXIV

- reciprocity
- “substantially all trade”
- negotiating and contracting entity
- length of transitional period
- “de minimis” provisions
- special and differential treatment
 - for all developing countries?
 - for LDCs?
 - for small island states?