CID Update on PACER

What is PACER?

PACER is the Pacific Agreement on Closer Economic Relations signed between Pacific Island Forum countries and Australia and New Zealand. It is an economic framework agreement, not a free trade agreement. It came into being in 2001 and is due to come into effect in 2011, or earlier if any Pacific Island countries commence another trade agreement with any party outside of the PACER.

Who does it involve?

At its widest it will involve Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

What is the history?

In 1981 a trade agreement, called the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), was agreed between 13 Pacific Island countries (PICs) and Australia and New Zealand, providing duty free access to almost all products originating in Pacific Island countries. This agreement was designed to provide unobstructed market access for PICs to Australia and New Zealand markets and to stimulate trade, investment and economic growth in their own countries. The decline in tariffs being imposed between these countries means this agreement is now of minimum importance.

Due to the changing global economic environment – and some would highlight the dominance of neoliberal economic theory which urges liberalisation of trading relations – the 1997 meeting of the Pacific Forum Economic Ministers commissioned two reports to investigate the economic benefits and costs of a trade agreement within the Pacific Island nations[1] and one that included Australia and New Zealand. The report that included Australia and New Zealand as potential partners indicated that there were substantial economic gains to be made for eight out of the 14 Pacific Island countries involved, but that the others could be worse off. The second report outlined modest gains that could come from a trade agreement among the Pacific Islands.

What is the PACER trigger?

Article 6 of PACER states that if any of its signatories commence formal negotiations for free trade arrangements with another developed country, then they have to offer similar free trade agreement (FTA) negotiations with the others signatories of PACER. The pending Economic Partnership Agreement (EPA) with Europe and the Africa, Caribbean and Pacific (ACP) is seen as this trigger. These negotiations are due to start no later than January 2008.

Without this trigger, the countries are still locked into commencing PACER by 2011.

What effect will PACER have?

Under PACER there will be a free trade agreement between the signatories. This means all tariffs will be removed and there will be no subsidies in place for domestic protection. If these rules are broken a country can be held liable and have to pay compensation.

Pacific Island countries cannot have any preferential treatment from any agreement with a country outside of PACER. Under existing agreements, such as the Cotonou Agreement, Pacific Island nations do have preferential access to other countries. However the WTO insists that international trading agreements must comply with WTO regulations for the promotion of free trade. They state that preferential treatment distorts free trade and should not be introduced. Under PACER, PICS will have to eliminate or seriously reduce the preferential treatment they currently offer for their own locally produced products in order to make them more commercially competitive

What are the benefits for New Zealand?

New Zealand businesses will have greater access to PICs in a free trade agreement. New Zealand will no longer face competition from locally produced and subsidised products. It also ensures that New Zealand will not suffer any disadvantages should any of the PIC's signatories enter into further trade agreements with other parties.

On the down side, there has been considerable bad blood created in the negotiation of PACER and New Zealand is at risk of losing its good standing with the PIC's governments and peoples.

What are the benefits for the Pacific Islands?

PACER promises closer economic ties with Australia and New Zealand along with more access to these countries for Pacific Island citizens who are interested in temporary working visas. Other possibilities include revised and more flexible immigration processes for permanent residents to New Zealand and Australia along with access to various cultural and sporting regional events.

What are the dangers for Pacific Island countries?

- They will lose preferential access to other countries while gaining none with New Zealand, as New Zealand already has its borders open to free trade.
- Local producers will lose out to cheaper foreign imports. This may mean the closure of locally owned businesses, a decrease in local employment opportunities and higher dependence on imported goods. This is particularly negative if it occurs in the agriculture and food sector.
- Rising unemployment, where it occurs, would add to the already worrisome trend of unemployed and underemployed in the PICs where work opportunities are limited.
- PIC markets will be open for foreign businesses who may take the market niche that is currently inhabited by local actors. Commonly foreign investment returns are not kept in the revenue-earning countries but are transferred to another country. Thus earnings do not circulate within that economy thereby reducing the benefits of the initial investment.
- Smaller producers and service providers will have to face the challenge of competing with much larger, more diverse and technologically more competent competitors (especially those from Australia and NZ).
- The removal of tariffs will cause a decrease in revenues available to Pacific Island governments to pursue their own development priorities.

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Due to the specific nature of PICs as small island nations there are limited resources and opportunities to diversify and expand their products and their markets to cope with tough international competitors. This fact, combined with the looming environmental issues associated with climate change, put their economies on a more precarious footing when trying to compete. Special measures need to be introduced to protect the livelihoods of small island nations.

What should we do about it?

- Encourage more analysis into the effects of PACER;
- Call for more space and time for negotiations;
- Support moves to provide more information and technical assistance to the Pacific Island countries in order that they can develop more expertise in the complexities surrounding international trade agreements and their negotiations;
- Push for more open negotiations and initiate a regional dialogue about alternative forms of cooperation that can address the serious challenges PICs face;
- Ensure that special measures are attached to any agreements to allow PICs to develop their own domestic capacity for trading products and for managing services. These measures must allow PIC governments to prioritise their own development and the sectoral areas where they wish to develop their competitive edge.

For further reading:

- Oxfam New Zealand's website
- A People's Guide to PACER, Jane Kelsey, 2004

Note

1. Subsequently the Pacific Island Countries Trade Agreement (PICTA) was agreed in 2003. This agreement fosters free trade between the Pacific Island countries and allows for the elimination of tariffs and import/export licences between the signatories.

Cover: Purchases from the Arawa market, Papua New Guinea. Photo: VSA.

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