



Asia-Pacific
Economic Cooperation

2005/FTA-RTA/WKSP/014a

**PICTA: Pacific Island Country Trade Agreement;
PACER: Pacific Agreement on Closer Economic
Relations**

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**Workshop on Identifying and Addressing
Possible Impacts of RTAs/FTAs Development on
APEC Developing Member Economies
Hanoi, Viet Nam
28-30 June 2005**

PRESENTATION TO HANOI WORKSHOP

PICTA and PACER

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PICTA

PACIFIC ISLAND COUNTRY TRADE AGREEMENT

&

PACER

PACIFIC AGREEMENT ON CLOSER ECONOMIC RELATIONS

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Who are Involved?



PICTA
All FICs
(i.e. excluding Australia and New Zealand)



PACER
All Forum members

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signed All FICs Except 3 Compact Countries <small>FIJI, PALAU, MARSHALLS</small> Nauru, PNG, Solomon Islands	ratified Cook Islands Fiji Kiribati Samoa Tonga Niue	Entered into force 13 April 2003
signed All FICs except 2 Compact Countries <small>-MARSHALLS and FSM</small> <small>-PALAU (SIGNED)</small> Australia New Zealand Nauru, PNG, Solomon Islands	ratified Cook Islands Fiji Kiribati Samoa Tonga Niue	Entered into force 3 October 2002

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Content

- PICTA is a Free Trade Agreement



Purpose

- To expand, diversify and integrate trade between members
- To promote Regional Integration.
- To provide a "Stepping Stone" to participation in the Globalisation process.
- To strengthen the negotiating position of Forum members in forthcoming free trade negotiations with Australia, New Zealand and the European Union.
- To provide foundation on these negotiations.

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Why PICTA? GLOBALISATION PRESSURES:

- Declining and phasing out of most aid.
- Threat of political and economic marginalisation.
- Helps sustain outward looking trade policies.
- Communication revolution → new forms of economic and trade co-operation possible.
- WTO induced introduction of reciprocity within Lomé Convention and now Cotonou Agreement
- Regionalism increasingly seen as basis for *multilateral* trade liberalizations.

→ time for first step towards global economic integration

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History

- 2001** PICTA endorsed and signed by most Forum members – landmark occasion for international co-operation in the Region.
- 2000** Officials commenced negotiation on draft legal text.
- 1999** Forum Sec given explicit mandate to prepare FTA.
- 1998** Leaders statement.
- 1997** Cairns FEMM.
- 1991** Forum Agreement.
- 1972** SPEC Agreement.

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Main Features

The main features of PICTA and PACER are:

TRADE LIBERALISATION

and

TRADE FACILITATION

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Barriers to Trade

Import Tariffs

Taxes that governments charge on imported goods which are not genuine cost-recovering charges made for specific services (e.g. quarantine services).

Non-Tariff Barriers

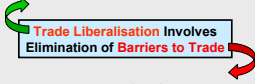
All non-tariff measures that restrict the free flow of trade.

Includes: quotas, import and export licenses, voluntary export restraints and red tape barriers (costly administrative procedures required for importing foreign goods).

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Trade Liberalisation

- Gives local producers a larger 'domestic' market – increasing their chances of becoming successful exporters.
- Reduces consumer prices and expands consumer choice.



- Shelters domestic producers from foreign competition, reducing their incentive to cut costs and increase efficiency, productivity, and international competitiveness.
- Lead to misallocation of resources - 'Wrong' goods produced.
- Harms consumers by increasing imported goods prices.

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PICTA

Lays foundations for a Free Trade Area between members – with all import tariffs on imports from member countries removed by 2017.

Covers trade in goods between members.

No exports from member countries will be subject to any form of trade barrier when imported into other member countries.

Requires "national treatment" to ensure no discrimination in the treatment of domestically produced goods versus goods from PICTA members.

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PICTA Tariff Liberalisation

Objectives (Art 2)

- To expand and diversify trade through:
 - gradual and progressive tariff reductions - Article 7
 - reduction in Non-Tariff Barriers (NTBs) - Article 7
- to eventually create single regional market, and reduce barriers to global trade.

Coverage of the Agreement (Art 4)

- Only covers trade in goods.
- Services in future; and alcohol & tobacco products after 2 yrs.
- Only trade between FICs covered – approx. 3% of all FIC imports originate in other FICs → PICTA tariff cuts only affect small proportion of most FICs' imports
- Extension to US/French territories in future

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PICTA Timeline

On entering into force:

Immediate Elimination of all NTBs on PICTA trade

8 years from 2003(2011) : Developing FIC tariffs to be reduced to zero. Fiji, PNG and Tonga

10 years from 2003(2013) : LDC and SIS tariffs reduced to zero. "Negative List" tariffs reduced to zero.

Complete FTA between member countries.

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PICTA: Key Features

Excepted Imports - the "Negative List" (Art 8)

- "sensitive" products, given protection with higher tariffs and a longer reduction timeframe
- goods may need protection from PICTA member imports to assist their long-term competitive survival.
- Eligibility: goods must: 1) be locally produced, 2) be produced by another PICTA member (risk of competition), 3) not be exported
- No provision for permanent exclusion of any good from PICTA

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PICTA: Key Features

Rules of Origin (Art 5)

- Two criteria:
 - wholly obtained (grown, raised) and
 - 40% local content criteria for processed goods - 40% of cost must be borne in the FICs. If more than 60% of value added is added outside the Region, a good does not 'originate' in a FIC → its tariff not affected by PICTA.
- Allows cumulation - sourcing Raw Material within FICs

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PICTA :Key Features

Article 10: Emergency Action,
Article 11: Safeguard Measures,
Article 12: Dumped / Subsidised Imports,
Article 13: Balance of Payments

- All address different grounds for introducing higher tariffs in response to some form of "emergency".
- Requires public investigation, must use tariff / least trade distorting measure, provisional emergency action for 200 days permitted.
- Such action discouraged - seen as last resort.

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IMPLEMENTATION STATUS

- Notification of tariffs, negative lists, laws etc
- Tariff reductions - start 2003 for larger FICs and 2005 for LDCs and SIS
- Negative Lists
- Rules of Origin - Fiji in ROO Committee - manual and ROO certificates to be finalised
- Domestic legislation amendment
- Fiscal Reform

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PACER

Umbrella agreement - providing framework for future trade cooperation between PICTA members and Australia and New Zealand.

Eventual aim - to extend free trade to Australia and New Zealand and deepen PICTA to include other areas such as services.

Provisions for financial and technical assistance from Australia and New Zealand in areas of trade facilitation, trade promotion and economic adjustment to trade liberalisation.

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Cont.

- **PACER** – Pacific Agreement on Closer Economic Relations
- entered into force 3 October 2002
- **Not** a Free Trade Agreement
- Economic Cooperation Agreement with ANZ
- Two key features:
 - trade facilitation and promotion - ANZ to provide financial and technical assistance
 - provides for the future inclusion of ANZ in an FTA with the FICs - 8 years or earlier if Article 6 triggered

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Trade Facilitation

- Trade facilitation comprises measures to modernise trade-support systems in order to increase the volume and quality of trade. Essential in today's global economy where trade is an important source of economic growth but countries face stiff competition from foreign suppliers and increasing quality expectations from consumers.

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Regional Trade Facilitation Programme

- Key area of economic co-operation under PACER.
- RTFP covers three components:
 - **Customs** - to be managed by Oceania Customs Org (OCO)
 - **Quarantine (Biosecurity)** - to be managed by SPC
 - **Standards & Conformance** - to be managed by PIFS
- Aim of RTFP:
 - to reduce barriers posed by non-tariff measures
 - to improve the efficiency and effectiveness of Customs, Quarantine, and Standards & Conformance systems in the FICs - promote harmonisation
 - to facilitate free trade under PICTA, and FTA with Aust, NZ and EU etc in future

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RTFP FUNDING

- FTMM 2003 agreed to a RTFP totalling F\$7.9 million
- Australia and NZ have pledged F\$4.5m towards the RTFP. [Shortfall of F\$3.4 m to be found]
- 2004 FTMM reiterated 2003 decision on the RTFP as statement of FIC priorities and Officials to finalise funding
- Consultations continuing with Aust and NZ and other agencies on funding
- Meeting of officials in September 2004 finalised funding and MOU for implementation

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Customs Component

- **Include the following activities:**
 - Simplifying documentation
 - promoting Automation
 - Adoption of Harmonised Systems
 - Integrity
 - Facilitating Rules of origin under PICTA

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Biosecurity under the RTFP

- Establishment of a center for import-export biosecurity technical support (IMPEXTEK).
- Establishment of Sanitary and Phytosanitary Commodity Pathways for FIC agricultural exports. Additional projects could be to:
 - Increase technical expertise in area of Genetically-Modified Organisms (GMO) and Living Modified Organisms (LMO) within the center
 - Fund a position in Biosecurity Australia to speed up processing of market access applications by FICs (NZ already appointed one officer in NZ MAF)
 - Work with the regional Trade Commissions in Auckland and Sydney on marketing

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Standards and Conformance

- Relatively undeveloped in FICs - only two FICs have laws and standards - Fiji and PNG
- Require integrated approach and substantial resources
- Adopted a two track approach:
 - comprehensive study to develop detailed elements of the Standards and Conformance programme - to include legislation, infrastructure, certification systems, training etc
 - practical programme for industry specific compliance - HACCP standards on fisheries exports with Institute of Marine Studies, USP

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The Benefits

Faster economic growth due to improved trade performance, through enhanced specialisation and greater economic efficiency.

An easier more efficient business environment.

Less paperwork obstructing trade-related business transactions.

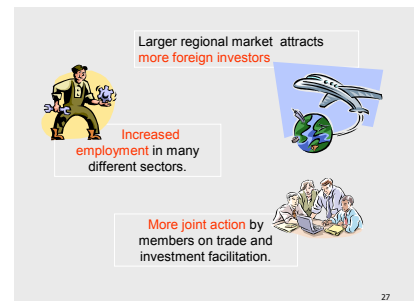


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Larger regional market attracts more foreign investors

Increased employment in many different sectors.

More joint action by members on trade and investment facilitation.



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Modernisation of trade-support systems.



Larger domestic market for local producers.



Improved trade negotiating skills for bilateral (with other countries) and multilateral (with institutions such as the WTO) negotiations.

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Potential Dangers

- and how to overcome them

- ✗ Closure of domestic industries due to premature exposure to competition.
- ✔ But... important domestic industries can still be protected from competition until they are ready to stand on their own two feet. ("Infant industry" provisions and "Negative List").
- ✗ Job losses as uncompetitive industries close.
- ✔ But... expanding sectors will provide new employment opportunities.

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- ✗ Trade Diversion – increased trade between member countries will replace importation of cheaper, better valued goods from other (non-member) countries.
- ✔ But... studies have predicted this effect will be minimal.
- ✗ Loss of government revenue through elimination of taxes on trade (tariffs).
- ✔ But... studies have predicted this effect will be minimal.
- ✗ Administrative costs of running PICTA.
- ✔ But... these will be kept to a minimum.

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Social and Gender Impact

- 2001 study (Forsyth/Plange) found minimum adverse social impact of PICTA due to minimal trade affected
- Forum Secretariat tasked to assist establish a social and gender impact monitoring framework for PICTA
- A study to develop national monitoring framework to be undertaken early 2005
- Proposed framework to be implemented at national level and assisted by Forum Secretariat

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Relationship between PICTA and PACER

PACER...

- "Stepping stone" approach - FICs to liberalise trade and integrate among themselves before entering into reciprocal free trade arrangements with ANZ.
- Does not confer rights or obligations on ANZ under PICTA
- Trade Facilitation Programme under PACER to assist FICs improve and harmonise TF under PICTA
- Obligation to inform and consult on existing and future trade arrangements

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PICTA's Implications

ON OTHER FIC TRADING RELATIONSHIPS ...

PICTA does not affect rights and obligations under existing agreements - they remain in force.

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PICTA's Implications ctd...

WTO (PNG, Fiji, Solomon Islands)

- WTO FIC members remain bound by WTO obligations. PICTA's emergency action provisions less stringent than corresponding WTO ones, due to limited implementation capacity of many FICs. If PICTA WTO members become involved in emergency action measures can insist WTO procedures followed.

MSG Trade Agreement (PNG, Vanuatu, Fiji, Solomon Islands)

- Existing MSG preferences not affected by PICTA. MSG members may continue to reduce barriers among themselves at faster rate than PICTA provides.

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PICTA's Implications ctd...

Cotonou Agreement (All FICs)

- Under Cotonou, only preferences granted to other developed countries may trigger requirement of comparable preferences to be granted to EU.

Compact of Free Association (Palau, FSM, Marshall Islands)

- If Freely Associated States join PICTA, are obliged to offer same trade preferences to U.S. unless U.S. grants waiver.

SPARTECA (All FICs)

- No effect as PICTA does not deal with trade relations between FICs and Australia and New Zealand.

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WTO Compatibility PACER, PICTA

- PICTA - a FTA amongst developing countries within RTA rules under Enabling Clause
- PICTA designed to be WTO-compatible
- PACER - Explicitly designed NOT to be a FTA within meaning of GATT Article XXIV → not notifiable to WTO.
- Any future FTA with Australia and New Zealand, as developed countries, need to be consistent with WTO rules - GATT Article XXIV.

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PACER's Implications

ON OTHER FIC TRADING RELATIONSHIPS ...

PACER does not affect
rights and obligations
under existing agreements
-they remain in force.

but some **trigger mechanisms**...

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PACER's Implications ctd

Cotonou Agreement (All FICs)

- requires negotiation of WTO-consistent new trade arrangement possibly reciprocal free trade arrangements with EU
- Any FIC entering such negotiations obliged under PACER to undertake such consultations with Australia and New Zealand.
- Conversely, any FIC negotiating a FTA with Australia and New Zealand before EU is required to open negotiations with EU under provisions of Cotonou Agreement.

Compact of Free Association (Palau, FSM, Marshall Islands)

- If result of future PACER negotiations is an FTA, and existing provisions of Compact remain, would trigger requirement for Freely Associated States to provide same preferences to U.S.

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WTO Compatibility PICTA

- **10 years timeframe** (Article XXIV)
- **Substantial trade and Negative List** (Article XXIV)
- **WTO based disciplines** e.g. safeguards, antidumping, subsidies, exceptions, SPS, Govt procurement, industry protection.
- **WTO principles** - transparency, special and differential treatment.
- **As PICTA involves only developing countries**, consistent with, and notified under the WTO Enabling Clause which has less rigorous criteria than Article XXIV.

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WTO Compatibility

- RTA Rules in current WTO Negotiations under Doha Development Agenda: January 2002 - 1 January 2005
- mandates work on clarification and improvement to rules governing Regional Trade Agreements (RTA)
- FICs seeking flexible RTA rules that take account of development dimension and developing status of FICs
- Why? Current RTA rules require same obligation from Members irrespective of development status - important for EPA negotiations with EU and future FTA with Australia and NZ

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The Future...

Forum Secretariat Assistance: ensure policy consistency to assist FICs with:

- ➔ PICTA and PACER implementation as well future extension and deepening
- ➔ strengthening PICTA as basis for future FTA with ANZ and EPA with the EU
- ➔ co-ordinating FIC positions in the WTO for flexible RTA rules to recognise FIC characteristics (Small Economies Work Programme)

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