



Trade agreements and arrangements in the Pacific subregion¹

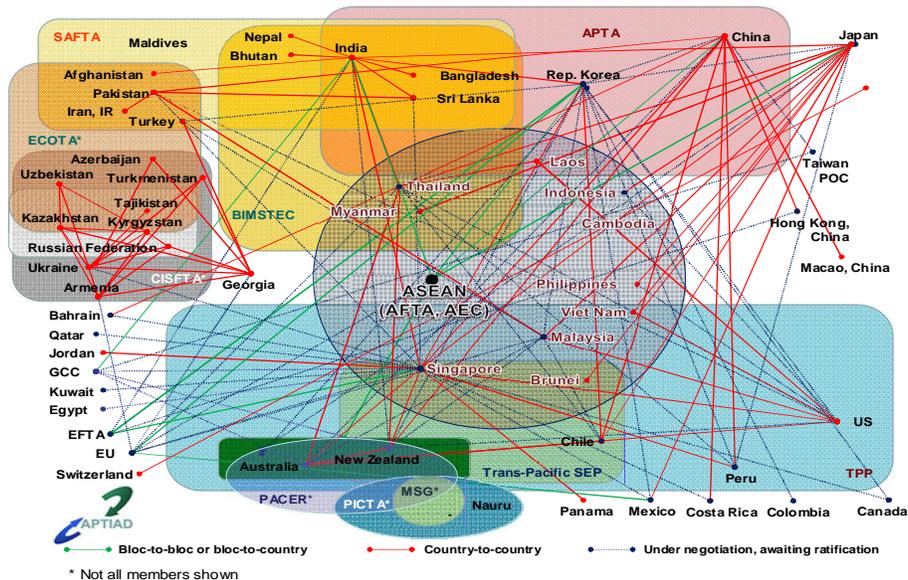
1. Multilateral trading system

As of 2012, Australia, New Zealand and five Pacific Islands are already members of the World Trade Organization (WTO) – Fiji, Papua New Guinea, Solomon Islands, Tonga and Samoa – while Vanuatu is also expected to become a member in 2012.

2. Preferential trade agreements

Compared to other Asia-Pacific subregions, members of the Pacific subregion² are involved in fewer preferential trade agreements. The important preferential trade agreements between the Pacific States include the Pacific Island Countries Trade Agreement (PICTA) and the South-Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) plus the Pacific Agreement on Closer Economic Relations Plus (PACER-Plus), which is still under negotiation.

Preferential trade agreements in Asia and the Pacific



¹ This note was prepared by Dr Witada Anukoonwattaka, TID, ESCAP. The text is based on information from the APTIAD Trade Agreements Database, trade policy reviews of WTO members from the Pacific, and references listed in the footnotes.

² The Pacific subregion in ESCAP's definition includes 19 Pacific Islands plus Australia and New Zealand.

(a) PICTA

PICTA is a reciprocal free trade agreement among 12 Pacific island States including Cook Islands, Fiji, Kiribati, Micronesia, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The agreement was signed in 2001 and entered into force in 2006. This agreement was notified to WTO under the clause in 2008.

PICTA seeks to gradually establish a free-trade area among Pacific Island States alone. Membership of PICTA is open to Pacific island States and Territories. The agreement covers trade in goods, but excludes trade in alcohol and tobacco products. PICTA applies only to goods, but as of April 2008 there was an ongoing negotiation on an agreement on trade in services and the temporary movement of natural persons. The agreement stipulates a timeframe for progressive phasing out of tariffs. It also allows for a reserve list of excepted imports, which are subject to a longer time-frame for tariff elimination. The small island States as defined in the agreement, as well as the least-developed countries (LDCs), enjoy additional flexibility in the phasing out of tariffs.³

It was intended to progressively reduce tariffs of developing members to zero by 2010, and by 2012 for small island States and LDCs. However, the schedules to eliminate tariffs were extended to 2017. For the goods listed as "excepted imports", tariff elimination was extended to 2021. For products to qualify under PICTA, they must meet 40 per cent local-content criteria. PICTA also covers government procurement, trade facilitation and dispute settlement. In addition, PICTA provides for immediate elimination of all import and export prohibitions or restrictions, including quotas, licensing or other similar measures as well as voluntary export restraints, orderly marketing arrangements or other similar trade measures. Internal taxes and other charges must not discriminate against imports. Studies are also being conducted on the possibility of including government procurement in PICTA and the creation of a Pacific single market and economy to promote deeper integration.

Intraregional trade remains negligible and is mainly between Fiji, the major participant and regional hub, Papua New Guinea and Samoa. Fiji re-exports food (including imported cereals from Australia, Thailand and the United States) mainly to Vanuatu, Kiribati and Tuvalu as well as beverages, textiles, metal products and electronic equipment to the region.

(b) SPARTECA

SPARTECA is a longstanding preferential agreement between 15 members of the Pacific Island Forum (PIF), which include Australia, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The agreement was signed in 1981 and has been in effect since then. This agreement was notified to WTO under the enabling clause in 1981.

Under SPARTECA, the Pacific island members receive duty-free access to Australia and New Zealand. The agreement also includes provisions for general economic, commercial and technical cooperation, and safeguard provisions related to dumped and subsidized goods, and the suspension of obligations. Between 1981 and the late 1990s, Australia and New Zealand progressively introduced duty-free and unrestricted access to

³ The small island States include Cook Islands, Kiribati, Nauru, Niue, Palau, Republic of Marshall Islands and Tuvalu. The LDCs are Solomon Islands, Kiribati, Samoa and Vanuatu.

a wide range of products; since the late 1990s, they have been providing duty-free and unrestricted access to all products. To qualify for concessional access, goods must meet the rules of origin set out in SPARTECA (50 per cent minimum content from SPARTECA parties).

However, SPARTECA's importance has declined due mainly to the erosion of tariff preferences, with Australia and New Zealand reducing MFN rates unilaterally, as well as restrictive rules of origin.

(c) PACER-Plus

PACER, an "umbrella" agreement signed in 2001, entered into force in 2002. The PACER is open to any Pacific island country or territory. PACER is a framework agreement for the gradual integration of the Forum Island Countries (FICs). The agreement does not contain substantive trade liberalization provisions; rather, it is intended to provide "stepping stones" that will allow the FICs to gradually become part of a single regional market. However, PACER provides for the establishment of reciprocal free-trade arrangements between the FICs and Australia and New Zealand by 2011. The agreement stipulates that if any FIC commences formal negotiations for free-trade arrangements with a developed non-Forum Island Country, then the FIC must offer to undertake consultations with Australia and New Zealand with a view to the commencement of negotiation of free-trade arrangements ("PACER-Plus" negotiations).

Because of this "third-party MFN clause", PACER-Plus is likely to provide WTO-consistent negotiations to establish a reciprocal free-trade arrangement (either a single free-trade area or a customs union) in order to commence: (a) within eight years from PICTA's entry into force; or (b) as soon as practical, either jointly or individually, with Australia and New Zealand after commencement of FTA negotiations between any FIC and OECD country. However, it is viewed as a defensive framework aimed at protecting Australian and New Zealand interests in FICs markets by developing a single regional market. PACER-Plus is expected to subsume SPARTECA once a Forum-wide free-trade agreement is in place.

PACER-Plus has been under negotiation since 2009 and has not notified to WTO. Currently 15 countries have ratified the PCER-Plus agreement (Australia, New Zealand, the Cook Islands, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Marshall Islands, Micronesia, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu).

(c) Melanesian Spearhead Group Trade Agreement

The Melanesian Spearhead Group (MSG) is a reciprocal free trade agreement among 12 Pacific islands, including Fiji, Papua New Guinea, Solomon Islands and Vanuatu. The agreement entered into force in 1994 and was notified to WTO under enabling clause in 1999. The Agreement initially covered duty-free entry of a few products from each member. However, the MSG Trade Agreement was subsequently revised. Since 2006, it has been providing duty-free access to all goods originating from MSG countries except those expressly excluded in the Agreement.⁴

⁴ These include Chapter 22 – beverages, spirits and vinegar, and all products except items described in HS Tariff code 2201, 2202 and 2209; Chapter 24 – tobacco and manufactured tobacco substitutes; Chapter 27 – mineral fuels, mineral oils and products of their distillation; bituminous mineral waxes; and cane sugar HS Code 1701.1100.

The revised MSG calls for the eventual elimination of tariffs, no quantitative import restrictions on eligible goods (except for balance-of-payments reasons) and no new export prohibitions or restrictions. Tariffs were to be phased out over a maximum of nine years; rates below 30 per cent were to be removed more quickly, e.g., rates of up to 6 per cent were to be abolished in the second year, and those between 6 per cent and 8 per cent in the third year. The rules of origin under the agreement are considered to be less generous than those of PICTA. A further revision of the agreement is being considered that would include trade in services and labour mobility provisions.

However, the MSG agreement is largely politically-driven, and thus its impact on intra-MSG trade is limited. Many of the new MSG provisions, e.g., on the timing of tariff reductions, appear loosely drafted. This, together with members' lack of commitment to liberalization obligations, has contributed to numerous trade disputes.⁵

(d) Australia-Papua New Guinea Trade and Commercial Relations Agreement

Most of bilateral free trade agreements in the subregion have expired or have never been active. The only active one is the Australia-Papua New Guinea Trade and Commercial Relations Agreement (PATCRA).

PATCRA was signed in 1976 and notified to WTO under GATT Article XXIV. This bilateral free trade agreement provides non-reciprocal duty-free access for most Papua New Guinea exports to Australia. Substantial goods are excluded, including certain imports of sugar, beverages, tobacco, mineral fuels, textiles, clothing and footwear. For products to qualify under PATCRA, goods must be either (a) unmanufactured raw products of the State, or (b) manufactured goods, 50 per cent of the cost and the last manufacturing process of which are in that State. However, PATCRA was largely superseded by SPARTECA.

3. Other preferential trade agreements

(a) Generalized System of Preferences

The Generalized System of Preferences (GSP) is a formal system of exemption from the more general rules of WTO. GSP exempts WTO member countries from the most-favoured nation (MFN) principle for the purpose of lowering tariffs for developing and less developed countries, without having to lower tariffs for others. GSP schemes provide non-reciprocal preferential tariffs for exports of developing countries and LDCs. However, only a small share of exports of Pacific islands States depend on GSP benefits, since almost all enter major markets (Australia, New Zealand and the European Union) under more generous and targeted preferential arrangements.

(b) European Union Economic Partnership Agreement and Cotonou Agreement

The European Union Economic Partnership Agreements (EPAs) are economic partnership agreements between the European Union and the African, Caribbean and Pacific Group of States (ACP). It is a key element of the Cotonou Agreement, the

⁵ Scollay, R., 2006, *Regional Trade Agreements and Developing Countries: the Case of the Independent Pacific Island States*, APEC Study Centre and Economic Department, University of Auckland. Available at www.cerom-outremer.fr/jahia/webdav/site/verem/users and www.cerom-outremer.fr/jahia/webdav/site/cerom/users/admin.

comprehensive partnership agreement between developing countries and the European Union that has been the framework of economic cooperation between the European Union and countries in Africa, the Caribbean and the Pacific (ACP).

Under the EPA schemes, preferential market access will be provided on a reciprocal basis. This means that the European Union provides duty-free market access to ACP exports, while ACP countries will also have to give preferential market access for European Union exports. Under the EPA Agreement, the European Union has granted unilateral duty-free market access to ACP countries since 1 January 2008, while ACP countries are allowed 15 (and up to 25) years to open up to European Union imports while providing protection for the sensitive 20 per cent of imports.⁶ The scope of the EPA schemes goes beyond free-trade agreements to include cooperation and development assistance to ACPs for wide-ranging areas such as services and standards.

The EPAs were supposed to take effect as of 2008, but as of March 2012 the negotiations had not been completed due to concerns among ACP countries over implementing the reciprocal agreements and their impacts. In the meantime, some ACP countries have signed an interim EPA with the European Union. For the Pacific group, Fiji and Papua New Guinea initiated an interim EPA (liberalizing trade in goods only) with the European Union in 2007.⁷ This interim package takes account of differences in levels of development and sensitive sectors of Papua New Guinea and Fiji. It allowed duty and quota-free exports from Papua New Guinea and Fiji to the European Union from 1 January 2008, while Papua New Guinea and Fiji committed to pursuing asymmetric and gradual opening of markets to European Union goods.⁸ It also has safeguard provisions, provisions on technical barriers to trade, sanitary and phytosanitary (SPS) measures to help Pacific exporters meet European Union import standards, cooperation on customs and trade facilitation, and improvement on rules of origin for processed fisheries products from the Pacific.

4. Cooperation forums

(a) Asia Pacific Economic Cooperation

The Asia Pacific Economic Cooperation (APEC) forum was established in 1989 to promote free trade and economic cooperation between 21 Pacific Rim countries. Three countries of the Pacific subregion (Australia, New Zealand and Papua New Guinea) are members of APEC.⁹ APEC members have committed to voluntary non-discriminatory liberalization on an MFN basis in order to achieve the Bogor Goals of "free and open trade and investment" by 2020. To meet the Goals, APEC members have committed to work in

⁶ Least developed countries are able to receive unilateral preferential treatment under the arrangements made in Lomé or the "Everything but Arms" regulation. In addition, non-LDCs have options to continue receiving non-reciprocal preferential treatments from the European Union under the Generalized System of Preferences, or the Special Incentive arrangement for Sustainable Development and Good Governance (GSP+) if developing countries are not ready to enter into EPAs.

⁷ Papua New Guinea signed in July 2009, while Fiji signed on 11 December 2009.

⁸ Under the interim EPA, Papua New Guinea will liberalize 88 per cent of its imports from the European Union, excluding the most sensitive economic sectors (e.g., meat, fish, vegetables, furniture and jewellery), while Fiji will liberalize 14 per cent of its European Union imports, rising to a maximum 87 per cent over 15 years, but excluding products from sensitive economic sectors and important for revenue, (e.g., meat, fish, fruit and vegetables, alcohol, tubes and iron).

⁹ APEC members include Australia, Brunei Darussalam, Canada, China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russian Federation, Singapore, Republic of Korea, Thailand, the United States, Viet Nam, China, Hong Kong and Taiwan Province of China). In total, they account for approximately 40 per cent of the world's population, approximately 54 per cent of the world's gross domestic product and about 44 per cent of world trade.

three main areas: trade and investment liberalization; business facilitation; and economic and technical Cooperation. Each member submits an annual voluntary Individual Action Plan (IAP) on how it will meet the Bogor Goals.

(b) Pacific Islands Forum (PIF)

The Pacific Islands Forum (PIF) is an intergovernmental organization. It was founded in 1971 initially as the South Pacific Forum to promote economic cooperation between countries in the South Pacific region. In 1999, the name was changed to Pacific Islands Forum to reflect the Forum's Oceania-spanning membership of both north and south Pacific island countries and Australia. Currently, there are 16 member States, including Australia, Cook Islands, Fiji (suspended since 2009 due to the military regime), Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.¹⁰

Regional cooperation and integration efforts by Forum members are pursued on the basis of the Pacific Plan, which is revised periodically in order to reflect the decisions of Forum leaders. Regional initiatives for the first three years of the Plan (2006-2008), included: (a) expansion of the market for trade in goods; (b) integration of trade in services, including temporary movement of labour into PICTA and the EPA; (c) effective implementation of the Regional Trade Facilitation Programme; and (d) investigation of the potential impact of expanding PACER into a comprehensive framework for trade (including services) and economic cooperation.

To strengthen regional integration processes, PIF supports: (a) expansion of markets in trade in goods under SPARTECA, PICTA, PACER and with non-FICs; (b) integration of services trade, including temporary movement of labour, into PICTA and the EPA; (c) timely and effective implementation of the Regional Trade Facilitation Programme (RTFP); and (d) investigation of the potential impact of PACER.

¹⁰ Observers New Caledonia and French Polynesia were granted Associate Membership in 2006. Current observers are Tokelau (2005), Wallis and Futuna (2006) and Timor-Leste (2002).

About APTIAD:

YOUR GATEWAY TO INFORMATION ON PREFERENTIAL TRADE AGREEMENTS IN ASIA AND THE PACIFIC

In order to provide a useful tool for observers and stakeholders (government, researchers and policy analysts) to monitor and analyse the development of trade agreements in this new environment, the Trade Policy Section of the ESCAP Trade and Investment Division (TID) earlier launched an online database, known as the **Asia-Pacific Trade and Investment Agreements Database (APTIAD)** and available at www.unescap.org/tid/aptiad. It comprises three platforms: Trade Agreements Database (TAD); Interactive Trade Indicators (ITI); and a Glossary.

The Trade Agreements Database platform provides detailed descriptive and updated information on the provisions of regional trade agreements (RTAs)/bilateral trade agreements involving one or more members from the Asia-Pacific region that have been signed, are in force or under negotiation. By June 2012, there were 220 such agreements, including (a) those agreements that have not been notified to WTO but for which official information is readily available, and (b) those agreements under negotiation for which there has been at least a first formal negotiation round.

The online database allows searches in two ways. One relates to the **agreements** themselves where users can search by title, members, key terms, types and scopes of agreements, and their status. Another one is the possibility to search for **publications** relevant to regional integration and trade agreements. For easier use of the database, users can download a **Glossary** of related terms. There are also links to national **trade statistics** of each country. The database is continuously updated and expanded to include statistics on trade flows between countries that are members of individual agreements. Furthermore, indicators to monitor the performance of trade agreements are developed and calculated for individual economies and trade agreements in the region. The indicators include export propensity, trade dependence, trade shares, export-import coverage, normalized trade balance and trade shares.

Furthermore an **Interactive Trade Indicators** platform allows for the calculation of a number of other indicators, including export growth rates, trade complementarity, revealed comparative advantage, or intra-industry trade. These indicators allow for quick and easy monitoring of developments in trade patterns and trade flows at single economy and trade agreements levels.



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