

Presentation: CSO Forum

Ladies and Gentlemen,

Bula Vinaka, Namaste and Malo e leilei

I am very pleased to be here in Nuku'alofa to speak on the topic of Trade in the Pacific.

I would like to thank the organizers for their hard work in bringing us together, and for prioritising this very important topic in this forum.

I would like to acknowledge that for today's presentation I have drawn on the work of Professor Jane Kelsey – who has completed a number of reports on Free Trade in the Pacific on PANG's behalf – and also the work of Barry Coates, a fair trade campaigner, and friend of the Pacific, from Oxfam New Zealand.

Introduction

Back in 1999, when the Pacific governments first made moves towards the establishment of a free trade area for the Pacific, NGOs and church groups started to ask questions about what that would mean for the peoples of the Pacific. So right from the beginning, we have wanted to know 'what does free trade mean for us'?

In 2001 regional civil society groups met to discuss the topics "Globalisation, Trade, Investment and Debt". One of the key contentions that emerged from that meeting was that more public information on trade issues, and more open debate on free trade issues in particular, would be essential if Pacific peoples were to be actively involved in shaping their economic future. There was a very real concern that Pacific peoples would be left without knowledge and awareness of the emerging trade liberalisation agenda, and left without a voice in forums that have important social implications for all of us.

Understanding trade to be a cross cutting issue for many civil society organisations, groups like the Pacific Concerns Research Centre (PCRC) and the Pacific Islands Association of NGOs (PIANGO), as well as church based groups like the Ecumenical Centre for Research, Education and Advocacy (ECREA) moved to establish the Pacific Network on Globalisation (PANG). PANG was to play the role of Pacific people's watchdog on globalisation issues – to make sure we were not 'caught napping' on things like trade that cut into the core of our civil society work.

I am proud to present to today's forum of Pacific CSO's as the current coordinator of PANG. Today I want to present to the group around three of the major questions currently confronting us. Those questions are:

- 1.) What does free trade mean for the Pacific?**
- 2.) Is the Economic Partnership Agreement (EPA) with the EU about development or free trade?**
- 3.) Do we know what are we getting into? The EPA, PACER and wider consequences for the Pacific.**

I would like to acknowledge the analysis and work of Jane Kelsey of the University of Auckland and Barry Coates of Oxfam NZ, much of whose work is drawn on for this presentation.

So to address the first question:

1.) What does free trade mean for the Pacific?

Traditionally free trade is applied to food and goods. It requires all countries (including Pacific Island countries) to open their doors to every other country's products and remove any protections for their own. Binding and enforceable free trade agreements are designed to lock governments into that approach and can impose penalties on their exports if they break the rules.

What changes do free trade rules require?

There are two basic rules:

- 1.) Products from all countries must be treated the same. So preferential trade deals that give island products better treatment than products from other countries are no longer acceptable.
- 2.) The Islands can't discriminate against foreign produced goods and must treat them like they would similar local products. So the Islands have to stop protecting their local producers.

What kind of protections would have to go?

There is a standard list of unacceptable 'trade barriers' that the Pacific countries have to reduce or abandon, including: tariffs, import quotas, import licenses, any temporary bans on imports, subsidies, or bans on imports which are not backed by clear-cut scientific evidence. Many of these 'barriers' actually have important uses – for example tariffs have been used to protect local producers who cannot compete with cheaper imports, or temporary import bans can allow 'infant industries' to grow. It is widely acknowledged that the developed countries like the UK, Australia, the US and Japan all used protectionist policies to 'grow' their industries and protect them from foreign competition.

What does this really mean for the Islands?

"Free trade" theory pretends that the global marketplace is a level playing field where the Islands will get access to new markets for their exports in return for opening their own borders. In reality, 'free trade' agreements are a new form of economic colonisation. Signing up to stringent free trade rules will allow richer countries and their corporations to dominate economic life in the Islands. It will force many local producers to close, people in paid work will lose jobs and the Islands will become even more dependent on imports, including essentials such as food. There will be very few - if any - benefits for their exports in return. Once locked into binding free trade agreements with larger economies, it will be very

difficult – if not impossible for future Governments to opt out of those agreements if they want to change things... Like protect a growing local industry for example.

What is free trade supposed to do?

One would wonder why people are advocating free trade at all. Well, people who want free trade and advocate who advocate for neo-liberal policy, put forward a number of arguments as to why free trade would be good for the Pacific:

1. Competition from imports will force local firms to become more efficient.

But we already know that few local producers will be able to compete with cheaper food and goods from countries that have bigger scale and higher-tech producers. Instead of becoming more efficient, many local business, farmers, and workers are likely to lose their livelihoods.

2. Pacific countries should find their niche market, and only produce what they produce more efficiently than any other country. (known as their 'comparative advantage')

But there are very few high-value foods and goods that Pacific Islands can produce more efficiently than other countries. Our economies are often too small-scale and remote, with high transport costs and lack the necessary skilled workers, technology and capital. Realistically, few foreign investors will bring those inputs to the Islands. Unrestricted global competition means most Islands will be left selling unprocessed natural resources like fish, timber or minerals to other countries that make the big profits out of 'adding value'.

3. Pacific Islands should import food and goods that are produced more efficiently and cheaper than locals can produce them.

But if local producers are driven out of business and an Island becomes dependent on imports, especially of food, it has no guarantee of food security.

This is especially serious if it can't earn the foreign currency from exports that it needs to pay for those imports.

4. The benefits of cheaper foreign food and goods, from tariff cuts, outweighs the cost of business closures and job losses.

But in practice foreign producers and 'middle men' tend to increase their prices when tariffs are removed, so they take the benefit rather than passing it to consumers. Even if imports do become cheaper, they may be undesirable replacements for healthier local products.

5. Tariff cuts force governments to raise revenue in ways that don't disrupt trade.

But this usually involves a value added tax (VAT) and/or 'user charges' on public services that hit poorer people harder than import taxes - which tend to be highest on luxury items. New taxes also increase poor people's need for cash in Islands where most people live from the land and the sea, supported by remittances from overseas. More dependence on cash incomes will increase the drift to the towns, and associated problems of unemployment and squatting.

So: what do we end up with after this 'neo-liberalisation' of our economy?

- More foreign competition for local producers
- The risk of becoming a 'banana republic' – selling mostly raw commodities, with little value-added production
- Risking our food security, through dependence on imported food
- There is potentially little benefit for consumers anyway, as in the medium to long term importers are unlikely to pass on the benefits of tariff reductions to consumers but keep the difference themselves
- And finally, because most Pacific Island governments earn the majority of their revenue from tariffs and import duties there would be a substantive loss of government revenue with implications of:
 - Introduction of value-added taxes which hit the poor harder

- Loss of policy space in both economic and social policy.

Another point to consider, when thinking about free trade, is that it is not just about goods, but about services and investment agreements as well:

Services can also be ‘imported’ and regulated for in trade agreements. Services from foreign firms (ranging from banks, telecoms, and electricity to education, health and water supply) rather than the Pacific Islands providing their own services. This assumes that all those services can be run by private (foreign) firms based on a commercial user charge. Free trade rules on services mean removing restrictions on foreign firms that want to provide those services and treating them as well as local providers, including state-owned firms.

It is important to acknowledge that the free trade agenda is ideologically driven. There are few proven benefits for countries that face the unique circumstances that the Pacific Island Countries do, and even free trade advocates acknowledge there will be real costs – in terms of adjusting to the global marketplace. We in the Pacific must understand those costs, and as civil society organisations we must make our voice heard in the trade negotiation process - so that we can do our job of standing up for Pacific peoples, and fighting for truly a Pacific-led, and owned, vision of sustainable development.

The Pacific faces an ever increasing number of interlocking commitments to enter new trade agreements at a local, regional and global level. Former trading arrangements have been replaced with a sea of acronyms. Agreements like the Cotonou Agreement, Pacific Island Country Trade Agreement (PICTA), Economic Partnership Agreement with the EU (EPA), Pacific Agreement on Closer Economic Relations (PACER), and commitments to the World Trade Organisation (WTO). All of these agreements and commitments push the Pacific towards liberalised trading relations with negative social consequences.

2.) Is the EPA with the EU about development or free trade?

Pacific Island Countries are currently involved in negotiations for what is essentially a bilateral free-trade agreement between the PICs and the European Union (EU).

These negotiations form a part of wider negotiations for new trading arrangements between the EU and its ex-colony states in Africa, the Caribbean and the Pacific (ACP countries). ACP countries currently have preferential trading arrangements with the EU, in recognition of the special historical relationship between these two blocs. However, negotiations have been underway to replace these trading arrangements with a model that is compatible with the trade rules of the World Trade Organisation. The EU is offering new 'trade and development' agreements, called Economic Partnership Agreements (EPAs), to six ACP regions (the Caribbean, West Africa, East and Southern Africa, Central Africa and the Pacific). The EU has made much of the EPAs as 'tools for development' that will 'help ACP economies adapt to competing in a global market'.

ACP leaders, including Pacific leaders, understand the historical debt owed by European nations for hundreds of years of colonial exploitation – exploitation that helped to grow Europe's own economy. With this in mind, Pacific leaders entered the EPA process in good faith, believing the EPA was about a real economic 'partnership' and providing new avenues for sustainable development. Taking the EU rhetoric on its merits, Pacific governments and trade officials worked extremely hard to develop a comprehensive, balanced and 'pro-development' EPA legal text. This draft text was presented to the EU in mid-2006.

The EU didn't respond with their own draft legal text until August this year, and according to the Pacific Islands Forum Secretariat, their draft was "lacking in a

number of critical details". The Secretariat has explained that the EU's offer set out the European's demands while "reflecting almost none of the key written proposals" of the Pacific countries nor the "positions put forward and key interests expressed" by Pacific Ministers. The EU's draft text was clearly a slightly amended version of an EPA proposal put to one of the African ACP regions as part of their EPA negotiations, which only betrays a lack of genuine regard for the pro-development proposals of the Pacific Island Countries.

Pacific leaders are increasingly frustrated with the EU's lack of genuine consideration of the Pacific's own pro-development proposals. The Pacific's lead trade negotiator, Kaliopate Tavola explained late last year:

"At the beginning of negotiations, we expected a lot of the idea of EPAs becoming a tool for development. But as things stand now, the agreement is threatening to overwhelm our fragile economies..." (Tavola, 2006)

Roman Grynberg, from the Forum Secretariat, will be speaking later in this session, so I will leave a lot of the detailed analysis to him - about what the Pacific put forward for the EPA, and what the EU has rejected. He has just returned from Brussels last week, so can give us some up to date information in that regard.

But let us return to the initial question: **Is the EPA with the EU about development or free trade?** We have seen a lot of high minded rhetoric from the EU. The EU's Commissioner for Trade, Peter Mandelson, says the EPAs are not conceived in the 'traditional' negotiating sense, where either side tries to get as many benefits as they can, using their relative political clout. He says:

“The EU is not pursuing an equal bargain in relation to our EPA partners. The purpose of EPAs is to promote regional integration and economic development.” (Mandelson, 2005)

But, Professor Wadan Narsey, Director of Employment and Labour Market Studies at the University of the South Pacific, says it is important to be wary of the gap between the rhetoric and the reality of the EU (and Australia and NZ). He says:

“Pacific Island Countries should note that whatever may be the kind rhetoric of aid donors, trade negotiations are not likely to be conducted in the warm spirit of human kindness for Pacific Island peoples.” (Narsey, 2004)

I welcome Dr Narsey’s suspicions, and it is a critical perspective that we share at PANG. Indeed, we believe a close analysis of the EU’s priorities in the EPA negotiations indicate the EU is pursuing what is essentially a free trade agreement. The EU is certainly pursuing an agreement that prioritises access for foreign companies over opportunities for Pacific people.

There are a number of ways this is made evident. In June of 2006, Pacific trade negotiators made proposals for development safeguards to ensure public services are not subject to pressures for privatisation. This would allow Pacific governments to introduce measures to guarantee access to essential services for all Pacific people, and withdraw commitments when these hinder development. The EU has rejected the Pacific proposals, opting instead for proposals on services that go beyond even what the World Trade Organisation requires in opening up the Pacific to foreign competitors in the services sector. The EU is effectively calling on the Pacific to make enforceable commitments to open up services sectors to foreign companies, without any of the sensible safeguards the Pacific has asked for.

A second example of the EU's refusal to accept the Pacific's proposals for an agreement on investment that includes responsibilities for foreign investors towards Pacific communities and the society where they invest. The EU instead wants to see an agreement on investment that extends the legal protection of foreign direct investment in a 'free market' environs. In their 'purest' form agreements on investment are effectively a bill of rights for transnational corporations – sovereign states would have to guarantee unrestricted rights of entry for foreign investment, provide treatment that is equal to that of local investors, guarantee the right to take profits out of the country without requirements to reinvest, and protect against expropriation, not only by nationalisation, but also when host government's regulations reduce the profitability or value of the investment.

The EU's refusal to accept the Pacific's sensible proposals for foreign investors has the effect of giving priority to the rights of foreign investors over rights to development.

Clearly the focus of the EU's ideal EPA is one that follows the neoliberal ideological contention that unrestricted trade will lead to positive development effects. This is far from proven, and we should all be concerned that the negative outcomes of *reciprocal* liberalization will offset any positive incomes from the EPA.

Having said all of this about the EPA, we should remember that the Pacific actually has relatively modest trade with the EU – compared with trade with Australia and NZ. The reasons we are so concerned about negotiations for a new EPA are actually concerns about the wider implications of signing an agreement which could have binding implications with the Pacific's other trade partners.

Which brings me to the final question for today's presentation:

3.) Do we know what are we getting into? The EPA, PACER and wider consequences for the Pacific.

Under intense pressure from Australia and NZ, Pacific Island Countries signed an agreement in 2001 that paves the way for a free trade agreement with Australia and NZ. That agreement is called the Pacific Agreement on Closer Economic Relations (PACER). Article 6 of that agreement states that if any Pacific Island Country "commences formal negotiations for free trade arrangements" with another developed country, then they must commence similar FTA negotiations with Australia and NZ.

This is something that we all need to be extremely wary of in the Pacific's current negotiations with the EU, because it is clear that Australia and NZ are watching the negotiations between the Pacific and the EU very closely – not wanting to miss out on any trade benefits in what they see as 'their backyard'. In June of this year, Australian Trade Minister Warren Truss indicated that Australia would fight to gain equal access to Pacific markets if any tariff reductions are granted to the EU. He said:

"It's obviously in Australia and New Zealand's interest that any new deal that the South Pacific countries may do with the EU doesn't disadvantage Australian exporters into those same countries"

(Truss, 2007)

Meanwhile New Zealand's minister of Trade Phil Goff has also said a free trade agreement between Australia, NZ and the Pacific is necessary to ensure NZ "is not disadvantaged by preferential access to Pacific markets being given to European countries".

We know Australia and NZ are far and away the Pacific's biggest trading partners, and sweeping trade liberalisation with our nearest Big Brothers could have devastating consequences.

Trade liberalisation is sold to the Pacific as a chance to lower costs for consumers, through cheaper imports, but the reality is that drastic tariff reductions could see a flood of cheaper Australian and New Zealand products into the Pacific market, and further loss of domestic supply to industry. The danger is clearly that this would undermine Pacific producers, and lead to business closures. Indeed, just this week, Professor Wadan Narsey, from the University of the South Pacific, explained in the Fiji Times that:

“Pacific Countries continue to view PACER with great suspicion, because they know that three quarters of Pacific manufacturers will collapse (and thousands will lose their jobs), because they cannot compete with Australian and NZ goods under free trade.”

(Warden, 2007)

Another concern with trade liberalisation with Australia and NZ is that Pacific governments will lose large amounts of revenue from tariff cuts, restricting their spending on essential services such as health and education. In Tonga for example, \$6 million dollars is collected each year from tariffs on NZ imports alone. Reciprocal trade liberalisation tomorrow would see \$6 million less spent on the needs of Tongan people.

It is important for us to remember that in practice – and in the medium to long term – businesses are unlikely to pass on the benefits of tariff free access to consumers. It's more likely that they will raise prices to former levels, pocketing the difference themselves. As I have said earlier, even if imports do become cheaper, they may be undesirable replacements for healthier local products. We

might find ourselves selling out our future economic self determination for cheaper chocolate bars and weetbix.

To meet the shortfall in revenue, Pacific governments may be forced to introduce across-the-board value added taxes, which hit poorer people harder than import tariffs which can be targeted on luxury imports.

It's important to ask ourselves, what does all this mean for our lived realities in the Pacific? – Mostly it's about maintaining policy space. By policy space I mean there are policies that Pacific governments might want to make, that do not make strict 'neo-liberal' sense. For example:

- Governments may want to protect and promote indigenous industries for cultural and social reasons rather than giving way to economic rationality, and the limited “benefits” of cheaper imports from large corporations overseas.
- For example in Fiji, rice, flour, dairy, cheese, milk, and cooking oil industries are all minimal value-added industries, which amount to jobs for around 5000 workers, and are protected by high tariffs. If in a similar way, government were to set up a similar initiative to create jobs, even at the village level, it might find that due to commitments under trade agreements, that the same kind of tariff protection could not be given, to create and protect jobs.
- For many Pacific Islanders, maintaining traditional lifestyles and cultural identities is an important social priority. It may make social and cultural sense for Government to support and protect an indigenous industry, even if it provides slightly more expensive goods. This is especially the case if that industry provides rural employment, or helps prevent rural-urban drift, or is an easy industry for poorer people to enter into. The key point is that once signed up to free trade agreements this kind of decision making may no longer be possible. This is what we mean by selling out our economic sovereignty in binding free trade agreements.

Australia and NZ are likely to also push for the inclusion of services, and investment chapters in any free trade agreement with the Pacific. We should be concerned that this would strip Pacific government's ability to effectively regulate for the provision of essential services across society, and strip government's ability to effectively demand foreign investments meet the unique development needs of a Pacific host country.

The World Bank believes that widening of preferential trade arrangements is inevitable for the Pacific, and that the Pacific will one day have free trade arrangements with the EU, the US, Australia and NZ. The Bank believes only the "timing, extent and benefits" of trade liberalisation are to be decided. They are adamant there is no alternative to signing away the Pacific's economic sovereignty, and indeed they acknowledge that the whole purpose of free trade agreements is to make sure Governments can't back out in the future.

So, to return to the question – do we know what we are getting into? – we need to be very careful. Very careful that the Pacific doesn't lock itself into a path of de-industrialisation and chaos, a path where the rights of transnational corporations and foreign investors outstrip our right to create our own development goals.

Already we are seeing other ACP regions frustrated with the EPA negotiations, and West Africa and the Caribbean unlikely to sign an agreement by the end of the year.

Conclusion:

Two weeks ago, PANG held a public action in Suva to raise awareness about the EPA negotiations with the European Union. We invited representatives from the EU to come and meet with members of civil society to discuss concerns about the implications of undue trade liberalisation for the Pacific.

Bravely enough, the trade Counsellor for the EU Delegation in the Pacific came along and sat down to a few bowls of kava with us to talk about our concerns. (The kava was significant because we were protesting against the European bans on kava-products, which have cost the Pacific more than \$1billion in lost exports, but that's another story...)

So after we read out our concerns about the EPA negotiations and chatted with the media for a time about kava, the EU Counsellor, Ms Ritva Sallmen, said: well, the thing with the EPAs and with trade liberalisation is that "you can't stop the world". She was implying that trade liberalisation is the only sensible option for responsible governments. Not to pick on Ms Sallmen, but this is a very common analysis, that neoliberal trade liberalisation is somehow inevitable. This seems to me a particularly poor way to think about determining our development path in the Pacific. Neoliberals argue that trade liberalisation has benefits for all, and will help reduce poverty, but, in case that argument doesn't work, we are told to understand that trade liberalisation is inevitable anyway.

I don't accept this, and neither should you.

My parents generation, and many of you present here today, fought for our political self-determination. For a nuclear-free and independent Pacific. Now we must fight for our economic self-determination. For the right to set our own development priorities.

Selling out our economic sovereignty through binding free trade agreements is not 'inevitable'. Pacific people have the power to reshape their future, and this requires political will. Pacific civil society must say loud and clear: Make Trade Fair.

We want to understand and be involved in trade negotiations that affect our future.

We want to keep the ability to protect Pacific industries and livelihoods.

We want maintain the policy space to regulate in the interests of people and not just profits.

We don't want to stop trade, we want fair trade.

Thank you.