



Level 3, Suite 3B, 110 Kippax St
Surry Hills, NSW, 2010
Phone: 02 9212 7242
Fax: 02 9211 1407
Email: campaign@aftinet.org.au
ACN 097 603 131
ABN 83 659 681 462
www.aftinet.org.au

Trade Winds to Blow Pacific Away

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By Adam Wolfenden

When he meets with Pacific nations today, Simon Crean can choose to help them develop — or he can keep pushing Australia's free trade agreement onto them, writes Adam Wolfenden

Australian trade is on a mission. Come August when it hosts the Pacific Islands Forum in Cairns, the Rudd Government is looking to announce another feather in its free trade cap: the Pacific.

Today in Apia, Samoa, Trade Minister Simon Crean is meeting with his counterparts from the Pacific and New Zealand to discuss the Pacific Agreement on Closer Economic Relations or PACER Plus. PACER is a framework for a free trade agreement — the Plus signals a development add-on.

With the August forum approaching, the window for Australia to win agreement from the Pacific on starting negotiations is narrowing. Australia is the biggest aid donor to Pacific Island states and the Pacific ministers are acutely aware of upsetting them.

What's the hurry here? The Pacific, while certainly cautious about entering into negotiations with Australia and New Zealand, hasn't explicitly refused them either. Rather, as they've outlined in their contributions to an unreleased PACER-Plus "Roadmap" they're asking for more time — and for the capacity to actually evaluate the potential impacts of the negotiations.

They want time to consult with their populations, to run studies to see what the impacts would be, to explore whether or not the broader benefits of new trade agreements will outweigh the broader costs. All this sounds sensible enough, doesn't it? But the Australian Government doesn't agree, apparently.

Although the Rudd Government's election platform included a promise to evaluate the social, environmental, regional, cultural and regulatory impacts of any trade agreement in the Pacific before proceeding with negotiations, it's full steam ahead with PACER Plus. Not only is the Government breaking its own election promise, it's also pushing forward with a rushed agenda that will mean other countries have to follow a similar unevaluated process.

For the past few months Crean has been flaunting the AusAid-funded study that found that PACER Plus would increase trade flows by 30 per cent. It seems very attractive — how could anyone at the bargaining table refuse a 30 per cent increase in trade flows? What the study doesn't show is which way the trade will flow — and

that's the pickle. Pacific Island nations already have duty-free access to Australian markets. If PACER-Plus is about removing "barriers" to trade, it's about reducing Pacific import taxes.

For the Pacific, these import taxes are a key source of revenue. A study by the Pacific Islands Forum Secretariat revealed that Pacific governments stand to lose up to \$10 million each in government revenue if PACER Plus is adopted — which equates to 17 per cent of government income for Vanuatu and Tonga. Whilst Simon Crean suggested recently on a tour through the Pacific that this can be replaced by other taxes, such as a GST, the International Monetary Fund has recognised in its report Tax Revenue and (or?) Trade Liberalization that such taxes only ever recover about 30 per cent of the revenue previously gained through import taxes.

Pacific governments are still waiting to find out what this means for the provision of essential services. In a statement to the press, Vanuatu Internal Affairs Minister Patrick Crowby asked "How will the government fund its essential public services if we lose out on vital revenue? Depend on aid donor money? I don't think so. These are issues that Pacific Island countries need to seriously think about."

It doesn't end there. Reduced taxes will mean that imports from large-scale producers like Australia and New Zealand are cheaper, which will in turn undermine local manufacturing. Professor Waden Narsey from the University of the South Pacific has predicted that under PACER Plus, 75 per cent of Pacific manufacturing will be forced to close down, costing thousands of jobs. With the preliminary research already suggesting such major impacts, it's easy to see why Pacific nations are concerned — especially with unemployment on the rise throughout the fragile global economy.

Pacific Island nations don't only lack detailed research on the potential impacts of PACER Plus, they are facing a shortage of negotiators in the lead-up to the Forum in August. There are certainly very capable officials in the Pacific but their capacity is stretched to the limit. Pacific Island nations are currently negotiating trade agreements with the European Union; they are also in the middle of planning the expansion of an Islands-only trade agreement to include services as well as goods.

In response to this, the Pacific has set out in the draft PACER-Plus Roadmap that prior to the launch of any negotiations with Australia and New Zealand, an Office of Chief Trade Advisor be established to help Pacific countries identify shared objectives and act as the point of contact for negotiations. This would alleviate some of the capacity constraints that already disadvantage the Pacific. But of the \$11 million in funding that Pacific nations requested to set up the office, Australia and New Zealand have offered only \$3 million and objected to the Pacific raising funds from elsewhere — effectively killing any chance that the office could do its job properly. The Pacific cannot make responsible decisions without having the time and capacity to assess the impacts first.

With so many unknowns, why would the Pacific agree to start negotiations this year? Already we're seeing the debate politicised. Tonga and Papua New Guinea have both come out recently saying the Pacific should enter into negotiations. While those two countries may actually believe that is the best thing to do, I'm sure they can also see benefits in very publicly coming out in favour of what the regions biggest aid

donor thinks just before the meeting. Pacific countries are understandably wary of biting a hand that feeds.

There is a serious question hanging over the intentions of Australia and New Zealand. If the actions of the two biggest nations in the area are in the interests of Pacific development (as they continually insist they are), why does PACER Plus look so much like a free trade agreement? The global economic crisis — as well as the food and climate crises — have shown the failure of the free market. The Pacific so far has been slow to embrace neoliberal ideology. Given the scale of the recent global financial disasters, it would seem like the time to start exploring other options.

If Australia and New Zealand are serious about supporting development in the Pacific, they will stop insisting that undercutting Pacific production with cheaper imports from the bigger neighbours will help the region. The Pacific already enjoys duty free exports to Australia and New Zealand. What's needed is not reciprocity but a genuine process of consultation and discussion around what kind of future the Pacific wants.

Australia and New Zealand need to start looking at how they support that on the terms that the Pacific Island nations help to set.