



Pacific Institute
of Public Policy

Moving beyond SPARTECA: Opportunities and challenges for the Cook Islands

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A study by the Pacific Institute of Public Policy for the Government of Cook Islands

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The Pacific Institute of Public Policy (PIPP) is an independent, non-partisan and not-for-profit think tank and exists to stimulate and support policy debate in Pacific Island countries.

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Acronyms

ANZ	Australia and New Zealand
ANZCERTA	Australia and New Zealand Closer Economic Relations
CTA	Chief Trade Advisor
CTC	Change in Tariff Classification
DTIS	Diagnostic Trade Integration Study
FACT	Facilitating Agricultural Commodity Trade
FIAS	Foreign Investment Advisory Service
FICs	Forum Island Countries
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
HS	Harmonised System
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC	Least Developed Countries
MFN	Most Favoured Nation
MIGA	Multilateral Investment Guarantee Agency
NGOs	Non Government Organisations
NTB	Non Tariff Barriers
PACER	Pacific Agreement on Closer Economic Relations
PICs	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PIFS	Pacific Islands Forum Secretariat
PITIC	Pacific Islands Trade and Investment Commission
RoO	Rules of Origin
RTA	Regional Trade Agreement
RTFP	Regional Trade Facilitation Program
SIS	Small Island States
SPC	Secretariat of the Pacific Community
SPS	Sanitary and Phytosanitary Measures
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
TBT	Technical Barriers to Trade
UK	United Kingdom
US	United States of America
VA	Value Added
WTO	World Trade Organisation

Executive Summary

Regional integration in the Pacific has progressed quickly in the last decade. The Cook Islands, as member of the Pacific Islands Forum, is advancing toward more cohesive regional economic relations, in areas including trade, security, politics and social development. For a small country with significant human and capacity resource constraints, economic integration and regional cooperation can help widen global linkages. However, the limited human resource in some government departments such as the department of Customs and department of Immigration as an example has often contributed to piecemeal delays for some projects including regional initiatives that have a direct bearing in the overall regional integration with the Cook Islands.

This is a common dilemma that exists in almost all Forum Island Countries (FICs) where there are growing international obligations and errands to attend to amidst a thinly stretched size of resources coupled with other national developmental priorities. It is on this premise that there appears a need for more national prioritisation and efficient use of existing resources to bring about the desired level of results for a small country like Cook Islands which constantly faces a trend of depopulation with a sizeable portion being either low-skilled or skilled and highly qualified Cook Islanders migrating mainly to New Zealand.

The most recent move toward greater regional cooperation was the triggering in July 2007 of Article 6 of the Pacific Agreement on Closer Economic Relations (PACER), subsequently giving rise to what is now known as 'PACER Plus'. PACER Plus allows Australia and New Zealand to seek discussions toward a new economic partnership agreement with the Pacific Island Countries (PICs). It is likely to replace the existing agreement under which the PICs gain duty and quota-free access to Australia and New Zealand, under the South Pacific Area Regional Trade and Economic Cooperation Agreement (SPARTECA).

A number of recent studies provide insights into the Cook Islands' tariff policy, investment, trade in services, migration and Rules of Origin (RoO). Even if these studies do not primarily analyse PACER Plus, important lessons for the Cook Islands remain. It is particularly important to examine potential development benefits, given that the agreement may not carry many of the conventional implications of a trade pact. The Cook Islands is in a special position given that it has already liberalised most trade, and that its people already have access to New Zealand (and therefore Australia).

Among the findings of these studies is that there are a number of impediments to incoming investment. Review of the reserved list of investment activities should be a priority. Regional liberalisation of labour would benefit the Cook Islands in the form of greater access to skilled workers and better regional opportunities for Cook Islanders. One major drawback is that considerable amounts of data are unavailable or unreliable due to the country's non-membership of certain international organisations. This makes the job of analysing investment policy and flows difficult. A number of recent studies also focus on depopulation, making recommendations on how to stem the outflow of Cook Islanders including improving health and education facilities, and enhancing educational facilities.

The economy has suffered from the global financial crisis, with GDP growing only an estimated 0.1% in 2009 (ADB 2010). A number of opportunities in this sector are highlighted below. The government has increased capital expenditure in response to the crisis, taking out a number of international loans to finance infrastructure projects. Fiscal prudence will be required in the years ahead.

Goods exports have also declined in recent years, reaching almost negligible levels. This is partly due to increased globalisation, with tariff preference erosion meaning that exporters must compete with much larger and efficient producers in countries such as the Philippines and Indonesia. Exports are now concentrated in a very small number of areas: fisheries, pearls and juice. The majority of these exports go to New Zealand, and opportunities exist in the Australian market, especially given targeted assistance under PACER Plus. It is suggested that in PACER Plus negotiations all export products that face potential quarantine or technical barriers be prioritised for defensive reasons, even if they are in decline or are undergoing a temporary cessation. This said, as in the case of pawpaw and pearls, much of the decline in exports can be explained by supply-side constraints rather than a lack of demand or technical or quarantine difficulties in destination markets.

Investment follows a similar picture to exports, with most investment coming from New Zealand. The data supports a picture of good private sector development growth until about five years ago, when growth slowed considerably. The latest data, for 2008, shows that incoming investment stagnated. Amongst other measures it is suggested that the Business Trade Investment Board (BTIB) Investment Action Plan 2009-2010 should be implemented as soon as possible.

In light of the vulnerable economic outlook, the Cook Islands should seek to direct any prospective PACER Plus arrangements toward helping to broaden the economic base. Over-reliance on tourism is undesirable, although moves to support the industry should be supported, particularly in enhancing linkages with the wider economy. Given the country's good educational standards, relatively high wages, restricted labour supply as well as the difficulty in goods export, it may make sense for the government to prioritise services exports, including traditional knowledge-based and design-related activities, or niche areas with a unique cultural basis.

Benefits of PACER Plus include improved access to export markets in Australia and New Zealand, especially in terms of rules of origin, quarantine, sanitary and phytosanitary (SPS) measures and standards. Additional technical assistance may be secured. Australia in particular may also be willing to promote tourism further. Further benefits may exist from the development of trade policies that seek to address supply-side constraints to meeting internal and external demand for primary products.

Without mitigating measures, the biggest single cost of PACER Plus is likely to be the administrative burden it places on the Cook Islands' small administration. Technical assistance may be needed in order to help the country cope with negotiations, while narrowing down the scope of the agreement will also help reduce the administrative load. The more issues that can be dealt with collectively at the regional level, the smaller will be the burden on the government. Indeed the formation of a series of new regional institutions may have long-run administrative and substantive benefits.

A number of further specific recommendations regarding PACER Plus are made in the report. To summarise:

- In quarantine, significant gains are possible from enhancing the level, predictability and security of market access.
- On Rules of Origin, there would be a benefit in supporting the regional Pacific position so as to simplify procedures and enhance regional trade.
- The Cook Islands should seek a reaffirmation of WTO commitments on Technical Barriers to Trade.
- Both human and capacity constraints will need to be addressed in all line ministries before the advent of formal negotiations.
- There is a need to focus more on working conditions, pay incentives, creating a clear and transparent career path aimed at helping retain skilled professionals such as doctors, lawyers, teachers and accountants.
- There is a need for pragmatic policies to arrest the increasing outflow of the population. The causes of migration need to be addressed, including the quality of education and health services, as well as career and promotion opportunities in the public sector to make staying in the Cook Islands more attractive. Policies aimed at fostering connections with the Diaspora and strengthening economically beneficial links with the Diaspora will help stem the outflow.
- There is need for an analysis of the current labour force and skills in the different occupational categories, with an identification of areas of need in training and capacity building.
- The government should consider improving the timeliness and depth of data on trade and investment held by BTIB to make available and attractive information that is required by potential investors into Cook Islands.
- The current move to a more efficient system such as PC-Trade or ASYCUDA should be supported, in order to speed clearance of imports and enhance the efficiency of the Department of Customs.
- The government should not include government procurement in PACER Plus negotiations as Australia and New Zealand may seek further binding liberalisation in this area. Furthermore, reciprocity from Australia and New Zealand will mean little for the Cook Islands.
- It is not in the interests of the Cook Islands to include more complex intellectual property legislation or new intellectual property institutions in any PACER Plus agreement. The primary objective should be to ensure that intellectual property legislation promotes health and education through access to medicine, resources for education and health and other items.

Modalities for negotiations should be established early on. Negotiations should be approached in two tiers, with tier one bilateral negotiations between the FICs as a single group. Negotiations at tier two should mostly entail issues that are specific to the Cook Islands including negotiations on tariff liberalisation, investment and services.

1. Introduction

PACER Plus can be a valuable tool to advance economic integration between Pacific island countries and New Zealand and Australia, but only if it is considered in terms beyond the narrow confines of existing trade relationships. It is, after all, to be a Pacific Agreement on Closer Economic Relations – which needs to consider a whole range of issues, such as improving living conditions, consumer protection, business development, social inclusion, infrastructure, the environment and migration.

Regional integration in the Pacific has evolved at an unprecedented trend in the last ten years. The Cook Islands as member of the Pacific Islands Forum is part of the regional bloc progressing toward more cohesive economic relations, trade, security, politics and social development. For the Cook Islands, a small country with significant human and capacity resource constraints, economic integration with close neighbours and with other partner economies could assist in the process of wider global integration.

As a central and cohesive effort to address a number of the pressing issues in the region, the Pacific Islands Forum Leaders endorsed the Pacific Plan at their meeting in Port Moresby in October 2005. The Pacific Plan calls for strengthening of regional cooperation and integration to advancing support to the special and unique needs of the Pacific Forum Island countries work to address should it be able to raise living standards, increase access to opportunity and stimulate pro-poor growth for the peoples of the Pacific, which includes the Small Island States (SIS). The four key pillars of the Pacific Plan are economic growth, sustainable development, good governance and security. The Forum Leaders have mandated the Pacific Islands Forum Secretariat (PIFS) to deal with individual member countries. The document forms the basis of ongoing strengthening of regional cooperation and integration efforts for the benefit of the people of the Pacific. While the Pacific Plan offers a regional response to the economic and security challenges that Pacific island countries face, it does not endeavour to promote a ‘one-size-fits-all’ model of regional cooperation, nor work to limit the ability of countries in the region to pursue their own nationally based policies.

In July 2007, Australia and New Zealand claimed that Article 6 of the Pacific Agreement on Closer Economic Relations (PACER) has been ‘triggered’, thereby beginning the discussion on a regional free trade agreement amongst other issues of regional economic integration. Article 6 of PACER allowed ANZ to seek negotiations toward a free-trade agreement with PACER members if any of the parties to PACER launched negotiations toward a free trade agreement with a non-PACER party; in this case the European Union.

The triggering of Article 6 has given rise to what is now known as ‘PACER Plus’. It is the ‘plus’ that needs to be explored and defined through wider stakeholder consultations in the Cook Islands as well as through negotiations with the other Pacific island parties to the PACER agreement and Australia and Zealand before the Cook Islands decides whether to participate in a PACER Plus Agreement.

The outcomes for the Cook Islands so far seems to rest on how well it is able to articulate its interests, understand the interests of the other parties, and prepare strategies and tactics to achieve those interests.

Trade relations between the Cook Islands, Australia and New Zealand have been largely governed by the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which came into effect in 1981. The Agreement allows the Cook Islands to export to Australia and New Zealand duty free subject to meeting the rules of origin requirement, which stipulates that the product must contain 50% of local value addition. The preferences extended by Australia and New Zealand under SPARTECA are non-reciprocal. In other words, the Cook Islands do not need to offer the same preferences to Australia and New Zealand. Studies and reviews of the SPARTECA have variously criticised the stringent Rules of Origin (RoO), as they have generally restricted the scope of exports and value addition. SPARTECA has also been criticised for failing to address the more restrictive non-tariff and technical barriers to trade, such as quarantine, sanitary and phytosanitary measures and standards. While duty free market access was welcomed under SPARTECA, experience suggests that the non-tariff barriers presented much bigger hurdles for the Cook Islands' exports to Australia and New Zealand.

In 2002 the Cook Islands along with the other Pacific Forum Island Countries (FICs), Australia and New Zealand became party to PACER, effectively agreeing to negotiate towards the broad objective of greater regional integration.¹ Article 5 of PACER provides the foundation for a prospective free trade agreement or trade liberalisation in the Pacific region, which would go beyond the coverage of SPARTECA. In this regard it bridged the existing framework (i.e. SPARTECA) and an envisioned expanded trading arrangement (i.e. PACER Plus). Article 6 of PACER conditions the commencement of negotiations for such an expanded trading arrangement and is premised on any of the parties to PACER negotiating a free trade agreement with a non-PACER party.

In July 2007, during the Forum Trade Ministers and Officials meeting in Port Vila, both Australia and New Zealand formally notified that within view such a condition had been met² and marked the beginning of discussions on a new trading arrangement that would eventually replace SPARTECA. The FICs posited the need for preparation (identification of opportunities and challenges) before they could meaningfully engage in such a discussion. Giving time and space for the FICs to formulate national strategies is ensconced in the guiding principles of the original PACER framework, as is the notion that any trade arrangements are intended to provide 'stepping stones' to allow the gradual integration of the FICs into a single regional market and the international economy.

Much of the debate on PACER Plus to date has centred on tariff revenue losses and the massive trade imbalance in goods between the PICs and Australia and New Zealand. However, these issues alone do not represent the whole picture of regional trade and economic relationships. A number of island countries including the Cook Islands are well poised to capitalise on being significant exporters of services to Australia and New Zealand, mainly through tourism. Shifting the focus to develop a greater appreciation of how to position the economy in light

¹ For further discussion see: FORUM (2001) and PiPP (2009)

² Australia and New Zealand argued that the completion of the Pacific Island Countries Trade Agreement (PICTA) and the initiation of the Economic Partnership Agreement (EPA) with the European Union were the basis for triggering Article 6.

of shifting global political and economic landscapes may help the Cook Islands identify the most suitable strategies for future revenue generation and employment creation of particular concern for trade officials in the Cook Islands, as elsewhere in the region, has been the lack of trade baseline or other such studies that look at the situation from a micro economic viewpoint and then build up, in order to inform necessary fiscal and administrative adjustments. Capacity building and research support will need to be augmented with political buy-in and consultation with all aspects of civil society if there are to be tangible national benefits from regional economic integration initiatives arising from PACER Plus negotiations.

The eventual costs and benefits of PACER Plus will very much depend not only on content but on how PACER Plus is structured and subsequently managed. It will remain vital throughout negotiations for the Government to establish consultation forums with wide representation from private sector and civil society to inform the eventual outcome of PACER Plus, as well as its management and structuring.

The Government of the Cook Islands, through the Ministry of Foreign Affairs and Immigration, commissioned this study to the Pacific Institute of Public Policy to assess the development needs and constraints in relation to an engagement in a prospective PACER Plus Agreement. The report examines the Cook Islands' trade relations (exports, imports, investment, services, etc) with Australia and New Zealand, as well as opportunities and areas requiring attention to benefit from PACER Plus. It presents a study of the Cook Islands opportunities and challenges in engaging in a prospective discussion on PACER Plus covering both trade and beyond trade issues.

The study is in response to a request by the Cook Islands government for the recruitment of an agency to analyse the impact of PACER Plus. The report was compiled by the Pacific Institute of Public Policy. Two consultation missions were conducted during early 2010. The team involved in the actual consultations and write up of the report composed of international specialists in the areas of investment, trade, migration and stakeholder consultations. In accordance with the Terms of Reference an early draft was made available to the Government in March 2010. At the request of the Government this report is submitted in confidence.

2. Literature review

A number of recent studies provide insights into the Cook Islands' tariff policy, investment, trade in services, movement of natural persons and RoO. Even if these studies do not primarily analyse PACER Plus, important lessons for the Cook Islands remain. The relationship of PACER Plus with other trade agreements, related development and trade initiatives need to be considered. In the case of the Cook Islands it is particularly important to examine potential development benefits, given that the agreement may not carry many of the conventional implications of a trade pact.

Watergall (2007) looks at the regional trade agreements with which the Pacific island nations are involved – PACER, PICTA and the Economic Partnership Agreements with the EU – and assesses the potential government revenue losses. It calculates that in the Cook Islands the fiscal adjustment required for all the trade agreements would be in the range of a one-off cost of 4-9% of total recurrent revenue or about NZ\$3-7 million. PACER Plus is expected to account for a very small revenue loss as most tariffs have already been liberalised. The Cook Islands government has a programme of adjustments in place to cover the adjustment costs of PICTA and PACER. The study includes two main recommendations: strengthening customs computerisation and linking various tax databases; and undertaking a series of public expenditure reviews to try and improve the efficiency of public spending.

PDP (2007) undertakes a stock take of limitations and restrictions applying to trade in services in the Pacific region. The study finds that in the Cook Islands horizontal restrictions on land and labour are tight. “Annual work permits are renewable for just three years, and there is a five-year limit on lease-holdings without approval, stifling the inflow of both skills and investment capital.” (PDP 2007: 27) The Investment Code contains a lengthy Reserved List. Services sectors such as tourism and information technology are affected by the scope of this list, with investment in these areas either barred or approvals subject to extensive criteria. The reservation on “visitor accommodation” is a hurdle to development of the tourism industry. Telecommunications and postal services are the remit of exclusive public monopolies and the banking legislation breaches the principle of national treatment by distinguishing clearly between foreign and locally-based operations. The Shipping Act places a clear limit on who may register a vessel in the Cook Islands. While these various restrictions are not excessive, they are likely to have some negative effect on the business environment.

PDP (2007) outlines a number of options for reform. Review of the reserved list of investment activities should be a priority. Many items on the list are key investment targets and while de facto exceptions are normal, the list nevertheless acts as an impediment to the promotion of foreign direct investment, especially smaller-scale investments. Liberalisation of the banking and maritime sectors, removing shades of national treatment violations, and elimination of the legislated monopoly in telecommunications service provision are options for increasing the flow of investment and trade in services in the Cook Islands.

Eco-Consult Pacific (2008) looks at the Pacific Island Countries Trade Agreement (PICTA) Temporary Movement Of Natural Persons (TMNP) scheme, finding that temporary migration within the region holds a number of advantages. Remittances from workers overseas constitute a major contribution to FICs' foreign reserves. Acquired skills and education, the promotion of entrepreneurship, and a growing culture of savings and investment and small business development among returning migrants give additional value to both the host and the sending country.

The study includes the following recommendations:

- a. A possible two-tier approach that consists of professionals (first tier) who are allowed to move freely within the FICs, and semi-skilled/trades professionals (second tier) who are subject to a quota mechanism;
- b. The roles and responsibilities of national immigration and labour departments in facilitating the scheme and the necessary reforms needed;
- c. The role of the South Pacific Board for Educational Assessment (SPBEA) in the development of the Pacific Regional Qualifications Register (PRQR) and the National Qualification Authorities (NQAs) in the assessment and recognition of qualifications for the purposes of the scheme;³
- d. Aspects on the protection of migrant workers' rights and the roles of various agencies in facilitating the PICTA TMNP scheme in the sending and receiving FICs.

All of these possibilities have the potential to benefit the Cook Islands, given its limited labour supply and the problem of brain drain. However, on bullet point (c) above, consultations with the Cook Islands department of Immigration raised a valid concern on the need for the SPBEA database on skills to be made accessible for the employers in Cook Islands.

A study by the Institute for International Trade and Pacific Trade Consult (2007) looks at the potential impact of PICTA on the smaller FICs. The main finding is that "smaller FICs should treat PICTA as a stepping stone to a more open, integrated and transparent trading system where the potential benefits far outweighs the more immediate challenges". Although much of the study focuses on tariff liberalisation – which is less relevant to the Cook Islands given that the government has already reduced most tariffs to zero – there are a number of potential benefits

- The expanding services sector in most FICs reduces dependence on import tariffs and increases benefits from services liberalisation
- Importantly, PICTA provides strong incentives for:
 - A more integrated regional market
 - More efficient and transparent tax collection and long-term improvement in tariff compliance

³ In regards to this recommendation included in the Eco-Consult Pacific (2008) study, the Government of the Cook Islands is concerned that the SPBEA may end up with the role of maintaining a register through the creation of the NQA which they feel could create another layer of bureaucracy rather than one that has access to authority.

- Customs reform, increased transparency and less corruption
- Integrated trade related capacity building plan
- Consolidated aid commitments based on reform
- Potential increases in remittances
- Development of the private sector to increase sustainability and diversify exports
- Adjustment and re-evaluation as trading proceeds
- There are the longer-term benefits of embracing more sustainable processes of open, transparent trading systems to assist in achieving better standards, practices and lower tariffs for consumer goods.
- PICTA is a first step in an almost inevitable process that becomes more costly and disruptive the longer it is delayed.

Recommendations relevant to the Cook Islands include:

- Develop strategies for the expansion of services and trade in services under PICTA;
- FICs should refine strategies to increase the flow of remittances, including negotiation with developed country trading partners for more liberalised Mode IV trade in services commitments;
- FICs should note that, while there would be little impact on economic welfare from the extension of PICTA to the US and French territories, all possible opportunities for increased exports should be exploited, particularly in the fishing sector and provision of services;
- FICs should build on the existing Pacific Plan, to develop a more detailed, integrated, trade-related capacity building plan which details the need for specific funding support in areas of technology, infrastructure development, systems management and in employment and training in order to achieve the aims of a single, more integrated Pacific economy. Specific components for human resource development should include:
 - employing, training and up-skilling of officials and administrators in trade negotiations
 - increased recruitment and training of officials in policy research, analysis and development
 - recruitment and training of economists, tax experts and regulators to assist in tasks from statistical analysis to legislative policy reform

A study by the Pacific Islands Forum (2007) looks at the SPARTECA RoO and concludes that “SPARTECA did not promote significant export growth from FICs, both in terms of volume and composition (diversification)” (Pacific Islands Forum 2007: 4).

New SPARTECA RoO could improve FICs' access to Australia and New Zealand. There are two options: improving the Value Added (VA) rule or shifting to a Change in Tariff Classification (CTC) rule but departing from the model used in recent FTAs by Australia and New Zealand. The study finds that a CTC (at 4 – and 6 – digit level) could significantly ease access of FICs' exports to the Australian and New Zealand markets but that it is not likely to be very effective in improving FICs' levels of market access if it is supplemented by restrictive VA requirements.

Investment

Although there are some publications on private sector development in the Cook Islands, very little has been written on investment, particularly compared with the amount of literature on trade issues.

The high prominence given to trade agreements at the international, regional and bilateral level has effectively swamped other activities. For example, a whole industry employing thousands of experts and support staff has been built up around the WTO. The issues involved, and the consequences thereof, are so complex that not only do all member countries (and aspiring members) need to have dedicated staff, but also there are hundreds (if not thousands) of consultants who specialise in WTO issues. Similarly, the EPA negotiations between the EU and ACP countries have spawned a similar group of government staff and experts in the issues involved. For the northern FICs (FSM, Marshalls and Palau) a similar situation has arisen regarding the Compact of Free Association they have with the USA. To a lesser extent government staff and expert consultants across the region are working on trade agreements such as PICTA, MSG and APEC. Large amounts of funding have been made available to assist regional groups and individual countries to move forward towards accession to these trade agreements. Insignificant resources have been made available to support those agencies pursuing improvements to the private sector environment and relatively, far less for improving the investment environment.

The government departments responsible for trade have achieved a high profile within government and, usually being part of the Ministries of Foreign Affairs, have exerted this influence in regional and international forums such as PIFS where there are currently around 14 staff working on trade policy and almost nobody working on investment policy. The Ministries of Commerce and Industry responsible for private sector development and investment have a lower profile and tend to be understaffed and under-funded leaving them unable to carry out their mandate effectively.

Very few studies have been commissioned and few major regional meetings held on investment in the FICs. The resulting dearth of publications is a consequence of this situation.

The Cook Islands is not a member of the World Bank. Therefore it does not participate in important World Bank initiatives such as their annual Ease of Doing Business surveys. Nor does it benefit from the research and assistance provided by associated organisations such as International Finance Corporation (IFC), Foreign Investment Advisory Service (FIAS) and the Multilateral Investment Guarantee Agency (MIGA). Similarly, the Cook Islands is not a member of the United Nations Economic and Social Committee for Asia and the Pacific (UNESCAP) (although it has been an Associate Member since 1972), and hence

it does not feature in their research and technical assistance on investment and private sector development.

Few statistics are available on inward or outward investment flows for the Cook Islands. An Expert Meeting on Capacity Building in the Area of FDI: “Data Compilation and Policy Formulation in Developing Countries” organised by UNCTAD in 2005 under the auspices of PIFS stated that “The FICs, as many other developing countries, are also facing difficulties in terms of technical and human resources for developing and managing FDI data. Thus there appears to be little effort to collect information on foreign investment to enable reasonable comparison with other countries in the region.” Their tabulation of Foreign Direct Investment Net Inflows in FICs showed the figures for the Cook Islands as not available. Little seems to have changed since.

The Cook Islands Statistics Office’s Annual Statistics Bulletin 2009 does not include any statistics on investment. Regional bodies such as ADB and UNCTAD have also published very little data.

In the ADB report, information on FDI for the Cook Islands for the years (2004–2008) was “not available”. Although the UNCTAD report gives more information, a closer examination brings up some anomalies that bring into question all of the data. For example, starting from an FDI stock of US\$14 million in 2006, and with an inflow of US\$3 million and no outflows for that same year, the FDI stock for 2007 is shown as US\$34 million. Similarly the FDI stocks as a percentage of GDP vary from 24.1% in 2006 to 42.5 in 2007 and 18.0% in 2008 while FDI stock moved from US\$14 million in 2006 to US\$34 million in 2007 and US\$39 million in 2008. It would therefore be unwise to place undue emphasis on these figures.

A Cook Islands BTIB paper covering the period from 2002 to 2008 gives some relevant data on Foreign Enterprise Approvals by number, value and sector.

- The number of new foreign investment approvals has been between 10 and 20 per year except for 2007. The figure for 2008 is for a part year only (up to April).
- The value of the investments each year varied greatly, as did the average value per enterprise, so no generalisations can be drawn from the data. In summary between 2002 and 2008, \$91.95 million was invested into the Cook Islands economy by 98 foreign enterprises, i.e. on average less than \$1 million per investment.
- Analysis of the sectors in which this investment occurred shows that 52% was in the tourism sector and 14% in the agriculture sector.
- With 51% New Zealand was by far the main source country of investment, followed by Australia with 12%.

A June 2007 report on “The Potential Impact of PICTA on Smaller Forum Island Nations” by the Institute for International Trade and Pacific Trade Consult is mostly concerned with trade but also refers to investment. This report makes some sweeping generalisations about the effects of trade liberalisation. For example it says on page 11 that “... there is usually a greater investment in the liberalising economies and export industries become more competitive and cost efficient...”. Whilst this may be true of larger more sophisticated economies, the reverse might be the case in very small economies such as in the Cook Islands.

The above report makes two recommendations (out of a total of 19) concerning investment. It suggests that FICs should embrace a range of measures to privatise inefficient government enterprises and facilitate foreign direct investment through close consultation with the private sector. It also suggests that FICs should explore the potential of promoting increased private sector investment through nationals living abroad. Both recommendations have been made many times before and as they were not backed up by tangible support from regional organisations and development partners nothing has been implemented.

A different view of the impact of trade agreements can be found in the 2009 OXFAM report “PACER Plus and Its Alternatives: Which way for trade and development in the Pacific”. It is argued that since PACER Plus is primarily not a standard free trade agreement, it will require a different approach. According to OXFAM, it will be difficult for negotiators who have been schooled in the language and mindset of adversarial trade negotiations to respond to the challenge. Lessons need to be learned from the failure of the EPA negotiations. Serious consideration should be given to assembling the most appropriate range of skills and knowledge in what is a highly technical area. This particularly applies to negotiations on investment where appropriate skills and experience may have been lacking in the past.

The OXFAM report agrees that foreign investment can have a positive role to play in improving the efficiency of PIC services sectors. However a GATS-type (WTO) agreement, because of the requirements for national treatment and MFN, is likely to reduce the ability of PIC governments to harness that investment to the benefit of the FICs as well as foreign investors. There is little evidence that making GATS-type commitments actually increases foreign investment. The World Bank has argued (in the context of investment treaties) that “creating new protections does not seem to be associated with increased investment flows”, while UNCTAD has found that “there is no empirical evidence to link any significant increase in FDI flows to developing countries with the conclusion of GATS”.

Similar views are given in the two Oxfam reports “Trade Agreements and Development in the Pacific”, a 2008 submission to the Australian government, and “Weighing the Options”, a 2007 briefing note prepared for a Trade Ministerial Meeting in Vanuatu. Both reports urge PICs to exercise caution before signing any reciprocal investment agreements.

The 2003 Forsyth Investment Study on a Framework for EPA Negotiations with the European Union called for urgent action on investment, possibly in the shape of the introduction of an Investment Promotion and Protection Agreement (IPPA) into the EPA negotiations. This has not been carried forward.

A 2006 World Bank Policy Research Paper looked at “Foreign Direct Investment, Regulation and Growth”, exploring the linkage between income growth rates and FDI inflows. It states that the evidence is mixed as no robust relationship has been established between FDI and income growth. It argues that countries need a sound business environment in the form of government regulations to be able to benefit from FDI.

The following reports were obtained from the Cook Islands Government:

- Living the Cook Islands Vision –a 2020 Challenge: National Sustainable Development Plan (2007-2010)

- Enabling Enterprises: A 10 Year Strategy for SME Development in the Cook Islands
- Cook Islands Annual Statistical Bulletin 2009
- Cook Islands Development Investment Act 1995-96
- The Cook Islands Investment Code
- BTIB Investment Action Plan 2009-2010
- BTIB Snapshot 2002 – 2008

The Cook Islands National Sustainable Development Plan 2007 – 2010 (NSDP) has five Strategic Outcomes. The third of these is concerned with Private Sector Development and the Investment Environment. All activities in these areas need to work towards achieving that outcome. The SDP develops this Strategic Goal into the Goal of achieving an Innovative and Well Managed Private Sector Led Economy. This goal is further developed into a number of specific strategies, viz:

- To ensure sound macroeconomic management of the Cook Islands economy;
- To promote the development of a vibrant financial services industry;
- To strengthen government support to SME Centre with a national focus on both outer islands and Rarotonga;
- To review and reform economic structures based on future government and private sector economic growth; and
- To promote and enhance tourism development that recognises the importance of the natural environment and the cultural heritage of the Cook Islands.

The above report finds that the goal of achieving an Innovative and Well Managed Private Sector Led Economy should be incorporated into the negotiation strategy for PACER Plus.

Hence, the NSDP offers meaningful Goals and Strategies for private sector development and investment. The recent SME strategic plan “Enabling Enterprises” is a ten year strategy that establishes priorities and gives more detail on what needs to be done to increase private sector development and investment. This document contains valuable guidelines on how SME development should occur in the Cook Islands and therefore should also be incorporated into the negotiation strategy for PACER Plus.

The Cook Islands Statistics Office publishes a wide range of statistics on a monthly, quarterly and annual basis. Up-to-date information is available on the website <http://www.stats.gov.ck>. This is the main source of data on the private sector for this study. The data include population and vital statistics; national accounts; prices; overseas trade; public sector accounts; tourism and migration; taxation statistics; and banking statistics.

The *Development Investment Act* and the associated Investment Code directs the Business Trade Investment Board on foreign investment in the Cook Islands and

as such will guide PACER Plus negotiations on the extent to which Australian and New Zealand foreign investment can be accepted into the country.

The BTIB Investment Action Plan 2009-2010 was commissioned by PIFS as part of the Investment Policy Support Programme (IPSP). The BTIB Business Plan is an internal document that reviews foreign enterprise approvals and trade statistics for the period 2002 to 2008. As the only source of reliable data on foreign investment in the Cook Islands it is an important document. It gives a comprehensive picture of investment in the Cook Islands and makes three main recommendations:

- a. Develop a new and updated investment code and stronger investment regulations by end July 2009.
- b. Develop a common country strategy and policy to promote and monitor both local and foreign investment.
- c. Set up a strategy for developing a local knowledge base and capacity building in business and entrepreneurship.

None of these has yet been implemented, but all should be considered in the context of PACER Plus negotiations.

Migration

The Cook Islands has experienced significant declines in population, especially since 1996, with large numbers of Cook Islanders migrating to New Zealand and increasingly to Australia and other countries. The total resident population of the Cook Islands was estimated at 13,000 in late 2009 (Statistics Office Cook Islands 2009). Due to high emigration rates, it is projected to fall to less than 10,000 by 2029 (Duncan et al., 2006).

Wright-Koteka (2006) argues that Cook Islander migration is a complex phenomenon that occurs for a variety of personal and structural reasons. In her thesis, she explores the structures that impact on the migration decisions and actions of Cook Islanders. The study finds the structures contributing to high migration rates include New Zealand citizenship that allows free entry to New Zealand; the family that supports migration; and the culture of migration that encourages the propensity for movement. On the individual level, Cook Island migrants have indicated that because the migration decision is generally an informed one, the issues that may impact upon the lives of the participants' were already expected and appropriate responses were formulated to minimise any negative effects. There is also a degree of return migration to the Cook Islands which is not confined to those born in the Cook Islands but also includes the children of emigrants born and raised abroad. The reasons for return migration are predominantly personal rather than economic.

Cook Islanders are New Zealand citizens with full work and residence rights in New Zealand. This has resulted in a situation where more Cook Islanders live in New Zealand than in their home island. The last census in New Zealand of 2006 counted 58,011 Cook Island Maoris living in New Zealand (Statistics New Zealand, 2007). Between 2001 and 2006, the Cook Island Maori population increased by 5,442 persons (10%).

At the time of the 2006 Census, 16,443 (55%) of adult Cook Island Maori in New Zealand had a formal educational qualification, which was lower than for the total Pacific and total New Zealand adult populations (65% and 75%, respectively). The labour force participation rate of persons 15 years and older for the Cook Island Maori population in New Zealand in 2006 was 64%, which was slightly lower than the comparable rates for the total Pacific and total New Zealand adult populations. In 2006, the three most common occupations for Cook Island Maori in New Zealand were labourers (23 %), machinery operators and drivers (14 %), and technicians and trade workers (13%) (Statistics New Zealand, 2007).

All New Zealand citizens have access to Australia under the Trans-Tasman Agreement. This has led to an increase in the number of Cook Islanders in Australia, entering as New Zealand citizens. The latest Census in 2006 recorded 5,030 Cook Islands-born people in Australia, an increase of 6.4% from the 2001 Census. In the 2006 Census, 11,410 people indicated Cook Islander ancestry in Australia, which included persons born in the Cook Islands as well as their overseas born offspring. At the 2006 Census, 33.0% of the Cook Islands-born aged 15 years and over had some form of higher non school qualifications compared to 52.5% of the Australian population. Among Cook Islands-born people aged 15 years and over, the labour force participation rate was 66.8% and the unemployment rate was 9.6%. The corresponding rates in the total Australian population were 64.6 and 5.2% respectively. Of the 2,570 Cook Islands-born who were employed, 6.5% were employed in a Skill Level 1 occupation, 4.0% in Skill Level 2 and 8.1% in Skill Level 3. The corresponding rates in the total Australian population were 28.7, 10.7 and 15.1 per cent respectively (Department of Immigration and Citizenship).

Due to high levels of emigration as a result of free labour mobility into New Zealand (and Australia), the Cook Islands have suffered from depopulation and shortages of skills.

The Cook Islands face difficulties maintaining basic services such as health and education due to the continuous emigration of skilled labour and a declining population and workforce (Voigt-Graf et al., 2009). While education and health services have declined, other areas such as the construction industry, tourism management, and a range of professional services have reduced capacity. The absence of immigration and emigration data by occupation prohibits an analysis of the accurate extent of Cook Islander migration by occupation. Thus, while the Cook Islands clearly face a situation of a shortage of well-trained secondary teachers, how much this is attributable to emigration is unknown (Voigt-Graf et al., 2009).

Emigration however is not the only reason for skill shortages. ADB's comprehensive study on technical and vocational skills development covering all PACP countries except Niue found that skill shortages are also caused by inappropriate and unclear organisational structures in technical and vocational education and training (TVET) (Asian Development Bank and Pacific Islands Forum Secretariat, 2008). The TVET system in the Cook Islands suffers from significant shortcomings in formal institutional provision of post secondary education and skills training.

As a result of substantial labour shortages in the Cook Islands, the temporary importation of labour has increased quite significantly in the last 10 years with labour being imported for the education, health, financial, tourism and hospitality

sectors. In the tourism sector, foreign workers have largely been engaged in skilled and managerial positions but increasingly also in lower skilled positions such as housekeeping, as the expanding industry's labour requirements cannot be met by locals. Traditionally, semi-skilled workers were imported from New Zealand whilst the low-skilled workers were imported from Fiji. In the last 5 years, the Cook Islands has seen a diversification of country of origin for labour imports. In 2008, there were well over 1,000 work permits issued to foreign workers as well as another 1,100 expatriates were given residency status. One negative effect of the lack of skilled labour has been an increase in the cost of doing business in the Cook Islands with the need to spend time and money on searching for and importing specialist or skilled labour, and increasingly even unskilled labour (Okotai, 2009).

Migrants, while signifying a loss, may also be regarded as a resource, in the sense that many send remittances, and bring back new ideas, skills, technologies and capital. Migration opportunities may increase incentives for families to invest in education and training. However, with the exception of remittances, most benefits linked to migration are impossible to quantify. In general, benefits from temporary migration schemes, as opposed to permanent migration, have been well documented for migrant source countries (see e.g. Thomas-Hope, 2002 and Abella, 2006). Temporary migration can help stimulate countries' economies, and contribute to national and regional skill development. Remittances from temporary employment may not only be an important export earner, but can contribute to further education and up-skilling of the labour force. Acquired skills and education, the promotion of entrepreneurship, and a growing culture of savings and investment and small business development among returning migrants give additional value to both the host and the sending country.

For FICs in general, one of the main potential benefits from a PACER Plus agreement with Australia and New Zealand is access to Australia and New Zealand under Mode IV (Movement of natural persons referring to services providers of one country travelling temporarily to the territory of another country to supply a service). Since Cook Islanders are already free to move to New Zealand and as New Zealand citizens also to Australia, Mode IV access to these two countries is not a potential additional benefit for the Cook Islands. Nevertheless, as argued below the Cook Islands will potentially benefit from negotiations surrounding Mode IV access. Therefore some findings and recommendations from studies on Mode IV under PICTA and EPA are valid for the context of the Cook Islands and the PACER Plus negotiations.

Through the implementation of PICTA, FICs intend to consolidate themselves as an integrated regional unit to strengthen their participation in the wider regional and global processes. In 2001, the scope of PICTA was broadened to include Trade in Services (TIS) and Temporary Movement of Natural Persons (TMNP), in order to draw from labour surpluses within the region to meet national skill shortages and stimulate skills development. The Pacific ACP (PACP) Trade Ministers meeting of October 2008 agreed on the development of a framework for a TMNP scheme that considers using a two tier approach, whereby recognised professionals could move freely amongst FICs, and semi-skilled / trades professionals would be subject to a mechanism based on minimum quotas (Eco-Consult Pacific, 2009).

In respect to PICTA, it has been recommended that FICs should refine strategies to increase the flow of remittances, including negotiation with developed country

trading partners for more liberalised Mode IV trade in services commitments (Institute for International Trade and Pacific Trade Consult, 2007). One issue of importance right across the Pacific and including in the Cook Islands is that visa application processes are slow, with a high prevailing degree of administrative discretion. The Stocktake shows that economic needs tests, localisation policies and local training obligations on foreign firms are present in most jurisdictions (PDP Australia Pty Ltd, 2007).

As part of the EPA negotiations with the European Union, FICs are negotiating for EPA adjustment costs. One area in which adjustment costs can be claimed as part of the EPA adjustment process is in the area of development and expansion of training programmes, namely to provide qualifications needed by PACP nationals to take advantage of the proposed TMNP scheme; to meet domestic skill needs, focusing on the needs of key industries and addressing skill shortages in PACPS that may be exacerbated under the EPA; and to provide retraining for workers displaced from employment in domestic industries as a result of implementation of the EPA (Scollay, 2007).

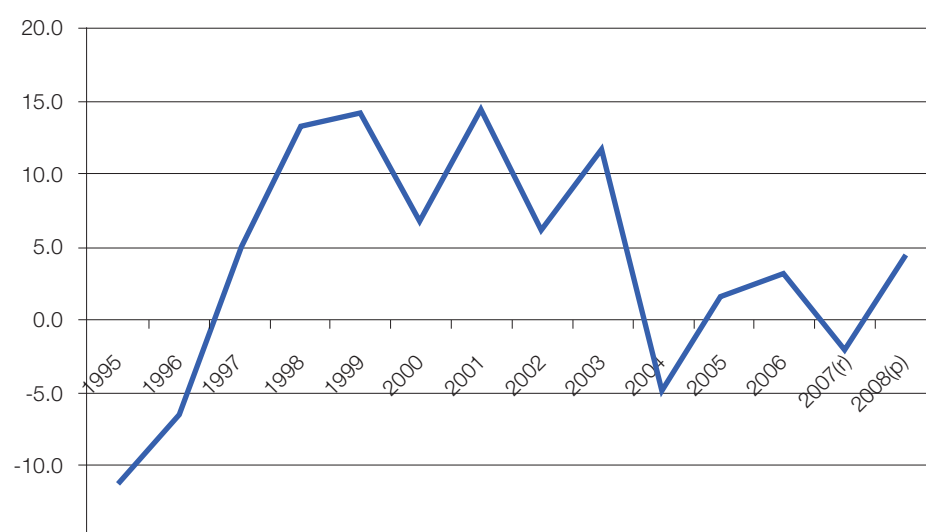
For the Cook Islands in particular, Scollay (2007) has identified an expansion and upgrading of tourism and hospitality courses at the Tourism and Hospitality Training School as a requirement. Another requirement is the upgrading of facilities (plumbing workshop and library) at the Trade Training School to enable more advanced programmes to be offered, as well as the upgrading of facilities at the Cook Islands Nursing School to enable more advanced courses to be offered (Scollay, 2007). The Cook Islands is set to benefit from training expansion schemes introduced under the EPA adjustment process.

3. Trade and investment baseline

3.1 Overview of the Cook Islands economy

After registering high economic growth rates in the late 1990s and early 2000s – at times in the double digits – growth has declined in recent years. In 2004 the Cook Islands suffered its first annual economic contraction for nearly a decade. After an upturn in the subsequent two years, the economy shrank by 2.1% in 2007, returned to positive growth in 2008, before contracting by an estimated 0.1% in 2009 (ADB 2010).

Figure 1 GDP % change 1995-2008 at current market prices



Source: Government of the Cook Islands

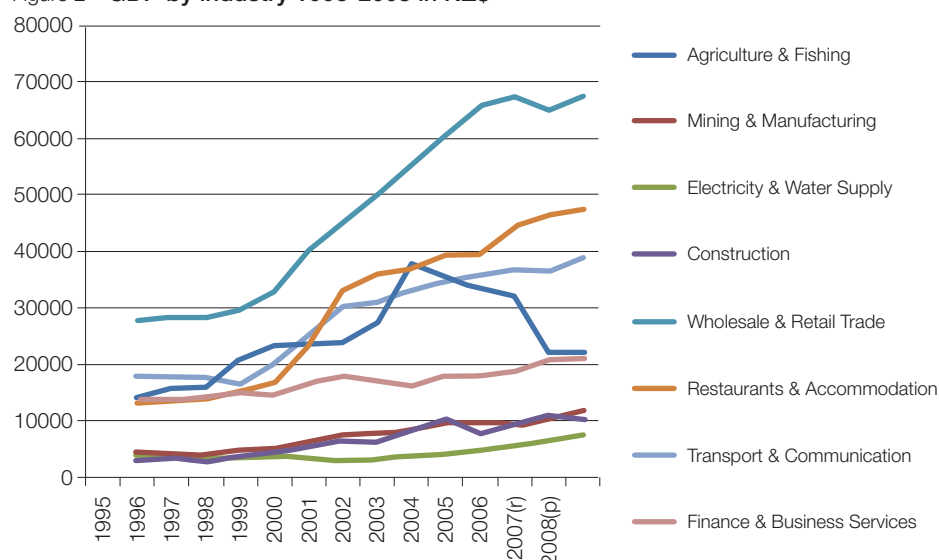
Over the last decade wholesale and retail trade have driven economic growth, accounting for almost a quarter of GDP by 2008. By industry, the next highest contributors to growth were restaurants and accommodation, which now account for around 16% of GDP. These two trends together support the view that tourism has been the prime driver of growth over the last decade. The only industries to have suffered a notable decline are agriculture and fisheries, which have together shrunk in real terms each year for the past six years and currently contribute only 10% of GDP.

The global economic crisis has had a significant effect, with economic growth suffering due to a 3.1% decline in tourism arrivals in 2008. Fewer tourists arrived from high-spending markets – the US, Canada and Europe, outweighing an increase in tourism arrivals from New Zealand (ADB 2009: 2). High consumer price

inflation, at 7.8% in 2008 and 6.7% in 2009, reduced purchasing power. Food prices rose 10.8% during 2009, disproportionately hitting lower income groups.

The Cook Islands government responded to the crisis by increasing capital expenditure, largely on infrastructure development. Total capital expenditure is predicted to rise from an estimated 12.2% of GDP in 2009 to a budgeted 20.4% of GDP in 2010. The budget deficit will be financed partly by US\$29.7 million in ADB loans from 2009-2012, along with US\$35.7 million in loans from China disbursed between 2009 and 2014. Total international loans during these years are expected to comprise 31.9% of GDP (ADB 2009: 5). The significant increase in public debt will clearly require an accompanying increase in economic activity in order to generate the fiscal revenues needed to finance the loans. A number of commentators have expressed concerns about a doubling in public debt in recent years, to a predicted quarter of GDP in 2010.

Figure 2 GDP by industry 1995-2008 in NZ\$



Source: Government of the Cook Islands

In 2008, public administration grew 18.8%, second only to electricity and water supply, which grew by 19.6%, confirming that government activity contributes substantially to economic growth. Indeed the cost of public administration has grown steadily since the years following the late 1990s government reform package when a wide range of civil service reforms were enacted, including a significant reduction in the government workforce. Both public and private investment, however, declined until the recent infrastructure investment plan.

The drivers of economic growth remain very narrow and concentrated in a few selected sectors – particularly tourism and related services. Agricultural exports have all but ceased, while manufacturing and fisheries are stagnating. That the Cook Islands has a narrow economic base is perhaps unsurprising given the small size of the population and economy (GDP is estimated at around NZ\$325.2 million in 2009/09). However the trend toward specialisation is relatively new, and appears to be partly a result of globalisation. Traditional export crops such as Pawpaw, for example, are less viable given the opening of New Zealand to cheaper sources such as the Philippines, together with tariff preference erosion in the fisheries

sector. The international tourism market, in contrast, has continued to expand over the long term despite the downturn as a result of the global financial crisis.

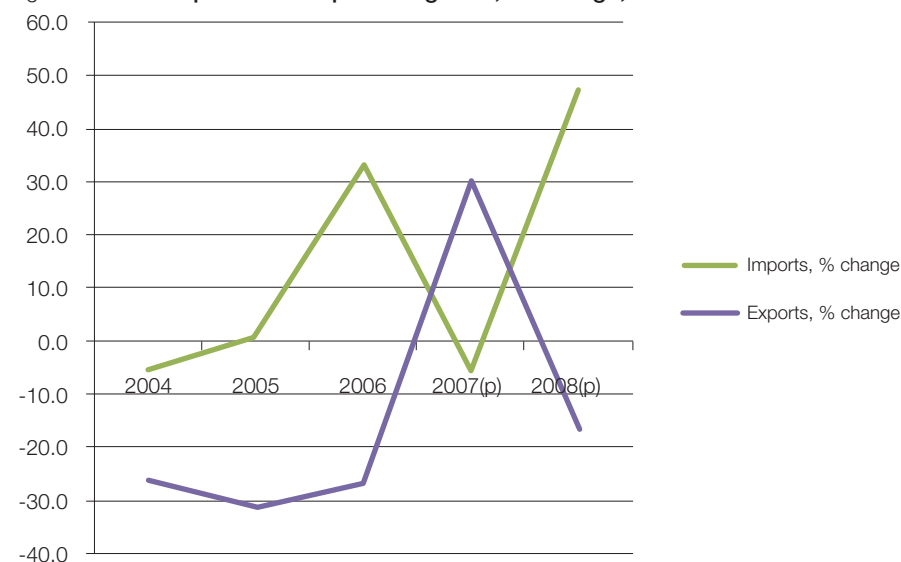
Unlike small neighbouring economies such as Samoa (where an IMF study found that remittances comprised an average of 20% of GDP between 1990 and 2003), remittances are small, rendering the economy more reliant on tourism. Cook Islanders are culturally less reliant on remittances although there are more Cook Islanders living abroad in New Zealand and Australia unlike their neighbouring Polynesian countries such as Tonga and Samoa.

3.2 Assessment of goods trade

Goods exports are low and declining, and concentrated in a handful of products. Exports totalled NZ\$10.7 million in 2004, equivalent to around 4% of GDP. By 2008 exports had nearly halved, to NZ\$5.9 million. This level is very low even by PIC standards, where goods exports are generally low, and which in many countries have fallen in recent years.

Imports are growing rapidly, totalling NZ\$212.9 million in 2008. The trade deficit, which has always been significant, expanded to NZ\$207 million in 2008, a sum worth 72% of GDP. The following graph shows that imports and exports are volatile and that imports have grown faster than exports in recent years, with an increase in exports during 2007 accompanied by a corresponding temporary reduction in imports.

Figure 3 Total imports and exports of goods, % change, 2004-8

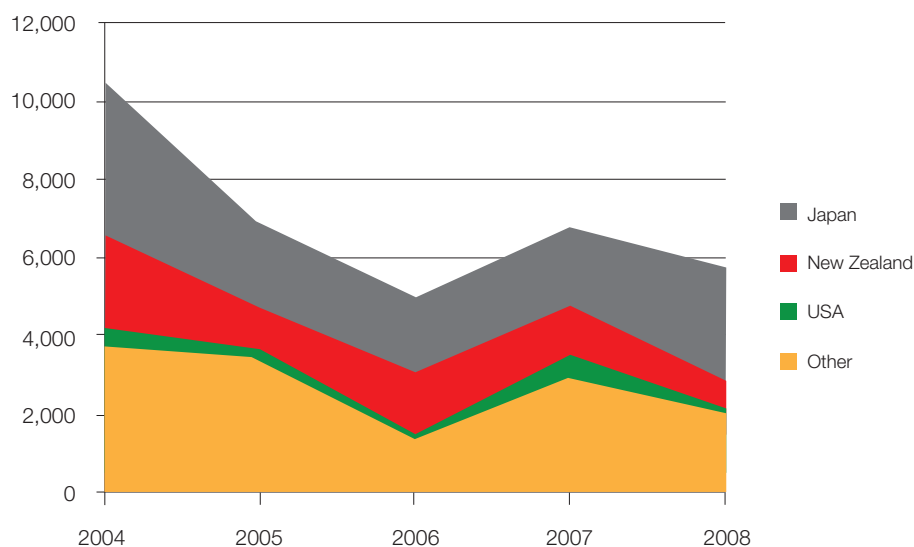


Source: Government of the Cook Islands

By destination, the vast majority of exports go to Japan and New Zealand, with a small proportion going to the United States and other destinations. Exports to Australia are very low, at an average of NZ\$735,109 per year between 2005 and 2009. Exports to New Zealand are significantly higher, at an annual average of NZ\$5.2 million over the same period.

The following figure shows that overall exports have declined in recent years, primarily as a result of supply-side constraints which led to reduction in shipments to Japan and New Zealand.

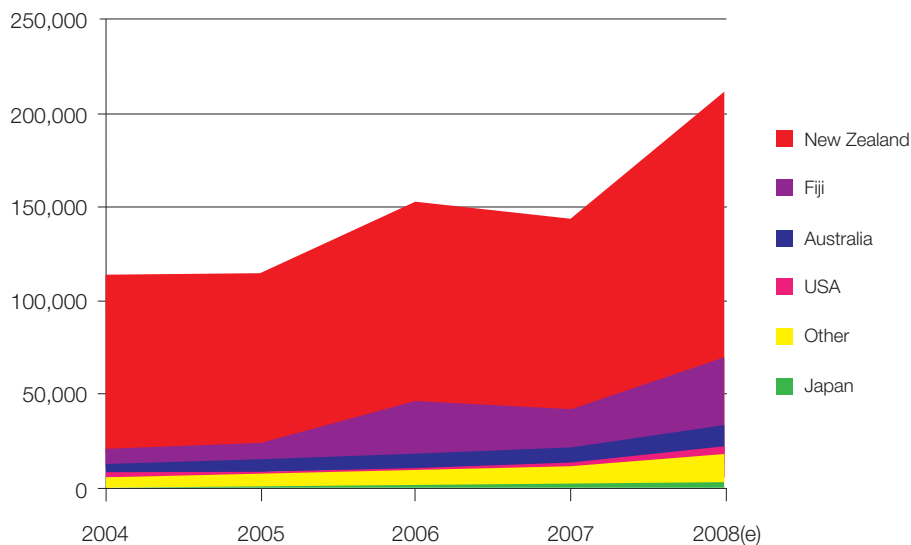
Figure 4 Exports by principal destination, NZ\$'000, 2004-8



Source: Government of the Cook Islands

Imports have almost doubled since 2004, reaching NZ\$212.9 million in 2008. Much of the increase is associated with an expansion in tourism. Most imports come from New Zealand, followed by Fiji. Australia is a distant third, accounting for NZ\$11.5 million in imports during 2008.

Figure 5 Imports by country of purchase, NZ\$'000, 2004-8

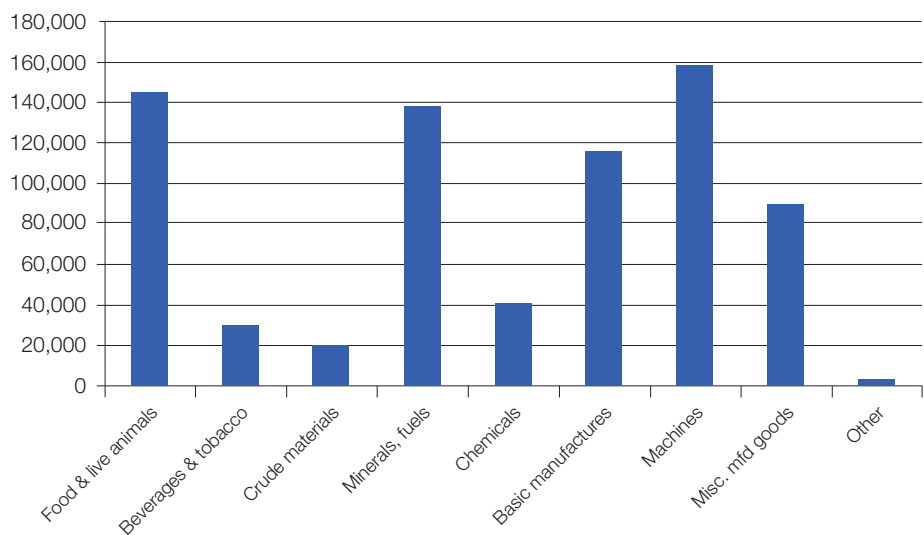


Source: Government of the Cook Islands

The following graph shows that machines, transport and equipment are the biggest import by category, followed by food and live animals. Minerals and fuels

have comprised a growing proportion of imports in recent years, followed by basic manufactures and miscellaneous manufactured goods.

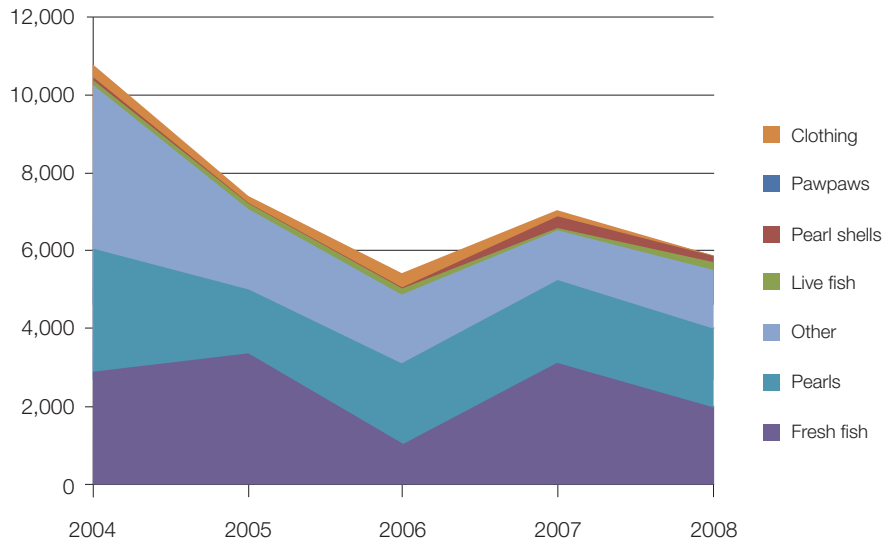
Figure 6 Imports by category, NZ\$'000, 2004-8



Source: Government of the Cook Islands

By product, fresh fish has historically been the biggest export, comprising an average of 34% of total exports over the last five years, followed by pearls, at 30%. Juice, clothing, pawpaws, live fish and pearl shells largely make up the remainder of exports. There is a small export market of Noni juice, mainly to Japan. Cook Islands Noni Marketing Ltd. reports that it exports up to 15,000 litres to Japan per month.

Figure 7 Value of main exports, NZ\$'000, 2004-8

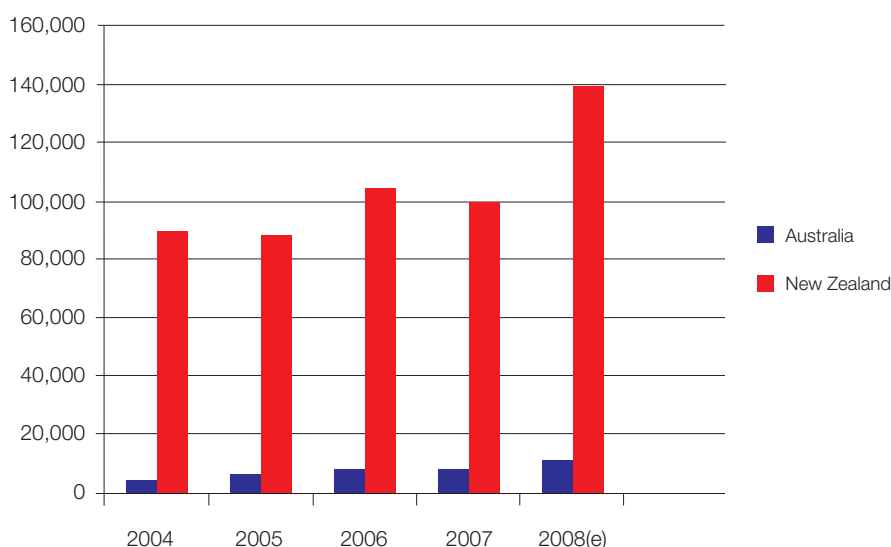


Source: Government of the Cook Islands

3.3 Assessment of trade with Australia and New Zealand

The Cook Islands has historically run a trade deficit with Australia and New Zealand, importing most consumer goods and manufactures and exporting a narrow range of commodities. Both imports and exports from New Zealand are far higher than those of Australia. In absolute terms, imports from New Zealand have recently increased in line with the overall increase in imports noted above, while those from Australia have stayed about the same. However analysis of the data shows that while imports from Australia have remained roughly steady as a proportion of the total, at 5%; the proportion of total imports coming from New Zealand has declined in recent years, from 81% in 2004 to 67% in 2008. This decline has been accompanied by a shift toward imports from Fiji, from which imports grew from 7% to 17% over the same period. This is largely a result of importers widening their source markets for manufactures and consumer goods. It is unlikely to have been the result of trade liberalisation as tariffs on goods from both countries fell to the same levels and by the same amount. The data show an upturn in overall imports following the tariff liberalisation but it is difficult to determine the cause – it is likely to have been the result of increased domestic demand as much as lower tariffs.

Figure 8 Imports from Australia and New Zealand, NZ\$'000, 2004-8



Source: Government of the Cook Islands

Imports from Australia largely follow the same profile as from all countries shown in figure 6. A further reason for not conducting extensive analysis of imports by category is that most tariffs are at zero, which means that PACER Plus will have little implication on import on levies or government revenues. Table 1 below shows that revenues from import levies were 13.9% of total revenues in 2009. Any tariff reductions will likely be delayed by a number of years. The General Agreement on Tariffs and Trade (GATT) article XXIV requires that the agreement covers 'substantially all', rather than all trade, and so certain levies can remain in place.

3.4 Exports to Australia and New Zealand by product category

The following analysis is based on a detailed summary by 8-digit HS code of exports to Australia and New Zealand from 2005-9. The data show that three major products dominate exports: pearls, fish, and juice. These items account for over three-quarters of all exports to these countries during the period.

The biggest export product is fish, mostly tuna. Between 2005 and 2009 fish (HS03024000, HS03034000, HS03037000 and HS03041000) comprised 28% of total exports to Australia and 29% of the total to New Zealand. Of total exports to both countries during the period, 28% were fish.

Juice (HS20098000) is the next major export item by value, comprising 30% of total exports to New Zealand and 14% of the total to Australia. Juice accounted for 27% of total exports to both countries during the period.

Pearls and related products (HS71010000, HS71011010, HS71011020, HS71011030, HS71012210, HS71012220 and HS 71161000) are the next largest export item, comprising an average of 28% of exports to New Zealand and 65% of exports to Australia between 2005 and 2009. As with all exports, however, there is significant volatility within this period. For example pearls accounted for 86% of exports to Australia in 2005 and only 38% in 2009, a result of the recent decline in the industry owing to disease and other supply constraints (the remainder of exports to Australia in 2009 were almost entirely fish). Similarly in 2008 there was a one-off shipment of jewellery (HS71130090) worth NZ\$111,600, a quarter of exports to Australia during that year. No other significant jewellery exports were made to Australia from 2005 to 2009.

The following table summarises the contribution of each of the three main exports to total exports to Australia and New Zealand. Full data can be found in Annex 1.

Table 1 Major exports to Australia and New Zealand, 2005-2009

Item	Annual average, NZ\$ '000	% of total exports to NZ	% of total exports to AU	% of total exports to AU and NZ
Pearls	1,231	28	65	21
Juice	1,595	30	14	27
Fish	1,666	29	28	28

Source: Pacific Islands Trade and Investment Commission (PITIC)

Although only three or four products dominate exports, a number of other items have been exported in small amounts over recent years, such as live fish, pawpaw, clothing (see box 1), shells and some fruit and vegetables. In many cases, such as pawpaw, the amounts are very small and contribute little to overall aggregate exports; yet these products are valuable sources of cash to poorer sections of society, particularly those in the outer islands. The Ministry of Agriculture has indicated that it is targeting the production of a number of other products including red chillies, pawpaw, lime, small root crops and giant clams. Transport costs create a high natural effective rate of protection, making some of these products viable in the domestic market. A few might even be exported in small volumes, but it is unlikely that they will prove internationally competitive in the long run. Although some government officials talk of a return to the high levels of fruit and vegetable exports in the 1980s and earlier, when the Cook Islands was a major

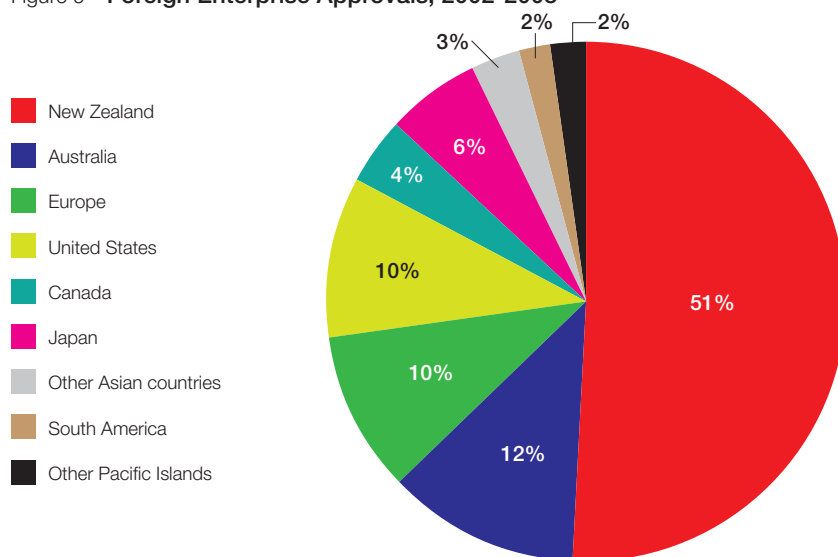
producer of oranges and pawpaw, this was a result of high trade preferences in developed markets. International trade liberalisation has eroded the value of these preferences, and the Cook Islands now has to compete with far larger and cheaper producers such as the Philippines and Indonesia.

It is suggested that in PACER Plus negotiations all export products that face potential quarantine or technical barriers be prioritised for defensive reasons, even if they are in decline or are undergoing a temporary cessation. This said, as in the case of pawpaw and pearls, much of the decline in exports can be explained by supply-side constraints rather than a lack of demand or technical or quarantine difficulties in destination markets.

3.5 Assessment of investment relationship with Australia and New Zealand

Given the history of the relationship between the Cook Islands and New Zealand it is not surprising to see that the Cook Islands-New Zealand investment relationship is very strong and the Cook Islands-Australia investment relationship is relatively weak. The following chart is taken from a BTIB assessment of foreign investment over the period 2002 to 2008.

Figure 9 Foreign Enterprise Approvals, 2002-2008



It shows that 51% of Foreign Enterprise Approvals for the period came from New Zealand and only 12 % came from Australia, with Europe and the USA each accounting for 10%. Not only do these figures reiterate the strong relationship between the Cook Islands and New Zealand, but they also clearly show the relative unimportance of the relationship with Australia in that it ranks equally with Europe and the USA. This is cause for concern as (a) Australia is a much larger economy New Zealand that has significant investments in other Pacific Island countries, (b) the east coast of Australia has strong cultural, social and educational links with the Pacific, and (c) there is a significant Cook Island population in Australia.

Further work is needed to determine why Australian businesses are not investing in the Cook Islands to the extent that they are in some other PICs. Possible reasons include:

- A lack of awareness in Australia of the Cook Islands in general, and of its potential for investment.
- The Cook Islands is not a recognised holiday destination for most Australians, with Fiji, Vanuatu and New Caledonia attracting most Australian tourists to the Pacific.
- A perception that the Cook Islands is a high risk and/or low reward investment destination.
- The lack of transport links (air and sea) between Australia and the Cook Islands.

These areas could be addressed within the framework of a PACER Plus agreement.

It was noted that Air New Zealand is now challenged by Pacific Blue on the Auckland Rarotonga route. In addition the two largest banks are Australian owned (though managed out of New Zealand). An Australian group has a significant tourism investment in the Edgewater Resort and the Club Raro both of which are located in Rarotonga.

We were told that Air New Zealand will be trialling a Rarotonga-Sydney flight for three months as from July 2010. This would include 2-3 tonnes of freight per week. This is being subsidised by the Cook Islands government and would need to achieve financial viability within the trial period for it to be continued. An opportunity exists for a major trade and investment promotional campaign to be run in parallel to the opening up of this new air route.

With many Cook Islanders holding New Zealand passports, and with the use of the NZ\$ meaning that there is no central bank, it is difficult to ascertain exactly what businesses are owned by New Zealanders and what are owned by Cook Islanders.

3.6 Overview of the private sector development and investment environment

National Sustainable Development Plan

The Cook Islands National Sustainable Development Plan 2007 – 2010 (NSDP) has five Strategic Outcomes. The third of these, quoted below, is concerned with Private Sector Development and the Investment Environment. All activities in these areas work towards achieving that outcome.

The strategic outcomes of sustainable economic growth in harmony with the Cook Islands' social values, culture and environment as contained in the SDP for 2007 – 2010 has the following key visions: 1) to lead the private sector to reach NZD 0.6 billion based on sustainable development principles by 2010, 2) to achieve the minimum standards set for basic infrastructure for all islands by 2010 on areas including transport and utilities to support economic development, 3) to achieve a more fair distribution of benefits from economic growth across all islands by 2010.

The SDP develops this Strategic Goal into the Goal of achieving an Innovative and Well Managed Private Sector Led Economy. Under this goal it is noted that although the Cook Islands has been one of the better performing economies in the region, it is based on very few industries and is susceptible to external forces.

Most importantly, it has limited scope to expand or diversify its economic base. This means that future economic growth relies the Cook Islands continuing to do what it already does, but to do it better.

In this context the NSDP argues that it is essential that the policy framework for private sector led growth is enhanced to meet the government's goal of economic growth averaging 3.5% per year over the medium and long term in order to double GDP by 2020. As the NSDP says, it is generally recognised that for the economy to continue to grow, private sector-led development must be strengthened with the government providing a favourable macroeconomic environment, critical physical and social infrastructure, institutional and political stability whilst maintaining law and order. So in addition to maintaining prudent fiscal management of the economy and public sector spending, government must provide consistent and effective support to allow the private sector to lead the economy into the future. These ambitions are totally consistent with the aims of PACER Plus, so it is important that PACER Plus be seen as a tool for achieving them.

This goal is further developed into a number of specific strategies, viz:

- Ensure sound macroeconomic management of the Cook Islands economy.
- Promote the development of a vibrant financial services industry.
- Strengthen government support to SME Centre with a national focus on both outer islands and Rarotonga.
- Review and reform economic structures based on future government and private sector economic growth.
- Promote and enhance tourism development that recognises the importance of the natural environment and the cultural heritage of the Cook Islands.

It is important that the NSDP be embedded in PACER Plus negotiations so that (a) there is alignment between what each is trying to achieve, and (b) financial and technical assistance to implement the plan can be sought under PACER Plus.

Investment regime

The Cook Islands, like many FICs, already has an ongoing domestic reform program relating to its investment regime. Because the Cook Islands is not a member of the World Bank it has not been able to receive assistance from the IFC/ FIAS who have been active in this area of assistance in the Pacific region, assisting many countries to improve their investment environments, and the Cook Islands is therefore not as advanced as some FICs in providing an attractive investment environment.

Some developed countries believe that the added value of rules-based international agreements on investment ensures implementation and 'lock in' of reforms – thus increasing attractiveness to foreign investors – or that it would

act as an additional impetus for this reform agenda. That argument is difficult to sustain as the examples given in the preceding paragraphs show. For a small economy such as the Cook Islands, with very limited investment opportunities, it would be a big step backwards to embark on this strategy. It could however benefit investors from developed economies wanting to take advantage of a future investment opportunity by preventing the Cook Islands government responding flexibly to changed international circumstances and putting in place measures that would protect the best interests of its citizens.

The general investment policy for the Cook Islands is basically same as in other FICs where it is a requirement that any business establishment must be seen to contribute in real terms to the economic development of the Cook Islands and offers a net economic benefit to the Cook Islands. The Investment policy also provides that priority should be given to Cook Islanders and there is like most other FICs, a reserved investment list which lists the names and types of businesses that are exempted from foreigners and reserved solely for Cook Islanders to engage in and expand. In addition, joint ventures between foreign investors and Cook Islanders are highly encouraged as well.

The priority areas for investment are in agriculture, marine resources or the tourism industry. For example where a foreign enterprise applies for approval to carry on business in the Cook Islands in a reserved activity, the Board would consider to the application notwithstanding the Foreign Investment Policy which stipulates very clearly that foreign investment should contributed to the future development of the country but is restricted to a Foreign enterprise which is as defined in section 2 (1) of the Development Investment Act 1995-96. In that Act, it is stated that a foreign investment refers to an enterprise or an activity which is owned by 33.3 percent or more by an overseas investor. Other conditions on defining a foreign investment is that the Board should not approve or register a foreign enterprise to operate in the Cook Islands unless it is satisfied at the minimum that the activity concerned is not listed in the reserved investment list, the proposal. The proposal should also be able to offer net economic returns to the Cook Islands or at least one island in the Cook Islands. Another notable condition is that the foreign business must engage local participation in forms such as shareholding, profit sharing, transfer of skills and technology.

Foreign direct investment

The Cook Islands Statistics Office's Annual Statistics Bulletin 2009 does not give any statistics on investment, though it does give some useful statistics in private sector development⁴. The Statistics Office referred enquiries to the BTIB, who provided statistics on Foreign Enterprise Approvals for the period 2002 to 2008. This is the main statistical basis for the section on investment.

The ADB and UNCTAD publish data on foreign investment across the region, however data on the Cook Islands is incomplete. Relevant tabulations of data from their reports have been included in this report where available.

The only sources for statistics on investment that could be located were:

- Asian Development Outlook 2009: Rebalancing Asia's Growth, ADB, 2009
 - Table A16: Foreign direct investment

⁴ Few statistics are available on investment flows in and out of the Cook Islands.

- World Investment Report 2009: Transnational Corporations, Agricultural Production and Development, UNCTAD, 2009:
 - Table B1: FDI Flows, by region and economy, 2006-2008
 - Table B2: FDI stock, by region and economy, 1990, 2000, 2008
 - Table B3: FDI flows as a percentage of gross fixed capital formation, 2006-2008, and FDI stocks as a percentage of gross domestic product, by region and economy, 1990, 2000, 2008
- BTIB Snapshot 2002 – 2008

The ADB report shows that information on FDI for the Cook Islands for the years (2004-2008) was “not available”.

The UNCTAD report gives a bit more information. The table below estimates inward FDI for the Cook Islands for the years 2007/8/9 as:

FDI Flow (US\$millions)	2006	2007	2008
Inflows	3	–	1
Outflows	–	1	–

The table below estimates FDI stock for the Cook Islands for the years 2007/8/9 as:

Year	2006	2007	2008
FDI Stock (US\$millions)	14	34	39

The table below shows FDI flows as a percentage of gross fixed capital formation and FDI stocks as a percentage of gross domestic product for the same years.

FDI (%)	2006	2007	2008
Flow as % of gross fixed capital formation			
– Inward	11.8	-1.2	3.2
– Outward	1.1	2.2	1.1
Stocks as % of GDP			
– Inward	24.1	42.5	18.0
– Outward	–	–	–

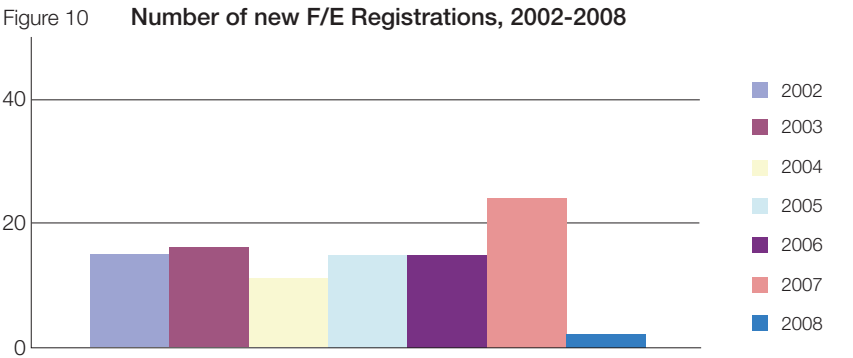
These figures make little sense. For example, starting from an FDI stock of US\$14 million in 2006, and with an inflow of US\$3 million and no outflows for that same year, the FDI stock for 2007 is shown as US\$34 million. Similarly the FDI stocks as a percentage of GDP vary from 24.1% in 2006 to 42.5% in 2007 and 18.0% in 2008 while FDI stock moved from US\$14 million in 2006 to US\$34 million in 2007 and US\$39 million in 2008. It would therefore be unwise to rely heavily on these figures.

An Expert Meeting on Capacity Building in the Area of FDI: Data Compilation and Policy Formulation in Developing Countries organised by UNCTAD in 2005 under the auspices of PIFS stated that “The FICs, as many other developing

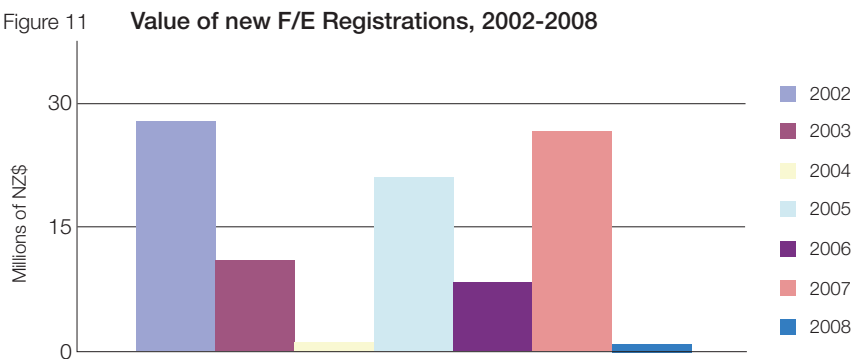
countries, are also facing difficulties in terms of technical and human resources for developing and managing FDI data. Thus there appears to be little effort to collect information on foreign investment to enable reasonable comparison with other countries in the region.” Their tabulation of Foreign Direct Investment Net Inflows in FICs showed the figures for the Cook Islands as not available. Little seems to have changed since.

A Cook Islands BTIB paper covering the period from 2002 to 2008 gives some relevant data on Foreign Enterprise Approvals for those years by number, value, sector and country of origin.

- a. The number of new foreign investment approvals has been between 10 and 20 per year except for 2007. The figure for 2008 is for a part year only (up to April).

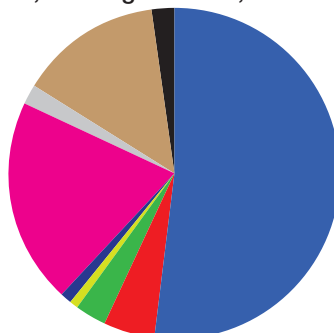
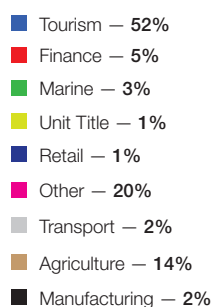


- b. The value of the investments each year varied greatly, as did the average value per enterprise, so there are no conclusions that can be drawn from this. In summary between 2002 and 2008, \$91.95 million was invested into the Cook Islands economy by 98 foreign enterprises, i.e. on average less than \$1 million per investment.



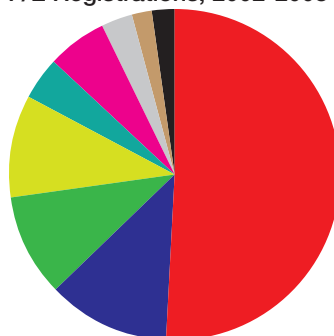
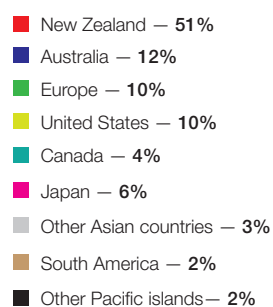
- c. The sectors in which this investment occurred is much more indicative, with 52% being in the tourism sector and 14% in the agriculture sector.

Figure 12 Sector breakdown, F/E Registrations, 2002-2008



- d. By country of origin, New Zealand was by far in the majority with 51% followed by Australia with 12%.

Figure 13 Country of Origin, F/E Registrations, 2002-2008



All of these data support a picture of good private sector development growth until about five years ago when it slowed considerably. For 2008 the picture is one of a static economy. The full tables are included as appendices to this report⁵.

⁵ Banking Statistics referring to Loans and Advances by Industry in Annex 2, Number of Hotel Motels with Number of Employees Annex 3, Taxation Statistics refer to Cook Islands Gross Turnover by Industry Annex 4 and Cook Islands TOT Payable/VAT collected on Sales and Income by Industry Annex 5 and Miscellaneous refer to Building Approvals in Annex 6 and Energy Generated in Annex 7.

4. Potential benefits, challenges and ways forward

PACER Plus carries a number of potential costs and benefits. The Cook Islands is in a unique position among the Pacific Islands given that it already unilaterally liberalised tariffs on most items. Any consumer gains from goods trade liberalisation have largely already been realised (or else appropriated by monopolist domestic businesses). As a result of tariff reductions the government will have even less bargaining power in any negotiations with Australia and New Zealand than it otherwise might have. The main offensive interest of most other Pacific island nations – labour mobility – has already long existed. Indeed access to New Zealand contributes to brain drain as the best-educated workers move abroad to take advantage of higher wages. The impact of PACER Plus – positive or negative – is therefore likely to be more muted than in elsewhere in the region.

Whilst the country clearly has a comparative advantage in tourism, and the promotion of this industry should continue (particularly with regards to enhancing tourism yield), over-specialisation in such a volatile area renders the economy particularly vulnerable to external shocks. In this regard the Cook Islands should seek to direct any prospective PACER Plus arrangements toward helping to broaden the economic base. Given the country's good educational standards, relatively high wages, restricted labour supply as well as the difficulty in goods export, it may make sense for the government to prioritise services exports, including traditional knowledge-based and design-related activities, or niche areas with a unique cultural basis. Improved Internet availability and speeds would facilitate services export and may even attract additional incoming FDI.

Benefits may exist in the form of improving access to export markets in Australia and New Zealand, especially in terms of rules of origin, quarantine, sanitary and phytosanitary (SPS) measures and standards. Additional technical assistance may be given as a result of PACER Plus, particularly with regard to the kind of institutional capacity issues that currently constrain the trade-related government offices (Nathan Associates 2007: xv). Australia and New Zealand may also be willing to promote tourism further in their own markets, given that they are intermediary or source destinations for tourists visiting the region. Further benefits may exist from the development of trade policies that seek to address supply-side constraints to meeting internal and external demand for primary products. Within the remit of Pacific regional integration as a whole, including PICTA, the Cook Islands may benefit from temporary access to workers from other PICs. Skills shortages exist in a variety of areas, including tourism management and the professions.

Without mitigating measures, the biggest single cost of PACER Plus is likely to be the administrative burden it places on the Cook Islands' tiny administration, both in its initial negotiation and its continued implementation. Technical assistance may still be needed in order to help the country cope with negotiations, while narrowing down the scope of the agreement will also help reduce the administrative load.

The more issues that can be dealt with collectively at the regional level, the smaller will be the burden on the government. Indeed the formation of a series of new regional institutions may have long-run administrative and substantive benefits.

A number of people interviewed for this study questioned why the country must embark on PACER Plus at all. The triggering of article VI of PACER owing to the EPA notwithstanding, the potential development benefits have a limited natural association with a trade agreement. Many of the potential economic gains have already been realised, while the costs are not all strictly associated with PACER Plus. New Zealand has always had a positive supporting relationship, and many of the proposed advantages of PACER Plus are in New Zealand's own interests. Similarly if Australia is really interested in development – “putting substance into the Plus” – as Trade Minister Simon Crean put it in 2009, Canberra would extend many of the proposed benefits in any case, irrespective of any trade agreement.

4.1 Border issues

Quarantine and sanitary and phyto-sanitary (SPS) measures

It is unlikely that the Cook Islands will be able to negotiate a lowering of quarantine standards for its exports to Australia and New Zealand. However significant gains are possible from enhancing the level, predictability and security of market access. This goal can be achieved by securing binding commitments in some or all of the following areas:

- a. Consolidating and formalising the progress made to date in securing market access for SPS-sensitive goods;
- b. Securing commitments to address specific outstanding market access SPS issues i.e. the development of standards for specific products;
- c. Seek agreement on a mechanism for Australia and New Zealand to recognise equivalence of SPS-related procedures in the Cook Islands, and establish mechanisms through which future requests can be addressed (this may require a change to existing Australia and New Zealand legislation, which currently do not recognise equivalence in the Cook Islands);
- d. Creating an accessible and effective system for dealing with future FICs market access requests and resolving SPS-related disputes;
- e. Greater and more formalised cooperation between the Cook Islands and Australia and New Zealand quarantine authorities, including at the regional level (with a potentially strengthened role for a regional body such as SPC) and in international fora such as CODEX and WTO;
- f. Securing commitments to build capacity in the Cook Islands' physical (e.g. reference laboratories) and human SPS infrastructure (e.g. Departments of Quarantine or Agriculture) and in the private sector, potentially using existing mechanisms established already under the original PACER agreement (such as a strengthened RTFP, Import-Export Technical Assistance (IMPEXTEK) centre, etc) or those identified at the national level.

It will be important for the Cook Islands along with other PICs to establish within the negotiations that some SPS issues require crop-specific solutions (such as

the development of individual import protocols or health standards), while from the perspective of long-term development many quarantine issues are instead systemic, requiring capacity-building investments in knowledge and infrastructure, rather than being linked simply to individual crops. Similarly it will be important to establish that provisions in a PACER-plus agreement need to go beyond a simple restatement of WTO principles (for example that of non-discrimination in the application of any SPS import restriction, that such restrictions be based on objective scientific analysis, that there be transparency and consultation, etc) towards a more detailed capacity-building approach, with firm commitments to that end.

In specific terms, the Cook Islands has, or potentially has specific interests in the following export crops: noni, lime, red chillies, taro, fish, dried fruit, processed foods, tropical fruit (including coconut-based products), pawpaw, root crops and giant clams. The Director of Agriculture has expressed interest in eradicating fruit fly in the Cook Islands using ANZ quarantine methods, which costs up to NZ\$200,000 for certification.

In addition, the specific terms and conditions for the Dispute Settlement Mechanism (DSM) for dealing with SPS-related disputes will also be important in assessing the balance of a PACER-Plus agreement. For example features such as a form of 'legal aid' for bringing disputes (perhaps a Pacific fund) or financial compensation for confirmed violations of commitments could be potentially beneficial to the Cook Islands and other Pacific island countries. Similarly, intellectual property would appear to be an area where there is scope for reaching some form of truly innovative agreement, with the potential for facilitating trade in novel Pacific products and varieties.

From a defensive point of view, the focus should be on bio-security and ensuring that the Cook Islands has adequate capacity to deal with any quarantine-related threats.

Quarantine and bio-security cooperation

There has been small but significant progress in relation to quarantine and bio-security cooperation, both amongst FICs regionally and with Australia and New Zealand, most notably under the quarantine component of the Regional Trade Facilitation Programme (RTFP), which has resulted in:

- Preparation of model bio-security legislation for the simultaneous upgrading and greater harmonisation of different FIC regimes
- Training programme in market access issues for national quarantine officials
- Development of 'export pathways' for certain key commodities to Australia and New Zealand, within a new IMPEXTEK Centre based at the Secretariat of the Pacific Community (SPC) in Fiji. This has led, for example, to the development of a number of new quarantine protocols – also known in New Zealand as Import Health Standards (IHS) – for FIC exports.

In addition to these initiatives, FICs have also seen great benefit from having dedicated desk officers within the New Zealand and Australian Quarantine

Services, to work on FIC market access issues and act as contact points for their requests.

However it is worth noting that the RTFP – originally designed in 2003 to prepare FICs for an eventual deepening of trade ties with Australia and New Zealand and seen by FICs as a precondition for signing up to the original PACER agreement – has not been without some severe problems in its operation. Most obviously there were significant delays in securing promised funding from Australia and New Zealand, and then in building adequate capacity to deliver the component through the Secretariat of the Pacific Community (SPC). The review of the RTFP highlighted this problem clearly and recommended that ‘funding for the Quarantine component should be restored to its original level so that the originally planned programme can be implemented’ (FORUM, 2008).

Rules of origin

Rules of Origin (RoO) are less critical for the Cook Islands than some other PICs, given that the country does not generally export processed goods and the origins of key exports – pearls, fish and juice – are usually easy to identify. There would be a benefit, however, in supporting the regional Pacific position on RoO, which would also leave open the possibility for the future possibility of new exports. In terms of specific goals for the reform itself, recent discussions have focused on a move towards a change in tariff classification (CTC) system (which also appears in recent trade agreements negotiated by Australia and New Zealand). It will be important to ensure that no additional conditions accompany the simple CTC rule (such as a minimum value added thresholds) in sensitive areas for Australia and New Zealand: instead FICs should be offered a value addition rule as an alternative to a CTC rule (Pacific Islands Forum 2007). A general relaxation of the RoO would be both desirable and consistent with previous FIC positions and with RoO regimes agreed in other free trade agreements involving Australia and New Zealand.

In light of the declining value of preferences for the region as a whole, the most important question at this point is one of timing, and whether reform should occur in the context of SPARTECA or negotiations on a reciprocal PACER Plus agreement.

It is recommended that the Cook Islands support any regional position on seeking an ‘early harvest’ on better RoO in negotiations – either as a prerequisite to PACER Plus negotiations or at an initial stage. If changes are not agreed early on, the Cook Islands will need to reassess the value of market access under the goods agreement. In order to advance this position, the Cook Islands will need to work quickly with key potential beneficiary FICs (most notably Fiji) to adopt common position on the type of RoO reform sought, and a timeframe for delivery.

In strict legal terms, the current ‘baseline’ for the Cook Islands’ access to Australian and New Zealand markets is the World Trade Organisation’s SPS Agreement⁶, which is weighted heavily in favour of the right of importing countries to establish and maintain restrictions necessary to protect human, animal or plant life or health. But the WTO text on SPS also establish a number of basic principles,

⁶ Although Cook Islands is not considering WTO accession at this stage it is likely that Australia and New Zealand would still apply SPS measure that comply with the WTO standard as they would do for WTO members and WTO observers.

for example that of non-discrimination in the application of any SPS import restriction, that such restrictions be based on objective scientific analysis and that there be transparency and consultation. It would be expected that a PACER Plus agreement include a reaffirmation of commitments to the WTO agreement, (although there may be language to take into account that not all FICs are WTO members and in the Cook Islands' case, there has not been any consideration on accession from the government).

Technical barriers to trade, standards and conformance

Technical barriers to trade (TBT) include non-tariff measures that consist of standards, conformance, and quality by importing countries (Bossche, 2008). For example, most countries require that products must be properly labelled to include manufacturing and expiry dates and product contents. TBT measures are designed to ensure the quality of products, prevent deceptive practices and protect the environment. As with quarantine measures, technical barriers to trade can be misused to block imports. However, it is mainly due to lack of capacity within developing countries like the Cook Islands to meet the onerous TBT requirements that poses the greatest obstacle for exporters.

As with SPS measures, it is unlikely that the Cook Islands will be able to lower or seek exemptions to standards in Australia and New Zealand, even if this were desirable. Instead, the major benefits are from improving standards of exports, including greater levels of technical assistance to achieve this at the national level, sub-regional and regional level.

The Cook Islands in PACER Plus discussions should seek a reaffirmation of WTO commitments on Technical Barriers to Trade even though the country is not likely to join the WTO. It may be worth especially emphasising certain clauses of the TBT text, such as: Article 10 on provision of information about technical regulations and assessment procedures; Article 11 on technical assistance; and Article 12 on special and differential treatment of developing country members. The Cook Islands could seek 'stronger-than-WTO' commitments in these and other areas, for example by stipulating clear timeframes to supplement WTO rules on notice periods or the process for dealing with TBT-related disputes.

The Cook Islands should seek binding commitments on a programme of regional integration and capacity upgrading to meet and enforce Australia, New Zealand and international standards. This should build upon the S&C programme of the RTFP, covering metrology, regional laboratory services, registration of standards and legislative improvements. In addition to being enhanced at the regional level (for example with improved commitments to training) it should also be extended to the national level, to include support for the provision of assessment services for specific private sector companies on an 'on-demand' basis, as well the creation and maintenance of an adequate framework for implementing and enforcing appropriate level of standards.

The Cook Islands might also consider clauses designed to increase harmonisation of standards within the FICs, including the creation of a regional standards body as already envisaged under the Regional Trade Facilitation Programme to be based at NISIT in Papua New Guinea. As suggested above there could be legal recognition in the PACER Plus agreement for a new regional standards body and institutional infrastructure, together with specific commitments of technical assistance and staff exchange with Australian and New Zealand institutions.

‘Beyond the Border Barriers to Export of Goods to ANZ’

Quarantine standards in ANZ are stringent and prevent many potential FIC agricultural and wood-based goods from being sold in the ANZ market. FICs have raised concerns about the implementation of SPS measures in ANZ. While the application of SPS measures in ANZ is WTO consistent, the absence of authorised flexibility to recognise the potential equivalence of FIC SPS measures poses a barrier to FIC exports. Most FICs have limited resources to overcome ANZ quarantine requirements. Many do not have adequate treatment facilities to eliminate pests in the pre-shipment phase and treatment options at the border can diminish the value of goods as, for example, would fumigation of organic produce. Both Australia and New Zealand require import permits for quarantine materials to be obtained in advance, which can be a difficult administrative barrier. Permits are emphasised in particular for fresh fruit or vegetables or any food item containing dairy, egg, meat, or animal products. Application of Risk Category—the highest level of surveillance—applies to many potential FIC exports including beef, dried coconut, tuna (fresh, frozen or canned) and shellfish.

Exports to ANZ must also meet legally defined product standards. Both Australia and New Zealand share a regime for quality assurance in food standards through Food Standards Australia New Zealand (FSANZ). For food and other goods, ANZ require that producers have a documented operating Hazard Analysis and Critical Control Point (HACCP)-based quality system as well as ISO 9000 series quality management standards. Implementing a Quality Assurance system that meets HACCP and ISO 9000 standards can be excessively difficult for small FIC businesses; the cost of implementation alone can be prohibitive. Processed agricultural goods are subject to these standards, which in turn can prevent FIC agricultural producers from moving up the value chain in export goods.

FIC exports must also adhere to packaging and labelling requirements set forth by ANZ regulatory agencies. These requirements can be complex and confusing to potential FIC exporters despite the presence of many ANZ-origin products in their own economies. Both Australia and New Zealand retain the right to refuse import of improperly labelled items.

Source: Nathan Associates (2007)

It would be in the Cook Islands’ interests to ensure that standards comply with New Zealand, its biggest trading partner. If that body does not exist by the time of signature, there might be a framework for incorporating legal recognition for the body into the PACER Plus Agreement at a later date.

In practical terms, the current baseline is characterised by significant under-capacity both within the private sector in the Cook Islands (as in other FICs) to meet standards, and within the government to provide support services to that end (for example conformity assessment by laboratory testing). It is worth noting however that standards themselves might be varied – ranging from those used for grading agricultural produce, quality controls in industrial assembly lines, those used in the tourism sector to rate hotels, to builders’ codes in the construction industry.

The benefits to the Cook Islands of better standards is often unclear, yet in many industries the adoption or improvement, recognition and enforcement of standards that lead to higher quality can promote value addition, and can sometimes create

2005 World Trade Report on TBT

Increased standardisation activity reflects, among other factors, demand by consumers for safer and higher quality products, technological innovations, the expansion of global commerce and the increased concern paid by many government and NGOs to social issues and the environment. Standards have played an important role in fulfilling these needs...[But] standards can [also] be a means of hidden protection. Even if standards are not protectionist in intent, badly designed and applied standards can have highly discriminatory consequences for trade partners. In the world of reduced tariff protection and multilateral trade rules that limit the ability of governments to increase taxes and quantitative restrictions, it is not surprising that they are sometimes tempted to use other means to restrict imports. This is a perennial issue in international trade relations.

Source: WTO 2007

opportunities for new sectors to emerge, for example niche markets for high-grade products. Perhaps more importantly, standards also play an essential part in ensuring consumer welfare, safety and information – and through this, greater social development. Export markets often demand that certain quality controls are applied, or tests carried out, on products before trade can occur. The area of technical standards is a large and complicated, including:

- Laboratory testing facilities and their accreditation
- Oversight and development of standards
- Improved marketing techniques for export commodities such as black pearl
- Certification of products
- Conformance to standards, and putting a legislative and regulatory framework in place

While standards themselves might be varied, the key work to be done on standards is – at least at a basic level, to put in place a framework for developing, identifying and logging standards and then ensuring that they are applied correctly. The Cook Islands will need assistance, both financial and technical from Australia and New Zealand to strengthen its institutional capacity to meet the technical barriers to trade.

4.2 Trade preferences and revenue implications

The Cook Islands has a very limited available range of trade-related policies. It has already reduced most import levies to zero. Like most other Pacific island states it is a tiny, open economy influenced heavily by a large neighbour, a situation which reduces policy autonomy. Because the Cook Islands uses the New Zealand dollar, base interest rates and the exchange rate are managed by the Reserve Bank of New Zealand. There may be room for some limited lowering of domestic bank lending rates (see box 2), particularly given the concerns over the cost of borrowing expressed by several business people, but this is best achieved not by interest-rate caps or state-directed lending, but by improving information on borrowers and improving financial intermediation and competition.

As mentioned above, the government has already reduced most tariffs to zero, apart from specific and ad valorem duties and excise on sin and luxury goods. Revenues experienced a one-off reduction of around NZ\$5 million owing to the

import tariff liberalisation, which the government has attempted to recoup via higher VAT collections. A small number of other products, including certain vegetables, pork and eggs, carry a protective rate of 25-70%, some on a seasonal basis, aimed at protecting local producers. Ice cream imports are taxed at 12.5%, the coconut import levy is 75%, while black pearl imports are taxed at 100% to protect the local industry.

Value added tax was introduced in 1998 as part of the civil service reform package, and has come to represent the highest single source of revenue, at an average of 54% of revenues for the last five years. Income tax is levied on a progressive basis, reaching 30% for the highest earning individuals. Revenues from this source amount to 27% of total government revenues for the 12 months until June 2009. Import levies generated 13.9% of revenues. A number of other smaller taxes account for the remainder of revenues, which totalled NZ\$76.9 million. The following table summarises revenue sources for 2008-9.

Table 2 Government revenue sources, 2008-09

Revenue source	Amount, NZ\$'000*	% of total
VAT	41,845	54.40
Income tax/ PAYE	20,771	27.00
Import levy	10,690	13.90
Departure tax	3,571	4.64
Overtime recoveries	24.5	0.03
Other	13.2	0.02
Turnover tax	5.6	0.01
Miscellaneous	2.5	0.00
Total	76,923	100

* NB 12 months until 30 June 2009

Compliance is generally good. Applying the 80:20 rule or the 90:10 rule, large taxpayers pay about 70% of the taxes. Pursuing small tax payers carries high associated costs. In such a small and centralised country it is relatively easy to cross-check compliance using VAT receipts and other methods. Duty exemptions exist in a number of areas including vehicles. Exemptions are issued by the Trade Investment Development Board and are intended to promote business development.

Fiscal expenditure is often considered in isolation from trade policy, yet it has strong implications for trade policy, particularly in small economies, as it is often the government that drives imports; fiscal and trade deficits are often closely associated. Although tariffs are often set for revenue rather than trade-related reasons, the Cook Islands is somewhat unusual in that it has apparently based its tariff policy on economic rather than fiscal motivations. One advantage of making the transition to lower tariffs in advance of PACER Plus is that the government does not have to worry about replacing lost revenues. Fiscal space is limited, however, given the recent increase in capital expenditure and rise in the loan stock. Some room for manoeuvre exists in customs and quarantine, but these should be used for technical or environmental reasons rather than as trade promotion tools.

Subsidies are offered in a selected number of areas, including the Rarotonga-Los Angeles flight operated by Air New Zealand. The total cost of subsidies (also supported by the New Zealand government) to Air New Zealand alone amounted to around 4% of government operating expenditure. Interest rate subsidies took up 2.7% of operating expenditure in the 2009 budget (ADB 2009). As noted above, this may not be the best use of government funds.

4.3 Trade-related capacity building

Ameliorating human capacity constraints

The Ministry of Foreign Affairs and Immigration with engagements at numerous fronts such as PICTA, EPA, and more recently PICTA Trade in Services will be stretched to its limit. This will severely curtail its ability to provide focal responsibility on PACER Plus discussions. The same challenge will more likely be faced by the Ministry of Finance and Economic Management⁷. Both human and capacity constraints will need to be addressed in all line ministries before the advent of formal negotiations. Discussions with the department of Customs revealed that New Zealand has already indicated its support to fund an automated Customs system and discussions are now at the concept stage with funding likely to be made available once a feasibility study is undertaken. In addition to the continuance of capacity development, there will be need for additional human resources to provide full time attention to the issues of PACER Plus.

Building the workforce

The Cook Islands have lost a large number of qualified and experienced professionals. This has been exacerbated by the free movement of Cook Islanders to New Zealand and Australia. However, as pointed out earlier, there is a need to focus more on the working conditions, pay incentives and a clear and transparent career path to help retain skilled professionals such as doctors, lawyers, teachers, accountants and even hotel chefs which are some of the shortages in skilled labour.

Capacity building programs should tie in with the Australian Pacific Technical College (APTC) centre in Nadi, Fiji and the University of the South Pacific which has a campus in Rarotonga to agree on a form of accreditation arrangements between the Cook Islands and both Australia and New Zealand to allow for a flexible and recognised training system. Training should include exchange programs with Australian and New Zealand tertiary institutions aimed at specific fields such as medicine, law, finance, engineering, public/ administration management and teaching. These trainings could be tied to a bond system where new graduates are expected to spend at least 3 years in the Cook Islands to serve in the public service or private sector before considering employment elsewhere. Another option is to adopt a scheme where additional allowance is paid to skilled professionals to relocate to far-flung or remote locations to retain quality service delivery to the outer islands.

Skills Database: There is need for an analysis of the current labour force with an identification of areas of weakness where there is need for training and capacity building. It is then a matter of deciding what further programs or courses need to

⁷ The lack of automated Customs valuation system means increased imports is more likely to stretch the capacity of the existing Customs officers.

be offered or what other initiatives are required in building capacity in these areas of need and how they may be delivered.

Tourism: There is need for more short-term based practical training as part of tourism and hospitality programs targeting small-to-medium-sized tourism enterprises. This could include on the job mentoring and coaching related programs geared towards up-skilling in areas such as reception, tour guides, chefs and waitress. The Cook Islands' training plan on tourism-related fields should continue to reflect hands-on practical issues and in close consultation with the Cook Islands Hotels Association and partnership with existing tourism-related business enterprise associations. The Cook Islands National Tourism Organisation could be tasked to provide training programs to small and medium sized hotels throughout the Cook Islands to meet international standards and also conduct public awareness campaigns through media.

Health Sector: The health sector in the Cook Islands, like in most other FICs needs an upgrade with the level of medical facilities, technical capacity and medical specialists on areas such as urology, cardiology, surgery, orthopaedic, ophthalmology and psychiatry. A major push factor for outward migration is a lack of quality medical facilities and support in Rarotonga to deal with complicated ailments.

4.4 Opportunities by sector

One way to determine where the best opportunities in the Cook Islands might be is to examine the turnover of the various sectors to assess where the growth sectors might be. The table in Annex 8 provides the figures for the five years from 2004 to 2008. The growth sectors are in wholesale and retail (10% increase over the 5 years), hotels and motels (20%), transportation and communication (9%), financial and business services (11%) and commercial and personal services (34%). Intriguingly the highest growth (39%) is in "other industries", so perhaps more research as to exactly what this includes would yield some niche investment opportunities. However, not all sectors are open for investment by foreigners in the Cook Islands. Under current foreign investment regulations a number of business activities are, subject to specified exceptions, reserved for Cook Islanders to develop and expand. The 'rules' governing foreign investment are described in the Development Investment Act 1995-96 and the associated Investment Code. These are implemented by the Development Investment Board⁸. Tourism has been the pillar of the Cook Island economy for many years, with the Hotels and Motels and the Restaurants and Bars sectors accounting for 17.6% of the turnover of all industries⁹. The Hotels and Motels sector employs 542 Cook Islanders and 175 expatriates. Tourist arrivals each year number approximately 76,000. Almost 57% of arrivals come from New Zealand and only 11% come from Australia. When the multiplier effect is taken into account the tourism industry is overwhelmingly the most significant industry in the Cook Islands.

The needs of each of the three segments of the tourist sector referred to in an earlier section of this report need to be considered separately as regards PACER Plus. At the lower end alternative business models need to be considered. An

⁸ A table summarizing the potential benefits, challenges and opportunities under a PACER Plus agreement in the different investment sectors in Cook Islands and their state of performance is contain as Annex 9

⁹ All figures are 2008 figures taken from the 2009 Annual Statistical Bulletin

example of this would be to convert to the 'lifestyle villages' that have become popular for the over-50s in Australia and New Zealand. To be successful, this concept would need changes to retirement and taxation law as well as improved infrastructure in certain areas. This could be facilitated under PACER Plus. The middle level competes directly with resorts in other countries and needs to address its relative 'value' by focusing on distinct Cook Island advantages. PACER Plus can contribute through improved airline agreements lowering the airfare component, improved service levels through quality and training accreditation, and better marketing through business-to-business networking. The upper level would also benefit from these measures, but as its market is international it is to some extent independent of PACER Plus.

In summary, the areas where benefit could be gained from the proposed PACER Plus agreement for the tourism sector include:

- Improved efficiency of importing goods from Australia and New Zealand would result in lower operational costs and hence improved competitiveness.
- Reducing barriers to foreign investment would allow new operators into the market who would bring with them new products and who could source from new markets.
- Improvements to the regulatory/legal environment including transferability of retirement benefits and more flexible taxation arrangements for retirees.
- Any harmonisation of the regulatory environment, e.g. in health and safety, would improve the quality and hence the competitiveness of the tourism product being offered by the Cook Islands.
- The same would apply to training standards and accreditation.

4.5 Private sector investment

Investment opportunities in the Cook Islands are limited by:

- a shortage of commercially viable opportunities in a sector with sustained growth
- an investment environment that is not as competitive in comparison to other Pacific Island countries as it could be, and is perceived by some to be not totally transparent and not consistently implemented
- land issues
- relatively high costs of doing business
- the geographic isolation of the Cook Islands leading to higher transport and communication costs.

The advantages of investing in the Cook Islands include;

- a more sophisticated business environment than other PI countries
- relatively good governance
- familiarity with the New Zealand and Australian way of doing business
- a well developed tourism industry
- lifestyle advantages.

PITIC New Zealand reported that one of the stumbling blocks of the investment-ready projects in the Cook Islands is the price of those projects. Most of the participants who went on their investment mission to the Cook Islands in 2009 mentioned that it is very expensive to invest in the real estate and tourism projects in the Cook Islands. This could be because there is a 'point of resistance' (perhaps related to a perception on the part of tourists as to value for money) that prevents the existing resorts from charging more, or because the internal market is very competitive, or because of price competition from other countries.

The NZ investors also mentioned that the land tenure is another difficult issue.

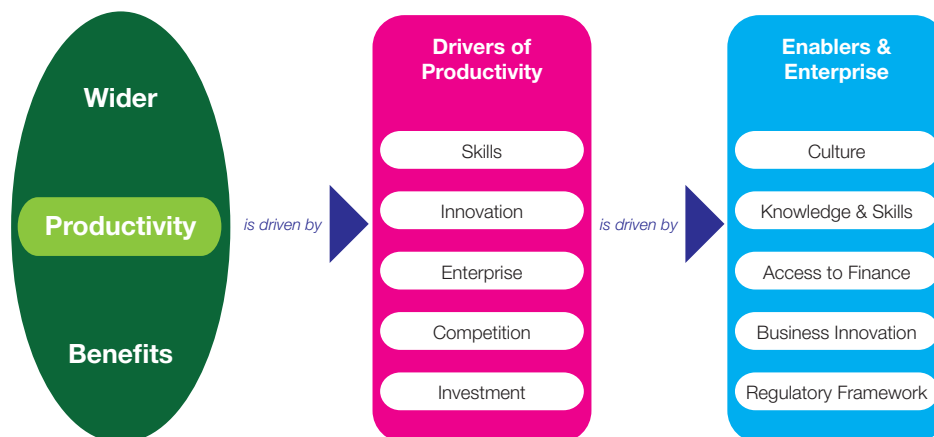
Whilst the current regulations might have worked effectively in the past several people we interviewed commented adversely about them. So it was encouraging to know that they are under review and could change considerably in the future (a) to more accurately reflect the views of the people of the Cook Islands as to what areas of investment should be open to foreigners and under what conditions, (b) to increase the level of foreign investment in the Cook Islands and to direct it to particular sectors and/or geographical regions, and (c) to be more transparent and more effectively implemented. One of the main objectives of PACER Plus should be to increase inward foreign direct investment (FDI) into the Cook Islands from Australia and New Zealand. This leads to two important issues. First, the Cook Islands will have to make the investment environment more conducive to attract FDI from Australia and New Zealand, which could be achieved through PACER Plus and/or independently of PACER Plus agreements. Second the Cook Islands should consider targeting FDI within its broader development objectives. Tourism, for example, has been identified by the Government of the Cook Islands as a key sector, and the NSDP aims to attract investment in hotels to address room shortages. While the broader investment environment is important in and of itself, the greatest gains will come from aligning foreign investment reforms with the development goals of the Cook Islands. Especially as the latter can be better managed and monitored.

Developing an SME strategy

Whilst the NSDP offers meaningful Goals and Strategies for private sector development and investment, nothing much changes until these are effectively implemented. Of more value to this study is the recent SME strategic plan "Enabling Enterprise"¹⁰. This document establishes priorities and gives more detail on what needs to be done to increase private sector development and investment. The broad outline of the plan is shown in the following diagram. Each of these factors has relevance to PACER Plus.

¹⁰ Cook Islands Government, *Enabling Enterprise: A 10 Year Strategy for SME Development in the Cook Islands*

Figure 14 Outline of SME Strategic Plan



1. Drivers of Productivity

- a. **Skills:** The implementation of a PACER Plus agreement could be expected to result in a greater alignment between the skill levels (qualifications) in the Cook Islands and Australia-New Zealand in the same way that the 1990 Agreement on Standards, Accreditation and Quality and the 1991 Joint Accreditation System for Quality Accreditation did for Australia-New Zealand. The organisation's key objective was the establishment of an internationally recognised accreditation system for quality management systems, product certification and personnel certification. This accreditation established confidence in, and recognition of, the producers and products of New Zealand and Australia.
- b. **Innovation:** The development of a culture of innovation within a society is a complex issue that takes time to develop. A closer economic relationship with Australia-New Zealand, where innovation is well entrenched, can only assist Cook Island business people. This could be augmented by specific measures such as integration of innovation into the primary and secondary school curriculum and business-to-business programme that include mentoring and education. These are measures that can be built into a PACER Plus agreement in the same way that a separate and specific focus on industry sectors, such as the dairy and information technology industries, was built into the CER Business Dialogue programme of the Australia-New Zealand CER.
- c. **Enterprise:** A similar situation as exists for innovation.
- d. **Competition:** It is interesting to note that no safeguards measures or anti-dumping actions apply in the Australia-New Zealand CER. Domestic competition law prohibitions on the misuse of market power were extended to trans-Tasman markets. Also that there are no export subsidies or export incentives on goods traded in the area. This is an approach that could be extended to PACER Plus provided technical and financial assistance was made available to improve competition law in the Cook Islands.
- e. **Investment:** As noted in previous sections of this report, rules-based investment agreements are not recommended for the Cook Islands.

However, investment will increase when an attractive investment environment based on, for example, a good regulatory environment, is provided.

2. Enablers and Enterprise

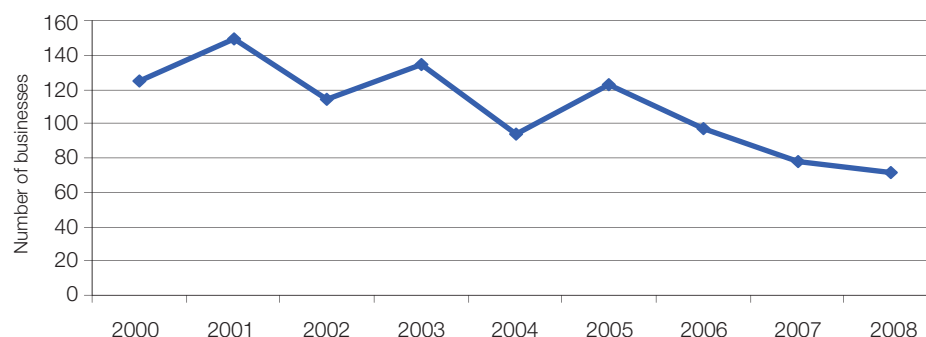
- a. **Culture:** The business culture in the Cook Islands will inevitably move closer to that of Australia-New Zealand as PACER Plus is implemented. This can be encouraged by specific measures such as Business Dialogue and mentoring programmes.
- b. **Knowledge and skills:** Discussed above.
- c. **Access to finance:** This is an inherent problem with small under-developed economies everywhere. It may be appropriate to include specific measures, e.g. the establishment of an investment fund, in the PACER Plus negotiations.
- d. **Business innovation:** Discussed above.
- e. **Regulatory framework:** One of the first actions under the Australia-New Zealand CER was the 1988 Memorandum of Understanding (MOU) on the Harmonisation of Business Law. This provided the starting point for dialogue between Australia and New Zealand on business law issues. In August 1999, Australian and New Zealand officials agreed to revise the existing MOU to ensure that it reflected Australia's and New Zealand's common understanding of coordination in business law, key objectives for progressing work in this area, and revised work programme. The Memorandum of Understanding on the Coordination of Business Law was subsequently signed in August 2000. This MOU is focused on coordination and recognition that one single approach is not necessarily suitable for every area. A similar approach could be followed by the Cook Islands.

Successful delivery of the SME Development Strategy is expected to result in:

- A greater proportion of people with ambition to start businesses;
- An increase in the proportion of SMEs making use of business advice; and
- An increase in the proportion of SME turnover due to new or significantly improved products.

Private sector development

There are approximately 1,500 VAT registered businesses in the Cook Islands plus an unknown number of informal businesses. However the trend for new registrations is down as shown in the following graph taken from the SME strategic plan "Enabling Enterprise".

Figure 15 **New business registered for VAT**

The table Annex 4¹¹ gives Gross Turnover by sector for those businesses and the percentage change over the previous year. Although the figures fluctuate greatly, some conclusions can be drawn.

- a. The private sector as a whole has recorded good growth for the last ten years to 2008, although with large fluctuations (from 1.7% in 2008 to 25.1% in 2000).
- b. Within this overall growth there have been significant fluctuations across the sectors. It is difficult to ascertain any pattern, and hence any reasons, for these fluctuations.
- c. Consistent growth is recorded for the Hotels and Motels sector (except for 2008 which may be as a result of the effect the global recession has had on major markets such as New Zealand) and associated sectors such as Restaurants and Bars, Transport and Communications, and Wholesale and Retail.
- d. The Agriculture and Fishing sector grew for the first five years of the period, peaking in 2003, but has been steady since then. This is consistent with the decline in fish stocks across the Pacific.
- e. The classification of Other Industries has seen the greatest growth over the period (VAT revenues increasing by over 2 ½ times) until it is now the fourth largest sector. This would indicate that the business community has responded to a changing local and international business environment by moving into new businesses.
- f. The only sector to decline is in Community and Personal Services (by 40%).

It is useful to examine the main sectors in more detail to determine where the potential for growth is. What might be done in the context of a PACER Plus agreement to promote growth is examined in a subsequent section of this report.

These figures are supported by figures on TOT/VAT Collected on Sales and Income.

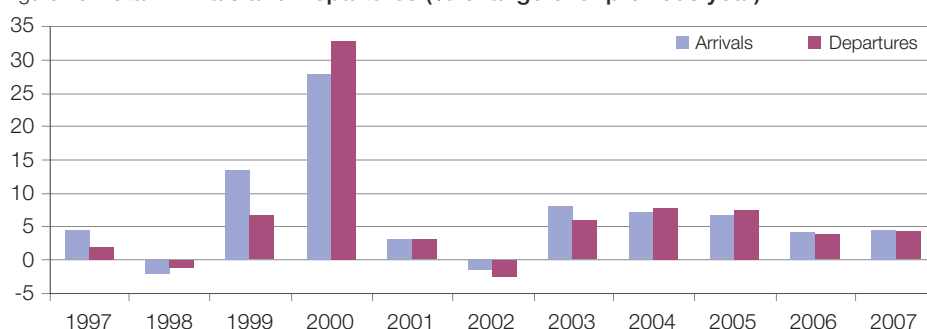
The Hotels and Motels sector, whilst only the third largest in term of turnover (after Wholesale and Retail and Transport and Communications) is the most significant

¹¹ Cook Islands Annual Statistical Bulletin 2009

because of the large number of other businesses that are dependent on it. The table¹² on Annex 3 shows the growth in this sector in terms of the number of hotels and motels and the number of employees. The number of rooms has reached a plateau at around 1,100 for the last five years, and the only growth in employment has been in expatriate workers.

The growth in total arrivals and departures are shown in the following chart¹³.

Figure 16 Total Arrivals and Departures (% change over previous year)



This shows steady growth, with one of the main challenges being to extract more value from each tourist. This means more use of local goods and services, and offering a wider range of activities.

More worrying is that the room occupancy for 2008 was only 53.3% leaving little space for new investment in the sector in its current format for some years. Superficially this indicates that investment has outpaced the growth in tourist numbers. However, this is not the full picture as the industry is quite segmented. At the bottom are a large number of individual home stay units where demand is seasonal and management is often less sophisticated than at the larger resorts, giving lower occupancy rates. In the middle are the small to medium sized resorts that were probably most affected by the downturn in tourist numbers. At the top end are the larger resorts and 'up-market' accommodation that serves the premium market.

The offshore banking (financial services) industry is ranked second only to tourism in its contribution to the GDP of the Cook Islands¹⁴. Where previously it had a poor record it is now properly regulated and meeting international standards. It has entered into Tax Information Exchange Agreements (TIEA) with Australia and New Zealand and has the potential for expansion. However this is limited by the poor quality and relatively expensive internet services available. The offshore finance industry in the Cook Islands has mostly recovered from the bad reputation it gained in the 1980/90s from events such as the so-called "wine box affair" in New Zealand. With the establishment of the Financial Services Development Authority and the Financial Supervisory Commission, and with the signing of OECD-recognised Tax Exchange Agreements with 11 countries including Australia and New Zealand (with one more to go), the Cook Islands reputation has improved considerably. However, there is still room for improvement as evidenced in the recent decision of France to blacklist the Cook Islands.

¹² Cook Islands Annual Statistical Bulletin 2009

¹³ Cook Islands Annual Statistical Bulletin 2009

¹⁴ Source: Meeting with the Financial Services Development Authority

4.6 Trade-related Infrastructure

Shipping and ports

Up to 90% of imports arrive by ship, mostly from New Zealand. Annual cruise ship spending has been calculated at up to \$25 million, or 7% of GDP. This sum alone is approximately four times the value of all goods exports. Ports and shipping are therefore a particular priority.

International goods shipments are relatively reliable, regular and frequent, although some business people suggest that the cost of international shipping restricts export (see box 3 – Perfumes of Rarotonga). As noted earlier, the government may wish to look at opening up its reserved list of investments to international competition in order to reduce the cost of inter-island shipping.

The cost of security measures owing to increased international vigilance over terrorism is a particular burden for the Cook Islands Ports Authority, particularly because land at the wharf is scarce. Funding may be sought under PACER Plus in the areas of health, bio security, premises for customs, policing and quarantine.

The harbour is being extended using an ADB loan, and the Ports Authority Manager is finding other revenue opportunities in order to service the loan, including the development of a new retail outlet. An attempt is being made to harmonise port charges with those in other Pacific countries, which will mostly mean an increase in the number of charges, with a consequent increase in revenues. A loan has also been taken out to build a new harbour for cruise ships on the West coast. Up to 10 cruise ships fail to stop at the main harbour each year due to storms or big seas. A cost-benefit analysis suggests that missed arrivals cost the country up to NZ\$1.3 million a year.

Flights

Currently there are six flights a week from the Cook Islands to New Zealand and one a week direct to Los Angeles, direct. Flights are usually full, while cargo space for exports is significantly underutilised at around 99 percent of free cargo space. The reverse is true for imports into Rarotonga from Auckland where the cargo space is fully utilised at almost 70-80 percent on average plus incoming passengers. The Los Angeles flight is considered to be important as it is estimated to bring in NZD 35 million. Air New Zealand offers discounts for major exports. However supply of export produce is usually low; for example it is estimated that at least 60 tonnes of free cargo space per week remains unutilised from Rarotonga to New Zealand. Because of the increasing tourism demand from Australia, the government has committed to subsidising a new route from Sydney to be effective by July 2010 for a four month trial period with a 37% loading factor (i.e. 220 seats per flight) on a Boeing 737. The total subsidy cost will be NZD 2.5 million. Negotiations are also underway for another service to connect Rarotonga with Nadi, Fiji with Air Pacific around October 2010. Both service routes are highly sought after by the private sector, including hotel operators as a means to open up access and offer competitive fares and access to other markets such as China, Japan and the rest of Asia as well as Europe.

Case study: Success by design – Tav Pacific

Tav Pacific is a boutique clothing manufacturer based in Rarotonga with a large retail outlet in Auckland. Employing 20 staff at its headquarters, the company sells a range of handmade cotton garments to a range of overseas markets. With a history spanning two decades, Tav has built up exports to an annual NZ\$600,000, mainly to Japan and New Zealand. Other export destinations include Hawaii, Tahiti, Samoa, and Solomon Islands. Shipments have previously gone to France and the UK.

“Considerable work has gone into building up the brand over many years,” says owner and manager Ellena Tavioni. “For instance it costs NZ\$40,000 to put on a show at Auckland fashion week.” Owning a dress designed and manufactured in the Cook Islands is a big draw for many foreign customers.

A growing tourism market means that domestic sales are rising. Tavioni is launching a new marketing campaign to take advantage. She says that production could almost double with the same labour force, given better marketing and improved overseas market access. Potentially the workforce could expand to 30. Tav can now be counted as one of the biggest and long-standing goods exporters in the Cook Islands. One of the main challenges, however, is that foreign manufacturers often copy Tav’s designs using cheaper materials imported from China. In the Cook Islands Tavioni has seen identical patterns printed on cheap cloth for less than half the price. Tavioni doesn’t think that intellectual property legislation would help because it would be easy for the imitators to alter a small part of the design in order to claim originality. The technical nature of the legislation and high costs of bringing a lawsuit would be a big burden for such a small company.

High tariffs are another obstacle. Fiji levies a 30% import duty on garments to protect its domestic industry, primarily from Chinese imports. Tavioni would consider producing via a factory within the region – particularly Fiji, where labour costs are cheaper – but she is put off by the government’s protectionist stance. French Polynesia could also prove a lucrative market but high protective tariffs look set to remain in place for many years. A few years ago the company opened a store in Tahiti, only for it to be burnt down two weeks later along with NZ\$20,000 in stock.

Tav faces a classic case of tariff preference erosion. The recent New Zealand-China Free Trade Agreement allows Chinese garments to enter the country duty-free, heralding new competition for Tav – although its products are aimed at a higher market segment. Given that Tav already has duty-free access to New Zealand under SPARTECA, Tavioni believes PACER Plus has little more to offer. She has faced no technical challenges in entering New Zealand and says that the government has always been supportive.

The Cook Islands has already reduced tariffs on most items to zero, so PACER Plus would mean no new foreign competition in the domestic market; and Tav has already proved it is internationally competitive. The possibility of new TRIPs legislation under PACER Plus might be a deterrent to potential counterfeiters, but given the tricky nature of the business and the high costs of bringing a case, it is unlikely to be much help. Any legal action would have to be pursued in the country of the transgressor rather than in the Cook Islands. Ultimately Tav is a Pacific success-story, founded not on trade preferences or historic colonial relationships, but on unique designs and years of hard work. It is exactly the kind of niche business that any new trading arrangement should continue to support.

Case study: Perfumes of Rarotonga

Tatiana and Colin Burn employ 15 to 17 workers in a printing company, a clothing store and a perfumes producer, Perfumes of Rarotonga. Their business typifies the conditions which currently characterise the Cook Islands economy. The couple say that the tourism market drives growth in each business. The government contracts that sustain the printing operation are largely tourism-related, whilst it is mostly tourists who shop at the clothing store. Diversification across three areas of business has proven necessary in such a small and volatile market.

The handmade range of perfumes sells well to visitors, but exports, which have previously been made in small quantities, would be uncompetitive in large volumes owing to high labour costs – the minimum wage is NZ\$5 and the going rate for experienced workers is higher, at NZ\$9 or more. Shipping costs are also expensive (even though Air New Zealand offers a special export rate of NZ\$1 per kilo).

A franchise arrangement might be feasible, whereby the perfumes are produced abroad. But for now Perfumes of Rarotonga remains a boutique enterprise which looks set to prosper on the back of the tourism boom.

4.7 Migration

Generally, one of the potential benefits from a PACER Plus agreement with Australia and New Zealand is access to Australia and New Zealand under Mode IV (temporary movement of natural persons – also referred to as ‘labour mobility’). Since Cook Islanders are already free to move to New Zealand, and as New Zealand citizens also to Australia, such access under PACER Plus would not carry the same potential additional benefit that it does for the other FICs.

Constraints in the New Zealand and Australian labour markets

Notwithstanding the access to labour markets, in New Zealand, Cook Islanders have a lower labour force participation rate than the total population (55% versus 75%) while in Australia, the labour force participation rates of Cook Islanders (67%) is slightly higher than for the total population (65%). In both countries, Cook Islanders are less qualified than the total population. In New Zealand, 55% Cook Islanders of 15 years and above hold a formal qualification compared to 75% of the total population of this age group. In Australia, 33% of Cook Islanders above 15 years of age hold a post school qualification, compared to 53% of the total population of 15 years and above. Since their English language skills are very good – in Australia for instance, of the 3,190 Cook Islands-born people who spoke a language other than English at home at the 2006 Census, only 6.0% spoke English not well or not at all – the low level of qualifications and skills is the main constraint that Cook Islanders face in the New Zealand and Australian labour markets. This is the reason for their employment in predominantly low to medium skilled occupations. In Australia for instance, only 7% of Cook Islanders work as Managers & Administrators or Professionals, compared to 29% of the total population. In New Zealand, the average income of Cook Islanders is 81% of the average income of the total population, while in Australia their income is almost the same.

Return and circular migration

Some emigrants return to the Cook Islands. The biggest cohort of returnees is that of people in their 40s who managed to save money abroad and want to start a new life in the Cook Islands. However, return migration is not confined to those born in the Cook Islands but some children of emigrants who were born and raised abroad have also returned. In contrast to the reasons for migration which are often economic, the reasons for return migration are predominantly personal.

While living overseas, many Cook Islanders retain close links to the Cook Islands. Many migrants visit regularly. In 2008, 9,626 people visited the Cook Islands for the purpose of visiting friends or relatives. The vast majority of these were Cook Islanders.

The Director of Immigration has suggested that the New Zealand government could consider paying unemployment benefits to jobless Cook Islanders – say for a period of six months – on the condition that they returned to the Cook Islands to look for work. This would relieve the financial burden on the New Zealand government as well as encouraging repopulation. However even if the New Zealand government agreed to fund the programme there would be nothing to prevent people from returning after six months. The system would be administratively difficult to operate and would be unlikely to attract skilled workers or professionals.

Furthermore, existing policies regarding superannuation and unemployment benefits in New Zealand make it unattractive for Cook Islanders to return to the Cook Islands. Superannuation funds in New Zealand can only be accessed when workers reach retirement age. If the person has returned to the Cook Islands, he or she must move back to New Zealand and stay there for five years in order for the funds to be released (Mission notes: PMs Office, Policy Unit). This policy has been an important factor for retirees staying in New Zealand rather than in the Cook Islands.

In regards to unemployment benefits, Cook Islanders are eligible to receive these after moving to New Zealand, making it an incentive to remain in New Zealand (Mission notes: Combined Law Agency Group). In 2006, 32% of Cook Island Maori in New Zealand received income support from the government.

There are several strategies that could be applied to make a return to the Cook Islands more attractive. Given that better health and education services as well as better employment opportunities overseas are important reasons to migrate, measures to attract Cook Islanders back to the Cook Islands either permanently or temporarily should include:

- improved health services including medical treatment for age-related illnesses;
- improved education and training especially in the area of apprenticeship programs to provide skills training locally, instead of Cook Islanders moving to New Zealand or Australia for training and eventually staying there;
- review of existing investment-related policies, aimed at attracting and retaining Cook Islander businesspeople;
- improved management structures, career and training opportunities in the public sector;

- temporarily supplementing wages for return migrants in the public sector.

In regards to superannuation and unemployment benefits, the following measures are suggested to make it more attractive to return to the Cook Islands:

- abolishing the requirement of returning to live in New Zealand for five years in order to access superannuation funds;
- introducing incentives for Cook Islanders on unemployment benefits to return to the Cook Islands to work, for instance by continuing the payments of a certain % of unemployment benefits for a certain amount of time after their return.

On the other hand, the Cook Islands could introduce a circular migration scheme, similar to that in place in Mauritius. Mauritius' initiative to develop Circular Migration aims at widening the scope of opportunities for workers to work abroad, save money and come back to start a small business or invest in other economic activities. While receiving countries could fill labour shortages, increase revenue, and reduce social tensions related to undocumented and unmanaged migration; sending countries would accumulate savings and human capital that might otherwise be lost; and migrants could increase their income, build human capital and financial savings, maintain links with their families, pay lower remittance costs, create trade/investment linkages between countries and come and go freely.

A bilateral agreement on circular migration was signed between Mauritius and France in 2008. Under the Agreement, Mauritian workers are allowed to go and work in France for a specific period, gain experience, save money, before returning to Mauritius to find employment in new sectors of the economy or set up their own Small and Medium Enterprises (SMEs). This Agreement is unique. A multiple entry visa is issued for short stays to a wide range of persons who are actively involved in economic relations, commerce, professionals, university students, scientists, cultural and sport activities. The visa is valid for up to 3 months per semester for a duration of one to five years.

Mauritius is currently seeking Financial and Technical Assistance from Development partners, including a "Matching Savings Scheme" as an incentive for return and reintegration; a "Development of Remittance Schemes" to attract remittances to SME development, and "Capacity Building" by training of all organisations involved in labour migration and institutional strengthening.

Based on the Mauritian model, the Cook Islands could negotiate the introduction of a similar scheme with Australia and New Zealand under the PACER Plus.

Policies to prevent the loss of skills

There is a need for pragmatic policies to arrest the increasing outflow of the population if the Cook Islands are to achieve long-term growth and investment. While labour migration has the potential to generate positive development benefits, it should not be regarded as an alternative to sound policies for home country development. It will also be expensive to attract and retain migrant workers especially in high skilled employment. The long term solution to low incomes, unemployment and poverty in the Cook Islands is through rapid growth and development which will serve to generate employment opportunities at home so that people migrate out of choice and not necessity. Hence, the causes of migration need to be addressed, including the quality of education

and health services, as well as career and promotion opportunities in the public sector to make staying in the Cook Islands more attractive. Moreover, if training opportunities in the Cook Islands were enhanced and were meeting Australian and New Zealand accreditation standards, the outward migration for education and training would be slowed.

Policies aimed at being compensated

A policy option that has been increasingly discussed in the migration literature concerns compensation payments for permanent migrants. In the case of the Cook Islands, this would mean that if Cook Islander migrants remain in the Australia or New Zealand, there should be a compensation payment by the host country to the source country, at least covering the public costs of education and training of the migrants. However, this policy is unlikely to be accepted by the migrants' host country, unless perhaps as part of a broader agreement such as under PACER Plus.

Migrant workers' rights

The treatment of migrant workers in the Cook Islands is an issue worth reviewing if the Cook Islands is to negotiate a reciprocal TMNP chapter under PACER Plus or even under the imminent PICTA TMNP.

The protection of migrant workers requires a sound legal foundation based on international law including the two International Labour Organisation (ILO) Conventions dealing with migrant workers and the UN Convention on migrant workers.

The Commonwealth Secretariat has developed a code of practice for the international recruitment of health workers and a protocol on teacher recruitment, providing frameworks for interaction between countries as they seek to meet the basic health and education needs of their populations. Under PACER Plus, source and destination countries will be encouraged to adhere to these Codes.

4.8 Budgetary support

Another potential 'trade plus' issue to be raised in PACER Plus discussions will be the linking of aid from Australia and New Zealand as a direct budgetary support based internationally recognised good governance criteria.¹⁵ Most donor agencies have a longstanding concern with governance issues and institutional structures of recipient countries including those in the Pacific. At the same time, donor agencies have been criticised for failing to harmonise procedures and activities in line with the national priorities of host countries. The Paris Declaration¹⁶ and Accra Agenda for Action¹⁷ have sought to bridge these concerns and improve the effectiveness of aid delivery, including: Improving country ownership, building more effective and inclusive partnerships and achieving development results and openly accounting for them. The latter, especially, has led a focus to support developing countries to produce stronger national statistical and information systems improve monitoring

¹⁵ A paper titled PACER Plus Linking Aid as Direct Budgetary Support to Internationally Recognised Good Governance Criteria was presented at the Small Island States (SIS) meeting in Tonga in September 2007.

¹⁶ Arising from the Paris High Level Forum on Aid Effectiveness, hosted by the French government and organised by the OECD in February 2005.

¹⁷ Arising from the third High Level Forum on Aid Effectiveness held in Accra, Ghana in September, 2008

and evaluate impact. One suggested tool for ensuring better harmonisation of aid flows to national development strategies is the provision of direct budget support. The 'quid pro quo' from wary donors is to link direct budgetary support to 'good governance' mechanisms – encompassing a minimum respect for human rights related issues, media freedom, pluralistic democracy and rule of law, including independence for the judiciary, as well as anti-corruption with implementation of prevention and control measures to be put in place.

The key aid donors to Cook Islands are the Asian Development Bank (ADB), China, New Zealand and Australia and the EU. The latter is a relatively small donor. There are also regional donor assistance programs from institutions including the SPC, PIFS, The Pacific Financial Technical Assistance Centre (PFTAC) and others. China has recently funded a huge project on constructing water tanks in Rarotonga. ADB is currently injecting some funds to the Cook Islands as direct budgetary support with the expansion and upgrade of the wharf in Rarotonga which is being viewed as a pilot project to stimulate growth.

The idea of direct budgetary support however is something that the Cook Islands is quite neutral about, perhaps because of the shortfall associated with the independency of such an arrangement as they have observed with NZAid which combines both New Zealand and Australian aid. It was also revealed that discussions on this has commenced between New Zealand and the Cook Islands under NZAid program which have a harmonised aid program with AusAID combined to the tune of NZD 16 million for 3 years. Although the government may be in favour of direct budgetary support to secure funds into areas such as infrastructure upgrade it is still concerned about the length of time and administrative work load to get approval process from project proposal to the disbursement of funds.

The fact that New Zealand is the Cook Islands' key trading partner and donor raises the very real prospect that these issues will be tabled during PACER Plus discussions and there is a likelihood that Australia will follow suit because of its combined aid with NZaid. In many ways it makes sense to include aid harmonisation and direct budget support into a wider program of economic integration. But that then exposes 'aid' as a negotiable tool. Linking aid to better governance reforms is one thing, but the risk in discussing this under a trade deal is that it could be linked to other market liberalisation reforms that may not necessarily be in the Cook Islands' best interests. On the other hand, negotiating aid delivery in PACER Plus could enable the Cook Islands to seek quantitative and time bound commitments on aid as direct budgetary support from Australia and New Zealand. One possible scenario would be to link aid flows to per capita income however in this case the Cook Islands could receive relatively less aid compared to most of its Pacific partners but in fair proportion to its level of economic development.

It is noted that the terms of the original PACER agreement signed in 2001, stipulates both Australia and New Zealand ensure adequate level of funding to 'promote timely implementation of the objectives of the agreement including trade facilitation programmes'. PACER also establishes a framework for regional trade facilitation programmes designed to enhance the effectiveness and benefits of trade liberalisation among Forum members. So the bottom line is that it is in the Cook Islands' interests that any inclusion of aid funding in PACER Plus discussions be over and above what is otherwise negotiated bilaterally with Australia and

New Zealand combined under the NZaid, and not result in aid being tied to trade liberalisation measures.

4.9 Beyond trade

Public administration and procurement

Given the small populations of most Pacific Island states, the State plays a prominent role.¹⁸ In the Cook Islands budgeted government expenditure for 2010 is 54.8% of GDP, while the public sector workforce constitutes up to half the working population, at around 2,000-2,500 including parastatals. In the absence of a large private sector the government must provide a number of essential public services. Rather than the government crowding out private sector activity, there may be a residual level of state activity below which the economy simply ceases to function effectively. The recent government stimulus package in response to the crisis is an important example of the need for an effective government with the capacity to raise international and domestic funds in times of downturn.

It is sometimes assumed, particularly within the business community that a shrinking of the state could lead to a flourishing of the private sector. Although an increase in the size of government would be undesirable, conversely a significant transfer of activities to the private sector is unlikely, if only because of the tiny size of the working population, skills shortages and the absence of a number of key industries. Further, under the late 1990s civil service reform programme a considerable number of public sector workers moved to Auckland because they could not find jobs locally. A shrinking of the public service contributed to depopulation, and there is little reason to believe it would not do so in future.

For these reasons the Director of Public Service argues that PACER Plus should not be an opportunity to remove a large number of activities from government, suggesting instead that a proportion of development assistance be directed toward improving the efficiency of key government agencies – such as Customs and Quarantine – through capacity building and technical assistance.

The Cook Islands should not include government procurement in PACER Plus negotiations as Australia and New Zealand may seek further binding liberalisation in this area. Furthermore, reciprocity from Australia and New Zealand will mean little for the Cook Islands. The Cook Islands already has a credible open tender system for government, including monitoring and reporting mechanisms that meet international requirements. A number of countries continue to explicitly exclude government procurement from free trade agreements; many for developmental reasons.

Government procurement can be an important tool of development. As government is often the largest purchasers of products and services, it can generate employment and promote local production in particular areas deemed desirable. When local companies are given preference by government for a short

¹⁸ Apart from the recent resurrection of Keynesian economic policy as a result of the global economic crisis, there is also an emerging body of economic thought that recognises that a small public sector may be less efficient than a moderate-sized one (see recent writings by Danny Rodrik, Paul Krugman, Joseph Stiglitz and Ha-Joon Chang). The 'night watchman' state appears likely to be an ideal that is not realisable in practice. States can play a unique role in activities such as ensuring economic stability; providing 'complementary goods' (Shin 2005); building and running some infrastructure; regulating markets; mitigating coordination failures; and reducing asymmetries of information.

period of time, they can learn new techniques or production processes, helping to make them internationally competitive.

PACER Plus negotiations can include “thresholds” (below which local companies can be prioritised, but above where tenders must be made internationally). However such thresholds can be arbitrary, and locking in thresholds in trade agreements can curtail future policy space.

If government procurement were to be included in PACER Plus, it should be in the form of legal Acts rather than quantitative thresholds, and the Cook Islands should seek recourse to special provisions as a Small Island State. Legal Acts can include measures under which the country can change its policies (including any thresholds) as necessary. Because legal acts are both transparent and legal (from a sovereign point of view) they go beyond the purview of trade agreements. Under PACER Plus, government procurement would reflect the Cook Islands’ Legal Act on Procurement rather than any arbitrary quantities.

Finally, the government is likely to come under considerable administrative pressure as new trading arrangements come into place. Instead of creating additional national bodies to administer the new arrangements, the establishment of regional organisations would make considerable sense for the Cook Islands. During consultations it was suggested that some degree of regional harmonisation could take place in qualifications and skills; quarantine; TRIPs; standards (see below); customs; utilities regulation; competition; and criminal prosecutions.

Intellectual property rights

Because of the additional administrative burden and the reduction in policy space arising from stricter intellectual property rules, it is not in the interests of the Cook Islands to include more complex intellectual property legislation or new intellectual property institutions in any PACER Plus agreement. The primary objective should be to ensure that intellectual property legislation promotes health and education through access to medicine, resources for education and health and other items.

Additional intellectual property legislation runs the risk of undermining human development goals by raising the costs of generic medicine and educational materials. It can also be a drain on administrative capacity and resources, with few clear development benefits and heightened risks of litigation from foreign companies. Even the potential benefits of protecting traditional knowledge can be problematic. While it may be useful to support the inclusion of intellectual property in PACER Plus for the sake of raising its prominence in international trade discussions, at the national level it may open up unproductive, resource-draining disputes.

Addressing health concerns

Consultations with most of the stakeholders including the Combined Law Agency Group (CLAG) indicated that there is an increasing import and consumption of unhealthy food products including imports of poorly labelled food items, some of which are labelled in foreign languages (eg. Indonesian/Filipino/Chinese) and are not understood by the general public. These include food items such as snacks and biscuits. This poses a health concern for the population which by observation suggests a relatively high number of obesity both in the youth and elderly age bracket. There is also concern of dumping of second grade imported

products from New Zealand including not conforming to bilaterally agreed quarantine standards on goods such as potatoes (with presence of soil on them), exposing risks to possible bugs and diseases that can be transported through poor standards. It was widely accepted that there is a need for a Food Act and Standards regulation covering food and general imports (of other items such as appliances) into the Cook Islands to regulate and improve quality whilst also mitigate risk factors associated with health and safety.

Alternative (renewable) sources of energy

There is a general demand for alternative sources of power such as solar and windmill. Discussions with the private sector, Non-Governmental Organisations (NGOs) and the department of Agriculture suggested the need for the Government to explore erecting or facilitate investments geared towards establishing large-scale renewable energy power plants/supplies. This is mostly for environmental reasons including to maintain its pristine environment to remain as a hot spot for tourists in the region. In addition, the argument also lies to the high cost of electricity which equates to high processing costs for its exports and even for services industries such as hotels, offices and the like. It is estimated that on summer a standard/average company size building such as the size of the National Tourism Office located in Rarotonga is billed at around NZD 2,500 per month with possible higher consumption depending on the increased usage of air condition units. The Cook Islands could include discussions with Australia and New Zealand for technical assistance in the form of renewable sources of energy such as wind farms and solar power plants to help cut down on reliance on fossil fuel, which is a major contributing to the high costs of doing business in the Cook Islands.

Bulk procurement of fuel

At the Forum Leaders' Meeting of 2009 in Brisbane, Leaders applauded the signing of a government to government memorandum of understanding between the Governments of Cook Islands, Nauru, Tuvalu and Niue. This MOU which Cook Islands is party to outlines the responsibilities of the aforementioned Forum member countries under the auspices of the Pacific Petroleum Project. Discussions with the Ministry of Internal Affairs confirmed that is an area which Cook Islands should continue to pursue with the PIFS for technical assistance from Australia and New Zealand for bulk procurement of petroleum from their bulk procurement arrangement to achieve greater economies of scale and lower costs to the Cook Islands. This report suggests that the Cook Islands take a lead role in this discussion with potential allies at the regional level if it has not done so.

Waste management

Consultations also noted the concerns raised by the traditional chiefs and the civil society groups on the country's current capacity and resources to properly manage and address waste including sewage disposal in a small island country and capital city such as Rarotonga which covers 67 Square Kilometers in land size. Rarotonga is the most populous island with a population of around 12,000 residents and hosts the bulk for some 90,000 visitors who visit Cook Islands on an annual basis. Cook Islands may need to conduct a thorough assessment of its current waste disposal versus its growing industries and planned investment activities to ensure that its traditional way of life, culture and natural habitat remains intact amidst its plans to invest and attract increased tourists and

investors into the country. The government is quite silent about this issue, perhaps because it does not see it as a threat or priority issue at this stage and that is understandable.

Waste treatment and or conversion of waste material such as human waste into other useful forms such as to generate power could be another innovative discussion for the Cook Islands if it is serious about keeping its environment safe and free of pollution to continue attracting tourists. The process of converting human excrement into fuel has been developed for example by scientists in Thailand. Although the process maybe expensive, in the future as natural oil supplies dwindle and as demand increases, this form of bio-energy could become economically viable. Although most island countries face waste disposal problems, it remains one of the key developmental issues to address if the country is determined to maintain its pristine natural beauty such as its clean beaches and blue oceans, one of the best in the region.

5. Sequencing and modalities for PACER Plus

It is imperative that the modalities for PACER Plus negotiations be established early on. The modalities will involve the framework, approach and subjects for negotiations. For instance, should the negotiations be pursued bilaterally between the Cook Islands– Australia and Cook Islands–New Zealand or between the Cook Islands and Australia and New Zealand? Or should the Cook Islands form coalitions with the other FICs and negotiate as two regions – FICs and Australia and New Zealand. Each approach has its own pros and cons. For example, while bilateral discussions may facilitate more contextualisation to the interest of the Cook Islands, it may also expose the Cook Islands to the vast resources and expertise of the Australian and New Zealand negotiation machine. Similarly, a regional approach may mitigate the latter concerns, but at the same time there might be trade off with contextualisation of interest that is unique to the Cook Islands.

In light of these complexities, a Two-Tier Approach maybe best suited for the Cook Islands to pursue its interest and assuage any trade offs involved in other alternatives. The Two-Tier Approach basically disaggregates negotiations depending on subject matter in the following manner:

5.1 Tier one

Tier One should be framed as bilateral negotiations between the FICs as a single group, to which the Cook Islands is a member and Australia and New Zealand. This tier should be utilised by the Cook Islands, along with other FICs, to establish the preamble of PACER Plus negotiations. In addition, the Cook Islands should also utilise this tier for negotiations on PACER Plus Dispute Settlement Mechanism.

The preamble should cover issues such as what are the issues that would be discussed in PACER Plus negotiations, how the discussion would take place (and hence the defining of Tier Two), the timeline and benchmarks for such negotiations, what are the resource constraints and how they will be addressed, and so forth. In simple terms this tier should establish the rules and norms for PACER Plus negotiations. While the details of the preamble will require cooperation and consultation with other FICs to establish a common understanding, the Cook Islands could lead the debate by placing importance on the discussion of ‘Non Tariff Barriers’ (NTB) and ‘Technical Barriers to Trade’ (TBT). The benefit of PACER Plus will be greatest to the Cook Islands by addressing NTB and TBT issues such as rules of origin, SPS measures, quarantine, accreditation on tertiary education, technical assistance on health and education, mutual recognition of qualifications, capacity constrains, amongst others. And therefore at the time of drafting the preamble in tier one the Cook Islands should aim to

establish that NTB and TBT issues will be given first priority and discussed before other trade issues such as tariffs, investments, services, etc.

Given the importance of trade with Australia and New Zealand, how the Dispute Settlement Mechanism (DSM) is structured under PACER Plus will be of vital importance. New Zealand is by far the bigger trading partner than Australia for the Cook Islands. While the main export destination is Japan, New Zealand and Australia ranks second and third respectively. New Zealand is the main port for the Cook Islands global trade both by sea link and air. Given these binding factors, it is likely that there will be trade-related disputes between the Cook Islands and New Zealand and Australia, more so with the latter. While all three (Cook Islands—once it becomes a member) will have access to the PACER Plus DSM, it is more desirable that disputes emanating from trade between the three be resolved amicably, both through the PACER Plus mechanism and perhaps amicably as the Cook Islands shares a warm relationship with New Zealand and Australia that goes beyond trade. In light of these realities, the details of a PACER Plus DSM should be first discussed and established between the Cook Islands and FICs, and then between Pacific island countries and Australia and New Zealand.

It is also important that benchmarks be established to inform the progress in PACER Plus negotiations. The Cook Islands should use capacity development (as per the needs identified in this paper and others that will emerge as negotiations progress) as one of the key benchmarks for informing progress in PACER Plus negotiations. As already stated above, the benefit of PACER Plus will rest on addressing NTB's and TBT's that restrict realising trade potential between the Cook Islands, Australia and New Zealand. For instance, progress would be achieved and negotiations could proceed to the next stage if the capacity constraints of Cook Islands exporters to meet Australia and New Zealand's SPS measures are satisfactorily met.

5.2 Tier two

Negotiations at this level would mostly entail issues that are specific to the Cook Islands including negotiations on tariff liberalisation, investment and services. While most of these issues will be context specific, negotiators may nonetheless, in the course of negotiations, find commonalities with other FICs. It is recommended that the Cook Islands pursue negotiations both bilaterally with Australia and New Zealand and in close partnership with other Forum Island Countries. The decision to choose either or both should be based on the subject being negotiated and how the Cook Islands best perceives the promotion of its interests. In this regard, the Cook Islands must be flexible in forming different coalitions, on different subjects of negotiations with other FICs. And for others it may be best pursued bilaterally and directly with Australia and New Zealand.

6. Summary of key findings and recommendations

The report so far has highlighted the opportunities and challenges for the Cook Islands in PACER Plus. This section focuses further on a number of the reoccurring findings and recommendations.

6.1 Attracting and retaining Cook Islanders

The government should look at retaining and attracting Cook Islanders in order to effectively arrest depopulation. These policies could include providing for scholarships the Cook Islands nationals to study in Rarotonga; additional investment and expansion of the university campus; and better policing and enforcement of the scholarship bond system. Other incentives could include incentives to professionals such as doctors, teachers and others wishing to relocate back to the Cook Islands

The Cook Islands could consider introducing a circular migration scheme, similar to that in place in Mauritius, aimed at widening the scope of opportunities for workers to work abroad, save money and come back to start a small business or invest in other economic activities. There is a need to focus more on pay incentives and a clear and transparent career path to help retain skilled professionals such as doctors, lawyers, teachers, accountants and even hotel chefs.

6.2 Potential benefits from a strong Cook Islands diaspora scheme

There are various potential policies aimed at fostering connections with the Diaspora and strengthening economically beneficial links with the Diaspora. These can include programmes and policies to stimulate knowledge exchange, business contacts and Diaspora philanthropy which can be fostered by organising government delegations to visit the Diaspora and organise Diaspora meetings in New Zealand and Australia. The Diaspora can be economically integrated into the Cook Islands by establishing business associations. If members of the Diaspora feel that they are involved in the home country, philanthropy and FDI will follow. Diaspora members may benefit through greater potential access to economic opportunities, and information resources. Incentives such as discount on freight luggage especially on outbound flights (which are usually at low capacity) for families carrying food and or handicrafts back to New Zealand and Australia could be an option for Diaspora members.

6.3 Promoting a strong private sector and building an FDI conducive environment

There is a need for the Cook Islands to review and rejuvenate government enterprises that are not performing and/or being seen as bottlenecks to facilitate ease of foreign direct investment and private sector engagement in the country. The government should embrace a range of measures to privatize inefficient government enterprises and facilitate foreign direct investment through close consultation with the private sector. It should explore the potential of promoting opportunities for entrepreneurial-minded people both in the Cook Islands and those abroad. The Cook Islands could continue to take a leading role in spearheading a strong private sector and FDI investment role in the PIPSO meetings on issues such as the long-discussed idea of a “South Pacific Brand” to compete and maintain its image and product quality differentiation on products such as black pearl.

There is also a need to reflect on the BTIB Investment Action Plan 2009-2010 which was commissioned by PIFS as part of the Investment Policy Support Programme (IPSP) but yet to be implemented. These are:

- a. Embark on a new and updated investment code and stronger investment regulations in place by end July 2009.
- b. Develop a common country strategy and policy to promote and monitor both local and foreign investment.
- c. Formulate a strategy for developing a local knowledge base and capacity building in business and entrepreneurship.

6.4 Capacity building/training needs

PACER Plus negotiations will aim at sharing the costs of training, improving market access concessions, strengthening supply capacity for domestic and external demand, increasing transparency in qualification/certification recognition and visa procedures. National policies would then aim at providing access to Mode IV movements into the Cook Islands on an equitable basis, retaining skills, and increasing the potential benefits and reducing the costs of the scheme.

Capacity building programs should tie in with the APTC centre in Nadi, Fiji, and the University of the South Pacific which has a campus in Rarotonga to agree on a form of accreditation arrangement to allow for a flexible and recognised training system between the Cook Islands and both Australia and New Zealand. Training should include exchange programs with Australian and New Zealand tertiary institutions aimed at specific fields such as medicine, law, finance, engineering, public/administration management and teaching. These trainings could be tied to a bond system where new graduates are expected to spend at least three years in the Cook Islands to serve in the public service or private sector before considering any offshore employment elsewhere. Another option is to adopt a scheme where additional allowance is paid to skilled professionals to relocate to far-flung or remote locations to retain quality service delivery to the outer islands. Focus on some ‘innovative training’ schemes that involves on-the job training, coaching and or mentoring to improve skills at the existing job.

6.5 Skills database

There is need for an analysis of the current labour force and skills in the different occupational categories, with an identification of areas of weakness where there is a need for training and capacity-building. It is then a matter of deciding what further programs or courses need to be offered or what other initiatives are required in building capacity in these need areas and how they may be delivered. The lack of skilled labour also increases the cost of doing business in the Cook Islands with the need to spend time and money on searching for and importing labour. An analysis of the current labour force is required with an identification of areas of weakness where there is a need for training and capacity building.

6.6 Adapting an improved evidence based database

In order for the Cook Islands to be effective in PACER Plus negotiations and other trade negotiations, and trade and development policy it will need access to more accurate and comprehensive trade, investment and other economic activities data such as updating its skill labour force against its outward migration and number of migrant workers. For example, requests to the Department of Immigration for data were either inadequately met or unanswered largely either due to thinly-stretched human resources or to the unavailability of data. Updated trade and investment data that is made available to foreign direct investors and or potential investors is vital for a well-informed decision for potential businesses as well as for the government and or donor agencies in informing and formulating trade-related policies and incentives to support decision making and implementation of various national development programs. The Cook Islands should consider establishing a trade and investment database, frequently updated, at the Ministry of Foreign Affairs in conjunction with the BTIB. In producing this trade data, it should work closely with the Ministry of Finance and Economic Management including the division of Statistics. It will require technical assistance in the form of training for collecting and analysing trade and investment data.

6.7 Ameliorating human capacity constraints

Without mitigating measures, the biggest single cost of PACER Plus is likely to be the administrative burden it places on such a tiny administration – both in its initial negotiation and its continued implementation. The Crown Law Office, for example, has only five staff, outsourcing all drafting to freelance consultants. The Department of Customs has eight permanent and 12 part-time staff. The Business Trade and Investment Board (BTIB) is similarly capacity-constrained and is currently dealing with trade agreements ranging from PICTA services negotiations to the Economic Partnership Agreement with the European Union, although Nathan Associates (2007) cites the Cook Islands negotiating structure as exemplary. The Ministry of Foreign Affairs with engagements at numerous fronts such as PICTA, EPA, and more recently PICTA Trade in Services will be stretched to its limit. This will severely curtail its ability to provide focal responsibility on PACER Plus discussions. Technical assistance may still be needed in order to help the country cope with negotiations, while narrowing down the scope of negotiations will also help reduce the administrative load. The more issues that can be dealt with collectively at the regional level, the smaller will be the burden on the government. Indeed the formation of a series of new regional institutions may have long-run administrative and substantive benefits.

6.8 An opportunity to address the health sector

The health sector in the Cook Islands, like in most other FICs needs an upgrade with the level of medical facilities, technical capacity and medical specialists in areas such as urology, cardiology, surgery, orthopaedic, ophthalmology and psychiatry. A major push factor for outward migration is lack of better medical facilities and support in Rarotonga to deal with complicated ailments such as Osteoporosis and others such liver and kidney failures which are mostly common in old age citizens. The government could use this opportunity under PACER Plus to investigate some new form of medical packages with the assistance of Australia and New Zealand based on both improved public health care program and a user-pays system for the affluent Cook Islanders or investors. This could also attract retiree investors who may have been discouraged due to lack of proper medical facilities to treat their illnesses and or possible risks associated with lack of such facilities.

6.9 Need to modernise customs systems

The Department of Customs is exploring options to move to a more efficient system such as PC-Trade or ASYCUDA to fast track clearance of imports and support businesses that rely on imports. Although ASYCUDA can be costly and can be more complicated than is needed for a small island economy, PC Trade should only be adopted if long-term technical support can be guaranteed. The Solomon Islands government found that after the adoption of PC Trade, New Zealand stopped providing support. Officials in the departments of Trade and Customs in the Solomon Islands suggested that they would have preferred to undergo the more complex initial installation and training costs of ASYCUDA rather than be left with a system which has limited technical support. Now that the system has been installed, it would be difficult to scrap it and retrain staff. Officials found that PC Trade lacks several of the functions required for successful integration with trade databases and customs compliance. The UN Conference on Trade and Development (UNCTAD) expresses a preference for ASYCUDA, which they say carries the additional benefit of being used by neighbouring countries. ASYCUDA would be preferable as it is better supported and more common in other PICs. There is also a need to strengthen customs computerisation and link tax databases and agents to the central system with the Customs database to speed up clearance processes. Although New Zealand is already examining the possibility of support to Customs upgrades, future support may come under PACER Plus.

6.10 Need to streamline fast track approval processes

Across the Pacific visa application processes are slow, with a high degree of administrative discretion. Economic needs tests, localisation policies and local training obligations on foreign firms are present in most jurisdictions (PDP Australia Pty Ltd, 2007). Horizontal restrictions on land and labour in the Cook Islands are tight. Annual work permits renewable for just three years, and a five-year limit on lease-holdings without approval act to stifle the inflow of both skills and investment capital (PDP Australia Pty Ltd, 2007). The process of importing labour into the Cook Islands could be streamlined, thereby making the process both faster and more affordable.

6.11 Forming a regional bloc on Rules of Origin

In light of the declining value of preferences for the region as a whole, the most important question at this point is one of timing, and whether reform should occur in the context of SPARTECA or negotiations on a reciprocal PACER Plus agreement.

It is recommended that the Cook Islands support any regional position on seeking an ‘early harvest’ on better RoO in negotiations – either as a prerequisite to PACER Plus negotiations or at an initial stage. If changes are not agreed early on, the Cook Islands will need to reassess the value of market access under the goods agreement. In order to advance this position, the Cook Islands will need to work quickly with key potential beneficiary FICs (most notably Fiji) to adopt a common position on the type of RoO reform sought, and a timeframe for delivery. This position may not be aimed at supporting export industries which export goods that are of Cook Islands’ origin, but rather to take a lead role in consolidating the FICs’ regional position on a common RoO that is easier to administer and less burdensome.

Annex 1

Exports to Australia and New Zealand, 2005-9

Cook Islands Exports in detail – 2005 to 2009

Year: 2005	Destination	Tariff	Description	Unit	Quantity	FOB Value (\$NZ)
	Australia	03011000	Fish; Live, Ornamental	KG	824	15,149.87
		05080011	Shells, Unworked	..	0	47,269.73
		06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	1,314.00
		20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	11,000	52,000.00
		33030000	Perfumes and Toilet Waters	..	0	4,640.00
		61050000	Shirts; Men's or Boys', Knitted or Crocheted	NO.	2,253	11,155.00
		62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO	9,050	37,592.00
		71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	51,667.00
		71011010	Natural Pearls from the Oyster – Pinctada Margaritifera	No.	447	20,268.00
		71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	76,643	919,791.00
		71012210	Worked pearls from the oyster – pinctada margaritifera	No.	4	800.00
		71161000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed) of Natural or Cultured Pearls	..	0	2,000.00
		71179000	Imitation jewellery; Other.	..	0	2,600.00
			Total			1,166,246.60

New Zealand	03011000	Fish; Live, Ornamental	KG	3,131	66,030.66
	03034000	Fish; Tunas (genus Thunnus), Skipjack or Stripe-bellied Bonito, excluding Fillets, Livers and Roes, Frozen	KG	29,308	142,148.00
	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	329,844	424,961.11
	05080011	Shells, Unworked	..	0	47,969.73
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	8,675.00
	08072000	Papaws (papayas), Fresh	KG	72,694	63,710.00
	08100000	Fruit, Fresh; n.e.s. in Chapter 8	KG	28,124	56,248.00
	09100090	Saffron, Thyme, Bay Leaves, Curry and other Spices	KG	1,540	14,350.00
	20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	381,300	1,729,450.00
	33030000	Perfumes and Toilet Waters	..	0	2,445.00
	61050000	Shirts; Men's or Boys', Knitted or Crocheted	NO.	13,096	56,730.00
	62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO	36,035	175,151.00
	62050000	Shirts; Men's or Boy's	NO.	381	1,815.00
	71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	46	500,140.00
	71011010	Natural Pearls from the Oyster – Pinctada Margaritifera	No.	6,687	219,156.00
	71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	31,923	378,205.00
	71011030	Pearls – Other	No.	18	9,164.00
	71012210	Worked pearls from the oyster – pinctada margaritifera	No.	4	800.00
	71012220	Other	No.	2,010	5,500.00
	71130090	Jewellery articles and Parts thereof, of Precious Metal or of Metal Clad with Precious Metal, n.e.s.	..	0	15,800.00
	71161000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed) of Natural or Cultured Pearls	..	0	6,000.00
	71179000	Imitation jewellery; Other.	..	0	5,725.00
	76020000	Aluminium; waste and Scrap	KG	4,100	2,900.00

	81020000	Molybdenum; articles thereof, including waste and Scrap	..	0	15,000.00
	96010090	Ivory, Bone, Tortoise-shell, Horn, Antlers, Coral, Mother-of-pearl and other Animal Carving Material and articles of these Materials; Worked, (including articles Obtained by Moulding), other	..	0	4,800.00
		Total			3,952,873.50
Year: 2006					
Destination	Tariff	Description	Unit	Quantity	FOB Value (\$NZ)
Australia	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Filets, Livers and Roes, Frozen	KG	22,540	29,587.00
	05080011	Shells, Unworked	..	0	30,000.00
	07096000	Vegetables; Fruits of the Genus Capsicum or of the Genus Pimenta	KG	48	160.00
	08072000	Papaws (papayas), Fresh	KG	4,255	10,300.00
	20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	14,923	198,270.00
	61050000	Shirts; Men's or Boys', Knitted or Crocheted	NO.	250	1,150.00
	62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO	1,912	9,520.00
	71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	35,248.00
	71011010	Natural Pearls from the Oyster – Pinctada Margaritifera	No.	1,030	5,000.00
	71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	37,452	696,161.00
	71012220	Other	No.	240	7,875.00
	71132000	Articles of jewellery and parts thereof; of base metal clad with precious metal.	..	0	3,594.00
	71161000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed) of Natural or Cultured Pearls	..	0	5,000.00
	96010010	Shells, Worked; Coral, and articles	..	0	600.00

		Total				1,032,465.00
New Zealand	03011000	Fish; Live, Ornamental				
	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	2,845		136,205.67
	03041000	Fish; Fillets and other Fish Meat, Fresh or Chilled (whether or not Minced)	KG	240,946		221,402.56
	05080011	Shells, Unworked	KG	800		11,266.00
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0		138,144.00
	07096000	Vegetables; Fruits of the Genus Capsicum or of the Genus Pimenta	..	0		4,489.00
	07149020	Taro, Fresh or Dried, whether or not sliced in the form of Pellets	KG	1,853		8,580.00
	08072000	Papaws (papayas), Fresh	KG	400		400.00
	20070090	Marmalades, Fruit or Nut Puree and Fruit or Nut Pastes, being cooked preparations; whether or not containing added Sugar or other Sweetening Matter, other	KG	138,594		513,200.00
	20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	KG	1,648		1,880.00
	33040000	Cosmetic and Toilet preparations; Beauty, Make-up and Skin Care preparations (excluding Medicaments, including Sunscreen or Sun Tan Preparations), Manicure or Pedicure preparations	LT	321,096		2,842,270.00
	44210000	Wooden articles n.e.s. in Heading No. 4414 to 4420	..	0		120.00
	46019000	Plaits, Finished articles of Plating Materials	..	0		12,000.00
	48191000	Cartons, Boxes and Cases, of Corrugated Paper or Paperboard	..	0		300.00
	48195000	Other Packing Containers, including Record Sleeves	..	0		80.00
	61050000	Shirts; Men's or Boys', Knitted or Crocheted	..	0		400.00
	62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO.	5,952		32,596.00
	62050000	Shirts; Men's or Boy's	NO	26,562		131,399.00
	62082000	Nightdresses and Pyjamas, Women's or Girl's	NO.	334		1,760.00
	63023000	Bed Linen; not Printed, other	..	0		150.00
	71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0		750.00
			..	0		848,671.00

	71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	89,230	1,369,276.00
	71011030	Pearls – Other	No.	3	600.00
	71012210	Worked pearls from the oyster – pinctada margaritifera	No.	0	40,960.00
	71012220	Other	No.	960	31,500.00
	71090000	Base Metals or Silver, Clad with Gold, not Further Worked than Semi-manufactured	..	0	4,104.00
	71161000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed) of Natural or Cultured Pearls	..	0	15,000.00
	73250000	Iron or Steel; Cast articles	..	0	1,885.00
	81020000	Molybdenum; articles thereof, including waste and Scrap	..	0	314,593.74
	92020000	Musical Instruments; String, n.e.s. in Heading No. 9201, (e.g. Guitars, Violins, Harps)	NO.	30	150.00
	96010010	Shells, Worked; Coral, and articles	..	0	2,250.00
	96010090	Ivory, Bone, Tortoise-shell, Horn, Antlers, Coral, Mother-of-pearl and other Animal Carving Material and articles of these Materials; Worked, (including articles Obtained by Moulding), other	..	0	3,300.00
		Total			6,689,681.97
Year: 2007					
Destination	Tariff	Description	Unit	Quantity	FOB Value (\$NZ)
Australia	03011000	Fish; Live, Ornamental	KG	300	8,168.00
	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	80,688	104,177.50
	09020000	Tea	KG	8	750.00
	20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	13,000	87,580.00
	61050000	Shirts; Men's or Boys', Knitted or Crocheted	NO.	302	1,510.00
	62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO	405	2,023.00

71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	6,005.00
71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	27,313	274,610.00
71012210	Worked pearls from the oyster – pinctada margaritifera	No.	0	2,200.00
72040000	Ferrous waste and Scrap; Remitting Scrap Ingots of Iron or Steel	KG	32	8,880.00
	Total			495,903.50
New Zealand				
03011000	Fish; Live, Ornamental	KG	1,338	39,413.00
03023000	Fish; Tunas of the Genus Thunnus, Skipjack or Stripe-bellied Bonito, excluding Livers and Roes, Fresh or Chilled	KG	60,238	391,532.00
03024000	Fish; Herrings, excluding Livers and Roes, Fresh and Chilled	KG	15,120	60,480.00
03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	1,114,431	1,515,812.60
05080090	Cattle-bone; Unworked or simply prepared but not cut to shape, powder and waste	..	0	59,997.00
06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	13,101.00
07096000	Vegetables; Fruits of the Genus Capsicum or of the Genus Pimenta	KG	26	100.00
08072000	Papaws (papayas), Fresh	KG	62,835	166,600.00
09020000	Tea	KG	29	4,600.00
20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	149,135	777,848.00
34011100	Soap; Organic Surface Active Agents in the form of Bars, Cakes, Moulded Pieces or Shap for Toilet use (including Medicated Product	KG	100	652.00
34011900	Soap and Organic Surface-active Products an preparations, in the form of Bars, Cakes, Moulded Pieces or shapes; Paper, Wadding, Felt and Nonwovens, Impregnated, Coated or Covered with Soap or Detergent, not Toilet	KG	15	428.00
48191000	Cartons, Boxes and Cases, of Corrugated Paper or Paperboard	..	0	320.00
48192000	Folding Cartons, Boxes and Cases, of Non-corrugated Paper or Paperboard	..	0	80.00
49010000	Printed Books, Brochures, Leaflets and similar Printed Matter, whether or not in Single Sheets	..	0	5,500.00
61030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overalls, Breeches, Shorts (not Swimwear); Men's or Boys'. Knitted or Crocheted	NO.	894	4,634.00

61050000	Shirts; Men's or Boys', Knitted or Crocheted	NO.	1,805	9,115.00
62030000	Suits, Ensembles, Jackets, Blazers, Trousers, Bib and Brace Overall, Breeches and Shorts (other than Swimwear); Men's or Boys'	NO	12,113	55,434.00
71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	1,069,389.00
71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	29,653	451,785.00
71011030	Pearls – Other	No.	13,510	193,000.00
71012210	Worked pearls from the oyster – pinctada margaritifera	No.	1	4,960.00
71012220	Other	No.	30	28,976.00
71130010	Jewellery articles and Parts thereof, of Precious Metal or of Metal Clad with Precious Metal; Badges, Medals and Insignia	..	0	3,000.00
71130090	Jewellery articles and Parts thereof, of Precious Metal or of Metal Clad with Precious Metal, n.e.s.	..	0	23,000.00
71132000	Articles of jewellery and parts thereof; of base metal clad with precious metal.	..	0	909.00
71160000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed)	..	0	4,150.00
72040000	Ferrous waste and Scrap; Remitting Scrap Ingots of Iron or Steel	KG	211,012	140,283.00
76020000	Aluminium; waste and Scrap	KG	11,000	15,000.00
81020000	Molybdenum; articles thereof, including waste and Scrap	..	0	154,398.21
81040000	Magnesium; articles thereof, including waste and Scrap	..	0	7,309.00
81060000	Bismuth; articles thereof, including waste and Scrap	..	0	66,090.00
81130000	Cermets; articles thereof, including waste and Scrap	..	0	4,000.00
96010010	Shells, Worked; Coral, and articles	..	0	148,808.00
96010090	Ivory, Bone, Tortoise-shell, Horn, Antlers, Coral, Mother-of-pearl and other Animal Carving Material and articles of these Materials; Worked, (including articles Obtained by Moulding), other	..	0	3,000.00
	Total			5,423,703.81
Year: 2008				

Destination	Tariff	Description	Unit	Quantity	FOB Value (\$NZ)
Australia	03011000	Fish; Live, Ornamental	KG	194	5,725.00
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	1,037.00
	34012000	Soap; in forms n.e.s. in Heading No. 3401	KG	32	428.00
	48111000	Paper and Paperboard; Tarred, Bituminised or Asphalted, in Rolls or Sheets, other than Goods of Heading No. 4803, 4809, 4810 or 4818	KG	0	320.00
	71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	108,935.00
	71011010	Natural Pearls from the Oyster – Pinctada Margaritifera	No.	1,000	25,000.00
	71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	17,605	192,026.00
	71130090	Jewellery articles and Parts thereof, of Precious Metal or of Metal Clad with Precious Metal, n.e.s.	..	0	111,600.00
	71160000	Articles of Natural or Cultured Pearls, Precious or Semi-precious Stones (natural, Synthetic or Reconstructed)	..	0	3,220.00
	81100000	Antimony; articles thereof, including waste and Scrap	..	0	3,795.00
New Zealand	96010090	Ivory, Bone, Tortoise-shell, Horn, Antlers, Coral, Mother-of-pearl and other Animal Carving Material and articles of these Materials; Worked, (including articles Obtained by Moulding), other	..	0	600.00
		Total			452,686.00
	03011000	Fish; Live, Ornamental	KG	3,450	103,569.00
	03023000	Fish; Tunas of the Genus Thunnus, Skipjack or Stripe-bellied Bonito, excluding Livers and Roes, Fresh or Chilled	KG	21,325	138,071.20
	03034000	Fish; Tunas (genus Thunnus), Skipjack or Stripe-bellied Bonito, excluding Fillets, Livers and Roes, Frozen	KG	200	200.00
	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	3,573,241	4,455,531.76
	05080090	Cuttle-bone; Unworked or simply prepared but not cut to shape, powder and waste	..	0	2,486.00
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	5,703.00
	07096000	Vegetables; Fruits of the Genus Capsicum or of the Genus Pimenta	KG	92	380.00
	08072000	Papaws (papayas), Fresh	KG	14,479	35,040.00

20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	385,400	1,876,236.00
34011100	Soap: Organic Surface Active Agents in the form of Bars, Cakes, Moulded Pieces or Shap for Toilet use (including Medicated Product	KG	0	64.00
39230000	Plastic articles for the Conveyance or Packing of Goods; Stoppers, Lids, Caps and other Closures of Plastics	..	0	40.00
48111000	Paper and Paperboard; Tarred, Bituminised or Asphalted, in Rolls or Sheets, other than Goods of Heading No. 4803, 4809, 4810 or 4818	KG	0	520.00
48119000	Paper, Paperboard, Cellulose Wadding and Webs of Soft Cellulose Fibres; Coated, Impregnated, Covered, Surface-decorated or Surface-coloured, n.e.s. in Chapter 48, in Rolls or Sheets	KG	0	80.00
48191000	Cartons, Boxes and Cases, of Corrugated Paper or Paperboard	..	0	80.00
71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	660,385.00
71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	404	15,344.00
71011030	Pearls – Other	No.	119	22,180.00
71012120	Other	No.	518	54,325.00
71130090	Jewellery articles and Parts thereof, of Precious Metal or of Metal Clad with Precious Metal, n.e.s.	..	0	440,000.00
72040000	Ferrous waste and Scrap; Remitting Scrap Ingots of Iron or Steel	KG	96,000	40,000.00
81060000	Bismuth; articles thereof, including waste and Scrap	..	0	221,095.74
81080000	Titanium; articles thereof, including waste and Scrap	..	0	8,909.00
81100000	Antimony; articles thereof, including waste and Scrap	..	0	15,180.00
96010010	Shells, Worked; Coral, and articles	..	0	300.00
96010090	Ivory, Bone, Tortoise-shell, Horn, Antlers, Coral, Mother-of-pearl and other Animal Carving Material and articles of these Materials; Worked, (including articles Obtained by Moulding), other	..	0	2,400.00
	Total			8,098,119.70
Year: 2009 (Provisional figures only)				
Destination	Description	Unit	Quantity	FOB Value (\$NZ)
Australia	03011000 Fish; Live, Ornamental	KG	624	13,104.81

	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	221,426	311,010.31
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	830.00
	07149020	Taro, Fresh or Dried, whether or not sliced in the form of Pellets	KG	153	1,227.00
	49010000	Printed Books, Brochures, Leaflets and similar Printed Matter, whether or not in Single Sheets	..	0	100.00
	71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	78,000.00
	71011020	Cultured pearls from the oyster – Pinctada Margaritifera	No.	748	6,612.00
	71011030	Pearls – Other	No.	0	115,000.00
	71012120	Other	No.	25	364.00
	71012210	Worked pearls from the oyster – pinctada margaritifera	No.	1	2,000.00
		Total			528,248.12
New Zealand	03011000	Fish; Live, Ornamental	KG	317	19,536.00
	03037000	Fish; other kinds n.e.s. in Heading No. 0303, excluding Fillets, Livers and Roes, Frozen	KG	335,381	522,685.02
	05080011	Shells, Unworked	..	0	250.00
	06040000	Foliage, Branches and other Parts of Plants, without Flowers or Flower Buds, and Grasses, Mosses and Lichens; Suitable for Bouquets or for Ornamental purposes, Fresh, Dried, Dyed, Bleached, Impregnated Etc.	..	0	3,363.00
	07149020	Taro, Fresh or Dried, whether or not sliced in the form of Pellets	KG	1,233	9,003.00
	08072000	Papaws (papayas), Fresh	KG	3,017	8,280.00
	20098000	Juice; of any Single Fruit or Vegetable n.e.s. in Heading No. 2009, Unfermented, not containing added Spirit, whether or not containing added Sugar or other Sweetening Matter	LT	73,000	412,040.00
	34011100	Soap; Organic Surface Active Agents in the form of Bars, Cakes, Moulded Pieces or Shap for Toilet use (including Medicated Product	KG	30	630.00
	39150000	Waste, Parings and Scrap, of Plastics	KG	0	120.00
	39230000	Plastic articles for the Conveyance or Packing of Goods; Stoppers, Lids, Caps and other Closures of Plastics	..	0	200.00
	47070000	Paper and Paperboard; waste and Scrap	KG	0	120.00

48111000	Paper and Paperboard; Tarred, Bituminised or Asphalted, in Rolls or Sheets, other than Goods of Heading No. 4803, 4809, 4810 or 4818	KG	40,000	760.00
49010000	Printed Books, Brochures, Leaflets and similar Printed Matter, whether or not in Single Sheets	..	0	80.00
71010000	Pearls; Natural or Cultured, whether or not Worked or Graded but not Strung, Mounted or Set; Ungraded Pearls, Natural or Cultured, Temporarily Strung for Convenience of Transport	..	0	333,727.00
71011030	Pearls – Other	No.	3,670	250,000.00
71012120	Other	No.	30	1,634.00
71121000	Metals; waste and Scrap of Gold, including Metal Clad with Gold but excluding Sweepings containing other Precious Metals	..	0	3,000.00
71129000	Metals; waste and Scrap of Precious Metal other than Gold or Platinum but excluding Sweepings containing other Precious Metals	..	0	19,000.00
71161090	Articles of natural or cultured pearls, precious or semi-precious stones; Other.	No.	16	360.00
72040000	Ferrous waste and Scrap; Remitting Scrap Ingots of Iron or Steel	KG	16,000	8,000.00
73010000	Iron or Steel Sheet Piling, whether or not Drilled, Punched or made from Assembled Elements; Welded Angles, shapes and Sections, of Iron or Steel	KG	18,000	500.00
74040000	Copper; waste and Scrap	KG	417	1,250.00
74130000	Copper; Stranded Wire, Cables, Plaited Bands and the like, not Electrically Insulated	KG	100	250.00
76020000	Aluminium; waste and Scrap	KG	5,000	5,000.00
	Total			1,599,788.02

Annex 2

Loans and Advances by Industry

	All Industries	Agriculture & Fishing	Wholesale & Retail Trade	Hotels & Motels	Transport & Communication	Finance & Business	Public Administration	Personal Services	Other
YEAR	\$'000								
2004/05	193,102	1,954	18,928	60,397	11,871	14,311	2,523	72,748	10,371
2005/06	226,999	1,648	23,776	67,746	11,499	11,047	2,174	98,453	10,656
2006/07	260,064	1,884	24,116	71,477	10,614	10,880	3,640	120,027	17,427
2007/08	296,851	1,997	26,777	75,221	10,355	18,033	1,791	140,384	21,324
2008/09	305,445	1,714	17,269	75,751	9,149	20,167	1,438	161,940	18,017
QUARTER									
2005									
Mar	185,473	1,902	21,555	52,807	11,470	10,060	2,558	76,775	8,346
Jun	193,102	1,954	18,928	60,397	11,871	14,311	2,523	72,748	10,371
Sep	201,538	1,986	19,786	63,656	11,852	12,536	2,420	79,985	9,117
Dec	211,871	1,818	21,505	66,781	11,372	12,679	2,291	85,629	9,796
2006									
Mar	219,781	1,935	21,796	66,961	11,167	12,069	2,288	92,871	10,694
Jun	226,999	1,648	23,776	67,746	11,499	11,047	2,174	98,453	10,656
Sep	236,317	1,649	21,492	66,757	8,865	13,624	2,148	111,226	10,556
Dec	242,438	1,802	21,389	65,238	8,888	12,770	2,066	119,383	10,902
2007									
Mar	265,714	1,831	31,166	75,365	12,347	13,508	2,094	116,949	12,456
Jun	260,064	1,884	24,116	71,477	10,614	10,880	3,640	120,027	17,427
Sep	265,024	1,931	22,911	76,068	10,433	9,180	1,970	125,334	17,198
Dec	276,008	1,972	23,176	75,863	10,715	10,351	1,951	132,990	18,990
2008									
Mar	288,404	2,091	25,570	76,260	10,583	12,804	1,836	137,677	21,582
Jun	296,851	1,997	26,777	75,221	10,355	18,033	1,791	140,384	21,324
Sep	301,502	1,853	26,966	75,003	10,339	23,242	1,702	143,994	18,403
Dec	301,727	1,774	26,169	74,400	7,830	22,488	1,605	148,386	19,075
2009									
Mar	303,744	2,592	24,820	74,768	8,293	22,063	1,549	157,162	12,497
Jun	305,445	1,714	17,269	75,751	9,149	20,167	1,438	161,940	18,017
Sep	302,716	1,710	17,674	73,712	9,654	19,507	1,503	160,913	18,045
Percentage change over the previous quarter									
2005									
Mar	2.1	(30.8)	25.2	6.6	0.1	(25.4)	(0.5)	4.5	(25.2)
Jun	4.1	2.7	(12.2)	14.4	3.5	42.3	(1.4)	(5.2)	24.3
Sep	4.4	1.6	4.5	5.7	(0.2)	(12.4)	(4.1)	9.9	(12.1)
Dec	5.1	(8.5)	8.7	4.6	(4.0)	1.1	(5.3)	7.1	7.4
2006									
Mar	3.7	6.4	1.4	0.3	(1.8)	(4.8)	(0.1)	8.5	9.2
Jun	3.3	(14.8)	9.1	1.2	3.0	(8.5)	(5.0)	6.0	(0.4)
Sep	4.1	0.1	(9.6)	(1.5)	(22.9)	23.3	(1.2)	13.0	(0.9)
Dec	2.6	9.3	(0.5)	(2.3)	0.3	(6.3)	(3.8)	7.3	3.3
2007									
Mar	9.6	1.6	45.7	15.5	38.9	5.8	1.4	(2.0)	14.3
Jun	(2.1)	2.9	(22.6)	(5.2)	(14.0)	(19.5)	73.8	2.6	39.9
Sep	1.9	2.5	(5.0)	6.4	(1.7)	(15.6)	(45.9)	4.4	(1.3)
Dec	4.1	2.1	1.2	(0.3)	2.7	12.8	(1.0)	6.1	10.4
2008									
Mar	4.5	6.1	10.3	0.5	(1.2)	23.7	(5.9)	3.5	13.6
Jun	2.9	(4.5)	4.7	(0.1)	(2.2)	40.8	(2.5)	1.9	(1.2)
Sep	1.6	(7.2)	0.7	(1.6)	(0.2)	28.9	(5.0)	2.6	(13.7)
Dec	0.1	(4.3)	(3.0)	(0.8)	(24.3)	(3.2)	(5.7)	3.1	3.7
2009									
Mar	0.7	46.1	(5.2)	0.5	5.9	(1.9)	(3.5)	5.9	(34.5)
Jun	0.6	(33.9)	(30.4)	1.3	10.3	(8.6)	(7.2)	3.0	44.2
Sep	(0.9)	(0.2)	2.3	(2.7)	5.5	(3.3)	4.5	(0.6)	0.2

Source: Banking Survey

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Annex 3

Number of Hotels and Motels with Number of Employees

Calendar Year	Number of rooms	Number of beds	C Is Resident Employees			Expatriate Employees		
			Total	Males	Females	Total	Males	Females
1987	409	956	279	108	171	15	11	4
1988	442	934	244	87	157	20	15	5
1989	481	1,049	220	84	136	26	20	6
1990	497	1,239	258	119	139	22	17	5
1991	561	1,309	269	108	161	21	16	5
1992	587	1,492	366	123	243	22	16	6
1993	548	1,389	377	147	230	21	15	6
1994	561	1,348	400	137	263	26	17	9
1995	672	1,707	427	151	276	33	21	12
1996	742	1,956	405	149	256	29	18	11
1997	704	1,896	407	161	246	17	12	5
1998	757	1,989	387	159	228	17	13	4
1999	777	2,126	423	172	251	21	14	7
2000	785	2,186	493	196	297	33	20	13
2001	868	2,347	579	215	364	62	37	25
2002	909	2,468	574	197	376	68	36	31
2003	927	2,465	548	183	366	73	45	28
2004	1,028	2,825	563	179	384	94	53	41
2005	997	2,772	578	183	395	113	61	52
2006	1,069	2,698	539	188	351	152	77	75
2007 ^(v)	1,191	3,143	534	179	355	173	91	82
2008 ^(p)	1,173	3,138	542	186	356	175	92	83
Percentage change over the previous year								
1988	8.1	-2.3	-12.5	-19.4	-8.2	33.3	36.4	25.0
1989	8.9	12.4	-9.8	-3.4	-13.4	30.0	33.3	20.0
1990	3.4	18.1	17.3	41.7	2.2	-15.4	-15.0	-16.7
1991	12.8	5.6	4.3	-9.2	15.8	-4.5	-5.9	0.0
1992	4.7	14.0	36.1	13.9	50.9	4.8	0.0	20.0
1993	-6.6	-6.9	3.0	19.5	-5.3	-4.5	-6.3	0.0
1994	2.4	-3.0	6.1	-6.8	14.3	23.8	13.3	50.0
1995	19.8	26.7	6.7	10.2	4.9	26.9	23.5	33.3
1996	10.3	14.6	-5.2	-1.3	-7.2	-12.1	-14.3	-8.3
1997	-5.1	-3.1	0.5	8.1	-3.9	-41.4	-33.3	-54.5
1998	7.5	4.9	-4.9	-1.2	-7.3	0.0	8.3	-20.0
1999	2.6	6.9	9.3	8.2	10.1	23.5	7.7	75.0
2000	1.1	2.8	16.6	14.2	18.3	57.1	42.3	86.9
2001	10.5	7.3	17.4	9.4	22.6	88.9	87.4	91.1
2002	4.8	5.2	-0.9	-8.2	3.4	8.3	-2.5	24.3
2003	1.9	-0.1	-4.4	-7.4	-2.9	7.8	22.2	-9.1
2004	10.9	14.6	2.7	-1.9	5.1	29.2	19.1	45.1
2005	-3.0	-1.9	2.7	2.2	2.9	20.2	15.1	26.8
2006	7.2	-2.7	-6.7	2.7	-11.1	34.5	26.2	44.2
2007 ^(v)	11.4	16.5	-0.9	-4.8	1.1	13.8	18.2	9.3
2008 ^(p)	-1.5	-0.2	1.5	3.9	0.3	1.2	1.1	1.2

Annex 4

Cook Islands Gross Turnover by Industry

Calendar Year	All Industries	Agriculture & Fishing	Construction	Wholesale & Retail Trade	Restaurants & Bars	Hotels & Motels	Transport & Communication	Finance & Business Services	Community, & Personal Services	Other Industries
(\$'000)										
1984	72,637	879	2,116	45,910	1,117	4,594	8,471	4,391	2,159	3,000
1985	98,909	427	3,300	55,271	2,281	8,387	15,733	6,296	2,042	5,173
1986	102,077	1,392	4,313	55,712	2,171	8,016	15,185	7,480	2,993	4,815
1987	116,178	...	...	...	...	...	...	...	...	...
1988	130,228	1,663	5,016	67,328	3,785	11,804	19,780	11,034	3,508	6,310
1989	140,154	3,567	5,656	74,278	3,924	10,549	16,946	12,457	5,730	7,047
1990	157,315	5,834	7,344	74,820	3,958	12,784	17,642	15,795	12,249	6,889
1991	166,309	5,424	5,179	84,098	5,252	14,380	24,508	15,972	4,277	7,219
1992	214,916	1,353	15,878	109,255	10,496	12,867	27,990	20,237	6,015	10,826
1993	234,621	1,508	10,094	112,749	12,485	17,345	32,336	29,558	6,530	12,017
1994	251,761	1,752	7,267	112,600	12,854	21,354	34,864	44,450	6,931	9,689
1995	219,671	1,295	5,143	100,053	9,956	18,132	32,068	38,105	5,942	8,976
1996	188,995	1,713	5,356	88,279	4,405	20,212	29,112	26,781	6,032	7,106
1997 ⁽¹⁾
1998	278,347	7,600	6,789	101,357	6,907	25,848	50,686	18,967	41,079	19,114
1999	284,487	6,984	7,348	112,184	7,611	30,907	56,954	18,716	23,865	19,919
2000	355,974	8,190	11,329	143,169	12,096	51,268	69,414	22,345	15,192	22,971
2001	393,572	6,735	12,877	157,640	14,389	54,403	76,888	26,364	18,155	26,123
2002	405,033	7,988	12,865	162,724	13,301	56,894	80,047	24,406	18,140	28,669
2003	457,925	11,401	17,515	185,652	14,837	63,201	89,152	25,305	18,540	32,322
2004	482,081	8,850	17,785	201,742	15,535	66,161	88,357	29,880	18,289	35,482
2005	490,940	8,808	12,772	221,110	14,668	66,045	82,474	27,887	19,788	37,388
2006	524,619	7,393	16,026	222,897	16,880	81,748	90,332	30,255	21,983	37,105
2007	533,860	6,021	17,887	212,111	17,486	90,409	89,791	33,091	24,639	42,425
2008	543,064	5,764	16,133	222,392	15,593	79,727	96,397	33,196	24,543	49,319
Percentage change over previous year										
1984	6.8	72.7	-18.1	5.3	-29.1	-5.6	24.6	33.6	6.1	8.2
1985	36.2	-51.4	55.9	20.4	104.1	82.6	85.7	43.4	-5.4	72.4
1986	3.2	225.9	30.7	0.8	-4.8	-4.4	-3.5	18.8	46.6	-6.9
1987	13.8	...	...	...	...	...	...	...	...	...
1988	12.1	...	...	...	...	...	...	...	...	...
1989	7.6	114.5	12.8	10.3	3.7	-10.6	-14.3	12.9	63.3	11.7
1990	12.2	63.6	29.9	0.7	0.9	21.2	4.1	26.8	113.8	-2.2
1991	5.7	-7.0	-29.5	12.4	32.7	12.5	38.9	1.1	-65.1	4.8
1992	29.2	-75.1	206.6	29.9	99.9	-10.5	14.2	26.7	40.6	50.0
1993	9.2	11.5	-36.4	3.2	18.9	34.8	15.5	46.1	8.5	11.0
1994	7.3	16.2	-28.0	-0.1	3.0	23.1	7.8	50.4	6.1	-19.4
1995	-12.7	-26.1	-29.2	-11.1	-22.5	-15.1	-8.0	-14.3	-14.3	-7.4
1996	-14.0	32.3	4.1	-11.8	-55.8	11.5	-9.2	-29.7	1.5	-20.8
1997 ⁽¹⁾
1998	...	...	...	...	...	...	...	...	...	...
1999	2.2	-8.1	8.2	10.7	10.2	19.6	12.4	-1.3	-41.9	4.2
2000	25.1	17.3	54.2	27.6	58.9	65.9	21.9	19.4	-36.3	15.3
2001	10.6	-17.8	13.7	10.1	19.0	6.1	10.8	18.0	19.5	13.7
2002	2.9	18.6	-0.1	3.2	-7.6	4.6	4.1	-7.4	-0.1	9.7
2003	13.1	42.7	36.1	14.1	11.6	11.1	11.4	3.7	2.2	12.7
2004	5.3	-22.4	1.5	8.7	4.7	4.7	-0.9	18.1	-1.4	9.8
2005	1.8	-0.5	-28.2	9.6	-5.6	-0.2	-6.7	-6.7	8.2	5.4
2006	6.9	-16.1	25.5	0.8	15.1	23.8	9.5	8.5	11.1	-0.8
2007	1.8	-18.6	11.6	-4.8	3.6	10.6	-0.6	9.4	12.1	14.3
2008	1.7	-4.3	-9.8	4.8	-10.8	-11.8	7.4	0.3	-0.4	16.2

Source: Revenue Management Division, MFEM

Note: ⁽¹⁾ Figures for the months January to June 1997 are not available and figures for July onwards are not comparable due to a change from Turnover Tax to Value Added Tax.

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Annex 5

TOT Payable/VAT Collected on Sales & Income, by Industry

Calendar Year	All Industries	Agriculture & Fishing	Construction	Wholesale & Retail Trade	Restaurants & Bars	Hotels & Motels	Transport & Communication	Finance & Business Services	Community & Personal Services	Other Industries
	(\$000)									
1984	2,221	12	79	1,413	41	184	196	158	57	82
1985	3,966	6	166	2,068	126	463	691	242	104	100
1986	4,669	52	240	2,387	139	482	711	435	128	94
1987	6,989	...	...	...	...	...	...	...	...	...
1988	9,665	51	438	4,671	377	1,168	1,442	1,024	314	182
1989	10,340	81	427	5,131	390	1,033	1,334	1,322	429	194
1990	10,919	95	546	4,940	395	1,261	1,409	1,543	519	211
1991	12,171	91	291	5,694	525	1,412	1,974	1,563	360	260
1992	16,187	68	927	7,566	1,005	1,282	2,443	2,003	509	384
1993	18,133	66	810	7,763	1,211	1,692	2,836	2,763	561	431
1994	19,216	56	607	7,640	1,221	2,132	3,071	3,459	569	461
1995	16,717	36	451	6,740	940	1,794	2,803	3,006	501	446
1996	14,628	33	456	5,844	436	2,026	2,598	2,376	524	333
1997 ⁽¹⁾
1998	27,990	320	754	10,590	768	2,847	4,088	2,008	4,521	2,095
1999	28,856	309	806	11,974	853	3,439	4,762	2,017	2,639	2,056
2000	36,078	297	1,276	15,356	1,344	5,698	5,696	2,434	1,591	2,387
2001	40,379	374	1,429	16,858	1,600	6,058	6,537	2,854	1,979	2,688
2002	41,682	484	1,096	17,348	1,638	6,706	6,712	3,077	1,787	2,834
2003	46,248	578	1,965	19,847	1,683	6,821	6,990	2,757	2,379	3,228
2004	49,127	490	1,988	21,817	1,706	7,343	7,186	3,240	2,025	3,332
2005	50,528	543	1,396	23,790	1,957	7,293	6,827	3,037	1,914	3,771
2006	53,885	554	1,709	23,842	1,866	8,756	7,561	3,314	2,386	3,897
2007	56,509	549	1,976	22,368	1,935	10,193	7,595	4,688	2,722	4,483
2008	55,635	535	1,797	21,551	1,700	10,590	7,851	3,645	2,711	5,255
	Percentage change over previous year									
1984	7.6	68.1	-11.3	9.5	-37.1	-3.6	3.4	25.2	17.5	40.8
1985	78.6	-53.7	108.8	46.4	205.6	152.4	253.6	53.1	82.8	22.6
1986	17.7	835.7	44.7	15.4	10.6	4.1	2.8	79.7	22.5	-5.9
1987	49.7	...	...	...	...	...	...	...	...	...
1988	38.3	...	...	...	...	...	...	...	...	...
1989	7.0	58.8	-2.4	9.8	3.4	-11.5	-7.5	29.1	36.8	6.6
1990	5.6	17.9	27.8	-3.7	1.4	22.0	5.7	16.7	20.8	9.0
1991	11.5	-3.7	-46.6	15.3	32.7	12.0	40.0	1.3	-30.5	23.2
1992	33.0	-25.7	218.2	32.9	91.5	-9.2	23.8	28.2	41.1	47.5
1993	12.0	-2.8	-12.7	2.6	20.4	32.0	16.1	37.9	10.3	12.3
1994	6.0	-15.2	-25.0	-1.6	0.8	26.0	8.3	25.2	1.3	7.0
1995	-13.0	-35.0	-25.7	-11.8	-23.0	-15.8	-8.7	-13.1	-11.9	-3.3
1996	-12.5	-8.3	1.0	-13.3	-53.6	13.0	-7.3	-20.9	4.6	-25.2
1997 ⁽¹⁾
1998	...	...	...	...	...	...	...	...	...	...
1999	3.1	-3.3	6.9	13.1	11.1	20.8	16.5	0.5	-41.6	-1.9
2000	25.0	-3.9	58.2	28.2	57.6	65.7	19.6	20.6	-39.7	16.0
2001	11.9	26.0	12.0	9.8	19.0	6.3	14.8	17.3	24.4	12.6
2002	3.2	29.2	-23.3	2.9	2.4	10.7	2.7	7.8	-9.7	5.4
2003	11.0	19.5	79.4	14.4	2.8	1.7	4.1	-10.4	33.1	13.9
2004	6.2	-15.3	1.1	9.9	1.3	7.7	2.8	17.5	-14.9	3.2
2005	2.9	10.9	-29.8	9.0	14.7	-0.7	-5.0	-6.3	-5.5	13.2
2006	6.6	2.0	22.4	0.2	-4.7	20.1	10.7	9.1	24.7	3.4
2007	4.9	-0.9	15.6	-8.2	3.7	16.4	0.4	41.5	14.1	15.0
2008	-1.5	-2.6	-9.1	-3.7	-12.1	3.9	3.4	-22.2	-0.4	17.2

Source: Revenue Management Division, MFEM

Note: ⁽¹⁾ Figures for the months January to June 1997 are not available and figures for July onwards are not comparable due to a change from Turnover Tax to Value Added Tax.

Annex 6

Building Approvals

Calendar Year	Total		Residential		Commercial (*)	
	No.	Value (\$' 000)	No.	Value (\$' 000)	No.	Value (\$' 000)
1987	59	4,094	44	1,780	15	2,315
1988	63	2,599	42	1,944	21	655
1989	94	5,023	59	2,916	35	2,107
1990	91	7,726	67	2,629	24	5,096
1991	104	6,297	69	3,507	35	2,790
1992	208	10,446	168	7,605	40	2,841
1993	186	14,017	150	10,280	36	3,737
1994	62	5,863	49	3,119	13	2,744
1995	112	6,561	97	5,449	15	1,112
1996	102	5,300	70	3,028	32	2,272
1997	75	5,358	44	2,153	31	3,205
1998	164	8,430	147	5,611	17	2,819
1999	68	7,243	45	3,539	23	3,704
2000	102	10,613	64	4,079	38	6,534
2001	127	12,797	74	5,600	53	7,197
2002	140	20,417	74	8,354	66	12,063
2003	134	23,933	80	7,982	54	15,951
2004	111	12,566	75	6,174	36	6,392
2005	104	13,951	76	8,308	28	5,643
2006	157	21,532	121	13,883	36	7,649
2007	149	22,276	117	14,111	32	8,165
2008	128	22,948	113	11,846	15	11,102
Percentage change over the previous year						
1986	-1.1	157.7	-20.6	-0.1	54.2	338.9
1987	-35.2	-48.0	-18.5	9.1	-59.5	-62.9
1988	6.8	-36.5	-4.5	9.2	40.0	-71.7
1989	49.2	93.3	40.5	50.0	66.7	221.7
1990	-3.2	53.8	13.6	-9.8	-31.4	141.9
1991	14.3	-18.5	3.0	33.4	45.8	-45.3
1992	100.0	65.9	143.5	116.9	14.3	1.8
1993	-10.6	34.2	-10.7	35.2	-10.0	31.5
1994	-66.7	-58.2	-67.3	-69.7	-63.9	-26.6
1995	80.6	11.9	98.0	74.7	15.4	-59.5
1996	-8.9	-19.2	-27.8	-44.8	113.3	204.4
1997	-26.5	1.1	-37.1	-28.9	-3.1	41.1
1998	118.7	57.3	234.1	160.6	-45.2	-12.0
1999	-58.5	-14.1	-69.4	-36.9	35.3	31.4
2000	50.0	46.5	42.2	15.3	65.2	76.4
2001	24.5	20.6	15.6	37.3	39.5	10.1
2002	10.2	59.5	0.0	49.2	24.5	67.6
2003	-4.3	17.2	8.1	-4.5	-18.2	32.2
2004	-17.2	-47.5	-6.3	-22.7	-33.3	-59.9
2005	-6.3	11.0	1.3	34.6	-22.2	-11.7
2006	51.0	54.3	59.2	67.1	28.6	35.5
2007	-5.1	3.5	-3.3	1.6	-11.1	6.7
2008	-14.1	3.0	-3.4	-16.0	-53.1	36.0

Source: Physical Planning Division - MOWEPP

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Annex 7

Energy Generated on Selected Islands

Calendar Year	Cook Islands	Rarotonga	Aitutaki	Atiu	Mauke	Mangaia	Mitiaro	Penrhyn	Rakahanga	Manihiki	Palm-erston
(kwh'000)											
1987	12,521	10,984	993	170	79	116	4	64	48	56	7
1988	14,309	12,574	1,069	194	92	168	30	74	31	70	7
1989	14,661	12,801	1,106	197	108	201	36	86	31	79	16
1990	13,176	11,348	1,060	174	133	221	35	78	37	75	15
1991	16,290	14,060	1,427	207	143	235	32	83	36	67	...
1992	17,254	14,848	1,508	223	158	263	53	116	35	45	5
1993	18,621	16,090	1,551	249	198	295	58	112	11	55	2
1994	19,488	16,779	1,566	302	215	302	71	124	16	113	...
1995	19,790	16,855	1,840	312	169	350	74	90	22	72	6
1996	19,840	17,046	1,756	226	138	347	71	93	41	111	11
1997	19,615	16,790	1,831	269	155	319	65	78	27	78	3
1998	19,822	17,224	1,643	293	166	308	78	86	22	...	2
1999	21,851	19,135	1,751	255	202	339	74	84	11	...	...
2000	24,697	21,367	2,231	359	189	363	83	87	18	...	...
2001	25,837	22,292	2,410	353	196	361	82	78	36	26	3
2002	27,715	23,998	2,393	335	166	391	114	95	36	185	2
2003	29,119	25,795	1,992	354	192	407	115	111	36	117	...
2004	29,758	26,297	2,012	389	250	422	110	116	28	134	...
2005	30,294	27,107	1,841	308	183	459	111	118	28	139	...
2006	32,154	28,390	2,345	316	218	465	115	121	30	154	...
2007	33,695	29,592	2,384	443	273	464	130	124	54	231	...
2008	33,547	28,471	3,201	534	246	485	121	124	72	293	...
Percentage change over the previous year											
1987	-0.3	0.3	-5.4	21.4	-7.1	-27.5	0.0	3.2	6.7	3.7	-12.5
1988	14.3	14.5	7.7	14.1	16.5	44.8	650.0	15.6	-35.4	25.0	0.0
1989	2.5	1.8	3.5	1.5	17.4	19.6	20.0	16.2	0.0	12.9	128.6
1990	-10.1	-11.4	-4.2	-11.7	23.1	10.0	-2.8	-9.3	19.4	-5.1	-6.3
1991	23.6	23.9	34.6	19.0	7.5	6.3	-8.6	6.4	-2.7	-10.7	...
1992	5.9	5.6	5.7	7.7	10.5	11.9	65.6	39.8	-2.8	-32.8	...
1993	7.9	8.4	2.9	11.7	25.3	12.2	9.4	-3.4	-68.6	22.2	-60.0
1994	4.7	4.3	1.0	21.3	8.6	2.4	22.4	10.7	45.5	105.5	...
1995	1.5	0.5	17.5	3.3	-21.4	15.9	4.2	-27.4	37.5	-36.3	...
1996	0.3	1.1	-4.6	-27.6	-18.3	-0.9	-4.1	3.3	86.4	54.2	83.3
1997	-1.1	-1.5	4.3	19.0	12.3	-8.1	-8.5	-16.1	-34.1	-29.7	-72.7
1998	1.1	2.6	-10.3	8.9	7.1	-3.4	20.0	10.3	-18.5	...	-33.3
1999	10.2	11.1	6.6	-13.0	21.7	10.1	-5.1	-2.3	-50.0	...	...
2000	13.0	11.7	27.4	40.8	-6.4	7.1	12.2	3.6	63.6	...	...
2001	4.6	4.3	8.0	-1.7	3.7	-0.6	-1.2	-10.3	100.0	...	...
2002	7.3	7.7	-0.7	-5.1	-15.3	8.3	39.0	21.8	0.0	611.5	-33.3
2003	5.1	7.5	-16.8	5.7	15.7	4.1	0.9	16.8	0.0	-36.8	...
2004	2.2	1.9	1.0	9.9	30.2	3.7	-4.3	4.5	-22.2	14.5	...
2005	1.8	3.1	-8.5	-20.8	-26.8	8.8	0.9	1.7	0.0	3.7	...
2006	6.1	4.7	27.4	2.6	19.1	1.3	3.6	2.5	7.1	10.8	...
2007	4.8	4.2	1.7	40.2	25.2	-0.2	13.0	2.5	80.0	50.0	...
2008	-0.4	-3.8	34.3	20.5	-9.7	4.4	-6.8	0.0	33.3	26.8	...

Source: Energy Division - MOWEPP, and Te Aponga Uira, Rarotonga.

Annex 8

Gross Turnover by Industry (NZ\$'000)

Year	2004	2005	2006	2007	2008
All Industries	482,081	490,940	524,619	533,860	543,064
Agriculture & Fisheries	8,850	8,808	7,393	6,021	5,764
Constr	17,785	12,772	16,026	17,887	16,133
Wholesale & Retail	201,742	221,110	222,897	212,111	222,392
Restaurants & Bars	15,535	14,668	16,880	17,486	15,593
Hotels & Motels	66,161	66,045	81,748	90,409	79,727
Transport & Communication	88,357	82,474	90,332	89,791	96,397
Financial & Business Services	29,880	27,887	30,255	33,091	33,196
Commercial & Personal Services	18,289	19,788	21,983	24,639	24,543
Other Industries	35,482	37,388	37,105	42,425	49,319

Source: Table 7.1, Cook Islands Annual Statistical Bulletin 2009 (from Revenue Management Division of MFEM)

Annex 9

Potential Benefits, Challenges and Opportunities under a PACER Plus Agreement

Investment Sector	Benefits	Challenges	Opportunities
All Businesses	Improvements to the business and investment climate	Although this is incorporated in the NSDP and the SME Strategy, it has proved difficult to implement.	Follow the A-NZ CER example on harmonisation of business law
	Bringing the skill level of Cook Island workers up to the same level as A-NZ.	This is a medium to long term challenge that will need to be phased in. It would initially result in a two-tier system with lower paid, less-skilled workers serving one market, and higher paid internationally accredited workers serving another market.	Assistance from A-NZ under PACER Plus
	Improvements to the innovation and entrepreneurial culture in the Cook Islands	This is a medium to long term challenge that starts with the education curriculum in primary and secondary school.	With joint accreditation of training institutions and qualifications supported under PACER Plus, and Assistance from A-NZ under PACER Plus, this could be achieved in 5 to 10 years.
	Improvements to the foreign investment environment.	Getting the correct balance between FDI and those sectors reserved for local investors.	Assistance from A-NZ under PACER Plus
	Improvements to the infrastructure that serves business: roads, ports, electricity, water, telecommunication, etc.	The high cost of building this infrastructure leads to high costs in providing the services	Assistance from A-NZ under PACER Plus
	Double taxation agreement with A-NZ	Possible loss of government revenue	If the Cook Islands is eventually to be an equal partner with A-NZ in PACER Plus it must eventually be able to compete equally with A-NZ businesses. This won't occur without the appropriate infrastructure and without the provision of competitively priced utilities.
			Assistance from A-NZ under PACER Plus

Investment Sector	Benefits	Challenges	Opportunities
	Improve networking and B2B contacts between Cook Islands and A-NZ businesses, with an effective mentoring scheme operating across the three countries.	Finding the right businesses and mentors.	Incorporate these elements into the annual PACER Plus meetings. Assistance from A-NZ under PACER Plus
	Individual businesses across all sectors receive benefit from the implementation of PACER Plus	Many businesses will feel threatened by the changes that PACER Plus will bring, and may be adversely affected by its implementation.	Recognise the problem, assess and measure possible effects and implement technical and financial assistance programs to ensure that no Cook Island businesses are disadvantaged.
	Individual businesses under threat from the changes brought about by PACER Plus, or wanting to take advantage of opportunities created by PACER Plus, need financial support (advice and funding) that is not generally available without solid security.	Most investment funds only serve the top end (>50 employees) or the bottom end (microfinance). Many SMEs don't meet commercial banking criteria for loans. Any scheme needs to be financially viable.	Assistance from A-NZ under PACER Plus This problem needs to be recognised and appropriate measures built into PACER Plus. This can be linked with the business advisory services recommended above.
	Agreement on joint standards and accreditation across the 3 countries.	Cook Islands businesses will need to meet much higher standards, with the costs being transferred across to consumers.	Assistance from A-NZ under PACER Plus
Tourism	Improvements to air services agreements between the Cook Islands and Australia and New Zealand.	Benefits only come when airlines make commercial decisions to take advantage of air service agreements. Accommodation and other tourist facilities need to be developed in parallel with increased airline capacity. Appropriate infrastructure needs to be developed to serve the increased number of tourists.	PIASA has already opened up opportunities for increased and improved air services in the region. PACER Plus offers an opportunity to build on this and obtain assistance to implement those potential benefits.

Investment Sector	Benefits	Challenges	Opportunities
	Improvements to shipping agreements relating to cruise ships.	Cruise ships are the biggest growth area in Pacific tourism. The Cook Islands needs to have in place strategies to take advantage of this trend.	Improvements to shipping services should be included as a main topic in PACER Plus negotiations. As an adjunct to this, technical and financial assistance for improving port and other facilities, e.g. navigation, for cruise ships could be included.
	Improvements to immigration procedures for tourists arriving on cruise ships.	Remote locations need to be staffed adequately.	Special conditions could be negotiated for A-NZ passengers on cruise ships to land in the Cook Islands.
	Opening new markets for tourism, e.g. 'lifestyle villages' for the over 50s.	There may be cultural and social obstacles to be addressed.	Ensure that there are no regulatory or procedural barriers to prevent appropriate commercial development of new markets, e.g. transferable superannuation benefits.
Offshore Banking (Financial services)	Expansion of this sector will increase the number of highly paid employees who purchase local goods and services.	Although much has been done to improve the reputation of the Cook Islands offshore banking industry, there is still work to be done.	The industry is currently restrained by the poor quality and high cost of internet services. This could be addressed under PACER Plus to benefit all businesses.
Marine Resources	Fish stocks (inshore and offshore) appear to be replenishing leading to improved opportunities for export.	Many of the challenges relate to trade issues. As exports increase, availability of air cargo space could be a challenge.	Working with A-NZ under PACER Plus to ensure that there are no barriers to exporting marine products to these two countries.
Pearls	This is an industry that benefits the outer islands.	Other countries taking advantage of the marketing that the Cook Islands has done.	Ensuring that there is adequate international intellectual property protection to Cook Island pearl technology and branding.
Agriculture	Agriculture is a large employer of local people, it reduces the dependence on imports and contributes significantly to the economy.	Many of the challenges relate to trade issues. Cook Islands producers face competition from low cost producers in other countries and need to focus on their sustainable competitive advantages in the A-NZ market.	Working with A-NZ agencies to promote and assist the Cook Islands exports into A-NZ.

Annex 10

Summary of key findings from stakeholder consultations

Depopulation – a product of automatic immigration access to New Zealand

There is a clear indication based on statistics and from consultation that Cooks is facing increasing depopulation and lack of skilled labour to support its economy and planned investment activities both in the export (agriculture) and services sector. The total population currently stands at around 22,000 of which only 13,200 resides in the country (2009 census). Under the Cooks Free Association with New Zealand, Cook Islanders are granted automatic citizenship to New Zealand with access to employment in New Zealand. This includes access to Australia under the Trans Tasman treaty which New Zealand has with Australia. This automatic access has in fact increased outward migration for Cook Islanders and has become embedded as a culture like tradition where all Cook Islander visit New Zealand (or Australia) to pursue education, employment, medical treatment and in most cases decide to remain there and or return at some stage later in their life. In most cases, there are fewer returnees than those living and working in NZ and Australia permanently. There is a need for pragmatic policies to arrest the increasing outflow of the population if Cooks through creating economic and social incentives. It was widely noted during consultations that policies should be geared towards: 1) improved health services which should include medical treatment for aging (elderly) type illnesses, 2) improved education and training especially in the area of apprenticeship programs to build 'work ready' population rather than to move into NZ or Australia for training and 3) review and streamline investment-related policies geared to attract and retain returned/remaining Cook islanders 4) pursue an accreditation program with the USP campus in Rarotonga to meet and offer ANZ tertiary standards/programs in Rarotonga; 5) develop incentives to persuade skilled Cook Islanders to return home as well as to assist Cook Islanders who are unemployed overseas to return home.

Increase in migrant workers

As a result of depopulation coupled with shortages of skilled labour, sourcing migrant workers from countries such as Philippines, Fiji and even China is becoming a remedy by most employers especially in the tourism and hospitality industry. There are increasing numbers of Fijians for example in most of the resorts. The bulk of these migrant worker arrangement undertake on an employer/employee contractual arrangement with no Government institution labour union intervention such as labour from either side. The Cook Islands Immigration

department is responsible for issuance of work permits which is usually a subject of negotiation under the contract between the employee and the employer. Standard minimum wage is NZD 5 per hour in the private sector although Government general offer at NZD 5.50 per hour. The denial of basic medical¹⁹ services for migrant workers is a rising issue that will need review and addressing in order for the Cook Islands to be compatible with other regional partners on any a Temporary Movement of Natural Persons (TMNP) chapter in both PICTA and PACER Plus if there is any. Meetings with the President of the Cook Islanders Workers Association tend to indicate the association either have little concern over this issue and or have not seriously done enough to address the problem or propose an alternative for migrant workers.

Tariff liberalisation and customs

On trade liberalisation, the government has undertaken a comprehensive tariff reduction on most tariff lines largely as a result of its reform policies and signatory to PICTA in 2007 which directed the government to liberalized its tariff leaving only the sin goods such as alcohol and tobacco with protection. The country sees no threat on imports through a PACER Plus agreement given its relatively high liberalized sector. Customs processes, however, are still conducted manually, with import entries and clearance done manually. There is no Customs automation or systems such as ASYCUDA or PC-Trade. Customs expect to upgrade if a PACER Plus trade treaty is to come into force. It is recommended that Customs explore options to move into a relatively cost efficient system such as PC-Trade or ASYCUDA to fast track clearance of imports. Tourism

Tourism is the key driver of the economy, contributing around 60% of the GDP with visitor arrivals for 2009 up by 7% despite the financial economic crisis. Four star hotels include: the Rarotongan Beach Resort, Sanctuary Rarotonga on the beach, Muri beach club, Pacific Resort Rarotonga, Edgewater Resort and Spa. There some others which are relatively small in size both in Rarotonga and the outer Islands. There are also numerous small and special accommodation – villas, apartments, beach fales, lounges and small type company owned as well as family owned units around the island. The majority of these accommodation and family owned and are well designed and built to suit specific tourist needs with adequate facilities. There is also a wide variety of tourist activities being offered. Generally, there is lack of professional/hospitality related skills in most resorts/hotels including the family owned villas. Most of the hospitality treatment is a result of the Cook Islands' natural beauty and friendly culture to visitors coupled with their relatively high level of English which is perhaps of the highest in the Pacific Islands. The Cook Islands National Tourism Office (NTO) revealed that there is a need to build a large-scale international 5 Star brand hotel such as the Sheraton hotels to provide increase hotel beds capacity and improve marketing and exposure of the Cook Islands in the other international markets. It is also expected that this could raise the level of standards across the tourism industry. Most of the family owned type accommodation do not spend on marketing overseas yet receive high booking rates compared to the big players such as the Edgewater resort simply because of the 'word of mouth' mode of advertisement coupled with their offer of special packages. There is also a significant need for hospitality and mentoring

¹⁹ In-country consultations confirmed that (medical workers have access to basic medical services – although they pay a slightly higher rate than locals. In overall, the cost of medical services are still highly subsidized by the CI government

programs to help raise the standard of hospitality services in the whole tourist industry.

Protection of traditional knowledge

Art works, drawings, designs and related culturally inherited piece of work are a rich component of the Cook Islands Traditional Knowledge sector that are left exposed to outside manipulation mainly because of lack of relevant Trade Related Intellectual Property Rights (TRIPs) legislation such as laws on copyrights, patents, designs and trademarks. The TRIPs legislation which are currently in place are: Copyright Act 1962 (NZ), Designs Act 1953 (NZ), Trademarks Act 1953 (NZ) and Patents Act 1953 (NZ). Cooks art work includes paintings, drawings, tattoo and even traditional herbal remedies and other forms of healing such as traditional massage techniques. None of these forms of TK are protected given the lack of TRIPs legislation and regulatory framework and resources and as a result they have been copied by outsiders and in some instances commercialized into established entities. For example possibly Cooks' designed tattoos into NZ tattoo studios and Cook Islands Songs were alleged to have been copied by French Polynesia. Technical assistance on setting up a resource centre for advise on Traditional Knowledge including reviewing the current old legislations could be one potential area worth exploring as in other areas through a bilateral closer relations and assistance with New Zealand and Australia State (Crown) Law Offices.

Offshore finance

Offshore finance which is looked after by the Cook Islands Financial Authority (CIFA) has faced challenges including those imposed by the OECD just like other tax haven related jurisdictions. The government believes that their offshore financial legislations and obligatory requirements are well ahead of most countries, even including New Zealand given that they were the few to review and tidy up their legislations the latest since they were blacklisted in 2000 by the OCED. To attract more serious investors will require serious improvement in the telecommunication services including lower charges and wider pool of products and services to speed up their daily operations, most of which rely solely on high speed/capacity internet services. Cooks have in fact lost several potential investors in the offshore finance sector including a number of clients from the famous HSBC bank simply because of the relatively poor telecommunication service. Consultations revealed that there is a need to explore 'Time-access' in the financial market and the Foreign Affairs playing a more active role in inviting the CIFA to the committee on key facilitating stakeholders in the trade and investment committee.

Telecommunications

Telecommunications and postal services are exclusive public monopolies and the banking legislation breaches the principle of national treatment by distinguishing clearly between foreign and locally-based operations. While these various restrictions are not excessive, they probably have some general negative effect on the business environment. In particular, competition in the telecom sector could carry significant rewards. Telecom costs are reasonably high, whilst wireless internet coverage is sporadic. In other Pacific Island countries, particularly Vanuatu

and Samoa, the introduction of a new provider has lowered costs and contributed to vastly improved coverage and services, including mobile internet. Services to outer islands have improved, contrary to fears that the new players would consider them unprofitable. Although Digicel has previously attempted to enter the Cook Islands market, the government should consider using PACER Plus as an opportunity to rethink its policy on the sector.

Exports

Key exports are pawpaw, pearl, fish, chilly and lime with the latter three (3) being the key performers while lime and chilly are mostly 'on and off' depending on supply. Meetings with the Agriculture and Quarantine exports confirms that while supply and consistent with supply is a key factor hindering Cooks exports. The other key problem faced is unavailability to consistently meet quarantine requirements such as SPS, standards, packing and packaging, labelling and related Technical Barriers to Trade (TBTs) in the ANZ market, more so in NZ (which is the more significant market). The agriculture sector needs an over-haul of their policy and priority crops consistent to Cooks comparative advantage and also long term investment and value – added opportunities/down stream processing that could demand supply of such produce. The agriculture Ministry is currently embarking on a full revamp exercise of the sector to improve supply and quality of its key exports to markets including NZ which would include pawpaw, lime, giant clam (new hatchery program) and chilli beans. Agriculture is also handicapped by the depopulation issue and the general trend in more and more people moving out from the agriculture sector to the services (tourism and hospitality) related industries.

Annex 11

List of People Consulted

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