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**Social Impact Assessment of the Economic Partnership Agreement (EPA) being negotiated between the European Community and Pacific ACP States**

**Report to the Pacific Islands Forum Secretariat (PIFS)**

**Submitted by  
Pacific Network on Globalisation (PANG)**

**March 20, 2008**

## **Acknowledgements**

The Pacific Network on Globalisation (PANG) records its appreciation to all who contributed to the research for this report.

Particular thanks are extended to the national NGOs which assisted with country case studies, namely Oxfam Papua New Guinea, Development Services Exchange, Solomon Islands, Fiji Council of Social Services, Women in Business Development Inc (WIBDI) and the Samoa Umbrella Association of NGOs (SUNGO), Aia Maea Ainen Kiribati (AMAK), and the Federated States of Micronesia Alliance of NGOs (FANGO). Special thanks are owed to Urshula Kolkolo and Nancy Sullivan in PNG, Josephine Martin and Reiko Take in Solomon Islands, Ambalika Kutty and Rajiv Naidu in Fiji, Ruta Sinclair in Samoa, Anne Kautu in Kiribati, and Tina Takashy in FSM.

PANG is grateful to members of the Reference Group who provided feedback on the research framework and draft country reports, particularly Jane Kelsey, Grant Percival, Francesco Rampa, Elizabeth Cox, and Oxfam NZ. Appreciation is also extended to the Pacific Islands Forum Secretariat (PIFS) Trade Division staff and Social Development Adviser, to Kaliopate Tavola, and to representatives of Governments and the private sector, members of the academic and NGO communities and other individuals in each of the six countries visited by the research team.

The views expressed in this report are those of the contributors and do not necessarily reflect the opinion or position of any organizations and/or governments consulted in the course of this research. PANG takes full responsibility for any shortcomings in this report.

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## Executive Summary

On 8 May 2007, PANG signed a contract with the Pacific Islands Forum Secretariat (PIFS) to undertake a Social Impact Assessment study of the Economic Partnership Agreement (EPA) presently under negotiation between PACP states and the European Union (EU). The report was expected to contain a section on how countries could mitigate the negative effects of EPA, for example through their regulatory frameworks.

The EPA framework is based on the Cotonou Agreement, which came into force in 2000, replacing the Lomé Convention. Although it is primarily concerned with WTO-compatibility, the Cotonou Agreement purports to be framed in the development interests of ACP states. Two of its over-arching principles are poverty eradication and social and environmental sustainability. Also embedded in the Cotonou Agreement is the principle that economic and trade cooperation should take account of the different levels of development of ACP countries, which means there should be flexibility to cater for their differing needs.

The SIA study was undertaken without full information on each country's demands and offers, and with some uncertainty as to their eventual positioning in relation to the EPA. At the commencement of this study it was understood that PACP countries were proceeding on a 'buy-in' basis and would likely only sign on to what would be advantageous to them. Ten PACP states had indicated interest in entering a goods agreement with the EU. Maximum flexibility was being sought through a 25-year period for tariff reduction, and an infant industry clause.

In respect to Services, the key issue for PACPs is a Mode 4 request for short-term (three years duration) work opportunities in Europe for 10,000 semi-skilled and skilled Pacific Islanders a year. The Mode 4 request is understood to be a 'make or break issue' for the PACPs in the sense that only if this is granted will Services be included in the EPA. The social impacts of both the Mode 4 request and Tourism services offers were signaled for SIA assessment.

Six country case studies were undertaken, each with a specific sector, consideration or concern in mind for assessing EPA impacts:

1. Papua New Guinea - a country that exports to the EU
2. Kiribati - a country dependent on fisheries licensing
3. Republic of Marshall Islands - a small island developing state (SIDS)
4. Samoa - a country where services may be affected
5. Solomon Islands - a Least Developed Country (LDC)
6. Fiji - a country likely to experience adverse gender impacts.

Sector selection was made on the basis of what could be ascertained as each country's primary interests in the EPA .

The aspects and sectors focused on in each of the country case studies were:

1. PNG - Goods Agreement (fisheries)

2. Kiribati -Services (Mode 4)
3. Federated States of Micronesia - Services (Mode 4)
4. Solomon Islands - Goods Agreement (primarily agriculture)
5. Fiji - Goods Agreement (sugar and garments) and Services (Mode 4)
6. Samoa - Services (Mode 4)

The following core questions guided the SIA:

- What are the potential (positive and negative) social impacts of the EPA in relation to the specific area of focus of the country case study, and the individual country's proposed requests or offers, as we understand them to be?
- What mitigating measures can be put in place to ameliorate negative impacts?

In each of the six countries, consultations were held with representatives of government, the private sector, representatives in the NGO and academic communities, and other stakeholders. The reports of five of the country case studies were completed - the sixth, on Samoa could not be completed due to unforeseen circumstances involving the researcher concerned.

### Summary of Case Study Findings

The case studies served to illustrate social impacts in specific national contexts. The concerns raised in each are more broadly applicable to other PACP states.

#### *1. Papua New Guinea*

PNG's principal interest is maintaining access to the EU market for its canned and other processed fish exports. The loss of the EU market could cost the country between 12,000 and 15,000 cannery jobs (an estimated 36,000 - 45,000 jobs if one includes auxiliary and spin-off industries).

Of all PACP states, PNG has the greatest potential as an EPA partner, given its wealth of natural resources and potential for expanded export agricultural and fisheries production, although there are a number of severe constraints, including infrastructural breakdown, poor services and weak state capacity. A goods agreement will trigger PACER, with major social impacts since Australia is PNG's main trading partner.

Papua New Guinea is seeking more than market access to the EU through the EPA. The support of other PACP states is being sought for a major regional industrial fisheries initiative for export. Aimed at retaining a substantial volume of the annual tuna catch for downstream processing by PACP states within the region and subsequent export to the EU, the initiative would require development funds under the EPA and changes in the EU's Rules of Origin to become a reality.

The proposed initiative entails major social and environmental risks, among them, social conflict, law and order problems, poverty wages and poor labour standards, further damage to the Madang Lagoon, expansion of the sex-trade, increased HIV infections and increased pressure on the tuna fishery. If it becomes a regional development initiative, rigorous regulatory controls, appropriate risk management strategies and mitigation measures will

need to be put in place domestically, backed by effective regional governance mechanisms, and observance of international labour standards.

## **2. *Solomon Islands***

Solomon Islands has already put in place tariff reforms, lowering its top rate of duty to 10%, which is way below what is required by WTO or could have been negotiated under the EPA.

The structure of the SI economy and the lack of any clear current scheme for the development of resource-based value-added industries reduce the potential to benefit from increased market access in the EU under an EPA. However, the EPA creates a significant agricultural development financing window which could be utilized by Solomon Islands to escalate its agricultural development although accessing land is a bottleneck requiring attention.

EPA-funded agricultural development could offer substantial net gains but such gains would have to be carefully managed as they also have the potential to generate serious social problems (e.g. in terms of land disputes, inter-ethnic conflict) and Solomon Islands has a recent history of conflict. Affirmative action policies could help ensure a more equitable spread of benefits.

## **3 *Fiji***

Fiji is keen to conclude a goods agreement with the EU under an EPA, to see the Sugar Protocol brought into the EPA, and to take advantage of any labour mobility scheme resulting from the PACP states' Mode 4 request.

A goods agreement with the EU will trigger PACER, with major social impacts since Australia is Fiji's main trading partner. As a large proportion of workers in both the textiles and food processing/packaging industries are women, a majority of whom are drawn from lower-income families, the gender and poverty implications are of concern. The prospects of a reciprocal goods agreement with the EU providing a needed transfusion to Fiji's ailing garment industry are poor, as the EU can more easily and cheaply source quality finished garments from Africa. Thousands of women have already lost jobs in the industry, which enjoyed a boom under the preferential market access arrangements of SPARTECA.

Loss of the sugar protocol will adversely affect 200,000 people in Fiji or 25 per cent of the population. Keeping sugar in the EPA is seen by Fiji as vital to protecting the Sugar Protocol for as long as possible. The inclusion of adjustment funding in the EPA development component, to assist the industry restructure and become more competitive, and to diversify the end use of cane sugar (e.g. through the development of biofuels), is critical to ensuring its recovery, securing cane farming livelihoods and promoting alternative energy.

The Mode 4 intermediate trainees facility would involve short term work opportunities for semi-skilled labour in the hospitality, construction and health sectors. These areas however are already experiencing human resource shortages and the country's public health system

has been adversely affected by the loss of significant numbers of nurses in the last decade to short term work abroad.

#### ***4. Kiribati***

Kiribati's interests in the EPA primarily lie in the Mode 4 access for intermediate trainees sought by the PACP states. Kiribati has long been an exporter of temporary labour in the form of seafarers recruited to work on German and Japanese shipping vessels.

From what data is available it is evident that serious de-skilling of the population, with enormous implications for the overall and long-term development of Kiribati, could result from jumping into exporting intermediate trainees under an EPA Mode 4 facility. The pool of workers in Kiribati from which the category of 'intermediate trainees' would be drawn – i.e. workers with diploma and certificate level qualifications - is extremely small. Kiribati has an especially severe shortage of nurses and doctors, and a recently-initiated Australian nurse training programme is already likely to permanently rob Kiribati of its brightest recruits/graduates in nursing.

There are a host of other negative social impacts associated with temporary work schemes. Care needs to be taken to ensure that national needs are given priority, and that adequate safeguards to mitigate against adverse impacts are put in place.

#### ***5. Federated States of Micronesia (FSM)***

FSM does very little trade with the EU so the impacts of competition and loss of tariff revenue will be minimal. However, an EPA in goods with the EU has MFN implications as the same treatment must be accorded to the US. This will have serious revenue implications as approximately 34% of imports come from the US and a further 18% from Guam. FSM stands to lose between \$500,000 and \$1,163,982 of tariff revenue.

Given the considerable fisheries resources within its territorial waters, and the growing significance of the EU tuna market, FSM is well positioned to benefit from employment creation through downstream fisheries processing, but large scale operations will definitely have negative environmental and social impacts.

Job creation through the development of downstream fisheries processing for export to the EU could help mitigate the multitude of existing social problems directly related to poverty and unemployment. The potential social and environmental costs of value-added fisheries or other industry must be mitigated and managed to protect the environment which is fundamental to people's food security, a fall back source of income, and the basis of FSM's most promising potential industry in tourism.

FSM has requested labour mobility in extensive areas, as well as technical and financial assistance to upgrade facilities and qualifications to meet EU standards. This would likely increase the success of emigrants to the US and could set a precedent for re-negotiating the Compact.



## 6. Samoa

Samoa's interest in an EPA centers on its Mode 4 labour mobility prospects, should the PACP demand for temporary access for a quota of 'intermediate trainees' be successfully negotiated with the EU. Market access for niche value added products in which Samoa has also shown some success (e.g. organically certified agricultural products); and investment, particularly in tourism, are also areas of interest for Samoa.

Managing temporary access to the EU market for intermediate trainees in specific industries would not be difficult for Samoa, which has had a long experience with both out-migration and temporary work schemes abroad. The considerable remittances that the Mode 4 concession would bring carries the risk that the best among young trainees in the designated categories of tourism, construction and health sectors could be permanently lost to economies abroad. The impacts on Small and Medium Enterprise (SME) tourism operations in Samoa, particularly 'beach *fale* tourism' could be especially significant

There is also a lot of concern about longer-term social and cultural impacts of liberalisation on the Samoan economy and society, not least in eroding the Samoan 'way of life'.

### Some of the Social Impact Areas Identified

Although there is little trade between most PACPs and the EU, a goods agreement with the EU founded on free trade will trigger PACER, the impacts of which will be significant given Australia's trade dominance in the region. This will likely entail the loss of jobs in domestic industries with competition from cheaper imports resulting from tariff reductions.

The absence of strong regulatory controls and food and health safety and consumer rights bodies could make PACP countries dumping grounds for inferior quality goods, not so much from EU members but from other producers which might negotiate a trade agreement with the PACPs, based on a goods agreement signed with the EU. Lower income consumers would likely be the most affected as they may be forced to opt for cheaper products irrespective of quality. All PACP states should put in place a competent trade standards body that can ensure that imported commodities are health and safety, as well as quality and standard, compliant.

Likely other impacts of liberalising trade in goods with the EU, at least for the larger PACP economies, include a growth in import and retail businesses, particularly those specialising in supplying luxury consumer goods (vehicles, wines, clothing etc) to middle-class consumers within the PACPs, and a greater range of pharmaceutical products. While these will entail some employment gains, they are unlikely to be significant. The liberalisation of trade in goods should make consumer goods more cheaply available but the introduction (or raising) of VAT, GST or consumption taxes to make up for lost tariff earnings could counteract this effect, and increase hardship for lower income earners. The EU requirements on intellectual property could raise the costs of pharmaceutical drugs in PACP states, some of which presently source generic drugs from cheaper suppliers in Southern countries.

Loss of government revenue will also likely have adverse social impacts. The suggestion, as indicated in the Solomon Islands case study, that a shift from tariffs to VAT or consumption

taxes will be ‘revenue neutral’ is contradicted by the findings of an IMF study<sup>1</sup> which indicated that less than 30% of the revenue lost from trade liberalization over the past 25 years had been recovered through other means.. The report proposes some mitigating measures to address the most adverse impacts of revenue loss.

The PACP draft negotiating text includes a set of innovative pre-establishment and governance obligations for foreign investors, including obligations to comply with national environmental laws, conduct SIAs, adopt the precautionary principle in decision-making, uphold human rights and core labour standards in the workplace, and refrain from bribing public officials and others to influence decisions. There are radical provisions proposing to allow proceedings to be brought against an investor that persistently breaches or fails to comply with these obligations, and oblige home states to ensure that their legal rules allow court actions to be brought against their investors for acts done or decisions made in the PACPs. Although the EU is unlikely to sign onto such provisions in an EPA, their inclusion underlines PACP awareness of some of the real risks entailed in liberalising investment.

PACP governments and PIFS have a responsibility to ensure that any commitments relating in any way to investment include sufficient safeguards to protect the livelihood and welfare interests of Pacific people and ensure the sustainability of their resource bases. Retaining policy space for re-regulation, to ameliorate unforeseen adverse social impacts is vital.

If successfully negotiated, the PACPs demand for an annual quota of 10,000 semi-skilled and up PACP nationals (in a new visa category of ‘intermediate trainees’) to work in EU member countries would offer new opportunities to many of the Pacific’s people, especially young people. The proposed sectors selected for inclusion however (tourism, construction and health services) are sectors in which there are already considerable human resource shortages, as illustrated in the cases of Kiribati and Fiji. The loss of health workers, in particular, could have critical impacts, especially in PACP countries where labour mobility among nurses is already taking place (e.g. Fiji) or where offshore nurse training programmes are likely to set it in train (e.g. Kiribati).

While a managed labour mobility scheme that provides temporary market access to EU service sectors would also bring in a steady stream of remittances, the institutionalisation of labour exportation and of remittance dependency is not conducive to sustainable development. The scheme ought to be viewed as nothing more than one of several options for partially addressing the fundamental problems of limited employment and low incomes in PACP states.

As with all other social impacts anticipated in this study, anticipating the differential impacts of an EPA on men and women because of their differential location or position in society is to a large extent speculative. As such, the report confines itself to only anticipating gender impacts where evidence already exists of such impacts in related contexts. Three of the country case studies provide specific examples of some likely gender impacts of an EPA. Monitoring gender impacts will require close consultation with regional

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<sup>1</sup> Baunsgaard and Keen (2005) *Trade Revenue and Trade Liberalisation*, IMF Working Paper WP/05/112

and national women's rights advocacy groups and networks, to ensure that the EPA does not undermine women's interests and rights.

### General Conclusions and Recommendations

This study is based on the draft EPA negotiating text provided to the researchers by the Forum Secretariat. On this basis, a number of social impact issues were identified and mitigating measures proposed. The mitigating measures proposed in the main report and case studies form part of the recommendations of this study; other than these, there are some additional general recommendations. Foremost amongst these is a recommendation concerning the fundamentals of the EPA with EU.

The EPA is founded on the adoption of the market mechanism as the fundamental resource allocation mechanism in the Pacific. This is a significant assumption which PACP governments need to consider seriously, in terms of its implications. While most PACP governments have accepted that the PACP countries are part of the global world, there has been no discourse on the implications of this. Capitalism as a way of life and as a resource allocation device demands certain fundamental changes to be made to the existing way of life in the Pacific, including to mechanisms that organize resource allocation. These issues need to be fully debated before PACP states sign onto agreements with potentially long term and irreversible social transformation impacts, and social conflict risks.

In addition to the mediating measures proposed for specific social impacts, the following general recommendations are made:

1. PACP states should ask for an extended transitional period in which to more fully examine likely negative impacts of an EPA, and to put in place necessary legislation to protect national interests. Allowing such a transition would be in keeping with the Cotonou Agreement's principles relating to consultation with civil society.
2. If an EPA is signed, monitoring its social impacts once it comes into force must be given priority. The need for a continuous and sustained monitoring is vital if the PACP states are to avoid or minimize the adverse social consequences of the EPAs. While it is for each country to determine the modalities of such monitoring, it is recommended that a high profile monitoring unit, staffed by well qualified analysts, be set up, at arms length from the EPA implementing agencies; its preferred administrative location would be the Office of the Prime Minister (or President in the case of countries with a presidential system of government).
3. The PACP government should seriously consider encouraging the establishment of independent capacity for monitoring EPA impacts. This should involve NGOs, community organizations, trade unions, and representatives of the private sector. Independent monitoring provides a useful pressure valve for stakeholders who are adversely affected by policy measures. This creates greater established channels of consultation and communication with the state.

4. The PACP states should ensure that the EPA incorporates financial provision for both independent monitoring of EPA impacts and for the introduction of mitigation measures including new regulatory controls where necessary.
5. PACP government should also seriously consider targeting a certain percentage of public expenditure to address (or mitigate) the adverse impacts of the EPAs. This ought to be done through budgetary allocation.
6. PACP governments should take a proactive policy stand in ensuring that the gains from EPAs are distributed fairly by region and ethnicity.
7. The future sustainability of the country's forestry resources might be well served by the inclusion in the EPA of incentives for both sustainable logging, conservation and reforestation, and for good governance of these resources.
8. In deciding tariff schedules for a goods agreement, PACP states could consider using tariff schedules to encourage imports of healthier foods and discourage unhealthy food imports. Consultations with national health and nutrition experts and relevant UN country offices (e.g. WHO and UNICEF) are advised.

## 1. Background

At their meeting in June 2006, the Pacific ACP Trade Ministers agreed to commission, through the Pacific Islands Forum Secretariat (PIFS), a Social Impact Assessment study of the Economic Partnership Agreement (EPA) presently under negotiation between PACP states and the European Union (EU). On 8 May 2007, PANG signed a contract with PIFS to undertake such a study. Terms of reference for the study are appended (*Appendix I*). A research team of five<sup>2</sup> undertook the work of producing the SIA.

## 2. The EPA Framework

The legal basis for Economic Partnership Agreement (EPA) negotiations is the Cotonou Partnership Agreement, signed in 2000 between the European Union (EU) and 77 ACP countries. The Cotonou Agreement, which replaced the Lomé Convention, was framed for WTO compatibility. As such, it fundamentally altered the earlier development partnership between the EU and ACP states, which was based on historical relationships and a sense of moral responsibility by European states towards their former colonies. The non-reciprocal preferential market access enjoyed by ACP states under Lomé (and extended for a limited period under Cotonou) will be replaced by reciprocal market access arrangements negotiated between EU and ACP states under EPAs that are expected to be concluded and signed by 31 December 2007.

While the preferential trading paradigm of Lomé may be considered to have distorted economies and locked ACP countries into an easy dependency, attaining efficiencies through economies of scale and more competitive policies is not a reality for many small economies, including those in the Pacific, which face special challenges.

The Cotonou Agreement purports to be framed in the development interests of ACP states. According to Bilal & Rampa (2006: 8-9), the Cotonou Agreement has three overarching guiding principles:

1. poverty eradication (reducing and eventually eradicating poverty )
2. social and environmental sustainability; and
3. strengthening regional integration

Also embedded in the Cotonou Agreement is the principle that economic and trade cooperation should take account of the different needs and levels of development of ACP countries, which means there should be flexibilities to cater for the differing needs of the ACP states. As Bilal & Rampa see it, both trade (tariff and non-tariff barriers to trade) and trade-related rules (standards, certification and behind the border measures such as trade facilitation, competition, investment etc) should respect this principle. The Cotonou Agreement also 'legally requires the EU to leave no ACP country worse off after the expiry of Cotonou Preferences, in ways that are compatible with World Trade Organisation rules'(TWN/Oxfam 2007:1).

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<sup>2</sup> The research team included: Claire Slatter, Ganesh Chand, Roshni Sami, Biman Prasad and Lionel Gibson.

It is to the development framework of the Cotonou Agreement and these over-arching guiding principles that the PACP states seek to hold the EU accountable. PACP states are seeking to negotiate an EPA, or alternative agreement with the EU, that will meet their own development needs. The PACP Ministerial declaration in 2002 to put development first and trade second follows the general position of the ACP states as a whole. The PACP states' draft EPA negotiating text, particularly Chapter 2 (on scope of development and partnerships) and Chapter 9 (on Financial Mechanisms for adjustment and support), attempted to translate that position into a legal draft agreement. PACP priorities are reflected in the other chapters – trade facilitation (Chapter 4), agricultural development (Chapter 5), trade in services (Chapter 6), tourism (Chapter 7), investment protection and promotion (Chapter 8) and dispute resolution (Chapter 10).

The above understandings of the Cotonou Agreement and the EPA guided the SIA. Bearing these in mind, the research team's key concerns were:

- to identify likely adverse impacts of proposed PACP requests and offers in relation to the EPA and highlight especially socially-sensitive areas;
- to advise that the 'precautionary principle' govern PACP negotiations on the EPA;
- to emphasize the importance of retaining policy space and flexibility; and
- to support the PACP approach of insisting on a development framework for the EPA, as per the promise of the Cotonou Agreement, and in line with Special and Differential Treatment (SDT) for Least Developed Countries (LDCs) and Small and Vulnerable Economies (SVEs) as proposed in WTO's Doha Development Agenda.

In anticipating social impacts, the researchers in this SIA adopted a broader and longer-term development perspective. They also bore in mind whether each individual PACP country's proposed EPA requests and offers were likely (or not) to:

- contribute to poverty alleviation/eradication; and
- prevent negative impact on natural resources/ the environment

### 3. Negotiating Strategy of PACP States

At the commencement of this study it was understood that PACP states were proceeding on a 'buy-in' basis, and would likely only sign on individually to what would be advantageous to them. As a group, PACPs were taking a 'nothing is agreed until everything is agreed' negotiating position. Obtaining a clear idea of what each government's requests and offers are likely to be was the obvious starting point. In all of the case study countries, however, offers on goods were still being finalized, and the only information available on offers in respect of services were what had been communicated to PIFS as at 8 June 2007.

The SIA study was therefore undertaken with a general understanding of PACP interests, but without full information on each country's demands and offers and with some uncertainty as to each country's eventual positioning in relation to the EPA. The framework of the draft negotiating text produced for the PACPs by PIFS provided a general guide to what, at base, the PACP states seek from the EPA. In 2005, PACP Trade Ministers had agreed on an architecture for the EPA – a Master Agreement with four

subsidiary agreements, namely Trade in Goods, Trade in Services (including Tourism and Mode 4), Investment and Financial Instruments, and a Fisheries Partnership Agreement (PIFS 2007). In the final PACP text, there are only two subsidiary agreements (on goods and fisheries); in the final EU text there is only one, on goods. It was proposed that a head agreement be signed by all PACP states, and an annex agreement covering goods be signed by those PACP countries interested in a goods agreement. However, some of the smaller PACP states were still uncertain in 2007 about even signing a head agreement with the EU, as per the decision of the 2005 PACPTMM.

PACPs have also been considering alternatives to the EPA, namely an enhanced General System of Preferences (GSP+), and Duty Free/Quota Free entry for Everything But Arms (EBA), a concession initially reserved for LDCs that has since been offered to all ACP states by the EU if they sign the EPA. The option of DF/QF access to the EU is considered meaningless without changes to EU's existing Rules of Origin (ROOs). A fundamental difference between the EPA and the above two alternatives is that as a multilateral agreement, the EPA will not be subject to unilateral change by the EU, and will be binding on both parties. Unlike the EBA concession for LDCs, which is non-reciprocal, the conditional DF/QF entry offered to ACP states if they sign an EPA will be reciprocal. The EPA includes a development component to assist with adjustment to liberalisation and to help ACP countries maximise the benefits of opportunities opened up in the agreement. This has been of major interest to PACPs. A lot of discussion among PACP states has reportedly centered on the expected benefits to be derived from the development package under the EPA, and development components feature strongly in their draft negotiating text.

The research team acquired copies of relevant documents from the Trade Division of PIFS, including papers on Modalities for Negotiating Trade in Goods and Modalities for Negotiating Trade in Services, which together constituted the negotiating strategy of PACP states on the EPA, and power point presentations prepared for the joint meeting of PACP Trade Ministers, National Authorising Officers (NAOs) and Regional Authorising Officers (RAOs) in May 2007 on Goods Demands and Offers, and Services Demands and Offers. PIFS papers on Services Demands and Offers, PACP Negotiating 'Red Lines' for an EPA, and Alternatives to EPAs were subsequently obtained.

Ten PACP states had expressed interest in entering a goods agreement under the EPA. PACP states do not expect to have to make the same level of commitments as the EU in respect of product coverage, given their different development status. They are requesting EBA-equivalent access for all PACP products (bar sugar, for a possible transition period), the right to exclude sensitive products from tariff reduction commitments, maximum flexibility in a tariff reduction schedule spanning 25 years (with no reductions in the first five years on any goods – those already duty free when the EPA enters into force will remain so), and an infant industry clause.

As this research was being undertaken, PACPs were working on what goods they would place under which of the 7 categories (A-G)<sup>3</sup> developed for the proposed tariff reduction schedule, based on PIFS' suggested criteria. Goods suggested for inclusion in Category G (not subjected to duty reduction) are all locally-produced finished goods 'considered vital for reasons of economic and/or social policy' or major revenue earners, or goods on which duties are imposed for social policy reasons (sin taxes). Goods suggested for earliest tariff reductions (Categories B and C) are those with minimal revenue implications and no local production, followed by intermediate goods produced (or potentially produced) locally (Category D), and finished goods produced (or potentially produced) locally (Category E). Category F which provides the longest timeframe for tariff reduction (20 years, commencing Y6) is available only to Least Developed Countries (LDCs) and Small Island States (SIS). In order to be able to exclude products from the tariff reduction schedule based on development considerations and still comply with the Substantially All Trade (SAT) requirement of the goods agreement, PACPs are seeking a definition of SAT based on the percentage of tariffs lines covered.

The research team was advised that a separate study to assess likely revenue losses under PICTA, EPA and PACER and propose alternative fiscal and revenue policy options had been commissioned by PIFS, obviating any need to address this issue except to the extent of noting possible social impacts of revenue losses.

In respect to Services, the five main interests of PACP states are: increased Mode 4 access for PACP nationals, development of training programmes to support Mode 4, development of PACP tourism sectors, improved efficiency of selected PACP sectors (Modes 1-3), and assistance with regulatory reforms. The key PACP services demand is a Mode 4 annual regional quota scheme for PACP nationals, with an accompanying programme to assist PACP training facilities attain EU recognition (PIFS 2007:3). Specifically, an annual quota of 10,000 is sought for semi-skilled and skilled PACP nationals, initially from the health, construction and tourism sectors, although excluding health for the first five years.<sup>4</sup> The Mode 4 demand seeks, for a new visa category of 'intermediate trainees' with two years experience, the opportunity to be exposed to work disciplines in European states, to acquire new skills and subsequently contribute to raising standards, improving quality and generally enhancing these sectors on their return. To minimise the risk of exacerbating domestic shortages, lower skilled PACP nationals in areas of labour surplus will be prioritised, and access for higher skilled and professional

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<sup>3</sup> Category A: goods already duty free on the date the EPA enters into force; Category B: goods on which duties will be eliminated at the beginning of year 6; Category C: goods on which duties will be reduced to zero in 5 equal annual stages from Y6-Y10; Category D: goods on which duties will be reduced to zero in 10 equal annual stages from Y6 to Y15; Category E: goods on which duties will be reduced to zero in 15 equal annual stages from Y6-Y20; Category F: goods on which duties will be reduced to zero in 20 equal annual stages from Y6-Y25; Category G: goods excluded from duty reductions.

<sup>4</sup> Job categories covered under Tourism include: waiters, bartenders, chefs, pastry chefs, cooks, housekeepers, frontline managers, travel agents, tour operators and managers, tour guides and dive masters. This is later to be expanded to senior hotel managers and restaurant and catering enterprise managers. Job categories under Healthcare are: nurse aids, midwives, physiotherapists and caregivers. Those included under Construction are: roofers, painters, glazers, plasterers, concrete workers, masons, steel workers, fencers, decorators, floor layers and wall tilers. This will be expanded later to include air-conditioning and refrigeration workers, plumbers, electricians, carpenters, and joiners.



categories delayed. In addition to services market access, the Mode 4 request includes support for strengthening national and regional training institutions, including through curriculum development, to ensure that qualifications meet EU standards and are recognised. The Mode 4 request is understood to be a 'make or break' issue for the PACPs in the sense that only if this is granted will Services be included in the EPA.

In return, the PACP states are offering to liberalise to the EU 'selected services sectors' to promote national development and improve efficiency ((PIFS 2007:3). Foremost among the services likely to be offered for liberalisation by PACPs is Tourism, which many PACP countries have indicated will be on their offers list. The social impacts of both the Mode 4 request and Tourism services offers were signaled for SIA assessment. While PACPs are making a single demand to the EU for the same market access to be given all 14 PACP states, PACP offers will be made individually by PACP states, reflecting their differing levels of interest and commitment in the different services sectors and sub-sectors ((PIFS 2007:3).

#### 4. Methodology

The Terms of Reference for this study were very broad and the short time allocated for the work - 45 days - compromised both the scope of the SIA and the participatory process on which the PANG proposal was based. Intended to involve NGOs and other stakeholders in the six Pacific countries in the research process and draw on their considerable knowledge and prior work, a participatory method was also to include some capacity-building in the interests of ensuring ongoing civil society engagement in EPA social impact monitoring. In the event, this was only partly achieved. In each of the six countries, a national NGO assisted the study by being the national point of contact and facilitating in-country research work.

Comprehensive guidelines for the in-country work were drawn up by the Team Leader as part of the research framework, and the member of the research team responsible for each country case study liaised directly with the national point of contact prior to visiting the country, or in the case of Fiji, prior to national consultations being carried out.

A Reference Group of experts was set up by PANG to provide feedback on both the research framework and the draft report. Due to the tight time-framework and other commitments, several members of the original Reference Group were unable to provide such assistance. In three cases, however, draft country studies were read by one or two persons outside the Reference Group and benefited from their useful comments.

Six country case studies were undertaken. Each was selected with a specific sector, consideration or concern in mind for assessing EPA impacts:

1. Papua New Guinea - a country that exports to the EU
2. Kiribati - a country dependent on fisheries licensing
3. Republic of Marshall Islands - a small island developing state (SIDS)
4. Samoa - a country where services may be affected
5. Solomon Islands - an LDC

6. Fiji - a country likely to experience adverse gender impacts

For each of the country studies, one or two specific sectors were selected for focus. The selection was made on the basis of what could be ascertained as each country's primary interests in the EPA from initial consultations with individuals familiar with EPA issues and PACP positions<sup>5</sup> and from subsequent consultations in-country, with government representatives and other stakeholders.

The aspects and sectors focused on in each of the country case studies are:

1. PNG – Goods Agreement (fisheries)
2. Kiribati – Services (Mode 4)
3. Federated States of Micronesia<sup>6</sup> - Services (Mode 4)
4. Solomon Islands – Goods Agreement (primarily agriculture)
5. Fiji – Goods Agreement (sugar and garments) and Services (Mode 4)
6. Samoa - Services (Mode 4)

In each of the six countries, consultations were held with representatives of government, the private sector, representatives in the NGO and academic communities, and other stakeholders. Only in two countries (Fiji and Papua New Guinea) were consultations held with NGOs and other stakeholders outside of the capital, and only in one case did these consultations involve a series of meetings with a significant number of NGOs attending. In all countries, NGO understanding of the EPA was fairly limited and soliciting information on likely EPA impacts brought little in the way of informed responses. This reflects the general paucity of public understanding of the EPA, and underscores the need for extensive community education to be undertaken in the region on the EPA, and the practical implications of PACP requests and offers.

The following core questions guided the SIA:

1. What are the potential (positive and negative) social impacts of the EPA in relation to the specific area of focus of the country case study, and the individual country's proposed requests or offers, as we understand them to be?
2. What mitigating measures can be put in place to ameliorate negative impacts?

## 5. Findings from the Country Case Studies

The six country case studies that were undertaken highlight the possible social and environmental impacts of what could be ascertained as each of the six PACP state's probable demands and offers under the EPA, and of general opportunities and risks resulting from an EPA. The reports of five of the six country case studies are appended to this report.<sup>7</sup> The main issues revealed by each are summarised below. The social impact

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<sup>5</sup> These consultations included discussions with former Minister of Trade in Fiji and with senior officers in PIFS' Trade Division.

<sup>6</sup> Initially the Republic of Marshall Islands (RMI) was proposed for inclusion in the country case studies. FSM was substituted for RMI following further consultation with PIFS' Trade Division in June.

<sup>7</sup> The sixth case study report, on Samoa, could not be completed due to unforeseen circumstances involving the researcher concerned. A summary of the findings of the research on Samoa, based on what was shared with the team, is included in the summary of case study findings below.

concerns raised in each of the case studies are applicable to other PACP states, the case studies serving to illustrate such impacts in specific national contexts.

### *5.1 Papua New Guinea*

Papua New Guinea, an APEC, WTO and MSG member, is taking the lead in negotiating a goods agreement with the EU under an EPA, to cover fisheries, mining, forestry and agricultural products. Of all PACP states, PNG has the greatest potential as an EPA partner, given its wealth of natural resources and potential for expanded export agricultural and fisheries production, although there are a number of severe constraints, including infrastructural breakdown, poor services and weak state capacity. A goods agreement will trigger PACER, with major social impacts since Australia is PNG's main trading partner.

PNG's principal interest is maintaining access to the EU market for its canned and other processed fish exports which have been enjoying preferential access under Lomé and, until December 2007, Cotonou. The loss of the EU market could cost the country between 12,000 and 15,000 cannery jobs (an estimated 36,000 – 45,000 jobs if one includes auxiliary and spin-off industries).

Papua New Guinea is seeking more than market access to the EU through the EPA. The support of other PACP states is being sought for a major regional industrial fisheries initiative for export. Aimed at retaining a substantial volume of the annual tuna catch for downstream processing by PACP states within the region and subsequent export to the EU, the initiative would require development funds under the EPA and changes in the EU's Rules of Origin to become a reality.

In terms of building export capacity, generating foreign exchange earnings and government revenue, and creating employment and other economic spin-offs, the proposal has tremendous economic merit. Support for its implementation could be successfully negotiated within a Multilateral Fisheries Partnership Agreement subsidiary to an EPA if all PACP states (and particularly all Parties to the Nauru Agreement) stand together. There are, however, major social and environmental risks associated with the proposed development, which need to be carefully weighed against the anticipated economic gains. These risks include: (i) social conflict and law and order problems arising from a massive influx of 'outsiders' into Madang Province in search of employment in the fisheries industry; (ii) replication of the poor wages and working conditions that characterise PNG's industrial fisheries due to poor enforcement of labour standards; (iii) further damage to the Madang Lagoon, a rich marine area and home to 17% of PNG's endemic fish species, which has already been adversely affected by the existing cannery and its associated fishing operations, with implications for subsistence fisheries and food security in affected regions; (iv) upsurge in the sex-trade, and in HIV infections; and (v) over-exploitation and possible depletion of the tuna fishery, despite improved management of fish stocks through the introduction of the VDS and downstream processing.

If the PNG industrial fisheries proposal is pursued as a regional development initiative, rigorous regulatory controls, appropriate risk management strategies and mitigation measures will need to be put in place domestically, backed by effective regional governance mechanisms, to ensure that the interests of people are put ahead of the interests of profit, that the harvesting of the valuable fisheries resources is undertaken responsibly and in accordance with good governance practices, and that social and environmental safeguards are in place. A number of specific proposals are made at the end of the case study that are closely in line with the PACP's draft EPA text, specifically Articles 8.11-8.18, which set out obligations and duties of Foreign investors, Articles 8.19 – 8.29, which delineate the obligations and rights of host states, and Articles 9.29-8.34, which specific the obligations of the home states of investors.

## 5.2 *Solomon Islands*

Solomon Islands, a WTO and MSG member and an LDC, has already substantially lowered its tariffs, reducing its top rate of duty from 20% to 10%. While liberalisation through a goods agreement with the EU poses no risk of further tariff revenue loss for the country, the expected introduction of value-added tax will have adverse social impacts for lower income earners.

A country with a considerable natural resource base, the economic benefits of an EPA to Solomon Islands could be substantial. EPA-funded agricultural development for instance could bring substantial net gains to Solomon Islands in terms of expanding agricultural production and downstream processing and securing infrastructure development to support agricultural production, both for export and domestic consumption. While the absence as yet of any clear plan for developing resource-based, value-added industries diminishes Solomon Islands' prospects of fully benefiting from duty free access to the EU market, this could substantially change with a development financing package under the EPA to support a national agricultural development strategy, as conceived in Chapter 5 of the PACP draft negotiating text.

Positioning Solomon Islands to maximally benefit from an EPA through the export of agricultural products to EU markets would need to be accompanied by domestic policies to ensure equitable distribution of the benefits of growth and development. In multi-ethnic societies the potential of economic growth and spin-offs to generate inter-ethnic and inter-regional inequality, breed resentment and trigger tensions, conflicts and violence is always high. Given Solomon Islands' recent history of social conflict, serious attention to mitigation measures and close monitoring of EPA impacts and of the economic progress of regions and groups are warranted.

A more equitable spread of benefits would result from ensuring an even distribution of new economic opportunities across regions and ethnic groups, transparent, fair and merit-based access to opportunities for individuals, provision for affirmative action policies where necessary, and attention to infrastructure and utilities development outside the capital and across provinces.

Accessing land has been identified as a major supply side constraint for commercial agricultural production and other large-scale development. Land is an extremely sensitive issue and a potential political trigger because it holds more than economic value. Careful and transparent policy interventions using consultative processes inclusive of wider community stakeholders are crucial. Maintaining a balance between commercial agriculture and subsistence agriculture is also vital to ensuring that subsistence livelihoods and domestic food security are not put at risk, particularly in the context of increased labour mobility, and the possible transformation of subsistence producers into agricultural labourers.

Financial support for both mitigation measures, including regulatory controls where necessary, and for the independent monitoring of EPA impacts should be incorporated into the EPA.

Both forestry and fisheries are of crucial importance to Solomon Islands' economy. However, the benefits of bringing fisheries and forestry under the EPA need to be carefully appraised as the EU has strong interests in both these resources and already has a bilateral fisheries agreement with Solomon Islands, which came into force in 2006. The reciprocal basis of the EPA could see Solomon Islands providing access to a new category of natural resource investors, resulting in increased extraction and greater risk of resource depletion.

Should a subsidiary MFPA be negotiated and forestry be brought into the EPA, equivalent provisions to those proposed for agriculture should be put in place for both sectors. Additional provision should be made for regular and independent monitoring of the health of both resources, and to support the regeneration of forests and fisheries resources for their sustainable utilisation.

### *5.3 Fiji*

Fiji is keen to conclude a goods agreement with the EU under an EPA, to see the Sugar Protocol brought into the EPA, and to take advantage of any labour mobility scheme resulting from the PACP states' Mode 4 request.

A goods agreement will certainly trigger PACER, with major social impacts since Australia is Fiji's main trading partner, not least in the loss of employment from the closure of industries unable to compete with imported goods. As a large proportion of workers in both the textiles and food processing/packaging industries are women, a majority of whom are drawn from lower-income families, the gender and poverty implications are of concern. The prospects of a reciprocal goods agreement with the EU providing a needed transfusion to Fiji's ailing garment industry are considered poor, as the EU can more easily and cheaply source quality finished garments from Africa. Thousands of women have already lost jobs in the industry which enjoyed a boom from the mid-1980s into the 1990s as a result of Fiji's preferential market access, particularly under SPARTECA.

Fiji is an inefficient producer of sugar, a situation encouraged to a large degree by the sugar subsidy enjoyed for many years under the EU's Sugar Protocol, which provided stable export prices to sugar producers that were 2 to 3 times higher than what would have been earned on the world market, as well as guaranteed import quotas. This subsidy, together with a system of paying for cane on the basis of weight rather than quality, neither encouraged the industry to become competitive nor promoted sustainable farming/harvesting practices. Declining productivity in the industry has resulted from a combination of internal and external factors, namely longstanding inefficiencies in production and milling, insecure land tenure arrangements and expiry/non-renewal of cane farming leases, and the expected loss of EU preferences.

Because of the sugar industry's inter-linkages with other sectors of the Fiji economy, and its domination by small holder, family-run farms, the loss of the Sugar Protocol will be far-reaching and will entail gender impacts. An estimated 200,000 people in Fiji (or 25 per cent of the population) will be adversely affected by the loss of trade preferences for sugar. For farmers, cane cutters and their dependents, especially on least efficient, low production farms, the poverty implications of price cuts in sugar are enormous. Aside from the social impacts of loss of employment and GDP, Fiji also faces the considerable costs of resettling both displaced and new tenant farmers.

Keeping sugar in the EPA is seen by Fiji as vital to protecting the Sugar Protocol for as long as possible. A transitional offer by the EU to bridge the current Sugar Protocol into the EPAs will protect current prices until 2009, and from 2009-2012 provide a set price (though not at current rates) and safeguard volume. From 2012 to 2015 the price will be further modified before going duty and quota free from October 2015. The inclusion of adjustment funding in the EPA development component, to assist the industry restructure and become more competitive, and to diversify the end use of cane sugar (e.g. through the development of biofuels), is critical to ensuring its recovery, securing cane farming livelihoods and promoting alternative energy.

The proposed Mode 4 intermediate trainees facility which PACP states seek to negotiate under an EPA agreement with the EU that includes services would involve short term work opportunities for semi-skilled labour in the hospitality, construction and health sectors. These are precisely the areas in which Fiji presently has skill shortages, which would more than likely be exacerbated by the scheme, with significant impacts on the sectors concerned. The most sensitive of these sectors is the health sector, which has already been severely impacted by the loss of hundreds of qualified and experienced Fiji nurses to care jobs abroad, and in which temporary out-migration is more than likely to continue, encouraged by Australasian recruiters.

There is a view that those who would seize the opportunity to work in the EU within these sectors would more than likely be lost to emigration anyway, and that a managed temporary scheme would have the advantages of at least bringing experience gained abroad back into these sectors (even if only for a few years) and augmenting Fiji's remittance earnings, which now contribute substantially to national income. However, the social (including gender) impacts of temporary out-migration on the families of migrant

workers are not inconsiderable, although until now they have mostly been borne privately by affected families.

Any temporary migration access negotiated by PACP governments under the EPA must include provision for monitoring both impacts on the sectors concerned (vis-à-vis human resources supply, quality of national level services etc) and impacts on migrant workers' families (vis-à-vis increased income and opportunities for immediate family members; effects of parental absence on workers' marriages, the health and well-being of immediate family members, and the educational performance and social behaviour of children).

#### *5.4 Kiribati*

Kiribati is highly dependent on fisheries rent and the export of labour. It is a Party to the Nauru Agreement as much of the region's rich tuna stocks move within its territorial waters which cover approximately 3.5 million sq. km. Kiribati has been content to receive fisheries rent from Distant Water Fishing Nations and has not been keen to join the PACP states in negotiating a Multilateral Fisheries Partnership Agreement with the EU subsidiary to the EPA.

Kiribati's interests in the EPA primarily lie in the Mode 4 quota for intermediate trainees sought by the PACP states. Kiribati has long been an exporter of temporary labour under contract with a German company that recruits seafarers for its shipping vessels. In the past 6 years Kiribati derived more than \$70m annually in net factor incomes from abroad. A large portion of this income earned abroad represented remittances from I-Kiribati seafarers working on foreign ships. Given Kiribati's current limited prospects in relation to human resources and economic development, the main medium term possibility for trade in labour services lies in the PACPs Mode 4 demand.

A major obstacle to assessing the social impact of such a trade is the general paucity of data on human resource supply and demand. From what data is available it is evident that serious de-skilling of the population, with enormous implications for the overall and long-term development of Kiribati, could result from jumping into exporting intermediate trainees under an EPA Mode 4 facility. The pool of workers in Kiribati from which the category of 'intermediate trainees' would be drawn – i.e. workers with diploma and certificate level qualifications - is extremely small.<sup>8</sup> Kiribati has an especially severe shortage of nurses and doctors, and a recently-initiated Australian nurse training programme is already likely to permanently rob Kiribati of its brightest recruits/graduates in nursing. There are a host of other negative social impacts associated with temporary work schemes.

Given the marked absence of opportunities for I-Kiribati workers in the intermediate trainee (IT) category to benefit from exposure to new work disciplines and technology in labour markets abroad, the PACPs Mode 4 would be an attractive one for Kiribati. As

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<sup>8</sup> In 2005, Kiribati had 85 nurse aids, 1 midwife, 10 matrons, 362 nurses, 4 medical sisters, 4 child care workers, 7 brick layers, 19 builders, 28 plumbers, 3 painters, and 436 carpenters.

well as providing opportunities for up-skilling people, improving prospects for their future employment in Kiribati (and possibly, for their future migration), the experience of working in European labour markets could contribute to growth and development in Kiribati.

Should Kiribati seek to benefit from a successfully negotiated Mode 4 demand by PACP states due to its continuing dependency on remittances, however, care needs to be taken to ensure that national needs are given priority and not compromised, and that adequate safeguards to mitigate against adverse impacts are put in place. Improving basic education, the quality of technical training, and the standard of literacy and numeracy should be given priority to ensure that those who seek to take advantage of a Mode 4 temporary labour market access scheme in EU benefit maximally.

### 5.5 *Federated States of Micronesia (FSM)*

As a beneficiary of the Compact of Free Association with the US, FSM enjoys duty free access to the US market, considerable budgetary support through compact funding, and its citizens have free entry to the US. FSM does very little trade with the EU so the impacts of competition and loss of tariff revenue will be minimal. However, an EPA in goods with the EU has MFN implications as the same treatment must be accorded to the US. This will have serious revenue implications as approximately 34% of imports come from the US and a further 18% from Guam. FSM stands to lose between \$500,000 and \$1,163,982 of tariff revenue.

The key aspect of a goods agreement with EU that is of interest to FSM concerns a change in the Rules of Origin (ROOs) requirements in respect to fish exports to the EU. A redefinition of ROOs based on change in tariff heading (CTH) at the 6-digit level would enable FSM fish caught under license by non-FSM and non-EU boats to qualify as 'originating.' under the terms of the EPA. This would give FSM access to a new market and make export-oriented, value-adding fish processing operations aimed at supplying the EU market far more viable.

Given the considerable fisheries resources within its territorial waters, and the significance of the EU tuna market, FSM is well positioned to benefit from employment creation through downstream fisheries processing, but large scale operations will definitely have negative environmental and social impacts.

With few other economic growth alternatives, job creation through the development of downstream fisheries processing for export to the EU could help mitigate the multitude of existing social problems directly related to poverty and unemployment. Sustainable management of fisheries resources, however, is vital as FSM has little else in the way of natural resources.

FSM also stands to benefit both from development assistance provided under an EPA. However, weak capacity within the state and inadequate regulatory systems will make the country vulnerable to the worst social impacts of a liberalized investment environment.



In services, FSM has listed telecommunications, banking, insurance and maritime transport for liberalisation in the EPA. Due to the high entry costs and small market, services to consumers will need to be protected in terms of quality and fair pricing.

## 5.6 Samoa

In preparation for WTO accession, Samoa has substantially liberalised its economy, reduced tariff levels, undertaken revenue reforms, and liberalized services. It has also implemented public sector reforms and improved corporate governance. Signing a goods agreement with EU under an EPA carries the risk of triggering PACER, which will certainly have impacts on domestic industry and employment.

Samoa's interest in an EPA centers on the labour mobility prospects, should the PACPs successfully negotiate a quota for temporary access of intermediate trainees, and the remittances that are expected to ensue. Access for niche market value-added products, in which Samoa has already demonstrated some success (e.g. certified organically grown and fair-trade agricultural products such as cold pressed virgin coconut oil), and investment, particularly in tourism, are also areas of interest for Samoa.

Managing temporary access to the EU market for intermediate trainees in specific industries would not be difficult for Samoa which has had long experience with both out-migration and temporary work schemes abroad. However, the Pacific is currently facing labour shortages (including in tourism and agriculture) and despite the considerable remittances that would ensue, there is the risk that the best among young trainees in the designated categories of tourism, construction and health sectors could be permanently lost to economies abroad.

The impacts on Small and Medium Enterprise (SME) tourism operations in Samoa, particularly 'beach *fale* tourism' could be especially significant. The possibility that Mode 4 access for intermediate trainees would fuel an already existing migration flow is recognised. There is much concern about longer-term social and cultural impacts of liberalisation on the Samoan economy and society, not least its eroding effects on the 'Samoan way of life'. There is also a sense that creeping land reform is underway, to remove barriers to investment, and that this will chip away at the foundation of the Samoan way of life.

## 6. General Concerns on Specific Options and Scenarios

The purpose of this study was to anticipate possible social impacts of the EPA, based on what is known of the commitments PACP states will make in negotiations with the EU, what the research team's consultations and investigations revealed, both of present conditions and trends, and the expressed concerns of those consulted.

### 6.1 General Concerns

Consultations for this study indicated that there is a strong view within the region that negotiating an EPA must be approached with a great deal of caution, that under the EPA

the EU will be asking PACP states to make commitments which they themselves would never make, and that what is being ignored is Europe's own development history, which was based on protection and regulation before liberalisation. The EU's response thus far to the PACP's draft negotiating text reflects a determined unwillingness to make any major concessions to PACP states which does not augur well for securing an EPA outcome that is in the development interests of PACPs.

Despite the development rhetoric of the Cotonou Agreement, the EPA which the EU insists PACP states must conclude negotiations on or by December 31 2007 is essentially a free trade agreement. The 'development framework' within which it is conceptualised is informed by neo-liberal economics and the argument that development can only be attained by liberalising economies and trade, and putting in place macroeconomic policies and governance systems that allow more efficient allocation and use of resources, and encourage investment and competition. The idea that economic growth and development will result from free trade is strongly contested, not least for the reasons that most industrialised countries relied heavily on tariff protection and subsidies to develop their own industries (Ha-Joon Chang 2002) and many of them continue to subsidise national industry and agriculture today, albeit for other than economic rationalist reasons.<sup>9</sup>

Primarily because of its development component, the EPA appeared to be initially viewed as the best of available alternatives (GSP, GSP+ and EBA for LDCs). How far the PACP governments would be willing to go to secure an EPA and how high the costs might be for the Pacific have been matters of concern to Pacific NGOs. The PACP negotiating text has been described as a "wish list" (Kelsey, 2006), suggesting that much of what is being sought by PACPs is unlikely to be attained through the EPA. Present indications are that few PACP states will sign onto an EPA, and those that do will likely only sign onto a goods agreement.

Given the contested premises of free trade arguments, and the inequalities between EU and PACP states, which is well-recognised by PACP states, the precautionary principle should be followed in negotiating an EPA with the EU. PACP states should continue to hold the EU to the development language embedded in the Cotonou Agreement and to insist on a development first approach to the EPA, based on their own interests and terms.

Concerns in relation to specific options and scenarios deriving from some of the trade measures proposed for inclusion in the EPA are discussed below.

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<sup>9</sup> As Roman Grynberg aptly commented in 1992 'while both the US and the EC have claimed their respective systems of agricultural subsidy benefit mid-Western grain farmers and French peasants, they are in fact massive subsidies to their millionaires' (Grynberg 1992:16).

## **6.2 Trade in Goods Issues**

### **6.2.1 Tariff Reduction Implications**

The draft negotiating text of the PACPs provides the position of the PACPs on trade in goods. There are several key features of the position, but what is predominant is that through the EPA, the PACPs will be committing to free trade. The objectives of the EPA from the PACP standpoint are stated to be the establishment of a free trade area in accordance with the provisions of the Agreement; the immediate provision of full duty-free and quota-free access of products originating in the Pacific Parties to the EU, the preservation of maximum flexibility for the Pacific Parties in terms of breadth of coverage, depth of commitments to liberalise trade, and time-frame for liberalisation; and the peaceful and binding settlement of any disputes.

The essential foundation of the EPA is that each Party that is a member of the World Trade Organization is required, by virtue of their membership of the WTO, to treat products originating in any other Party on no less favourable terms than those originating in any other WTO member state.

Another crucial element is that unless expressly provided for, the provisions of Annex V of the Cotonou Agreement would no longer apply to trade between Parties to this Agreement.

Under the PACP proposed EPA, the EC would be required to eliminate all customs duties on imports of all products originating in any of the Pacific Parties as from the date of the entry into force of the Agreement. The Pacific countries, on the other hand, would not introduce any new customs duties nor increase any duties already applied on imports of products originating in the Community. Each Pacific Party will be required to reduce its customs duties on imports of products originating in the Community in accordance with timetables that will be finalized upon negotiation of the agreement. Each country would have its own schedule or timetable for duty reduction. The parties will be required not to levy any fee or charges other than those reflecting the cost of providing a stipulated service (like port handling fee, storage fee, etc.). Qualitative restrictions – like quotas, import or export licenses – will also be eliminated when the EPA comes into force except in cases where these are listed in schedules agreed to by the parties.

PACP states seek to include provision for special safeguard measures to be specified by individual PACP states for application during the tariff elimination period on products where it is expected that tariff reductions may result in an upsurge in imports from the EU, with disruptive effects on the domestic economy. SSGs would allow for an increase in duties on such products where they exceed a certain volume or fall below a certain price (PIFS 2006). Securing the EU's agreement on such measures, providing for the monitoring of tariff elimination impacts, and ensuring that they are administratively easy to use, are crucial. The 25 year tariff reduction schedule proposed by PACP states for the goods agreement, together with the proposed postponement of tariff reduction for the first five years and exclusion of sensitive products from tariff reduction altogether, is intended to give PACPs maximum

flexibility, within the SAT requirement of the EPA. Maximum flexibility is premised on Special and Differential Treatment (SDT) considerations, given the vastly different levels of development of PACPs and EU. Not only are PACPs much less able to benefit from gaining duty free and quota free access to EU markets than vice versa, some of them may be unlikely to ever be able to benefit, given the supply side constraints they will perpetually face as a result of their smallness, limited resources (beyond fish), and geographical isolation/ distance from the EU.

Although there is little trade between most PACPs and the EU, a goods agreement with the EU founded on free trade will trigger PACER, the impacts of which will be significant given Australia's trade dominance in the region.

## ***6.2.2 Social Impacts of Tariff Reduction***

### ***6.2.2.a. Government Revenue Issues***

Following the 5-year grace period, after which the first of the tariff reductions will be implemented, PACP states will experience loss of tariff earnings and reduced government revenue. This will require the introduction of a consumption tax and other revenue reforms, where they do not already exist, to compensate. Unlike income taxes which are based on what is earned, consumption taxes are levied on what is consumed. While it is commonly claimed that such taxes are equitable as they apply equally (i.e. at the same rate) to all consumers, and spread the tax burden as widely as possible, in reality, consumption taxes are inequitable, if not unjust, as they fall heaviest on the poor. Excluding basic food and other essentials from such taxes will be necessary to ensure that vulnerable sectors of the population are not penalised. Reduction in government revenue as a result of loss of tariff earnings may also have the adverse impact of reducing PACP governments' expenditure on social services (health, education and welfare). A substantial fall in government revenue could mean reduced budgetary allocations for agriculture and infrastructure as well, both of which are crucial for national development.

The suggestion, as indicated in the Solomon Islands case study, that a shift from tariffs to VAT or consumption taxes will be 'revenue neutral' is contradicted by the findings of an IMF study<sup>10</sup> which indicated that less than 30% of the revenue lost from trade liberalization over the past 25 years had been recovered through other means, and the findings are worst for low-income countries. In other words, VAT systems have not helped countries maintain their earlier, tariff-based revenue levels. .

### ***Mitigation***

There are numerous measures that can be taken to mitigate the adverse impacts of a possible reduction in government revenue through reduced tariffs. These are:

1. Ensuring that larger non-tax revenue sources are found, especially aid sources
2. Ensuring that those sectors that would be possible targets for reduced government budgetary allocation are prioritised for aid funding by EU. Primary amongst these is infrastructure development and maintenance. While it may be too late in the negotiations for PACP countries to propose the inclusion of an infrastructure component to be

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<sup>10</sup> Baunsgaard and Keen (2005) *Trade Revenue and Trade Liberalisation*, IMF Working Paper WP/05/112

funded by the EU through development assistance, PACP states should consider developing comprehensive national infrastructure development plans for the next 25 to 30 years and seek development assistance for their implementation.

3. Exploring the introduction of a tax on international financial transactions, and using the tax to support social services (particularly health and education).
4. Reforms within the civil service in each country that are intended to raise productivity and efficiency in government services should give primacy to merit based appointments and promotions, an efficiently functioning discipline mechanism, an efficient public audit system, and ongoing training and up-skilling.

### ***6.2.2.b Employment Effects***

Other potentially negative flow-on effects of a goods agreement include the loss of jobs in domestic industries with competition from cheaper imports resulting from tariff reductions. Imports from the EU are not the issue here. PACP states may have little trade with EU but once tariffs are reduced, because of the effect of the PACER agreement and the PACPs' relationships with other donors, any agreement with the EU is likely to be multilateralised. This means that producers in countries other than EU members could be pressed to sign similar free trade agreements and thereby benefit from the PACPs lowered tariff regime. . It is in this regard that there is a major potential threat to domestic industries, especially agricultural industries and consumer goods industries. While having no relationship with EPAs or trade with Europe generally, the death of Fiji's rice industry is a case in point, raising not only employment and livelihood issues, but also food security issues.

### ***Mitigation Measures***

PACP countries need to continuously monitor the impact of a free trade environment on employment in domestic industries. Once tariffs are bound, it will not be possible to change them. Alternative sources of employment and livelihood would need to be identified and developed.

### ***6.2.2.c Quality of Imports Issue***

The absence of strong regulatory controls, and food and health safety and consumer rights bodies could make PACP countries dumping grounds for inferior quality goods, again not so much from EU members but from other producers which might negotiate a trade agreement with the PACPs, based on a goods agreement signed with the EU. Lower income consumers would likely be the most affected as they may be forced to opt for cheaper products irrespective of quality. All of these possible adverse impacts will need to be closely monitored, and provision made for putting in place both required regulatory controls and mitigation measures to effectively address them.

### ***Mitigation Measures***

There is an urgent need for a two-pronged approach to this issue. First each PACP state should put in place a competent trade standards body that can ensure that imported commodities are health and safety, as well as quality and standard, compliant. Some countries – like Fiji - have in place a trade standards authority, and a fair trading department. However,

the trade standards authority seems not to be functioning adequately, or at all. It is therefore vital that bodies set up for purposes of ensuring trade standards are not only established, but that they also function competently.

The second measure would be for each PACP country to establish or encourage the establishment of an active consumer rights body. Some countries already have such institutions in place. Fiji, for example, has a strong and active consumer rights council.

All PACPs need to have in place properly functioning regulatory institutions, and to encourage the establishment of independent consumer rights lobby groups, to play a watchdog, policy advocacy and public education role.

#### ***6.2.2.d Other Effects***

Likely other impacts of liberalising trade in goods with the EU, at least for the larger PACP economies, include a growth in import and retail businesses, particularly those specialising in supplying luxury consumer goods (vehicles, wines, clothing etc) to middle-class consumers within the PACPs, and a greater range of pharmaceutical products. While these will entail some employment gains, they are unlikely to be significant. The liberalisation of trade in goods should make consumer goods more cheaply available but the introduction (or raising) of VAT, GST or consumption taxes to make up for lost tariff earnings could counteract this effect, and increase hardship for lower income earners. The EU requirements on intellectual property could raise the costs of pharmaceutical drugs in PACP states, some of which presently source generic drugs from cheaper suppliers in Southern countries.

### ***6.3 Market Access Challenges***

#### ***6.3.1 ROOs***

Those PACP states which do have interests (or potential interests) in supplying goods to the EU market will require changes to be made in the EU definitions of ROOs as well as trade facilitation support, particularly in respect to complying with the EU's stringent SPS standards.

The EPA is founded on the view that each party to the EPA will establish free trade for products originating in the EC and exported to a Pacific Party, and to products originating in a Pacific Party and exported to the EC. Such goods are defined by rules of origin. The EPA will define the goods that are treated as originating in the EC. In the Pacific proposal goods are to be treated as originating in a Pacific Party if the goods are:

(a) Wholly produced or obtained<sup>11</sup> in the territory of that Party; or

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<sup>11</sup> 'Wholly produced or obtained goods' are defined specifically (a) live animals born and raised in the territory of a Pacific Party;

(b) animals obtained by hunting, trapping, fishing, gathering or capturing in the territory of a Pacific Party;

(c) products obtained from live animals born and raised in the territory of a Pacific Party;

(d) plants and plant products harvested, picked or gathered in the territory of a Pacific Party;

(e) fish taken from the sea:

(i) in the EEZ of any Pacific Party or the high seas by any vessel whose country of registration is a Pacific Party or a Member State of the Community;

(b) The result of the final process of manufacture performed in the territory of that Party and the goods have changed tariff classification heading under the Harmonized System at a 6-digit level.

Essentially, the ROOs are intended to provide protection against goods produced in countries other than PACPs from entering EU under the EPAs as if they were goods produced in the PACPs. Goods from PACPs may enter another country before they reach EU countries, as long as they have not undergone any operation other than an operation required for unloading or reloading, or an operation required to keep them in good condition.

The issue of ROOs is especially problematic for PACPs fish exports, as explained in the PNG and FSM country studies. The change being sought in the definition of ROOs in relation to fish, based on change in tariff heading (CTH) at the 6-digit level, is crucial to enabling PACP states to retain, process and export to the EU a larger proportion of the catch from their waters. The ROOs definition also needs to be changed to allow any fish caught in PACPs' 200-mile zone to qualify as 'originating'. As detailed in the PNG case study, presently only fish caught in the territorial sea (of 12 nautical miles) qualify as wholly originating. Fish caught outside this area are only considered to be originating if they are caught by an ACP, EU or OCT registered vessel or a vessel sailing under ACP, EU or OCT flag and crewed by at least 50% ACP, EU or OCT nationals, or owned by EU, ACP or OCT nationals. Oxfam has pointed out how the present ROOs relating to fisheries products work to the disadvantage of PACP states in two ways – by encouraging export fishing effort to be concentrated close to the coast, thereby threatening inshore fisheries, and by effectively compelling PACP states to sign access agreements with EU in order to be able to obtain 'originating' fish for export to the EU (Oxfam 2006:7).

### *6.3.2 Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade*

One of the reasons ACP states did not benefit from the preferential access to EU markets under Lomé was their difficulty in complying with EU trade regulations on standards and product specifications (food safety, SPS measures and Technical Barriers to Trade, TBT).

The purpose of SPS measures are to ensure that imports do not undermine national health and safety, but they can be 'misused as disguised protectionism' (Rudloff & Simons 2004). PACPs experience with kava exports to the EU offers one such example. Addressing the

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(ii) in the EEZ of any Pacific Party by a vessel whose country of registration is neither a Pacific Party nor a Member State of the EC where the fish are subsequently landed on the territory of a Pacific Party;

(f) minerals and other naturally occurring substances extracted from soil, the waters, the seabed, or beneath the seabed of the territory of a Pacific Party.

(g) scrap and waste derived from manufacturing operations in the territory of a Pacific Party which are only fit for disposal or for the recovery of raw materials;

(h) scrap and waste derived from articles collected or consumed in the territory of a Pacific Party, which are fit only for the recovery of raw materials;

(i) products taken from the area of the seabed outside the territory of that Pacific Party, pursuant to rights held by that Pacific Party and recognized under international law; or

(j) goods produced in the territory of a PACP exclusively from products listed above (a-i).

hurdle of SPS measures through the EPA would constitute a concrete improvement of market access conditions for ACP/PACP.

## 7. Other EPA Elements

### *7.1 Balance of Payments and Fiscal Risk*

Under the draft text, where a Pacific Party determines that:

- (a) there is a serious decline or an imminent threat of serious decline in its monetary reserves; or
- (b) in the case of a Pacific Party with very low monetary reserves, its monetary reserves have failed to achieve a reasonable rate of increase;
- (c) there is a serious decline in its fiscal position due to a decline in government revenue from the collection of custom duties; or
- (d) there has been a natural disaster that has or is likely to cause a serious decline in government revenue or private sector revenue;

that Party may impose or increase tariffs for the minimum period necessary and to the minimum extent necessary to arrest or prevent the serious decline in reserves, or to enable reserves to increase at a reasonable rate, or to arrest or prevent a serious decline in the fiscal position.

This provision provides PACP states some leeway with tariff rates. This is a positive provision, and provides a built-in mitigation measure against fiscal and/or foreign exchange threats arising from trade liberalisation.

## 8. Services and Investment

### *8.1 Investment*

PACP states need investment, and vast improvements in the delivery of services, but the inclusion of investment and services in the EPA is fraught with risks. Liberalisation in these two areas are widely acknowledged to have far-reaching impacts that are difficult to foresee or mitigate.

The PACP draft negotiating text includes a set of innovative pre-establishment and governance obligations for foreign investors, including obligations to comply with national environmental laws, conduct SIAs, adopt the precautionary principle in decision-making, uphold human rights and core labour standards in the workplace, and refrain from bribing public officials and others to influence decisions. Failure to comply with these obligations would be considered as mitigating or offsetting government action in disputes brought by an investor. There are radical provisions proposing to allow proceedings to be brought against an investor that persistently breaches or fails to comply with these obligations, permit investors to be sued for damages arising from breaches of these obligations, and oblige home states to ensure that their legal rules allow court actions to be brought against their investors for acts done or decisions made in the PACPs, that bribery in PACP states is a criminal act and that every effort will be made to prosecute those in breach of the law. Although the EU is unlikely to sign onto such



provisions in an EPA, their inclusion underlines PACP awareness of some of the real risks entailed in liberalising investment.

PACP governments and PIFS have a responsibility to ensure that any commitments relating in any way to investment include sufficient safeguards to protect the livelihood and welfare interests of Pacific people and ensure the sustainability of their resource bases. Retaining policy space for re-regulation, to ameliorate unforeseen adverse social impacts is vital.

Increased competition in some services (e.g. air and shipping services, internet and telecommunications) are widely regarded as desirable to improve efficiencies and bring down costs. Opening up these kinds of services to new investment could also bring new employment opportunities, although this gain could be counteracted by the closure of non-competitive businesses (and loss of employment) once the sector is opened up. Many other services cover socially-sensitive areas in which there would have to be sufficient scope for policy-making based on national priorities and values.

Above all, before any services are committed for liberalisation there is a need for wide public consultation with all service providers *and users* in PACP states on how liberalisation will impact on them, with follow-up assessment and enactment of necessary legislation to ensure protection of sensitive sectors, jobs, and national interests. This is made impossible by the strict requirement that the EPA be concluded by 31 December 2007.

### ***8.1.1 Social Impact***

Investors coming into small countries normally tend to seek exclusive niches for themselves. This is especially the case in sectors that require large capital investment – like telecommunications industry, media (TV, print and radio), utilities (especially water supply, electricity), and environment (like landfill/waste management). The relatively small market size of most PACP countries is a compelling ground for foreign investors to argue for exclusive licenses.

However, exclusive licenses create monopolies. Such monopolies, especially in industries that are crucial for consumer welfare and business growth, tend to create massive social costs. Not only the cost of doing business would be high, but consumers would continue to pay a price higher than a competitive price. An added problem is that once an exclusive license is granted, it becomes very difficult to withdraw the license before it has expired without facing large compensation payments.

Several PACPs already have the experience of privatising telecommunications and/or utilities under monopoly conditions, among them PNG, Vanuatu, Tonga and Fiji. Negative social impacts have been recorded in several cases, as illustrated in the PNG case study, which reports that privatisation of Port Moresby's water supply has improved efficiency of supply in the capital but higher water rates has put the cost of water beyond the pockets of poorer urban dwellers, requiring them to access water by 'illegal diversion. Oxfam (2007) has highlighted the dangers of making services commitments in water and

sanitation where inadequate regulatory and enforcement structures fail to protect the rights of vulnerable groups to access essential services', such as in Vanuatu, where European companies are already involved in utilities investments.<sup>12</sup>

### ***Mitigation***

As far as possible, PACP countries should refrain from giving any investor exclusive license to operate. However, if there is no way out but providing an exclusive license, the agreement must ensure that the host state retains the right to regulate prices, quantities produced and quality of the good/service produced. This right can be exercised by either the state itself, or be passed on to an independent body, like a Commerce Commission.

## **8.2 Services**

The PACP states' EPA negotiating position on services is aimed at ensuring tangible benefits from an EPA by requiring meaningful labour mobility access and development assistance for training, accreditation and qualifications, and reform of the European Investment Bank and other financial facilities to better serve PACP needs in regards to Small and Medium Enterprises.

The PACPS are targeting an annual quota of 10,000 semi-skilled and up workers, called intermediate trainees (IT) from the PACPS to work in EU member countries under the EPA. While this is strictly not within the WTO mode 4 framework, there is nothing stopping the PACP states and EU entering into such an agreement.

There are three levels of demands that the PACPs have put forward. In the first stage, the workers listed below should obtain work immediately upon the finalization of the EPA agreement. The categories of work covered in the first stage are:

1. Health Sector: midwives, nurses, nurse aids, and care givers;
2. Building and Construction: roofers, concrete workers, masons, steel workers, fencers, glaziers, plasterers, painters, decorators, floor layers and wall tillers. This category is to be expanded later to include air-conditioning and refrigeration works, plumbers, electricians, carpenters, and joiners; and
3. Tourism: hospitality workers including waiters, bartenders, chefs, pasty chefs, cooks, housekeepers, frontline managers, travel agents, tour operators and managers, tour guides and dive masters. This is later to be expanded to senior hotel managers and restaurant and catering enterprise managers.

In the second stage, the Intermediate Trainee category will be expanded to:

1. professional computing and other business services;
2. audiovisual services;

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<sup>12</sup> .Société France Cables et Radio is a shareholder in Telecommunications Vanuatu Ltd (TVL), and Union Electrique du Vanuatu Ltd (UNELCO), a subsidiary of the SUEZ group, has a contract to provide water and electricity services in Port Vila, and electricity services in Luganville, East Malekula and Tanna.

3. wholesale and retail services;
4. primary and secondary educational services;
5. entertainment, sporting and recreational services, and
6. transport services.

The third stage covers opportunities for short-term holiday schemes for PACP youth.

There is a significant advantage of temporary work schemes for the IT category of workers. There is a marked absence of opportunities for exposure of workers to new technology, new management styles, and new ways of doing things in the Pacific. Exposure of Pacific workers in European countries would add significantly to the stock of skills that workers on temporary schemes would have. The on-going, on the job training of workers would possibly improve efficiency of the workers upon their return, which would in turn contribute to growth and development

If successfully negotiated, a labour mobility concession would offer new opportunities to many of the Pacific's people, especially young people. The proposed sectors selected for inclusion however (tourism, construction and health services) are sectors in which there are already considerable human resource shortages, as illustrated in the cases of Kiribati and Fiji.

Similar relative situations exist in most other PACP countries. As such, the choice of sectors may be counterproductive to meeting PACP national interests. It is accepted that the temporary labour scheme would be temporary, thereby returning the workers to PACP countries at the end of their contracts. Herein lies both potential gains and losses.

The loss of health workers, in particular, could have critical impacts, especially in PACP countries where labour mobility among nurses is already taking place (e.g. Fiji) or where offshore nurse training programmes are likely to set it in train (e.g. Kiribati). While a managed labour mobility scheme that provides temporary market access to EU service sectors would also bring in a steady stream of remittances, the institutionalisation of labour exportation and of remittance dependency is not conducive to sustainable development.

Beyond the opportunity for exposure and higher income earning for qualifying semi-skilled young trainees, and remittance gains for family members at home, the Mode 4 request is unlikely to address fully the region's most pressing needs and social problems, particularly the region-wide problems of growing poverty and inequality, burgeoning urban and youth populations, and steadily rising unemployment. The demographic profiles of all PACP states covered in this study show a swelling youth bulge, and in the coming years the problems of unemployment and poverty, and pressures on infrastructure and services will be of another order of magnitude in all PACP countries. As such, the PACP countries should avoid the temptation of thinking that the labour movement scheme, if accepted by the EU, would solve all of Pacific's problems regarding employment. The scheme ought to be viewed as nothing more than one of several options

for partially addressing the fundamental problems of limited employment and low incomes in PACP states.

While liberalisation generally tends to make winners of a few, it is important to ensure that it does not do so at the expense of the majority of the region's young people, who will be unable to access opportunities to work abroad, but whose livelihood interests could be compromised in the reciprocation of such a concession.

The potential social impacts of a temporary labour scheme are numerous. Some of them are discussed below.

### ***8.2.1 Social Impact: Loss of Skills***

The social consequence of any labour movement of the identified category of workers can be expected to be immense. It will seriously deplete the key skills required for the development and progress of PACP states. It is envisaged that this temporary labour movement would be for periods of up to 3 years. Three year absences of skilled workers, without any mechanism in place to train others to fill the gap, would create an excess demand for skilled workers. This may lead to the import of labour from other countries to fill the shortage, or, alternatively, to a stunted growth path.

While exposure of Pacific workers to European technology and work habits generate considerable gains, the exposure can also be detrimental. An appreciation and infatuation with new technology may itself create a drag for these workers upon return, as new technology may either prove to be unaffordable by the workers and/or enterprises in the Pacific, or may prove to be inappropriate. Worker enthusiasm may also diminish if employers cannot provide new technology.

**Mitigation:** There are various mitigation measures that need to be put in place to counter the problems that may arise out of temporary movement of IT category of workers; these are:

1. Improving technical training in the Pacific:
  - a. This would require either the establishment of quality technical training institutions within PACP states and/or boosting of the existing technical training institutions. Feasibility studies, however, need to be carried out on whether it is cost-efficient to train such people in desired numbers within each of the PACP countries, or to send them to quality institutions within the region. Australia, for example, has already begun to spend aid funds (AusAID) to train approximately 30 nurses in Australia annually. These nurses would be trained to the Bachelor degree level. Further possibilities of training exist in the PIC region, like nurses in Fiji, and building and hospitality industry workers in Fiji and Samoa. In addition, Australia has already commenced the Australia Pacific Training College (APTC) which is expected to boost technical skills training in the Pacific. Whichever is the

more viable option, the costs of these could be negotiated as aid packages under the development windows of an EPA.

- b. To achieve improved technical standards and to achieve a wider reach, however, there is an urgent need to improve basic education. This would require a significant boost to retention rates of students in the school system. There is no substitute to keeping students within the formal education system longer. In most PACP states, retention is a huge problem. In Kiribati, for example, only 60% of secondary age children were in school, similarly in Solomon Islands, less than 400 students manage to progress to seventh form. Considerable effort, therefore, needs to be made to improve school retention rates.
  - c. Another key pre-requisite to improving technical standards is higher skill levels in language and numeracy. This would require raising the quality of education generally in primary schools, but particularly in language and numeracy skills. It would also require a significant boost in the quality of language and numeracy skills in junior secondary and secondary schools.
2. Re-adjustment of Returning Workers: Adjustment back into Pacific employment and social milieu for workers with an exposure of up to 3 years in the EU may necessitate at least two measures. These are:
- a. Systematic and professional de-briefing and counseling effort, the objective of which should be to nip in the bud any tendency to glorify the European methods and technology to an extent that may destroy the morale of the returning workers themselves as well as work colleagues at the workplace in the country. Such counseling may also need to take into account the fact that the returning workers would also be exposed to pay differentials between Europe and Pacific. Wage differentials are powerful factors in determining the outlook of workers in working in different countries. Pacific wage rates are substantially lower than going wage rates for similar jobs in Europe and other developed countries.
  - b. Creation of avenues for returning workers and/or their employers, to acquire technology that they consider would be viable within the Pacific. This may necessitate provision of finance (for example subsidized interest rates) and other possible incentives (like duty concessions). Workers, particularly younger ones, tend to become more easily demoralized in the absence of the tools of the trade that they may have become used to in early parts of their working career. Without practical measures to assist returning workers and/or their employers, the tendency for workers to opt for opportunities out of Kiribati, not necessarily in EU member countries, would be strong.

### **8.2.2 Social Impact: Governance Issues**

Under the proposed scheme, the PACPs could send up to 10,000 workers to Europe to work for up to 3 years. If this number were approved, the PACPs would ration the quota amongst themselves. The process to this point could be expected to be transparent.

However, within a country, the process of selection of the workers has still not been discussed. How will each country allocate its quota to workers aspiring to go abroad under the scheme? Would it be left to the employers from EU countries to select the workers? Would there be recruitment agents to select workers on behalf of potential employers? Would the government have any role in the selection and recruitment? Would there be entrance examinations, like English language fluency, to select workers?

These issues have not been addressed to date. They all involve issues of governance. The potential for abuse of the scheme, and corruption always exists when there is excess demand for any service. As long as the demand for work abroad is greater than the supply of work, limited by an upper quota, the rationing process needs to be clearly established. In the absence of this, agents could extract financial and political rent from the scheme.

### **8.2.3 Social Impact: Sexually Transmitted Illnesses (STIs)**

Temporary work abroad schemes not only tend to attract, but also are often deliberately designed to attract, younger workers. In addition, normally such schemes are designed for individual workers rather than families, thereby making individual workers more vulnerable to the attractions of the sex industry. The case from Kiribati is illustrative in this regard as seafaring workers have been young males. Females have been recruited more recently, but their numbers so far are low. It is well recognized that Kiribati seafarers have contracted sexually transmitted illnesses including HIV while abroad, infecting sexual partners in Kiribati upon their return. Full details of the extent of this problem are presently not known, but all stakeholders that were interviewed stated that this was a well-recognised problem in the country.

Whether Kiribati's experience with seafarers will be repeated for other temporary work schemes is open to discussion. While it is conceded that the nature of the seafaring work environment is different, limiting the applicability of their experience to other types of short-term employment abroad, there is no guarantee that (especially male) Pacific workers abroad would be immune to the temptation to engage in casual sexual encounters that entail risks of contracting STIs.

### ***Mitigation Measures***

Contact and spread of sexually transmitted illnesses can be minimized by a combination of measures. First, the Pacific governments could give low priority to work opportunities in countries that do not have a strictly regulated sex industry, where sex workers are required to inform their clients of their sexual disease history.

Second, there is a need for sexual and reproductive health (SRH) education to be provided to temporary workers on sexual and reproductive health before they leave the country to take up work abroad. Such education on SRH and safe sex practices could be made compulsory for any worker wishing to work abroad.

Legislative measures to enable compulsory testing of all returning workers for STIs and HIV would constitute an infringement of individual human rights. Encouraging voluntary testing and providing supportive diagnostic, treatment and counseling services would be more in keeping with a rights-based and care-centred approach.

#### **8.2.4 Social Impact: Lifestyle Diseases**

Living and working in mass consumption societies, even for a limited period, will expose workers to the different lifestyles within the temporary host society. This can change food habits and dietary patterns, with long term health consequences. In PACP states, certain lifestyle diseases – like diabetes, hypertension and high blood pressure - are directly linked to dietary patterns and food habits, as are obesity and malnutrition in children. Addiction to fast foods and convenience foods (e.g. McDonalds and KFC) as well as fizzy drinks, canned food, noodles and snacks is a growing concern. Fast food outlets are already present in several PACP countries.

A potential social impact of temporary work schemes abroad will be changes in food habits, and addiction to western fast foods. These can be expected to have deleterious impacts on the health and well-being of those who become involved in temporary labour movement to the EU.

#### ***Mitigation Measures:***

Educating workers in nutrition and good food habits before they depart on temporary labour contracts abroad is important.

#### **8.2.5 Social Impact: Family Breakdown**

The temporary labour migration scheme is expected to be for up to 3 year duration. It is most likely to be an individual recruitment scheme, although prospects for a family-based scheme are also being explored. This will entail the separation of married couples for up to three years at a stretch. Separation for such a lengthy period will put a strain on marriages and could potentially cause family breakdowns.

The Kiribati case study is illustrative. There is much anecdotal evidence of a larger incidence of family breakdown – leading to separation and divorces – where one partner, normally the male, is on short term employment abroad. A local magistrate in Kiribati is reported to have informed a social activist that an overwhelming number of divorce cases that the magistrate handled involved seafarers and their wives.

There are no special reasons or circumstances that would make this problem any less likely in other PACP countries.

***Mitigation:***

The best mitigation against such eventuality is to include partners and children in the temporary work abroad scheme. Instead of allowing a work visa to only one party in a family, visas (and financial provision) ought to be made for the entire immediate family.

The next best solution would be for Pacific people and governments to encourage greater and better education for both males and females, which could result in employability status for both, males and females in a family. This may enable family recruitment rather than recruitment of a single member of the family.

Simultaneously, there is an urgent need for the establishment of appropriate counseling facilities and services in PACP countries.

***8.2.6 Social Impact: Government Expenditure***

Ultimately, in any situation where policies or activities lead to adverse social impacts, it becomes the responsibility of the state to mitigate these. Mitigation measures entail costs and in situations of budgetary crisis, social sectors are often the primary victims of state expenditure reallocation.

In PACP countries, the public purse is under severe strain. State attention towards social impact mitigation and amelioration invariably comes at the expense of other state expenditure priorities. Whether it be to take care of lifestyle diseases caused by Western food habits, or taking care of sexual diseases, or creating counseling services, etc., all require funds that need to be raised from some source.

The temporary labour scheme would produce an added stream of income for the state. It would also generate additional economic activities, which in turn would generate greater direct and indirect tax revenues for the state.

***Mitigation:***

The governments of PACP states could consider targeting a certain proportion of the increased income stream from the work scheme to address its adverse social impacts. Such targeting could take various forms, which could be considered as and when the scheme takes off.

**9. Financing Social Impact Mitigation Measures**

Under the draft text, the EC is expected to provide additional resources to assist the PACPs deal with specific adjustments that have been identified as flowing, directly or indirectly, from their commitments under this Agreement. These adjustment projects are to be developed to suit the needs of each affected Pacific Party.



This adjustment financing may include support for:

- (a) assessment of the social impact of restructuring and development policy responses;
- (b) improving employment services in matching employers with job vacancies with job seekers;
- (c) improving the capacity of public employment services;
- (d) minimising the impact of restructuring on workers, including assistance for the unemployed to re-enter the workforce through employment services, search assistance programmes; and small business advisory services; and
- (e) providing unemployment assistance and social security payments for job seekers.

It is proposed that the costs of this adjustment assistance will be provided out of the financial facility established under the agreement. If such additional resources are provided, PACP governments should be able to put in place the mitigation measures listed above.

## 10. Some Broader Development Concerns

PACP states are all commodity-producing countries and extractive industries and resource rents have been the primary sources of revenue for some. If the EPA is to assist the PACP countries develop economically, it must provide support for the development of value-added industry and market access for processed product exports

The model chosen for agricultural, fisheries and forest product development is important to ensuring that development, as opposed to simply growth, takes place. Large-scale resource extraction projects in the region have had a largely destructive effect on both the physical environment and society. Land use and competition for alternative uses of land can generate significant social problems.

### 10.1. Land and Conflict Issues

Conflict over land in countries that are making a transition from a non-capitalist to a capitalist foundation for resource allocation is a strong possibility. The prolonged debate in Fiji on the most appropriate land-lease formula is one example of such conflict. In Fiji, the inability to resolve this land lease problem has caused massive dislocation of people, mostly from rural areas to urban and per-urban areas, with associated social and economic problems like housing, poverty, health, and the like.

Similarly, in Guadalcanal in the Solomon Islands, competition for land – for agriculture and housing – has generated significant ethnic resentment. As pointed out in the Solomon Island case study, a report by UNIFEM to which the Government of SI contributed, highlights the problem of land issues as ‘one of the root causes of the tensions [1998-2001] which has not yet [2005] been adequately addressed....’. It goes on to say that:

‘Increasingly, land disputes centre around economic development and commercialization issues colliding with communal land ownership systems. With increasing population and labor migration in to Honiara certain to increase

in coming years, land pressures seem sure to escalate around the capital without planning and prompt action.... One of the key contributing issues to the conflict [is]... associated with land is people's lack of information as to who own which land, which means that land disputes are not able to be resolved (UNIFEM, 2005: 6-7).

The report went on further to state:

Solomon Islanders still feel very close to their land, and these perspectives shape the way decisions are made. Many of the conflicts over land arise when natural resources from tribally-owned land are developed, pointing to a need for frameworks which allow for economic development to take place without increasing internal disputes. This is also linked to economic issues surrounding natural resource exploitation... (2005: 7)

UNIFEM recommended that there be put in place 'an adequate system of land recording to identify ownership', and the implementation of an undertaking in Townsville (finalized as the Townsville Peace Agreement) that there be a Commission of Enquiry into the manner in which people came to own all registered land (2005: 7).

In all multi-ethnic PACP countries, which include PNG, Solomon Islands and Fiji, competition over land and natural resources can trigger serious conflict. A cautious approach to managing resource development for trade and associated social transformation is strongly advised. This is especially so where some of the larger PACP countries – like PNG, Fiji, Solomon Islands, Vanuatu, Samoa and Tonga – can acquire significant gains from agricultural development financed under the EPA mechanism. Chapter 5 of the draft text, which deals with agricultural development, requires each country to develop an agricultural development strategy which may include agro-processing projects. These strategies need to be adopted by the Partnership Committee established under the EPA. Article 5.6 of the draft provides that the cost of implementation of the adopted Agricultural Development Strategy is to be paid out of a fund established under the EPA. Provision for the establishment of this fund is made in Article 9.6 of the draft.

**Mitigation:** The possible negative impact of stimulating agricultural development through the EPA can be mitigated by putting in place measures that address land issues. The exact measures need to be developed internally within PACP states on the basis of thorough consultation and dialogue between stakeholders.

Another way to mitigate the negative social impact would be to put in place an effective and transparent policy on decentralisation of economic opportunities, especially agricultural development projects and aid funds associated with agricultural development under the EPA. This will reduce pressure on land in and around major urban areas, as well as demonstrate to the landowners outside the urban areas the state's commitment to their advancement too.

## 10.2 Economic Growth, Disparities and Social Tension

The potentially positive spin-off to the larger PACP countries from an EPA could be significant, especially in terms of stimulating agricultural development, and development in tourism. Economic growth is a necessary pre-requisite to development. But market forces tend to create and perpetuate regional inequalities. There is thus a need for an active role of the state to ensure that the benefits generated are fairly distributed across regions.

This is especially the case in multi-ethnic societies where managing the distribution of benefits of economic growth is vital to maintaining social cohesion and peace. The potential for ethnic/provincial tensions in countries like Solomon Islands, Fiji, Vanuatu and PNG arising out of disparities in economic opportunities, and disparities in the distribution of economic growth is high. It is conceivable that given the experience of individuals during the past upheavals, public support for violence could be lower. Violence, localized or otherwise, however, cannot be totally ruled out in the presence of continuing and/or rising disparities in economic opportunities and mal-distribution of economic growth.

Within urban areas, where hitherto most development has been concentrated, economic growth would see greater economic and employment opportunities for all people. However, even then, employment patterns, infrastructure provision (like housing, drainage, roads, and water supply), and utility provision (electricity, phone lines, internet facilities, etc) can become potent forces for escalation of ethnic conflicts.

Opportunities to benefit from economic spin-offs resulting from EPAs should be equitably distributed, and processes for accessing such opportunities transparent and fair. Access to credit, raw materials, space for establishing business/commercial enterprises, provision of inputs (like roads, water supply, etc), markets, subsidies, concessions, duty exemptions, licenses, etc. are all important variables that form perceptions of people. If there emerges a perception that there is differential treatment of certain ethnic groups, resentment is bound to fester and ethnic tension to escalate. Affirmative action may be necessary to ensure equitable access.

**Mitigation:** Concerted effort needs to be made to ensure that economic opportunities generated by an EPA are fairly distributed across regions and ethnic groups. It becomes the responsibility of the state to decentralize economic opportunities regionally and provincially. It also becomes the responsibility of the state to continuously monitor the economic progress of various regions and ethnic groups, and the provision of infrastructure development and of utilities, both among the provinces, and between the capital and the provinces. Managing an economic boom is equally important and as crucial in multi-ethnic societies as managing scarcity.

EPAs can generate considerable economic growth and spin-offs, as well as considerable inter-ethnic and/or inter-regional inequality. This can be an important factor in generating tensions, conflicts and violence in multi-ethnic societies.

It is also vital that consideration be given for a provision in the EPAs for the creation of a regional fund and institutions to assist PACP states in ensuring that the benefits of growth and development are equitably distributed spatially and ethnically. Provision could also be made in the EPA for a fund from which individual PACP members can draw to put in place measures that would minimize, if not eliminate, ethnic rivalry and tension in the country.

### **10.3 Gender Impacts**

As with all other social impacts anticipated in this study, anticipating the differential impacts of an EPA on men and women because of their differential location or position in society is to a large extent speculative. As such, the report confines itself to only anticipating gender impacts where evidence already exists of such impacts in related contexts. Three of the country case studies provide specific examples of some likely gender impacts of an EPA.

The PNG case study, which focuses on a proposed export-oriented, mega industrial regional fisheries initiative to be facilitated under the EPA, indicates the most potentially the negative gender impacts, based on already documented impacts of PNG's industrial fisheries. The gender impacts of transforming thousands of subsistence farmers, a majority of them women, into low wage factory workers will be manifold. The fisheries/prostitution nexus and its wider social implications in the Pacific have already been highlighted in recent reports published by both Greenpeace Pacific and UNICEF. PNG's own experience in this regard is noted in the case study.

The gender impacts of factory closures as a result of the EPA triggering of PACER will likely impact women and men differently. Women predominate in the garment and food processing/packaging industries in Fiji and therefore stand to lose even more jobs if these industries are severely affected by competition from Australian imports. This is likely to exacerbate the feminisation of poverty, as many women in these industries are sole breadwinners or female heads of households. The impacts of the loss of sugar preferences will likely fall hardest on men but whole families, and family dynamics, will be affected.

A particular indicator of gender differential impacts that requires monitoring is gender-based violence, which is known to rise in situations of economic crisis. The destabilisation of the gender order by new opportunities for women can similarly trigger a rise in gender-based violence.

The Mode 4 proposal if successfully negotiated by PACPs will need to be monitored for gender impacts. It is expected that there will be gender balance in the recruitment of workers from the tourism sector. It is expected that construction sector workers will largely be male, and health workers largely female. The specific social impacts of temporary labour migration have already been discussed. One aspect of the impact of losing large numbers of nurses from the public health system which should be monitored

is its possible effect on the range and quality of reproductive health services for women, especially outside of urban centres.

Monitoring gender impacts will require close consultation with regional and national women's rights advocacy groups and networks, to ensure that the EPA does not undermine women's interests and rights.

#### **10.4 Other Issues**

Many of those consulted for this study felt that any development resources secured under an EPA should be directed to priority areas of need in PACP countries, namely health, education, and livelihoods: agriculture, and small-scale industry and technology in rural communities. Another major area of need is infrastructure development including roads, water supplies and electricity. Funding for infrastructure development should be sought through the EPA. Most PACPs have no infrastructure plan. It is recommended that a strategic plan for infrastructure, to be supported through EPA financing rather than taken out of the EDF, be negotiated with the EU as this is critical to facilitating trade.

A key constraint facing the private sector in the Pacific is lack of access to affordable capital. There is no shortage of funds or liquidity problems in banks in the Pacific. The problem is rather that funding is not accessible through the current delivery mechanisms to Small and Medium Enterprises (SMEs) as EIB's current modus operandi is to provide development funds to national development banks which then on-lends it at market rates to domestic entrepreneurs, which does not increase available funds. Article 9.6 of the draft negotiating text establishes numerous facilities for financing. Included in this are small and medium enterprise financing and Micro-financing facility. This provides an opportunity for PACP members to benefit from these facilities.

### **11. Recommendations**

This study is based on the draft EPA negotiating text provided to the researchers by the Forum Secretariat. On this basis, numerous social impact issues have been identified and mitigating measures proposed. The mitigating measures proposed form part of the recommendations of this study. Other than these, some general recommendations are made below.

There is a primary issue concerning the fundamentals of the EPA with EU. The EPA is founded on introducing the market mechanism for resource allocation in the Pacific. This is a matter which PACP governments need to consider seriously, in terms of its wider and long term implications. While most PACP governments have accepted that the PACP countries are part of the global world, there has been no discourse on the implications of this. Capitalism as a way of life and as an economic system based on the values of the market demands certain fundamental changes to be made to the existing way of life in the Pacific, including to laws and policies which organize resource allocation. These issues need to be fully debated before PACP states sign onto agreements with potentially long

term and irreversible social transformation impacts, and with potentially serious social conflict risks.

Other than the above, the following specific recommendations are made:

1. PACP states should ask for an extended transitional period in which to more fully examine likely negative impacts, and put in place necessary legislation to protect national interests. Allowing such a transition would be in keeping with the Cotonou Agreement's principles relating to consultation with civil society.
2. There is an urgent need to establish high powered and a permanent institutional mechanisms for monitoring the social impacts of the EPA. Such monitoring should be a matter of priority once EPAs come into force. It is recommended that the monitoring unit be a high profile unit, staffed by well qualified analysts. The need for a continuous and sustained monitoring is vital if the PACP states are to avoid or minimize the adverse social consequences of the EPAs. While it is for each country to determine the modalities of such monitoring, it is suggested that the Monitoring Unit be established at arms length from the EPA implementing agencies; its preferred administrative location could be the Office of the Prime Minister (or President in the case of countries with a presidential system of government).
3. The PACP government should seriously consider encouraging the establishment of independent capacity for monitoring of the impact of EPAs. This could possibly involve NGOs, community organizations, trade unions, and representatives of the private sector. Independent monitoring provides a useful pressure valve for stake holders who are adversely affected by policy measures. This creates greater established channels of consultation and communication with the state.
4. The PACP states should ensure that the EPA incorporates financial provision for both independent monitoring of EPA impacts and for the introduction of mitigation measures including new regulatory controls where necessary.
5. The PACP government should also seriously consider targeting a certain percentage of public expenditure to address (or mitigate) the adverse impacts of the EPAs. This ought to be done through budgetary allocation.
6. The PACP governments should take a proactive policy stand in ensuring that the gains from EPAs are distributed fairly by region and ethnicity.
7. The future sustainability of the country's forestry resources might be well served by the inclusion in the EPA of incentives for sustainable logging, conservation and reforestation, and for good governance of these resources.
8. In deciding tariff schedules for a goods agreement, PACP states could consider using tariff schedules to encourage imports of healthier foods and discourage unhealthy food

imports. Consultations with national health and nutrition experts and relevant UN country offices (e.g. WHO and UNICEF) are advised.

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## **Appendix 1 – Terms of Reference for the Social Impact Assessment**

Under the agreement that PANG signed with PIFS, the following specific tasks and expected outputs were stipulated:

### ***Specific Tasks***

- A. Define the options/scenarios to be considered and an analysis of the mechanisms through which the different options/scenarios will affect social, economic and environmental areas;
- B. Identify sector and target groups that are likely to be significantly affected by the establishment of the EPA at regional and national levels on the basis of different scenarios;
- C. Provide an analysis of the expected magnitude of these impacts, using appropriate measures and indicators for assessment of impacts;
- D. Identify potential win-win situations and opportunities and suggest policies and measures that would contribute to making trade, development, environment and social policies mutually supportive for the benefit of sustainable development;
- E. Identify the accompanying measures (domestic, regional or Pacific ACP Forum measures) that would prove effective in tackling any adverse impacts of liberalisation, and/or in promoting positive impacts;
- F. Provide effective mechanisms of assessment and monitoring of the sustainability impacts of the EPA in the course of its establishment;
- H. Provide orientations allowing for effective integration of the environmental and social dimensions in other policies and identify regional and national strategies, as well as financial and institutional frameworks to this end; and
- I. Identify areas where the PACPs are likely to need awareness-raising, assistance and capacity building that would allow them to put in place a sustainable EPA.

### ***Expected Outputs***

The report should be comprehensive and should include consideration of the possible social impacts of EPA on:

- Liberalization of trade, especially impact on employment and poverty;
- Increased market access achieved through rules of origin, sanitary and phytosanitary standards, technical barriers to trade, EU safety policy, technical barriers to trade, agricultural subsidies under CAP;
- ACP services export (Mode 4);
- Tourism;
- New fiscal policies to address loss of revenue by PACPS, on tax reforms necessitated, on new revenue measures, and on government expenditures;
- The gender aspects of trade liberalisation<sup>3</sup>
- Agriculture, rural livelihoods and food security; and
- Manufacturing, especially agro-processing and textile, clothing and footwear industries.

The report was expected to contain a section on how countries could mitigate the negative effects of EPA, for example through their regulatory frameworks. Data was to be sex-disaggregated where possible and particular attention was to be paid to the gender dimension.

## Appendix 2 – COUNTRY CASE STUDIES

### Case Study 1

#### Papua New Guinea: a country that exports to the EU Goods agreement (fisheries)

##### 1. Introduction

In consultation with the Pacific Islands' Forum Secretariat (PIFS), Papua New Guinea was selected as one of the six case studies for the reason that it is one of four Pacific ACP states which presently exports to the EU. It was understood that the ending of ACP's preferential access under the Lomé Convention holds major implications for PNG's industrial fisheries which relies on preferential access to the EU market, that the livelihoods of thousands of cannery workers and others dependent on spin-off and associated industries hangs in the balance, and that securing support from the EU for its fisheries sector was likely to be a 'make or break' issue for PNG in the regional negotiations on an Economic Partnership Agreement (EPA), as provided for under the Cotonou Agreement which succeeded Lomé. Since PNG also exports some agricultural products to the EU, it was originally planned to focus the SIA baseline study on fisheries and agriculture.

A research visit to PNG, planned with the assistance of the OXFAM office in Port Moresby, was undertaken from 12-17 June 2007. With the help of a research assistant recruited for the SIA, interviews were held with relevant government departments, private sector representatives and NGOs and further consultations with NGOs were held in the following week. A side trip was made to Madang where interviews were held with a local NGO, representatives of landowners and cannery workers.

Although lengthy discussions were held with PNG's Ministry of Agriculture, due to the priority being paid to fisheries in PNG's EPA negotiations, and the time constraints, the country case study became exclusively focused on the fisheries sector.

##### 2. PNG's Trade Agreements and EPA Interests

Papua New Guinea is the only Pacific Island state with membership in the Asian Pacific Economic Co-operation (APEC) Forum, which it joined in 1993. As an APEC member, PNG is committed to the (voluntary and non-binding) Bogor goal of free trade and investment in the region on goods and services by 2020.

In 1996 PNG joined the World Trade Organisation and in 1997 undertook to reduce import tariffs as a way of 'promoting private sector-led growth, enhanc[ing] productivity and improv[ing] the competitiveness of the country's exports'. Across the board tariff reductions from July 1999 have brought tariffs down from an average rate of 22% to 9%. (<http://ec.europa.eu/development/Geographical/RegionsCountries/Countries/Papua%20New%20Guinea.htm>). PNG has thus substantially liberalised trade in goods.

PNG is a lead member of the Melanesian Spearhead Group and party to the 1993 MSG trade agreement under which the four MSG members - PNG, Solomon Islands, Vanuatu and Fiji (as of 1998) - have committed to lower tariffs (or allow duty free entry) on an extended list of traded goods by 2014.

PNG has ratified both the Pacific Islands Countries Trade Agreement with other Pacific Island states, which commits parties to the agreement to follow a schedule of tariff reductions towards the eventual goal of duty free access for all goods by the year 2021, and the Pacific Agreement on Closer Economic Relations (PACER), under which Australia and New Zealand could eventually be included in the regional free trade arrangements on goods and services put in place under PICTA. Together with other Pacific Island states that export to Australia and New Zealand, PNG has been a beneficiary of the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), a non-reciprocal preferential agreement which provides Forum Island countries with duty-free access to Australian and New Zealand markets for products that meet SPARTECA Rules of Origin criteria.

Like Fiji, Papua New Guinea has also been a beneficiary of the EU non-reciprocal trading arrangements with ACP countries under the Lomé Convention.<sup>13</sup> In particular, PNG has relied on preferential access to the EU market for its exports of canned and loined fish, and, to a lesser extent, for some of its tree crop and log exports. Given the EU's interest in the Pacific's tuna resource, the negotiation of a multilateral fisheries partnership agreement between PACP states and the EU, as a subsidiary agreement to the EPA, is being approached by Pacific ACP states as a quid pro quo exchange of access for EU vessels to Pacific fishing grounds in return for support for the development of the region's fisheries industries and market access for the processed fisheries products of PACP state. In preparing its position for the EPA negotiations PNG's main interest is in trade in goods, including fisheries. The country is taking the lead in attempting to develop a regional position on fisheries. While the sector is the most vulnerable to the losses that will come from the ending of preferential markets in Europe, it also holds the biggest promise of growth and development for the region.

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<sup>13</sup> Since it signed the Lomé Convention in 1978, PNG has also benefited substantially from programmable and non-programmable aid. From the 4<sup>th</sup> to the 8<sup>th</sup> EDF, PNG's EDF receipts totaled € 448 million (€ 164 million of programmable plus €245 million of Stabex transfers and €30 million of Sysmin payments). Under the 9<sup>th</sup> EDF, the country was allocated a total of €166 million but following the Mid-Term Review in 2004, this allocation was reduced by €19 million because of 'concerns over PNG's absorptive capacity'. Under the 7<sup>th</sup> and 8<sup>th</sup> EDF, PNG's allocations of € 46.2 and € 50 million respectively went to programmes in Human Resources Development (primarily to upgrading primary, secondary and tertiary institutions), Rural Environment (primarily to providing basic public services at village level, (education, training, health, law and order, infrastructure, water supply, a coastal fisheries development project, and agricultural extension and eco-forestry), Sexual Health (HIV/AIDS) and rehabilitating agriculture (especially cocoa, using the STABEX facility) on Bougainville. The 9<sup>th</sup> EDF continued to prioritize human resource development, as well as rural water supply and sanitation, and institutional capacity building and governance.  
(<http://ec.europa.eu/development/Geographical/RegionsCountries/Countries/Papua%20New%20Guinea.htm>)

Ambitious plans are being initiated by PNG to develop industrial fisheries in Madang to a level which will substantially increase the tonnage of tuna that is landed and processed within the region, and position Pacific states as a major player in the international trade in processed fish products. The plans, which are intended to bring in other PACP states as partners, are intended to secure for Pacific states a far larger share of the economic returns from their tuna fishery than they presently receive from miniscule levels of fisheries rent (around 4 per cent of the value of the catch). If implemented as planned, the proposed development could substantially reduce the volume of Pacific tuna fish presently being supplied to canneries outside the region, as well as curtail fishing effort by Distant Water Fishing Nations (DWFNs) for more sustainable exploitation of the region's tuna fishery. A ten-year multinational tuna fisheries agreement with the USA comes up for renewal in 2013, while bilateral access agreements with DWFNs are renewed annually.

A multilateral fisheries partnership agreement with the EU subsidiary to the EPA is fundamental to realising the ambitious plan being initiated by PNG. However, the participation of PACP states which are Parties to the Nauru Agreement (PNA), three of whom have already signed bilateral fisheries partnership agreements with the EU, is crucial and at least one of them has been disinclined to negotiate an overarching MFPA with the EU. More importantly, the social and environmental costs of the proposed development are likely to be enormous and as such, irrespective of the considerable economic gains to be made both by Pacific states and private sector investors, these costs cannot afford to be glossed over, much less ignored.

### 3. Brief overview of the PNG's Economic and Social Indicators

#### a) *Economic Indicators*

Papua New Guinea is a resource-rich country with an abundance of mineral deposits (gold, silver, copper, and nickel) and petroleum and natural gas resources. In 2006, earnings from mineral and crude oil exports alone accounted for 82.5 per cent of the country's total merchandise export receipts for the year, which were K12,617 million (Bank of PNG Quarterly Economic Bulletin, December 2006:10). Increased international prices for gold, copper and crude oil more than offset reductions in the volume of gold and copper exported in the year.

PNG also has vast forestry resources and is a significant producer and exporter of agricultural commodities. Both its forestry and agricultural exports are mostly low value added or unprocessed products. PNG's exports of tropical hardwood logs netted K491 million in 2006, while palm oil exports earned K427.9 million. International price increases in most agricultural commodities in 2006 offset export volume declines in coffee, cocoa, copra and tea and rubber that year. Agricultural production has been in decline since the early 1990s, with serious supply side problems (especially deterioration of road systems, bridges and wharves) impeding both the expansion of export agricultural production and the development of downstream processing. After more than a decade of virtual neglect, a ten-year National Agricultural Development Plan (2007-2016) has been developed and the agricultural budget substantially increased with a view to expanding

production and exports by small-holder producers, who are predominantly women. PNG presently enjoys duty-free access to the EU market for crude palm oil extracts, coffee, tea, copra, coconut oil and its extracts, palm kernel and other extracts, cocoa beans, black tea and other fermented teas and natural rubber and fish products. Together, agriculture and fish exports to the EU in 2001 earned PNG a total of US \$222m (2001-UNCTAD Report #2003-10).

Not least because of its strong export performance, PNG's economic indicators are currently very good, and have been for the past five years, in which economic growth has averaged 3.5%. In 2006 GDP was K17.3 billion and GDP per capita K3,140. GDP is expected to rise by 4.5 per cent in 2007. While PNG's external debt is still very large (US \$2,530.3 million in 2004),<sup>14</sup> its foreign exchange reserves have reached an all time high, equivalent to seven months of import cover and national debt has been brought down to 40 per cent of the national budget, which is now about K8 billion. With these indicators, and investment rates reportedly at a very high level, the country is said to be enjoying 'the greatest economic recovery ... since independence' (UN 2004:8). Sound macro-economic policies and stable government (for the first time ever a government remained in office for a full term) are considered by the private sector to be the major reasons for the country's economic upturn.

PNG's major trading partners are Australia, Japan, China, Germany, USA, UK, Singapore, New Zealand and South Korea. PNG's trade with the UK is relatively small – only 2.6 per cent of PNG's exports are destined for the UK market, and only 0.9% of PNG's imports are sourced from the UK. British investments in PNG are estimated to be worth £500 million. Among the British companies that have subsidiaries in PNG are the Swires Group (PNG's largest private sector employer), Maybey & Johnson (bridges), Price Waterhouse Coopers (consultancy), Courts (retail), British American Tobacco, and Arup Pacific Pty Ltd (consulting engineers). EU is the second largest donor for PNG, following Australia.

<http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1019041567021>

### *b) Social Indicators*

In stark contrast to its impressive economic indicators, Papua New Guinea's social indicators are extremely poor. Over the last few years, PNG has slipped down the Human Development Index two points a year (0.520 in 2004) and is now headed for re-classification as a Least Developed Country, a designation which would be welcomed by many in the development community for the reason that PNG would then be able to access more development assistance. Among the reasons for the contradictory picture PNG presents of high economic growth indicators and poor social indicators are topography and geography, and the corruption bred by resource wealth. PNG has a major distributional problem – despite the enormous revenue generated from its mines and other natural resources, social services, energy and infrastructure are not prioritised. There is not enough social spending.

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<sup>14</sup> The MDG Progress Report for PNG 2004 records that PNG's debt in 2003 stood at K8.7 billion, which corresponded to a debt to GDP ratio of 80%. The projected figure for 2004 was 70.9 %.

PNG's population was estimated to be 5.19 million at the time of the 2000 Census. This represented a 38 per cent increase since the last count, in 1990. The 2000 Census recorded 192,702 less women than men in the population, or 108 males to every 100 females. Population growth rate between 1980 and 2000 was 2.7%. Forty per cent of the population is under the age of 15 (50% under the age of 19) and more than 86% live in rural areas with limited access to basic services. Only 30% of rural dwelling Papua New Guineans enjoy access to clean drinking water, and 87% rely mostly on firewood for cooking. While the majority of urban Papua New Guineans (93%) enjoy access to clean drinking water, only 13% have access to electricity networks. Privatisation of water supply in Port Moresby has improved efficiency of supply in the capital but the introduction of higher water rates has put the cost of water beyond the pockets of poorer urban dwellers. There is consequently a problem of illegal diversion of water – 30% of water supplied by the company is reportedly non-revenue earning, and unaccounted for.

PNG's literacy rate is 57.3%. Total school enrolment (aged 4 and older) is 41%, and cohort retention rate at primary school 57%. The MDG Progress Report for Papua New Guinea 2004 reported that many people in rural areas have 'only limited access or no access at all to basic educational services', and that the same applied to basic health services' (UN 2004:12).

Life expectancy in PNG is 54.2 years. Infant, child and adult mortality remain high (UNDP 2004:6) and until recently the leading causes of death were malaria, pneumonia, peri-natal deaths, tuberculosis, meningitis, heart disease, cancer, accidents and violence. HIV/AIDS is fast becoming one of the leading causes of death in PNG. More than 2% of the population is estimated to be infected, but this figure is based on known cases, and because testing sites are grossly inadequate, this is regarded as the tip of the iceberg. The country is expected to emerge as a major HIV/AIDS epicentre within the decade. Surveillance indicates extremely high rates of infection and transmission around the sites of large-scale resource exploitation (mining, logging and fisheries). For example, in Pogera, 17% of young men are reportedly HIV positive.

The ratios of doctors and nurses to population are 1:12,500 and 1: 4,000 respectively. Public health services are severely under-funded – according to our sources, some of the doctors in the central service had not been paid for months. Under-investment in the social sector and in infrastructure has resulted in severely limited capacity on the part of the state to deliver services. Hence, NGOs are contracted to deliver health services. The state funds church-run health services which are reported to account for more than 60% of services delivered nationally, and are generally of much higher quality and are more likely to include effective rural outreach.

The problem of severely weakened state capacity (which some attribute in part to retrenchments in the public service under public sector reform) is now recognised by AUSAID, which ironically has switched from pushing public sector downsizing to supporting the expansion of government in PNG. The prohibitive cost of health services after user pays fees were introduced under PNG's Structural Adjustment Program in the early 1990s prevented many rural and urban poor from accessing basic health care,

including supervised deliveries in health care centres and hospitals and treatment for common illnesses.

The MDG Progress Report for Papua New Guinea 2004 reported that ‘it is a widely held view that living standards for Papua New Guineans have declined since 1990’ and that, in spite of increases in cost of living ‘salaries have changed very little over a long period, contributing to static or possibly worsening poverty situation, particularly in the urban sector’ (UN 2004:8). Thirty percent of the population are estimated to be living below the poverty line and there is little likelihood of the country being able to meet the MDG goal of reducing poverty by 50% by the year 2015 (Ibid:12). There is substantial internal migration from rural to urban and rural non-villages (RNVs). Urban unemployment is considered one of the main problems in PNG and the 16.2 percent rate provided by the National Statistical Office in 2000 is considered a serious under-estimation, resulting from confusing the categories of employed, self-employed and unemployed. High unemployment rates, especially in the capital, contribute to the worsening law and order situation and pose grave human security risks, especially for women and girls.

Additional concerning features of contemporary PNG society include the high levels of violence, the increasing resort by women to selling sex to survive, and the alarming rise in the commercial sexual exploitation of children. The involvement of very young girls (from 13 years of age) in the burgeoning urban night club and gambling scene and commercialization of sex has been documented in recent studies on CSEC in PNG (UNICEF, 2004). This growth in the ‘entertainment’ industry is fuelled by enterprises associated with and catering to the large numbers of men, with large amounts of disposable cash from royalties paid to landowners in resource project areas as well as those employed in the sector at trade and professional levels. The converse is the impoverishment of women, involved in the informal sector and low-paying factory jobs, whose inadequate incomes predispose them to selling sex to make ends meet.

#### 4. Overview of PNG’s Fisheries Sector

The development of PNG’s fisheries sector is relatively recent. Substantial foreign exchange earnings from exploitation of the country’s rich mineral deposits over the years meant that the valuable fisheries resources that lay offshore, in PNG’s archipelagic waters and 200-mile economic zone (which together encompass 2.4 million square kilometres of fisheries waters) were until recently largely left to by Distant Water Fishing Nations (DWFNs) to exploit. As with most other Pacific Island states, PNG’s earnings from its rich fisheries resources has primarily come from annual fisheries license fees, paid by DWFNs to fish in PNG’s territorial waters. Eighty per cent of the country’s annual fisheries earnings still come from fisheries access fees, or rent. The amount received in fisheries rent represents between 4 and 5 percent of the value of the catch, which is a pittance.

PNG began licensing DWFNs to fish in its waters in the 1970s. By the 1980s, fisheries access agreements with vessel owners from DWFNs included agreements to develop a domestic pole and line fishery for tuna. The arrival of purse seiners changed the industry however and undermined the development of PNG’s domestic pole and line industry. In

1987, the PNG government terminated Japan's fishing license following a disagreement over the raising of access fees - some 600 Japanese vessels were fishing under license in PNG waters at the time. In the mid 1980s, PNG also nationalised a commercially successful prawn trawling industry, run under license in the Gulf of Papua by Japanese operators, whose license effectively permitted them to 'fish twenty-four hours daily, for 300 days in a year' for ten years. The operators were forced to sell their trawlers to the government. PNG's longline fishery today consists of 20- 25 vessels – less than half the number operating several years ago- and is dominated by three fishing companies. There are currently 205 purse seiners operating in PNG waters, mostly under Asian and American flags. Most of the fish that is netted by these vessels is landed outside of the region. Most of the tuna canned in Thailand, the world's biggest producer of canned fish, is caught in Pacific waters. PNG is keen to change the present set up in the global tuna fisheries industry, and the EPA negotiations present an opportunity to try and do so.

In 1999, PNG radically restructured and corporatised its Fisheries Department. This meant downsizing it in one fell swoop from a total complement of 380 staff to a lean outfit of 100 employees in the space of a year, and reconstituting it as the National Fisheries Authority (NFA), a profit-making entity, run on a purely commercial basis. The commercial development of PNG's fisheries sector is NFA's paramount objective. Its success thus far in generating revenue for the state has already been demonstrated. Between 2001 and 2007 NFA paid the government K145 million. Whereas fisheries used to contribute 0.6% of GDP in 1995 – or K 40m- it now contributes K300,000 million. NFA aims to top this by reaching a target of K1 billion over the next 5 to 10 years. Central to reaching that target is a plan to massively expand its industrial fisheries. According to Western and Central Pacific Fisheries Commission figures, PNG's tuna fishing effort in 2004 was significant, accounting for 10% of the total recorded tuna catch in WCPFC waters that year and almost equaling that of Korea which was 11% (cited in Oxfam 2006:5). The successful development of export-oriented industrial fisheries in PNG over the last decade and the PNG government's 'export driven economic recovery strategy', which requires the fisheries sector to develop 'an integrated harvesting, processing and international marketing industry,' positions PNG to embark on a major development in fisheries that could radically change the status quo in the global tuna trade.

PNG's industrial fisheries began with the establishment in 1996 of a cannery in Siar, Madang, by a wholly-Philippines-owned company, RD Tuna Cannery Pty Ltd. RD Tuna Cannery is supplied by the company's own PNG-based vessels, operating as RD Fishing PNG Pty Ltd. A second tuna cannery, set up in Lae in 2006 by Frabelle (PNG) Ltd, is also a wholly Philippine-owned plant<sup>15</sup>. Both canneries employ mostly women, working around the clock in two shifts. In addition to the two canneries, PNG has three loining plants, in Madang, Wewak and Lae, and a Lae-based operation producing tuna steaks for a niche market in the USA which is supplied with fish by local fishermen. Altogether, these factories process 300,000 tonnes of fish a year, which is PNG's total allowable catch of tuna.

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<sup>15</sup> Another cannery is planned to be established in Manus by a Taiwanese investor.



As with Fiji's garment industry, foreign investment in industrial fisheries in PNG was attracted by PNG's preferential access to the EU market under Lomé. Eighty per cent of RD Tuna's products are destined for the EU market as are Frabelle's cooked tuna loins and canned tuna. In the last eight years, the value of PNG's fisheries exports to EU has grown from K40 million in 1999 to K300 million in 2006. Duty free access to the EU market under the favourable terms of the Lomé Convention for exports of fish caught in PNG's archipelagic waters –the internal waters of PNG - largely explains this export boom. PNG's fisheries exports to the EU consist primarily of canned tuna and cooked loins, which are supplied to the German and UK markets. PNG is also presently negotiating market access for its fisheries products with France, Spain and The Netherlands.

RD Tuna processes 160 tonnes of tuna a day, caught by its own vessels in PNG's archipelagic waters.<sup>16</sup> A second cannery planned for Vidar Harbour, the current site of RD Fishing in Madang, was to process a further 200 tonnes of fish a day. RD Tuna reports that its factory at Siar is not producing to capacity because of an under-supply of tuna. Most of the vessels fishing in PNG's waters have tie ups with canneries located outside of the region. Eighty per cent of RD Tuna's products supply external markets, and 20% consumed domestically. The company is keen to extend its export market to Pacific Island countries but is constrained by high freight costs in the region.

RD Tuna's investments have been significant to Madang – the cannery is the province's largest employer, and aside from the considerable economic spin-offs from the operations of this industrial fisheries (estimated to be worth K48 million a year), RD have invested in Madang's infrastructure, developing and extending the province's slip-way and wharf, amongst other things. The company has been handsomely rewarded for making investments in PNG. Because domestically based or owned vessels are not charged access fees, and RD Tuna's purse seine vessels are domestically based, the company has been able to access PNG's tuna and other fisheries stocks for free. Through the waiver of access fees and by benefiting from PNG's duty free access to EU markets, the company has effectively been doubly-subsidised. According to the NFA, the subsidy entailed in the waiver of fees is offset by the mandatory requirement that the company meet certain contractual obligations, including 34% equity shareholding for nationals. After 11 years of operation in PNG, however, the company remains wholly foreign-owned. It is also understood that RD Tuna enjoys tax exemption within PNG.

## 5. PNG's Likely EPA Position, EPA Issues and Anticipated Benefits

As the PNG government sees it, the fisheries sector is a crucial one as many thousands of jobs are at stake. Some 4,000 nationals are employed in Madang. With close to that number *in each of the other two canneries* in Lae and Wewak, the total number of jobs in the fisheries sector is estimated to be between 12,000 and 15,000. For every fishing job there are three more indirect jobs in the sector, and thus the livelihoods of 45,000 people are tied up in fisheries or fisheries related employment. If we take the average family

size in PNG to be 5, then the total number of people dependent on industrial fisheries is in the vicinity of 225,000.

The ending of preferential markets in Europe on 31 December 2007 poses a major threat to PNG's industrial fisheries. PNG's interests in successfully negotiating an EPA with the EU, with a subsidiary multilateral fisheries partnership agreement, are not only to save thousands of cannery and auxiliary jobs in PNG, but also to assist the region develop industrial fisheries on a large scale and provide opportunities for investment, jobs for regional citizens, and needed revenue for Pacific Island states. PNG's radical proposal for taking control of the region's fisheries resources has been fuelled by the EPA negotiations. Europe's 250 million consumers and high per capita income makes the EU market a crucial one for its own (and the region's) fisheries exports. The EU's strong interest in tuna stocks in the Central Western Pacific – demonstrated by its strategic securing of bilateral fisheries partnership agreements with three PACP states in the last four years – gives the PACP states important leverage in the EPA negotiations, provided they stick together.

What PNG is proposing is the establishment of a tax free 'Marine Park' in Madang, within which canneries and fisheries-related industries will be set up as part of a mega fisheries processing hub. Ten canneries are reportedly envisaged for the Marine Park. PNG is working to obtain the backing of other PACP countries that are Parties to the Nauru Agreement (PNA) in whose territorial waters the tuna fishery primarily occurs. These states are being offered both investment and employment opportunities in the proposed Marine Park venture, including the possibility of owning and operating canneries and employing their own nationals in them, in return for the opportunity to process their fish. The Marine Park is not expected to see increased fishing effort in Pacific waters, rather the retention of a large proportion of the catch for regional processing, presumably by stipulating as part of the access agreements that a minimum tonnage be landed for processing in the region. The proposed introduction of the 'Vessel Day Scheme' (VDS) from 01 December 2007, a new management system under which DWFN vessels will buy the right to fish on the basis of a number of days, could enable PACP states to reduce overall fishing effort by DWFNs by raising the price per day, although it is recognised that the vessels might respond by setting their nets twice a day. As EU funding is critical to making the Marine Park a reality, and the funding hinges on securing a MFPA with the EU to which all PACP states are party, PNG is working hard to bring all PACP states on board.

One complication is that three of the PNA states (Solomon Islands, Kiribati and Federated States of Micronesia) have already signed bilateral fisheries partnership agreements with the EU. Moreover, Kiribati has been disinclined to be party to any multilateral fisheries partnership agreement on fisheries which may negatively affect its present fisheries license takings. Without Kiribati's support PNG's plans to radically transform the way in which the region's valuable tuna resources are being exploited and secure for Pacific Island states a fairer share of the wealth generated by their tuna resources could be torpedoed.

From what details are known, the proposed MFPA would offer the EU a guaranteed 5% of the total allowable effort allocated through the VDS, apparently for a period of 20 years, in return for the same rate of ‘financial contribution’ of €100 per tonne as is currently jointly paid by the EU and its vessel owners<sup>17</sup>, plus further assistance (provided through the financial facility of the EPA) expressly for the purpose of developing the industry for export production and marketing in the EU (Oxfam NZ 2007). The proposed MFPA, which also includes a crewing requirement (20% of PACP crew) for EU vessels, requires the EU to negotiate bilateral access agreements with PACP states to be able to utilise the 5% access right. This is evidently intended to allow individual PACP states to ‘negotiate a framework to suit their individual needs’ while ‘broader standards and sustainability considerations of the migratory tuna stocks [are] embedded in [the] framework agreement’ (Currie 2007:2).

The outstanding issue of Rules of Origin (ROOs) which is still under negotiation with the EU also needs to be resolved in favour of PACP to realise the Marine Park plan. Presently, only fish caught in the territorial sea (12 nautical miles) qualify as wholly originating. Fish caught outside this area are only considered to be originating if they are caught by an ACP, EU or OCT registered vessel or a vessel sailing under ACP, EU or OCT flag and crewed by at least 50% ACP, EU or OCT nationals, or owned by EU, ACP or OCT nationals. Oxfam has pointed out how the present ROOs relating to fisheries products work to the disadvantage of PACP states in two ways – by encouraging export fishing effort to be concentrated close to the coast, thereby threatening inshore fisheries, and by effectively coercing the PACP states to sign access agreements with EU in order to be able to access ‘originating’ fish for export to the EU (Oxfam 2006:7). Of all the boats fishing in PNG waters at present, only 7 are flying the PNG flag and therefore meet the present ROOs criteria. To be able to access more of the catch a change in ROOs is necessary. PNG is leading the PACP states in pressing the EU to change its definition of ROOs to allow any fish caught in Pacific waters that has gone through a 6-digit transformation in tariff headings to qualify as a Pacific product. Since Pacific states cannot own purse seiners and are forced to rely for any downstream processing on a commercially viable scale on the catch of vessels owned by companies based in DWFNs, they expect the EU will concede to a redefinition of ROOs for PACP fisheries products, based on the simple criteria of change in tariff headings (CTH) at the six digit level. A commitment to develop an improved and simplified system of rules of origin has already been made

Unless it is accepted as supporting a specific public policy objective of PNG, the preferential waiving of access fees and granting of tax exemptions for domestically registered companies could be ruled out by an EPA on the grounds of national treatment, or for the reason that it distorts competition. PNG will also be looking to the MFPA to include provision for EU vessel crew to be recruited from the Pacific. EU vessels have a big crewing programme and are presently using Indonesian and Latin American crew.

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<sup>17</sup> EU’s ‘financial contribution’ is €65 per tonne, with a guaranteed minimum per vessel of €21,000 per year. EU vessel’s pay an additional €35 per tonne. The EU contribution represents a direct subsidy to its fisheries industry. China similarly subsidises its national fisheries industry.

PNG also proposes to export a number of other marine products to the EU. It has attended a number of foods fairs in Brussels over the last two years with a view to extending its marine exports to the EU to lobsters, prawns, reef fish and live crayfish. While there are supply side constraints (technology, freight and standards) that have yet to be overcome, PNG is already exporting lobsters to the USA, albeit via Australia.

Sanitary and Phytosanitary measures are not a concern for PNG as the NFA was certified as a 'competent authority' by the EU two months ago.

## 6. Likely Social/Environmental Impacts of Developing the Sector under an EPA

PNG's proposed regional fisheries initiative, aimed at expanding the region's industrial fisheries and developing other value-adding, downstream processing of fisheries products for export promises huge economic benefits to participating Pacific states. There are also associated spin-off industries indicated for Madang Province. While a social impact assessment is supposed to precede implementation of the Marine Park, plans are reportedly already at an advanced stage, with legislation already drafted. Private sector supporters of the proposal have also been brought into discussions and negotiations with the EU.

The concept of value-adding and of downstream processing of the region's natural resources is laudable in terms of building export capacity, generating foreign exchange earnings and government revenue, and creating employment and other economic spin-offs. However, there are major social and environmental issues which need to be carefully considered with appropriate risk management strategies and mitigation measures put in place.

The social and environmental impacts of the existing Madang cannery and the tuna fishing operation that supplies it have been both the subject of substantive research by environmental NGOs and development researchers in PNG, and the cause of longstanding struggles by landowners and cannery workers in Madang. Both the documented findings of previous research on social and environmental impacts of the cannery and our own research for this baseline EPA social impact assessment raise serious questions about proceeding with the Marine Park proposal without strong regulatory frameworks and enforcement practices to ensure that landowning communities in the area, their resources, and their natural environment will not be despoiled and factory workers exploited for private profit.

There are at least three sets of issues that are of concern. The first has to do with the social conflicts that would likely emerge from the proposed influx of thousands of 'migrant workers' from other Pacific Island states into Madang, to take up employment in the factories. This has already proved to be a source of tension in relation to the existing cannery, 80% of whose present workforce reportedly come from other provinces. The much larger scale development that is proposed for the Marine Park would likely see the same sort of tensions emerging, but on a much larger scale, between 'outsiders' who may

be seen to be primarily benefiting from industrial development, while local communities bear long term costs. Madang Province is reported to already have a law and order problem which has been linked to the growing numbers of squatters from other provinces that came to Madang in search of employment and a better life. There have been reported cases of serious and petty crimes increasing significantly and a liquor ban on weekends has been in place for some years now, to control drunken brawls (<http://www.pacificmagazine.net/issue/2003/04/01/madang-clamps-down-on-illegal-squatters>).

Secondly, central to the processing of tuna for export is the cannery workforce and from interviews conducted with some of the Madang cannery workers during the SIA country visit, and a sighting of their wage slips, it is evident both that cannery workers are abysmally paid, required to work 12 hour shifts, and denied basic labour rights such as holidays (including public holidays), and that international labour standards are neither being observed by the company, nor enforced by PNG's Labour Department. With such a record, the prospects of regional citizens enjoying the benefits of 'decent work' as migrant workers in PNG could validly be questioned. Labour practices would also be likely to come under pressure from the EU side.

Thirdly, there are serious environmental risks entailed in the proposed Marine Park, and independent environmental studies that have raised concerns about the impacts of the existing cannery on the marine environment appear to be being ignored in planning this mega development for the Madang area. Contrary to the conclusions of a 1995 ADB study (Sanday 1995) on the likely impacts of having two canneries in the Madang area, that both positive and negative impacts could be expected from such development but that the positive impacts far outweighed the negative impacts, and as such, the project should proceed, more recent substantive research has produced evidence of substantial environmental destruction resulting from the cannery and its associated fishing operations.

The environmental impacts have in turn had negative social impacts on communities which have traditionally depended for their subsistence livelihoods on the lagoon. A significant consideration to be borne in mind, highlighted by one independent environmental study (Jenkins 2003) is that the Madang Lagoon is PNG's richest marine area. It is home to 11 per cent of the world's reef fishes, and 17 per cent of PNG's endemic fish species. The Lagoon contains 4,000 hectares of reef and, as 25 percent of the fish live on the reef, the health of the lagoon's reef is absolutely vital to their survival. There are fish breeding grounds throughout the Lagoon, and there are several designated fishing reserves, or Marine Wildlife Management Areas, within it.

Independent environmental assessments indicate that there has been a decline in both the numbers and varieties of large fish in the Lagoon, that there is increasing algae covering the reef, declining live coral, a rise in the numbers of small fish which eat the algae, and that the most serious impacts are seen in Seg Harbour (where the fishing operation that supplies the cannery is based), where at only 3 metres depth half the reef is now dead. Our informants from one of the affected communities in Madang confirmed this and

reported that there also used to be a lot of shellfish on their reefs, but there is very little these days. For communities who have traditionally depended on in-shore fisheries for their subsistence, the destruction of the reef, which is so vital to sustaining reef fish stocks, constitutes a serious food security threat. Villagers have reported a decline in fish stocks.

A comprehensive study of the impacts of the cannery on affected communities undertaken by Madang-based anthropologist, Nancy Sullivan (Sullivan 2003), documents some of the social and gender impacts of the deterioration in the inshore fisheries, not least the dependence on poverty wages in the cannery, and the surreptitious trade of garden produce and/or sex for by-catch fish that takes place between local women and fishermen aboard the company's fishing fleet. Judging by trends that are apparent elsewhere in the region, the proposed development would more than likely see an accompanying upsurge in the sex trade, including child prostitution, with all of its attendant risks, including the spread of HIV/AIDS. PNG is already facing the prospect of an HIV/AIDS crisis on the scale of Uganda's. Indeed, if the current annual rate of increase of recorded cases continues at 33%, projections are that by 2015, 7% of PNG's projected population, or 466,000 people, will be infected with HIV/AIDS. According to the PNG's MDG Progress Report, 'HIV/AIDS has become a destabilising factor of the first order, and the single most important challenge for development in PNG' (UN 2004:30).

Sullivan (2003) also records reports from the community of oil spills from the fishing company vessels in the past, and the admission of one of the ship's crew (in April 2003) that one of the vessels had 'poured ammonium gas into the Seg Harbour, [which] had killed many marine creatures and also infected [sic] some people in Kananam'. She says that for fishermen, the experience of the cannery and associated fishing had been 'devastating' not just because of the impacts of oil spills, other destructive pollutants and of waste generated by the industry, but also because, as reported to her in her investigations, the company was fishing for other fish as well as tuna, and was using nets, despite an agreement that they would not do so.

While it is not suggested that there is any link to the cannery, it is important to note that a National Micronutrient Survey in PNG in 2005 found particularly high levels of stunting and underweight and a severe problem of vitamin A deficiency amongst children in the Momase region (which includes the two Sepik provinces, Morobe and Madang), as well as severe anemia among infants (69.3% among 6-11 month olds), pre-schoolers (49.8%), women and men in the area. The findings would appear to suggest that Madang province (and other provinces in the region) can ill afford to have a primary source of its population's natural food supply put at risk.<sup>18</sup>

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<sup>18</sup> The report of the National Micronutrient Survey recommended exploring the promotion/supply of micronutrient supplements for infants and children through the health system, making nutrient supplements 'regularly accessible to consumers through the commercial sector,' informing flour importers in PNG of 'their ability and responsibility to contribute to improving the health of the population by importing only (iron) fortified flour into PNG', and exploring the feasibility and effectiveness of [importing or producing] Vitamin A fortified foodstuff, such as cooking oil' (National Micronutrient Survey PNG 2005, Draft

Beyond the likely impacts in the immediate marine environment, there is also a deeper concern about the present and future health of the Pacific's tuna fishery per se. A recent study of how Pacific Island States might capture more wealth from this fishery (Barclay & Cartwright 2006) points out how decisions taken by the Western and Central Pacific Fisheries Commission in 2005, which appeared to allow for an increase in fishing effort over 2001-2003 levels, went against the recommendations of its Scientific Committee. At its 2005 meeting the Scientific Committee had highlighted 'overfishing on two of the four main target species of tuna (yellowfin and big eye), particularly in the most productive areas of the region' and had recommended 'reducing fishing mortality'. Addressing the problem of overfishing through effective management measures is absolutely critical to sustaining this valuable resource. Barclay & Cartwright raised concern about the potential of 'the sorts of management measures that may appear on the Commission's table to address the yellowfin and bigeye problem ... to result in very different impacts across PICs and DWFNs, both in EEZs and on the high seas.' They emphasised that 'one clear lesson from other fisheries is that failure to manage the fishery will be disastrous for the prospects of capturing wealth from tuna in the long term'.

Concern was recently raised by a WWF consultant about the practice of relying on assessments of Maximum Sustainable Yield, and the failure to recognise 'the debate over whole concept of MSY, the problem of by-catch and ecological disruption through intensive fishing; [and] the problem of local depletion of tuna and other fish species to the extent that local fishing declines or disappears...' PNG's longline fishery last year reported poor catch rates, especially of yellowfin tuna in the 25-35 kg size range, which used to make up the bulk of the longtime catch, but which were reported as now being 'scarce'. The 2004 longline catch was estimated to be 6,200 tonnes (Batty & Manieva 2006). A report received in the course of the present research on the SIA of the EPA from company workers suggests that an unrecorded tonnage of so-called 'non-allowable' fish, presumably caught outside PNG's archipelagic waters (i.e. in PNG's 200 mile zone) and therefore ineligible to be processed for the EU market, is regularly landed at Seg for storage before being shipped by company vessels to the Philippines each month. This reported unrecorded, free haul of fish is hidden extraction needs investigating especially since workers report that each month all four of the company vessels set sail for Philippines with a full load (totaling 2,200 tonnes a month) of non-allowable catch, and that a large part of this catch is yellowfin tuna.

Downstream processing offers some potential for better managing fish stocks through gross revenue targeting compared with the current experience of exporting raw fish which encourages over-licensing by PACP states and therefore over-fishing, to maximise revenue from licensing.

There are other environmental implications of the proposed development which are of concern, among them the likely impact of several more canneries on Madang's water

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Summary Report 2006:50). These recommendations could usefully guide PNG (and any other PACP states showing similar nutritional problems) in determining tariffs on particular imports.

supply and other water consumers, and the treatment and disposal of cannery and other industrial waste. In addition, the canneries in Madang and Wewak have caused terrible problems of air pollution with sustained periods of foul smell emanating from the factories. The nauseating smells directly affect the quality of life of thousands of people in the vicinity. The smell and the industrialization of the coastline are just two of the impacts that will significantly deter tourism in the area, and will likely have long term impact on the ability to generate a viable tourism industry. This should be of major concern given that Madang is considered to be one of the more popular destinations for PNG's trickle of tourists.

## 7. Ameliorating Measures

The following suggestions are unlikely to effectively ameliorate the substantial social and environmental impacts that are almost certain to result from implementation of the proposed regional industrial fisheries project that PNG is seeking to secure support for, within the framework of EPA negotiations. The wisdom of pursuing the proposed Marine Park is seriously questioned. While the idea of taking control of the region's fisheries resources has strong political and economic appeal, the long-term costs could be devastating. There are simply too many risks involved and neither the industry nor state regulatory authorities have demonstrated a strong sense of responsibility towards the people and the natural environment thus far. Moreover, an EPA and a subsidiary MFPA such as PNG and other PACP states seek to negotiate with EU, will severely constrain the ability of the PNG government to respond to concerns about social and environmental impacts by re-regulation. Such constraint could intensify tensions around social and environmental impacts, and provoke political instability.

Should the project proceed as a regional venture, despite our cautionary advice, the following proposals may help to ensure that the interests of people are put ahead of the interests of profit, that the harvesting of the valuable fisheries resources is undertaken responsibly and in accordance with good governance practices, and that some social and environmental safeguards are in place. The proposals are closely in line with the PACP's draft EPA text, specifically Articles 8.11-8.18, which set out obligations and duties of foreign investors, Articles 8.19 – 8.29, which delineate the obligations and rights of host states, and Articles 9.29-8.34, which specific the obligations of the home states of investors.

1. Full public disclosure of the proposed development and a process of genuine consultation (including on the draft legislation for its implementation) with all stakeholders, including local communities in Madang and environmental groups that have conducted studies in the area, and publication of an independent report of its outcomes before any commitments or agreements with any other state parties are entered into.
2. Proceeding with the proposed development gradually, or in stages, with independent social and environmental impact analyses being concluded and their recommendations fully taken into account and/or acted on at each stage of development.



3. Including full environmental safeguard provisions and liability clauses in all investment contracts.
4. Establishing a mechanism and process for regular scientific monitoring of the marine environment by a credible, independent agency.
5. Establishing a credible mechanism/process for monitoring social impacts that includes representatives of all stakeholders, including customary land owners whose fishing grounds are affected and workers.
6. Implementation of ILO-compliant labour standards within the industry and provision for regular spot checks and strengthened penalties to enforce both labour standards, as well as occupational health and safety standards.
7. Allocating a significant proportion of jobs to members of landowning communities in Madang whose marine environment and subsistence livelihoods will be affected.
8. Establishing a trust fund for affected landowners, and providing workers with an opportunity to hold shares in the industry, through a worker-participation shareholding scheme.
9. The EPA-related development cooperation that PIFS is negotiating for should take into account the above points and tie fisheries deal with EU and further investment growth to the provision of support to counter negative costs
10. Provision of public education funds to NGOs to raise attention to the links between large-scale resource industries and gendered occupational ghettos, the institutionalization and escalation of commercial sex, sexual exploitation of children, gender-based violence, and accelerated transmission of HIV and other STIs, with a view to building awareness, and mobilising communities to change behaviour and attitudes.

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Two two-hour focus group discussions were also held in Madang with a group of Kananan landowners and cannery workers.

\* Grateful thanks are extended to Eileen Kolma, Oxfam Country Director, PNG, and Urshula Kolkolo, PhD candidate at James Cook University, for their assistance in carrying out the research for this country case study.

## Case Study 2

### Solomon Islands: A Least Developed Country

#### Trade in Goods (Agriculture)

#### 1.0 Introduction

The Solomon Islands is categorized by the UN as a least developed country. LDC status is a special status granted to countries which have the lowest indicators of socioeconomic development, as shown by the UNDP's Human Development Index. Solomon Islands is the only PAC that is in the LDC category which is also a member of the WTO. Other Pacific countries in the LDC category are Kiribati, Samoa, Tuvalu and Vanuatu. A country is placed as a LDC if:

- its three-year average per capita income is less than \$US750.
- it has a human resource weakness, indicated by a composite Human Assets Index (HAI) based on indicators of nutrition, health, education, and adult literacy; and
- it is economically vulnerable, as indicated by a composite Economic Vulnerability Index (EVI) based on indicators of:
  - (a) the instability of agricultural production;
  - (b) the instability of exports of goods and services;
  - (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP);
  - (d) merchandise export concentration; and
  - (e) the handicap of economic smallness, and the percentage of population displaced by natural disasters. (<http://www.un.org/special-rep/ohrls/ldc/ldc%20criteria.htm>)

Countries need to display at least 2 of the above characteristics to remain an LDC.

LDCs attract numerous types of assistance from international institutions and other countries, which are not available to other developing countries. One form of assistance is trade-related.

The WTO also has a special facility for LDCs. It deals with the special needs of developing countries in three ways: first, the WTO agreements contain special provisions on developing countries; second, the Committee on Trade and Development, the main body focusing on LDCs, deals with specific topics such as trade and debt, and technology transfer; and third, the WTO Secretariat provides technical assistance (mainly training of various kinds) for LDCs.

The Cotonou Agreement also specially recognises LDCs. Under the Agreement, LDCs retain their right to non-reciprocal trade preferences. As such, this recognises the right of least developed countries to special and differential treatment enshrined in the WTO agreement. However, according to EPA Watch,

Where least developed countries form part of regional groupings which have chosen to negotiate reciprocal preferential trade arrangements with the EU (economic partnership agreements), the European Commission maintains that

least developed countries will be expected to give up their right to non-reciprocal trade preferences. Ultimately least developed countries will be expected to carry all the same obligations as are negotiated regionally by the region to which they belong. Least developed countries would only be accorded special treatment with regard to the delayed start of implementation and a slower pace of tariff dismantling.

(<http://www.epawatch.net/general/text.php?itemID=14&menuID=33>)

Whether this is the case for the PACs is not totally clear. The draft EPA that the PACs are negotiating with the EU defines LDCs but makes no mention of it in the text. PIF document PIFS (06) PACP.TWG.GAF.X makes references to LDCs, stating that eligibility for treatment as LDCs will be based on status at the entry into force of the agreement and will not be affected by subsequent graduation.

According to EPA Watch, since the entry into force of the EU's "Everything But Arms" Initiative, least developed countries have enjoyed quota and duty free access to the EU market for all "originating" products (except arms and for a transitional period rice, sugar and bananas, to which quotas are applied) under the EU's GSP system. When the Cotonou Agreement comes to an end in 2008 this GSP system of preferences for least developed countries will remain unaffected. Least developed countries in the ACP are thus in a different position from non-least developed ACP countries in terms of future trade arrangements with the EU.

EPA Watch argues further that if the EU

proceeds with its current plans for negotiating economic partnership agreements with regional groupings of ACP countries then least developed countries will find themselves embroiled in reciprocal preferential trading arrangements with the EU (with all that this entails), despite their rights to continued non-reciprocal trade preferences. This is a serious situation for least developed countries face particularly severe constraints in producing goods competitively. Least developed countries face particularly severe human, institutional and infrastructural constraints which can require special targeted interventions and initiatives to support and sustain economic activity.... Against this background the introduction of free trade with the EU could seriously limit the capacity of least developed countries to structurally develop their economies. (<http://www.epawatch.net/general/text.php?itemID=14&menuID=33>).

## **2.0 Solomon Islands Development Priorities**

The priority of the SI Government is 'to achieve development through a bottom-up and holistic approach that encompasses the empowerment of the people through rural advancement strategies, the pursuit of the Millennium Development Goals, the revitalization of the economy, improved law and order, effective service delivery and the devolution of powers and functions and decision-making authority to the periphery' (Prime Minister's Office, *Grand Coalition for Change: Policy Framework Document* 2006: 1). It states that the aim of the government is to 'emphasize rural development,

independent economic growth, access to credit and the fair distribution of wealth and opportunities' (2006: 3). The 'Policy Framework Document' lists numerous objectives that the government has set for itself, but all focus on re-establishing the institutional framework for peace, stability, growth and distribution, and improving social welfare of the citizens.

### 3.0 Social and Economic Indicators

Table S-1 in the Appendix provides some key social and economic indicators for Solomon Islands.

### 4.0 Social Impacts

Social impacts of a likely EPA with Solomon Islands that is premised on ensuring free trade in Solomon Islands can, reasonably, be expected to be significant. In standard literature generally, these, a priori, are expected to kill domestic industries and prevent the growth of new ones, raise unemployment, contribute to fiscal problems, limit the ability of a government to spend in socially crucial sectors as well as in infrastructure, and escalate balance of trade and foreign exchange problems. The impacts of these on the society, working through the ordinary social variables, are expected to be significant. These, however, are the general social impacts. For Solomon Islands, the specific context would determine the social impacts. To assess the specific impact for Solomon Islands, one needs to consider the specific provisions of an EPA. Unfortunately, at this stage, not much is known of the Solomon Islands' position on the trade-in-goods priorities. What is very clear, however, is the tariff structure in the Solomon Islands.

#### 4.1 Social Impact I: Trade Liberalisation

The Solomon Islands has a simple and relatively transparent tariff structure. In January 2007, the government reduced the top rate of import duty from 20% to 10% and halved the number of exemption items in the Import Duty Exemption Schedule. The 20% duty rate was previously applicable to a number of consumer and producer goods. Announcing the duty reduction the Finance Minister explained that

in the past, many small, local businesses ... struggled under the burden of high import duties whilst other businesses have got [sic] an unfair advantage by gaining duty exemptions .... The 20% import duty rate previously applied to most goods, including many basic goods like soap, noodles, clothes, boots, exercise books, water tanks and mattresses. Lower duty rates will also benefit rural communities by reducing the pressure on the price of many basic goods. For example, the duty payable for a 25kg bag of flour will fall by almost \$10. Similarly, the duty payable on an iron cooking pot will fall by over \$11. Rural communities suffer the most from high prices so they will also benefit from import duty reform. This demonstrates once again the Government's commitment to helping rural communities (Minister for Finance, 2007)

The government also removed export duties on plantation logs; this was explained as desirable on account of the need to encourage sustainable plantation forestry and reforestation projects. Export duty on native logs was not amended.

The tariff reforms were expected to be revenue-neutral for the government. The Finance Ministry believes, on the basis of preliminary results on customs collections during the first quarter of 2007, that the expectation is being realised. These reforms are part of the Government's broad tax reform agenda introduced as part of package of structural reforms being put in place under the support of international financial institutions.<sup>19</sup>

The current duty rate adopted by Solomon Islands is much lower than what is required by the WTO, or that could be negotiated under the EPA. The bound rate for Solomon Islands is 70.7% for agricultural and 80% for non-agricultural products.

Before January 2007, the government had made an EPA liberalisation Schedule. This schedule contained 6 categories for liberalization. These were:

**Category 1:** Immediate liberalisation on signing of the EPA. The goods included in this category already have a 0% duty.

**Category 2:** Products liberalized immediately at year 6 (i.e. after a 5-year moratorium): Goods included are inputs that directly support priority sectors, labour intensive industries and rural development (agriculture, horticulture, forestry and related activities). Tariff reductions on these goods may also result in substantial revenue reduction. Goods included are seeds for agriculture, livestock and poultry feed, inputs into handicraft industry, agriculture hand tools; bee-keeping, farming, poultry and cattle industry equipment; parts of agricultural/forestry, horticulture machineries, and food and beverage industry.

**Category 3:** Products liberalized over a period of 6-10 years. Considerations for inclusion in this category are whether:

- the products are welfare products (e.g. health care products, products for disabled people),
- products are direct inputs into domestic industry,
- fungicides, herbicides for agriculture,
- raw materials for new industry with no domestic competition (e.g. silk, yarn, wool, cotton),
- basic machineries,
- saws and blades,
- machineries used in labour intensive industries or industries that use abundant local resources,
- fishing equipment, and

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<sup>19</sup> There is a strong possibility of an introduction of VAT in Solomon Islands. The revenue neutral position can be achieved through either increased trade volume, or through the expected consumption tax. If it comes through the consumption tax, then the price impact of tariff reduction would be not only eliminated, but could also be reversed.



- artists' materials.

**Category 4:** Liberalised over 6 to 15 years. Considerations for inclusion in this category are:

- products with minimal trade value,
- products with substantial duty revenue but unlikely to pose competition to domestic industries,
- products that are indirect inputs into domestic industry (construction, real estates, tourism) but also negate substantial duty revenue,
- metal ores,
- products that can potentially provide indirect support to domestic industries (photographic materials, recording equipment etc),
- products that generate substantial revenue but can contribute to people's well being (reading materials, school equipments), and
- telecommunication apparatus

**Category 5:** Liberalised over 6 to 25 years. Considerations for inclusion in this category are:

- products protected for domestic industry reason (agriculture, live stock, poultry, fisheries, aquaculture, timber) but which can not fit in the exclusion basket (category 6),
- products that are abundant and locally /international competitive but are unlikely to be threatened by imports (e.g. Tuna, raw cocoa beans, root vegetables),
- chemicals,
- products with high duty revenue,
- existing domestic industries expected to have become competitive by then (those that are protected),
- existing domestic industries heavily reliant on imports with low content,
- industrial goods unlikely to be produced in Solomon Islands,
- electronic goods not used as inputs in domestic production (semi-luxury products)
- machineries, and
- other motor vehicles that are not personal vehicles e.g. buses.

**Category 6:** Those that are included in an 'Exclusion' basket. Considerations for inclusion in this list are:

- protection for sustainable and competitive domestic industries (whole, semi-finished and finished products produced locally and their close substitutes),
- promotion of sustainable and competitive domestic industries (potential and emerging sectors e.g. livestock and poultry, soaps and cosmetics, vegetable oils),
- promotion of domestic value adding industries (i.e. value added products form locally abundant resources et processed agricultural and timber products),
- high indispensable duty revenue items (stationeries, cooking plates, paints, razors),
- luxury / rich men's goods (electronics, pet food, personal vehicles), and
- sin products (cigarettes and alcohol).

The reduction in duty for items that attracted 20% duty to 10%, which was effected in January 2007, has made redundant an EPA liberalization schedule. It also means that there is limited room for any further liberalisation upon the signing of the EPA.

Social impacts from import liberalisation upon the signing of EPA, is therefore expected to be negligible although the social impacts of liberalisation per se will likely be significant. The liberalisation process, however, has already begun, while the EPA is yet to be finalized. Needless to say, then, the EPA will be founded on the ideology of liberalization already put in place by the Solomon Islands Government. But since the proposed EPA has not so far, and expectedly will not in the near future, be driving the liberalization agenda, the impacts of trade liberalisation fall outside the scope of this report. The stated social impacts of free trade listed earlier, therefore, do not fall as part of this report.

#### **4.2 Social Impacts II: Exports into EC and Land Disputes**

The duty free import of Solomon Islands products into EC countries offers a major boost to SI exports into EU. However, given the structure of the SI economy, and the lack of any clear current scheme for the development of resource-based value-added industries, the potential for the SI to benefit from increased exports to the EU under an EPA may, in reality, be relatively limited. This may change under the EPA, but on the basis of the policy package now, and the agricultural and industrial development levels achieved now, there is limited potential for significant gains from exports to EU by the Solomon Islands.

Primary products could enter into EC, subject to meeting the EU's sanitary and phytosanitary requirements which are stringent. As for processing of primary resources within SI, considerable provision has been made in the draft negotiating document of PACPs on this. Chapter 5 of the draft, which deals with agricultural development, requires each country to develop an agricultural development strategy which may include agro-processing projects. These strategies need to be adopted by the Partnership Committee established under the EPA. Article 5.6 of the draft provides that the cost of implementation of the adopted Agricultural Development Strategy is to be paid out of a fund established under the EPA. The provision for the establishment of this fund is made in Article 9.6 of the draft.<sup>20</sup>

The potential for agricultural development and agro-processing in the Solomon Islands is not only significant, but is expected to rise significantly after the EPA. The EPA creates a significant agricultural development financing window which could be utilized by Solomon Islands to escalate its agricultural development.

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<sup>20</sup> This article establishes numerous facilities; these are: Trade Facilitation and Promotion; Agriculture; Service Provider Training; Services Regulatory Adjustment Assistance; Tourism; Small and medium enterprise financing; Micro-financing; Legal Assistance; Fiscal Adjustment; Structural Adjustment; and Fisheries.

However, there is one major issue that needs to be addressed as a matter of priority. This concerns land issues. This is a major development constraint in SI not only for agriculture development but for all development activities.

The Solomon Islands has gone through a turbulent period of civil unrest. The government has recently announced plans to introduce reforms into the land tenure system. But at this stage it is not very clear how this will be done. One issue, therefore, that has remained as a potential trigger for social conflict is land disputes, especially on Guadalcanal. A report by UNIFEM, to which the Government of SI also contributed, states that land issues

present a high level of risk in the Solomon Islands, especially given that this was one of the root causes of the tensions [1998-2001] which has not yet [2005] been adequately addressed.... Increasingly, land disputes centre on economic development and commercialization issues colliding with communal land ownership systems. With increasing population and labor migration in to Honiara certain to increase in coming years, land pressures seem sure to escalate around the capital without planning and prompt action.... One of the key contributing issues to the conflict [is]... associated with land is people's lack of information as to who own which land, which means that land disputes are not able to be resolved (UNIFEM, 2005: 6-7).

The report went on further to state:

Solomon Islanders still feel very close to their land, and these perspectives shape the way decisions are made. Many of the conflicts over land arise when natural resources from tribally-owned land are developed, pointing to a need for frameworks which allow for economic development to take place without increasing internal disputes. This is also linked to economic issues surrounding natural resource exploitation... (2005: 7)

UNIFEM recommended that there be put in place 'an adequate system of land recording to identify ownership', and the implementation of an undertaking in Townsville (finalized as the Townsville Peace Agreement) that there be a Commission of Enquiry into the manner in which people came to own all registered land (2005: 7)

**Mitigation:** The possible negative impact of stimulating agricultural development through the EPA can be mitigated by putting in place measures that address land issues. The exact measures need to be developed internally within Solomon Islands on the basis of thorough consultation and dialogue between stakeholders.

Another way to mitigate the negative social impact would be to put in place an effective and transparent policy on decentralisation of economic opportunities, especially agricultural development projects and aid funds associated with agricultural development under the EPA. Decentralisation outside Honiara as well on Guadalcanal and other provinces and islands is essential to reduce provincial and ethnic tensions. This will

reduce pressure on land in and around Honiara, as well as demonstrate to the landowners outside the greater Honiara area, the state's commitment to their advancement too.

### **4.3 Social Impacts III: Economic Growth, Disparities and Social Tension**

The positive spin-off to Solomon Islands from an EPA could be significant, especially in terms of stimulating agricultural development, and development in tourism. Economic growth is a necessary pre-requisite to development. However, in societies with latent ethnic conflicts and tensions, managing the distribution of benefits of economic growth is vital to maintaining social cohesion and peace. The potential for ethnic/provincial tensions in Solomon Islands rising on account of disparities in economic opportunities, and disparities in the distribution of economic growth is not non-existent. It is conceivable that given the experience of individuals during the past upheavals, public support for violence could be lower. Violence, localized or otherwise, however, cannot be totally ruled out in the presence of continuing and/or rising disparities in economic opportunities and mal-distribution of economic growth.

This force can become stronger if regional inequalities also reflect ethnic inequalities. Market forces tend to create and perpetuate regional inequalities. In the Solomon Islands, given that regions are associated with different ethnic groups, regional inequalities also generate ethnic inequalities. Thus, there is a need for an active role of the state in ensuring that the benefits generated for Solomon Islands are fairly distributed across regions.

Within Honiara, where hitherto most development has been concentrated, economic growth would see greater economic and employment opportunities for all people. However, even then, employment patterns, infrastructure provision (like housing, drainage, roads, and water supply), and utility provision (electricity, phone lines, internet facilities, etc) can become potent forces for escalation of ethnic conflicts.

Third, in societies with a history (and memory) of ethnic tensions, managing economic opportunities, especially in a place like Honiara, is vital. Opportunities to benefit from economic spin-offs resulting from EPAs should be equitably distributed, and processes for accessing such opportunities transparent and fair. Access to credit, raw materials, space for establishing business/commercial enterprises, provision of inputs (like roads, water supply, etc), markets, subsidies, concessions, duty exemptions, licenses, etc. are all important variables that form perceptions of people. If there emerges a perception that there is differential treatment of certain ethnic groups, resentment is bound to fester and ethnic tension to escalate. Affirmative action may be necessary to ensure equitable access.

**Mitigation:** Concerted effort needs to be made to ensure that economic opportunities generated by an EPA are fairly distributed across regions and ethnic groups. It becomes the responsibility of the state to decentralize economic opportunities regionally and provincially. It also becomes the responsibility of the state to continuously monitor the economic progress of various regions and ethnic groups, and the provision of

infrastructure development and of utilities, both among the provinces, and between the capital and the provinces. Managing an economic boom is equally important and as crucial in multi-ethnic societies as managing scarcity.

EPAs can generate considerable economic growth and spin-offs, as well as considerable inter-ethnic and/or inter-regional inequality. This can be an important factor in generating tensions, conflicts and violence in multi-ethnic societies.

It is also vital that consideration be given for a provision in the EPAs for the creation of a regional fund and institutions to assist states, including Solomon Islands, in ensuring that the benefits of growth and development are equitably distributed spatially and ethnically. Provision could also be made in the EPA for a fund from which individual PACP members, including Solomon Islands, can draw to put in place measures that would minimize, if not eliminate, ethnic rivalry and tension in the country.

#### 4.4 Social Impacts IV: Natural Resources and Governance

The draft negotiating document is silent on forestry and fisheries. Both these industries are important for Solomon Islands. The Solomon Islands has a bilateral approach to fisheries agreements. The EC also, apparently, prefers bilateral rather than multi-lateral fisheries agreements. In January 2004, the EU initiated negotiations with Solomon Islands on a bilateral fisheries partnership agreement, which subsequently came into force in the first half of 2006.

Although the EU now has bilateral fisheries agreements with three PACP states (Kiribati and FSM being the other two), there is a strong view in the region that the PACPs should stand together on fisheries issues in the context of EPA negotiations, and seek a Multilateral Fisheries Partnership Agreement with the EU, subsidiary to the EPA. A major problem for resource industries has been inadequate monitoring of resource extraction. Tuna fisheries has a long history of poaching and under-reporting of fisheries catch but both the regional vessel monitoring scheme and the regional monitoring of tuna stocks over the years have helped protect the region's tuna fisheries, and improved management systems are to be introduced from December 2007. However, the problem of poaching still has not disappeared.

Thus, while bilateral agreements may produce greater economic return to individual countries in whose waters the fish largely occur, such as Solomon Islands, it will not help sustain the fishery. In the absence of adequate policing of vessels and monitoring of stocks which can only be undertaken regionally, the sustainability of the region's tuna fishery would be put at great risk. These issues are discussed in other parts of this report which consider the prospects and risks of expanded fisheries development under a subsidiary multilateral fisheries partnership agreement to the EPA.

For forestry, sustainability issues in Solomon Islands have become major areas of contention. A recent report (AusAID, 2006) holds that present levels of natural forestry extraction is unsustainable, leading to potential loss of food and other livelihood sources

for rural communities, loss of employment, loss of foreign exchange earnings, loss of government revenue and reduced rural opportunities.

UNIFEM has argued that heavy reliance on natural resources has tended to create poor governance, corruption, and social conflict (2005: 9). Circumstantial evidence suggests that this has been true for Solomon Islands at different stages of its political evolution.

The forestry sector is absent from the EPA framework. Whether the EPA mechanism can be used positively to provide incentives for sustainable logging, and resource conservation and reforestation, and to check against bad governance, corruption and associated social conflicts is worth considering by PACP states.

**Mitigation:** The benefits of bringing fisheries and forestry under the EPA need to be carefully appraised. In both sectors the EU has strong interests in the natural resources that Solomon Islands has, although these interests have been made more apparent in respect to fisheries. The Cotonou promise that no ACP country should be worse off under an EPA than under the present arrangements should guarantee that the same or better will result from an EPA. But the reciprocal basis of the EPA could simply see Solomon Islands providing access to a new category of natural resource investors, resulting in increased extraction and greater risk of resource depletion.

It is important that as a first step, both fisheries and forestry be brought under the provisions of EPAs, with guarantees that the country will receive no lower benefits from a regional agreement on these industries than it is getting now. Should a subsidiary MFPA be negotiated and forestry be brought into the EPA, equivalent provisions to those proposed for agriculture, should be put in place for both fisheries and forestry sectors. In addition, some provision of resources under the EPA should be made for both regular and independent monitoring of the health of both of these resources, and to support the regeneration of forests and fisheries resources for their sustainable utilization. At the national level, state involvement should ensure that both regional and ethnic disparities arising from increased forestry and fishery exploitation are minimized.

#### 4.5 Social Impacts V: Government Expenditure

Ultimately, in any situation where policies or activities lead to adverse social impacts, it becomes the responsibility of the state to mitigate these adverse impacts and/or to correct the damages so caused. These activities consume public funds. To take care of adverse social impacts, the state could consider the following three approaches:

1. Incorporate into the EPA financial provision for both independent monitoring of EPA impacts and for the introduction of mitigation measures including new regulatory controls where necessary.
2. Establish a participatory process involving NGOs, community organisations and representatives of the private sector for ongoing independent monitoring of EPA social impacts, with responsibility for regularly reporting to government;

3. Take a proactive policy stand in ensuring that the gains from EPAs are distributed fairly by region and ethnicity.
4. Target a certain percentage of public expenditure to address (or mitigate) the adverse impacts of the EPAs

## **5.0 Conclusion**

The position of Solomon Islands Government on EPAs is still in the formative stage. Consultations with all stakeholders in the country have not commenced. It is vital that such consultations commence as early as feasible. It is through such consultation that an avenue for recognizing and monitoring social impacts can be established.

In large measure the extent and nature of social impacts of a possible EPA depends on how well the benefits that the Solomon Islands expects to receive from EPAs will be managed. On the basis of the draft negotiating document of the Forum Secretariat, the Solomon Islands is well positioned to gain significantly from the trading partnership agreement. However, to realize these gains, the Solomon Islands needs to put in place policies, especially in agriculture, that will advance Solomon Islands' long term interest. These potential gains need to be most carefully managed.

It is also vital that a permanent institutional mechanism be established for continuous and ongoing monitoring of social impacts of EPA. Preferably such a mechanism should be one in which NGOs, community organisations, trade unions and the private sector are represented, but it is suggested that the Unit be established either in the PM's Office or the office of the Finance or Trade Minister.

<b>APPENDIX: Tab S-1: Solomon Islands Selected Economic and Social Development Indicators</b>		
<b>Indicator</b>	<b>Value</b>	<b>Year</b>
<b>Physical Geography</b>		
Land Area (km <sup>2</sup> )	28,370	1999
Exclusive Economic Zone (million km <sup>2</sup> )	1.3	
<b>Population</b>		
Total Population	533,672 409,042	2006 1999
Population Density (people/km <sup>2</sup> )	13	1999
Annual average population growth rate (%)	4.4 2.8	2006 1999
Crude birth rate	36	1999
Crude death rate	9	1999
Rate of Natural Increase	27	1999
Total fertility rate	4.8	1999
Population distribution by broad age group (%): 0 – 14 yrs 15 – 59 yrs 60+ yrs	41.5 53.4 5.1	1999
Dependency ratio (persons dependent on 100 working persons)	72 87	2005/6 1999
Sex Ratio (male per 100 female)	106 107	2005/6 1999
Average household size: Urban Rural Overall 2006 Overall 1999	6.9 6.0 6.2 6.3	2006 2006 2006 1999
<b>Economic Indicators</b>		
<b>National Income</b>		
GDP Growth (Real): Total GDP (%) GDP per capita (%)	6.1 10.4	2006
<b>Employment</b>		
Formal Employment (%): Total Male Female	23 31 15	1999
Unemployment rate* (%): Total Male Female	11 65 35	1999
<b>Prices</b>		
Honiara Retail Price Index (% annual increase): All Items Local items Imported items	7.6 6.6 8.9	2006
<b>International Trade and Finance</b>		
Commodity Exports (fob): % Commodity imports (fob) Growth (%)	78.0 17.8	2006
Trade Balance : Balance \$m % Total trade	-112.1 12.1	2006
External Reserves: Total \$m Growth (%)	782.9 9.2	2006
Import cover (months)	4.3	2006
External Debt: Total \$m Growth (%)	1552.6 4.7	2006



<b>APPENDIX: Tab S-1: Solomon Islands Selected Economic and Social Development Indicators</b>		
<b>Indicator</b>	<b>Value</b>	<b>Year</b>
Government External Debt: Total \$m	1365.1	2006
% Total external debt	87.9	
Growth (%)	5.5	
Arrears (%)	38.0	
External debt per capita \$	3141	2004
Foreign Direct Investment \$m	141.7	2006
Foreign Aid (Grants): Total \$m	\$281	2006
<b>Money and Credit</b>		
Commercial bank interest rates (Wtd Av.): Lending rate (%)	13.7	2006
Deposit rate (%)	0.9	
<b>Government Finance</b>		
Government Revenue: Total \$m	946.2	2006
Growth (%)	21.2	
% Government expenditure	38.5	
Government Expenditure: Total \$m	911.1	2006
Recurrent expenditure % Total	90.4	
Recurrent expenditure growth (%)	36.2	
Payroll % Recurrent expenditure	27.3	
<b>Social Indicators</b>		
<b>Health</b>		
Life expectancy at birth (years): Total	61.1	1999
Male	60.6	
Female	61.6	
Infant mortality rate**	66	1999
Child (under 5) mortality rate**	73	1999
Maternal mortality rate**	184	2004
Malnutrition in children under 5** %	23	1989
Malaria Incidence (per 1000 population)**	190	2004
Tuberculosis cure rate (%)	72	2003
HIV AIDS positive cases detected (cumulative): Total	5	2004
Male	2	
Female	3	
Disabled population (%)	2.7	1999
Total	2.7	
Female	2.5	
Marital Status; Divorced Rate	0.3	2005/6
Housing: Traditional Houses (%)	45	2005/6
Thatched/traditional/corrugated iron/improvised: Urban	17.2	
Rural	61.5	
Total	55.2	
Water Supply: Pipe into House	21.8	2005/6
River/Lake/creek	16.2	
Toilet Facilities: Flush	15.1	2005/6
Pit	21.8	
Closet over sea/water	40.8	
Income Distribution: Gini Co-efficient (0 if equal distribution): Rural	0.316	2005/6
Urban	0.286	
Overall	0.361	
<b>Education</b>		
Adult literacy rate (%): Total	77	1999
Male	83	

<b>APPENDIX: Tab S-1: Solomon Islands Selected Economic and Social Development Indicators</b>		
<b>Indicator</b>	<b>Value</b>	<b>Year</b>
Female	68	
Net enrollment ratio – Primary (%): Total	80.7	2004
Male	81.5	
Female	79.9	
Net enrollment ratio – Secondary (%): Total	19.4	2004
Male	20.6	
Female	19.0	
Boys: Girls Enrolment (%) **: Primary	88.6	2004
Secondary	79.4	
Student teacher ratio: Primary	25.2	2004
Junior Secondary	24.9	
Provincial secondary	26.2	
National Secondary	17.2	
Primary survival rate to Standard 6 (%) **: Total	76	2004
Male	79	
Female	72	
Transition rate from Standard 6 to Form 1 (%): Total	63	2004
Male	64	
Female	63	
<b>Gender Equality</b>		
Share of women in population (%)	48.3	1999
Share of women in parliament (%) **	0.0	2005
Share of women in administration and managerial jobs (%)	16.7	1999
Share of women in non agriculture wage employment (%) **	30	1999
Share of women in Permanent Secretary posts in government (%)	20	2005
<b>Human Development</b>		
Human Development Index	0.624	2004
Ranking (out of 177 countries)	124 <sup>th</sup>	
Human Poverty Index	23.2	2002
* Defined as people seeking paid work ** Millennium Development Indicators (Sources: Dept of National Planning and Aid Coordination (2005), 'National Economic Recovery: Reform and Development Plan, Implementation Report Sept 2005'; Solomon Islands Statistics Office (2006) 'Household Income and Expenditure Survey'; and Central Bank of Solomon Islands).		

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## Persons and Institutions Interviewed

Person	Position	Organisation
Aoron R Olofie	Director	Social Welfare Division

George Kiriau	General Secretary	Church of Melanesia
David Maputu	Assistant Gen. Secretary	Church of Melanesia
Julia Tijaja	Trade Policy Analyst	Ministry of Trade
Jacob Zikuli	Program Manager	Live and Learn
Bruce Saunders	Executive Member	SI Chamber of Commerce
Amos Lapo	Director of Nursing	Ministry of Health
Mrs E. Fanega	Deputy Director, Nursing	Ministry of Health
Donald Marahare	Natural Resources & Rights Officer	Oxfam International
Shadrach Fanega	Secretary for Finance	Ministry of Finance
Lynette da Wheya	Deputy Director	Foreign Investment Division
Derick Aihari	Director	Foreign Investment Division

### **Case Study 3**

## **Fiji: a country likely to experience adverse gender impacts Goods Agreement (sugar and garments) and Services (Mode 4)**

### **1. Introduction**

Fiji is one of four Pacific ACP states which are members of the World Trade Organisation (WTO). Fiji joined the WTO in 1995. It is also an original member of the ACP group of states and was closely involved in the first negotiations on the Lomé Convention under which Fiji's sugar exports have long enjoyed preferential access to the EU market. Fiji is party to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), signed in 1981 between Australia, New Zealand and countries of the South Pacific Forum, which gives Forum Island Countries duty free access for their products to Australian and New Zealand markets, provided they meet their "Rules of Origin" criteria. Under the preferential market access afforded through SPARTECA, Fiji's textile, clothing and footwear industries enjoyed a major boom after the mid 1980s and into the 1990s. Australia is Fiji's biggest trading partner (about 60% of Fiji's total trade is with Australia) and the USA was a major market for Fiji's garment exports until December 2005.

Fiji is signatory to a number of bilateral and regional agreements. It has non-reciprocal Bilateral Trade Agreements (BTAs) with Tonga (since 1995), Tuvalu and the Cook Islands (since 1998) and reciprocal BTAs with Papua New Guinea (since 1996) and Vanuatu (since 1998). Bilateral negotiations have also been initiated with the Solomon Islands, New Caledonia, Kiribati, Nauru, and Samoa. Two bilateral trade agreements have been signed with China, one in 1997 under which Fiji enjoys MFN status, and another specifically on agriculture signed in 2001.

Fiji also has bilateral trade agreements with the USA (on textiles) signed in 1995 and with Australia (the Fiji-Australia Trade & Economic Cooperation Agreement - FATERA) signed in 1999.

Fiji has been a member of the Melanesian Spearhead Group (MSG) since 1998, and is therefore party to the MSG Trade Agreement, under which trade in more than 200 goods is duty free. Fiji has ratified both PICTA and PACER.

### **2. Overview of economic and social indicators**

Fiji is one of the more developed South Pacific economies. It has long enjoyed a strong export agricultural sector, dominated by the sugar industry which has benefited for many years from preferential access to the EU market under the Lomé Convention, a relatively well developed garment textile industry, which has benefited from preferential access to Australian and New Zealand markets under SPARTECA a well developed tourist industry and market, relatively good communications and transportation systems and infrastructure.

Fiji relies heavily on agro-industrial based sectors to provide much needed revenue and foreign exchange earnings. Its primary revenue earner has long been sugar but the

industry has been plagued with numerous problems for the last six or seven years due to the expiry and non-renewal of agricultural land leases, the erosion of preferential prices, and milling inefficiency. A major restructure is currently in train but the imminent cessation of preferential access to the EU market, the largest for Fiji's sugar exports, will seriously affect the industry's future prospects.

Tourism is now Fiji's main foreign exchange earner and continues to play a large role in stabilizing government finances. Though the industry is vulnerable to political upheavals, it has generally shown a propensity to bounce back. It is estimated that over 400,000 visitors come to Fiji every year. Recent expansions in the hotel/resort industry suggest that it will continue to be a mainstay of the economy, although some proposed developments have been put on hold by the Interim Government. Tourism is a major employer. In 1999, the tourism sector employed a total of 20,337 people, 13,068 of whom were men, and 7,269 women (Rokosuka, pers. Comm.).

In the last decade or so, remittances from migrant and temporary overseas workers (particularly peacekeepers, private security contractors and nurses/care workers) have become a major source of national income, as indicated in the following tables. According to the World Bank (2006), Fiji's remittances now amount to almost 6.2% of GDP.

#### **Rising Importance of Remittances in Fiji (Narsey 2004)**

Year	Total Remittances (\$m)*	Remittances as % of		Merchandise exports (\$m)		
		Merch. Imports	Merch. Exports	Sugar	Gold	Textiles
1993	36	7	4	259	58	-
1994	42	8	5	267	51	51
1995	43	7	5	280	54	26
1996	46	7	5	300	73	50
1997	59	11	6	169	47	88
1998	64	10	7	173	46	93
1999	47	7	4	303	37	88
2000	92	14	9	284	41	87
2001	175	31	18	214	43	67
2002	212	37	19	241	44	29
2003	231	43	19			

#### **Trends in personal remittances in Fiji, 1993–2004 (Reserve Bank of Fiji, 2005)**

Period	Total Personal Remittances (\$F million)	Annual Average Rate (\$F million)	Change %
1993–99	344.32	49.2	+38.4
2000–04	1,023.50	204.7	+218.3
1993–2004	1,367.82	114.0	726.2

Fiji's growth has been erratic and has been prone to slumps due to the political instabilities the country has undergone. The average economic growth attained from 2001-2005 was 2.4% (RBF). The loss of preferential access under existing trade agreements has been a major factor for this weak growth, in addition to slow reforms, socio-political issues, and the general downturn of the national economy. While Fiji is a heavy importer, its exports are not doing well and this has seen a rise in national debt levels. Government debt is slightly over 50% of total GDP and this reflects a serious problem with the manner in which State finances are being handled. Fiji's public service is a major area of State expenditure and is currently undergoing reforms and restructuring in order to downsize the bureaucracy and trim public sector spending.

Many of the traditional industries such as sugar, gold, timber, fisheries, textiles and tourism have shown a dramatic decline in performance and revenue. The removal of preferential market, coupled with changes in ownership (in the case of the gold-mine) and internal socio-political problems have all played havoc with once thriving industries. Investments thus far have been quite slow – standing at 13% -16% of GDP - but the State is targeting investment to be 25% of GDP, an increase of nearly F\$350 million dollars between current and targeted investment levels (Narube, 2006). An issue that needs to be examined is the level of investment by state-owned enterprises which amounts to half of the total investment value compared to other forms of domestic and external investments. ICT and Animation/Audio Visual theme parks have been setup as well as tax concessions introduced to encourage investors. Unfortunately, investor reactions to these have been slow primarily due to the December 2006 coup and the sanctions which have been put in place by the international community.

Fiji's Textile, Clothing and Footwear industry enjoyed a major boom following the removal of TCF quotas by the Australian Government in 1987, allowing Fiji products quota free and duty free access to the Australian market under SPARTECA, and the introduction of a Tax Free Factory/Zone (TFF/TFZ) Scheme by the post-coup government in Fiji in 1988. The introduction of the Australian import credit scheme in 1991 also helped propel the industry's growth. Following the establishment of the WTO, changes to SPARTECA were made (the SPARTECA TCF Scheme) to allow exporting companies 'to utilise Excess Local Area Content (ELAC) from certain SPARTECA qualifying TCF goods to help meet the 50% content requirement in otherwise non-qualifying Eligible Goods.'<sup>21</sup> Although these changes will remain in force until 2011, Fiji's garment industry is in decline – the number of workers has been halved since 2005.

Fiji suffers from similar chronic problems faced by other Small Island developing or underdeveloped nations such as weak internal socio-economic environments, small labor markets, brain-drain, unsteady economic growth, fluctuating political climate, external problems of dependency and competition. To further compound problems, Fiji has suffered four military coups in less than twenty years and each of them has undermined the country's advances in human and socio-economic development. The cumulative

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<sup>21</sup> ELAC is only derived where a product's LAC exceeds 70%. Similarly, ELAC can only be used where a product's LAC is greater than 35%, and where there is a last process of manufacture performed in the FIC.'

effects of the four coups may be said to have set Fiji back some 20 years. In response to the most recent coup, international retribution has been swift, with the imposition of stiff sanctions and the suspension of aid and technical assistance by New Zealand setting the pace for other donors.

In the already depressed state in which the Fiji economy currently lies, the EPA if not negotiated carefully especially in respect to the removal of subsidies and protections could inflict more hardship and cause the closure of some small industries, with resulting loss of employment for citizens whose survival depends directly and/or indirectly on them.

Most land in Fiji is held under customary ownership and cannot be alienated. According to the Native Lands Trust Board (NLTB), which administers leases of native land, “native land comprises 87 per cent (87%) or 1.5 million hectares of the land mass in Fiji. State land is nine per cent (9%) or 145,000 hectares. Freehold land comprises eight per cent (8%) or 142,000 hectares” (NLTB, 2007). The problem of insecurity of tenure, especially for agricultural leases, remains a major problem in Fiji and an obstacle to reviving sugar production and developing the agricultural sector in general.

Large-scale, aid funded agricultural projects have not proved very successful. Fiji’s agricultural sector has been a casualty of the decline in state-led development, with agricultural extension work largely being discontinued and the Agriculture Department losing the research capacity and edge it once had (Wah Sing 2007). Despite neglect of subsistence agriculture, it is estimated to contribute about 40% of total agricultural GDP – an equal proportion to sugar’s contribution to the economy - and to be expanding despite an absence of funding and other support (Ibid). Subsistence agriculture contributes substantially to domestic food security, foreign exchange saving, and export market supply (of taro, processed ginger, copra and kava). It also cushions the impacts of economic downturns (ibid).

In 1996, the Fiji Poverty Report recorded that 25% of the population were living in poverty (UNDP, 1997). Following two subsequent coups (in 2000 and 2006), the loss of cane farming livelihoods as a result of expiring agricultural leases, and the closure of the Vatukoula goldmine, this percentage would have increased significantly. Recent analysis based on the 2003-2003 household income and expenditure survey indicates that the poverty level in Fiji has risen to about 34 percent (Narsey, 2006). The mushrooming of squatter settlements around Fiji, mainly in peri-urban boundaries, reflects the swelling numbers of Fiji’s urban poor. In 2004, there were an estimated 182 squatter settlements in the country, with a total estimated population of more than 83,000. (Lingam, 2005). *Radio Fiji* reported the figures of 90,000 squatters and 184 settlements in September 2006 (cited in *Fiji Poverty Report: 2006*) and estimates from satellite imaging carried out by UNDP in 2006 for the 2006 Fiji Poverty Report indicate a rising trend.

“It is estimated that one Suva resident in eight is now a squatter. A number of the smaller squatter settlements are on marginal coastal land in, or adjacent to, mangrove swamps. Such settlements create great disruption in



the mangrove ecosystem, especially as a result of refuse and sewerage disposal and the cutting down of mangroves for firewood. According to the Fiji Poverty Report, 23.3 per cent of urban residents in Fiji use a pit toilet and 18.4 per cent use wood for cooking fuel. In coastal areas most of the wood comes from mangrove swamps.” (UNESCAP, 2007).

Fiji’s Human Development Index has slipped considerably, from 66 in 2000 to 81 in 2005. Fiji’s last census was carried out in 1996. Preparations are currently being made for the next census (which should have been held in 2006). Of the recorded population in 1996, 775,077, or 46%, were urban dwellers. The annual national population growth of 0.8% is outstripped by the annual urban population growth rate of 2.6% (Storey, 2006, 38). According to the World Health Organisation (WHO), life expectancy for the year 2005 for males and females at birth was 66 and 72 years respectively. Outbreaks of typhoid fever, tuberculosis and leptospirosis have been on the rise, and although drinking water is generally safe, there have been outbreaks of diarrhea related to cases of dirty water supply. . The State committed 4.6% of its total GDP expenditure to health in 2004 (World Health Statistics 2007, WHO; <http://www.who.int/countries/fji/en/>).

Males dominate most high-end pay bracket employment as well as positions of leadership (Leckie, 2000). Women remain under-represented in national and local decision-making fora and the incidence of gender-based violence is high, encouraged by low rates of prosecution, delays in hearing cases, and soft sentencing (Ali, 2007).

### 3. *Fiji and the EPA*

The parts of the PACP EPA that will be of most significance to Fiji are agriculture, fisheries and sugar and rules of origin (ROO) in goods, and labour mobility. The Fiji economy is already widely liberalised. It has low tariffs on almost all goods, it has already installed a consumption tax system, and has liberalised investment regulation in an effort to appeal to foreign investors.

#### Goods - Sugar

In 2006 raw cane sugar made up 92.47% of Fiji's export earnings to the EU (Eurostat, 2007; TradeMap, 2007), overall sugar is Fiji’s main export in goods and contributes to approximately eight per cent of GDP and 22 per cent of total exports (Lal and Rita, 2005:21). Fiji’s sugar industry survives on the Sugar Protocol which gives it stable export prices of about 2-3 times that of world market prices and guaranteed import quotas into the EU market (Lal and Rita, 2005:18).<sup>22</sup> Fiji is currently an inefficient producer of sugar, and sugar subsidies are basically a global poverty alleviation scheme. Loss of the sugar protocol puts the income of 200,000 people in Fiji or 25 per cent of the population at risk.

It is currently unclear, though unlikely that sugar will be included in the EPA. The Fiji government position is that the Sugar Protocol should be included in the EPA, and that Fiji must safeguard the current benefits of the Sugar Protocol, the government also underscores the point that the Sugar Protocol is legally binding (Mataitoga, 2007).

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<sup>22</sup> Fiji has also benefited from the Special Preferential Sugar arrangement which gave additional quota at a lower price than the Sugar Protocol from 1995 to 2006 (ibid, 19).

Approximately 59 per cent of Fiji's sugar production is sold through the Protocol. Fiji has focused more on policy lobbying than addressing industry issues to keep sugar as a competitive export (Lal and Rita, 2005). Currently Fiji produces an average industry yield of 42 tonnes per hectare, previously it has produced at around 75 tonnes per hectare, global competitors such as Brazil produce at around 80 tonnes per hectare (Mataitoga, 2007a).

There are three parts to the Fiji Sugar Corporation sugar reform. First a mill upgrade programme financed by the Indian Government seeks to increase mill efficiencies and increase sugar extraction, increase sugar quality, introduce environmental conservation measures and address environmental issues of river and ash pollution. The reform will also address cane growing. Currently Fiji produces 3 million tonnes but it should be producing 4.2 million tons. And thirdly, diversification following Brazil's model of using cane to produce both sugar and ethanol (Sharan, 2007). Sharan identified the key barriers to sugar production as distance to EU markets, difficulty in being able to break even at world price of \$135 per ton (Fiji currently sells at \$246 per ton), political complexities of growing in Fiji, as well as the fact that approximately one third of the farmers are producing inefficiently on small, 100 tonne lots.

Under article 36.4 of the Cotonou Agreement a joint review was conducted of the Sugar Protocol with a view to safeguarding its benefits for the ACP. The Thornhill Report commissioned by the ACP clarified the benefits obligated under Article 36.4:

Guaranteed access for agreed quantities, a guaranteed price negotiated annually within the range of prices obtaining in the EU, the taking into account of all relevant economic factors, indefinite duration, exemption from the safeguard mechanism, and the obligation of the EU to be the buyer of last resort.  
(Mataitoga, 2007:4)

The EU has proposed a transitional offer to bridge the current Sugar Protocol into the EPAs (Mataitoga, 2007).

- From 2008 to September 2009 the Sugar Protocol would continue with guaranteed prices, Fiji would have additional market access as an ACP non-LDC party to the protocol, and an unspecified increased Protocol tonnage for 2008/9.
- In the second phase October 2009 to September 2012 the EU would still maintain a set price level for imported ACP sugar, with a volume safeguard clause for non-LDCs.
- From October 2012 to October 2015 pricing for sugar would change but based on the current price information system
- October 2015 onwards sugar would be duty-free, quota-free subject to a special safeguard clause.

Mataitoga critiques the fact that the price guarantees are only up to 2012. He argues that the prices should be guaranteed until the end 2014/15 as ACP sugar countries are currently restructuring their sugar sectors to be competitive at the new EU price level of €335 per tonne raw.

The EU transition offer protects current prices until 2009, from 2009-2012 it commits to a set price (though not at current rates) and volume safeguard. Between 2012 and 2015 there would be a further modification of price, then going duty and quota free from October 2015.

### *Impact of loss of Sugar Protocol*

Research by Lal and Rita argues that the magnitude of impact of loss of the Sugar Protocol will depend on current level of efficiencies in the industry (2005:23). Lal and Rita calculated the number of farmers whose farms would become non-viable,<sup>23</sup> due to sugar price drops, based on a 2005 survey of farmer profile and farm profitability (Lal and Rita, 2005a). In the 2004-05 season nine per cent of farms already had gross margins of zero or less, meaning they were subsidising cane losses with other income.

#### **Decline in numbers, output and area following decline in Protocol prices by 25 and 39 per cent.**

Protocol scenario	No. of all growers with negative/zero gross margins	Area (hectares)	Sugarcane output (tonnes)	Sugar output (tonnes)
Price decline 25%	3,997 (23 per cent)	11,946 (19 per cent)	376,999 (14 per cent)	41,202 (14 per cent)
Price decline 39%	7,323 (42 per cent)	24,130 (40 per cent)	854,645 (33 per cent)	93,404 (33 per cent)

Bracketed figures reflect percentage of the expected 2003 statistics.

Source: Lal and Rita (2005:31)

It is the farmers with small production that have the highest unit cost and produce least efficiently that will become non-viable first. Lal and Rita look at tonne yield classes of <35, 35-50, 50-85, and >85 tonnes; their analysis shows that farmers in the <35 tonne yield class have by far the highest percentage of becoming financially unviable at both a 25 per cent and a 39 per cent price cut. At a 25 per cent price cut, 43 per cent of growers at 35 tonnes per hectare yield class will become financially unviable compared with only 19 per cent in 35-50 tonne yield class and only 10 per cent in those producing over 50 tonnes per hectare yield. At the 39 per cent cut it is 65 per cent for 35 tonne yield class, and 26 per cent for the 35-50 tonne yield class. (Lal and Rita, 2005:32)

The poverty implications of price cuts in sugar will have a huge impact on the livelihood of cane farmers and cane cutters, and their dependents, as well as the economy of Fiji. What Lal and Rita's analysis shows is how essential efficiency is in managing the magnitude of the impacts, their findings show the significance of factors such as total throughput, milling efficiency, the quality of cane (Lal and Rita, 2005:25) as well as factors at farming level such as farming efficiency, farming management, the use of family or hired labour, family-owned or hired bullocks and tractors and land quality (Lal and Rita, 2005:30). All these factors are reflected in the FSC concerns outlined above. Therefore the more cane farmers that can be assisted to farm efficiently the fewer that will need to be resettled in other areas or assisted into other income sources.

<sup>23</sup> Non-viable defined as a gross margin of zero or less than zero for cane income less farm cash costs.

Apart from the social implications of loss of employment, GDP, and the expense of resettling farmers and finding new tenants for land leases, some cane farming practices also raise several environmental concerns. Three key concerns are farming on marginal land. Traditionally cane plantations have been on flood planes, where floods replenish the soil with nutrients. An impact of the Sugar Protocol expanding opportunities for sugar exports was increased land use for cane farming. This resulted in the use of marginal land, such as steep land, with implications of erosion, and soil fertility problems, with consequential use of chemical fertilisers and pesticides (Kumar and Prasad, 2004) Furthermore as land tenure issues and land lease expirations have created uncertainty for farmers, there has been little incentive for the adoption of sustainable farming practices.

Sugar liberalisation is in the pipeline and adjustment to liberalisation is necessary. Twenty-five per cent of Fiji's population is directly dependent on cane farming for income and it is responsible for eight per cent of Fiji's GDP. In an economy where other key exports are dwindling loss of income from sugar will have widespread effects. The Fiji government believes that its inclusion in the EPA will help protect safe guards better due to article 36.4 of the Cotonou agreement. Cane yield per hectare, efficiency of farming and milling, and quality of outputs is crucial to the future of the sugar industry. The development component in the EPA can be put to important use and work with existing initiatives to assist farmers and FSC to increase efficiency and quality of outputs in a sustainable way that strengthens initiatives to address environmental and sustainable farming concerns. One of the things that can be actively sought is the diversification of the industry, particularly in the area of ethanol fuel. Bio-fuel is becoming an increasingly popular venture globally with several countries already ventured into this area. With sugar still being a backbone industry of this country and with global exports and prices falling, diversification into other areas is not only conducive but it also has tangible benefits in procuring an environmentally friendly product which can be an alternative to fossil fuel.

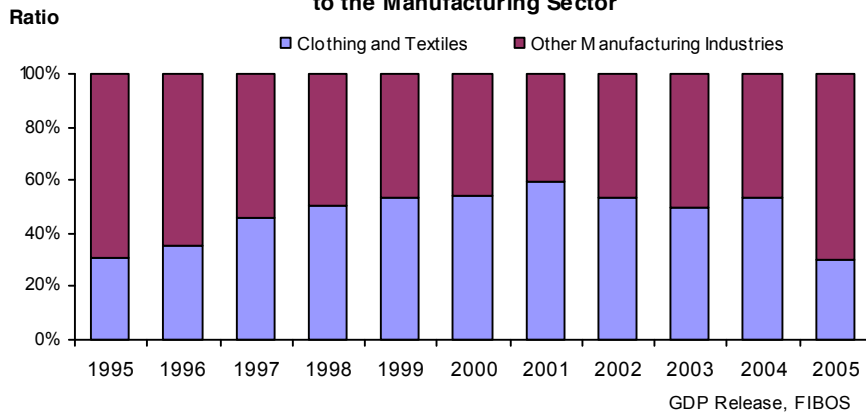
### **Goods – Garments**

Fiji's second most significant export in goods is garments<sup>24</sup>. Like sugar, the expansion and success of the garment industry especially in its early days in the 1990s was protected and facilitated by tax-free concessions and preferential trading arrangements, primarily under SPARTECA. In 1985, before the Tax Free Zone/Tax Free Factory system was introduced, the sector was only producing \$2.5 million. By 1997, garments had surpassed sugar as the main export (Storey, 2003:4). Garment production as a percent of total manufacturing peaked in 2001, netting \$188 million. Clothing and textiles accounted for about 60 percent of all production in the manufacturing sector that year (Figure 1) and close to 6 percent of the Gross Domestic Product (GDP).

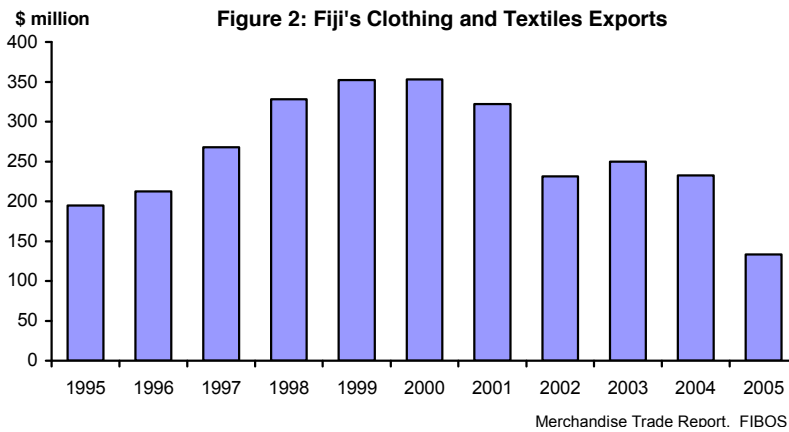
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<sup>24</sup> For a detail analysis of the contribution of garment industry to Fiji's economy see Narayan, P.K. and Prasad, B.C. (2003).

**Figure 1: Fiji Ratio of Clothing and Textiles Industry to the Manufacturing Sector**

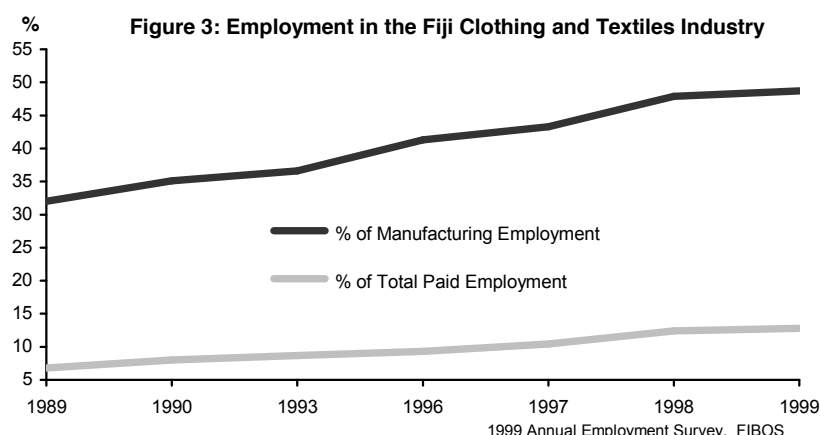


In terms of exports, the peak was recorded a year earlier in 2000, when clothing and textile exports reached \$353 million (Figure 2). This represented about 31 percent of all merchandise exports putting it in the top three categories of Fiji’s exports.



Since the early 1990s, the clothing and textile industry has been a major source of employment for Fiji’s growing labour force. The contribution of the clothing and textiles industry to employment in the manufacturing sector rose from about 32 percent in 1988 to 49 percent in 1999. The contribution to total paid employment showed a similar growth trend from 6.8 percent in 1988 to 12.8 percent in 1999 (Figure 3). While wages in the industry may have been low, the industry did provide thousands of jobs to women who would otherwise have been unemployed. It has indeed been a significant employer of unskilled workers. Its future sustainability, however, is in no way guaranteed.

Indeed, since 2000, the industry has been in decline, partly as a result of the political upheavals that year. This has had serious consequences for the thousands of urban families who are or were dependent on garment industry wages.



The trade liberalisation policies of Fiji's largest trading partners, Australia and New Zealand, and the cessation of tax concessions on the domestic front, have the potential to wipe out the industry, unless policy makers and industry stakeholders recognise the need to re-organise the industry towards niche market production, and are able to improve its competitiveness.

The loss of the industry will almost certainly see a rise in poverty. Indeed, the halving of the workforce since 2005 will have already raised poverty levels. While the EPA is seen by regional policy makers as possibly offering some prospects for the industry, in terms of duty free access to quality fabrics from Europe, for high-end production and re-export to the EU market, industry representatives dispute this. Imported inputs for export garment production are already duty free in Fiji, and shipping schedules and high costs of transportation make it extremely prohibitive to export to the EU, which can source quality garments far more cheaply and easily from Africa (Halabe, 2007). This being the case, better rules of origin (ROO) under an EPA will have little impact on the industry directly, and could only improve opportunities for the garment industry through precedents set for agreements with closer markets in Australasia. As industry insiders see it, the only real prospect for rescuing the industry, lies in securing better terms for entry to the Australasian market under SPARTECA.

### **Services**

Fiji's main interest in services is labour mobility and development assistance to provide training to assist labour mobility. Currently labour mobility from Fiji is not coordinated rather it is organised through separate bilateral arrangements either by individuals or private organisations. Through labour mobility those with the opportunity can gain work experience and usually better work conditions and pay in other economies, however it poses a risk to national industry through loss of skilled trades-people and professionals, weakening the productive capacity of the economy. Research is currently being conducted as to where skills shortages are in the private sector in Fiji, but according to anecdotal evidence the key areas are nursing, hospitality particularly chefs, the construction industry in trades-people such as welders, carpenters, and electricians (Usamate, 2007). There is also labour mobility in the education sector to Australian and regional markets, and in security services through ongoing formal contracts with the UN

for peace-keeping work abroad and, since the war in Iraq, for privately- contracted security work in the Middle East.

Nursing is presently an area of national skill shortage, not least as a result of large numbers of nurses leaving for work abroad. The total number of nurses in Fiji at present is 1600. As the following table indicates, 795 nurses have left to work overseas since 1998 (FNA Nursing Statistics 1998-2007). As nurses and medical orderlies make up more than 65% of the total professional workforce in the health sector (FNA figures), the implications of such a large outflow for the public health system are enormous. The estimated cost of the loss through migration since 1998 is \$7,801,200 (FNA Nursing Statistics 1998-2007). The loss of nurses through natural attrition (retirement and mortality) has also been significant – 185 and 36 respectively, and in 2001 in an effort to try and cope with the loss, the retirement age was extended to 60 years. Concern was also recently raised about high mortality rates among nurses – 26 nurses have been lost to the service through early deaths since 2004 (Fiji Times, 2007). A high level of stress, from increased responsibility and increased workloads due to understaffing, is believed to be a contributing factor to the high mortality rate among nurses.

Income and conditions of work for nurses and orderlies are a major disincentive to remaining in the profession in Fiji. In 2005, for the first time in its history, the Fiji Nurses Association (FNA) went on strike for better pay and conditions, and in 2007 FNA went on strike again. The higher salaries paid to care givers abroad are proving a strong incentive for nurses to leave. In 2002, the starting salary for registered nurses was FJD\$10,920. After 12 years of service it reached FJD\$15,409 (FNA 2002: 62). About 87% of nurses fit into this pay scale. According to Rokoduru (n.d.) 90% of the nurses from Fiji who moved to Kiribati and the Marshalls to work were qualified staff nurses. On arrival in the Marshall Islands, they received a salary of US\$18,000, which at that time was equivalent to FJD\$40,000.

**Fijian nurses — salary levels by ranges by percentage of nursing positions, 2002.**

Fijian nursing positions and percentage of nurses in workforce in Fiji	Fijian salary range (FJD\$ approximate)	Marshall Islands salary range (FJD\$)
Staff nurses — 87%	\$10,920–15,409	\$40,659–56,471

Fiji Nursing Association 45th Annual General Meeting Report, March 2002:62.

The majority of nurses who leave to work abroad send regular remittances to their families but do not return to Fiji (Lutua, 2007). Those most able to emigrate in the current unmanaged context are the most skilled and experienced nurses. Most of them arrange their own employment abroad, through the internet, although there are recruiting agencies that visit Fiji to recruit, especially for aged care in nursing homes abroad.

generating economic activity rather than just consumption by those receiving the remittances. FNA also advocates that government should negotiate to remove bank fees on remittances as remittances should be encouraged into the Fiji economy.

NURSING STATISTICS 1998 – 2007									
Source: MoH and FNA Records/ Govt. Gazette Notice									
YEAR	RESIGNATION	RETIRED	MORTALITY	Estimate Migration 99%	Est cost Lost through migration	NEW GRADUATE	Est. Cost of Training new Graduates (\$10,000 per student)	Migration cost vs Training Cost	
1998	85	24	1	84	841,500	105	1,050,000.00	80%	
1999	129	17	2	128	1,277,100	114	1,140,000.00	112%	
2000	132	47	1	131	1,306,800	121	1,210,000.00	108%	
2001	133	5	3	132	1,316,700	131	1,310,000.00	101%	
2002	93	0	2	92	920,700	124	1,240,000.00	74%	
2003	41	0	1	41	405,900	143	1,430,000.00	28%	
2004	28	0	8	28	277,200	145	1,450,000.00	19%	
2005	79	2	8	78	782,100	148	1,480,000.00	53%	
2006	68	7	6	67	673,200	199	1,990,000.00	34%	
2007 (June)	15	83	4	15	148,500	170	1,700,000.00	56%	
<b>TOTAL</b>	<b>803</b>	<b>185</b>	<b>36</b>	<b>795</b>	<b>7,801,200</b>	<b>1400</b>	<b>14,000,000.00</b>		

Note

2005 – 2 Matrons, 3 Srn Sister, 2 Sisters, 2 Srn Tutors, 5 midwives, 1 Nurse Practitioner Tutor, 51 Staff Nurses

2006 - 58 Staff nurses, 8 Sisters and includes 2 expatriate staff nurses.

2007 - 2 Srn Sisters, 13 staff nurses

New Graduates include - average of 8 regional students

Total nurse establishment in PSC -1926 since 1995. Current workforce 1948/WHO Report-Regional Office for Western Pacific-2004)



The Fiji Nurses Association provides support in the form of an information pack for nurses before they sign contracts abroad. FNA notes the trend of nurses seeking additional educational qualifications, such as a university degree, to complement their nursing certificate primarily to be more marketable abroad. In 2004 a Sangam group set up a nursing school in Labasa to assist graduate nurses to emigrate abroad. Based on Fiji standards which are accepted in the region, graduates must sit the New Zealand or Australian registration exam (Lutua, 2007). FNA advocates for government to assist by providing a managed remittance scheme, for example a public fund that could be used for

Emigration of nurses weakens health care provision in Fiji. There is a knowledge and leadership gap in public sector healthcare as most emigrants are skilled and experienced nurses. This impacts healthcare delivery and quality, for example there may be inefficiencies and delays in service provision due to the need to cross-check decisions (Lutua, 2007). It also impacts on-the-job training because younger, less experienced nurses are without adequate leadership in the work environment (ibid). The service also suffers from severe staff shortages as the nursing school has not produced graduates in sufficient numbers to bridge the shortage created in the health system by the departure of nurses to take up care work abroad.

The construction industry is similar to nursing in Fiji as it has been weakened through emigration of skilled workers. Fiji has two options by which training is provided for trades-people in the construction industry. One option is via a two-year trade certificate course at the Fiji Institute of Technology and the second option is doing a four-year apprenticeship whereby three months annually are spent doing full-time study which is paid by their employer. According to TPAF apprenticeship numbers have dropped by almost half and it is only the larger employers that continue to invest in the system because they know the value of the training (Usumate, 2007). Financial constraints related to the wider economic context may also be responsible for fewer employers being able to afford the apprenticeship system (Naidu, 2007).

Industry perspectives believe that the sector is weak in quality skilled labour because this class of workers has emigrated to New Zealand and Australia, meaning that FIT graduates do not have skilled trades-people to work under and learn from (Naidu, 2007). This loss in skills has a significant impact on the industry. A recent example of the types of problems that occur was the stop in construction of a large five star resort as 36 units had to be retiled due to poor workmanship (Usumate, 2007). Also according to anecdotal reports multinational contractors such as Fletcher Construction are increasingly bringing in trades people from abroad to do work where previously they were sourced locally and only construction supervisors were brought in (Naidu, 2007). Fiji has several industry groups however these do not play a quality management role as in other countries. For example the Fiji Master Builders Association, Construction Industry Council, Fiji Institute of Engineers and Fiji Architects Association have not set up industry standards. In relation to the EPA temporary labour mobility scheme, additional skills training specific to the context of construction work in the EU, would be required for Fiji workers to be able to work in the European construction industry, as the skills most workers are

currently trained in would not be adequate in Europe, in terms of building codes and practices, tools, technology and materials used (Usumate, 2007).

In Fiji in the current situation, construction workers are vulnerable, and the industry struggles to provide quality workmanship. Construction workers can become a 'jack of all trades and master of none,' working as casual labour, on low rates, not receiving FNPF, vulnerable to layoffs and not gaining proper training through the work experience they do have, due to the vacuum in skilled and experienced labour and lack of industry standards as a framework to work in. There is little incentive for employers to invest in the apprenticeship system.

Fiji is experiencing a skills shortage, TPAF cannot fill national requirements. However in some sectors this is related to profitability, for tradesmen in construction, where those who are qualified and experienced can find better wages overseas. The Cook Island tourism industry takes fresh Fiji hospitality graduates. In the education sector and with nurses, government service providers are neither able to hire enough staff nor pay competitive global rates due to a growing government revenue crisis, and increasing balance of payments and trade deficit problems.

In regards to the EPA labour mobility proposal, Fiji citizens would be competitive in their ability to access and use the scheme. Most of the best training facilities in the region in tourism, construction, and health are located in Fiji; however in most industries it is likely that additional training would be required to meet European practices and standards. Fiji citizens also have a good standard of English; have better access to better quality of education than other Pacific Island states, and more Western cultural familiarity in comparison to some Pacific neighbours due to their well-developed tourism industry.

Fiji's experience of labour mobility so far is that those that can go and want to, are going; and that this has significantly weakened the sectors where shortage of skills are most serious. There are significant social implications in terms of rising numbers of solo parent households due to labour migration and labour mobility, the weakening impact of removing skilled and semi-skilled people from their communities and extended family structures. However it must also be kept in mind that labour mobility is an important safety-valve to relieve economic, social and political pressures especially during periods of instability. The intake of Indo-Fijians by New Zealand and Australia following both the 1987 coups and the 2000 overthrow of parliament was a significant factor in relieving political, racial, social and economic tensions.

The EPA proposal directly targets skilled and semi-skilled labour in sectors where Fiji is struggling to find workers. So the EPA labour mobility proposal would exacerbate present human resource shortages. There are three other factors that must be considered, however: The proposed PACP managed labour mobility scheme would be different from emigration in that workers would return under the scheme. Secondly, a key tenet of the proposal is the development of a training scheme to facilitate labour mobility to the EU market, and this is essential to the success of the scheme. Thirdly, there is a high level of

interest among people in Fiji to leave for better work opportunities abroad and this consideration needs to be balanced in policy alongside national industry interests. In Fiji's context, labour mobility should be facilitated in a safe way with the most positive benefits for all involved.

## 4. Discussion

### 4.1 Scenarios

The main issues for Fiji in the EPA are sugar, labour mobility, development assistance and Rules of Origin to the extent that it would impact trading relations with Australia and New Zealand. There are four different scenarios Fiji might face in relation to the EPA negotiations. First, is whether or not the sugar protocol would be included in the EPA. Inclusion of sugar is very unlikely, rather as outlined above there is a strategy for phasing out the sugar protocol in a separate process, through step downs in the preferential pricing and quotas to market rates by 2015. This plan also has adjustment funding to help with adjustment costs of small unprofitable farmers that would need to be transferred out of sugar farming, or to improve efficiency of farmers who could produce at globally competitive rates of efficiency and cost. If sugar were to be included in the EPA, it might result in some additional adjustment funding, though little in comparison to the amount that Fiji has already been allocated under the sugar protocol. In any case there is not indication at present that sugar would be included in the EPA.

Another option would be for Fiji to sign the EPA and the opt-in goods agreement with the reformed ROO. Improved ROO would have most significance for trading in the garment industry though not for trading with the EU but trading with Australia and New Zealand. Therefore improved ROO in the EPA would only be significant to the extent that it could impact improved ROO in garments with Australia and New Zealand. In this scenario Fiji would also have access to the proposed labour mobility scheme, as in a possible third scenario where Fiji could sign the EPA but not a goods agreement.

This significance of the labour mobility scheme in the EPA for Fiji would be the potential to better manage the existing unfettered labour mobility and to have a training component, funded from EPA development assistance, to better facilitate entry to the EU labour market. Labour migration has contributed to the weakening of key sectors including health care, construction, education and some areas of the tourism industry, though especially in the public sector much of the problem is related to lack of government revenue to adequately fund health and education for example. The labour mobility scheme targets areas where there are already shortages, though what it could contribute is repatriation of these skilled workers to the economy, where currently the trend is emigration and 'brain drain'. Furthermore by inclusion of this in the EPA, Fiji could access development assistance to help accentuate the positive benefits that come from temporary labour migration. Labour migration is already a common reality in teaching, nursing, defence forces, and other skilled areas where there are work shortages overseas.

A fourth scenario would be to not sign an EPA but to trade with the EU under GSP+ (Generalised System of Preferences plus). This is a contentious issue as it is currently

disputed whether or not Fiji has access to GSP+. Under the EU GSP+ regulations it is stipulated that membership to trade under GSP+ is closed until 2009, however it would be a simple matter for the EU to extend membership before then especially given commitments under the Cotonou Agreement. Therefore Fiji should have access to trade under GSP+, and would be able to trade all of its non-sugar goods under the scheme, including canned fish.<sup>25</sup>

## 4.2 Analysis

The magnitude of the social and environmental impacts depends on job losses and how transition in different sectors is managed.

### Measures to tackle the adverse impacts of liberalisation

Potential beneficial outcomes from the above scenarios include better management and facilitation of temporary labour mobility, potential improvements to the garment industry if improved ROO is extended to Australia and New Zealand.

Questions that need to be addressed in order to provide effective mechanisms of assessment and monitoring of the sustainability impacts of the EPA in the course of its establishment are: (1) Did the EU deliver on its commitments in the agreement in terms of resources, assistance, such as technical and financial assistance; as well as examining what conditions were applied and the impact of this, and an analysis of how funding was used. (2) Did the policies have the desired effect of facilitating labour mobility with the assistance funded training programmes, was trade in goods better facilitated through improved ROO, was there job creation or minimisation of job losses through the terms of trade in the agreement. (3) Did the facilitation of labour mobility improve the situation of families in Fiji, how has healthcare, teaching, and local industry especially in tourism and construction been impacted by the labour mobility scheme; did improved ROO benefit the manufacturing industry, analysis of employment for local people, analysis of changes in local income, analysis of creation of economic benefit, and (4) what were the social costs and impact on people and the environment as a result of the agreement.

Effective integration of the environmental and social dimensions in other policies would be required in the strategy for the sugar industry transition; labour market legislation and regulation especially in relation to temporary migration and policy on fulfilling industry labour requirements; export strategies, fisheries and agriculture.

A sustainable EPA for Pacific ACP countries requires awareness-raising, assistance and capacity building with stakeholders. This should have been done throughout the negotiations of the EPA pointing to the need for more time.

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<sup>25</sup> Another option would be to trade under GSP however Fiji could only trade 30% of its non-sugar goods under this agreement. GSP+ enables countries to trade a broader range of products than under GSP.

### 4.3 Conclusion

Fiji is facing several difficult transitions and balance of payment problems; the phasing out of the sugar protocol, the decline of the garment industry and the weakening of industry through labour mobility. Fiji's main interest in the EPA is labour mobility but with a training component. There is very little else in the EPA to attract Fiji to sign as sugar will most likely be excluded and improvement in ROO will have little impact on Fiji beyond the extent to which it impacts ROO with Australia and New Zealand.

This brings into question why Fiji would sign an EPA at all. If Fiji were to not sign an EPA they would face largely the same reality with sugar and reform of the sugar protocol, and largely the same reality with garments and labour mobility, except for the significance of development assistance and precedence setting for negotiations with Australia and New Zealand in PACER, however this underscores the point that Fiji should sign a beneficial EPA, or look seriously at alternatives in GSP and GSP+. The exclusion of sugar from the EPA highlights the significance of ROO for manufacturing and a temporary labour migration programme that would assist in better facilitate (through training) and better manage existing labour migration patterns, however the majority of Fiji's manufacturing export and labour migration does not occur between Fiji and the EU, but Fiji and Australasia.

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#### List of Persons Consulted for the study

- 1 Mr John Lee, Executive Director YMCA
- 2 Ms Kuini Lutua, Fiji Nurses Association
- 3 Mr Mark Halabe, MarkOne Apparel
- 4 Mr Rasik Lal Jogia, Association of Banks in Fiji
- 5 Mr Pramod Rae, Fiji Bank & Finance Sector Employees Union
- 6 Mr Amena Yauvoli, Ministry of Commerce
- 7 Mrs. Kaumaitotoya, Ministry of Tourism
- 8 Dr Mahendra Reddy, University of the South Pacific
- 9 Ms Florence Fenton, Munro & Leys
- 10 Mrs. Lorini Tevi, FCOSS
- 11 Mr Nemani Buresova, Microfinance Unit

- 12 Atelaite Rokosuka, Ministry of Tourism
- 13 Mrs. Suliana Siwatibau, FCOSS
- 14 Mr Jone Usumate, Director, TPAF
- 15 Mr Adish Naidu, Yellow Architects, (2001-2002) President Fiji Architects Association

The Fiji Council of Social Services (FCOSS) also held consultations on the social impacts of the EPA for this study with a large number of NGO representatives in the Western and Northern Divisions. Thanks are due to Ambalika Kutty of FCOSS for the work she did on behalf of FCOSS to support the study, and to Rajiv Naidu, for his assistance in compiling sections of the report.



## Case Study 4

### Kiribati: A Country Reliant on Labour exports Services (Mode 4)

#### 1. Introduction

Kiribati is a nation of atoll chains stretching 5,000km across the Pacific Ocean. Its land area, comprising only 726 sq km, is extremely limited, but it controls a huge EEZ of approximately 3.5 million sq. km. Its population at the last Census was 90,000.

Kiribati was chosen as a case study for this EPA SIA because it is a country that is highly dependent on export of labour services and fisheries rent. While Kiribati's fisheries agreement with the EU (like those of the Solomon Islands and the Federated States of Micronesia) is a key consideration in the PACP states' pursuit of a multilateral fisheries partnership agreement with the EU, subsidiary to the EPA, this case study will not focus on the fisheries sector in Kiribati; rather it will focus on temporary labour mobility from Kiribati under a likely EPA that provides for such mobility.

#### 2. National Development Objectives

The Kiribati government has articulated as its national development objective: 'Enhancing and ensuring the equitable distribution of development benefits to the people of Kiribati according to principles of good governance'. This objective is to be achieved through the combined effects of:

- partnership of public and private investment in infrastructure and production\
- equitable distribution of services and economic opportunity
- improved efficiency in the public sector
- equipping i-Kiribati to manage social and economic change as individuals, communities and as a nation;
- using Kiribati resources and physical asserts sustainable; and
- preserving Kiribati's financial reserves while making use of them to finance development. (Minister of Finance and Economic Development, 2004:8)

Notably in the above vision is the presence and recognition of the need to manage social change as individuals, communities and nation.

The government recognizes that Kiribati is changing rapidly. As its money incomes have increased, largely through improved communications, monetized trade and financial transactions within the globalizing world, these very factors have 'weakened traditional systems of redistribution and mutual support, while facilitating population growth and urbanization, with serious consequences for the physical and social environment and for the well-being of poorer people' (NDS, 2004: 12).

The above concern places in perspective the fact that all economic activities, including trading agreements that Kiribati has entered into and will enter into in the future, will have adverse social impacts in terms of the factors listed above. The Kiribati

government, a priori, recognizes that the proposed EPA between PACP states and the EU will have adverse social impacts on Kiribati, conditioned by the country's present realities which include:

1. High population growth, and a relatively large dependent population,
2. Urbanization and pressure on urban and peri-urban physical resources, especially on South Tarawa
3. Urban unemployment
4. Weakening of traditional systems of redistribution and mutual support
5. Rising crime and social ills
6. Increasing pressures on the family, like family breakdowns, and marital abuse.
7. Increasing pressure on health delivery systems as the deleterious effects of consuming modern goods cannot be countered with the positive effects.

### 3. Brief Overview of Economic and Social Indicators

#### 3.1 Economic Indicators

Kiribati is a very small island nation with a GDP, in 2006, of \$A94m and a per capita income of \$A1000. Real GDP growth rate averaged 3.6% during 1991 and 2006. The rate declined to an average of 2.2% between 2000-2006. Structurally, the government sector accounts for over 32% of GDP followed by the finance sector (10%) and transport (9%). Table K-1 shows key GDP indicators.

Table K-1: Key GDP Indicators

	GDP-Mkt Price	Net Factor Income	GNP	NET FI/GNP	Per Capita Net Factor income (\$A)
1991	42,665	36,323	78,988	46.0%	495
1992	45,554	37,563	83,117	45.2%	505
1993	47,838	35,400	83,238	42.5%	469
1994	53,643	38,477	92,120	41.8%	503
1995	55,334	45,578	100,912	45.2%	587
1996	57,432	31,890	89,322	35.7%	403
1997	67,814	57,672	125,486	46.0%	717
1998	81,542	75,438	156,980	48.1%	921
1999	78,812	63,921	142,733	44.8%	766
2000	80,185	72,094	152,279	47.3%	853
2001	88,158	88,986	177,144	50.2%	1036
2002	91,357	79,887	171,244	46.7%	914
2003	95,559	71,071	166,630	42.7%	800
2004	94,313	71,544	165,857	43.1%	792
2005	91,878	72,000	163,878	43.9%	779
2006	94,082	72,500	166,582	43.5%	771

(Source: Kiribati National Statistics Office)

There is a substantial difference in the country between gross domestic product and the gross national product. The difference is attributed to net factor incomes Kiribati gets.

This ranges between 40 and 50% of GNP. A large part of the gross factor income inflow is from seafarers working on foreign ships. The remittance inflow is a very significant component of Kiribati's national income. In current terms, the per capita net inflow has been over \$A700 per year. It is for this reason that the government states that changes in Kiribati's national income 'are determined more by earnings from abroad than by domestic production of goods and services' (NDS, 20045: 13).

Another important feature of the Kiribati economy is that the government sector comprises over 32% of the GDP. Government activity relies extensively on fishing license agreement fees.<sup>26</sup> In 2006, 34% of all government revenue, that is, \$A26m out of a total of \$A77m, was derived from fishing license fees. This figure has fluctuated between a low of 11% in 1987 to a high of 58% in 1998. The average fishing license fee has contributed to 42% of all government revenue between 2000 and 2006. Fishing license fees directly generate 13% of GDP for Kiribati. Fishing license fee, therefore, is an important source of livelihood, as well as GDP.

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<sup>26</sup> Another important source of revenue is earnings from the Revenue Equalisation Reserve Fund (RERF), a trust fund established by Kiribati to produce a regular stream of income for it. In 2006, 24% of the budgeted income, approximately \$18.5m, was drawn from this fund for budgetary purposes.

**Table K-2: Real GDP, 1991-2006 (1991 Prices; \$A'000)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Agriculture</b>	2.8%	2.3%	2.7%	3.2%	0.4%	1.6%	0.3%	0.9%	3.0%	1.5%	2.0%	1.2%	2.9%	3.6%	1.3%	1.5%
<i>Copra cutters</i>	6.0%	6.7%	6.9%	7.2%	7.0%	5.8%	2.7%	5.2%	5.6%	2.8%	3.0%	2.5%	4.3%	5.1%	2.5%	2.7%
<i>Copra Society</i>	-3.3%	-4.5%	-4.2%	-4.1%	-6.7%	-4.3%	-2.5%	-4.3%	-2.6%	-1.3%	-1.0%	-1.4%	-1.5%	-1.5%	-1.3%	1.3%
<i>Other</i>	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Fishing	4.6%	4.3%	3.8%	3.4%	4.5%	3.4%	3.3%	2.4%	2.5%	2.4%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%
Seaweed	0.8%	0.3%	0.2%	0.5%	0.5%	0.9%	0.6%	0.4%	0.7%	0.8%	1.2%	0.3%	0.2%	0.2%	0.3%	0.2%
Mining																
Manufacturing	0.9%	0.5%	0.8%	0.9%	1.4%	1.2%	0.9%	1.0%	1.6%	0.9%	1.0%	0.8%	0.9%	1.0%	0.8%	0.8%
Electricity	1.7%	1.7%	1.8%	1.7%	1.9%	1.8%	1.7%	1.7%	1.9%	2.1%	2.1%	1.9%	2.3%	2.7%	2.7%	2.7%
Construction	4.7%	2.3%	1.9%	2.2%	2.0%	1.9%	1.8%	5.1%	5.9%	5.8%	7.1%	6.6%	5.8%	5.6%	6.3%	6.2%
Wholesale /Retail	13.1%	14.7%	12.8%	12.5%	15.3%	12.4%	10.3%	14.3%	10.8%	13.6%	13.6%	13.1%	12.0%	9.0%	9.5%	9.6%
Hotel/Bars	2.5%	3.1%	3.3%	2.6%	2.9%	3.2%	3.0%	2.8%	2.4%	2.3%	2.2%	2.3%	2.6%	2.9%	2.9%	2.9%
<b>Transport</b>	9.2%	9.5%	10.1%	11.6%	9.4%	9.2%	10.5%	10.6%	11.4%	12.2%	9.1%	9.5%	10.2%	9.6%	9.8%	9.4%
<i>Public</i>	6.9%	7.6%	7.6%	9.3%	6.6%	6.4%	8.2%	8.4%	9.3%	10.2%	7.2%	7.7%	8.4%	7.8%	8.0%	7.7%
<i>Private</i>	2.3%	1.9%	2.5%	2.3%	2.8%	2.8%	2.4%	2.1%	2.1%	2.0%	1.8%	1.8%	1.7%	1.8%	1.8%	1.7%
Communication	3.5%	3.6%	3.9%	3.7%	4.1%	4.3%	3.7%	3.4%	3.6%	3.6%	3.5%	3.5%	3.5%	3.7%	3.8%	3.9%
Finance	5.8%	6.1%	8.7%	8.6%	8.7%	8.5%	8.0%	9.6%	10.6%	9.6%	10.2%	9.3%	9.5%	9.9%	10.2%	10.0%
Owner occupied	2.7%	2.1%	1.9%	2.5%	2.5%	2.8%	2.7%	2.1%	2.1%	2.2%	1.9%	2.3%	2.0%	2.3%	2.3%	2.3%
Govt Services																
Government	24.3%	25.5%	25.0%	25.5%	30.5%	19.4%	27.5%	25.1%	17.9%	16.2%	14.5%	14.9%	16.4%	17.0%	17.6%	32.5%
Education	6.4%	7.0%	7.0%	6.6%	0.0%	8.6%	7.3%	7.0%	7.7%	7.7%	8.5%	8.9%	9.2%	9.5%	9.5%	0.0%
Health	3.5%	3.8%	3.7%	3.7%	0.0%	4.7%	4.3%	2.8%	4.2%	4.3%	4.2%	4.2%	4.6%	4.8%	4.7%	0.0%
PNPI	2.5%	2.9%	2.9%	3.1%	2.7%	2.6%	2.3%	2.0%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%
Other	0.5%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
less imputed Bank Services	-4.7%	-5.5%	-7.9%	-7.6%	-7.9%	-7.3%	-7.2%	-7.8%	-9.2%	-8.6%	-7.7%	-8.4%	-8.2%	-8.3%	-8.3%	8.2%
Total	84.9%	84.7%	83.0%	85.3%	79.2%	79.6%	81.4%	83.8%	79.7%	79.1%	77.8%	74.3%	78.1%	77.6%	77.7%	77.9%
Plus Indirect Taxes	16.7%	16.9%	18.8%	16.2%	22.9%	22.5%	20.5%	17.9%	22.4%	23.1%	24.5%	28.3%	24.1%	24.7%	24.7%	24.4%

less Subsidies	-1.6%	-1.6%	-1.8%	-1.5%	-2.2%	-2.1%	-1.9%	-1.7%	-2.1%	-2.2%	-2.3%	-2.7%	-2.3%	-2.3%	-2.3%	-
GDP	42665	42993	43918	47649	44499	46199	54929	62195	60888	63163	65683	69282	70629	70046	70250	70873
Growth rate		<b>0.8</b>	<b>2.2</b>	<b>8.5</b>	<b>-6.6</b>	<b>3.8</b>	<b>18.9</b>	<b>13.2</b>	<b>-2.1</b>	<b>3.7</b>	<b>4.0</b>	<b>5.5</b>	<b>1.9</b>	<b>-0.8</b>	<b>0.3</b>	<b>0.9</b>
mid year population	73362	74404	75460	76532	77658	79056	80479	81927	83402	84494	85922	87374	88850	90351	92428	93990
per capita GDP (\$)	582	578	582	623	573	584	683	759	730	748	764	793	795	775	760	754
net factor income	36323	28172	20650	19239	30385	23918	43254	56579	47941	54071	66740	59915	53303	53658	60000	60417
Gross National Product	78988	71166	64568	66888	74884	70117	98183	118773	108828	117233	132423	129197	123932	123704	130250	131289
per capital GNP (\$)	1077	956	856	874	964	887	1220	1450	1305	1387	1541	1479	1395	1369	1409	1397

**Table K-3: Kiribati Budget – Revenue Components, 1986-2006 (1991 Prices; \$A'000)**

GFS revenue heading	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Tax revenue</b>	41.4	39.6	39.0	41.1	40.0	36.6	30.7	36.0	35.9	36.9	38.5	28.3	27.1	36.0	37.2	24.6	30.7	38.1	32.4	37.9	35.8
Personal income tax	8.6%	6.4%	6.9%	8.9%	7.6%	7.5%	5.3%	4.6%	5.2%	7.6%	9.0%	6.8%	5.4%	7.6%	6.7%	5.7%	6.0%	8.4%	6.3%	8.3%	8.7%
Corporate tax	3.3%	6.4%	5.5%	6.5%	7.9%	6.8%	4.8%	7.1%	5.2%	4.9%	4.8%	4.7%	4.0%	5.8%	7.7%	4.4%	4.4%	4.8%	6.4%	6.9%	6.3%
Import duties	29.5	26.9	26.5	25.7	24.4	22.4	20.7	24.3	25.5	24.4	24.7	16.8	17.7	22.6	22.7	14.4	20.3	24.9	19.7	22.7	20.8
Other taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Nontax revenue</b>	58.6	60.4	61.0	58.9	60.0	63.3	69.2	63.9	64.0	63.0	61.4	71.7	72.8	64.0	62.8	75.3	69.2	61.9	67.6	62.1	64.2
*Entrepreneurial income	0.2%	0.1%	0.2%	6.5%	7.8%	3.6%	2.7%	0.3%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
* Other property income	51.8	39.6	55.2	40.3	35.9	52.1	57.7	52.5	57.1	51.4	49.9	64.5	60.4	57.0	53.3	66.2	54.0	51.5	62.7	55.9	59.1
Drawdown from RERF	20.5	26.2	42.4	24.7	17.3		17.0		0.0%	0.0%	18.1	32.8	13.4		12.8			28.6	20.5	24.0	
<b>Fishing license</b>	27.5	11.3	11.7	14.5	17.2	42.5	39.3	43.5	56.2	28.5	15.0	49.4	58.3	54.3	50.8	47.1	51.0	42.2	32.2	34.2	33.5
Other interests	3.7%	2.2%	1.2%	1.1%	1.3%	2.5%	1.3%	9.0%	0.9%	4.7%	2.1%	1.7%	2.2%	2.7%	2.5%	6.4%	3.0%	2.2%	1.9%	1.2%	1.5%
<b>*Fees &amp; incidental sales</b>	6.5%	7.6%	5.5%	11.1	7.6%	6.6%	8.0%	9.8%	6.0%	11.0	10.9		12.1		15.2	10.2		4.8%	6.1%	5.0%	
Green passports	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	3.9%	0.8%	1.7%	3.3%	8.7%	4.2%	0.0%	0.1%	0.0%
Other fees/sales	6.5%	7.6%	5.5%	11.1	7.6%	6.6%	8.0%	9.8%	6.0%	11.0	10.9										
* Fine and forfeits	0.1%	13.1	0.1%	1.0%	8.6%	1.0%	0.9%	1.4%	0.4%	0.6%	0.6%	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%
<b>Capital revenue</b>	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Total revenue & grants	1365	1907	1889	2026	2307	2806	3311	3249	3270	4137	4150	5961	6921	5878	6131	9861	8179	7139	8983	7305	7692
	2	3	0	7	4	5	8	1	1	4	0	3	2	7	3	6	6	4	5	8	3

### 3.2 Social Indicators

Of the 92,533 people in Kiribati in 2005, 43% lived on South Tarawa, 10% in the Line and Phoenix Group, and the rest on other atolls in the Gilbert Group. The urban area has a higher number of persons per household than in rural areas. According to the 2005 Population Census, South Tarawa, the urban belt, had an average of 7.7 persons per household, the largest in the country.<sup>27</sup>

Population movement across islands has been an ongoing feature of Kiribati. This has led to the depopulation of a few islands. Of the 23 inhabited islands, 7 experienced depopulation between 2000 and 2005 (Butaritari, Abaiang, Maiana, Beru, Onotoa, Tamana, Kanton), involving approximately 1000 people. The depopulation involved 153 households. Most internal migration involves movement to South Tarawa, whose population grew at three times the rate of the national population between 1995 and 2000 (UNICEF 2005:10). Population density on South Tarawa is estimated to now be around 2,300 persons per sq. km. On Betio, it is more than 6,600 per sq km. Population projections, based on present growth rates, are that twice as many people could be living on South Tarawa in 2020 as there were in 2000 (UNICEF 2005:12). Males constitute 48.2 per cent of South Tarawa's population.

Kiribati has a predominantly young population - 37% is below 15 years of age, and 48.6% below 20 years. Almost a half of the population is in the dependent category, i.e., below 18 and over 60 years of age. Of the total adult population of 58,340, only 29% had secondary school education in 2005. On the other hand, 0.5% of the total adult population had a degree of a Bachelor. In 2005, 1.2% of the adult population had an educational attainment of a post-secondary school Diploma and above. Details on Kiribati's labour force and employment status are provided in the next section.

A lack of economic opportunities in an increasingly modernizing Kiribati, raises the gap between expectations and achievements. I-Kiribati are still without general provisions of basic public goods. The main source of drinking water for 70% of the people, for example, is open wells. Piped drinking water is available only on South Tarawa and Kiritimati, with 31% deriving water from this source. A sewer system is still not developed. A half of Kiribati people use lagoon or beaches as their toilet. Only a third of the population has latrine facilities. Pressure lamps are the main source of lighting (62%). Access to basic equipped health facilities is limited in islands other than South Tarawa. There is no efficient evacuation facility or scheme in outer islands for emergency medical cases.

Life expectancy in Kiribati in 2005 was 58.9 years for males and 63.1 years for females. Population is expected to rise to 130,000 by 2025. The increase in population, and the expected internal migration (to South Tarawa) will have significant pressure on the environment, general infrastructure like water, energy, hygiene and health facilities, waste disposal, and roads,

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<sup>27</sup> Volume 1 of the Census Report gives a figure of 7.7 (Table 1A), while Vol 2 gives a figure of 7.5 (Table 22). No explanation had been provided for the different figures.

There is no official statistic on poverty in Kiribati. In fact, poverty is not recognized as an issue. There is a widespread belief that there is no poverty in Kiribati. This is reinforced by two basic facts, that everyone in the country has access to the ocean, which produces an abundance of food, and that there is a strong social support network where the weaker members of the society are taken care of by the stronger ones. There is no statement on poverty in the *National Development Strategies, 2004-2007*. The closest this document comes in terms of acknowledging and addressing the issue of poverty is in proposing strategies for equitable distribution in the country. These strategies include:

1. Improving infrastructure services and incomes on outer islands
2. Ensuring that Household Income and Expenditure Surveys are conducted regularly and that results are publicized;
3. Improving the ability of workers and unions to bargain, and pursuing opportunities for I-Kiribati to work abroad;
4. Developing partnerships with NGOs to work with people in need, and to provide welfare payments to elderly people, and
5. Ensuring landowners share larger benefits from land leased (NDS, 2440: 27-8).

Like poverty, there is also no recognition that housing is a problem in Kiribati. Yet, people on South Tarawa generally grumble about rising ‘squatter’ population.

There is no official information on other social variables, like crime, depression, family breakdown, access to health, and nutrition/malnutrition levels.

### **Labour Mobility Issues**

The government of Kiribati lists one of its objectives as: ‘Pursue employment opportunities for I-Kiribati at home and overseas’ (NDS, 2004: 28). This provides the overarching objective that those implementing the strategies need to keep in mind when they negotiate EPAs and other international agreements and treaties.

This section does not discuss the issues concerning the outcomes of the negotiations between the PACPs and the EU on trade in services, or more specifically, trade in labour (Mode 4 access). What it does is examine the social impacts of any agreement on labour mobility as per the PACPs demands.

PACPs are seeking provision of a mode 4 quota, for 10,000 semi-skilled and up workers, called intermediate trainees (IT), from PACP states to enter into the EU. There are three levels of demands that the PACPs have put forward. In the first stage, the workers listed below should obtain work immediately upon the finalization of the EPA agreement. The categories of work covered in the first stage are:

4. Health Sector: midwives, nurses, nurse aids, and care givers:
5. Building and Construction: roofers, concrete workers, masons, steel workers, fencers, glaziers, plasterers, painters, decorators, floor layers and wall tillers. This category is to be expanded later to include air-conditioning and refrigeration works, plumbers, electricians, carpenters, and joiners; and

6. Tourism: hospitality workers including waiters, bartenders, chefs, pastry chefs, cooks, housekeepers, frontline managers, travel agents, tour operators and managers, tour guides and dive masters. This is later to be expanded to senior hotel managers and restaurant and catering enterprise managers.

In the second stage, the Intermediate Trainee category will be expanded to:

7. professional computing and other business services;
8. audiovisual services;
9. wholesale and retail services;
10. primary and secondary educational services;
11. entertainment, sporting and recreational services, and
12. transport services.

The third stage covers opportunities for short term holiday schemes for PACP youth.

Given Kiribati's current state of human resource and economic development, the only medium term possibilities for trade in labour services appear to be in intermediate trainee category and the holiday scheme for Kiribati youth.

An ex ante social impact assessment for the employment of Kiribati workers in the EU under the intermediate trainee category and the holiday scheme will of necessity be tentative or provisional. The greater the provision of data and information, the greater is the possibility of an approximation of the tentative assessments with the actual outcomes.

A major shortcoming in Kiribati is availability of data on HR supply and demand. The only credible data source, even if not exhaustive, is the 2005 population census.

### **Kiribati's Labour Market**

Out of a total population of 92,533 people, 40,792 are in the labour force in Kiribati. Economically, 70% of the adult population was in the labour force in 2005.<sup>28</sup> Of the 40,792 in the labour force, 32% (13,133 persons) were in some form of cash work, while others were in non-cash employment or were unemployed. Unemployment rate in 2005 was 5.5%; male unemployment rate was 5.6% while female unemployment rate was 6.6%.<sup>29</sup> Urban unemployment rate was 10.9% while rural unemployment rate was 2.8%.

The government recognizes that the official internationally accepted definition of unemployment may not reflect the actual status of people in Kiribati. The Analytical Report of the 2005 Census states:

Some users have indicated that they wish to include village workers as part of the unemployed, on the grounds that these persons would look for work if they believed cash work was available in their labour market community. Using this

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<sup>28</sup> This figure includes those opting to do home duties. Official census figure puts the labour force participation rate at 63.6%; this is by excluding those doing home duties.

<sup>29</sup> The official unemployment rate is 6.1%; this is because by excluding home duties, the base upon which unemployment rate is calculated is reduced.



analysis, the total unemployment level, including village workers becomes 23,836 or an unemployment rate of 64.5 per cent (2007: 51). On this basis, male unemployment rate would be 60% while female unemployment rate would be 70%.

The report further states that some users prefer to have village workers included in the 'not in the labour force category'. On this basis, the unemployment rate would have been 14.6%; with urban unemployment rate at 17%, rural rate of 10.9%, male rate of 12.2% and female rate of 18.2% (2007: 52).

South Tarawa and Kiritimati are the two major economic centres in Kiribati and 69% of all cash work in 2005 occurred on these two islands. Of the total population of 40,311 of South Tarawa, 19,464 (i.e. 49%) were born in South Tarawa. The other 51% migrated to South Tarawa from other places. Similarly, of the 5,115 people on Kiritimati, 1723 (34%) were born there, while the rest migrated from other places.

The largest employer in Kiribati is the government, employing 53% of the formally employed people. In the private sector, transport and communication enterprises employ the highest number of people (11.2%), followed by retail outlets (9%), and agriculture and fishing (7.1%). A large number of I-Kiribati are employed outside Kiribati. There are no official statistics, however, on the number of such employees. The South Pacific Marine Services, which partially funds and operates the government owned Marine Training Centre (MTC), estimates that at any time, there are at least 1,000 Kiribati man who are employed on shipping vessels owned by other countries. It is also believed that since employment on foreign vessels, especially European and Japanese registered ones, are regulated by terms and conditions that are internationally acceptable, incomes from such employment is relatively high.

During the past 6 years, Kiribati derived over \$70m annually as net factor incomes from abroad. While full information on the composition of this is not available, it is recognized that a large portion of this income comes from Kiribati citizens working abroad, especially in sea-faring vessels. Prominent recruitment agencies for seafarers in Kiribati are the South Pacific Maritime Services (SPMS), which is a pool of 6 German companies that recruits workers for these vessels, and the Kiribati Fisherman Services, which recruits workers for contracts with Japanese fishing vessels. Workers recruited for these vessels are trained by the MTC. The MTC trains approximately 150 recruits each year for German vessels. All trainees need initially to be recruited by employers before they can enroll at the MTC. The analytical report on the 2005 census, produced in January 2007, accepts the industry estimates that approximately 1,000 I-Kiribati are currently employed on European vessels, and 300 on Japanese vessels.<sup>30</sup>

As part of streamlining its recruitment process and ensuring adequate skills, the SPMS spends around \$A200,000 to run the MTC that trains people selected by the SPMS to work on German vessels.

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<sup>30</sup> The 2005 census lists only 503 persons as holding the occupation of overseas seamen and 95 as local seamen operating plant and equipment (Vol. 2, p. 60)

## Skills and Educational Levels

Education in Kiribati is free, but also compulsory for children aged 6 to 15 years. In 2005, 28,467 persons older than 5 years were enrolled in schools, of which the genders were very closely matched. Dropout rate, however, has been very high, and increasing with age. 25% of the 15-year cohort in 2005 were not in school, while 50% of the 18 year olds were not in school.

While there has been a marked increase in educational attainments in Kiribati from 1995 to 2005 - with the increase in the percentage of males and females respectively in secondary or higher education, rising from 27.1% and 20.6% in 1995 to 51.6% and 49.5% in 2005 – a vast majority of I-Kiribati are still without secondary education. In 2005, 81% of all people were without secondary plus education. Table K-4 shows the education profile of I-Kiribati.

	Total	Male	Female	Total	Male	Female
No Secondary or Tertiary	74595	37292	37303	80.6%	81.8%	79.5%
Form 4	4487	2168	2319	4.8%	4.8%	4.9%
Form 5	7588	3395	4193	8.2%	7.4%	8.9%
Form 6	3081	1238	1843	3.3%	2.7%	3.9%
Form 7	1077	490	587	1.2%	1.1%	1.3%
Certificate	1006	604	402	1.1%	1.3%	0.9%
Diploma	311	187	124	0.3%	0.4%	0.3%
Degree	290	161	129	0.3%	0.4%	0.3%
Masters	89	70	19	0.1%	0.2%	0.0%
PhD	9	7	2	0.0%	0.0%	0.0%
	17938	8320	9618	19.4%	18.2%	20.5%
Total Pop	92533	45612	46921			

(Source: 2005 Population Census, Vol. 2, p. 43)

Categories of skills that are captured in the intermediate trainee category would typically have qualifications of certificates and diplomas. The maximum number of such workers in 2005 was 791 males and 526 females. But included in this category are a large number of school teachers, who are not included in the IT category.

A better indicator of skill categories is given by the occupational profile of those in cash employment. Table K-5 provides this data.

Table K-5: Population 15 years and over by sex and occupation – 2005															
Occupation	Male					Female					Total				
	Total	15-24	25-34	35-49	50+	Total	15-24	25-34	35-49	50+	Total	15-24	25-34	35-49	50+
Grand Total	13133	2016	4209	5448	1460	8095	1083	2325	3587	1100	5038	933	1884	1881	360
Legislators/enior Officials	667	20	108	351	188	485	12	61	255	157	182	8	47	96	31
Professionals	2506	314	929	956	307	1119	115	310	470	224	1387	199	619	486	83
Technicians/Associate Professionals	1201	172	428	470	131	679	98	195	302	84	522	74	233	168	47
Clerks	1829	453	656	637	83	717	143	212	300	62	1112	310	444	337	21
Service Workers	2276	354	678	1035	209	1236	140	356	613	127	1040	214	322	422	82
Agricultural & Fisheries	839	168	224	310	137	632	129	176	226	101	207	39	48	84	36
Trade Workers	1039	118	285	517	119	737	98	220	336	83	302	20	65	181	36
Plant & Machine Operators	1462	178	499	647	138	1402	168	473	626	135	60	10	26	21	3
Elementary Occupation	1314	239	402	525	148	1088	180	322	459	127	226	59	80	66	21
Trade: Total	7.9%	5.9%	6.8%	9.5%	8.2%	9.1%	9.0%	9.5%	9.4%	7.5%	6.0%	2.1%	3.5%	9.6%	10.0%
Midwife professionals	1	0	0	1	0	1	0	0	1	0	0	0	0	0	0
Nutritionists	2	0	1	1	0	0	0	0	0	0	2	0	1	1	0
Nurses	362	49	160	112	41	38	11	18	6	3	324	38	142	106	38
Medical sisters	4	0	2	1	1	1	0	1	0	0	3	0	1	1	1
Matrons	10	0	0	8	2	0	0	0	0	0	10	0	0	8	2
Child-care workers	4	0	1	3	0	0	0	0	0	0	4	0	1	3	0
Nursing aid (hospital)	85	12	24	41	8	1	0	0	1	0	84	12	24	40	8
Brick makers	1	1	0	0	0	1	1	0	0	0	0	0	0	0	0
Brick makers	6	3	1	1	1	6	3	1	1	1	0	0	0	0	0
Builders	19	4	7	6	2	19	4	7	6	2	0	0	0	0	0
Carpenters	436	52	127	204	53	430	52	125	200	53	6	0	2	4	0
Plumbers	28	2	4	19	3	28	2	4	19	3	0	0	0	0	0
Painters	3	1	1	1	0	3	1	1	1	0	0	0	0	0	0
Welders	14	3	4	6	1	13	3	4	5	1	1	0	0	1	0

(Source: 2005 Census of Population Vol. 1 Table 23, pp 58-60)

As the table shows, in 2005, there were 85 nursing aids, 1 midwife professionals, 10 matrons, 362 nurses, 4 medical sisters, 4 child-care workers, 7 brick makers, 19 builders, 28 plumbers, 3 painters, and 436 carpenters employed in Kiribati.

The pool of workers from which the IT category comes, therefore, is extremely small.

This pool would possibly shrink further if one were to add the condition of certain minimum formal academic qualification requirements, including possibly language proficiency.

## **Social Impact I: Loss of Skills**

The consequence of any labour movement of the category of workers on the society, therefore, is expected to be immense. It will seriously deplete the key skills required for the development and progress of Kiribati. It is expected that temporary labour movement would be for periods of up to 3 years. 3-year absences of skilled workers, without any mechanism put in place to train others to fill the gap, would create an excess demand for skilled workers, which may lead to possible import of labour from other countries into Kiribati to fill the shortage, or, alternatively, to a stunted growth path.

**Advantage:** There is a significant advantage of temporary work schemes for the IT category of workers. There is a marked absence of opportunities for exposure of workers to new technology, new management styles, and new ways of doing things in Kiribati. Exposure of Kiribati workers in European countries would add significantly to the stock of skills that workers on temporary schemes would have. The on-going, on the job training of workers would possibly improve efficiency of the workers upon their return, which would in turn contribute to growth and development.

**Disadvantage:** Exposure of workers also exposes workers to new technology. Such technology may either prove to be unaffordable by the workers and/or enterprises in Kiribati, or may prove to be inappropriate. Worker enthusiasm may also diminish if employers cannot provide technology that they may get used to in Europe.

**Mitigation:** There are various mitigation measures that need to be put in place to counter the problems that may arise out of temporary movement of IT category of workers; these are:

3. Improving technical training in Kiribati.
  - a. This would require either the establishment of quality technical training institutions within Kiribati and/or boosting of the existing technical training institutions. Feasibility studies, however, need to be carried out on whether it is cost-efficient to train such people in desired numbers within Kiribati, or to send them to quality institutions within the region. Australia, for example, has already begun to spend aid funds (AusAID) to train approximately 30 nurses in Australia annually. These nurses would be trained to the Bachelor degree level. Further possibilities of training exist in the PIC region, like nurses in Fiji, and building and hospitality industry workers in Fiji and Samoa. Whatever is the more viable option, the costs of these could be negotiated as aid packages under the development windows of an EPA.
  - b. To achieve improved technical standards and to achieve a wider reach, however, there is an urgent need to improve basic education. This would require a significant boost to retention rates of students in the school system. There is no substitute to keeping students within the formal education system longer. Table K-5 shows that in 2005, only 90% of the primary school age children were at school, while only 60% of secondary age children were in school.

Age Group	Total Population	At School	Left School	Never Been	NS
5-9	12466	90.3%	1.5%	8.0%	0.2%
10-14	10810	91.5%	5.7%	2.7%	0.1%
15-19	10793	59.4%	37.3%	3.2%	0.0%
20-24	8574	9.9%	86.2%	3.9%	0.0%
Source: 2005 Census of Population, Vol. 1, p. 38					

- c. Another key pre-requisite to improving the technical standards is higher skill levels in language and numeracy. This would require raising the quality of education generally in primary schools, but particularly in language and numeracy skills. It would also require a significant boost in the quality of language and numeracy skills in junior secondary and secondary schools.
4. Adjustment of Returning Workers: Adjustment back into the Kiribati employment and social milieu for workers with an exposure of up to 3 years in EU may necessitate at least two requirements. These are
- a. Systematic and professional de-briefing and counseling effort, the objective of which should be to nip in the bud any tendency to glorify the European methods and technology to an extent that may destroy the morale of the returning workers themselves as well as the work colleagues at the workplace in the country. Such counseling may also need to take into account the fact that the returning workers would also be exposed to the pay differentials between Europe and Kiribati. Wage differentials are powerful factors in determining the outlook of workers in working in different countries. Kiribati wage rates are substantially lower than going wage rates for similar jobs in Europe and other developed countries.
  - b. Creation of avenues for returning workers and/or their employers, to acquire technology that they consider would be viable within Kiribati. This may necessitate provision of finance (for example subsidized interest rates) and other possible incentives (like duty concessions). Workers, particularly younger ones, tend to more easily get demoralized in the absence of the tools of the trade that they get used to in the early parts of their working career. Without practical measures to assist returning workers and/or their employers, the tendency for workers to opt for opportunities out of Kiribati, not necessarily in EU member countries, would be strong.

## Case Study: Nursing

In 2005, Kiribati had in employment 1 midwife professional, 10 matrons, 362 nurses, 85 nursing aids, and 4 medical sisters. Each year the Nursing School takes about 40 new intakes for training, of which approximately 30 graduate at the end of their studies. The nursing market, therefore, on average, sees the addition of 30 new nurses each year. The Nursing School is now operating at full capacity.

Currently, Kiribati faces a shortage of nurses at all levels. This shortage has been reduced by the employment of retired nurses; retirement age in Kiribati is 50 years, thus retired nurses still have a significant productive life ahead of them.

In 2006, a Kiribati-Australia Nursing Initiative (KANI) was put in place. This is a program under which 30 Kiribati students are to be trained each year at an Australian institution (Griffith University) in nursing studies. These students are selected by the Australian institution on the basis of tests administered by the institution. The tests focus on language skills. Those who succeed are then put through a short language training program, funded and administered by AusAID and/or its preferred institution, after which they will study in Australia. Under the scheme, students will study in Australia for 4 years. There is no financial provision for dependent spouse and/or children, if any, to accompany the students.

The official expectation within Kiribati policy makers is that upon successful completion of their training, the students would return to work in Kiribati, thereby significantly boosting the quantity and quality of nursing professionals in Kiribati as the scheme rolls on. But private, there is a lot of skepticism on whether those trained would stay in Kiribati.

There are a few key issues that need to be addressed. Under the scheme, the cream of the crop would tend to get selected. Presuming that there is a correspondence between the ability of a student to grasp English language skills and science skills, the Nursing school would have to be content with an intake of second best students. This not only would have a bearing on the quality of the intake and thus output of the Nursing School, it could also generate a 'superiority' complex among nurses trained in Australia, and lower the morale of students trained locally, as well as their tutors.

A related issue is that of pay differentials. Nurses coming out of the Nursing School now are employed between levels 13 and 15 of the Kiribati public sector pay scales; these work out to approximately \$A150 per fortnight (approximately \$A4,000 per year); this figure is expected to be higher for those who would return with nursing degrees. Kiribati student nurses in Australia would also have exposure to the nursing market in Australia. Current salary scales in the Australian system are more than 10 times the pay which a new nurse in Kiribati receives. The pay differentials of nurses in Kiribati and Australia would produce a powerful incentive for Kiribati nurses to return to Australia after fulfilling their 4-year bond condition to serve in Kiribati. While this would possibly increase remittance earnings for Kiribati, the country would effectively be robbed of the best within the profession.

## **Social Impact II: Governance Issues**

Under the proposed scheme, the PACPs could send up to 10,000 workers to Europe to work for up to 3 years. If this number were approved, the PACPs would ration the quota amongst themselves. The process to this point could be expected to be transparent.

However, within a country, the process of selection of the workers has still not been discussed. How will Kiribati allocate its quota to workers aspiring to go abroad under the scheme? Would it be left to the employers from EU countries to select the workers? Would there be recruitment agents to select workers on behalf of potential employers? Would the government have any role in the selection and recruitment? Would there be entrance examinations, like English language fluency, to select workers?

These issues have not been addressed to date. They all involve issues of governance. The potential for abuse of the scheme, and corruption always exists when there is excess demand for any service. As long as the demand for work abroad is greater than the supply of work, limited by an upper quota, the rationing process needs to be clearly established. In the absence of this, agents could extract financial and political rent from the scheme.

## **Social Impact III: Sexual Diseases**

Temporary work abroad schemes not only tend to attract, but also are often deliberately designed to attract, younger workers. Typically in Kiribati the seafaring workers have been young males. Recently female members have also been recruited, but the numbers so far are low.

It is now recognized in Kiribati that Kiribati seafarers have contracted sexually transmitted diseases including HIV/AIDS while abroad. Upon their return, these diseases have been spread in Kiribati. Full details of the extent of this problem are presently not known. Local counterparts for this research could not provide any study or report on the issue. However, all stakeholders that were interviewed stated that this was a well-recognised problem in the country.

Informants stated that each seafarer is required to undergo compulsory medical tests for AIDS/HIV upon their return from each seafaring duty. However, no confirmation could be obtained from official sources on this. It is also not clear whether any compulsory testing of returning workers has been provided in law so far. Such testing is a human rights and individual freedom issue. Even if the Kiribati government has in place a policy of compulsory testing, unless this is provided for by law, it would be very difficult to defend such a policy if challenged in court.

Whether Kiribati's experience with the seafarers will be repeated for other temporary work schemes is open for discussion. It is expected that at least the nature of the work environment is generally different for seafarers than those in land-based occupations. This may provide for internal limitations on the applicability of the seafarers experience for other types of

employment abroad. There, however, is no guarantee that Kiribati workers abroad would be totally immune from this problem.

### **Mitigation Measures**

Contact and spread of sexual diseases can be minimized by a combination of measures. First, the Kiribati government should give low priority to work opportunities in countries that do not have a strictly regulated sex industry where sex workers are required to inform their clients of their sexual disease history.

Second, there is a need for education on sexual and reproductive health (SRH) to be provided to temporary workers before they leave the country to take up work abroad. Such education, including possibly a mandatory formal examination on SRH and safe sex practices could be made compulsory for any worker wishing to work abroad.

Third, legislative measures that enable compulsory testing of all returning workers for STDs and HIV/AIDS could be considered.

### **Social Impact IV: Lifestyle Diseases**

Living and working in mass consumption societies, even for a limited period, exposes workers to the different lifestyles of the temporary host society. This can change food habits and dietary patterns, with long term health consequences. Certain lifestyle diseases – like diabetes, hypertension and high blood pressure - are directly linked to food habits. Some of these diseases are believed to have gained prominence in Pacific societies with the introduction of western foods and changed dietary patterns. Addiction to fast foods and convenience foods (e.g. McDonalds and KFC) as well as fizzy drinks, canned food, noodles and snacks can cause obesity and other health problems including malnutrition. Kiribati is relatively free from the influence of fast foods, other than fizzy drinks and some ‘convenience’ foods. In this sense, it is at a lower degree of risk than the relatively larger PACs where fast food chain franchises have been established on account of their commercial viability.

In the Pacific, obesity is linked to lifestyle and particularly dietary changes while malnutrition is becoming a major problem amongst children. The last-mentioned problem is also due in part to the pocket money that children of persons working abroad have access to.

One strong view is that fast and convenience foods are addictive. One example is canned fish – which is regarded as ‘tasty’ by many I-Kiribati, largely on account of the salt content in the canned products.

A major social impact of temporary work schemes abroad therefore will likely be the result of changes in food habits, and addiction to western fast foods. These can be expected to have deleterious impacts on the health and well-being of I-Kiribati, and other Pacific Island peoples who become involved in temporary labour movement to western nations.



### **Mitigation Measures:**

Without resorting to stringent measures like outlawing or restricting fast and convenience foods, it is very difficult to prevent the development of addictive food habits. Controls are normally regarded as unwarranted interference with the market. However, for social good, the state can claim justification to intervene in the market. This is a matter that the Kiribati government could consider in light of the specific threats to public health as and when temporary labour movement commences. This may include making local food more readily accessible and more attractive. An example would be local tuna. At the moment large, full-length fresh and frozen tuna is sold around South Tarawa. Small families do not need a whole tuna for a meal, so opt for a can of fish which is sufficient for a meal. Making available tuna slices (tuna steaks) in stores in all villages in South Tarawa would make fresh tuna more attractive for purchasers.

Other, firmer mitigation measures that could be adopted by the government include outright ban on the sale and/or distribution of foods in schools, and/or outright banning any promotion of foods that are non-nutritious or that have high sugar or fat content. This, for example, could keep fizzy drinks from being sold in schools' canteens.

### **Social Impact V: Family Breakdown**

There is a lot of anecdotal evidence of a larger incidence of family breakdown – leading to separation and divorces – where one partner, normally the male, is on short term employment abroad. A local magistrate is reported to have informed a social activist that an overwhelming number of divorce cases that the magistrate handled involved seafarers and their wives. There, however, is no concrete data or any study on the issue, to confirm this observation.

The reasons for a reportedly larger number of family breakdowns occurring in families with workers abroad may be manifold, but at root they deal with the simple fact of absence. Absence tends to not only increase the emotional and physical distance between partners, but it also breeds suspicion and jealousies. In many cases, the latter is contributed to by relatives misinforming men working abroad that their wives have developed relationships with others, or developed habits which are unrespectable for I-Kiribati wives, like clubbing or drinking with other men.

### **Mitigation:**

The best mitigation against such eventuality is to include partners and children in the temporary work abroad scheme. Instead of allowing a work visa to only one party in a family, visas (and financial provision) ought to be made for the entire immediate family.

The next best solution would be for Kiribati people and government to encourage greater and better education for both males and females, which could result in employability status for both, males and females in a family. This may enable family recruitment rather than recruitment of a single member of the family.

Simultaneously, there is an urgent need for the establishment of appropriate counseling facilities and services in Kiribati. Traditionally, the only counselors in Kiribati have been extended family members, those in the upper hierarchy in villages, and more recently, church leaders/pastors. While these individuals possess considerable traditional mana, most are neither trained professionally, nor recognized as official counselors. There also is the Kiribati Counseling Association which is affiliated internationally and is a member of the Kiribati Association of NGOS (KANGO). The Association, however, is a non-government organisation; the Police are also involved in counseling work. But counseling so far has not become a central focus of the state. It is the responsibility of the state to provide adequate physical and human infrastructure for counseling in the country.

### **Social Impact VI: Sex Crimes**

Kiribati has seen an increasing incidence of sexual violence and sex crimes, as well as increasing prostitution including sex trade by children. So far, the dominant view is that the major cause of such crimes is foreigners visiting Kiribati, especially foreign fishing vessel crew. The term *Ainen Matawa* is used to refer to local prostitutes who frequent Korean fishing vessels.

While money is regarded as a major motivation for Kiribati women to enter the sex trade, an issue neither recognized nor studied is whether the cessation of cash incomes from abroad and the associated life style to which recipients become accustomed may be a factor in the increased numbers of women entering the sex trade. This aspect needs to be studied thoroughly.

### **Social Impact VII: Stress and Alienation**

Associated with long-term employment schemes are stress and family breakdown. A society that is close-knit, and one that is essentially kin-based, produces an outlook on life that is communal; it also produces support structures that are strong and effective in maintaining social cohesion and integration.

Plucking people out of the system for long periods does not only disrupt their social network, it also alienates them from both the host society and the parent society. This can raise stress levels and cause stress-related problems. Stress related problems can lead to family problems and/or disputes, especially in marriage.

Kiribati has had a long experience with off shore work schemes; Kiribati seafarers work on German and Japanese vessels for at least 9 months at a stretch. During this period, there is relatively minimum regular and sustained contact with their families, communities, and kinfolk.

Communication tends to keep the parties in focus and in the minds of each other. Socially and within the community, a lack of communication tends to displace people from the mind and attention of others. In a society that is close knit and where kin ties are strong, sustained lack of communication can lead the people concerned to lose their standing as well as

influence in terms of decision making that affects the community. This alienates those outside the immediate network.

There is anecdotal evidence of such alienation being experienced by I-Kiribati. While no comprehensive survey-based fieldwork was carried out to investigate this matter, casual discussions revealed that returning seamen faced this problem, and not in isolated cases.

**Mitigation Measures:**

Work abroad schemes must ensure that there are established adequate communication channels at all levels for workers moving abroad. Such channels ought to be provided for in the employment contracts themselves.

**Social Impact VIII: Government Expenditure**

Ultimately, in any situation where policies or activities lead to adverse social impacts, it becomes the responsibility of the state to mitigate the adversities and/or to correct the damages so caused. These activities consume public funds. Normally, social sectors become the primary victims of state expenditure reallocation under budgetary crises.

In Kiribati, as in all other PACPs, the public purse is under severe strain. State attention towards social impact mitigation and rectification invariably comes at the expense of other state expenditure priorities. Whether it be, to take care of lifestyle diseases caused by western food habits, or taking care of sexual diseases, or creating counseling services, etc., all require funds that need to be raised from some source.

The temporary labour scheme would produce an added stream of income for the state. It would also generate additional economic activities, which in turn would generate greater direct and indirect tax revenues for the state.

It ought to be noted that there is significant potential for the Kiribati government to gain added revenue from a labour scheme with the EU. This additional revenue could be used to mitigate the adverse social impacts of the scheme.

**Mitigation:**

The government of Kiribati could consider targeting a certain proportion of the increased income stream from the work scheme to address its adverse social impacts. Such targeting could take various forms, which could be considered as and when the scheme takes off.

**Awareness of Social Impact and Monitoring**

A major problem in Kiribati has been the lack of an awareness of EPAs at the official/bureaucracy level, as well as within the general populace. No organization or individual with whom discussions were held, had any awareness of the details of the EPA. This made it impossible for the stakeholders to consider likely social impact of the EPA.

It is recommended that there be concerted effort by the state to educate the policy makers and the population at large on the details of EPAs. The education and awareness process should be an ongoing process as it is from continuing workshops that the adverse consequences of EPAs would be revealed for corrective measures to be put in place. The process should be inclusive rather than exclusive. Church groups are extremely influential, more so than politicians, in articulating and influencing people's opinion. The involvement of Church groups in the process should be seriously taken into account.

Finally, given Kiribati's vulnerability, it is vital that impacts of a likely EPA be continuously monitored. This would require the establishment of a specialist unit within the government tasked to continuously monitor the impacts of the EPA. Such monitoring will also yield results on corrective action that need to be taken the state or by stakeholders.

## **Conclusion**

The position of the Kiribati government on EPAs is still in a formative stage. At a consultation workshop conducted in mid June 2007, the government decided that further consultations needed to be carried out with stakeholders, including those in remote villages, on the best way forward for Kiribati. Consultations are expected to result in some broad principles for the EPA, as well as contain detailed discussions on aspects of the EPA. The agreed position will then be tabled in Parliament, which will finally endorse (or otherwise) the agreement and the change.

As consultations continue, people in Kiribati are slowly being made aware of EPAs. However, the rate at which awareness on the concept of EPAs is being disseminated would make it almost impossible for any solid understanding amongst I-Kiribati of EPAs and the consequences of offers and demands. The documents presented at the first consultation workshop were largely technical and dense. While the first workshop was conducted in the I-Kiribati language, the fact remains that the documents used for awareness and consultation need to be more accessible and simple enough for the average person to be able to understand.

This report on Kiribati has highlighted some possible social impacts of temporary labour migration into Europe from Kiribati. The report has only considered the negative social impacts rather than the positive ones; the latter are expected to be significant, both in terms of the large sums of remittances to be earned, and in terms of other economic spin-offs.

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### Persons and Institutions Interviewed

Person	Position	Organisation
Nnakina K. Ioteba	Executive Director	Kiribati Family Health Association
Taboneao B. Kaireiti	Program Officer	Kiribati Family Health Association
Bane T. Turabu	Clinical Nurse	Kiribati Family Health Association
Abana Ieremia	Executive Officer	Kiribati Association of NGOs
Erieretera Maerere	Vice Treasurer	Kiribati Association of NGO
Svilen Yankv	Captain Superintendent	Marine Training Centre
Bintonga Tonganibeia	Permanent Secretary	Ministry of Labour and Human Resource Development
Batetaake Tatoa	Senior Labour Officer	Ministry of Labour and Human Resource Development
Takuu Katatia	Chairperson	Betio Fishermen's Association
Maere Tekanene	Secretary	Kiribati Chamber of Commerce
Baranite T. Kirata	Secretary, Church in Society	Kiribati Protestant Church

Teamita Uriam (& 5 staff)	Acting Deputy Principal	Kiribati Teachers College, Ministry of Education, Youth and Sports
Maoto Metai	Coordinator	Adolescent Health and Development Program, Ministry of Health and Medical Services
Tiare Erekana	Acting Director	Business Promotion Centre, Ministry of Commerce, Industry and Cooperatives
Takuia Uakeia	Deputy Secretary	Ministry of Fisheries and Marine Resources Development
Tareu Tong (?)	Principal	Kiribati Nursing School, Ministry of Health and Medical Services

## Case Study 5

### **Federated States of Micronesia: a SIDS Services (Mode 4)**

#### **Introduction**

FSM is a nation state in transition. Socially and economically it has been shaped by its colonial history, but particularly bears the marks of the last 20 years of funding under the Compact with the US. The Economic Partnership Agreement (EPA) highlights its place as a Pacific nation and our relationship with another global economic and political bloc: the European Union (EU).

FSM has difficulties with basic development issues, such as providing adequate health, education, infrastructure and utilities to its citizens, as well as good governance. Much of the difficulty in these areas is related to its federated-state structure of government and the inefficiencies and expense that maintaining state differences and independence causes. FSM people have poor social and poverty indicators. The transition from 'traditional' society and informal economy to a moneyed economy coupled with government responsibility for social services leave many vulnerable from eroded safety-nets met by inadequate public services and facilities. There is a high disease burden in both infectious and lifestyle disease; STIs and HIV are increasingly prevalent but invisible due to lack of testing facilities. There is a high level of gender inequality. A lack of opportunity for formal work is seeing many people return to cash-cropping and subsistence or escape through migration to the US.

FSM has a history of failed development initiatives but still has the potential and resources to achieve its development goals especially in the focus areas of tourism, agriculture, and fisheries. Better managed migration and remittances would also yield benefits. FSM is trying to implement a national strategic plan through which it can best mitigate the threats and take advantage of the opportunities in a global trading context that was not designed with its situation in mind.

This paper has four sections. First, a summary of FSM's status in relation to existing trade agreements. Discussed here is FSM's position or likely position in relation to the EPA and the issues that this raises in terms of social and environmental impacts. The second section is on FSM's social and economic indicators, particularly in relation to issues that the EPA highlights. Third, a discussion of the sectors proposed for negotiation in the EPA and the likely social impact. It finishes with a concluding discussion.

#### Existing Trade Agreements

FSM is currently a signatory of PICTA, and the Compact of Free Association with the US, as well as being a negotiating party to the EPA as one of the PACP states.

Under the Compact agreement FSM must give the US most favoured nation (MFN) treatment in regards to any free trade agreement that it signs with third parties. The US has granted a waiver on the MFN requirements for PICTA.

FSM has signed but not yet ratified PICTA. Under PICTA, FSM has been granted to 2017<sup>31</sup> to eliminate its tariffs on all goods except on tobacco and alcohol. As FSM does such little trade with other PICs the potential negative impacts are considered minimal.<sup>32</sup> In relation to trade in goods, FSM tariff revenue from PIC trading was calculated at \$23,215.8 out of \$134,000,000,<sup>33</sup> or 0.01%<sup>34</sup> (PIFS, 2006 in FSM, 2007).<sup>35</sup> FSM's main PIC trading partner is Guam. Forum Ministers have also agreed that PICTA should be extended to services. FSM has decided to liberalise telecommunications, financial services and maritime transport.<sup>36</sup>

FSM has not yet signed PACER. It is likely to seek an MFN waiver from the US for this agreement too; however, this has not yet been initiated formally. FSM has fairly significant trade with Australia and New Zealand. The total estimated loss of government revenue through PACER is \$132,687 (FSM, 2007:110).

FSM is not a WTO member. However, it is impacted by the trading policies adopted by its trading partners, almost all of whom are already WTO members.

#### Position and possible impacts of EPA

Key areas that FSM will be impacted by in relation to the current negotiating text are loss of government revenue, rules of origin, as well as potential positive impacts of development funding.

FSM does very little trade with the EU, meaning the impact of competition and loss of government revenue from tariffs will be minimal.<sup>37</sup> However, what is significant is that an EPA in goods with the EU will imply the same treatment must be accorded to the US. This will have serious tariff revenue implications as approximately 34% of imports come from the US and a further 18% from Guam.<sup>38</sup> FSM stands to lose between \$500,000 and \$1,163,982 of tariff revenue<sup>39</sup> (FSM, 2007:93).

FSM is interested in several key areas. One involves changes in the rules of origin, as this could increase industry and job potential, although it would also raise social and environmental concerns. In services, FSM has listed telecommunications, banking, insurance and maritime transport for liberalisation in the EPA, although due to the high entry costs and small market, services to consumers must be protected in terms of quality and fair pricing.

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<sup>31</sup> An extension from 2015.

<sup>32</sup> 2007 study commissioned by the Forum entitled "The Potential impact of PICTA on smaller Forum Island Nations".

<sup>33</sup> All dollar amounts in US dollars.

<sup>34</sup> (including grants, 2005 data) from FSM Trade Policy

<sup>35</sup> *The Potential impact of PICTA on smaller Forum Island Nations*, in this calculation trading with Guam is considered as part of trading with the US, as much of this is reshipment of US goods.

<sup>36</sup> PICTs are to liberalise four out of seven sectors, which are financial services, telecommunication, transport (air and maritime), tourism & travel, educational service, health services and professional services.

<sup>37</sup> The total value of imports from the EU is about \$279,740 (03-05 average) and the average duty collected is about \$11,759 and only \$2,066 will be lost if 90% of the tariff lines are liberalised. (FSM, 2007: 93)

<sup>38</sup> Likely to be mostly transshipments from the US.

<sup>39</sup> Depending on what method of measuring trade is used (value or tariff line method) and whether or not tariff revenue from trade with Guam is included in this calculation.



The fundamental difference between the EPA and its alternatives (GSP and EBA) is that it is not unilateral, but is multilateral and binding;<sup>40</sup> both parties have the opportunity to negotiate and must both agree to the terms. Also, the EPA includes a development component to assist with adjustment to liberalisation and to help ACP countries maximise the benefits from the opportunities opened up in the agreement.<sup>41</sup> FSM potentially stands to gain from the EPA through the development component.

The EPA includes chapters on labour mobility, tourism and investment. It is unlikely that there will be a net change in migration if FSM were to have labour mobility access to the EU because Micronesians have easier access to work and live in the US under the Compact agreement, however the development component in the EPA may be of benefit. The investment chapter aims to increase availability of capital at development rates which is important for the development of the private sector. FSM could benefit across all areas from adjustment funding, especially projects to enhance tourism, and to enhance local training to degree level and with recognised EU qualifications for labour mobility; or to give access to training to facilitate labour mobility.

The EPA must still be viewed with caution. Inclusion of investment and services must be viewed with extreme concern as liberalisation in these areas can have wide reaching impacts that are difficult to foresee or mitigate. The PACP text that this impact assessment is working from is essentially a “wish list” from Pacific governments (Kelsey, 2006). The Pacific minimum negotiating position on services sets limits that seek to ensure the PACP achieves potential benefits from an EPA such as requiring meaningful labour mobility access and development assistance for training, accreditation and qualifications, or reform of EIB, CDE and CTA to better serve PACP SME needs (PIFS, 2007). Essentially the Pacific seeks a development first approach to the PACP EPA. The Pacific is also using a ‘nothing is agreed until everything is agreed’ negotiating position, however given that the Pacific position is also that the EPA is better than available alternatives of GSP, GSP+, and EBA, primarily because of the development component and that commitments in the EPA are binding not unilateral; then it must be asked how far the PACP be willing to go to secure an EPA, and how high the costs might be for the Pacific.

### **Economic and social indicators**

The Federated States of Micronesia (FSM) is a grouping of 607 small islands situated in the north-west Pacific. It is comprised of four states: Chuuk, Kosrae, Pohnpei and Yap. It has a population of 107,008 people (2000 Census). Though it has a total land mass of only 270.8 square miles, it has an EEZ of more than one million square miles of the Pacific Ocean (FSM Government website). FSM is a largely subsistence economy with little local industry, though it is situated in one of the richest fishing stocks in the Pacific. FSM has generally poor social indicators. Key potential areas for economic growth are in niche tourism,

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<sup>40</sup> In unilateral agreements, the terms can be changed by the EU.

<sup>41</sup> The main agreement of the Pacific EPA includes chapters on trade facilitation and promotion, agricultural development, fisheries, services, tourism, investment protection and promotion, financial mechanisms (for adjustment and support), and dispute resolution.

agricultural exports and fisheries licensing and value added production, though all industry is constrained by extensive supply side constraints.

Local industry in FSM is in agriculture, fisheries, and tourism. Subsistence agriculture is significant in FSM for local consumption. About 45 percent of the FSM population engages in subsistence agriculture and household production. The monetary value of local production is estimated at about \$50 million a year, or one-fourth of the total value of the FSM economy<sup>42</sup>.

FSM has considerable advantage in fisheries licensing and tourism. Fisheries licensing generates approximately \$13.4million (2003), and a tuna loining facility currently operates with potential for more value added production. FSM’s main tourist markets are the US and Japan, though there have been increasing numbers of European visitors. FSM has comparative advantage in high end niche cultural and eco-tourism due to its pristine environment, although has substantial supply side constraints especially in air travel to FSM, infrastructure, legislation, policy and certification, and training.

The majority of FSM imports are accounted for by expenditure on food items, mostly due to consumer preferences though a return to local foods would result in improved health, local employment and balance of trade.<sup>43</sup> In 2006, imports were dominated by food and beverages about \$41 million (DEA, 2007, table 2.7 in FSM, 2007:45). FSM’s exports have always been small and its balance of payments has always been in deficit (IMF report 2005, in FSM, 2007:44). Exports have fluctuated between \$14-18 million since 2000, dominated by marine products valued at \$12-14 million including purse seigner and long liner licensing, reef fish and crab and lobster, but also include some agricultural products valued at \$1-1.5 million<sup>44</sup> including copra, bananas, betel nuts, and piper leaves.

Year	Exports	Imports	Trade Balance	Exports as % of Imports
2000	16,788	106,760	-89,972	15.7%
2001	18,401	113,834	-95,433	16.2%
2002	14,441	104,290	-89,894	13.8%
2003	18,206	117,924	-99,718	15.4%
2004	14,002	132,696	-118,694	10.6%
2005		117,500		

(FSM, 2007:44)

FSM’s investment ranking is very poor; government analysis believes that investment laws need to be reviewed continually to create an environment which is conducive for business (FSM, 2007:80).

<sup>42</sup> Chris Lightfoot and Francis X. Hezel, S.J: 2005. The Myths of Economic Development in the FSM *Micronesian Counselor Number 59*.

<sup>43</sup> Substitutable foods were estimated at \$1.4 million in 2002 (FSM, 2007:25)

<sup>44</sup> 200-2003 figures (DEA, 2005:37)

Structure of political institutions and the economy in FSM have been shaped by the Compact funding. GDP in FSM is inflated due to the high level of Compact funding and government spending. A large proportion of government revenue comes from external assistance (66% in 1995 and 63% in 2005), 40% of which is from the US. There are no other significant sources of government revenue. Between 1995-1999 there was a significant decline in GDP when several large government projects failed and there were significant decreases in Compact funding in (ADB, 2005:49). Tariffs on about 80% of imports have a 3-4% import duty, and this been the case for a long time because of the security that is provided by the Compact funding and because of the fact that there are no local industries that need tariff protection. The private sector contributes less to GDP than the government due to its small size and due to the large gap in wage rates, government employees earn 2.5 times private sector employees (FSM, 2007:20). Reduction in Compact funds has created a crisis of government revenue and contraction of the economy (FSM, 2007: 12).<sup>45</sup> With the prospect of losses of government revenue through Compact funding reductions a Tax Reform Task Force recommended in 2005 that a consumption tax be introduced by 2010 (FSM, 2007:79). The government sees this as a “competitive advantage” in that it would be able to sign any agreement without suffering the impacts of revenue loss on their budget and presumably service provision to citizens (FSM, 2007). However the lived experiences of people in the Pacific of consumption tax, including Fiji, Tonga and Samoa, is that it disproportionately impacts the poor. FSM would be particularly vulnerable as there is high consumption and reliance on bought goods, but already reductions in household income due to significant losses in work opportunities, with more to come as further step-downs and phasing out of Compact funding. There is evidence that some households are already switching back to subsistence living because of cash shortages, meaning introduction of consumption tax will increase this trend. People in FSM struggle to access basic health and education, increasing the price of food will not improve this. Findings in the 1998 HIES study. In FSM overall, 27.9% of households were below a calculated Basic Needs Poverty Line (BNPL), meaning that this proportion of all FSM households had insufficient incomes to meet the level of expenditures required to provide basic needs (The BNPL excluded food. (ADB TA 6047-REG: Table 8) (ADB, 2006:148-9). Existing social problems linked to poverty and financial hardship including as suicide, substance abuse, and domestic violence are also likely to be worsened.

The Public Sector Reform Programme (PRSP) began in 1996 as a response to reductions in compact funding, amounting to 22% in 1997. Public sector reform has basically resulted in recession, loss of jobs and increased poverty:

In FY2004, the economy went into recession as the level of Compact receipts fell from \$84 million to the new lower negotiated levels of \$76 million. From FY03 to 06 GDP contracted by 0.9 % , public sector by 0.7% and private sector contracted by 1.5% (FSM, 2007:13).

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<sup>45</sup> Compact funding is due to end in 2023. In preparation there has been considerable government downsizing through the Public Sector Reform Programme (PRSP), and establishment of a trust fund. Each year \$800,000 is put aside, matched by a US contribution of \$16 million, and this is intended to replace the compact funding at the conclusion of Compact II in 2024 (ADB, 2006:4). However, this has not been wholly successful as government initially borrowed to make up the lost funding, and though there were staff and wage cuts by 2003 spending had returned to previous levels.

Between 1995 and 2005 employment has stagnated and over 1,200 jobs have been lost. (FSM, 2007:19). Cuts in Compact funding and the (PRSP) resulted in negative GDP 1995-2000 and drops in the public sector workforce and wages (UNICEF, 2006:13, ADB, 2006). States such as Kosrae and Chuuk where there is little employment outside the public sector were hardest hit (UNICEF, 2006:13). Access to income generating opportunities and basic services were identified as priorities for change across the three groups of women, men and youth in a 2004 study (Zuniga-Camine, 2004; in UNICEF, 2006:9).

People in FSM face considerable hardship and poverty, and inequitable distribution of income. These economic factors particularly impact on their ability to access health and education, transport and communications, as well as on food security (FSM, 1998; FSM, 2007:20). “Conditions of financial hardship, while not widespread, are nevertheless leading to increased social and domestic tensions, rising crime, increasing drug abuse and a deteriorating quality of life for those most affected” (ADB, 2004:3).

An important safety valve, and common response to the lack of opportunities in FSM, especially for young people, has been to emigrate to the US for work and other opportunities (UNICEF, 2006:15; ADB, 2006:94). Labour migration, especially of youth, creates a vacuum in social obligations and those who would otherwise support the subsistence production of food (Shed, 2007). Though society is changing in FSM, obligations to extended family are still very strong, and this can lead to pressure from extended family members in need on those households with income (ADB, 2007:17). Figures estimate between 20,600 and 29,000 FSM citizens to be living overseas,<sup>46</sup> mostly in CNMI, Guam, Hawaii and US mainland (ADB, 2006:93).

Most people in FSM struggle to access health and education. A 2004 study found that communities throughout FSM described limited access to services as a fundamental part of their poor quality of life; this also contributes significantly to FSM’s low ranking in UN Poverty and Human Development indices (ADB, 2007:149).<sup>47</sup>

Education in FSM is publicly run and free between the ages of six to 15 years. Access to education has expanded considerably in the period 1984-1996 however poor quality of education means it does not equip young people well to enter the formal workforce or gain entry to education overseas (UNICEF, 2007:24, 34 & 44).

People in FSM face ill health, poor diet, and loss of food security. Parasitic and infectious diseases are still major causes of sickness and death<sup>48</sup> (UNICEF, 2006:16). HIV infection has risen fast and STIs are prevalent. Limited access to SRH services is especially a problem (UNICEF, 2007:47). Due to this context of vulnerability increased exposure to tourists, seafarers and army recruitment will increase risk of HIV infection rates in the FSM

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<sup>46</sup> Between 16 and 21% of the total FSM population 2003 figures, total population 107,008.

<sup>47</sup> Based on 1999 rankings, the FSM ranked 7th among 12 Pacific developing countries (ADB member countries), and 9th in terms of ‘poverty.’ The human development index takes into account life expectancy, adult literacy, school enrolments, and per capita GDP. The human poverty index takes into account underweight children under 5, people without access to safe water and health services, as well as specific measures of illiteracy and life expectancy. Inadequate social services in the rural and outer islands contribute significantly to the FSM’s low ranking on these indices. (ADB, 2006:149)

<sup>48</sup> Particularly those spread by food and water, such as acute respiratory infections, influenza, diarrhea, gastroenteritis, conjunctivitis and skin diseases.

population. Ill health is also connected with high consumption of imported foods. Change in diet coupled with the sedentary lifestyle of a moneyed economy is resulting in obesity, diabetes, hypertension and vitamin A deficiencies<sup>49</sup> (Flear, 1997 in UNICEF, 2006:17). This diet also has a big implication for trade, as food and beverages are FSM's main import.

Social related health issues are also of particular concern. FSM has the highest rate of suicide in the world, predominantly among young men (UNICEF, 2007:46). There is also widespread substance abuse of alcohol, sakau (kava), drugs and chewing betel. Sometimes youth bring these problems when they return from abroad. (UNICEF, 2007:50) There are high rates of domestic violence, particularly 'wife beating' linked to alcohol consumption and breakdown of extended family protection system (UNICEF, 2007:60). Economic antecedents of social problems connected with ill-health include change in the nature of extended family and the progressive loss of family network for young people (UNICEF, 2007:50).

Populations in FSM face poor access to, and quality of, health and education services, as well as pressures on the environment, sanitation, housing, food security and family safety-nets. These factors are connected to urbanisation, few and limited opportunities in the private sector and loss of jobs due to loss of government revenue. All these factors contribute to communities' vulnerability to the high level and variety of social problems including infectious and lifestyle diseases, suicide, STIs, substance abuse and domestic violence.

### **Sectors being examined and likely social and environmental impacts**

FSM does very little trade with the EU. However there is potential to increase exports in fisheries and tourism and to use the development component well. Of particular interest for FSM is the potential to develop a value-added tuna processing plant and cannery, facilitated by changes in rules of origin, requiring FSM to sign the goods agreement. Tourism and the labour mobility proposal also hold potential: FSM currently has unmanaged migration (especially for work) in the US, and has significant potential, despite elemental barriers, to the development of a tourism industry. FSM may also nominate services liberalisation in telecommunications, banking, insurance and maritime transport. Problems in these sectors could be addressed by alternative means than liberalisation in the EPA, and liberalisation is unlikely to address problems in most sectors. Moreover, most sectors require the development of additional legislation before they can be liberalised. It is likely that the rationale for liberalisation is based on PACP principles for services offers, recommending offers in 3-4 sectors (2-3 in LDCs), when in fact liberalisation opens up risks and offers little potential benefit (PIFS, 2007a).

Due to the Compact agreement the impact of US MFN status must be considered. Similarly though FSM is not a signatory to PACER, MFN with Australia and New Zealand must also be considered, as, FSM may request observer status if PACER negotiations begin and may sign if it sees the agreement as favourable.

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<sup>49</sup> These increase the likelihood of complications in pregnancy (UNICEF, 2007:58)

The proposed adjustment facility will be essential in terms of training for local industries, education upgrading to international standards, developing, implementing legislation. The adjustment facility is a 'red line' for PACP negotiators (PIFS, 2007) but exactly what the EU will agree to is yet to be seen. Key supply side constraints need to be address for most PACPs to take advantage of trade relations. For FSM transport infrastructure (roads, airports, and docks), telecommunications, banking systems, healthcare services, sewage and waste care services, water and electricity supply, and public transport all need improvement. These are fundamental barriers to successful private sector development.

Social and environment issues are important in FSM.

- Any development will have to be absolutely environmentally sound as people in all states rely on subsistence farming and fishing for food security. A pristine environment is also essential to high end tourism outlined in the Strategic Development Plan.
- Job creation for local people and local industry growth is essential. Employment has been identified as a key priority by citizens. Local industry growth could improve wage disparity between private sector and public sector, which could in turn help retain skilled workers. Industry growth would positively contribute towards government income through revenue tax, which would have positive flow on effects in achieving social objectives and development goals.<sup>50</sup> However the potentially large environmental impacts and social risks of a cannery question net benefits of an EPA for FSM. Local production that can maintain reliability and quality standards will substitute for unnecessary imports and help address trade deficit as well as have export potential, which will help create job security for some.
- Employment is important to assist in lifting people above the poverty line, because of extended family structures distributing wealth any employment would have spread out effects. Positive flow on effects would include to quality of housing, health and education.
- The development component or adjustment facility is fundamental to FSM having benefit from the EPA. There must be analysis and strict rules protecting the environment, and analysis and programmes implemented to strengthen and protect vulnerabilities evident in FSM society. A change will be required of some contemporary FSM cultural values and practices on issues such as food preference, sexual decision making and destructive fishing and farming practices in order to address current health and food security concerns.

### Goods

A trade in goods agreement in the EPA will cover agricultural, forestry, fisheries, and manufactured products. The PACP EPA text is structured such that countries sign a main agreement and can opt into the goods agreement.

The key aspect of the goods agreement that is of interest to FSM is the change in the rules of origin chiefly to a change in tariff heading (CTH) approach. FSM could benefit as this

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<sup>50</sup> Compact II priorities jointly agreed by US and FSM are (1) Health, (2) Education, (3) Infrastructure, (4) Capacity Building, (5) Private Sector Development, and (6) Environment.

change would enable FSM fish caught on licenses to non-FSM and non-EU boats to have access to the EU market under the terms in the EPA. This would give FSM access to a new market and would better enable value adding fish processing operations to set up in FSM and for fisheries goods to subsequently be exported to the EU. Currently FSM's two main markets are the US and Japan which are stagnant and declining, respectively (ADB, 2006).

### **Potential industry impacts of a CTH ROO in Fisheries**

At present FSM has one fresh/frozen tuna processing facility based in Pohnpei. The facility is leased from Pohnpei State and operated by Luen Thai Fishing Ventures (LTFV) on an initial 5 year lease. The processing plant employs 140 people in its fresh/frozen tuna loining facility, transshipment operations, cold storage and ice making operations. (Lohn, 2007). There is also a similar fresh/frozen tuna loining facility in the Marshall Islands that employs about 120 people and requires an input of 5-10 tons of longline caught tuna per day with a processed output of half that (Movick, 2007).

Pohnpei would be the most likely site for any further value added production developments in FSM, especially for cooked tuna products for cannery or canned use, because it has sufficient available land, dockside facilities, an adequate population base, and the largest source of fresh water in FSM.

If rules of origin were liberalised or improved based on the CTH approach and if the PACP is allowed to use any boat to catch fish and still qualify to export to the EU, then there would be potential for Pohnpei to set up a cannery or cooked tuna loining facility. Some of the fish that are currently being shipped to Bangkok, PNG and South America could be supplied to the cannery in Pohnpei (Movick, 2007). This will enable expansion in a value added fisheries industry in FSM. Production in FSM can be nurtured to competitiveness vis-à-vis other suppliers through utilization of the 20.5% tariff preferences from the EU and a 12.5% tariff preference in the US canned tuna market and; savings would be made on the transport costs of the whole fish (in comparison to alternatives in Bangkok, PNG and South America); and further savings would derive to associated tuna purse seine vessels operating from the facilities in the midst of the major fishing grounds (Movick, 2007).

FSM's competitiveness mostly hinges on the 20.5% market access tariff preference into the EU, as well as its geographic location. It is significant to note that under article 37.6 of the Cotonou Agreement market access must be continue at levels as good as what is presently available. The EU could deliver this to the Compact states under GSP+, instead of the EPA, thus avoiding the problem of these states having to address MFN requirements to the US as a result of the EPA.

In Pohnpei an expansion to the current fresh/frozen loining operations would be possible with preferential EU market access, enabling the facility to increase its production by about 50% to 100% or between 15 to 20 tons per day. That would enable another 50 persons to be employed at the processing plant. Currently, boat traffic supplying the fresh/frozen processing facility means estimated boat traffic of 25 small longliners, all of which dock at the port. They are staffed by approximately 200-225 people; most seafarers are Chinese. No purse-seiners supply the LTFV facility. This means traffic of approximately 200 seafarers

twice per month, or on any given day 50-60 people. Increasing the facility to 15-20 tons would mean an increase of 50-100 per cent of the current numbers. That would mean traffic of 37-50 boats, 300-400 seafarers twice per month, or 75-100 people on any given day. This increase of numbers would be significant in Pohnpei where there is a population of 34,486 (2000 figures).

Establishment of a cannery or cooked tuna loining facility could produce about 100 to 200 tons per day of skipjack tuna at current sustainable fishing levels and infrastructure capacity. This would create approximately 900 - 2000 jobs. Sixty to seventy percent of jobs created in the cooked loining facility would be predominantly staffed by women, meaning 600 to 1400 jobs for women. There would also be the potential for fuel refilling services, which could add economies of scale to fuel prices in the domestic market. Increased activity would increase boat and seamen traffic in Pohnpei which would create opportunities for local businesses but also have social, environmental and health impacts. These endeavours would require significant development in land, waste and utilities the impacts are discussed below. (All figures from Movick, 2007)

At 100 tons production per day one purse seine fishing boat would be required to offload its catch at dockside approximately every 8 days. However, even at present extensive tuna purse seine transshipments to refrigerated carrier vessels is being undertaken within Pohnpei's main port anchorage, with an average of 4 purse sine vessels and carriers in port each day, with a total of about 100 crewmen on board. However crew visits to shore are reported to be short and to involve only few crew. (All figures from Movick, 2008).

### **Potential socio-environmental impacts of goods agreement**

A development like this would have impacts for the government and private sector. Government would gain increased revenue through tax income generation. There would be positive impacts for local business in terms of increased market (through increase in wage earners) and the seafarer market, and potential decreased fuel and shipping costs through economies of scale.

Socially there would be benefits through increased work opportunities. The current LTFV has more applications than they can fill positions for, and appropriate staff management policies have contributed to successful operations so far (the operation began in June 2006). FSM would also be able to impose performance requirements on foreign investors in fisheries. For example requiring a certain amount of catch to be processed locally, because FSM is not a WTO member it is not currently bound by those restraints (known as TRIMS). Also, depending on how it is managed the cannery can be more than just a source of income but also a mechanism for change in values in society relating to gender power relations and spread of HIV and TB. Fundamental to the success of the cannery is a workforce who is healthy and productive. LTFV has sexual harassment policies, HIV and TB testing, and strict attendance rules. This could be an opportunity to address key issues facing FSM society including gender power relations, and the spread of HIV; and could be linked with other work in society.



However the context of fisheries also has negative impacts. Negative environmental impacts are linked to negative social impacts.

- The shifts are set according to boat arrival times, meaning odd hours and working through the night. Initially, when the fresh/frozen processing facility first started in Pohnpei under Pohnpei Fisheries Corporation (PFC) this caused some social problems as family's worried about the context for sexual promiscuity. . To mitigate this, LTFV operation has continued the strict practices adopted by PFC with the adoption of strict sexual harassment policies that have resulted in a level of stability. (Movick, 2007)
- Also Micronesian seafarers would find extended periods away difficult, resulting in absenteeism. In comparison Asian crews are able to cope with two weeks at sea and a turnaround time at port of only one or two days. To cater to the Micronesian preference, shifts were managed so that crews would alternate and thus have adequate time back in their communities and families.
- Absenteeism and productivity was a problem at LTFV initially, and this has been dealt with by strictly applied rules that if a staff member is late twice they miss a day of work, and absent too much they get suspended from work. Some staff lateness is related to lack of public transport. (Lohn, 2007)
- Work in the canneries is gender differentiated so it is important to ensure that there is equal pay for work of equal value and avoid the creation of a marginalised feminised workforce.
- The work is also hard and not appealing to most people, however LTFV pays \$1.50 per hour, above the Pohnpei minimum wage of \$1.35 per hour, and pays overtime for work over 40 hours per week. Staff also must have police clearance before hired and have a six monthly medical check for HIV and tuberculosis.
- The increase in foreign seamen could also have a social impact on local populations, increasing the risk of exposure to HIV (both in and out of FSM) and potential for other social disruption.
- There is a perception that “the government always promises that they will hire locals but it doesn't happen that way.” However government statistics show that only 807 Filipinos are employed in FSM, and has increased by just 28 people over the last five years; both Chinese and Japanese employment have decreased in the same time 703 to 15, and 1,701 to 1,019 respectively. These findings are also reflected in LTFV, who hire all local port-side staff, and transshipment staff, although the long-liners are crewed by Chinese.

There are very significant waste and pollution issues with a cannery, especially in the context of FSM's environment.

- More land would be required either at the port or inland for the site of the cannery. At the port, land will have to be reclaimed, either from the local quarry, dredging or coral reef mining which all have negative environmental impacts and impact food security for local subsistence fishing.
- A cannery/cooked loining facility would also require processing of waste. Some meat off-cuts can be set aside as low grade meat for human consumption; off-cuts can also be recycled into livestock feed using added local carbohydrates, or buried for disposal. Cannery liquid waste, “sticky water”, would need to be processed in sinking

ponds; this will have negative olfactory environmental impacts. There is also the possibility of recycling this water. At the Samoa cannery liquid waste is shipped out to deep sea and dumped, while in the Marshall Islands it is piped off-shore into the adjacent deep ocean.

- A cannery would also require water and electricity. If the state water and electricity supply were not adequate then a generator and oil tank, along with construction of catchment tanks or drilling of wells and construction of distribution pipes would be required. Both would have negative environmental impacts such as potential oil spill, generator noise if not well insulated, and clearing of land; this kind of development will increase water runoff from land and increase sedimentation which impacts reef health decreasing species diversity and water clarity (CSP, 2006:4).

Opening a cannery in Pohnpei would potentially bring 2000 to 3000 jobs and therefore significant opportunity for those who could move to Pohnpei to access them. However, it would also expose people to significant social risks and significant and widespread environmental degradation especially in the Pohnpei port area from both construction of facilities as well as operational boat traffic and waste. In the current context of FSM this decision is made difficult by the fact that many current social problems are linked to lack of work, poverty, and a weak private sector. A cannery could relieve some social problems through job creation, though would bring new ones related to seafarer traffic with associated risk of HIV. The environmental impact of a cannery cannot be denied. Construction of the facilities, dredging for landfill, increase boat traffic, electricity and water supply but especially waste processing and disposal related to plant operations would create significant impact in the area.

Due to the drawbacks of opening a cannery in FSM it is important to ensure wide stakeholder participation in the decision to open a cannery. One method of doing this is to run a process of free prior informed consent for a wide range of stakeholders related to the project. This should include local land owners and people engaged in subsistence living in the area including women, potential employees particularly women who would do the tuna loining, environmentalists, the private sector, as well as government officials.

### **Impacts of MFN with the US**

Giving MFN to the US will have a notable impact on government revenue because approximately 50% of FSM trade in goods is with the US; a loss of approximately 8% in government revenue, amounting to between \$500,000 and \$1.2 million (FSM, 2007). The FSM government already has plans to compensate for losses in government revenue through implementing consumption tax, scheduled to begin in 2010 (FSM, 2007:79).<sup>51</sup>

Alternatively, FSM can consider asking for an exemption from the US, or it can measure substantially all trade using the tariff line method under which about \$346,000 of revenue would be lost annually, only if the EU agrees this will be compensated by the adjustment assistance programme, FSM would still have to find alternative sources of government revenue to compensate for this (FSM, 2007:94).

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<sup>51</sup> See discussion of impact of value added tax in Section 2 (paragraph six) in this report.

### Services

It is unlikely that FSM will experience any major impacts due to liberalisation of trade in services in an EPA with the EU. Key areas in the EPA are labour mobility, tourism and investment however impact in FSM is likely to be minimal: It is unlikely that labour mobility will have any net effect as FSM citizens are currently able to work and reside in the US, though FSM could benefit from the development funding supplied to facilitate labour mobility, as well as qualification recognition of local educational institutions. Likely benefits from tourism are also minimal due to the high supply side constraints facing the tourist industry which makes European investment in this area unlikely, coupled with the situation that the main export markets for FSM tourism are Japan and the US which account for over two thirds of visitor arrivals (FSM, 2007:36).

Additional sectors that FSM is looking at liberalising in services are telecommunications, tourism, finance (banking and insurance), and maritime transport services. Impact in these areas is also likely to be minimal due to FSM's close relationship with the US and minimal connections with the EU. Telecom is a monopoly, maritime services is regulated by the Micronesian Shipping Council, the financial sector is open with few restrictions, and in air transportation services preference is already given to US airlines. In all these sectors not only is the FSM market small and unlikely to be able to sustain any more competition, but that competition and investment from foreign firms is unlikely to come from the EU though is more likely to come from the US which is the main presence in the north Pacific; thus making impact from liberalisation in an EPA minimal.

It is essential that service sectors are regulated before commitments are made and this flexibility is allowed in the PACP EPA. Governments can make offers conditional on development and implementation of legislation, for which they can request technical assistance. However, FSM must still identify all the restrictions that it wants to put in place as it is difficult to put new regulations in place after entering into commitments.

### Adjustment Facility and Development Assistance

Access to development funding for technical and financial assistance is fundamental to any benefits FSM. The main potential benefit the EPA offers to FSM is change in tariff headings to support the creation of a value-added fish processing. As discussed in the services section there is little real potential for benefit in liberalising access to the EU, the EU has a small presence in North Micronesia, the real implications of liberalisation will be through MFN requirements with the US that will follow any agreement with the EU. In this context for FSM the other potential benefit from the EPA is development assistance. In its draft demands and offers FSM has requested technical and financial assistance in almost all areas in its services demands and offers, the key sectors being tourism, investment, health and related social services, construction, business services, distribution, maritime transport, banking and financial services, professional services (FSM, 2007).

## **Discussion**

### Scenarios

In summary, FSM faces three different scenarios in relation to the EPA negotiations. First, it could sign the EPA and the opt-in goods agreement with the reformed ROO. In this situation we can suppose the potential for a tuna cannery and that FSM would receive development assistance. This scenario has very mixed benefits for people in FSM unless there is a strong regulatory regime to minimise social and environmental costs to ensure the creation of real benefit, hence the importance of the development assistance. The cannery would compromise tourism in the area through smell, waste, and potential land traffic, as well as marine pollution and destruction through ship traffic. Given the fact that FSM has duty free access to the US as well as financial assistance from the US, it raises the question of what the additional benefit from the EPA would be. There are also vulnerable groups that could be adversely affected. These include women workers in the loining facility, transshipment workmen and seafarers, communities where the cannery would be situated, potential prostitution that might grow around the increased numbers of seafarers, as well as populations at risk of STIs/HIV. Groups that might benefit include businesses that would profit through increased market size, and potential economies of scale on fuel and other industry inputs due to the increased frequency of ships.

A second scenario is that FSM signs the EPA without the goods option and does not gain any improvements in ROO. In this scenario the main impact would be development assistance particularly with labour mobility and improvements in education, skills and vocational training. This would only be possible with a very different kind of EU option for labour mobility than what is currently on offer.

A third scenario is that FSM does not sign the EPA, but trades with the EU under GSP+. In this scenario if there were ROO changes a cannery could still be a possibility, however it would be more difficult to set up without the development assistance, and there would be fewer resources to mitigate negative impacts on vulnerable groups.

### Analysis

The magnitude of the social and environmental impacts depends on the regulatory regime applied to the cannery. Most negative impacts would be difficult to measure. Destruction and pollution of marine environment through ship traffic and coral dredging for construction could be measured through species depletion and water pollution. Negative impacts on human populations could be measured through STI rates, workplace and labour standards, reporting of prostitution. However the current statistics on STI rates and sexual health are unreliable, this is similar with workplace and labour standards which currently do not have a nationwide regulatory regime. Impact on local business could be measured through turnover and profits, as well as pricing on industry inputs such as fuel.

Measures to tackle the adverse impacts of liberalisation described above would include improved access to SRH education and services, particularly STI clinics, as well as the

creation or strengthening of regulatory frameworks in environmental management, and labour and workplace standards.

Potential beneficial outcomes from the above scenarios include, the improvement of education opportunities through the development component to cater to labour mobility, increase in market and business opportunities, the creation of regulatory framework sequenced before liberalisation, increase of public awareness on STIs (dependent on the workplace education), improvement of the status of women, protection of rights of workers, and women in canneries, tourism and labour mobility (dependent on workplace and employment policies implemented), skills training such as for canneries and tourism, the opportunity of work as a stepping stone for more successful emigration (due to the ability to have some work experience and save money prior to emigration).

Questions that need to be addressed in order to provide effective mechanisms of assessment and monitoring of the sustainability impacts of the EPA in the course of its establishment are: (1) Did the EU deliver on its commitments in the agreement in terms of resources, assistance, such as technical and financial assistance; as well as examining what conditions were applied and the impact of this, and an analysis of how funding was used. (2) Did the policies have the desired effect of stimulating investment opportunities, job creation, and a viable cannery. (3) Did the jobs improve the local situation, analysis of employment increased for local people, analysis of changes in local income, analysis of creation of economic benefit, and (4) what were the social costs and impact on people and the environment as a result of the agreement.

Effective integration of the environmental and social dimensions in other policies would be required in other policies including fisheries management policies, tourism development plan, labour market legislation and regulation, investment regulations that allow proper rules and standards to be applied to foreign investors, and policy on education and skills and vocational training.

A sustainable EPA for Pacific ACP countries requires awareness-raising, assistance and capacity building with stakeholders. This should have been done throughout the negotiations of the EPA pointing to the need for more time. In FSM wider stakeholder involvement and better working relationships and communication between municipal, national and federal governments is required address awareness-raising, assistance and capacity building concerns that would better facilitate a sustainable EPA.

## **Conclusion**

FSM is a country with a host of development and institutional problems. It is a context in which the EPA would offer few solutions to trade and economic problems facing FSM, and certainly even fewer solutions to FSM's social problems.

The potential benefits of an EPA are theoretically the value added fish processing in the form of a cannery, as well as the development component of technical and financial assistance in the PACP EPA text. However in order to attain these potential and theoretical benefits, broad development in infrastructure, training and regulatory requirements must first be addressed,

this development is both physical and in human resources. In other potential areas such as tourism, investment, financial services, maritime, and labour mobility, benefits resulting, for FSM, from an EPA with EU are tenuous.

Potential benefits are contingent upon numerous infrastructural, regulatory and training improvements. Numerous physical and human resources changes would need to be in place in order for the theoretical benefits to be a possibility. Furthermore the main potential benefit of a cannery would also be available under GSP+. This makes the signing of an EPA by FSM a questionable exercise given the variety of risks: MFN particularly with US, as well as NZ and Australia if FSM were to sign PACER.

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