

# **National Trade Policy TPF-Cook Islands**

## **INCEPTION REPORT**

**REFERENCE: 12022014**

**DATE: 12 February 2014**

### **DOCUMENT PURPOSE:**

**This document provides the Inception Report for the technical assistance project for the Cook Islands National Trade Policy TPF.**

**DESCRIPTION: INCEPTION REPORT**

**PREPARED BY: Executing agency for the project is TRIANGLE BUSINESS SOLUTIONS**

**Project Duration: 1 February 2014-31 October 2014**

**Team Composition: Project Director: Mr Iain Haggarty,**

**Consultant: Ms Ana Kessie,**

**Consultant: Mr Dan Lui**

## 1. INTRODUCTION

- 1.1 The Pacific Forum Leaders' Decision to address the special needs of Smaller Island States (SIS') and other Small Island Developing States (SIDS) through the Pacific Plan highlighted incoherent trade policy regimes as a key factor in hindering their effective integration into the multilateral trading system. To address this shortcoming, the Economic Governance Programme of the Pacific Islands Forum Secretariat (PIFS) has led the effort in formulating trade policy frameworks for a number of Pacific SIS and SIDS , including Nauru, Niue, the Republic of Marshall Islands and Tuvalu, as well as Fiji, the Federated States of Micronesia, Solomon Islands, Tonga and Vanuatu. The commissioning of the Trade Policy Framework of the Cook Islands is part of the strategy of the PIFS to contribute to the sustainable growth and economic development of the SIS and other SIDS in order to fulfil the Leaders' objective.
- 1.2 In 2013, the Government of the Cook Islands sought assistance from the PIFS to review and assess its current trade policy regime. The Cook Islands indicated that the formulation and development of the comprehensive trade policy framework and an implementation matrix should take account of the economic, social, cultural and environmental pillars of sustainable development that are unique to the Cook Islands.
- 1.3 The National Sustainable Development Plan 2011-2015 is the blue print for the economic growth and sustainable development of the Cook Islands. The Plan, however, stresses that economic growth should be in harmony with the social values, culture and the environment of the Cook Islands. To achieve this objective it is envisaged that a National Trade Facilitation Committee (NTFC) will be established to co-ordinate, review and debate the TPF on an on-going cost effective basis.
- 1.4 The establishment of the NTFC in other Pacific SIDS and SIS strongly suggests that coordination, management and monitoring of the national trade policy framework has proven more effective when channelled through a representative NTFC.
- 1.5 The broad objective of the Trade Policy Framework (TPF) is to provide an enabling environment that would foster trade and development through investment in the key sectors of Cook Islands' economy as foreshadowed in the National Sustainable Development Plan 2011-2015.
- 1.6 The TPF, once accepted and endorsed by the Government of the Cook Islands, will be the main instrument to guide trade policies and the building of trade policy well into the next decade and beyond.
- 1.7 The TPF is expected to collate, index and analyse all relevant legislation, rules, policies, procedures and regulations impacting on trade in goods, services and intellectual properties

- 1.8 The TPF will examine and assess the bilateral, regional and multilateral trade agreements to which the Cook Islands are a party or is currently negotiating. The TPF will suggest the negotiating positions that will have to be adopted by the Government of the Cook Islands in its current trade negotiations and identify areas of key interest to the country. In this context, and to the extent possible, negotiating positions will be tabled for consideration by the Cook Islands on key meetings such as PACER Plus and the EPA in so far as it falls within the timeframe of this assignment.
- 1.9 The TPF will also identify the possible benefits that could be derived from existing trade agreements such as the Pacific Islands Countries Trade Agreement (PICTA), PICTA Trade in Services Protocol, SPARTECA and the Cook Islands-New Zealand Partnership Agreement as well as future trade agreements, including the Economic Partnership Agreement (EPA) with the European Union and the PACER Plus Agreement with Australia and New Zealand.

## **2. COOK ISLANDS ECONOMY: GENERAL OVERVIEW**

- 2.1 The 2006 population census revealed that there were 19,342 inhabitants, out of which 70% lived on the main island of Rarotonga. The sex aggregation is evenly divided for men and women. It is estimated that 70% of the country's economic activity is generated in Rarotonga.
- 2.2 The Cook Islands face the many challenges common amongst the SIDS in terms of distance from markets, economy of scale, high transportation costs, high dependency on imports, over dependency in the tourism sector and the lack of natural mineral resources. In so far as this is the case, niche products such as in the garment industry and the black pearl industry illustrate the potential and strength for product development. The TPF will address niche market development to strengthen the export sector as well as identify supply side constraints that may be reducing the ability of sectors to increase or benefit from overseas trade.
- 2.3 Tourism is the key driver of the Cook Islands economy. This makes the national economy extremely vulnerable to external shocks as evidenced in the drop in tourism numbers during the global financial crisis. The leakages from the tourism sector are well known and national strategies are required to stall and contain the outgoing of foreign exchange. The consultants' Report will revisit the national strategies to address the outflow of foreign exchange.
- 2.4 In addition to tourism, retail, telecommunications, transportation, financial services, health, audio visual and intellectual property rights will all be examined and analysed in the consultants' Report.
- 2.5 Goods exports have been limited to a few products (garments, pearls, fish and juice) and have been declining in recent years. The need to revive traditional sectors and identify new industries, including in agriculture to reduce the excessive dependence on the tourism industry, will also be explored and reported on.

- 2.6 As a country, the Cook Islands receives very little direct foreign investment in the critical sectors of its economy. Beyond tourism, essential support services such as in the financial services sector or main professions do not appear to be well developed. The TPF is expected to provide recommendations as to how the Cook Islands may encourage investment and diversify its economy.
- 2.7 Issues around labour and skills are also an important factor in Cook Islands' economy, given the fact that Cook Islanders have New Zealand passports, providing them with access to better-paying jobs in many sectors both in New Zealand and Australia. There has been an ongoing policy debate around how to prevent the loss of skills that results from outmigration, and otherwise address skills shortages at home in several areas. The TPF will assess skills and labour mobility issues in light of their impact on trade policy and development.

### **3. METHODOLOGY**

- 3.1 The consultants will be working to the project TOR and its elements and milestones. The consultants will also be drawing on their considerable experience in international trade agreements and the drafting of trade policy papers and frameworks. As each country and trade situation is unique, the Cook Islands can expect a comprehensive TPF based on their actual needs and situation.
- 3.2 Consultations with the stakeholders in the first mission will determine the broad overarching objectives for the TPF to ensure stakeholder ownership of the Report.
- 3.3 The TPF will feature:
- Executive Summary (Statement by the Head of Government)
  - Macro-economic Environment (overview of the Cook Islands economy),
  - Trade Policy by sector (Good, Services and Intellectual Property Rights),
  - Participation in Mercantile Trade (Classification of Imports, Import regime and export performance)
  - Investment regime (Investment Code),
  - Trade in Services (GATS, Movement of Labour- Mode 4, Taxation, Competition policy, Trade and Environment)
  - Women in Economic development (handicrafts, niche production for tourism sector, women in agriculture),
  - Market access and trade negotiations (PICTA, PACER Plus, EPA).

The TPF will also identify methods to further develop and implement the Cook Islands trade policy including specific actions set out in a formal Implementation Matrix.

- 3.4 The Investment Code 2003 will be reviewed along with related initiatives put in place since its introduction, and recommendations made to reflect the changing

investment climate and the competition for foreign direct investment among countries.

- 3.5 Specific consideration will be given to the role of women entrepreneurs in the Cook Islands, who are predominantly engaged in the handicraft and services sector. The TPF will have a gender dimension so as to involve all actors in the Cook Islands.
- 3.6 The Aid for Trade regime will be examined with the view to making recommendations as to how the Cook Islands, as a middle-income developing country, can best harness financial and technical support under Aid for Trade to build its capacity in trade policy matters and also enhance its participation in international trade. Due consideration will be made to the Pacific Aid for Trade Strategy and the impetus surrounding the Pacific Regional Trade and development Facility.
- 3.7 An assessment will be undertaken of existing mechanisms in place to support trade development and expansion. In that regard, due consideration will be given to global value chains to benefit niche products such as in the fisheries and garments sector. Partnership developments with key regional institutions and international agencies to enhance product development will also be explored as well as supply side constraints both back up product value chains and also any constraints existing in further down the supply chain such as manufacturing capacity and transportation.
- 3.8 Prior to undertaking missions to the Cook Islands, the consultants will undertake a comprehensive desk-based research/literature review of all current policies and studies undertaken to date. The Consultants will work closely with the PIFS and the Cook Islands to map out the itinerary and work plan for the Mission.
- 3.9 It is intended that a total of three missions will be undertaken by the consultants to the Cook Islands. Initial discussions will be held with the Ministry of Foreign Affairs and Immigration to discuss the scope and depth of work to be carried out for each mission. The primary purpose of the visits to the Cook Islands will be to consult with relevant stakeholders - government officials, private sector representatives and community groups. Co-ordination of the missions will be made in close consultation with the MFAI and the Forum Secretariat.

The second mission will include a visit to Fiji to meet with the Forum Secretariat and Aid Donors. The third and final mission will involve a presentation of the final TPF to the Cook Islands government and other stakeholders for endorsement as directed by the MFAI.

#### **4. PROJECT ADMINISTRATION, MONITORING AND EVALUATION**

- 4.1 The progress of this project will be monitored closely against agreed outputs and project milestones. Monthly reports will be provided by the consultants to the client summarising progress and identifying any factors requiring specific attention.

- 4.2 In terms of technical content of reports and recommendations, the project design affords significant levels of stakeholder consultation and opportunities for feedback on technical recommendations. The team will place a very high priority on ensuring that there is full ownership of the TPF and its recommendations by national authorities and stakeholders alike. These requirements will be adhered to and will result in a TPF that meets stakeholder and client needs.
- 4.3 A comprehensive Work Plan has been drafted to ensure that the assignment goes ahead as planned. Reporting against the Work Plan will be a fundamental part of monitoring the project and ensuring that all deadlines and milestones are achieved.

## **5. CONCLUSION**

The production of the TPF will consist of the following:

- A comprehensive TPF Report;
- An Implementation Matrix outlining the road map for the implementation of the TPF (cost projections will also be determined as part of this);  
and
- A Trade Policy Statement.

The Implementation Matrix will be an integral part of the final Trade Policy Framework as the benefits of the TPF can only be gained through carefully planned implementation of its recommendations. This will include a range of actions from recommendations for legislative change through to infrastructural changes required to improve supply of products and services for export.

Through this background work and recommendations, the adoption of the Trade Policy Framework and the activities put forward under the Implementation Matrix are expected to further assist the Cook Islands to achieve economic growth and sustainable development as foreshadowed in the National Sustainable Development Plan 2011.

The preparation of this TPF is timely given that the Cook Islands is currently engaged in a number of trade negotiations, including PACER Plus with Australia and New Zealand and the EPA with the European Union.

The implementation of a coherent trade policy will therefore enable the Cook Islands to harness its resources to achieve robust growth which will assist in the transformation of its economy in line with government and other stakeholders priorities and preferences.

## Annex A: Preliminary List of Stakeholders to be Consulted

During the mission we would like to meet a number of stakeholders including key agencies from the public sector, private sector business and civil society organisations.

The list below is a preliminary list that will need to be elaborate further in consultation with the Government of the Cook Islands:

### **Public Sector:**

- All divisions of the Ministry of Finance and Economic Management (MFEM)
- Financial Services Development Authority
- Cook Islands Financial Intelligence Unit (CIFIU)
- Financial Supervisory Commission (FSC)
- Business Trade Investment Board
- Cook Islands Tourism Corporation
- Cook Islands Investment Corporation
- Agriculture
- Bank of the Cook Islands
- Ports Authority
- Airport Authority
- House of Ariki

### **Private Sector:**

We will be guided by the Cook Islands but if possible all the main exporters and importers and Chamber of Commerce, and key firms across all sectors.

We will ensure that we cover all sectors based on the GATS list of sectors and sub-sectors

### **Social and NGOs:**

In addition to House of Ariki, Chiefs and customary representatives if required

Non state Actors including environmental, women's and other groups

### **Overseas:**

Acting Consul General, Cook Islands Consulate General in Auckland. New Zealand.

Chief Trade Advisor, OCTA, Port Vila, Vanuatu

Fiji: PIFS, UN Women

## Annex 2: Key Documentation

### A. Data

Data will be crucial for the development of an evidence-based TPF. We will need at least the following data:

- The full range of available economic data (GDP and composition, Balance of Payments, etc)
- Government fiscal data (source of taxation, rates of tariffs and other taxes, expenditure)
- Basic social development data (population, education, health etc)
- Imports and exports of goods
- Imports and exports of services
- Production data for goods (agriculture, fisheries, etc)
- Tourism survey data
- Immigration data
- Data from financial sector on financial conditions
- Firm level data on business (e.g. number and size of registered business, etc)
- Any data from specific trade related reports (such as assessment of business environment)

### B. Legislation

We will need to obtain copies of all relevant legislation in the Cooks Islands. This will include all legislation relating to the following areas:

- International goods trade (covering imports and exports, including tariffs, customs and biosecurity requirements, restrictions, etc.)
- Domestic goods trade
  - Cross cutting: commercial restrictions, licensing, fair competition, etc
  - At sector level: agriculture fishing, etc.
- Regulation of foreign investment (including land, regulation)
- Regulation of movement of labour and work permits
- Regulation of services providers:
  - at cross-cutting level (e.g. environmental protection) and
  - at sector level (e.g. commerce, financial services, professional services, tourism, telecoms and other utilities, transport and shipping, construction, education and health, etc)
- Any statutory bodies or parastatals (and their mandates)
- Legislation relating to domestic economic conditions: taxation, minimum wages, etc.

- All legislation relating to intellectual property and other trade related areas

Any overview study of trade restrictions would be a good starting point. Although slightly outdated, PDP 2007 for example consulted the following legislation:

- Banking Act 2003
- Development Investment (Investment Code) Order 2003
- Development Investment Act 1995-6
- Education Amendment Act 2003
- Entry Residence and Departure Act 1971
- Environment Act 2003
- International Companies Act 1981-1982
- Leases Restrictions Act 1976
- Nurses Act 1985
- Shipping Act 1998
- Telecommunications Act 1989
- Telecommunications Amendment Act 1991

It may be necessary to update this list with recent legislation and regulations.

We will also need a list of key foreign treaties in the areas of trade and economic cooperation to which Cook Islands is party and progress of implementation (e.g. of PICTA). We will need copies of essential treaties and agreements (e.g. any cooperation agreement with NZ).

### C. Policy Documents and Department Workplans

We will ensure that the TPF builds upon other policies and is coherent with them. As such, we will need to obtain all policy documents (including drafts as appropriate) in any of the above areas (overall development strategies and policies, agriculture and primary industries, services sectors, industrial policy, mining etc etc), as well as in the area of Foreign Affairs.

It will also be useful, as appropriate, to be forwarded any papers or minutes of relevant committee meetings, cabinet or departmental briefings papers, meeting or mission reports, or government statements (e.g. on participation in negotiations relating to services, labour mobility, investment or overall trade issues).

We will need to make an assessment of capacity of the relevant Departments and will need departmental workplans organograms, annual reports of the Departments within the Ministry, staff training files etc.

### D. Studies and Research Papers

The evidence-base in terms of studies on the trade position of the Cook Islands would appear to be fairly scarce. We will need copies of the following identified

academic and regional studies that have been done on the Cook Islands (as well as any others not on this list):

Alexeyeff, K. 'Travelling Parties: Cook Islanders' Transnational Movement'

Asian Development Bank and Pacific Islands Forum Secretariat (2008), *Skilling the Pacific*, Mandaluyong City, Phil.: Asian Development Bank

Asian Development Bank (2009) 'Proposed Program Cluster and Loan for Subprogram 1, Cook Islands: Economic Recovery Support Program,' Manila: ADB

Asian Development Bank (2010) 'Pacific Economic Monitor', February, Manila: ADB

Curson, P. 1979. Migration, remittances and social networks among Cook Islanders, *Pacific Viewpoint*, 20, 185-198.

Department of Immigration and Citizenship (no year), *Community Information Summary: Cook Islands Born*, available at [http://www.immi.gov.au/media/publications/statistics/comm-sum/\\_pdf/cook-islands.pdf](http://www.immi.gov.au/media/publications/statistics/comm-sum/_pdf/cook-islands.pdf)

Duncan, R., Booth, H., Zhang, G., Rao, M. and F. Taomia (2006), "The Young and the Restless: Population Pressures in the Pacific", in World Bank (Ed.), *At Home and Away: Expanding Job Opportunities for Pacific Islanders through Labour Mobility*, Washington DC: World Bank: 28-45.

Eco-Consult Pacific (2008) *Study On The Pacific Island Countries Trade Agreement (PICTA) Temporary Movement Of Natural Persons (TMNP) Scheme*

Hooker, K. and J. Varcoe, 1999. Migration and the Cook Islands, in J. Overton and R. Scheyvens, Eds, *Strategies for Sustainable Development. Experiences from the Pacific*, Sydney, UNSW Press, 91-99.

Institute for International Trade and Pacific Trade Consult (2007) 'The Potential Impact of PICTA on Smaller Forum Island Nations', June

Nathan Associates (2007) 'Pacific Regional Trade and Economic Cooperation Joint Baseline and Gap Analysis'

Okotai, Petero. 2009. *An Investment Action Plan for the Cook Islands*, Voyager Group Consultancy, Rarotonga, Cook Islands.

PDP Australia (2007) 'Stocktaking of Limitations and Restrictions Applying to Trade in Services in the Pacific'

Scollay, Robert (2007), *PACP Adjustment Needs Analysis. A Report for the Pacific Islands Forum Secretariat*

Voigt-Graf, Carmen, Iredale, Robyn and Siew-Ean Khoo (2009), *Teacher Mobility in the Pacific Region: Cook Islands, Fiji and Vanuatu & Australia and New Zealand*, Final project report, Funded by the Australian Research Council, 2004-2006, ARC Discovery Grant DP 0450085, available at

[http://www.apmrn.usp.ac.fj/fileadmin/files/publications/Teacher\\_mobility\\_ARC\\_Report\\_2009\\_1.pdf](http://www.apmrn.usp.ac.fj/fileadmin/files/publications/Teacher_mobility_ARC_Report_2009_1.pdf).

Vltchek, Andre (2008), "The Cook Islands and the Pacific Island Nations: Will the Last Person Leaving Please Turn Off the Lights?", *The Asia-Pacific Journal: Japan Focus* Vol. 47-1-08, November 17, available at: <http://www.japanfocus.org/-Andre-Vltchek/2951>

Watergall (2007) 'Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries'

In addition we will need:

- Any reports that Cook Islands has on specific service sub-sectors (such as Tourism, Financial Services, etc)
- Documents, studies and reports carried out by regional bodies (ADB, PIFS, SPC, UN agencies, etc)
- Documents, studies and reports carried out by other international bodies (e.g. relating to any Trade Facilitation Needs Assessments )

Finally we will need any other useful information and documents that Cook Islands Government can think of.

### Annex 3: Preliminary Indicative List of Key Questions and Information Needed the First Consultation Mission

As noted above, the broad objective of the Trade Policy Framework (TPF) is to provide an enabling environment that would foster trade and development in the key sectors of Cook Islands' economy. The TPF, once accepted and endorsed by the Government of the Cook Islands, will be the main instrument to guide trade policies and the building of trade policy well into the next decade and beyond.

Each country and trade situation is unique, the Cook Islands can expect a comprehensive TPF based on their actual needs and situation. Consultations with the stakeholders in the first mission will determine the broad overarching objectives for the TPF to ensure stakeholder ownership of the Report.

As such, questions raised during the consultation meetings will need to be tailored to specific audiences but will be based on the following broad and indicative set of questions:

#### *A. Objectives of Cook Islands Trade Policy*

- Based on the National Development Plan, what should be the key objectives of Cook Islands Trade Policy? What is the broad vision?

#### *B. Binding Constraints to Trade Development and Macro-level Concerns*

- What are the key binding constraints at the overall level to increased growth and trade development? To cover:
  - Broad factors of production: land issues, human resources and skills, finance and capital
  - Physical infrastructure
  - Key bottlenecks along existing or potential value chains
  - Regime for inward investment
  - Business environment: cost structures, regulatory issues, etc
  - Migration issues
  - Issues around economic inclusion (e.g. of women, outer islands)
  - Others
- How can the key identified problems be overcome, and what specific policies can Cook Islands adopt to achieve this?

#### *C. Specific Sector Level Concerns*

- What is the current situation, recent baseline and trends with respect to the sector concerned (agriculture, fisheries, tourism, etc)

- How can Cook Islands best develop its productive sectors and industries, or specific products or value chains?
- What are the main barriers to trade at the sector or product level?
- What are the key policy issues and what specific policies should Cook Islands adopt to develop specific sectors?

#### *D. Trade Negotiations*

- How can Cook Islands get the best out of trade negotiations that it is a part of?
- What are the key interests of the Cook Islands in regional negotiations such as PICTA and PACER Plus? How can it best pursue or protect its interests in the negotiations?

#### *E. Capacity, Institutions and Implementation*

- What do you identify as the key recommendations at this stage to take forward to the TPF? How can these be achieved?
- Can Aid for Trade (development assistance) play a part?
- Bearing in mind capacity constraints, can Cook Islands better organise itself in the area of trade policy? How can it create the right environment to successfully implement its trade policy?
- How can create a multi-stakeholder approach to trade policy implementation that involves key stakeholders?