

# 20

## Negotiating Power in Contemporary Pacific Trade Diplomacy

---

Wesley Morgan

In the two decades following the formation of the World Trade Organization (WTO), Pacific Island countries have pursued an active trade diplomacy agenda. New regional trade agreements have been negotiated and implemented among the island countries themselves. Pacific officials have also pursued their interests at the WTO, and have proved tough negotiators in trade talks with external powers. By driving hard bargains with the European Union (EU), and Australia and New Zealand, Pacific officials have shifted the terms of discussion about trade and development in the Pacific. They have also broadened the agenda of negotiations in the island countries' favour, to include issues such as labour mobility and development assistance.

This chapter highlights the successes of contemporary Pacific trade diplomacy, and explores the agency of island policy-makers. It also emphasises that trade diplomacy and regional geopolitics are intertwined. For Australia and New Zealand in particular, negotiations with Pacific Island countries are linked with an abiding concern to remain 'special insiders' in processes of regional cooperation. To date, new trade agreements have been signed by island members of the Pacific Islands Forum, and among members of the Melanesian Spearhead Group. However Australia, New Zealand (and the EU for that matter) remain

on the outer. Pacific officials argue a unique agreement would be required with their wealthy neighbours, one that addresses the island states' unique trade-related constraints. As long as these arguments continue to fall on deaf ears in Canberra and Wellington, trade policy will likely remain an issue-area in which the island countries sail their own way.

## Responding to a Changing World

The Uruguay Round of trade negotiations which led to the formation of the WTO had significant and largely negative consequences for Pacific Island economies. Trading partners made commitments that undermined key island exports. For more than a century, Pacific countries had relied on preferential access to metropolitan markets for export commodities — including sugar, coffee, cocoa, oil palm, copra, and canned tuna — and a small range of manufactured exports (see Morgan 2014). As destination countries agreed to lower tariffs to cheaper producers, Pacific exports were increasingly deemed uncompetitive. For Pacific Island governments, the inherent disadvantages of island-based production — high costs, poor transport services, distance from external markets, and exposure to frequent natural disasters — were also brought into sharper relief.

Pacific governments decided the best way to respond to challenges brought about by changes in the global trade regime would be to pursue regional trade integration. Melanesian countries led the way with the formation of the Melanesian Spearhead Group Trade Agreement (MSGTA) in 1993. In 1997, Pacific trade officials proposed a Pacific Regional Trade Agreement (PARTA) among the island country members of the South Pacific Forum. They argued closer economic integration would help the island countries remain competitive in a liberalised global marketplace. As then General Secretary of the South Pacific Forum Noel Levi explained, 'we feel that the free trade area option is the best option for our members to deal with the many issues being raised by globalisation' (Singh 1999). The proposed island-only agreement was particularly favoured by Roman Grynberg, who was appointed in 1997 as the inaugural multilateral trade policy adviser to the South Pacific Forum.

Talk of a Pacific trade agreement that excluded Australia and New Zealand rang alarm bells in Canberra and Wellington. Officials in both countries had long viewed a stable regional order in the South Pacific as a pre-eminent geostrategic priority. Australia provided funding for regional cooperation, at least in part, as a means of maintaining 'a favourable strategic posture in the region' (Fry 1981, p. 480). Crucially, both countries aimed to be 'considered by the Pacific states to be part of the region, and not part of the "outside"' (Fry 1981, p. 480). If the island countries were to negotiate a trade agreement among themselves,

particularly through the auspices of the South Pacific Forum, this could be seen as undermining a carefully cultivated perception that they were legitimate insiders. Thus, Australian and New Zealand officials pressed hard to be included in any new Pacific regional trade agreement. When South Pacific Forum trade officials met in March 2000 to consider the legal text of PARTA, the Australian and New Zealand delegations brought their own amended text which included them as parties principle to the agreement.

There is considerable evidence that geostrategic concern (as opposed to strictly commercial interests) underpinned Australian and New Zealand insistence on their inclusion in PARTA. During negotiations around PARTA, Australian Foreign Minister Alexander Downer ‘instructed his officials to oppose any agreement that excluded Australia and said nothing could be called “Pacific Regional” unless Australia was involved’ (Kelsey 2004, p. 20). Legal experts tasked with drafting the text of a new agreement confirmed ‘the desire of Australia and New Zealand to participate as ‘parties principle’ is driven by political rather than economic considerations’ (Johnson 2009, p. 195).

Pacific policy-makers remained concerned about the adjustment costs involved if they included Australia and New Zealand in any new agreement. However they were also sensitive to the political interests of their developed-country neighbours. A compromise was proposed. An ‘umbrella agreement’ would be negotiated which included Australia and New Zealand as equal parties: the Pacific Agreement on Closer Economic Relations (PACER).<sup>1</sup> A ‘subsidiary agreement’ would be the trade agreement among island states: the Pacific Island Countries Trade Agreement (PICTA). Taken together, the two agreements would satisfy Australian and New Zealand political interest to be included in any new agreement of the South Pacific Forum,<sup>2</sup> and Pacific concerns to avoid (or at least delay) costly trade liberalisation. As an official from the Australian Department of Foreign Affairs and Trade explained:

Since Australia had failed to convince Forum island countries of the merits of committing to comprehensive trade integration, there was a need to produce a structure that would allow these countries to go about their business without splitting the Forum permanently, and without alienating Australia and New Zealand completely (Peebles 2005, p. 74).

It should be noted that Australian and New Zealand concern to be included in any Pacific regional agreement was exacerbated when European officials proposed trade preferences for Pacific countries be replaced with a WTO-compatible regional free trade agreement. In June 2000, Pacific governments

---

1 Technically this would not be a trade agreement, but a binding treaty that required consideration of a trade agreement at a future date and guaranteed that island states wouldn’t offer better terms to trading competitors.

2 The South Pacific Forum was renamed the Pacific Islands Forum in 2000.

signed a new aid-and-trade treaty between the EU and African, Caribbean and Pacific (ACP) states. The Cotonou Agreement stipulated WTO-compatible Economic Partnership Agreements (EPAs) would be negotiated between the EU and regional country groupings, including Pacific Island countries.

By the turn of the century, Pacific Island trade ministers and officials had cemented their initial response to changes in the global trade regime — by pursuing new trade agreements among themselves. They had also gained experience in trade diplomacy by discussing potential agreements with Australia, New Zealand, and the EU. In addition, island officials had also pursued their interests in multilateral negotiations.

## Pacific Trade Diplomacy at the WTO

During the late-1990s, Pacific Island governments spearheaded a campaign for the formation of a new category of states at the WTO. Pacific officials proposed ‘small and vulnerable economies’ be formally designated among the member-states of the WTO. This would allow developed countries to continue to extend special and favourable treatment to Pacific Island countries — including preferential access to their markets. Technically, the WTO only allowed preferential treatment to be extended to countries recognised by the UN as Least Developed Countries (LDCs). However, during the 1990s, a number of multilateral bodies, including the UN, investigated the unique economic vulnerabilities of Small Island Developing States (SIDS). There was an increasing consensus that these states possessed characteristics that meant they were uniquely vulnerable to economic and environmental shocks. Both the UN and the Commonwealth Secretariat proposed that a ‘Vulnerability Index’ be developed to reflect the unique needs of SIDS (see Atkins et al. 2001).

Pacific trade officials suggested the unique vulnerabilities of Pacific Island countries should serve as criteria for derogation from more onerous WTO rules, allowing, for example, preferential access to wealthy markets, or special trade-related development assistance. At the 1998 South Pacific Forum Trade Ministers meeting, ministers agreed to pursue the agenda of small island states at the WTO, and to seek WTO observer status for the South Pacific Forum. They resolved to:

... adopt a common Forum position with the objective of the UN adopting a vulnerability index, and with the aim of having such an index included among the criteria for determining Least Developed Country status, and for deciding eligibility for concessional aid and trade treatment (SPF 1998).

To pursue their interests at the WTO, Pacific trade officials and diplomats formed a strategic alliance with small island states from the Caribbean and the Indian Ocean. In the lead up to the 1999 WTO Ministerial in Seattle, the government of Fiji, working with officials at the forum secretariat, circulated a petition calling for inclusion in the ministerial communiqué language regarding a ‘work programme on small states at the WTO’ (Grynberg 2001a, p. 7). However, the Seattle meeting was disrupted by 50,000 street protesters and it wasn’t until the Doha Ministerial in 2001 that Pacific trade diplomacy achieved its first — albeit limited — success when members agreed to ‘frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system’ (WTO 2001, para 35).

Pacific governments won support for the idea that small island countries faced unique trade-related challenges. However, they did not win support at the WTO for any new category of states. Without a formal category it would be difficult for Pacific countries to request differential treatment in multilateral negotiations. Nonetheless, at a subsequent WTO Ministerial in 2005, members were urged to ‘adopt specific measures’ to help small and vulnerable economies participate in global trade (WTO 2005, para 41).<sup>3</sup> Subsequent proposals in WTO negotiations included: (some) flexibility in tariff negotiations, special assistance for trade facilitation, limited permission to use subsidies (including in fisheries), and a regional pooling of technical assistance required to implement WTO agreements (see Smith 2008; Kaukab 2009).

Having established new trade agreements among themselves, and pursued their interests in global talks, Pacific policy-makers increasingly turned their attention to negotiations with key trading partners from outside the region.

## Negotiating with the European Union

Early in the new millennium, Pacific Island countries found themselves negotiating regional trade agreements with the EU, Australia and New Zealand. These talks proved protracted and controversial. Indeed, by 2015, negotiations for an EPA with the EU were effectively a dead letter, and PACER Plus talks with Australia and New Zealand were at a stalemate. Given this state of affairs, one could be forgiven for seeing both negotiations as a failure of Pacific diplomacy. However, a close reading of the motivations of Pacific trade officials suggests they pursued a successful strategy. They delayed proceedings and drove hard bargains, and in doing so broadened the agenda of negotiations in their

---

<sup>3</sup> These measures would be proposed for member states on the basis of specific characteristics, and applied to all countries which shared those characteristics, thus circumventing the need for a special category of states.

favour, to include issues such as labour mobility and development assistance. This contrasts markedly with the experience of other island states. In the Caribbean, for example, trade officials quickly acceded to the demands of European officials during regional EPA negotiations and signed an agreement that was subject to heavy criticism in Caribbean capitals (see Bishop et al. 2013).

Faced with a decline in the value of trade preferences, which had for so long underwritten commodity exports, Pacific governments used regional trade negotiations to seek new concessions from wealthy states. As an overarching strategy, island officials demanded their unique trading circumstances be formally recognised in the design of any agreement. They emphasised that they were uniquely disadvantaged in a liberalised global marketplace, and that new treaties should be designed with their trade-related constraints in mind. Grynberg, who returned to the forum secretariat to help coordinate the Pacific's EPA negotiations with the EU, argued what was needed was 'appropriate interventions that will replicate the results of trade preference while avoiding some of the more market-distorting consequences' (Grynberg 2001b).

From 2002 to 2006, Pacific officials fleshed out unique proposals for a deal with the EU. These included sector-specific strategies to encourage investment in Pacific tourism and agriculture; measures to reduce the cost of business finance in the Pacific; temporary access to the EU for Pacific Island workers; and an agreement linking fishing rights for European vessels with measures to encourage downstream processing in island states. These proposals were included in a draft treaty submitted to Brussels in July 2006. The European Commission, however, was not interested in the Pacific's proposals. Officials in Brussels were keen to push their own regulatory barrow, and to avoid precedents that might have implications for their negotiations with other trading partners. With few economic interests in the region, a unique trade agreement was simply not on their agenda. When European officials presented their own draft EPA in mid-2007, it contained none of the proposals developed by island negotiators. The forum secretariat lamented that the EU text 'contained explicit provisions setting out the commission's demands while reflecting almost none of the key written proposals of the [Pacific] group nor the positions put forward and key interests expressed ... during discussions that had been taking place between the two sides over the last two years' (PIFS 2007).

With European officials refusing to countenance their proposals, Pacific officials went cold on a regional agreement with the EU. Discussions turned instead to preventing serious disruption to export sectors reliant on European trade preferences. A WTO waiver for those preferences was due to expire on 31 December 2007 and any tariff increase threatened tuna exports from Papua New Guinea and sugar exports from Fiji. During intense negotiations in Brussels in late 2007, the EU proposed interim EPAs — covering goods only —

that would allow Pacific countries to continue to access EU preferences. Island officials were concerned that these interim arrangements were ill-conceived, and argued a number of provisions would need subsequent revision or removal (Primack 2007). However, in perhaps the only significant gain for the Pacific to come from the EPA negotiations, the EU did agree to island proposals to revise rules of origin requirements for processed tuna. In effect, these changes meant fishing vessels from anywhere in the world could land, and process, their catch in a Pacific Island country and gain preferential access to EU markets. In the short term it was expected this change would allow for the establishment of tuna canneries in Madang and Lae in northern Papua New Guinea.

The breakdown in regional negotiations for an EPA frayed diplomatic relations between Pacific Island countries and the EU. When the Cook Islands Trade Minister Wilkie Rasmussen explained to a sitting of the ACP–EU Joint Parliamentary Assembly that the EU Trade Commissioner Peter Mandelson had been insensitive to the needs of Pacific Island countries, Mandelson wrote to Rasmussen suggesting he had been misquoted, and that might he consider a public correction (Mandelson 2008). This raised the ire of Rasmussen who, in a strongly worded reply, told Mandelson:

the common impression you left on all the Pacific Island Trade Ministers was that you are insensitive to our protocols and issues ... I can assure you that the general feeling is that Papua New Guinea and Fiji initialled the Interim Agreement because of fear that they would lose their preferential trade arrangements with the European Union (PANG 2008).

## Dealing with Big Brothers

Australian and New Zealand representatives insisted they would be more sympathetic to the ideas of Pacific officials than their European counterparts. In the lead up to a formal launch of PACER Plus negotiations, Australian Trade Minister Simon Crean explained Australia had ‘learnt the lessons of the EPA negotiations with the European Union ... We have learnt from that experience and are not going to repeat it ... unlike the EPA, PACER-Plus is not just a trade agreement’ (Crean 2009). For their part, the Pacific trade ministers resolved PACER Plus negotiations could only proceed if Australia and New Zealand formally agreed that unique and additional measures would be included in a final agreement. They were particularly keen to include measures permitting Pacific Islanders to work in Australia and New Zealand on a temporary basis. Indeed, island ministers decided that market access offers on goods and services would be conditional on ‘a commitment from Australia and New Zealand to discuss labour market access, and the broad parameters of that access is agreed’ (OCTA 2011, p. 6).

As it turned out, labour mobility proved to be the key stumbling block for the PACER Plus talks. Pacific officials proposed legally binding measures that would facilitate the movement of workers to ameliorate labour shortages in horticulture and tourism sectors in Australia and New Zealand. Given Pacific Island countries already enjoyed tariff-free access to both countries, many island officials felt a treaty without labour mobility would not be worth signing. Initially, Australian negotiators seemed to agree labour mobility should be included ‘in the context of a comprehensive fully WTO-consistent Agreement’ (DFAT 2006, p. 2). However, after further consideration, Australian and New Zealand officials became concerned that including labour mobility in PACER Plus would create a precedent that would be difficult to contain in other negotiations. Furthermore, both countries proceeded to implement labour mobility schemes for Pacific Island workers outside of a regional trade agreement. The New Zealand Recognised Seasonal Employer scheme, launched in 2007, and the Australian Seasonal Worker Program, launched in 2009, both allowed employers to recruit Pacific Islanders on a temporary basis.

At the time of writing, intransigent negotiating positions on both sides with regard to labour mobility marked a stagnation of the PACER Plus talks.<sup>4</sup> Furthermore political commitment to the negotiations was on the wane. Papua New Guinea Trade Minister Richard Maru indicated his country was considering pulling out of the talks altogether, labelling them a ‘complete waste of time’ (Pareti 2013). Australian and New Zealand diplomats had spent nearly 20 years trying to convince Pacific countries of the merits of including them in a regional free trade agreement. However, the message from island governments remained clear: they would do so only if they deemed such a move to be in their interests.

## Trade Negotiations and the New Pacific Diplomacy

Pacific Island countries have more agency in international trade negotiations than is commonly understood. Many observers have characterised Pacific countries as powerless actors in the global trade regime. They suggest island governments have had little choice but to adapt to changes in the global economy, to embrace trade liberalisation, and to sign free trade agreements with metropolitan powers. However, Pacific officials have resisted pressure

---

4 As the Pacific’s Chief Trade Adviser Edwini Kessie explained: ‘Australia and New Zealand want to treat labour mobility outside of PACER Plus and the Pacific Island countries want legally binding commitments, so that is the main issue dividing the parties’ (Radio New Zealand 2013). Or as another regional commentator put it: ‘Begun in 2009, PACER-Plus is argued dry ... The one thing the Islands want from Australia and New Zealand — labour mobility — is the one thing Australia and New Zealand won’t give ... Stalemate’ (Dobell 2014).

to sign orthodox trade agreements. Instead, they have demanded recognition of their unique trading circumstances and have argued for concessions from wealthy states. This strategy has borne some fruit. European policy-makers agreed to changes allowing more fish from the Pacific to enter European markets tariff-free, a move that has expanded tuna-processing facilities in the region. More significantly, governments in Australia and New Zealand have taken heed of arguments that island workers should be allowed temporary access to their labour markets. This has seen tens of thousands of Pacific Islanders earn incomes abroad, which have been spent or saved at home.

Finally, it should be remembered that trade diplomacy in the Pacific is inextricably linked with regional geopolitics. As elsewhere in the world, consideration of the economic merits of trade arrangements occurs against a political backdrop. In recent years, Pacific Island countries have indicated a greater willingness to pursue an independent foreign policy — a trend described in this book as the new Pacific diplomacy. Pacific diplomats have pursued their particular interests at the United Nations, and with regard to issue-areas such as climate change, fisheries management and decolonisation. Discussions on trade have been no different. Pacific officials have demanded their unique circumstances be taken seriously. Until they are, Pacific governments appear to be in no hurry to extend regional trade arrangements to include their wealthier neighbours.

## References

- Atkins, J.P., S.A. Mazzi and C.D. Easter, 2000, *Commonwealth Vulnerability Index for Developing Countries: The position of small states*, Economics Paper No. 40, Commonwealth Secretariat, London.
- Bishop, M., T. Heron and A. Payne, 2013, 'Caribbean Development Alternatives and the CARIFORUM–European Union Economic Partnership Agreement', *Journal of International Relations and Development* 16, pp. 82–110.
- Crean, S., 2009, 'Enhancing Prosperity in the Pacific', speech to the Third Informal Meeting of Officials on PACER-Plus, Adelaide, 16 February.
- Department of Foreign Affairs and Trade (DFAT), 2006, 'Pacific Region Seasonal Contract Labour', submission by the Department of Foreign Affairs and Trade to the Senate Committee on Employment, Workplace Relations and Education, April. Available at: [www.aph.gov.au/~media/wopapub/senate/committee/eet\\_ctte/completed\\_inquiries/2004\\_07/contract\\_labour/submissions/sub042\\_pdf.ashx](http://www.aph.gov.au/~media/wopapub/senate/committee/eet_ctte/completed_inquiries/2004_07/contract_labour/submissions/sub042_pdf.ashx).

- Dobel, G., 2014, 'Rethinking Australia's Economic Role in the Pacific', *The Strategist*, Australian Strategic Policy Institute, 1 December. Available at: [www.aspistrategist.org.au/rethinking-australias-economic-role-in-the-pacific/](http://www.aspistrategist.org.au/rethinking-australias-economic-role-in-the-pacific/).
- Fry, G., 1981, 'Regionalism and International Politics of the South Pacific', *Pacific Affairs* 54(3), pp. 455–84.
- Grynberg, R., 2001a, 'The Pacific Island States and the WTO: Towards a post-Seattle agenda for small vulnerable states', in D. Peretz, R. Faruqi and E.J. Kisangs (eds), *Small States in the Global Economy*, Commonwealth Secretariat, London, pp. 329–42.
- Grynberg, R., 2001b, 'A Theory of Trade and Development of Small Vulnerable States', *Journal of Pacific Studies* 25(1), pp. 155–72.
- Johnston, A., 2009, 'Explaining PICTA, PACER and Cotonou: Trade policy in the Pacific (1996–2006)', unpublished PhD thesis, School of Philosophy, Anthropology and Social Inquiry, University of Melbourne.
- Kaukab, R., 2009, *Development Effects of the Doha Round on Small and Vulnerable Economies*, CUTS Geneva Resource Centre, Geneva.
- Kelsey, J., 2004, *A People's Guide to PACER: The implications for the Pacific Islands of the Pacific Agreement on Closer Economic Relations (PACER)*, Pacific Network on Globalisation, Suva.
- Mandelson, P., 2008, 'Letter from EU Trade Commissioner Peter Mandelson to the PACP Trade Ministers' Lead Spokesperson for the EPA Negotiations with the EU, Samoa's Associate Minister for Commerce Industry and Labour, Hans Joachim Keil', 16 July.
- Morgan W., 2014, 'Trade Negotiations and Regional Economic Integration in the Pacific Islands Forum', *Asia and the Pacific Policy Studies* 1(2), pp. 325–36.
- Office of the Chief Trade Adviser (OCTA), 2011, 'Forum Island Country Trade Ministers' Meeting — Outcomes Document (FIC Eyes Only)', 17 May, Vava'u, Tonga, OCTA, Port Vila.
- Pacific Islands Forum Secretariat (PIFS), 2007, 'Pacific ACP Countries Express Deep Concern at EU Trade Deal Proposal', press statement (106/07), 28 August.
- Pacific Network on Globalisation (PANG), 2008, 'Pacific Trade Ministers Slam EU Bullying in Trade', press release, Suva.

- Pareti, S., 2013, 'Pacific Trade Talks "Waste of Time": PNG', ABC News, 21 May. Available at: [www.abc.net.au/news/2013-05-20/an-png-considering-withdrawing-from-pacer-talks/4701402](http://www.abc.net.au/news/2013-05-20/an-png-considering-withdrawing-from-pacer-talks/4701402).
- Peebles, D., 2005, *Pacific Regional Order*, Asia Pacific Press, Canberra.
- Primack, D., 2007, 'EPA Fails to Draw the Pacific Closer to the International Trading System', *Trade Negotiations Insights* 6(8).
- Radio New Zealand, 2013, 'Pacific's Chief Trade Advisor Believes Parties can Compromise', 2 December. Available at: [www.radionz.co.nz/international/programmes/datelinepacific/audio/2578392/pacific's-chief-trade-advisor-believes-parties-can-compromise](http://www.radionz.co.nz/international/programmes/datelinepacific/audio/2578392/pacific's-chief-trade-advisor-believes-parties-can-compromise).
- Singh, D., 1999, 'South Pacific: As Lome Pact Fades, Push for Free Trade Area Grows', Inter Press Service News Agency, August 24. Available at: [www.ipsnews.net/1999/08/south-pacific-as-lome-pact-fades-push-for-free-trade-area-grows/](http://www.ipsnews.net/1999/08/south-pacific-as-lome-pact-fades-push-for-free-trade-area-grows/).
- Smith, R., 2008, *WTO Doha Round: Small Economies and Their Interests*. Trade Hot Topics no. 55, Commonwealth Secretariat, London.
- South Pacific Forum (SPF), 1998, 'Twenty-Ninth South Pacific Forum: Forum Communique', 24–25 August, Pohnpei, Federated States of Micronesia.
- World Trade Organization (WTO), 2001. 'Doha WTO Ministerial 2001: Ministerial Declaration', (WT/MIN(01)/DEC/1).

This text is taken from *The New Pacific Diplomacy*, edited by Greg Fry and Sandra Tarte, published 2015 by ANU Press, The Australian National University, Canberra, Australia.