

# Sharing Capacity: the Pacific Experience with Regional Co-operation and Integration<sup>1</sup>

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South Pacific Forum Secretariat

## Introduction

The 14 Forum Island Countries<sup>2</sup> (FICs) consist of thousands of islands, comprising 53,000 square kilometres of land, and support a combined population of 6.4 million. These countries are diverse with their own cultures, languages and systems of government. The largest member country is Papua New Guinea, with its rugged mountains and 700 dialects, while the smallest is Niue, a single upraised coral atoll and home to around 2000 people. FICs are also developing economically at different rates and with different foci.

However, despite these seemingly great differences, members have found sharing their capacity through regional co-operation to be a positive way of overcoming the common problems of small size and geographic isolation. This paper examines the experience of the Pacific region with regard to co-operation and integration.

## Regional organisations and co-operation

Individually, the island economies of the Pacific face limits in their access to the skills, information and finance needed for successful global integration and economic growth. Even the largest have some weaknesses. As a result, the interests of such countries are overwhelmed by large and powerful nations who can dictate the evolution of world trade, finance and other economic relationships.

Regional institutions and organisations are able to overcome such shortcomings by pooling human resources and attracting and retaining highly

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<sup>1</sup>This paper was presented at the Commonwealth Secretariat/World Bank Joint Task Force on Small States conference held in London in February 2000.

<sup>2</sup>The 14 island members of the South Pacific Forum are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Additionally, Australia and New Zealand are members of the South Pacific Forum.

**Box 1. Regional Organisations in the South Pacific**

The **South Pacific Forum**, the annual gathering of Leaders from sixteen independent and self governing nations in the region, has a key role not only in the stability and political cohesion of the Pacific region but also in articulating the region's concern on major issues that are on the international agenda. Its secretariat (Forum Secretariat) executes the requirements of the Heads of Government expressed at the annual meetings. The Forum Secretariat facilitates, develops and maintains co-operation and consultation between and among its members on issues such as trade, economic development, transport, energy, telecommunications and other related matters. It also seeks to support its members in pursuing their objectives through multilateral fora.

The **Secretariat of the Pacific Community (SPC)**, under its non-political mandate, provides advisory, consultative and training services to governments on scientific, economic, social, environmental, health, agricultural, rural development, community health, education, demographic and cultural matters.

The **Forum Fisheries Agency (FFA)** serves as the Forum Fisheries Convention's Secretariat. FFA's objective is to assist members with sustainable development and management of their fisheries and related activities. This includes policy assessments and representation at international fisheries meetings. FFA's membership differs from SPC's in that it has no distant water fishing nations as members.

The **South Pacific Applied Geoscience Commission's (SOPAC)** overall mandate is to assist its members in assessment, exploration and development of their nearshore and offshore mineral and other marine non-living resource potential. SOPAC has regional responsibility for the water and sanitation sector; it co-ordinates with SPC on health-related issues and SPREP on pollution issues.

The **University of the South Pacific (USP)** is governed by the University Council comprising representatives from its 12 member countries. USP provides tertiary education and undertakes scholarly and applied research and is closely involved in educational matters with the Pacific Island governments, in most of whose countries it has a branch.

**Box 1** (continued)

The **Tourism Council of the South Pacific (TCSP)** is jointly owned by its 12 member countries. Its role is to work with national tourist offices, international airlines and tour operators to increase visitor arrivals in the region, to market and promote tourism and to help the private sector enhance the quality of their products and services through a variety of programmes on training, tourism awareness and preservation of the environment.

The **Pacific Islands Development Programme (PIDP)**, at the East-West Center, Hawaii, helps meet the special development needs of the Pacific Islands through co-operative research, education, and training. A major objective of the Programme has been to provide quality in-depth analytical studies on specific priority issues as identified by the Pacific Island leaders and people. The studies aim to provide leaders with detailed information and alternative strategies on policy decisions.

The **South Pacific Regional Environment Programme (SPREP)** is the regional technical and co-ordinating body responsible for environmental matters in the Pacific region. Its mission is to 'promote co-operation in the South Pacific region and to provide assistance in order to protect and improve its environment and to ensure sustainable development for present and future generations'.

skilled personnel. Their operations provide economies of scale, allow for the sharing of technology and knowledge and also provide administrative savings, in comparison to non-co-operative behaviour. Working together, the nations of the Pacific can have a more persuasive voice on the world stage and can help secure a more favourable international climate for the external economic and political relationships of the South Pacific.

Effective regional co-operation requires organisational structures. Co-operation in the Pacific region takes place through many different organisations, each with specific functions. These are outlined in Box 1. In line with the differing policy interests and needs of Pacific countries, membership of each organisation varies. Annex 1 outlines the major regional organisations and the membership of Forum countries in these.

Membership of these organisations provides several benefits. At the most basic level their meetings provide an opportunity to share experiences and discuss problems in the areas of interest. This allows countries to make informed decisions and saves each country having to 'reinvent the wheel'. In many areas of regional co-operation economies of scale are created leading to efficiency gains. Despite the geographic spread of the region, many of the issues of concern to member countries are external, such as shipping and aviation issues, and a co-operative approach is needed if these are to be effectively addressed. On the international stage the existence and effective operation of the regional organisations are a demonstration of regional solidarity and increase the negotiating power of these small countries.

The activities of the organisations outlined above are co-ordinated by the Council of Regional Organisations of the Pacific (CROP) which has established working groups covering the marine sector, land resources sector (agriculture, forestry and mining), health and population, trade and the private sector, and information. The Secretary-General of the Forum Secretariat chairs CROP. With the existence of so many regional organisations, each with different memberships, CROP ensures that the work of these organisations does not become duplicative. The regional strategy is designed to aid this.

## The Regional Strategy

### Background

The formulation of the CROP Regional Strategy was initiated in response to a call by Pacific island leaders for a more meaningful role in setting regional development priorities and programmes. It recognises the need to improve the utilisation of limited regional resources and enhance the delivery and impact of regional development initiatives. A co-ordinated regional approach, it was considered, would also address issues of wasteful duplication and overlaps in regional programmes and among regional organisations.

The 1995 Forum endorsed the Regional Strategy. The Regional Strategy is a dynamic process and is designed to be continuously updated to accommodate changing circumstances and needs of the region. Since its initial endorsement, the Regional Strategy has been discussed extensively and adopted at various fora, including by all CROP agencies, Regional Planners' meetings, Forum Economic Ministers' meetings and with donors and donor implementing agencies through the PIC/Partners and the Post Forum Dialogue.

## The Regional Strategy

The Regional Strategy seeks to empower island countries to determine their own priorities and programmes and to secure donor support for more strategic interventions and a more systematic approach to the use of their resources. The key objective of the Regional Strategy is to improve the effectiveness of regional assistance by ensuring that the targeted priorities reflect genuine, critical needs which can be more cost-effectively met through joint regional use of resources.

There are a number of advantages in following a regional approach:

- ◆ Economies of scale are created leading to efficiency;
- ◆ Human and financial resources can be shared or pooled;
- ◆ Regional programmes can be more effective through joint action;
- ◆ External factors and constraints can be addressed;
- ◆ Shortfalls in the scope of domestic or bilateral interventions are supplemented;
- ◆ Regional solidarity is demonstrated;
- ◆ It becomes possible to trial activities before large commitments are made under national programmes.

However, for the Regional Strategy to be successful it is crucial that its development goals are reflected in national priorities, and that regional strategies are linked to, or complemented by, national programmes.

The formulation of the Regional Strategy is summarised in Annex 2. This identifies the main development challenge faced by the region as a 'deterioration in living conditions caused by economic stagnation preventing opportunities for improvement in quality of life of peoples of the Pacific Islands'. It also identifies four levels of factors (development constraints) contributing to the problem:

- ◆ The lack of an enabling environment, which includes the lack of a policy environment conducive to development and an inadequate skills base;
- ◆ Economic infrastructure constraints, which include high transportation costs, inadequate communications and information systems, and dependence on high cost energy sources;
- ◆ Production sector constraints, which include low productivity in land resource sectors, low returns from marine resources and inadequate private sector development;

- ◆ Social infrastructure and environment constraints, which include declining health, unsustainable fresh water supplies and environmental degradation.

Annex 3 identifies the main overall development goal for the region as 'sustainable economic growth leading to improvements in the quality of life for peoples of the Pacific Islands'. This represents the positive formulation of the development problem. Key strategies for achieving the development goal are again organised at four levels corresponding to the four levels of constraints in the diagram forming Annex 2:

- ◆ Enabling environment strategies, including strategies for economic and government reforms and for civil society participation, as well as strategies for improving education and training;
- ◆ Economic infrastructure strategies, including strategies for improving access to, and the efficiency and cost structures of, transport and communications and energy;
- ◆ Production sector strategies, including strategies for improving access to, and sustainable productivity of and returns from, land and marine resources, the private sector, trade and tourism;
- ◆ Social infrastructure and environmental strategies, including strategies for improving health, water supplies and sanitation.

## Pacific Islands Free Trade Agreement

The Pacific Regional Free Trade Agreement (PARTA) is one of the potentially most significant undertakings in regional co-operation between Forum island countries.

### Background

The October 1999 Forum Leaders meeting in Koror, Palau, endorsed the PARTA between Forum Island countries. Initially the focus will be on Forum Island countries, and the PARTA will be implemented in stages over a period up to 2009 for developing Forum Island countries and 2011 for the Smaller Island States and Least Developed Countries. Over the next two years negotiation towards finalising a framework agreement will be undertaken.

The PARTA concept was put forward to the Forum Leaders from the 1999 Trade Ministerial, but the current proposal took shape and was developed at the Forum Economic Ministers' Meetings of 1997 and 1998.

The concept of a free trade area amongst FICs has a much longer history.

It dates back to first South Pacific Forum meeting in 1971 when the seven founding members discussed the possibility of an economic union. This desire was reiterated in the original 1973 agreements setting up its administrative arm (now the South Pacific Forum Secretariat) which included an obligation to consider the creation of a free trade area. Over the next two decades the Melanesian Spearhead Group (MSG) countries undertook pioneering work through the MSG Trade Agreement and Bilateral Agreements. More recently, the PARTA concept was recognised in the Forum Agreement of 1991.

### **Perceived benefits**

A PARTA offers theoretical advantages in overcoming the fundamental constraint to the development of the FICs – their small size. Size is a disadvantage both relative to potential competitors, as well as in terms of increasing FIC vulnerability to economic shocks due to natural disasters or price changes for key exports.

The PARTA expands the size of the ‘home’ market through giving preference to other FICs and results in greater economic integration of FICs. Although only an estimated 4 per cent of total regional trade is intra-FIC trade, real economic advantages should result once integration is deepened to include labour and capital markets. Additionally a PARTA creates more potential for business people and so encourages intra-FIC trade and business growth, which in turn reduces the vulnerability of FICs to external shocks.

The increase in market size and boosting of growth potential is vital considering the rapid and fundamental changes in the global aid and trade regimes. These are reflected in the decline in real value of aid, the loss of trade preferences, and in pressure from the World Trade Organisation and external trade partners for trade liberalisation. A PARTA will give a stronger foundation for responding to globalisation and universal trade liberalisation.

While the creation of a PARTA is not absolutely necessary to assure WTO compatibility of the Lomé trade preferences, this will nonetheless greatly facilitate the development of a reciprocal trade agreement or regional economic partnership arrangements between the relevant Pacific countries and the EU.

Finally, the PARTA is a strong political message that can help arrest the political and economic marginalisation of FICs. The more the region acts as a group, the more political influence it will have. In a world that is dividing into regional entities, trying to deal alone with other regional

trading and economic entities, such as the European Union or the North American Free Trade Area Countries, makes no sense. It is better for FICs to deal with them as a group. A regional trade agreement will be important both economically and politically.

### **Outline of structure of proposal**

The major points in the proposed PARTA are:

- ◆ Coverage is to initially include only goods, with a negative list of goods that are highly sensitive. This list would be phased out over time;
- ◆ There will be a phasing out of tariffs in fixed steps over 8 years for FICs and possibly 10 years for small island states (SIS). There is the possibility of several special and differential treatment provisions for SIS in several areas;
- ◆ Rules of Origin are to be based upon Change in Tariff Heading in conformity with WTO/World Customs Organisation rules;
- ◆ Safety Provisions, Anti-dumping and Balance of Payments safety provisions will be in conformity with existing WTO rules;
- ◆ Infant industry provisions will permit members to withdraw concessions following consultations in order to develop new industries;
- ◆ A protocol with Australia and New Zealand includes a timetable for liberalisation that is to be negotiated when FICs feel this to be appropriate;
- ◆ There is commitment to future consideration of widening the arrangement to include United States' and French territories;
- ◆ There are also commitments to future consideration of deepening of the relationship through the phased liberalisation of services;
- ◆ A trade facilitation protocol requires members to co-operate in the areas of customs, quarantine and standards conformance;

### **Current status**

It is planned that the PARTA will be gradually implemented from 2001. Prior to this Forum, trade officials have been tasked to negotiate the details of the draft agreement, including negative lists (that is a listing of industries which will be negatively affected and so may be in need of transitional protection) and measures to apply the Agreement to Australia and New Zealand.

A proposed draft agreement will be ready for the consideration of Trade Ministers and subsequently by Forum Leaders at the 2000 Forum meeting.

### **Implementation process and domestic policy consequences**

The implementation of the PARTA, which is likely to occur in stages over the period up to 2009 for FICs and 2011 for SIS and less developed countries, allows time for adjustment by both government and business to the new trade regime. Although, over time, the MSG agreement and the various bilateral treaties between Forum Island countries will be superseded by a more inclusive regional trade agreement, in this adjustment period their role will remain crucial.

The adjustment to a FIC PARTA is expected to be small, predominantly because of the relatively small proportion of FIC trade that is intra-FIC. With a limited range of unprocessed exports the administrative burden that will be put on SIS and smaller FICs will be relatively limited and can be handled within current capacities, with some occasional technical assistance. A preparatory study by the University of Auckland shows that a FIC-only PARTA will have only minor tax implications for most FICs.

Both the University of Auckland study and another preparatory study by Stoeckel have shown that a FIC-wide liberalisation is not a substitute for broader liberalisation. Naturally increased liberalisation carries with it greater net benefits, but also greater transitional costs. The inclusion of Australia and New Zealand in the PARTA will cause greater adjustments. The administration of rules of origin will become more difficult as intra-FIC trade becomes more complex. As liberalisation progresses, members will have to move towards more trade neutral taxes such as value added taxes, instead of a reliance on import tariff revenue.

### **Parallel developments**

Parallel developments in terms of trade facilitation, quarantine, product standards and customs procedures are indicative of the Free Trade Agreement not being regarded as an endpoint. Indeed addressing these issues may be more important than the PARTA itself.

The 1998 Forum Economic Ministers Meeting (FEMM) agreed to continue to pursue trade liberalisation and facilitation objectives. Measures and strategies that were identified included furtherance of work on collective trade facilitation measures in plant quarantine, animal health, standards and conformance, customs procedures, shipping services arrangements and government procurement. At the recent Forum Trade

Ministerial Meeting, Ministers agreed to recommend to the Forum that further work be undertaken on studies of trade facilitation measures. This was later endorsed by our Leaders at the recent Forum Leaders Meeting in Palau.

The Forum Secretariat is therefore conducting two studies entitled *Trade Facilitation Capacities of Quarantine and Customs Services in the FIC Region* and *Trade Facilitation Capacities of Standards Conformance Services in the FIC Region*. Both studies are expected to be carried out early 2000 with the final draft is to be presented to Trade Ministers at the Forum Ministerial Meeting later in the year.

With regard to Customs, the United Nations Conference on Trade and Development (UNCTAD), with funding assistance from Australia, has commenced the introduction of the automated system of customs data management, known as ASYCUDA, in Fiji, Vanuatu and Samoa. New legislation has been introduced in Fiji and Samoa for facilitating the electronic processing of customs documents. The Forum Secretariat has also been liaising with the EU for funds to introduce ASYCUDA to a further five PICs (Papua New Guinea, Kiribati, Tuvalu, Solomon Islands and Tonga).

On Quarantine issues, a two year work programme for the Pacific Plant Protection Organisation which was launched in 1998 is currently progressing at a reasonable pace.

### **Prospective developments**

There are several further developments in prospect. However, Forum members want first to decide to proceed with their own regional integration, at their own pace, and only then consider integration with trading partners when they are ready.

The South Pacific Forum Secretariat is undertaking further studies on the effects of possibly extending the PARTA to French and United States' Pacific island territories; the effects of extending the agreement to services trade; longer-term integration of the PARTA into the Closer Economic Relations agreement between Australia and New Zealand; studies on market access issues between Forum island countries and the USA and Japan; on social impacts of the free trade agreement; and on trade facilitation measures.

To be most efficient a free trade area should not be seen as a one-off measure but as part of a process of regional economic integration. Closer cooperation between Forum Island countries on a number of issues could eventually lead to the development of a Customs Union. Therefore a

long-term visionary approach to the future of the region is required in developing this approach.

## Development assistance co-ordination

Forum Island countries receive considerable levels of development assistance each year from a number of bilateral and multilateral donors. Forum island countries appreciate that donor partners have an integral role in their development. The best way of ensuring the sustainability of development efforts is to ensure that the donor-recipient relationship is a genuine partnership, with recipients and donors together taking ownership and exercising it in a responsible and accountable manner. To promote this an annual meeting of Pacific Island Countries (PICs) and their development partners is organised by the Forum Secretariat. At this meeting PICs and donors share experiences on what works, what does not work and why. The aim is an improved understanding of how best to enhance the way the region engages in development co-operation.

The Post-Forum Dialogue remains the key mechanism for promoting regional concerns with interested extra-regional states. This unique process includes Canada, People's Republic of China, EU, France, Japan, Republic of Korea, Malaysia, the Philippines, the UK and the USA. The Dialogue comprises Ministerial level meetings with each Partner to discuss wide-ranging issues, including political, economic and trade and investment issues. The successful Dialogue meetings in Palau last year, following the Forum Leaders meeting, again demonstrated the value of this process in providing a venue for high level discussion of developmental and international issues of importance to the region.

On a regional basis, there are two development programmes in which the Forum Secretariat has a strong involvement:

- ◆ EU-funded staff are located at the Forum Secretariat to manage the EU regional programme. The programme encompasses a diverse range of activities, including cyclone warning systems, civil air communications, and waste awareness and education. Most of these activities are actually implemented by other regional organisations. For example, SPREP is playing an important role in the waste project.
- ◆ The Canada-South Pacific Ocean Development Programme, or C-SPOD, is Canada's major regional commitment to the South Pacific. It reflects the Canadian and South Pacific viewpoint that ocean development is a key priority. The programme provides funding for projects developed by its four partner regional organisations (Forum Secretariat, FFA, SPREP and USP).

The Forum Secretariat also plays a role in co-ordinating requests for assistance from the region to donors. This assists both sides by simplifying the task for donors and ensuring that all member countries know of available assistance and are able to prepare a request for such assistance. For example, Taiwan donates considerable funds to support regional organisations and the Forum Secretariat co-ordinates the submission of these requests to Taiwan.

## Sectoral policy co-ordination

In addition to the co-ordination role played by regional organisations, there is also co-ordination within the region on the basis of sectoral issues. There are strong economic advantages in sectoral co-operation. Depending on the sectoral intervention, significant economies of scale may be achieved by acting on a regional basis. It may be more efficient to co-operate to negotiate international agreements which address common sectoral issues. Finally, national sectoral policies can be more effectively developed and more widely supported through regional co-operation.

This paper now presents information on co-operative activities between South Pacific Forum members across a range of sectors.

### **Aviation**

Early attempts at co-operation in the aviation sector centred on establishing a commercial venture. Air Pacific was created in 1972 when Fiji Airways (which had been in existence in various guises since 1947) changed its name to reflect its growing role as a regional carrier. Air Pacific promotes itself as 'Fiji's international airline' and so has been less successful as an entity owned by the region than its shipping equivalent, Pacific Forum Line. Air Pacific's current major shareholders are the Fiji Government (51 per cent) and Qantas (46 per cent).

In contrast, more recent aviation sector co-operation has been focused on improving policy settings and creating an environment that enables the development of this sector.

#### ***Pacific Aviation Safety Oversight (PASO)***

The mandate arising from the Forum Civil Aviation Action Plan 1999 includes the establishment of a collaborative regional aviation safety oversight programme.

There has been a long recognised concern with the implementation of Contracting State's obligations for safety surveillance under the Chicago

Convention on International Civil Aviation (1944) across the PICs. Surveillance obligations apply to the airworthiness of aircraft, operator and aircrew certification, flight and airport/airway operations. While the responsibility for ensuring compliance with standards rests with the state in which an aircraft or operator is registered, provision is available for a transfer of compliance activity to an outside agency. In very few instances do PICs have adequate staff or expertise to fulfil their obligations. Many island countries currently rely on surveillance services provided by staff from more developed countries. Some services are procured at cost while others are provided as part of aid programmes which have a generally uncertain future.

The idea of a co-operative sub-regional approach to surveillance was first proposed by the International Civil Aviation Office (ICAO) at the Thirty-first Directors General of Civil Aviation Conference held in Suva in August 1995. The Co-operative Development of Operational Safety and Continuing Airworthiness in the South Pacific (COSCAP) proposal was subsequently considered at meetings between states in 1995 and 1997. In 1999 an alternative proposal was put to Ministers for a Pacific Aviation Regional Safety Office. However, Ministers requested further information in a number of areas. Recent progress with a COSCAP-type approach in South Asia demonstrates that regional co-operation can work in the area of aviation safety.

The benefits of regional safety oversight co-operation are many:

- ◆ Compatibility of safety-related aviation rules amongst participating States;
- ◆ It can provide a basis, in the long term, for ongoing provision of regional aviation support services, which may be broadened to include other aviation services;
- ◆ It can assist states to meet ICAO standards and recommended practices contained in Annex 17 of the Convention on International Civil Aviation;
- ◆ Better collaboration among aviation security agencies in the region, and between them and other law enforcement agencies through the Forum Regional Security Committee;
- ◆ Compatibility of aviation rules among participating states, and the authorisation of the proposed regional aviation safety regulation and oversight programme to provide technical assistance in the regulatory development process.

PASO is being implemented through a Steering Committee of Heads of

Forum aviation agencies to enable them to assume responsibilities and ownership of the programme. Members of the Steering Committee met in Nadi in January 2000. They determined to set up a small 'Options Group' to provide an analysis of a range of detailed options to put to Ministers at their September 2000 meeting. This Group will compare ICAO's modified COSCAP proposal and two variations of the PASO proposal.

While Pacific representatives have been, in general, supportive of a co-operative proposal, it has not yet materialised due to an inability of states to finance the start-up cost, although some indications of aircraft and airline company support have recently been given. The lack of clarity in how such an organisation would operate, and be sustainable, has also hindered progress. The Options Group will be working to overcome such deficiencies in past proposals put to Ministers.

### ***Pacific Unified Upper Airspace Management Arrangement (PUMA)***

The Pacific Unified Upper Airspace Management Arrangement, as directed by Forum Aviation Ministers in May 1998, is a proposal whereby, through regional co-operation, safe air navigation services are provided in the most efficient manner for both airspace users and Forum Island Countries.

Following the 1998 Ministerial, an Interim Management Committee for Unified Airspace Management Arrangement was formalised in Sydney, in September 1998. The Committee accepted International Air Transport Association's (IATA) offer to provide consulting services to prepare a Concept Study on the management of airspace in the region.

The recommended option identified in the study proposed that Forum members enter into a multinational agreement under which states agree to incorporate an operating company or corporation in a member state and to operate on a profit or non-profit basis. It was also proposed that the capital structure should help users, as well as states, to participate as shareholders or members. The findings of this study were put to Aviation Ministers at their 1999 meeting. Ministers requested further clarification and study in a number of areas. A Working Group was set up to complete these tasks.

At the first meeting of the Working Group, ICAO was requested to prepare a proposal for a study of upper airspace management which took into account the Ministers' decisions. This included factors such as rigorous country-level cost-benefit analyses and the consideration of options such as a multilateral agreement to achieve co-operative upper airspace management.

At the second meeting of the Working Group in January 2000, it was agreed to go forward with the ICAO proposal for a study, *Co-operative Management of Airspace – Pacific Island States*. This study will put a detailed option to the Working Group for consideration, prior to the 2000 Ministers meeting.

### ***Pacific Islands Multilateral Air Services Agreement (PIMASA)***

The prospective liberalisation of air transport services and the creation of a single aviation market in the region is being examined in a co-operative project, Pacific Islands Multilateral Air Services Agreement (PIMASA).

In May 1998 Forum Ministers for Civil Aviation acknowledged that the current structure of bilateral air service agreements were a key factor in determining the efficiency of air services in the region. They agreed that changes in this traditional approach were necessary if increased efficiency was to be achieved. Ministers agreed to adopt a framework for the aviation sector that reflected the Forum Leaders' stance on economic reform objectives as set out in the Forum Economic Action Plan. As a result a Review of Air Service Agreements in the Forum Island Countries was carried out in 1998–99.

At the 1999 Ministerial meeting, in reviewing the work carried out so far, the Ministers recalled that they had agreed in 1998 to use the bilateral system to introduce more flexibility in the sector. However, the review of the current operational environment revealed that most FIC bilateral arrangements did not reflect recent international aviation trends and that intraregional agreements were unduly restrictive. FIC arrangements with countries outside the Forum did not generally provide airlines with the flexibility that would enable them to better serve and expand their markets.

The Ministers agreed that there was a pressing need to facilitate air services on the east-west axis of the region in order to encourage multi-destination tourism. It was also noted that the development of an internal market may help FIC airlines become more competitive with outside airlines and encourage greater efficiencies.

However, given the realities of the region and the concern from some island carriers regarding their ability to sustain services, the Ministers agreed that a gradual approach to liberalisation was needed. This could involve liberalisation of some market segments (such as freight), particular aviation freedom rights and spreading the adjustment over a number of years. Ministers recognised the need to address the concerns of member states in areas such as competition/dispute resolution and safeguard measures, and the ownership and control of airlines operating within a FIC single aviation market.

The meeting agreed that drafting a FIC multilateral agreement be undertaken under the auspices of the Forum Secretariat so that member countries can fully consider its implications. This will allow members to consider the contents of such a agreement and how it would address their concerns before making any final decision on whether to proceed. The Centre for Asia Pacific Aviation has been contracted to undertake drafting a prospective agreement for Ministers to consider in late 2000.

## **Shipping**

### ***Pacific Forum Line (PFL)***

One of the earliest acts of regional co-operation was the establishment of the PFL in 1977. It is owned in various proportions by 12 shareholder governments of the 16 members of the South Pacific Forum. The establishment of a regional shipping service was recognised as necessary as the move to containerisation outside the region was impacting negatively on the services being offered by tramp operators and international trade required a reliable shipping service.

Generally FICs face several challenges in regard to receiving adequate shipping services. The FICs are small and scattered markets which results in low-volume cargo being shipped over long distances. There are also heavy imbalances in the volume and composition of imports relative to exports. These factors combined could, in principle, result in high shipping costs and rates, few and erratic shipping services, and inefficient operation due to the lack of competitive pressures on service providers. Failure to address these problems in shipping services was recognised as a hindrance to international competitiveness, trade expansion and economic development in the region.

The PFL is a successful example of regional co-operation and is acknowledged as an instrument for regional development. Specifically, the PFL is charged with ensuring regular, modern and viable shipping services to encourage the economic development of the South Pacific Region and to contain freight rates. The benefit to FICs is that trade between the islands and trading partners is not stifled by high transport costs.

In its early history PFL was beset by successive losses due to factors such as under-capitalisation, the high cost of leasing containers and high world charter rates. These implementation issues were overcome by subsequent recapitalisation to realistic levels which salvaged the company by allowing it to purchase container equipment, renegotiate charters and leases and, eventually, become ship owners. Rationalisation of services and Agency Agreements was successfully accomplished and by the financial

year 1985, PFL was able to declare a maiden profit. Since then PFL has maintained a trend of profitable operations.

By 1995 the market had changed substantially on the main routes, with many shipping companies operating in a state of almost perfect competition, resulting in low freight rates. This is advantageous to exporters and importers and benefits the national economies of some countries, although return on equity in PFL has been reduced. PFL does not serve all FICs, not even all shareholding countries. Expected to make a profit, the line had to terminate a non-economic feeder service to Tuvalu and Kiribati in 1993 when foreign aid and subsidies were withdrawn.

Nevertheless, Forsyth and Sisto (1999) reported that the actual shipping service situation in the region – routing, frequency, and regularity – reveals that shipping services within the FIC Region, and linking the FICs to the rest of the world, is now generally regarded as adequate and highly competitive.

### ***Cabotage and regulation***

Forum countries will soon evaluate their international and domestic shipping regulations with the intent of liberalising and harmonising them. A report by Forsyth and Sisto (1999) found domestic shipping (that is intra-FIC services) to be inefficient (in both physical and financial terms), expensive, unreliable, and sometimes unsafe – despite being highly regulated.

Forum Economics Ministers recognised, at their meeting in 1999, that domestic and international shipping regulations in some countries, if restrictive, might prevent those countries from gaining the maximum benefit from the proposed Pacific Regional Trade Agreement currently under consideration.

This evaluation, and any modifications to national regulations that result from it, will increase regional co-operation and trade by ensuring that inconsistent shipping regimes do not prevent member countries from enjoying the full benefits of the free trade agreement. Although domestic shippers and port workers could be negatively affected in terms of employment, traders, consumers and travellers could expect to benefit from more frequent and less expensive services.

Any change to national shipping regulations is likely to require a difficult domestic political process, with many stakeholders being affected. Many countries may be affected, so that the process of harmonisation may require several years to reach a conclusion.

To assist this process the Forum Secretariat is currently co-ordinating two

studies into the scope for shipping regulation liberalisation and the social and economic impacts that may occur if regulations are modified.

## **Telecommunication**

Regional co-operation in communications and information technology takes place through two mechanisms – Forum meetings and regional sector organisations. The relevant Forum meetings are the annual Economic Ministers meeting and the Communication Policy workshops and officials' meetings held in 1999. Each of these meetings has resulted in an Action Plan that is currently being implemented by the Forum Secretariat and counterparts. Regional organisations involved in communications include the Pacific Islands Telecommunications Association (PITA), the Asia Pacific Telecommunity Working Group for the Pacific (APT Telework-P), the Committee of Regional Organisations of the Pacific Information Sector Working Group (CROP-IWG) and the Fiji Internet/Intranet Group (FIG).

### ***Regulation and tariffs***

Members of PITA and Telework-P have agreed to jointly study mechanisms for regional co-operation in regulation, tariffs and service provision, among other topics. Among the options in all of these areas are the development of regional standards to be adopted by member countries and the possible creation of a regional regulating body.

The joint meeting of PITA and APT Telework-P held in Suva in 1999 was the first time the two organisations had met together. Since this meeting followed the Forum Communication Policy Meetings, the Forum Communication Action Plan was very influential. Most of the outcomes of the Forum Communication Policy Meeting were adopted or incorporated into the plans of these two groups.

By co-operating on these matters, members expect to benefit from economies of scale in administration and technical support, stronger negotiating positions with service providers, and broader knowledge bases.

This work will be considered by Communications Ministers in early 2001, at which time decisions on regional strategy in regulation are expected. Members of PITA and APT Telework-P are developing and circulating discussion papers under Forum Secretariat co-ordination in preparation for the next joint meeting to be held in Papua New Guinea in August 2000. The area of regional co-operation that is most likely to be successful is in regulation, through sharing of experience and analyses. Most telecommunication service providers in the region have been privatised or corporatised, so that direct influence over operations and tariffs is limited.

## **Internet**

The Forum Secretariat has sponsored studies, policy papers and action plans for regional involvement and co-operation in information technology. The most recent was the report *Pacific Island Involvement in the Global Information Infrastructure* (1998). Members of PITA and Telework-P have also agreed to jointly study mechanisms for regional co-operation in Internet applications and addresses.

A trial of full Internet services began in Fiji in December 1995 under the auspices of SOPAC. The trial was intended to develop a model for service provision for other island countries. Costs were prohibitive, so the Fiji Internet/Intranet Group (FIG) was formed by several regional organisations (SOPAC, Forum Secretariat, European Union, South Pacific Commission, UNDP), local tertiary institutions, and one government department. FIG has remained active as use has spread more widely, although Internet services are now provided commercially through Telecom Fiji.

Initially, FIG partners benefited operationally by sharing the cost of a leased line and by sharing information on the local intranet. Now that Internet services are provided commercially, regional co-operation is expected to extend to applications.

Studies underway will increase collaborative work on such topics as distance education, tele-medicine, and e-commerce, thus taking advantage of collaborative learning and economies of scale. The CROP Information Sector Working Group (IWG) will be involved in developing action plans for regional applications. CROP-IWG and FIG are both expected to be involved in discussions over Internet access prices and alternative service arrangements in those countries with monopoly Internet service providers

## **Education**

There are two key regional education agencies – University of the South Pacific (USP) and the South Pacific Bureau for Educational Assessment (SPBEA). USP is discussed further below. The SPBEA advises governments on examinations at the upper high school level as well as setting and marking examinations at this level. It also provides limited support for examinations held at the junior and primary schools levels. There are a number of other tertiary institutions within the region that attract a limited number of students from other Pacific Islands countries. These institutions include the University of the Papua New Guinea, National University of Samoa and the Solomon Islands University of Technology (formerly Solomon Islands College of Higher Education).

### ***University of the South Pacific***

The USP is the key Pacific regional university with campuses in Samoa and Vanuatu and distance or extension centres in most Pacific Island countries. The university has a number of faculties and institutes which are involved in Pacific regional programmes, for example the Institute of Education (which manages the Basic Education and Literacy programme in co-operation with UNICEF and a number of other donors) and the Institute of Justice and Applied Legal Studies (which develops Human Rights Education programmes with donor funding).

The USP was founded in 1968. It is owned and operated by 12 Pacific islands countries and territories (Cook Islands, Fiji, Kiribati, Nauru, Niue, Republic of Marshall Islands, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu and Samoa). It is one of only two regional universities in the world.

The mission of the university is 'the maintenance, advancement and dissemination of knowledge by teaching, consultancy and research and otherwise, and the provision at appropriate levels of education and training responsive to the well-being and needs of the communities of the South Pacific'. USP is committed to providing the governments and peoples of its member countries with high quality, internationally recognised, relevant, and cost-effective higher education and training, research publications and consultancy services. It is also committed to providing academic leadership in the university region and promoting regional co-operation and goodwill in collaboration with other regional organisations.

### **Regional security and financial intelligence**

The 1992 Forum Honiara Declaration on Law Enforcement Co-operation identified certain areas of law enforcement that had emerged as particularly important to members. These included necessary legislation to strengthen effective law enforcement co-operation in the region and combat the threat from transnational crime, customs issues, police issues, drugs issues and training. It is believed that regional co-operation can assist in meeting these needs.

The Secretariat has been working closely with regional specialist bodies such as the Oceania Customs Organisation, Pacific Islands Law Officers Meeting, Pacific Immigration, Directors' Conference, South Pacific Chiefs of Police Conference, Regional Heads of Prisons Meeting, and international organisations such as the Commonwealth Secretariat, the Asia/Pacific Group on Money Laundering Secretariat and the UN International Drug Control Programme in these priority areas.

A newly emerging area for regional co-operation is in the sharing of financial intelligence. It was agreed, at the FEMM in July 1999, to undertake a feasibility study into the establishment of a mechanism for financial intelligence information sharing amongst Forum members. This proposes the better collection of, and access to, information required for carrying out vetting or due diligence checks on the standing of persons or entities, and also information for the purposes of countering money laundering, fraud and related criminal activity.

The need for such a mechanism has been recognised for some time. FICs are at risk from illicit financial schemes which can be damaging for their economies and money laundering. In the case of FICs with offshore jurisdictions, illicit financial schemes can be damaging to the integrity of their jurisdictions and to the 'well-being' of other countries. The late-1999 allegations of money laundering by the financial institutions or companies incorporated in two FICs is a further indicator of the need for the sharing of financial information between member countries.

The benefits to FICs of co-operation in financial intelligence include greater access to substantial databases and intelligence networks, similar to those used by larger countries. This should result in reduced costs for each country of assessing investors, as opposed to an *ad hoc* approach to financial intelligence. Indirectly, the development of a rigorous assessment process which will stand up to international scrutiny will add to a business environment which will encourage further investment and also growth of the financial sector.

In addition, all members of the Forum have endorsed the Honiara Declaration and so committed themselves to reduce regional threats from criminal activities, especially transnational criminal activities, by taking a more integrated approach to countering crime. This includes a commitment to abiding by the 1988 UN Convention Against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances and considering the Financial Action Task Force recommendations. The sharing of financial intelligence information will support members' obligations under the Honiara Declaration.

A Steering Committee consisting of the Asia/Pacific Group, Australia, New Zealand and the USA has been set up to oversee this study, which is being partially funded by the USA. The recommendations will be first reported to the Forum Regional Security Committee in June 2000, and once agreed will then be put to the FEMM in July 2000 for consideration.

Annex 1. Membership of regional organisations

	Forum Fisheries Agency Program	Pacific Islands Development Program	South Pacific Forum	South Pacific Applied Geosciences Commission	Pacific Community	South Pacific Regional Environment	South Pacific Tourism Organisation	University of South Pacific
Australia	X		X	X	X	X		
Cook Islands	X	X	X	X	X	X	X	X
Micronesia	X	X	X	X	X	X		
Fiji Islands	X	X	X	X	X	X	X	X
Kiribati	X	X	X	X	X	X		X
Nauru	X	X	X	X	X	X	X	X
New Zealand	X		X	X	X	X		
Niue	X	X	X	X	X	X	X	X
Palau	X	X	X		X	X		
Papua New Guinea	X	X	X	X	X	X	X	
Marshall Islands	X	X	X	X	X	X		X
Samoa	X	X	X	X	X	X	X	X
Solomon Islands	X	X	X	X	X	X	X	X
Tonga	X	X	X	X	X	X	X	X
Tuvalu	X	X	X	X	X	X	X	X
Vanuatu	X	X	X	X	X	X	X	X

## Annex 1 (continued)

Forum Fisheries Agency	Pacific Islands Development Program	South Pacific Forum	South Pacific Applied Geosciences Commission	Pacific Community	South Pacific Regional Environment Program	South Pacific Tourism Organisation	University of South Pacific
—	American Samoa French Polynesia Guam New Caledonia N/Marianas Pitcairn Islands Tokelau Wallis and Futuna	—	Guam	American Samoa France French Polynesia Guam New Caledonia N/Marianas Pitcairn Islands Tokelau United Kingdom United States Wallis and Futuna	American Samoa France French Polynesia Guam New Caledonia N/Marianas UK on behalf of Pitcairn Islands Tokelau United States Wallis and Futuna	American Samoa French Polynesia New Caledonia	Tokelau

## Annex 2. Identification of factors contributing to the primary constraints to development of the Pacific Region

Primary problem	DETERIORATION IN LIVING CONDITIONS	
Development constraints	caused by economic stagnation preventing opportunities for improvement in the quality of life for the peoples of the Pacific Islands	ENVIRONMENTAL DEGRADATION
<b>Social Infrastructure and Environmental Constraints (Level 3)</b>	<b>DECLINING HEALTH</b>	<b>UNSUSTAINABLE FRESH WATER SUPPLY</b>
	<ul style="list-style-type: none"> <li>Inadequate health facilities</li> <li>Inadequate distribution of pharmaceuticals</li> <li>Lifestyle diseases</li> <li>Rapid population growth</li> </ul>	<ul style="list-style-type: none"> <li>Increasing human needs and other demands</li> <li>Inadequate sanitation system</li> <li>Pollution</li> </ul>
<b>Production Sector Constraints (Level 2)</b>	<b>LOW LAND RESOURCE PRODUCTIVITY</b>	<b>LOW MARINE RESOURCE RETURNS</b>
	<ul style="list-style-type: none"> <li>Difficult access</li> <li>Small markets</li> <li>Lack of fertile land</li> <li>Pests</li> <li>Diseases</li> <li>Poor resource management</li> <li>Resource depletion</li> <li>Unscrupulous developers</li> </ul>	<ul style="list-style-type: none"> <li>Lack of local involvement</li> <li>Insufficient compliance by resource developers</li> <li>Inadequate monitoring and surveillance</li> <li>Unsustainable resource extraction</li> </ul>
<b>Economic Infrastructure Constraints (Level 1)</b>	<b>HIGH TRANSPORTATION COSTS AND INADEQUATE COMMUNICATIONS</b>	<b>DEPENDENCE ON HIGH-COST ENERGY SOURCES</b>
	<ul style="list-style-type: none"> <li>Geographic isolation</li> <li>Long distance to export markets</li> <li>Lack of media options and service providers</li> <li>Lack of information</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate national management capabilities</li> <li>Inadequate performance of power utilities</li> <li>Lack of rural energy services</li> </ul>
<b>Lack of an Enabling Environment (Fundamental)</b>	<b>LACK OF AN ENABLING POLICY ENVIRONMENT</b>	<b>INADEQUATE SKILLS BASE</b>
	<ul style="list-style-type: none"> <li>Poor governance</li> <li>Institutional inadequacies</li> <li>Lack of information and understanding of key economic development policy issues</li> <li>Lack of capacity for policy analysis and planning</li> <li>Lack of technical assistance and funding</li> <li>Frequent natural disasters</li> <li>Gender inequality</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate basic education</li> <li>Inadequate access to facilities</li> <li>Poor/inappropriate curriculum and vocational/technical training</li> <li>Absence of long-term strategic human resource development plans</li> </ul>

## Annex 3. Regional Strategy for Addressing Constraints and Achieving the Overall Development Goal

Overall Development Goal	Sustainable Economic Growth Leading to Improvements in the Quality of Life for the Peoples of the Pacific Islands		
<b>Social Infrastructure and Environmental Programme Strategies (Level 3)</b>	HEALTH AND POPULATION	WATER SUPPLY AND SANITATION	ENVIRONMENT
<b>Production Sector Programme Strategies (Level 2)</b>	LAND RESOURCES MANAGEMENT	MARINE RESOURCES MANAGEMENT	PRIVATE SECTOR, TRADE AND TOURISM
<b>Economic Infrastructure Programme Strategies (LEVEL 1)</b>	TRANSPORT AND COMMUNICATIONS		ENERGY
<b>Enabling Environment Programme Strategies (Fundamental)</b>	GOVERNMENT AND CIVIL SOCIETY		EDUCATION AND TRAINING