

REGIONAL INITIATIVE TEMPLATE

Please complete each section below.

1. Contact Details

Please provide the following contact details:

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2. Name of Initiative

Central Pacific Shipping Commission – regional shipping service agreement

3. Background and Rationale

You may consider: What is the issue being addressed by this initiative? What are the causes of this issue? Are there relevant studies that have been carried out to support the issue? Are there links to national, regional or international goals/policies?

Please limit your response to no more than 750 words.

Expansion of Central Pacific Shipping Commission or establishment of an eastern Pacific Shipping Commission

Maritime transport is a key enabler to sustainable economic development, attracting investment to the development of economic infrastructure and providing the necessary link for trade and commerce. The maritime transport sector is therefore critical for the Pacific region's development efforts. For many Pacific SIDS shipping is the only means of inter-

island connectivity and access. More importantly, the earnings of seafarers comprise a significant component of national and household income.

The geography of the Pacific region is characterised importantly by its vast ocean area which is approximated at 180 million km². These ocean distances raise challenges for connectivity, travel and trade between Pacific Island countries and territories and within the island countries themselves. It is estimated that 90% of trade is by ship, and this figure is higher in those countries with limited air or no service.

The vast distances from source trade markets, low export volumes and small populations make shipping services to isolated islands highly costly. This resulted in higher freight rates and increasing prices of goods sold to consumers. Moreover, countries that depend on a once-a-month shipment face a higher risk of running out on essential/basic food items if this service is delayed or cancelled. Cases have been documented where Nauru and Kiribati have been placed in this precarious situations numerous times. The challenges of irregular services and cost of goods and services becoming increasing unaffordable for Pacific communities became regular agenda item for the Forum Island leaders and Small Island States leaders meetings.

Relevant studies to support the issue

The 2006 meetings of the Forum leaders and SIS leaders instructed the Secretariat of the Pacific Community (SPC) to provide high-quality shipping company management and operational advice to PICTs and promote more efficient shipping services to PICTs, in particular small island states. In carrying this instruction out, SPC in collaboration with the Forum Secretariat jointly carried out a feasibility study on the possibility of a feeder shipping service among SIS and recommend a course of action with regards to a feeder shipping service between some of the Pacific island countries such as Fiji, Tuvalu, Kiribati, Nauru and Wallis and Futuna, and any other suitable PICT in that region to the north of Fiji.

Careful analysis of shipping patterns in the region, SPC's Transport Programme concluded that the close collaboration among the shipping companies has resulted in a near cartel environment that offers little or no competition in this area. These private sector shipping companies are commercially driven which have resulted in fairly regular service to the more profitable ports but erratic service to the smaller and unprofitable ones. Recognising the Leaders' commitment to improve safe, reliable and affordable shipping services, the Regional Transport minister's meeting in 2007 raised the possibility of regional shipping services agreement.

In 2007, the results of the study on feeder shipping services were presented to the Leaders with four options for addressing SIS feeder shipping issues, the report mentioned a fifth option of 'Regional Shipping Service Agreement'. This would be similar to the Micronesia Shipping Commission (MSC) model developed in 1997, provided some success in controlling competition to provide sustainable commercial shipping services that best meets the needs of the Micronesian people.

SPC facilitated the Leaders' direction to establish a Central Pacific Shipping Commission (CPSC) similar to the MSC model with the aim of improving shipping services and affordability to CPSC members. In 2010, the establishment of the CPSC was formalised. The purpose of the CPSC existence is ensuring reliable, affordable and sustainable shipping services. The shipping-dependent nations of Kiribati, Marshall Islands, Nauru and Tuvalu agreed to form a subregional group to jointly tackle the shipping challenges through a common subregional solution. This approach has dominated high level forums for several years including the 2014 Pacific Regional Energy and Transport Ministers meeting.

Links to national regional and international development goals

At the international level, the 2012 UNCSO Rio+20, sustainable transport is recognised for its role in enhancing economic growth. The outcome of the 2014 Pacific regional ministers' meeting emphasised the role of transport as key enabler

for economic growth and is reflected in the 2014 UN Small Island States Conference. The importance of maritime transport at regional is also expressed in the *Framework for Action on Transport Services (FATS)* was formulated in response to calls from Pacific Forum Leaders for improved coordination and delivery of safe, secure and competitive regional transport and energy services.

4. Description

Please provide a brief overview of this initiative. Try to address the following: Does this initiative contribute to a positive change to the region? What makes this initiative of importance to the Pacific region as a whole? Who would implement this initiative? Who are the main beneficiaries? Are regulatory or legislative changes required at the national level to implement this initiative? How would the initiative be funded? Has this initiative been carried out previously? What are the key risks in implementing this initiative? Are there any complementary projects and programmes currently active? What is the proposed timeframe for this initiative? How would the initiative be sustained over the proposed timeframe?

Please limit your response to no more than 750 words.

Brief overview of Initiative

The initiative calls for strong political commitment in the expansion and or formation of an eastern pacific shipping commission to ensure the common goals of providing safe, reliable and affordable shipping services to the region.

The CPSC is an inter-governmental agency for joint cooperation, coordination and regulation of international shipping services in its participating member states. The current membership of CPSC includes Kiribati, Nauru, Marshall Islands and Tuvalu, but is open for other eastern pacific states to join or form their own subregional arrangement.

The success story of the CPSC and its demonstrated benefits to participating countries is a testimony to many non members of the importance of regional cooperation and collaboration to achieve a common goal – reliable, safe and affordable shipping services to facilitate connectivity, trade and economic development.

The main beneficiaries are the people on remote island countries reliant on shipping services for goods and transport. The need to undertake a viability study to inform potential members is important based on lessons learned from the MSC and CSPC model.

The CPSC model promotes good governance of shipping services at national level through the creation of a national shipping council. Under the model, member states have established a shipping council to monitor the conditions of the entry assurance certificate (EAC), and ensuring that member countries refrain from actions that would undermine the subregional agreement. There are no legislative changes required, as the cooperation requires strong political will to ensure good will and mutual respect for the subregional agreement.

Positive change in the region emanating from CPSC?

Based on the feeder shipping services study in 2009 and evidence from the operation of the CSPC, the number of services and its reliability to member countries have increased. International shipping companies now provide a service to CPSC countries. To ensure that shipping companies meet work with the Commission to realise its purpose, an entry of assurance certificate issued to all shippers whom can demonstrate they can meet the specified route over defined period; limit the number of shippers servicing the same route as well as other conditions. Strong and active leadership from the governments of CPSC members augmented the efforts of SPC in progressing the operation of the Central Pacific Shipping Commission

After the granting of EAC initially to three shipping companies in November 2013, CPSC became operational on 1 January 2014. On 1 April 2014, three other shipping companies were granted EAC. The noticeable impact by CPSC members of this subregional cooperation is the following; - **improvement in and expansion of shipping services** – Since the issuance of initial EACs there has been an increase in the frequency and reliability of shipping services to participating countries; **stability of freight rates; improved connectivity** – connectivity for member countries has improved along with the certainty in the number of shipping lines; **strong government leadership** to ensure its sustained and people are satisfied with the service and commitment to ensure users and key stakeholders through a national shipping council monitor the conditions of the EAC;

Who would implement the initiative?

SPC would facilitate PICTs who would be like to join the CPSC or participate in the formation of an eastern Pacific commission, and monitor the progress. The decision making on management and operation is left to the member countries with SPC providing technical advice. Recently, SPC facilitated the CPSC technical committee as well as a consultative forum for eastern Pacific Island states. The indication from this forum is that countries such as Tokelau, Tonga and Wallis & Futuna expressed interest in joining the commission or forming an eastern Pacific shipping commission. This is still in discussion. The work required would include the viability study to be carried and assist the potential members join the CPSC or form a separate sub-regional body. The instruments used to establish the CPSC is expected to be similar should a new body be formed.

Risks

- Key risks non-compliance by members, and allowing other shipping companies to enter shipping routes;
- Lack political commitment to a subregional arrangement;
- National capacity to ensure that national shipping councils are formed
- Financial contribution of members (considered to be low risk as this is really determined by the members);
- Resources constraints from programme to pursue the viability study to expand or establish an eastern Pacific shipping commission

Cost and Sustainability

The cost of the initiative from the outset is initially the viability study for potential members to inform national decision makers. This is estimated at around USD 300, 000. Other costs associated with the technical support provided by the transport programme.

As demonstrated in the MSC and CPSC model, the CPSC operates on a cost recovery basis with funds from CPSC participating countries of USD 5,000 annually. The Vessel Operating Common Carrier (VOCC) is issued with an assurance of entry certificate is USD 10, 000 USD with non VOCC USD 5, 000.

In terms of financial sustainability, the CPSC has demonstrated that this sound provided members comply with the conditions of membership. The subregional cooperation is only effective if members continue to support the arrangement. It is based on goodwill and mutual respect built on ongoing dialogue. The beauty of the CPSC model is that the space for dialogue especially between government and the private sector, and that there is political commitment to ensure the benefits are delivered. The establishment of the national shipping council will act as a monitoring mechanism on the performance of the services provided, broker relationship with shippers and government stakeholders. The involvement of the users and beneficiaries will ensure that the gains emanating from this arrangement is sustained.

5. Alignment to Regional Vision, Values and Objectives

Briefly describe how your initiative supports the vision, values and objectives set out in the Framework for Pacific Regionalism. These can be found in the Framework for Pacific Regionalism document or in the submissions guideline document.

Please limit your response to no more than 500 words

The CPSC model or its equivalent aligns precisely with the vision, values and objectives of the framework. It establishes a shared goal and common position on shipping issues through a regional or subregional arrangement. The proposed initiative addresses the national constraints of individual island states by providing economies of scale to allow for more affordable and reliable shipping service

It is evident from the performance of the CPSC that this initiative provides an enabling environment for Pacific communities to live productive lives. More importantly, the CPSC embraces social inclusivity in that the key beneficiaries are people on remote islands accessing goods and transport. In terms of sustainability the involvement of users and key beneficiaries in the monitoring of the services ensures that there is an accountability mechanism in place to ensure safe, reliable and affordable shipping services is provided to Pacific communities.

The initiative recognises the vast ocean area limiting connectivity and restricting trade. In addition, the proposed initiative emphasises the improvement of shipping services to promote economic opportunities for Pacific Island countries. The initiative is underpinned by a structure and process (based on the CPSC model) where good governance is promoted. The governance arrangement of the Commission or its equivalent is essentially built on enduring partnerships, effective and honest relationships based on mutual accountability and respect with each other, within the subregion and within the region.

In terms of the objective of the regionalism framework, the proposed initiative is expected to benefit PICTs members through:-

- Harnessing of potential trade opportunities with neighbouring PICTs by ensuring there is adequate and reliable frequency of shipping services to access international markets;
- A strong partnership arrangement among SIS governments in effect to work towards a common goal to ensure benefits are delivered at national level
- Creation of a subregional discussion forum between shipping lines and the states to achieve a common goal
- Improvement in shipping services to facilitate economic integration

These expected benefits align well with objectives of the framework relating to; economic growth that is inclusive and equitable, economic development that improve the livelihoods and wellbeing of Pacific communities. Similarly, the model operation of CPSC on which the initiative is based creates an environment of mutual accountability and strengthening of governance system, with a focus on the maritime transport sector. This is seen through the establishment of a national shipping council comprising of national/community leaders to monitor the agreement ensures users views are embraced and communicated.

6. Additional Information

Please provide or attach additional information in support of this initiative.

Please limit your response to no more than 5 pages.

An e-copy of the CPSC history, successes and lessons learned is attached for further details. A copy of the consultative forum outcome of Eastern Pacific state and CPSC members held on 13th May 2015 is also attached.