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Acknowledgements

The formulation of the Cook Islands Trade Policy Framework began in early 2014 and culminated with its endorsement by the Cabinet of Cook Islands and National Trade Development Committee in late 2015. Over that time numerous contributors have kindly given their time to help complete the document.

Ana Kessie and Dan Lui of Triangle Business Solutions (TBS) based in Port Vila, Vanuatu, led the drafting of the document under the direction of Danny Williams from the Trade Division of the Ministry of Foreign Affairs and Immigration. Iain Haggerty also from TBS provided organisational assistance and support.

Officials from the Cook Islands led in providing guidance and input for the work, particularly the key members of a core steering committee that comprised of Myra Patai and Danny Williams (Ministry of Foreign Affairs and Immigration), Petero Okotai (Office of the Prime Minister), James Webb (Ministry of Finance and Economic Management), Terry Rangi and Taimata Allsworth (Business Trade and Investment Board), and Mike Pynenburg of the Cook Islands Chamber of Commerce.

The core of the document was drafted from inputs including meetings with over fifty stakeholders from government, private sector and civil society, as well as detailed exchanges and feedback throughout the process.

The Pacific Islands Forum Secretariat provided technical assistance and administrative assistance. Nicky Anaturin, Zarak Khan and Damian Kyloh offered support and insights during the process.

The project was made possible thanks to funding provided by the European Union through the Pacific Integration Technical Assistance Project.
### Acronyms

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<tr>
<th>Acronym</th>
<th>Full Form</th>
<th>Meaning</th>
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<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific States</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFT</td>
<td>Aid for trade</td>
<td>AFT Aid for trade</td>
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<tr>
<td>ANZ</td>
<td>Australia and New Zealand</td>
<td>ANZ Australia and New Zealand</td>
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<td>ANZCERTA</td>
<td>Australia and New Zealand Closer Economic Relations Board</td>
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<td>BTIB</td>
<td>Business Trade &amp; Investment Board</td>
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<td>CER</td>
<td>Closer Economic Relations Corporation</td>
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<td>CCFZ</td>
<td>Clarion Clipperton Fracture Zone</td>
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<td>CIIC</td>
<td>Cook Islands Investment Corporation</td>
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<td>Cook Islands Government</td>
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<td>Cook Islands Pearl Authority</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>Chief Trade Advisor</td>
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<td>CTC</td>
<td>Change in Tariff Classification</td>
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<td>Exclusive Economic Zone</td>
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<td>Economic Partnership Agreement</td>
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<td>EU</td>
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<td>FACT</td>
<td>Facilitating Agricultural Commodity Trade</td>
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<td>Fish Aggregation Devices</td>
<td>FAD Fish Aggregation Devices</td>
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<td>Financial Services Commission</td>
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<td>Forum Island Countries</td>
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<td>DFI</td>
<td>Foreign Direct Investment</td>
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<td>Free Trade Agreement</td>
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<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Geographical Indication</td>
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<td>GNP</td>
<td>Gross National Product</td>
<td>GNP Gross National Product</td>
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<td>GSP</td>
<td>Generalised System of Preferences</td>
<td>GSP Generalised System of Preferences</td>
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<tr>
<td>HS</td>
<td>Harmonised System</td>
<td>HS Harmonised System</td>
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<td>IEPA</td>
<td>Interim Economic Partnership Agreement (with the EU)</td>
<td>IEPA Interim Economic Partnership Agreement (with the EU)</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>International Labour Organization</td>
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<td>International Monetary Fund</td>
<td>IMF International Monetary Fund</td>
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<td>INTAFF</td>
<td>Ministry of Internal Affairs</td>
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<td>IP</td>
<td>Intellectual Property</td>
<td>IP Intellectual Property</td>
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<td>LDC</td>
<td>Least Developed Country</td>
<td>LDC Least Developed Country</td>
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<td>MoA</td>
<td>Ministry of Agriculture</td>
<td>MoA Ministry of Agriculture</td>
</tr>
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<td>MFAI</td>
<td>Ministry of Foreign Affairs and Immigration</td>
<td>MFAI Ministry of Foreign Affairs and Immigration</td>
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<td>MFEM</td>
<td>Ministry of Finance and Economic Management</td>
<td>MFEM Ministry of Finance and Economic Management</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
<td>MFN Most Favoured Nation</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MMR</td>
<td>Ministry of Marine Resources</td>
<td>MMR Ministry of Marine Resources</td>
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<td>MSG</td>
<td>Melanesian Spearhead Group</td>
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<td>NDCs</td>
<td>Nationally Determined Contributions</td>
<td>NDCs Nationally Determined Contributions</td>
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<td>Non-State Actors</td>
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<td>National Sustainable Development Commission</td>
<td>NSDC National Sustainable Development Commission</td>
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<td>NSDP</td>
<td>National Sustainable Development Plan</td>
<td>NSDP National Sustainable Development Plan</td>
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<td>National Statistics Office</td>
<td>NSO National Statistics Office</td>
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<td>NTB</td>
<td>Non-Tariff Barriers</td>
<td>NTB Non-Tariff Barriers</td>
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<td>NTDC</td>
<td>National Trade Development Committee</td>
<td>NTDC National Trade Development Committee</td>
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<td>NZD</td>
<td>New Zealand Dollar</td>
<td>NZD New Zealand Dollar</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
<td>ODA Official Development Assistance</td>
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<td>PACER</td>
<td>Pacific Agreement on Closer Economic Relations</td>
<td>PACER Pacific Agreement on Closer Economic Relations</td>
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<td>PACP</td>
<td>Pacific African, Caribbean and Pacific States</td>
<td>PACP Pacific African, Caribbean and Pacific States</td>
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<td>Pacific Island Countries</td>
<td>PICs Pacific Island Countries</td>
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<td>PICTA</td>
<td>Pacific Island Countries Trade Agreement</td>
<td>PICTA Pacific Island Countries Trade Agreement</td>
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<td>PIFS</td>
<td>Pacific Islands Forum Secretariat</td>
<td>PIFS Pacific Islands Forum Secretariat</td>
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<td>RoO</td>
<td>Rules of Origin</td>
<td>RoO Rules of Origin</td>
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<td>RTA</td>
<td>Regional Trade Agreement</td>
<td>RTA Regional Trade Agreement</td>
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<td>RTFP</td>
<td>Regional Trade Facilitation Program</td>
<td>RTFP Regional Trade Facilitation Program</td>
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<td>RSE</td>
<td>Recognised Seasonal Employer</td>
<td>RSE Recognised Seasonal Employer</td>
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<td>SBM</td>
<td>Sea Bed Minerals</td>
<td>SBM Sea Bed Minerals</td>
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<td>SIDS</td>
<td>Small Island Developing State</td>
<td>SIDS Small Island Developing State</td>
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<td>Small Island State</td>
<td>SIS Small Island State</td>
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<tr>
<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
<td>SMEs Small and Medium Sized Enterprises</td>
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<td>SOEs</td>
<td>State Owned Enterprises</td>
<td>SOEs State Owned Enterprises</td>
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<tr>
<td>SPC</td>
<td>Secretariat of the Pacific Community</td>
<td>SPC Secretariat of the Pacific Community</td>
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<tr>
<td>SPS</td>
<td>Sanitary and Phyto-sanitary Measures</td>
<td>SPS Sanitary and Phyto-sanitary Measures</td>
</tr>
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<td>SPARTECA</td>
<td>South Pacific Regional Trade and Economic Cooperation Agreement</td>
<td>SPARTECA South Pacific Regional Trade and Economic Cooperation Agreement</td>
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<tr>
<td>SWF</td>
<td>Sovereign Wealth Fund</td>
<td>SWF Sovereign Wealth Fund</td>
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<tr>
<td>TBT</td>
<td>Technical Barriers to Trade</td>
<td>TBT Technical Barriers to Trade</td>
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<tr>
<td>TCF</td>
<td>Textiles Clothing and Footwear</td>
<td>TCF Textiles Clothing and Footwear</td>
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<tr>
<td>TCI</td>
<td>Telecoms Cook Islands</td>
<td>TCI Telecoms Cook Islands</td>
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<td>TK</td>
<td>Traditional Knowledge</td>
<td>TK Traditional Knowledge</td>
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<tr>
<td>TPF</td>
<td>Trade Policy Framework</td>
<td>TPF Trade Policy Framework</td>
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<td>Telecom New Zealand</td>
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<td>TVET</td>
<td>Technical and Vocational Education and Training</td>
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<td>Value Added Tax</td>
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<td>WIPO</td>
<td>World Intellectual Property Organization</td>
<td>WIPO World Intellectual Property Organization</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
<td>WTO World Trade Organization</td>
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</tbody>
</table>
1 Introduction and Role of the Trade Policy
This Trade Policy Framework (TPF) highlights the importance of trade in all its forms to the Cook Islands and clearly articulates the key obstacles facing the country with respect to strengthening its trade performance, and the policy responses of the Cook Islands Government (CIG) in addressing those challenges.

1.1 Definitions and Scope of Trade Policy

Trade is an increasingly complex area of policy. Although usually associated with movements of imports and exports of goods across borders, modern trade policy extends far beyond the movement of physical goods to cover a range of other areas, including the international delivery of services, investment between countries, temporary movement of labour, competition policy, and intellectual property. International trade negotiations and diplomacy form an important part of trade policy, and can be important tools to break down barriers such as tariffs, open new markets, establish common rules and standards, and forge closer trade and investment links with overseas partners. Trade policy also increasingly encompasses ‘behind-the-border’ measures such as quarantine and technical standards, the impact of domestic regulation, and the strengthening of an ‘enabling business environment’ for trade to grow. For developing countries, there is also a strong emphasis on actions – such as policy shifts, structural reforms and development assistance – that can increase productive capacity for trade, so that countries are better able to link domestic production within global value chains and benefit from globalisation. This means a coherent linkage trade policies with sectoral policies in an economy. For small island states, these challenges are magnified because of the specific challenges in due to the fact that they face their own particular set of well-known problems in integrating into the global economy.

1.2 Purpose and Objectives of Trade Policy

The wide-ranging nature of trade-related activity creates a difficult challenge for governments: many of the obstacles to trade growth are cross-cutting and inter-related. Responsibilities for key trade-related policy areas are often dispersed across a large number of government agencies and semi-autonomous institutions such as regulators. Since trade is driven predominantly by the private sector, it is important to clearly define their role in policy formulation and implementation. From a policy perspective, the key to an effective trade policy or strategy is to achieve a high level of coherence between different policy areas, especially when there are gaps in existing or formally adopted policy. The effective implementation of a trade strategy involves improving knowledge-sharing and coordination of various policies, agencies and actors, including those in the private sector.

As such this Trade Policy Framework seeks to provide a “platform for the Government to manage trade issues in a coherent and effective way.” The TPF systematically assesses the constraints to trade growth at the level of the broad environment for trade, and in specific key sectors such as tourism and agriculture, and proposes a set of policy options for implementation in each sector. It also assesses the institutions and capacity of the Cook Islands to effectively implement a trade policy and makes appropriate proposal in this area. In this way, the TPF seeks to raise the profile of trade and trade-related issues and sets out a coherent overarching framework to address this and thus to help ensure that trade contributes fully to the Cook Islands’ development goals as outlined in its National Sustainable Development Plan (NSDP).

As such, the key objectives of the Trade Policy Framework are to:

- Outline the overall vision for trade in the Cook Islands and contribute to economic growth and development, by looking at past performance and potential areas of identified comparative and competitive advantage
- Raise the profile of trade issues within Cook Islands, including through improving the mainstreaming trade issues within the NSDP
- Establish a “policy platform” for dealing with trade and trade-related issues in a more coherent and coordinated manner. The TPF should aim to create a national consensus around a small set of clearly articulated interests in priority areas and appropriate policy responses
- Review and set out the institutional arrangements (i.e. how Cook Islands should best organise itself) for dealing with trade and trade-related issues, including those that are cross-cutting in nature, while taking account of the

1 The first steering committee meeting for the TPF in April 2014 noted: “TPF should set the right conditions to overcome existing deficiencies in trade planning and enhance the government’s capacity to formulate, coordinate and implement trade policies for the benefit of its own people. There is not currently anything that guides or manages trade issues.”
limited capacity within Cook Islands to implement a trade policy agenda

- Explore implementation issues (including including the allocation of responsibility, financing and so forth)

### 1.3 Principles

In drafting the TPF, the CIG was conscious of the need to follow clear principles for developing sound policies that are responsive to the actual problems facing the Cook Islands, and can be implemented in a timely and cost efficient manner. As such the development of the TPF has followed a number of key principles:

The TPF,

- is fully in line with established processes for the development of national policy and with more detailed planning and budgeting frameworks
- defines trade in a holistic manner, with trade defined broadly as a cross-cutting concern as well as a potential organising principle for a broader economic strategy
- is designed to build upon and feed into the NSDP so that trade is fully mainstreamed within the national development plan of the Cook Islands
- in line with other national policies where they exist, and is also designed to contribute possible policy options where there are issues that overlap with trade policy but where no policy exists at present
- should be accessible to users across government departments, the private sector and the wider general public
- policy proposals have been subject to a thorough consultation process to ensure that the views of all key stakeholders are represented
- will also outline a feasible programme for implementation, paying attention to the limited capacity within and seeking to address any possible implementation gaps and constraints

### 1.4 Structure

The remainder of the Trade Policy Framework is structured with the following sections:

- Macroeconomic Environment and Assessment of Cook Islands Participation and Performance in International Trade
- Analysis of Key Economic Sectors
- Trade-related Issues
- Cross-cutting issues
- International Trade Negotiations
- Institutions, Capacity and Aid for Trade
- Implementation

This Background Paper is accompanied by a Trade Policy Statement which provides a high-level summary of the CIG’s direction, vision and priority actions to boost trade in the short, medium and long term.

The key adopted priority actions are also set out within a simple and accessible TPF Implementation Matrix. This will be a working document that is regularly updated based on progress and new priorities identified by the new National Trade Development Committee (see section 8).
2 Macroeconomic Environment and Assessment of Cook Islands Participation in International Trade and Trade Performance
2.1 Context

The Cook Islands is located in the South Pacific Ocean between Tahiti in the East and Samoa in the West. The islands making up the Cook Islands are scattered around the Tropic of Capricorn. The people are of Polynesian descent with Maori and English widely spoken. The Cook Islands are comprised of 15 small islands with a total land area of 240 km² spread out over an exclusive economic zone (EEZ) of approximately two million km².

The islands are divided geographically into the northern and southern groups. The islands of the northern group are mostly atolls and the southern group mostly volcanic. The main island of Rarotonga in the southern group is the centre of social, economic and political activity with approximately 75 per cent of the population living there. Rarotonga has a quarter of all of the Cook Islands land mass, with a land area of 67.2 km².

Figure 2.1 Map of the Cook Islands
The national census of 2011 put the resident population of the Cook Islands at 14,974 with an even distribution along sex aggregation lines: 7,490 males and 7,484 females. In terms of age distribution, 29% of the resident population is younger than 15 years of age, 58% of the population is between the ages of 15-59 and the remaining 13% of the age group are over 60 years. The census further found that 4,372 households had an average of 4 persons. The rate of employment is quite high, with approximately 79% of the working age population in gainful employment. It was estimated that 53% and 47% of men and women, were respectively employed. The unemployment rate was estimated to be around 8.2%. The Cook Islands is considered a middle income country with a GDP per capita of NZD 26,900 (US$19,600). At the time of the census, the average minimum wage was NZD 5. It was increased to NZD 6 in 2014 with further increases being considered.

2.2. Economic Performance

The performance of the Cook Islands economy needs to be assessed cautiously in light of challenges around measurement and the limited data environment, as well as the sensitivity of the outwardly-oriented economy both to the prices of imports and the demand for its services exports (dominated by tourism).

In terms of overall GDP, the Cook Islands recorded relatively high rates of economic growth in the late 1990s and early 2000s, after which growth began to moderate and then decline due largely to external factors. The main effects of the recent global economic crisis have been felt through changes in commodity prices, and more importantly in fluctuations in the number of tourist arrivals, which have led to a mixed performance for the economy in recent years. GDP per capita has historically been more volatile, driven more by variation in estimations of the country’s population than underlying economic factors.

Table 2.1: Key Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Tourism Arrivals</th>
<th>Real GDP ('000)</th>
<th>Growth Rate (%)</th>
<th>Mid Year Population</th>
<th>GDP per Capita ($)</th>
<th>Growth Rate per Capita (%)</th>
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<tbody>
<tr>
<td>2001</td>
<td>253,559</td>
<td>4.91</td>
<td>18,300</td>
<td>10,251</td>
<td>3.76</td>
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<tr>
<td>2002</td>
<td>261,774</td>
<td>2.57</td>
<td>18,400</td>
<td>10,400</td>
<td>1.46</td>
<td></td>
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<tr>
<td>2003</td>
<td>273,046</td>
<td>8.16</td>
<td>18,400</td>
<td>11,249</td>
<td>8.16</td>
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<td>2004</td>
<td>279,056</td>
<td>4.32</td>
<td>20,300</td>
<td>10,636</td>
<td>-5.45</td>
<td></td>
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<tr>
<td>2005</td>
<td>88,405</td>
<td>275,875</td>
<td>-1.14</td>
<td>21,500</td>
<td>12,831</td>
<td>20.64</td>
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<td>2006</td>
<td>92,328</td>
<td>289,680</td>
<td>5.00</td>
<td>23,700</td>
<td>12,223</td>
<td>-4.74</td>
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<td>2007</td>
<td>97,316</td>
<td>289,097</td>
<td>-0.20</td>
<td>21,000</td>
<td>13,767</td>
<td>12.63</td>
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<td>2008</td>
<td>94,776</td>
<td>278,937</td>
<td>-3.51</td>
<td>22,100</td>
<td>12,622</td>
<td>-8.32</td>
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<td>2009</td>
<td>101,229</td>
<td>281,862</td>
<td>1.05</td>
<td>22,600</td>
<td>12,472</td>
<td>-1.19</td>
</tr>
<tr>
<td>2010</td>
<td>104,265</td>
<td>273,491</td>
<td>-2.97</td>
<td>23,700</td>
<td>11,540</td>
<td>-7.47</td>
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<td>2011</td>
<td>113,114</td>
<td>276,169</td>
<td>0.98</td>
<td>18,700</td>
<td>14,768</td>
<td>2798</td>
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<tr>
<td>2012 (p)</td>
<td>122,384</td>
<td>288,326</td>
<td>4.40</td>
<td>19,300</td>
<td>14,939</td>
<td>1.16</td>
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<td>2013 (p)</td>
<td>121,158</td>
<td>274,461</td>
<td>-1.0</td>
<td>18,600</td>
<td>14,756</td>
<td>-1.23</td>
</tr>
</tbody>
</table>

Source: MFEM. Note that figures for 2012 and 2013 are provisional.
In recent years tourism arrivals appear to be improving while the economy also benefits from a construction boom. The Government’s latest assessment suggests that economic growth is likely to slow over the next 18 months with lower contributions from development assistance and the end of major construction projects, alongside slowing tourism growth.

The main short-term risk to the Cook Islands is a slowing of the New Zealand and Australian economies (driven in turn by performance of the global economy), leading to a decline in tourism, although the Cook Islands is also vulnerable to shocks such as natural disasters or broader threats to the tourism industry. At the same time, recent falls in the price of oil could provide a positive boost to the Cook Islands in the short term, through a number of channels including lower domestic fuel and energy prices, and lower air fares for tourists.

Figure 2.2: Composition of GDP, 2013

In structural terms, data suggests a prominent role for tourism-related sectors, with the sector estimated by MFEM to contribute an aggregate 60 per cent of GDP, followed by public expenditure and projects (which are partly ODA-funded). In contrast primary industries contribute only around 7 per cent of GDP. Although there is some suggestion that the contribution of agriculture and fisheries may be underestimated, census data on the labour force also suggests a limited role for these two sectors, and the overall picture is one of an economy that is heavily reliant on tourism. This has clear implications about the comparative advantage of the Cook Islands and the source of future economic gains. Seen purely in terms of its marginal contribution to GDP, the agriculture sector for instance would need to grow by around 20 per cent in order to generate the same increase in GDP associated with a 1 per cent increase in tourism-related activity.

Looking at the relative performance of sectors over the long term, it is interesting to note that the fastest growing
sectors of the economy over the course of the last fifteen years have also been closely related to the tourism sector: the ‘restaurants and accommodation’ and ‘wholesale and retail trade’ sub-sectors have more than doubled since 2000, while the most dynamic sectors of the economy were construction and ownership of dwellings. At the same time the value of fisheries contribution to GDP declined in real terms by 13 per cent while agricultural output declined by a just over a fifth. Such long-term trends – seen against the backdrop of relatively successful economy over the same period – need to be considered carefully in an overall trade and broader economic strategy for the Cook Islands.

Figure 2.3: Contribution to Overall Economic Growth in Percentage Points between 2003 and 2013

On a broader level, a number of long-term structural factors are increasingly acting to constrain future growth prospects for the Cook Islands. Foremost amongst these is a small and rapidly declining population, which has been falling at a rate of up to 3 per cent per year over the last 20 years as a result of outmigration of Cook Islanders primarily to New Zealand and Australia. Secondly, there are well-recognised issues around policy towards the outer islands: the Northern Group suffers from severe isolation, while Southern Group populations have in some cases fallen from several thousand down to a few hundred. Finally there is a scarcity of land available for development, particularly on Rarotonga, although this is a sensitive issue. Such cross-cutting constraints are addressed in Section 6 below.

2.3. Trade Performance

Unlike most other developing and developed economies of the world, exports of physical goods from the Cook Islands are minimal (accounting for only 2.2 per cent of GDP), and play only a very limited role in determining the overall balance of trade. Instead, the Cook Islands’ main source of foreign income comes overwhelmingly from services receipts (equivalent to 75.2 per cent of GDP), which are dominated by tourism. Some of these receipts are recycled to import a fairly wide range of goods that are unavailable in the Cook Islands – including fuel, food items, machinery and medicines. However overall tourism earnings are more than twice as large as the import bill, which has itself been falling in recent years.
As a consequence Cook Islands is in the very enviable position of running a large surplus on its current account – the balance of imports and exports of both goods and services – particularly when compared to other countries in the region, and this should be a significant factor in guiding the country’s trade and economic policy. Data compiled recently by the ADB provide a reasonably accurate account of the Balance of Payments for the first time and show that that the Current Account Balance reached over 40 per cent of GDP in recent years, falling slightly to 35.5 per cent in 2014. Over the period covered by the data, services exports have grown consistently at an average of more than 3 per cent per year, while imports of goods have fallen by an average of over 2 per cent per year. This demonstrates how Cook Islands has been partially insulated from the effects of the ongoing global economic crisis, through having a tourism industry that has managed to grow in spite of stagnating incomes in many developed countries.

Table 2.3: Balance of Payments 2007-14

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-137.1</td>
<td>-147.9</td>
<td>-108.1</td>
<td>-104.6</td>
<td>-98.5</td>
<td>-101.3</td>
<td>-104.6</td>
<td>-107.4</td>
</tr>
<tr>
<td>Exports</td>
<td>7.7</td>
<td>5.9</td>
<td>4.4</td>
<td>7.2</td>
<td>7.2</td>
<td>7.5</td>
<td>8.5</td>
<td>9.6</td>
</tr>
<tr>
<td>Imports</td>
<td>144.7</td>
<td>153.8</td>
<td>112.5</td>
<td>111.8</td>
<td>105.7</td>
<td>108.7</td>
<td>113.1</td>
<td>117</td>
</tr>
<tr>
<td>Services Balance</td>
<td>186</td>
<td>179.7</td>
<td>195.8</td>
<td>219.2</td>
<td>213.6</td>
<td>226.2</td>
<td>236.9</td>
<td>247.5</td>
</tr>
<tr>
<td>Services Receipts</td>
<td>261.5</td>
<td>261.4</td>
<td>263.7</td>
<td>292.8</td>
<td>292.4</td>
<td>308.5</td>
<td>312.4</td>
<td>333.8</td>
</tr>
<tr>
<td>Travel</td>
<td>164.6</td>
<td>164.9</td>
<td>166.5</td>
<td>194.3</td>
<td>192</td>
<td>206.2</td>
<td>217.1</td>
<td>227.5</td>
</tr>
<tr>
<td>Other</td>
<td>96.9</td>
<td>96.5</td>
<td>97.2</td>
<td>98.5</td>
<td>100.4</td>
<td>102.3</td>
<td>104.3</td>
<td>106.3</td>
</tr>
<tr>
<td>Services Payments</td>
<td>75.5</td>
<td>81.7</td>
<td>67.9</td>
<td>73.6</td>
<td>78.8</td>
<td>82.3</td>
<td>84.5</td>
<td>86.3</td>
</tr>
<tr>
<td>Investm’t income (net)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Current transfers (net)</td>
<td>24.5</td>
<td>15.7</td>
<td>24.4</td>
<td>28.4</td>
<td>38.2</td>
<td>40.2</td>
<td>35.7</td>
<td>17.6</td>
</tr>
<tr>
<td>Official ($m)</td>
<td>29.7</td>
<td>21.2</td>
<td>30.2</td>
<td>34.6</td>
<td>44.9</td>
<td>47.7</td>
<td>43.9</td>
<td>26.3</td>
</tr>
<tr>
<td>Private ($m)</td>
<td>-5.2</td>
<td>-5.5</td>
<td>-5.8</td>
<td>-6.2</td>
<td>-6.7</td>
<td>-7.5</td>
<td>-8.2</td>
<td>-8.7</td>
</tr>
<tr>
<td>Current Acc. Balance</td>
<td>73.4</td>
<td>47.5</td>
<td>112.2</td>
<td>143.1</td>
<td>153.3</td>
<td>165.2</td>
<td>167.9</td>
<td>157.6</td>
</tr>
<tr>
<td>(as % of GDP)</td>
<td>23.7%</td>
<td>14.3%</td>
<td>32.5%</td>
<td>40.2%</td>
<td>41.0%</td>
<td>41.0%</td>
<td>39.3%</td>
<td>35.5%</td>
</tr>
<tr>
<td>0 in Net Foreign Assets</td>
<td>n.a.</td>
<td>-14.6</td>
<td>125.7</td>
<td>-674</td>
<td>11</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

As a consequence Cook Islands is in the very enviable position of running a large surplus on its current account – the balance of imports and exports of both goods and services – particularly when compared to other countries in the region, and this should be a significant factor in guiding the country’s trade and economic policy. Data compiled recently by the ADB provide a reasonably accurate account of the Balance of Payments for the first time and show that that the Current Account Balance reached over 40 per cent of GDP in recent years, falling slightly to 35.5 per cent in 2014. Over the period covered by the data, services exports have grown consistently at an average of more than 3 per cent per year, while imports of goods have fallen by an average of over 2 per cent per year. This demonstrates how Cook Islands has been partially insulated from the effects of the ongoing global economic crisis, through having a tourism industry that has managed to grow in spite of stagnating incomes in many developed countries.

Goods Imports

The need to import goods is unavoidable in any country, and more so in the Cook Islands with its limited productive base. Imports include those bound for local consumption, but also those that feed into the tourism industry either directly or indirectly (for example through investment or construction). Key imports in 2012 included fuel (25% per cent of the total), food (22% per cent), machinery (18% per cent) and manufactured goods. Given its level of openness, the Cook Islands economy is relatively sensitive to prices of imported goods, although overall imports have fallen in recent years. This suggests that the overall ‘terms of trade’ has been moving in the Cook Islands’ favour as manufacturing, energy and foods costs has fallen while the main export, tourism, has generated steadily increasing returns.

3 MFEM notes that some figures have been estimated, including for current transfers. One implication is that while the current account balance remains large, it is likely to be overestimated here.
The overwhelming majority of imported goods appear to originate in New Zealand (72%), followed by Fiji (6%), Australia (5%), US (2%) and other countries (10%). One notable feature of the Cook Islands is that it is a relatively high-cost economy, especially compared to lower-wage competitors such as Fiji.

This raises a number of implications about trade policy. The first is whether there are any structural policies Cook Islands may wish to consider to shift trade patterns to cheaper imports (for example from Asia). The second is whether there are measures with respect to competition – notably amongst importers and wholesalers – which could lower costs in the economy to improve international competitiveness and national welfare. Finally there is also a discussion around import substitution, given that the limited production potential of the Cook Islands will require a targeted and strategic approach to investments and policies – for example within agriculture or amongst new technologies – to bring down the import bill. Issues around competition are covered in section 5 below, but should also be linked to broader economic strategy (beyond trade) that also takes into account wages not just in the Cook Islands but also in New Zealand and Australia.

### Goods Exports

As already noted, any analysis of Cook Islands’ exports of physical goods needs be put into the overall context in which they contribute approximately 2 per cent of the economy (including both the agricultural and fisheries sectors combined). Traditional exports from the Cook Islands include pearls and pearl shells, fish and maire, alongside pawpaws and taro.
Pearl production is centred in Manihiki and is the most prominent industry in the Northern Group. However, following the emergence of competitors and increased global production (including from Asia and neighbouring French Polynesia) in the early 2000s, the industry in Cook Islands noted a decline in investment over the following years, leading to a struggle to maintain quality standards and pearl grades, and effectively collapsed along with global prices in 2011. Since then there has been an increase in fish exports (the only other export industry over the last few years to generate annual exchange of more than $100,000) with exports to markets in Japan and the US through Auckland or Pago Pago. The value of fish exports rose above US$5m in 2012, this is still small compared to the total catch as onshore processing is limited, and most revenues still come from licence fees.

Table 2.5: Composition of Total Goods Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>Paw paw</th>
<th>Taro</th>
<th>Live Fish</th>
<th>Fish Fresh or Chilled</th>
<th>Pearls</th>
<th>Pearl Shells</th>
<th>Clothing</th>
<th>Maire</th>
<th>Other Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( '000 )</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>5,420</td>
<td>263</td>
<td>-</td>
<td>141</td>
<td>1,066</td>
<td>2,044</td>
<td>3</td>
<td>136</td>
<td>30</td>
<td>1,737</td>
</tr>
<tr>
<td>2007</td>
<td>7,052</td>
<td>117</td>
<td>-</td>
<td>62</td>
<td>3,141</td>
<td>2,129</td>
<td>278</td>
<td>50</td>
<td>18</td>
<td>1,257</td>
</tr>
<tr>
<td>2008</td>
<td>5,895</td>
<td>23</td>
<td>-</td>
<td>205</td>
<td>1,994</td>
<td>2,053</td>
<td>147</td>
<td>-</td>
<td>14</td>
<td>1,459</td>
</tr>
<tr>
<td>2009</td>
<td>4,396</td>
<td>8</td>
<td>5</td>
<td>211</td>
<td>1,950</td>
<td>1,197</td>
<td>-</td>
<td>-</td>
<td>18</td>
<td>1,007</td>
</tr>
<tr>
<td>2010</td>
<td>7,163</td>
<td>20</td>
<td>5</td>
<td>220</td>
<td>3,790</td>
<td>1,575</td>
<td>-</td>
<td>-</td>
<td>58</td>
<td>1,495</td>
</tr>
<tr>
<td>2011</td>
<td>3,956</td>
<td>-</td>
<td>-</td>
<td>147</td>
<td>2,390</td>
<td>369</td>
<td>213</td>
<td>40</td>
<td>84</td>
<td>713</td>
</tr>
<tr>
<td>2012</td>
<td>6,552</td>
<td>-</td>
<td>-</td>
<td>96</td>
<td>5,312</td>
<td>259</td>
<td>105</td>
<td>81</td>
<td>54</td>
<td>645</td>
</tr>
</tbody>
</table>

Pearl production is centred in Manihiki and is the most prominent industry in the Northern Group. However, following the emergence of competitors and increased global production (including from Asia and neighbouring French Polynesia) in the early 2000s, the industry in Cook Islands noted a decline in investment over the following years, leading to a struggle to maintain quality standards and pearl grades, and effectively collapsed along with global prices in 2011. Since then there has been an increase in fish exports (the only other export industry over the last few years to generate annual exchange of more than $100,000) with exports to markets in Japan and the US through Auckland or Pago Pago. The value of fish exports rose above US$5m in 2012, this is still small compared to the total catch as onshore processing is limited, and most revenues still come from licence fees.

Table 2.6: Destination of Total Goods Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>Australia</th>
<th>Hawaii</th>
<th>Hong Kong</th>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( '000 )</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>5,420</td>
<td>443</td>
<td>30</td>
<td>3</td>
<td>1,882</td>
<td>1,588</td>
<td>91</td>
<td>1,383</td>
</tr>
<tr>
<td>2007</td>
<td>7,052</td>
<td>261</td>
<td>18</td>
<td>-</td>
<td>2,172</td>
<td>1,083</td>
<td>590</td>
<td>2,928</td>
</tr>
<tr>
<td>2008</td>
<td>5,895</td>
<td>140</td>
<td>16</td>
<td>-</td>
<td>2,856</td>
<td>738</td>
<td>101</td>
<td>2,044</td>
</tr>
<tr>
<td>2009</td>
<td>4,396</td>
<td>130</td>
<td>19</td>
<td>32</td>
<td>2,164</td>
<td>290</td>
<td>89</td>
<td>1,672</td>
</tr>
<tr>
<td>2010</td>
<td>7,163</td>
<td>793</td>
<td>73</td>
<td>5</td>
<td>3,557</td>
<td>277</td>
<td>72</td>
<td>2,386</td>
</tr>
<tr>
<td>2011</td>
<td>3,956</td>
<td>61</td>
<td>124</td>
<td>39</td>
<td>2,325</td>
<td>172</td>
<td>115</td>
<td>1,120</td>
</tr>
<tr>
<td>2012</td>
<td>6,552</td>
<td>54</td>
<td>72</td>
<td>27</td>
<td>4,264</td>
<td>154</td>
<td>35</td>
<td>1,946</td>
</tr>
</tbody>
</table>
Conclusions: Key Principles for Trade Policy and Linkages to Broader Economic Policy

- The starting point for the Trade Policy Framework and Statement is that Cook Islands does not have an overarching economic strategy.
- The Cook Islands will mainstream trade into a broader strategic economic approach, using this first comprehensive trade policy as an important stepping stone.
- The broad economic policy stance of the Cook Islands is for a vibrant, private sector-driven economy that benefits all Cook Islanders. In achieving this vision the Cook Islands will continue to support growth with policies that encourage sustainable foreign and local investment that leads to the creation of jobs, an improved regulatory environment to support businesses and consumers, growth-supporting investments both in essential infrastructure and in people, and a strong social safety net to support those in need.
- Specifically with respect to trade, the Cook Islands is an open economy with a strong history and tradition of trade that has benefitted and enriched itself and its trading partners.
- In overall terms, recent trade performance has been strong and in order to continue this performance the Cook Islands will prioritise sectors that have a proven track record of driving sustained growth such as tourism-related sectors, while recognising the need for growth to be more inclusive, and that more can be done in non-tourism sectors, including a more strategic and targeted approach to import substitution.
- The Cook Islands will continue to practice sound macroeconomic management that provides the overarching environment for sustained economic growth, including in meeting stated fiscal goals and in monitoring of internal and external risks and vulnerabilities.
- The government will continue to improve the framework of statistics for assessing economic performance and for evidence-based planning and policymaking.
3 Trade Facilitation: Customs and Quarantine
3.1 Customs

The rationale for reforming and improving Customs administrations in order to facilitate trade is now well established, and arguably most trade facilitation efforts to date have focused in this area. Customs plays a pivotal role in regulating trade, laying out requirements and procedures for imports and exports which have the potential to substantially increase the time it takes to trade (IFC 2006). Together with other border agencies and key stakeholders—quarantine, immigration and police—customs has an important responsibility to maintaining border security. Through customs, rates of duty and other taxes are set and administered—including the administration of duty drawbacks and other incentives—as well as being responsible for administering preferential trade arrangements and export rules of origin. Finally, Customs have a role in providing essential trade data for the formulation of trade policies.

Reforms aimed at producing a more efficient customs system for trade generally cover a broad range of activities. Types of reforms can include:

- Automation and greater use of information communication technology (ICT)
- Simplification of documentation and procedures
- Training of staff
- Upgrading facilities
- Introducing or improving border risk management systems
- Tax reforms, including simplification of the tax system
- Easier systems for administering payments and duty drawback
- Greater transparency in customs laws and regulations
- Modernisation of legislation
- Removal of non-tariff barriers such as licenses and quantitative restrictions
- Better framework for communication between customs and other departments, and the private sector
- Better integrity systems
- Regional and international harmonisation of systems and functions

In the Cook Islands, reforms to the taxation system in 1997 abolished most import duties and replaced them with a value added tax. Import duties on most ‘sin products’ (alcohol, tobacco, fuels) have also since been converted to excise duties at equivalent rates. Levies are still imposed on the small number of imported goods, including a seasonal tariff on various fruits and vegetables. Where import duties do remain, the Cook Islands applies the Pacific Island Countries Trade Agreement (PICTA) which allows for duty-free trade between Pacific Island Countries (PICs). Overall, the Cook Islands now operates one of the most liberal import tax regimes in the world.

The general absence of any import taxes simplifies customs administration (especially when compared to other PICs) and compliance with international best practice. Procedures for import clearance are generally efficient: clearance is usually achieved within 48 hours, with importers able to use e-lodgement systems with the possibility for deferred payments on a month-to-month basis. Risk assessment procedures for incoming goods are in place at the wharf, with an inspection rate of approximately 3 per cent, although funding has been approved for customs to increase this to 10 per cent. For classification of goods, the Cook Islands uses the most recent 2012 version of Harmonised System. In terms of training, the Customs Service reports that it requires some training on valuation (which is important for assessing VAT).

Cook Islands has made some important recent advances in automation. The Customs administration currently uses the CUSPCK system which includes, functionality for the processing of goods entries. Additionally importers and Customs Brokers are also able to electronically lodge and clear their goods entries online via a specified website.
Priority Action: Customs should continue the implementation of electronic platforms for processing of imports and payment of import-related taxes.

Priority Action: Customs should update and implement their strategic plan to take account of progress made since the 2011-13 plan and new goals for the coming years.

Priority Action: Customs Services will evaluate and address training needs with respect to trade facilitation including on valuation and origin, including with the support of regional organisations such as Oceania Customs Organisation and international organisations such as the World Customs Organisation although the Cook Islands is not a member.

3.2 Quarantine and Sanitary and Phyto-Sanitary (SPS) Issues

As tariffs and other barriers to the free movement of goods across borders have declined over time, one major countervailing trend has been the rise in the stringency of importing-country requirements in the areas of animal and plant health, food safety and produce standards. Traditionally, sanitary and phyto-sanitary (SPS) measures have been introduced by importing countries for the protection of public and animal health and the environment.

The SPS regime is generally most visible in quarantine biosecurity requirements, monitored and enforced at the border using inspections. For a growing number of (mostly developed) countries in a growing number of food exports, such traditional border measures are now supplemented by more complex sets of requirements, the aim of which is to ensure exporter compliance in advance, and which can often involve an assessment of certain SPS standards within the exporting country itself. Depending on the product being exported, the requirements of such export protocols might include for example:

- A favourable initial assessment of the disease and pest environment
- Proof of an active programme of disease surveillance or effective pest management systems
- Certification of certain types of industry practice or treatment
- Laboratory test certification
- Adequate transport infrastructure from farm outlet to wharf

The Cook Islands has struggled in the past to meet quarantine standards for exporting agricultural products to New Zealand, Australia and beyond. Increasingly stringent standards has been one of the reasons for the decline of agricultural exports to zero in recent years, alongside issues of competitiveness. Larger PICs struggle to meet SPS export requirements due to their general lack of resources and technical capacity to carry out many of the required functions. By contrast the Cook Islands is fortunate that it is not vulnerable to SPS- related shocks – such as those disrupting Fiji’s fish exports to the EU, or bans on kava that have affected some PICs – which threaten entire sectors of the economy.

At this point, a concerted effort to seek to meet SPS standards in order to revive an agricultural export industry would not make sense, especially given that a large ‘export market’ effectively comes to the Cook Islands in the form of 125,000 annual tourists, for whom there is ample excess demand for local produce. Instead the Cook Islands should seek to take advantage of the financial resources and technical assistance available from regional organisations on ‘export pathways’, but adapted in the Cook Islands case to focus more on domestically-focused approach centred on creating local supply chains and market conditions that work for producers (see section 4.3 below).

Given the limited level of agricultural exports, the key quarantine-related issues at this point for Cook Islands are around fisheries exports, and biosecurity measures. For fisheries, the main issues are around whether to attempt to tap into the lucrative EU export market. One of the main initial requirements for meeting EU SPS standards would be the establishment of a ‘Competent Authority’ in the Cook Islands with responsibility for testing and certification.
At the moment there is limited onshore processing export with less than 5 per cent of a relatively small catch processed onshore in the Cook Islands (more details are given in section 4 below). Furthermore it is worth noting that future exports are likely to continue to be frozen or chilled fish, which brings additional requirements over the canned fish that is currently the focus on onshore producers in the Pacific. For existing markets to China and Japan are already open, so any assessment will need to take account of the additional premiums as well as market access conditions relative to other producers both in the Pacific region and in Asia (particularly the level of tariff preference, which are themselves subject to ongoing negotiations).

Priority Action: For fisheries, the Cook Islands should assess the costs and benefits of establishing a competent authority for exports of frozen and chilled fish to the EU and other markets, as part of a broader strategic assessment led by the Ministry of Marine Resources on whether to seek to access that market.

In terms of biosecurity the key issues are maintaining and enforcing robust systems for detecting and dealing with threats to human, plant and animal health in the fragile Cook Islands ecosystem. In light of the fragile ecosystem there should be a continued biosecurity and control of outbreaks of invasive or damaging species and crop diseases. A recent example is that in 2014 the Government had to respond quickly to an outbreak of Oriental Fruit Fly which threatened local agricultural production. Alongside quarantine border controls and surveillance of pest and diseases, this includes playing a role in regional early warning systems.

Although legislation was introduced in 2008 to focus on biosecurity, the quarantine department is still in need of capacity building, including training and facilities. This need is most pressing on the outer islands – especially taking into account considerations of a possible MOU to increase trade between Pukapuka and Samoa – where quarantine officers have not received training for 10 years.

Given that tourism is the Cook Islands key industry, domestic food safety should also be a priority, since food safety scares (such as an outbreak of E-coli) could have a damaging impact on this key industry. Although the Cook Islands generally has high standards there should be continued vigilance with facilities and robust regimes in place for import regulation and inspection (including risk management), training and certification for food handlers, inspection and enforcement of regulations on food retailers, food outlets and restaurants, and so on.

Finally the Cook Islands may need to consider greater emphasis on human health biosecurity, given the likelihood of similar pandemics in the future. Although the Cook Islands is at lower risk than other Asian destinations, the country may need to respond to future pandemics to preserve the perception that it is a ‘safe’ destination.

Priority Action: The Ministry of Agriculture and Department of Quarantine will evaluate and address current capacity gaps with respect to implementing and enforcing the 2008 Biosecurity Act. An institutional capacity building programme should cover import risk management, and disease and pest surveillance and control, specific challenges on outer islands. It can taking advantage of appropriate support provided by donors and international organisations such as SPC.

Priority Action: Advocate for locally available minimum testing services required for increased trade including soil tests, food tests and export certification. Advocate for a scoping study to guide public action that creates a sustainable self-funded independent and internationally accredited centralised laboratory as recommended in WHO review 2014.

Priority Action: Ensure systematic review of products permitted to be imported to ensure toxic pesticides and banned chemical inputs are not permitted to be imported into the Cook Islands in order to sustain a healthy agricultural sector.
4 Key Economic Sectors
4.1 Tourism

The Cook Islands has developed a successful tourism-based economy: tourism and related activity is by far the largest sector, which is in total estimated to contribute around 60 per cent of GDP. By contrast, agriculture and fisheries are together estimated to contribute around 7 per cent of economic output. Beyond its direct contribution, the development of the tourism industry has also fuelled growth through spill-over effects in virtually every sector of the economy.

Tourism has grown consistently in the Cook Islands since the opening of the international airport in 1975. Although there was a sustained dip in visitor arrivals in the mid-1990s, arrival numbers have been resilient to both the New York terrorist attacks in 2001, and the global economic crisis since 2007. Over the last 15 years, tourism arrivals have grown at an impressive rate of approximately 6 per cent annually. Visitor arrivals currently stand at around 122,000 per year with current projections for 150,000 tourist arrivals by 2030, which would equate to an average increase of around 1.5 per cent. Based solely on historical trends, a figure of 180,000 to 200,000 may be more realistic.

Figure 4.1: Tourism Arrivals 1988-2014

With regard to key markets, the overwhelming majority of tourists to the Cook Islands come from New Zealand (66 per cent), followed by Australia (18 per cent) and the United States (4 per cent). In recent years the number of visitors from Australia have increased significantly, alongside a small but increasing number from Asia (up by approximately 48 per cent from 2011 to 2013), while visitors from Europe have dropped by 25 per cent during the period of the economic crisis.
### Table 4.2: Tourism Arrivals by Country of Usual Residence 2009-14

<table>
<thead>
<tr>
<th>Year</th>
<th>New Zealand</th>
<th>Australia</th>
<th>USA</th>
<th>Canada</th>
<th>Europe</th>
<th>Asia</th>
<th>French Polynesia</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>63,536</td>
<td>14,795</td>
<td>3,997</td>
<td>2,069</td>
<td>12,448</td>
<td>676</td>
<td>1,120</td>
<td>2,588</td>
<td>101,229</td>
</tr>
<tr>
<td>2010</td>
<td>67,487</td>
<td>16,841</td>
<td>4,328</td>
<td>2,262</td>
<td>10,557</td>
<td>780</td>
<td>838</td>
<td>1,172</td>
<td>104,265</td>
</tr>
<tr>
<td>2011</td>
<td>75,186</td>
<td>18,538</td>
<td>4,455</td>
<td>2,044</td>
<td>10,290</td>
<td>687</td>
<td>643</td>
<td>1,271</td>
<td>113,114</td>
</tr>
<tr>
<td>2012</td>
<td>82,362</td>
<td>20,921</td>
<td>4,590</td>
<td>2,082</td>
<td>9,485</td>
<td>833</td>
<td>622</td>
<td>1,489</td>
<td>122,384</td>
</tr>
<tr>
<td>2013 (p)</td>
<td>79,158</td>
<td>22,826</td>
<td>4,691</td>
<td>2,167</td>
<td>9,364</td>
<td>1,018</td>
<td>514</td>
<td>1,469</td>
<td>121,207</td>
</tr>
<tr>
<td>2014 (p)</td>
<td>79,959</td>
<td>22,033</td>
<td>4,955</td>
<td>1,873</td>
<td>9,472</td>
<td>1,267</td>
<td>439</td>
<td>1,460</td>
<td>121,458</td>
</tr>
</tbody>
</table>

**Share**
- New Zealand: 65.8%
- Australia: 18.1%
- USA: 4.1%
- Canada: 1.5%
- Europe: 7.8%
- Asia: 1.0%
- French Polynesia: 0.4%
- Other: 1.2%

**Change**
- New Zealand: 25.8%
- Australia: 48.9%
- USA: 24.0%
- Canada: -9.5%
- Europe: -23.9%
- Asia: 874%
- French Polynesia: -60.8%
- Other: -43.6%

Visitor surveys consistently finds that typical tourists tend to be well-educated (69 per cent having some form of tertiary education) and relatively wealthy (42 per cent earn over NZ$100,000 per year). Couples are most common, followed by families, while solo travellers are least common. Although around two-thirds of visitors are experiencing the Cook Islands for the first time, what is most encouraging is the significant number of repeat visitors. Visitors tend to stay either one or two weeks, either on Rarotonga (81%) or Aitutaki (17%), while only a handful venture to other islands.

The long-term growth in visitor numbers demonstrates the success the Cook Islands has had in developing the tourism sector, particularly around its international marketing strategy for attracting tourists. Although the sector is mostly driven by private sector activity, there are a number of important policy issues around tourism, including some of the largest sector-specific fiscal policies (such as the subsidisation of air routes from Rarotonga to Los Angeles and Sydney Australia, departure tax, and annual budgetary allocation for tourism promotion). Furthermore, the Cook Islands estimates that of all the demand expended locally, 61 cents from every dollar is recirculated in the economy. To improve this ratio, would amongst other things, require improved and targeted investment and supply chain management.

**Key Challenge 1: Develop a Policy that Recognises Tourism as the Main Long-term Development Tool for the Cook Islands**

While tourism has brought undeniable benefits to Cook Islanders, its rapid growth has led to some uneasiness about its role in the economy compared to more traditional activities. Some stakeholders feel that the Cook Islands is ‘too reliant’ on tourism and needs to diversify into other areas. In trade theory, the ‘diversification thesis’ emerged in response to the experience of many developing countries (notably in Africa) that relied on a very limited basket of commodities that suffer large and unpredictable swings in prices on world markets, usually due to international factors beyond their control. It is however questionable whether the same logic applies to tourism in the Cook Islands, for a number of reasons:

- **Tourism operates very differently to commodities markets:** the latter revolve around standardised resources (such as oil) that can be traded easily on international markets. Tourism differs in that both consumers and destinations both tend to be fairly unique. Countries can in fact diversify within the tourism market, protecting themselves from shocks in one area through catering for different kinds of tourists.

- **Unlike for commodities, tourism prices do not tend to fluctuate wildly even after a significant shock.** When shocks occur, recent experience suggests that the tourism industry in the Pacific Islands is fairly resilient to them. After the 2006 coup in Fiji prices were initially cut but overall earnings were sustained and predicted losses did not occur. Following the 2001 terrorist attacks in New York, tourism arrivals to the Cook Islands suffered a slight dip but recovered within 18 months.

- **The key potential shocks to the Cook Islands tourism sector** – such as a natural disaster or a collapse in the New Zealand economy – would most likely affect other export sectors as well. Diversifying from tourism would therefore not lessen the economic risk profile of the Cook Islands.
By contrast tourism holds a number of advantages over other potential economic activities:

- Tourism depends on natural and cultural endowments that are in limited global supply or often unique: Cook Islands has both of these, although both need to be actively managed in a sustainable way for the local population.
- The Cook Islands is heavily constrained in both the supply of labour and land, and severely lacks the scale to compete effectively on world markets in processed or semi-processed goods.
- Competition is manageable: although destinations compete strongly in terms of price and marketing, there are very few competitive forces that constantly threaten most processed goods industries. There is no ‘race for scale’, since many tourists instead seek out uncrowded destination and prefer personal service. There is no drive to a single low-cost ‘winner-takes-all’ brand: instead the market is highly segmented with numerous niches to be catered for.
- Tourism presents none of the physical or administrative barriers – including import tariffs, cumbersome customs procedures tape, quarantine requirements, and subsidies for home producers – that make the export of fisheries and agricultural products so difficult, and have contributed to holding back many developing countries for decades.
- Tourism does not require costly logistical operations including shipping, or control over entire supply chains.
- Tourism does not rely on historical trade preferences which is susceptible to preference erosion, unlike for example fisheries (or agriculture in the past).

Over the long term, there is arguably a secular trend towards an increasing number of tourist dollars globally, especially as consumers in developing countries in the Asia-Pacific become more prosperous. The fact that tourism numbers continue to rise despite the recent economic crisis is a testament to this trend.

In short, the comparative advantage is Cook Islands is overwhelmingly in the tourism sector: this should be reflected clearly in the government’s overall economic strategy. Given how much tourism also influences the stance the government should take on other issues – including foreign investment, migration, skills, transport, outer island policy, and other primary industries – there is currently a clear gap in terms of a coherent, comprehensive and unifying tourism policy outlining challenges, direction, goals and actions for the sector.

**Priority Action:** Develop a New Tourism Policy. The Cook Islands will start work on a new tourism policy or Master Plan which brings together long term strategic issues for the sector alongside fiscal approaches, structural policies (for example in the labour market and on the land-use), and marketing strategies as the basis for a transparent and coherent ‘all-of-government’ approach to the sector.

Beyond a new policy or ‘masterplan’, there is a strong argument that tourism should be more explicitly recognised as the main tool of development for the Cook Islands over the coming years, with a key place in any overall economic development strategy.

One simple strategic approach is for all government policies and development projects to be designed so that they contribute and fully exploit synergies, linkages and opportunities in the tourism sector (given that the market for other ‘export’ goods actually comes to the Cook Islands, in the form of tourists). It also implies that the cultural and environmental resources that make tourism so successful in the Cook Islands should be protected.

Going further, government could also consider a ‘do no harm’ constraint, which stipulates that any major economic development policies and plans should be assessed for their implications on the cultural and environmental resources of the Cook Islands. Such a new ‘policy test’ might work in a similar way to how all cabinet papers require assessment of financial implications, and could also be codified within a comprehensive tourism policy.
Key Challenge 2: Responding to Future Demand and Diversifying within the Tourism Sector

The Government has already highlighted that the biggest challenge facing the industry in the medium term is that tourist accommodation is approaching capacity. ADB (2013) summarises the situation as follows:

“For the past two years tourist accommodation has been fully booked during peak periods […] arrivals in the shoulder and off-seasons are increasing. While this spread of arrivals is improving the utilization of existing accommodation, if the forecast levels of growth are to be achieved, it will be necessary to consider the means through which tourist accommodation can be expanded, for example, through increasing the number of hotel rooms or increasing home stay availability. Alternatively, accommodation providers could introduce seasonal tariffs, […] bearing in mind that any increase in rates risks diverting tourists to other holiday destinations. New tourism infrastructure development would have to take into account competing demand for scarce resources and sustainability issues with respect to water supply and sanitation on the islands. An assessment of private sector plans for increasing capacity is necessary to understand the nature and extent of the accommodation constraint and the government’s policy response, if any.’

Given the lack of space and other challenges, there are clear linkages that exist between the last proposal – an assessment of private sector plans for increasing capacity – and other objectives such as increasing agriculture or establishing an onshore fishing industry (both covered below). Ultimately it is crucial that the job responding to market demands is left exclusively to the private sector, but in the context of scarce space and labour, it is inevitable that some role for government policy and regulation, for example in freeing up space for development where possible (for example through land use policies such as zoning or granting planning permission), promoting and facilitating certain investment projects over others, and fostering certain skills in the workforce.

Priority Action: Respond to capacity concerns. Investigate an appropriate government response to the looming problem of lack of capacity in the tourism sector, beginning with an assessment of private sector investment intentions.

At the same time, there are important steps that the Cook Islands can take to diversify its tourism ‘exports’: namely by taking positive steps to cater for and attract new types of consumer or tourist. Policies in this area may include measures (such as marketing or promoting language skills) that are designed to attract tourists from new countries, notably from Asia. Discussions are already under way on attracting new types of tourists, such as retirees and longer-term stayers: such ideas are tied closely both to migration and broader labour market issues (see below) and require agreement and coordination across different departments of government. There are numerous other options for diversification including encouraging conferences and meetings and greater business travel, although this will likely require new facilities. In another example, Rarotonga could consider how to move beyond the beach-based and ‘soft’ activities currently on offer towards more adventurous activities. Any attempt at diversification will need to be carefully researched and considered within the context of the market being targeted and how it fits in with the overall strategy without changing the essential character of the Cook Islands.
Priority Action: As part of work on the new Tourism policy/master plan, formulate a renewed strategy for diversifying from traditional markets (geographical and types of tourist), to secure the long-term growth of the sector, and resilience to shocks coming from one particular market.

Key Challenge 3: Assessing the Subsidisation of Air New Zealand and Fiscal Policy on Tourism

Although it may not be widely perceived as such, the single most important trade and economic policy of recent years has been one of direct support to the tourism industry: according to ADB (2013) public funding for the tourism sector currently exceeds 18% per cent of total government expenditure. The major expense has been the subsidisation since 2010/11 of Air New Zealand’s two weekly flights from Los Angeles to Rarotonga and from a weekly flight from Sydney to Rarotonga.

The underwriter works through the Cook Islands government guaranteeing Air New Zealand against potential losses, based on observed passenger numbers, plus an unspecified return on capital. The policy is also linked to the other main fiscal policy specific to the tourism sector – a departure tax of NZD72 – with receipts from the tax loosely linked to the payments made under the subsidy.

The decision to underwrite the two services was based on the calculation that the net contribution of the additional international visitors in terms of expenditure and as reflected in the GDP makes the subsidy a viable option. Other reasons include: diversification of tourism investment and development of route access to key source markets i.e. direct access to the Australia and Northern Hemisphere markets and the possible commercialisation of profitable routes. The calculation is based on visitors staying in the Cook Islands for a minimum of eight days with NZD200 per day spending money. It was further found that visitors using these services were more likely to travel to Aitutaki and other islands, given that passengers from North America have more spending power.

Based on arrival figures alone, the evidence suggests that the underwriter has had more success in attracting tourists from Australia (which have grown significantly over the last five years) compared to arrivals from the US (with nominal increases over the last 3 years). A report commissioned by MFEM in 20134 found that the net contribution of the underwrite to Cook Islands GDP was positive for the Los Angeles route, and slightly negative for the Sydney route, although in both cases the effects were small (less than 1.5 per cent of GDP). The report made a number of conclusions on the future of the arrangement, including:

- The cost-based structure of the underwrite agreements gives Air New Zealand weak incentives to reduce costs and maximise revenues, while exposing the government to risk as the amount of the underwrite payment is open-ended.
- Negotiating fixed annual underwrite payments would improve Air New Zealand’s incentives and reduce the government’s risk.
- Provision of the underwritten services could be put out for tender, to introduce competition and possibly reduce the cost, noting the underwrite agreements subsidise any commercial losses incurred to Air New Zealand as a result of servicing the Los Angeles and Sydney route.
- Whilst the visitor markets supported by the Los Angeles service are of nominal increase, positive developments include the 767 aircraft used to provide the service will be replaced by more fuel efficient 777 aircrafts with higher seating capacity in the medium term. Part of the $7.7m annual cost of this underwrite may be better spent on growing the tourism sector rather than maintaining nominal growth markets. The Sydney service supports a growing market but it is not clear whether the $4.4m annual cost is the best way to grow the tourism sector. As a comparison, other ways of generating tourism demand should be explored to ensure best use of capital resource. The subsidy is scheduled to end in 2018 and a number of a series of steps will need to be taken in the run-up to that date, especially since any renewal or replacement of the policy will need also to be considered against standards for government procurement as a public financial management issue.5

(i) Government will need a timely and transparent decision on whether to renew, replace or discard the

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2 The policy may also need to be considered against any commitments the Cook Islands relating to government procurement in international agreements including for example PACER+.
policy, using available evidence from the Covec Report and elsewhere. Any assessment should include a broader analysis of the opportunity cost of the policy (including underwriting alternative routes, alternative subsidisation arrangements, diverting resources to other policy options for supporting the tourism industry, or indeed to other fiscal priorities).

(ii) If a decision is made to continue to underwrite specific routes, the exact format for this will also need to be assessed and potentially redesigned.

(iii) Based on the format chosen (if any), an open and competitive tender for the provision of services will need to be launched. Given that international airlines need at least a 24 month window in order to plan their routings, a tender will need to launched at least 24 months prior to the start of the new arrangement, for example by January 2016 in order for services beginning in January 2018.

(iv) Any future policy should also be subject to assessment every two years to ensure that it is achieving its goals.

Priority Action: Assess the performance of the current underwrite and take action to decide on policy after 2018. Government will make a timely and transparent decision on whether to renew or amend current policy on the underwrite and put in place subsequent steps to give effect to an updated policy, noting that a competitive tender needs to be planned at least two years before services are expected to commence.

Key Challenge 4: Spreading the Benefits of Tourism

Compared to close to 100,000 on Rarotonga and 30,000 who spend their time predominantly on Aitutaki, tourist arrivals both for Atui and Mangaia most likely number around less than 1000 per year at present based on overall passenger numbers. Of these most spend on limited time a two or three-island package tour. Tourists to the Northern Group are most likely counted in dozens rather than hundreds.

Other goals of reviving agriculture and fishing in such islands should focus efforts on encouraging a tourism industry first and foremost: for isolated islands with populations of between 500 and 1000, it is only additional tourists (and tourist dollars) who will generate sufficient additional demand for other goods and services and enable other industries to develop.

Combined with an overall diversification strategy, some outer islands could be marketed as more adventurous destinations. As an example, an idea in recent years to market Atu as a retirement destination failed to take account of the lack of medical facilities amongst other things: in fact Atiu and Mangaia are more likely to appeal to more independent travellers who might trade a slightly lower level of comfort for increased isolation and some saving in costs (whom the Cook Islands does not currently attract in great numbers). Although this has already begun, it should be refined and accelerated in coming years. The advantage of a more stratified approach to tourism development would be that the essential character of Rarotonga and Aitutaki would remain preserved and other islands could develop their own distinctive identity.

A range of policies could be considered with government using both existing and new instruments to support the development of tourism in the outer islands. As noted above, adequate infrastructure and facilities are important deliverables of the state. Investment promotion efforts and existing financial support to the private sector can be directed to specific islands. Government could consider some level of internal flight subsidies, especially if savings on subsidising the international flight are achieved. It is worth noting that subsidies on internal flights which generated more sustainable increases in tourism within the Southern Group might be a more effective than any shipping subsidy: the latter would be solely focused on supply to the existing population whereas increased number of tourists would actually generate additional demand. Nevertheless any form of support to the private sector should, as always, be carefully considered against expected results and sustainability.
4.2 Marine Resources

Institutional Framework and Background

In recognition of the importance of marine resources to the Cook Islands, the Government established the Ministry of Marine Resources (MMR) in 1984 in response to the signing of the United Nations Convention on Law of the Sea. The Cook Islands was one of the first countries in the region to establish a dedicated department devoted to its marine resources. The department has grown over the years with a staff of 34 and offices in most of the islands. The current guiding legislation for the MMR is the Marine Resources Act 2005, within which the Ministry has the principal function and authority for the: conservation, management and development of the marine resources and related matters. Their mandate under the Act includes:

- To seek and develop a rational approach to the development, exploitation, management, and conservation of living and non-living resources for the people of the Cook Islands
- To increase self-sufficiency in fish and protein production for households
- To develop export and import substitution
- Assess and introduce cost-effective technology
- To develop and exploit marine resources in the outer islands in particular in areas for employment purposes and to stem outward migration
- To co-ordinate effectively with other government departments and private sector to develop marine resources

The characteristics of coastal fisheries is largely occupied by local fisherman from Rarotonga and in the outer islands supplying the domestic market.

4.2.1 Fisheries

In contrast to declines in the exports in the agricultural sector and the pearl industry, fisheries exports have been increasing modestly in recent years, and policies are in place to develop the sector further. The Cook Islands has one of the largest EEZs in the Pacific region at 2 million km², which is divided locally into a northern and southern fishery with loading stations in Pago Pago and in Rarotonga respectively. The vast majority of fishing takes place in the northern fishery (between Pukapuka, Penrhyn and Suwarrow) where the water conditions are more stable and productive.

Table 4.3: Catch Levels in Cook Islands EEZ, 2002-12 (tonnes)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated longline fishery</td>
<td>825</td>
<td>2,151</td>
<td>3,467</td>
<td>3,409</td>
<td>3,115</td>
<td>3,446</td>
<td>3,072</td>
<td>7,047</td>
<td>7,070</td>
<td>8,467</td>
<td>10,478</td>
</tr>
<tr>
<td>Exploratory longline fishery</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,722</td>
<td></td>
</tr>
<tr>
<td>Purse seine fishery</td>
<td>3,132</td>
<td>1,598</td>
<td>4</td>
<td>45</td>
<td>79</td>
<td>4</td>
<td>205</td>
<td>1,537</td>
<td>245</td>
<td>476</td>
<td>11,753</td>
</tr>
<tr>
<td>Total catch</td>
<td>3,957</td>
<td>3,749</td>
<td>3,471</td>
<td>3,454</td>
<td>3,194</td>
<td>3,450</td>
<td>3,277</td>
<td>8,584</td>
<td>7,315</td>
<td>8,943</td>
<td>23,953</td>
</tr>
</tbody>
</table>
The overall catch has historically never been at the levels of other Pacific producers as the EEZ lies to the south of a 10° latitude zone where 90% of tuna are caught. Average levels grew from 500 tonnes annually during the 1990s, to 2000-3,000 tonnes during the 2000s.

**Fig 4.2 Fish exports 2006/7 to 2012-13 (’000)**

The last few years have seen significant growth with the catch doubling to more than 8,300 tonnes in 2009 as a result of increased longline activity, and growing further in 2012 as a result of developments including increased activity from the US purse seine fleet and the licensing of 17 Chinese exploratory fishing vessels to develop the big-eye tuna and swordfish fishery. In total 80 fishing vessels were active in the Country’s waters in 2012, and the total catch reached above 23,900 tonnes with a landed value of $64.9 million dollars.

The increased catch has resulted in fisheries being Cook Islands’ fastest-growing export sector (for goods) in recent years, with exports of frozen and chilled fish to China and Japan recording approximately NZD 5.3m in 2012. At the same time the Cook Islands still captures only a very small proportion of the total value of the catch: given the lack of facilities, the vast majority of the catch is landed in American Samoa, from where it is canned or shipped onwards to final destinations in Japan, China and the US. By contrast approximately 1 per cent (or 100 tonnes) of the 2012 catch was landed onshore, in Rarotonga. Revenues from fishing licences have historically earned more than export values and are currently estimated to be around $5m, matching the value of exports.

Policies are in place to develop the fisheries sector further with more vessels encouraged to land, process and export their catch from Rarotonga. The redevelopment of the Avarua Wharf is expected to contribute to the industry’s strategy to create an enabling business environment for fishery trade. In the second half of 2013 a Chinese venture, Huanan Fishery Ltd, began monthly offloads of approximately 80 metric tonnes of frozen fish for trans-shipment by sea freight. Fresh fish unloading is also reported to have begun in the second half of 2013.

The Cook Islands should seek to maximise its returns from this resource, although any major expansion of onshore processing will need careful strategic planning around capacity (including facilities), potential markets and barriers including meeting quarantine and SPS requirements, and managing resources and the impact on other sectors including the environment.

**Priority Action:** The Cook Islands should continue to seek to maximise its returns from this resource, including through environmentally friendly onshore processing and licence fees under the Offshore Fisheries Policy.
The Cook Islands should examine the potential benefits and costs of small-to medium-scale onshore processing, noting that growth of an onshore industry will require a strategic approach around managing resources (for example water and electricity).

There will also need to be a cautious approach to ensure that other sectors are not negatively impacted by increased onshore fisheries activity: including for example noise, odour and effects on coastal ecosystems such as corals.

**Priority Action:** The Cook Islands should establish/maintain an SPS and quality infrastructure for fisheries that is appropriate to the export markets being targeted. Notably, the additional investment required to access the lucrative yet stringent EU market may need careful assessment, especially when tariff preferences are declining vis-à-vis highly competitive Asian producers, and when other export market options are already open.

One important knock-on effect of increased fishing has been that due to the nature of regulated fisheries rights, the benchmark from 2012 has allowed the Cook Islands to improve its allocations under the regional Vessels Day Scheme to 1,250 days or 30,000 tonnes. The timing for the reinvigoration of the Cook Islands fishing industry is fortuitous for a number of reasons: demand for Pacific tuna is increasing significantly (and is expected to increase further in coming years), and the Pacific Islands have made important efforts to improve regulation of fisheries at the same time as beginning to assert its rights more effectively in international agreements.

**Priority Action:** The Cook Islands should, alongside other Pacific Islands, continue to invest in putting in place robust regulatory mechanisms and strong monitoring mechanisms to ensure the sustainability of the Pacific fisheries resource.

The Total Allowable Catch (levels and effort) TAC, Marine Park, and Lagoon and Foreshore Health Management initiatives are essential for the long term development of the marine resources sector as a whole.

Artisanal fishing in coastal waters (within the exclusion zone of 12km from the shore) is carried out mainly for local markets in Rarotonga and Aitutaki which cater for the tourist trade. There are also a number of operators oriented to the tourist trade both for casual fishing trips and more serious game fishing. A long-running programme to install and maintain fish aggregation devices (FADs) has supported the artisanal industry, and there are currently 11 FADs in locations around Rarotonga. MMR estimates that there are some 200 artisanal fishing boats across the country supporting 500 fishermen (many more than recorded in the 2011 census) with an annual catch of 110 tonnes for Rarotonga out of a total of 200 tonnes nationwide.

In future it may be important to ensure that local artisanal fishing is not negatively impacted by increased landing by longliners, although at present however there are reportedly regular shortages of fish on Rarotonga. Domestic demand could therefore be better met by allowing openness in the domestic market, which would also encourage greater landing.

**Priority Action:** The Cook Islands should put in place the enabling domestic policies to encourage landing and avoid any restrictions that discourage landing onshore (such as restricting landed fish from entering the local market).
Aquaculture is concentrated in the northern groups where most pearl farming takes place. Aquaculture development has been guided by the Cook Islands Aquaculture Development Plan 2012-16 produced by the MMR in collaboration with the South Pacific Commission which provide a comprehensive overview of the sector. The Plan has been thought through to complement the strategic initiatives for the sector as articulated in the National Sustainable Development Plan of the Cook Islands. The projections for the aquaculture sector in the coming years is to essentially ensure a sustainable marine resource for the Cook Islands, capture the tourist dollar through the sales of goods derived from the sea.

Trochus shells were introduced in the 1950s: production is low compared other Pacific Islands although the industry provides employment and income in some islands. Nevertheless harvesting is currently restricted to only 30 per cent of stock and limited to taking place every two years. An improved resource management plan for the sector would allow the resource to be more sustainable and harvesting and incomes to become more regular. In time there may also be opportunities for small-scale downstream processing.

Priority Action: Develop a new resource management plan for the small Trochus Shell industry to improve the sustainability of the resource and a more regular income stream for farmers.

4.2.2 Pearls

Historical Context

Pearls is an important export for the Cook Islands despite the recent declining trend that primarily was due to factors such as competition. By international standards, the Cook Islands is a very small producer of pearls compared to Tahiti (for black pearls), Australia (for white South Sea pearls) or Asian countries (for gold South Sea pearls). Commercial pearl farming started in Manihiki in the 1980s and later introduced to the atolls of Tongareva and Rakahanga in the 1990s. During this time, pearl farming was the only industry in the geographically-isolated Northern Group generating income and therefore supporting a local population and ancillary services such as banking, retail outlets and transport linkages between the islands and to Rarotonga. This in turn helped stem increasing pressure from outmigration to Rarotonga and New Zealand.

Following a boom in the late 1990s, exports peaked in 2000 at NZD18m. The decline of the industry occurred relatively quickly over the course of a few years in the early 2000s, driven by overstocking and unsustainable farm practices, causing a disease outbreak in the Manihiki lagoon in November 2000 which rapidly decimated oyster stocks. Concurrently, market prices declined by 50% as Tahiti doubled her annual pearl production from 6 to 12 tonnes during this period. The aftermath of the disease affected the quality of the lagoon environment, oyster and pearls for many years. By 2005, pearl exports had declined to $1.6 million. In response the Cook Islands Pearl Authority (CIPA) was revived in 2006 to spearhead an industry recovery. To counter the market dominance of Tahiti pearls, CIPA developed a brand strategy in 2008-9 to differentiate Cook Islands pearls and to escape the ‘Tahiti commodity basket’.

The Avaiki Cook Islands Pearls brand aimed to reposition Cook Islands pearls to target the upper-end jewellery market by developing a network of accredited wholesaler-marketers, manufacturing jewellers and retailers in designated geographic regions or countries who will offer and promote high-end jewellery using AVAIKI pearls. The aim was to attain higher price points where the benefit will be passed down to the farmers within the value chain. To underpin the success of the strategy, a number of industry reforms were needed to be put in place: (1) enforcement of the draft Manihiki Lagoon Management Plan and Code for sustainable farming to be followed by farmers; (2) develop a uniform grading system; and (3) define quality standards for Avaiki pearls for sale and export.

Recently the onset of the global financial crisis has affected markets and led to a decline in international market prices for black pearls, with current prices the lowest on record. This has had a major impact on the Cook Islands pearl industry: the value of pearl exports dropped dramatically from $1.6 million in 2009/10 to only $0.3 million in 2011/12. At this point there is an oversupply of B-grade pearls on the local market without potential buyers.
Although harvesting still occurs, but workers are most likely to travel to Manuhiki only for the duration of the season rather than remain permanently on the islands.

However, the production base in terms of seeded oysters during 2008-2012 has remained relatively stable at around 270,000 to 300,000 shells yielding an estimated 106,000 to 115,000 saleable pearls. Production is expected to remain at this level in coming years – with export levels modest – until increased production begins to come on stream under the NZ and China aid programmes to revitalise the industry.

Assessment

Amongst the range of products that the Cook Islands may successfully produce and sell to foreigners, pearls have distinct advantages over other potential exports. Pearls are compact, high-value, and non-perishable commodities. As such they can overcome the main export barriers for the Cook Islands of costly transportation, the need to ensure consistent supply, and meeting stringent quarantine standards. Transportation costs for a box of pearls are far lower than fruit and vegetables such as pawpaws – by a factor of at least ten thousand on a dollar-for-dollar value basis. Unlike for fruits and vegetables, consistency of supply can be controlled more easily as pearls can be stockpiled; they do not suffer from problems of perishability which complicates distribution and raises costs for storage and transportation. SPS barriers are also far easier to overcome for semi-processed (worked) pearls. In short, pearls are a typical example of a high-value but low-volume product that small isolated islands stand a chance of producing competitively in the global economy.

Local conditions clearly heavily favour the industry: it has a strong history and tradition with deep connection with the culture of the Cook Islands. The pearl industry offers one of the very few opportunities available for development of the islands of the Northern Group. It is an industry that is uniquely appropriate to these small and geographically isolated island communities: the lagoons are natural habitats of the pearl oyster; pearl farming involves activities and a working environment that are compatible with the traditional lifestyles of the local population; the industry has evolved with a high degree of local investment and ownership; the development of pearl farming creates opportunities for enterprise and employment which in turn mitigate or reverse migration and loss of population. The industry is well supported by government through fiscal and technical assistance which is coordinated with regional and international fisheries agencies. Pearls also complement the tourism industry, with conservative estimates that 30 per cent of total production is released in the domestic market specifically targeting the tourists. Growth in tourist arrivals would therefore be a lucrative boost for the industry.6

The main issue facing the industry remains competition from overseas producers. Given that the Cook Islands is a price-taker in a highly competitive global market, the best responses to competition are firstly to raise production and quality and ensure an effective supply chain that maximises benefits to farmers, secondly to create an enabling environment conducive to trade, and thirdly to improve marketing, brand development and protection.

Key Challenge 1: Addressing Production, Quality and Sustainability Issues

The industry has been subject to a sustained investment to improve management and increase production. During 2010 the management of the black pearl industry was guided by the Pearl Industry Support Programme 2011-13, a $3m NZ-funded programme with the objective of increasing the quantity and quality of Cook Islands pearls, increase revenue from pearl farming and develop an integrated approach in the pearl industry. The aims of the programme were to develop sustainable pearl farm production capacity, implement strategic marketing and sales promoting initiatives, and develop key stakeholder capacity towards managing an integrated pearl industry. The programme was replaced by a revised Pearl Industry Revitalisation Programme signed by the Governments of New Zealand, Australia, and the Cook Islands in 2013 which entailed applying the balance of the funds towards providing grants to farmers to increase production.

6 Pacific Islands Report “Cook Islands Pearl Industry shortfall buffered by fisheries revenue”, June 2012
Priority Action: Implement the Pearl Industry Revitalisation Programme to increase production, and continue to pursue a sustainable approach to managing the resource based ultimately on the ‘carrying capacity’ of the lagoons.

Key Challenge 2: Ensuring an Efficient Supply Chain that Works for Farmers

Stakeholders need to demonstrate greater efficiencies in the supply chain which if left unchecked, could undermine incentives and benefits for farmers including achieving sustainable production. One area of concern is a lack of clarity around the role of the Pearl Exchange, which acts mostly as a wholesaler in the market rather than a price mechanism to mediate between buyers and sellers. As such there is a need for greater transparency across the supply chain.

Priority Action: Conduct a full supply-chain analysis of the Cook Islands pearl industry to ensure that it works to maximise incentives for sustainable production and benefits on offer to farmers. This should also include improving data and understanding of the market for Cook Island Pearls, including the domestic market on which reliable statistics are not currently available.

Key Challenge 3: Creating the Right External Trade Environment

Due to the contribution of the black pearl industry to the economy, the Government has also placed a 100 per cent import duty on imported Tahitian black pearls. The levy is an anti-counterfeiting measure rather than a protectionist or revenue-generating measure but faces a number of problems. For example the policy is inconsistent because it applies only against Tahiti pearls, but other origin pearls are exempt. The policy is also a fairly ‘blunt tool’ in terms of achieving its goals, is difficult to administer and against best practice in international trade. It may be prudent to consider applying policies on an MFN basis or consider alternative measures based on traceability guarantees for Cook Islands pearls, protection of intellectual property, improved branding and consumer awareness.

Priority Action: Reassess and replace the 100 per cent import levy on Tahitian Pearls with more effective measures to distinguish imported and locally-produced pearls based on traceability guarantees, protection of intellectual property, improved branding and consumer awareness.

Key Challenge 4: Improving Traceability, Brand Development and Protection including Consumer Education

CIPA has developed a strategy to promote Avaiki pearls as a brand for high quality black pearls originating from the Cook Islands. Particular requirements must be followed by those operating in the industry, including farmer compliance with conditions for sustainable farming, accreditation as an Avaiki farmer, minimum grow-out period for a seeded pearl, compliance with a minimum nacre thickness, and A-B-C only grading for export. The marketing strategy appears to have yielded some benefits although it will be important at some stage to assess these more rigorously against market research data including where and how Cook Islands pearls are distributed and sold.

With respect to improving traceability and origin guarantees, CIPA is examining a technological process which allows microscopic imprinting of a hallmark or ID to provide proof of authenticity and geographic area pearls for Avaiki pearls. Beyond these efforts there are also further measures that might be taken to protect and develop the brand. The quality of Avaiki pearls can be attributed to the geographical area where they are obtained: as such, apart from protection under trademark law, they are also eligible for Geographical Indications (GI) protection. The WTO Agreement on Intellectual Property (TRIPS) notes that “geographical indications …identify a good as originating in the territory or region where a given quality, reputation and other characteristics attributable to
its geographical origin.” GIs are increasingly employed for the protection of certain high-value goods that are associated with one particular region; prominent examples include Parma Ham, Champagne, Bordeaux wine. Given that there are no Geographical Indications policies in the Cook Islands, it would be advisable for the industry to have a framework in place to promote and safeguard Avaiki pearls given their distinctiveness. The sale of fake Avaiki pearls could damage the brand and lead a drop in the price in international markets. Cook Islands may be able to procure technical assistance from the World Intellectual Property Office (WIPO) in registering its claim.

Priority Action: Set out a future plan for improving the traceability of Cook Islands pearls alongside existing work on brand development. This will include exploring (potentially with WIPO assistance) registering Avaiki pearls under the Geographical Indications (GI) to provide the exclusivity to the brand and encourage foreign investments to the industry.

4.3 Agriculture

Historical Context

Like most Pacific Island states, the Cook Islands was once an agriculture-based country with an export sector that performed strongly from the 1960s to the 1980s, with exports including tomatoes, bananas, pawpaw, lemons, and pineapples. In what now might be described as ‘infant industry’ support measures, the sector was strongly backed by state intervention through fiscal incentives and subsequent private sector investments including the establishment of a fruit processing plant by Islands Food Ltd, a subsidiary of a NZ-based company that had established distribution and sales networks in NZ. Measures also included an enhanced replanting scheme supported by government and a strategy to establish a second fruit crop (pineapples) alongside the existing citrus fruit, to ensure the plant was fully utilised all year round. Finally, favourable market access to NZ assured an enabling environment for export trade to take place.

In terms of export value, the Cook Islands exported around NZD7m worth of processed fruits and fresh fruits in the 1970s (against a current export value of close to zero). The subsequent decline of the industry was driven mainly by NZ opening up its market to Asian fruit producers, and the plant was eventually sold to the government. It was also closely related to outmigration trends, particularly the pressure on manpower due to outmigration amongst the most productive age group (15 to 35 year-olds). The changing economic environment meant that during the 1980s the Cook Islands began a structural shift away from agriculture and towards tourism and associated services industries.

Currently the agricultural sector remains small, contributing around 2 per cent of GDP, although MFEM believes that this figure underestimates the contribution of subsistence agriculture, especially in the Southern Group. In terms of formal employment the 2011 census recorded the number of workers in the agricultural and fisheries sectors as a combined total of 183 persons (151 males and 32 females) out of a total labour force of 6,938 people (a rate of 2.5% of the labour force). By contrast there were 1,450 services and sales workers, 996 corporate and general managers, 929 professionals and 742 technicians and associate professionals in employment.

Where agricultural production still occurs it is mainly focused on subsistence gardens in the outer islands, and production for local markets (including hotels and supermarkets) where these exist in Rarotonga and Aitutaki. Today exports are minimal: in both 2011 and 2012, there were no recorded exports of the Cook Islands’ two most important traditional agricultural products of recent times, pawpaw and taro. Exports of pawpaw generated $267,000 in 2006, but have since suffered as local producers in NZ have increased production. Exports of maire – a traditional product used for garlands in Hawaiian culture – have generated a small but important export income for women on Mitiaro in particular. However aside from niche products – such as noni, vanilla and maire – future prospects for agricultural exports appear bleak at this point.

In terms of policy, the overall direction for the sector outlined by the Ministry of Agriculture (MoA) foresees the need to develop niche markets for exports, and pursue import substitution for the domestic market particularly targeting the tourism industry. However most stakeholders agree that beyond this goal there are specific measures
that have been taken to achieve it. One key policy has been to put in place a seasonal import duty for the months of September to December, aimed at encouraging farmers to produce fruits and vegetables for the domestic market, targeting the hospitality industry:

- A 25 per cent levy was placed on lettuce, broccoli, cabbage, capsicum, carrots, cauliflower, tomatoes, courgettes, Brussels sprouts, beans, peas, cucumber and avocado.
- A 75 per cent levy was placed on fresh fruits bananas, mangoes, lemons, oranges, tangelos/mandarins, grapefruit and pineapple.

The review of the taxation system in 2013 assessed the seasonal levy, with submissions from the hospitality industry arguing that it had not achieved its goals and that the fruit and vegetables were not available in reasonable quantities or the quality required by the industry. In a number of instances, the only available source was the imported produce after import duty. Interestingly, despite those levy protections, the industry had declined across the board. What is positive is the on-going success of the tourism sector and that access to low-cost inputs should be a focus if not a priority, albeit through cheaper access to local or further abroad produce more generally.

The agricultural sector has also been supported domestically through public-funded financial support, including subsidised loan facilities managed by BTIB. A number of regional and international agencies also support projects that aim to boost agricultural production and exports in the Pacific. The FAO has recently conducted work on import substation in the Cook Islands; SPC, PIFS, Pacific Trade and Invest, PIPSO also run programmes. For example SPC is in charge of the Australian-sponsored Pacific Horticulture Agriculture Market Access (PHAMA) project which directly addresses problems associated with linkages to market, quality control and product development.

Assessment

At this point, most stakeholders in the sector agree that major policy gaps exist in terms of the direction and strategy for the agricultural sector in the Cook Islands, and MoA recognises that such gaps lead it to focus more at the moment on ad hoc projects rather than long-term objectives. The first step will therefore be to develop a comprehensive agricultural policy that above all defines what kind of agriculture sector the Cook Islands wants and how to achieve it.

A number of technical assessments have recently taken place that have attempted to diagnose the key constraints and potential responses to agricultural development. The main work at this point is to collate the various findings, although it should be noted that there is already some agreement on the contours of an agricultural policy:

- The overall setting is that agriculture has been in a long term decline over the last 20 years. The decline has been not only relative to other sectors of the economy, but also in absolute terms, with agricultural exports falling to zero in 2012. While agriculture is often romanticised as a traditional and noble productive activity, any policy response on agriculture must recognise and embrace the fact that the Cook Islands has managed to develop a highly successful economy beyond agriculture, and that opportunities in agriculture are limited in the Cook Islands by a number of interlocking challenges that are difficult to solve.
- These challenges include identifying suitable land to turn over to agricultural production given that alternative activities that often yield a higher rate of return, dealing with water scarcity, mitigating severe shortages of labour at high prevailing wages (which may require radical solutions including importing labour), examining the structure of competition in domestic markets to ensure the pass-through of price reductions to final consumers. Unlocking the desired outcomes of enhanced levels of production, consistent supply, and competitive pricing will be hard to achieve in the Cook Islands context of few producers and few buyers.
- Given these challenges and the additional barriers involved with export, plus that observed fact that exports are currently close to zero, an export-oriented approach appears unrealistic except for a few niche products (such as the current niches of noni, vanilla and maire). It should be noted however that although pursuing export niches may prove lucrative over the short term for some crops, they can also be quickly eroded.
- Against this backdrop, growing demand from tourism and high local food prices mean that current opportunities are focused on the domestic market. The policy response in agriculture should therefore be a closely targeted approach to import substitution. The focus of agriculture will need to shift from traditional crops to...
ones where there is a high economic return. Solutions to problems of seasonality will need to be found, including in crop choice and through greater use of hydroponic techniques (within a sustainable water management regime). Under this approach, an export industry may always emerge later from surplus production.

- Currently the main policy instruments are import tariffs and periodic financial assistance, but these are inadequate for providing long-term direction to the industry. Within a more targeted and markets-focused approach to import substitution the key role of government is to establish the right environment for agriculture by addressing market failures and unlocking barriers and inefficiencies along the supply chain.

- The key going forward will be to understand, establish and support viable value chains that work for farmers and buyers. A first step will be to examine issues relating to management, market arrangements and institutions along the supply chain and how they affect incentives of all stakeholders – from potential producers, to current farmers, to importers and retailers, and buyers such as hotels. One example of an institutional issue is that there are currently a total of eight growers associations which compete with each other in a small market, rather than complement each other.

- Better understanding of agricultural value chains will lead to the right policy solutions on a case-by-case basis. For instance, it may lead to encouraging better crop choice amongst farmers, addressing competition in local markets, or improving institutions that link farmers to buyers.

- One specific short-term measure is to improve market institutions that link farmers to buyers: much of the ‘market’ between buyers and sellers is ad hoc and informal (for example, ‘word of mouth on the island’). The government or other institution should examine establishing a simple clearing house for produce.

- Overall, the limited resources of the Cook Islands (notably land, labour, and water), means that any new policy needs to be based on farming practices that are sustainable over the long term in the Cook Islands.

- There is a need to improve the collection of statistics on agricultural markets as envisaged under the NSDS. A new agricultural policy would most likely address medium-term and longer-term objectives, and the broader question of how to develop farming in the long run in the Cook Islands. One question is about scale: it may be that a smallholder approach is unlikely to work given the small size of the sector (there are few smallholders to organise); a better option may be to encourage further private investment in medium-sized farms (although this may be difficult due to land constraints) or even by encouraging some vertical integration, with hotels and restaurants producing their own fruits and vegetables. In the meantime MoA should consider investigating measures to be put in place to ensure positive linkages between farmers and the tourism industry, especially hotels.

Arguably there is more scope for agricultural policy to explore and exploit synergies with the tourism sector. For instance, there could be greater focus on a more limited range of high-value-added artisanal products that appeal to certain food-loving types of tourist, which could be branded as locally produced. An overall goal could be to develop a ‘high food culture’ including with distinctive set of Cook Islands products, cuisine and flavours, celebrated for example in tourist-oriented food festivals. A number of countries or individual enterprises have successfully promoted agri-tourism, in which farming itself becomes a tourist attraction. A good marketing campaign on locally produced food (or locally owned restaurants) can work well: local low-key initiatives such as the local Muri barbecue and Saturday food market in Avarua have already proven to be extremely popular with tourists.

Finally, given the linkages with the rest of the economy, any agricultural assessment needs to consider a broader context in areas such as land and water availability, and would ideally be conducted in conjunction with a broader review of land use and of private sector investment plans.

**Priority Action:** Complete work on a comprehensive policy for the agriculture sector, focused on understanding, establishing and supporting value chains that work for farmers and buyers. A first step will be to examine issues relating to management, market arrangements and institutions along the supply chain and how they affect incentives of all stakeholders – from potential producers, to current farmers, to importers and retailers, and buyers such as hotels.
4.4 Offshore Financial Services

The offshore financial services industry developed in the 1980s with the government decision to promote the Cook Islands as a safe haven for offshore banking. The Cook Islands offshore banking system was established through a series of legislative Acts aimed at establishing a robust regime for international companies, partnership, trusts, off shore banking, insurance companies, trustee companies and most recently foundations. In addition the Cook Islands also maintains a marine registry. With less than 1 per cent of the global trade in offshore banking, the industry in the Cook Islands is relatively small compared to major centres, but still has a core base of offshore banks and trust companies.

In broad terms, the offshore finance industry is well suited to the Cook Islands as a relatively developed small island state. This is especially true when compared with physical goods where there are constant challenges of securing the necessary consistency of supply and overcoming high costs and logistical issues with transporting goods to overseas markets, and meeting stringent regional quarantine standards in the case of potential agricultural exports. In many ways services exports offer the answer to such problems: for many services both the scale of production and distance from market are less relevant, and new technology only serves to make it easier to trade services internationally.

Key Challenges

At this point, the main challenges to the development of the industry to are in terms of meeting increasingly stringent compliance with and dealing with reputational risk.

In terms of compliance, there has been increased scrutiny on activities of offshore financial centres since the global economic crisis. As a result the Cook Islands has to comply with an increased suite of foreign legislation, including the US Foreign Account Tax Compliance Act (FATCA). The Cook Islands has responded positively to the increased scrutiny, and regulation and operation of the centre are separated with regulation carried out by the Financial Supervisory Commission (FSC), with the Financial Sector Development Agency (FSDA) responsible for promotion and marketing. Further measures include the following:

- The centre has taken significant steps to combat money laundering activity. The Country is a member of the Egmont Group of Financial Intelligence Units and incorporates the Group’s charter on information exchange under the Mutual Legal Assistance Act.
- Around the same time as the crackdown on Pacific Island tax centres under the Australian Wickenby Project, the Cook Islands signed Tax Information Exchange Agreements (TIEAs) with Australia and New Zealand and now has a total of 19 TIEAs with countries around the world.
- Updated key legislation around trustees and companies to improve regulatory oversight.

Furthermore the industry has continued to develop innovative products including introducing legislation, notably on Foundations in 2012 and on Captive Insurance in 2014. The latter is seen as an area of potential expansion in the insurance sector: captive insurance is when a larger company or group creates an offshore insurance company to manage its risks. There are a number of reasons why companies may prefer to set up captive insurers in offshore jurisdictions: to bring together risks from across its business in one place, to take advantage of lower tax rates, to benefit from lower compliance costs, or protect assets for example against potential litigation in their home country. Currently there are few specific barriers that restrict countries such as Cook Islands from acting as a jurisdiction for captive insurers to establish themselves, although a number of other countries are also interested in this area of business.

An online registry has also come recently online, and is expected to attract international interest, enhance compliance and will contribute to the ease of doing businesses as the Cook Islands market itself as an off shore banking centre for clients from Australia, New Zealand and beyond.

Orientations

- The Cook Islands should continue to pursue the financial services industry as a private sector-driven, self-sustaining activity in coming years. The basis of the industry should continue to be the maintenance and enforcement of a robust regulatory regime.
4.5 Deep Sea Bed Mineral Resources

The Cook Islands has an Exclusive Economic Zone of 2m km², and as such the potential for deep bed sea mining for mineral resources has been subject to much speculation over the years concerning the potential value of the unexploited resources. The interest in the seabed minerals resources is around three highly sought after minerals:

- Polymetallic nodules
- Polymetallic sulphides
- Cobalt rich crusts

Numerous surveys have been conducted for the seabed minerals resources with the most recent survey in 2013 confirming that the Cook Islands EEZ contains 10 billion tonnes of manganese nodules which contain manganese, nickel, copper, titanium and cobalt. Sitting at approximately 5000m below sea level, these resources were previously inaccessible but in recent years combination of high demand and rapid recent advances in mining technology meant that sea bed deposits are already becoming an attractive and feasible proposition, with mining set to expand significantly within the next few years.

Current Activity

Current activity is focused in three areas: (i) putting in place the legislative and regulatory framework; (ii) survey and exploratory work on the mineral resource within the Cook Islands EEZ; and (iii) securing the Cook Islands’ rights under the UNCLOS to a further site located in the Clarion Clipperton Fracture Zone (situated in international waters), with work now underway to initiate exploration in conjunction with a European firm.

In terms of initial steps to develop SBM in the country, the Cook Islands has been quick to put in place the legislative framework to facilitate prospective future mining including revenue earning licences and exploratory rights. The Cook Islands Seabed Minerals Authority (Cook Islands SMA) was established in 2012 and derives its authority from the Seabed Minerals Act 2009. As a new entity, the Authority has been tasked with putting in the structures and processes both internally and also externally to facilitate interest in the exploration and exploitation of the seabed minerals resources. MFEM has also established a Sovereign Wealth Fund known as the Seabed Mining Fund to manage future revenues from SBM resources.

With regard to resources within the Cook Islands EEZ, activity is focused on exploration to understand and gauge the potential resource, in preparation for eventual mining. There is still some considerable work to be done at a global level to improve the technology for deep sea mining, although a number of notable projects are expected to being mining operations in the near future, notably for iron ore in New Zealand in 2016 and sulphide deposits off Papua New Guinea in 2017. At the present time a number of exploratory licences are being issued; current estimates are that actual deep sea mining could begin in the Cook Islands around 2020.

In light of the drive to establish a viable mining industry to exploit resources within its own EEZ, the Cook Islands has also sought opportunities beyond its waters through opportunities in the Clarion Clipperton Fracture Zone (CCFZ). The CCFZ is a potentially mineral-rich zone situated in international waters covering a large portion of the North-Western Pacific between latitudes 8° and 12°N, and between 115° and 155°W. The zone is managed by the International Seabed Authority (ISA) under the UNCLOS and exploration areas have so far been reserved for Kiribati, Germany, China, Japan, Belgium, Korea, France, Czech Republic, Russia, UK, Tonga and Nauru and more recently India, Singapore and Brazil. In July 2014 Cook Islands also successfully applied for an application to ISA for a claim and exploration license for a zone within the CCFZ, which is described in the SBM Policy as “The Area”. The Cook Islands Investment Corporation (CIIC) is considering a joint venture with a Belgium company GSR to explore the allocated CCFZ area under a 15-year plan for exploration work based on three clear phases (1. understanding the
 resource, 2. development of mining technologies, 3. full mining tests). This will directly benefit the Cook Islands in the way of experience in exploratory mining operation alongside recognised experts in this field and develop the managerial experience, skills and technical capability of Cook Islanders to ensure the effective and efficient implementation of an exploration programme.

The challenges to the development of the industry are well noted in the Cook Islands within the Sea Bed Minerals Policy (2014) and continual efforts will be needed to ensure they are addressed. The key challenges are:

- Proper administration of the emerging industry and maintaining a fully transparent approach
- Sustainable environmental management
- Minimisation of social impacts (which includes so-called ‘Resource Curse’ effects)
- Offering internationally competitive investment and fiscal conditions to attract investors while safeguarding SBM Revenues for the nation
- Sound revenue management practices, and other social measures, that benefit current and future generations
- Maintaining a sound regulatory framework in the EEZ and “The Area”
- Maximising benefits of Cook Islands SBM Resources

Policy Orientations

- At this point there is a great deal of uncertainty about the potential of the resource, most notably around potential extraction rates and costs.
- A comprehensive Sea Bed Minerals Policy (2014) is in place which details the vision, objectives, administration, regulatory framework, investment considerations, revenue management and roles and responsibilities.
- At a higher level, in the context of a broader trade and economic policy that seeks to outline the strategic priorities of the government amongst different sectors of the economy, it will clearly be important over the 2015-20 period to continue to assess the potential of the resource within a transparent decision-making framework for overall economic and national development policy.
- In particular if it appears that the resource will live up to its potential expected returns, and as actual mining is foreseen to begin, the government will need to take a number of steps that are envisaged in the policy including:
  - Carefully assessing the effects of so-called ‘Resource Curse’ on the domestic economy. The current assumption is that the domestic economy would be largely unaffected by SBM operations once they begin, because mining will occur in remote locations, influxes of foreign workers will be low, and the sudden influx of large revenues will not occur as revenues are directed to a SWF, while in any case the domestic economy is shielded by the fact that Cook Islands uses the New Zealand Dollar. Nevertheless the experience of many countries would suggest that it is worth fully investigating the effect of increased mining activities on local prices in areas from food to rents and approaches to mitigating negative effects where necessary. Furthermore a key concern is to ensure that arrangements for governance and management of resource rents is at the highest standards. To safeguard against the resource curse, the SWF needs to be established as a priority.
  - Assessments will also need to be carried out on the environmental impact of mining as well as the impact that the industry development might have on other sectors including tourism, agriculture, aquaculture and fisheries sector as well as possible stresses on mainland infrastructure, utilities and other public goods.
  - Furthermore, there are concerns over labour shortages in the domestic labour market of the technical mining personnel.
More broadly, should potential returns become more realistic, it is likely that the economic model of the Cook Islands will probably need to be reassessed against the backdrop of a rapid transformation in the economy. Given the pace of developments in the industry it would be prudent for the Cook Islands to prepare now to engage in discussions and tentative planning over the coming years over its long-term future. That should include possible transformation and adding value to its raw minerals at source than simply the exporting of raw materials in an unprocessed manner.

**Priority Action:** Complete the regulatory framework for the sector envisaged under the Sea Bed Minerals Policy and work to further the development of the sector including:

- Complete legislative and other work related to the issuance of exploratory licences with a view to issuing the first exploratory licences possibly before the end of 2015.
- Continue ongoing work to ensure that a robust regime for environmental protection is put in place as sea bed mineral exploration and extraction takes place.
- Improve competency within the tax office to ensure that it is able to deal with potential asset transfers (including for intangibles such as trade in SBM licences) and transfer pricing.
- Establish a Sovereign Wealth Fund to ensure responsible and transparent management of any benefits from Sea Bed Minerals, in order to avoid the ‘Resource Curse’ in the Cook Islands.

### 4.6 Other Exports

#### 4.6.1 Textiles Clothing and Footwear (TCF)

In the 1960s, clothing exports averaged NZD $1.83m per annum, declining to NZD $1.56m in the 1970s. In the 1980s the industry’s exports quadrupled to NZD $4.7m in 1987 and further represented 70% of export earning for that year. By 1989 the level of exports declined dramatically to NZD $0.4m. Although very little information is available to explain the decline, it has been referenced that some of the businesses moved to Fiji due to existence of trade agreements such as SPARTECA, the Import Credit Scheme and the MFA in addition to the availability of labour, competitive wage rate and established infrastructure.

Under the SPARTECA Agreement 1981, the TCF industry flourished in Pacific countries such as Tonga with the manufacture of leather garments for the Australian market, textiles in Fiji, and garments from the Cook Islands. Foreign investors were able to use the SPARTECA Agreement as a leverage in their export strategy. Foreign investors were attracted to the duty free entry provisions notwithstanding the rules of origin criteria. While the SPARTECA has had some stringent rules and many critics, the TCF industry was able to ride on the back of SPATECA without which the industry may not have grown exponentially in the region.

As showed in 1989, the decline in the exports of garments was largely attributed to the relocation of businesses from the Cook Islands to Fiji in order to capture the preferential trade opportunities under multilateral trade agreement, regional and bilateral trade agreements. Aside to being a signatory to SPARTECA Agreement, Fiji had negotiated the Import Credit Scheme (ICS) with Australia and importantly the extension of the Multi-fibre Agreement (MFA) to January 2005 gave the garment industry the needed boost in export market.

At present there is only one company exporting from the Cook Islands under the brand TAV. It is a family owned business utilizing islands motifs and style for the tourist leisure market. TAV exports to Australia and New Zealand and the United States under various trade preferential systems. The company produces wholly in the Cook Islands, unlike other Pacific brands such as the Samoan owned company MENA who recently has shifted their production to Fiji. With the shortage of labour and its high cost compared to other countries (most notably Fiji) expansion of the TFC industry will be challenging. Fiji produces for such brand names as Nike: it is unlikely that the Cook Islands
could achieve a similar growth in the manufacturing base. The industry could however be successful as a niche provider catering to the tourist trade within, the islands and exporting a Cook Islands brand and style in overseas markets.

4.6.2 Cultural Industries

Cook Islands has a history of and potential to develop its cultural exports further.

- visual arts, including painting, photography and handicrafts
- audiovisual arts, including photography and film
- design (such as textile design as well as graphic design)
- publishing (including online publishing)
- music
- performing arts including Cook Islands dancing
- sport
- museums, historical artefacts and archives
- events including the traditional Te Maeva Nui celebrations
- language-related activities

It should be noted that there are strong linkages between cultural industries and other areas covered elsewhere in the TPF, including work on intellectual property (section 5.3) as well as proposals made in the tourism section above on the protection of Cook Islands unique cultural endowments. Alongside work on a national intellectual property policy, the Ministry of Culture is also working in the area of preserving national heritage. Nevertheless there are significant additional gaps in the area of developing cultural industries, including for example the lack of a Film Commission to act as a central point for developing film production (which might draw on the example of Fiji’s drive to encourage productions to base there), or the need to put in place a local Producers and Recording Artists Association in order to benefit from royalties for music used overseas.

**Priority Action:** Develop a creative industries policy and supporting organisations to promote the development of the Cook Islands creative sectors and their contribution to the economy. This will include improving the collection of statistics on the cultural economy and its contribution to national economic welfare.

4.6.3 Education and Health Services as Export Opportunities

Consultations for this Trade Policy Framework also revealed a desire to see education as an area where Cook Island service providers could become niche exporters across the Pacific. There is therefore a potential income generation for the Cook Islands, with international students paying international student fees and utilising local facilities such as accommodation.

The Cook Islands has limited experience with international students, although the University of South Pacific have been involved in the Cook Islands, offering an MBA programme (to Cook Islanders), until it generated an oversupply of graduates in the local market. In the past few years however efforts have been made to focus the TVET system towards skills shortages, with local training institutions providing courses in specialised areas such as tourism management. There are also foreign students in Cook Islands secondary schools, including one case of an independent student from abroad studying for final year examinations.
Specific opportunities have already been identified in the education services sector, with the Cook Islands education sector strategy already highlighting the potential for investment in the sector to attract students from other Pacific countries. The value of the Cook Islands education system has seen some interest from the French Polynesia for their nationals to gain English language skills in the Cook Islands rather than doing so in Australia or New Zealand where it would be more expensive.

Health is another area where short or longer-term tourists might seek to benefit in the future from specialised services offered in the Cook Islands. While expensive equipment- and knowledge-intensive surgery treatments are unlikely (at least in the first stage), there are at least two precedents from which an industry might be built: there is anecdotal evidence that Tahitians come specifically to the Cook Islands for dental treatment, and a number of sophisticated tourist-oriented spa operations could provide a model for a longer-term recuperation or rehabilitation facilities. Looking further afield, another model for services offered to consumers coming from abroad (and which requires similar levels of organisation, coordination of different services providers, and attention to detail) also exists in hotels which provide complete packages of wedding services.
5 Trade Related Issues
Beyond trade in goods and services, a number of trade-related areas are as becoming important to trade policy as traditional exports, given their linkage to the enabling environment for trade or their ability to create either complicated barriers or new trade opportunities. As such this section covers investment, competition policy and regulation, intellectual property, government procurement, and trade and gender, and trade and environment.

5.1 Investment Policy

The Cook Islands encourages and promotes investment from both domestic and international sources as the key driver of economic growth in the country. Investment levels have tended to follow closely trends for growth in GDP in recent years. Using private sector loans as a proxy for domestic investment, Fig 4.1 below indicates that there was a large amount of investment in areas such as construction (under personal services) during the mid-to late 2000s, giving way to a modest slowdown in more recent years.

![Private Sector Loans and Advances, by Industry, 2014-13](image)

Source: National Statistics Office

Alongside the private sector, government has also been a key source of domestic investment: a deliberate policy of investment under public works programmes provided a notable boost to the economy during the most recent slowdown.

Like all small island economies, the Cook Islands however has limited domestic financial resources, and benefits from foreign investment where it lacks sufficient capital of its own, for example for large-scale hotel operations. Foreign investment may also bring a level of knowledge and technical skill that is not available in the domestic economy.

At present there is limited reliable data on foreign investment in the Cook Islands, and few statistics are available on inward or outward investment flows. Data from UNCTAD’s World Investment Report continues to raise questions over foreign investment flows and accuracies worldwide including at the regional and country level. Similarly the FDI stocks as a percentage of GDP vary from 24.1% in 2006 to 42.5 in 2007 and 18.0% in 2008 while FDI stock moved from US$14 million in 2006 to US$34 million in 2007 and US$37 million in 2008. The 2013 UNCTAD World Investment Report continues to show similar anomalies.

- The number of new foreign investment approvals across all sectors was between 10 and 20 per year (except for 2007)
• The value of the investments each year varied greatly, as did the average value per enterprise, so generalisations are difficult to draw from the data. In summary between 2002 and 2008, $91.95 million was approved for investment\textsuperscript{12} into the Cook Islands economy by 98 foreign enterprises, i.e. on average less than $1 million per investment.

• Analysis of the sectors in which this investment occurred shows that 52% was in the tourism sector and 14% in the agriculture sector.

• New Zealand was by far the main source country of investment (51%) followed by Australia (12%).

The overall policy towards inward foreign investment is given under the Cook Island Investment Code which is derived from the Development Investment Act (1995). Overall the policy seeks to balance the need to protect the interests of Cook Islanders and give them opportunities to invest where they have the means and capacity to do so, against the need for foreign capital and accompanying knowledge in areas where local population cannot invest. In summary the Investment Code contains the following provisions:

• The general policy around all investment is business activity should positively contribute to the Cook Islands economy and that investment by foreigners that include Cook Islanders should be given priority. Suitable joint venture projects between foreign investors and Cook Islanders should however be encouraged and foreign business are encouraged to engage local participation in forms such as shareholding, profit sharing, transfer of skills and technology.

• The priority areas for investment are in agriculture, marine resources or the tourism industry.

• An extensive ‘reserved list’ restricts a number of activities to Cook Islanders\textsuperscript{13} (although this is subject to exceptions as defined below).

• Foreign investment (defined as referring to an enterprise or an activity which is owned by 33.3 percent or more by an overseas investor) must be approved by the BTIB Board.

• In cases where there is an application for foreign investment in a reserved activity, approval may nevertheless be granted if the application meets exceptional criteria as follows:
  o the foreign enterprise wishes to acquire an existing Cook Islands business which cannot be demonstrably sold to Cook Islanders.
  o there is a demonstrable demand for the activity and no local business is currently carrying out that activity.
  o a local enterprise lacks the resources to carry out the activity.
  o the foreign enterprise is a joint venture.
  o the significantly large project of over NZD 1m (Rarotonga) or NZD 500,000 (elsewhere).
  o the foreign enterprise proposes to develop a niche product.

• Criteria for assessing the net economic benefit to the Cook Islands from an investment.

• An additional set of criteria for assessing the suitability of the project proposal.

Assessment

Relative to its small size, the Cook Islands manages to maintain a foreign investment regime that has a high degree of superficial transparency – it is clear and consistent in terms of its objectives, processes and criteria for assessing foreign participation in the economy – yet is still both restrictive and complicated for any foreigner looking to invest.

Foreign investment undoubtedly remains a sensitive subject in the Cook Islands and is key not just to the country’s trade policy and external relations but also even to national identity. There have been three recent revisions to the reserved activities list (in 2007, 2009 and 2012) but none of these has yet been adopted due to the political sensitivity of the subject. Most stakeholders consulted for the Trade Policy Framework highlighted foreign investment regime as an area for attention.

\textsuperscript{12} Amounts approved for investment do not mean that investment actually occurred.

\textsuperscript{13} In addition to the formal legislation, some restrictions are also reportedly understood to operate de facto on a sub-national basis, with activities restricted for locals from that particular island, for example pearl farming businesses in Manihiki.
Stakeholders generally agreed with the broad goals of the policy in achieving a balance between protection for Cook Islanders and necessary foreign investment. Opinions differed widely however on the effectiveness of current policy in meeting its goals. Concerns ranged across a number of areas from the formulation of the policy (whether it is presented in a way that helps meet its goals), to its scope (whether it targets the right areas and activities), to its practical implementation (application and operation of the policy).

The concerns raised during the consultations stage can be summarised as follows:

• Presentation: Although the Investment Code has been set out in a transparent and accessible format, in practice it can create confusion in terms of the rationale for individual decisions. Some confusion occurs because, despite the prominence in the Code of an extensive ‘reserved list’ of activities restricted to Cook Islanders, it also allows for numerous exceptions that allow foreigners to invest in reserved activities. Since exceptions are regularly made, there is scope for misunderstanding amongst the general public about whether the reserved list is being applied. By focusing on restrictions placed on investors and the criteria they must follow, the Code acts more as a negative signalling device, rather than one that positively promotes investment. In reality, the broad range of exceptions mean that although the reserved list has some use as a general signalling tool, it is essentially less effective as a policy instrument.

• Lack of clarity over decisions: in addition to widespread exceptions to the reserved list, the decision-making process is further complicated by the large number of criteria in Section G of the Code that are used in deciding whether to approve a foreign investment (for example in terms of overall economic contribution). In practice this gives a further level of discretion to the BTIB board, which is in contrast to the presentation of the Code as a prescribed and fixed set of rules.

• Scope: Most stakeholders believe that the reserve list is itself too extensive: as such it does not fulfil either of its roles in protecting the development of local businesses, or promoting growth-enhancing inward foreign investments. For example legislation prevents or delays foreign investment in large-scale projects where it is most needed, but fails to prevent foreign ownership in smaller tourism-centred projects that should be protected. A smaller and more targeted list should therefore provide clarity and reduce uncertainty for both prospective investors and the general public.

• Complicated rules for divestment: rules around divestment of foreign owned assets are complicated and potentially inconsistent. At present the Code states that when a foreign-owned business is sold, the owner must take lengthy steps to demonstrate that purchase rights are offered to Cook Islanders before other foreign interests. This applies even though the determination has already been made previously (in the original investment approval) that the activity cannot be carried out by Cook Islanders. One consequence is that any foreign investor looking to invest in the Cook Islands will have added uncertainty over how a business asset will be valued at a later stage.

• Implementation: Some stakeholders saw the regime for foreign investment as being cumbersome, especially when in practice BTIB approval tend to come on top of a number of other barriers to investment, notably obtaining land leases. Monitoring compliance is also seen as a problem: investment authorities in most countries tend to struggle with post-investment assessment of obligations (such as the requirement to train local staff) that are often conditions for the original approval. In addition, penalties for any infringements are very difficult to enforce. Finally, there were also recognised issues around the dual role of BTIB in both promoting and facilitating foreign (and domestic) investment, but also as the ‘gatekeeper’ and compliance monitor of foreign projects. The role of BTIB is discussed further below in section 8 on institutions.

**Priority Action:** Carry out a comprehensive review (including an independent assessment) of the Investment Code to ensure that the overall investment policy of the Cook Islands is consistent with the broader principles and the sector-level goals of the Trade Policy.

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14 Other Pacific Island Countries use a similar ‘reserved list’ system, but without scope for any exceptions for reserved list activities (which are generally smaller in number). In the case of the Cook Islands the extensive scope of the reserved list (and small size of the economy) means that exceptions need to be regularly made.

15 It is also unclear how the exceptions (in Part E of the Code) relate to the assessment criteria (Part G).

16 Monitoring compliance with the Code is also sometimes required on an ongoing basis: one interesting case is that of photographers coming from overseas on short term assignments when local photographers were available.
5.2 Competition Policy and Regulation of Key Sectors

Maintaining a competitive environment in key markets for goods and services is challenging in an economy as small as the Cook Islands. For many goods and services the limited size of the market has the tendency to result in the existence of natural monopolies, where high sunk costs of investment and low margins create significant barriers to entry. This means that only a single player can be expected to supply a service profitably, or may even require a subsidy from government. Elsewhere, linked or merged supply chains may result in only a few suppliers achieving a dominant position in key parts of the market. In respect of recent trade policy the lack of competition has a special significance because it means that although goods markets have been liberalised, some of expected gains of tariffs liberalisation may have well been captured by domestic monopolies rather than being passed on to consumers.

A lack of domestic competition is a key contributing factor behind a high-cost economy, resulting in an increased cost of doing business for local firms, and higher prices both for local consumers. High local prices also impact on the tourism industry: amongst generally excellent ratings, visitor surveys point to the high price of food and accommodation as one area of dissatisfaction amongst 14 per cent (or one in seven) of visitors to the Cook Islands. Suppliers are likely to be constrained to some extent by a high level of awareness amongst consumers (including those who have spent time or are coming from abroad) about prices of goods and services. However most goods and services are likely to be relatively inelastic – for example foodstuffs, utilities, banking – that are unavailable elsewhere or through other means (such as direct importation, or waiting until the next travel abroad).

Assessment - Regulation of Product Markets

With respect to the regulation of product markets, the Cook Islands already has a Consumer Commission which oversees a system of price controls under the Control of Prices Act (1965). The number of products under the price control system has been scaled back significantly from between 160 to 200 different goods, to the current list of four products. Consumers are also protected by purchaser rights including product guarantees. At the firm level, anti-competitive behaviour is also regulated under Fair Trading Act (2008); a small claims tribunal has also been established within legislation (though not yet in practice) to enable small businesses and consumers to have redress in contractual disputes and enforce their consumer rights. Officers from the Ministry of Internal Affairs (INTAFF) are also responsible for monitoring and enforcing regulations relating to the accuracy of weights and measures in the country. INTAFF reports that limited capacity to undertake this work, but in the past investigated key products such as fuel. INTAFF also issues licenses for possession and sale of dangerous goods, while the Department of Health also licences food-related sales and the Department of Transport regulates alcohol licensing.

Despite the existence of legislation, there is concern amongst some stakeholders about how effective regulation of domestic goods is, especially in light of capacity constraints at the INTAFF, particularly in terms of the market analysis needed to conduct an investigation into potential anti-competitive behaviour. Some stakeholders highlight the role that exclusive distribution rights held by the large importers play in limiting choice and affecting wholesale trade and final retail prices. Other stakeholders suggested that potential distortions in fuel retail markets was one particular area that needs to be examined in more detail.

Assessment – Regulation of State-owned Utilities

As with product markets, many of the key utilities and services that facilitate trade have faced similar problems of lack of competition. A key role is played in the regulation by Cook Islands Investment Corporation (CIIC), a holding company for the Cook Islands’ remaining state owned enterprises (SOEs) including Bank of Cook Islands, the national energy company, the Ports Authority and Airport Authority. CIIC also manages the government’s remaining stakes in TelecomsBluesky Cook Islands (Telecommunications provider) where the government holds a
40 per cent share. There is the possibility of a new SOE being created in the near future to manage investment in joint ventures in the Sea Bed Minerals sector.

At present the model that is generally used to regulate utilities (except for banking) is that of a ‘legislated monopoly’: while the government retains a stake in the enterprises managed by CIIC, an independent management is held accountable through annual statements of corporate intent. Regulation is achieved through influencing these corporate plans, including notably in terms of ensuring universal access to services in the outer islands (through ‘social obligation commitments’, and in some cases an accompanying subsidy). The Government arrangement ensures that SOEs retain a degree of influence while separated from political decision-making, although it depends on achieving consensus between both the business and social obligations of companies, and it would necessarily not be immune from problems of political influence or regulatory capture if relations ever broke down.

Table 5.1: Regulation of Key Sectors: Summary of Regulatory Responsibilities and Recent Key Developments

<table>
<thead>
<tr>
<th>Sector</th>
<th>Features and key developments in Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizontal (all sectors)</td>
<td>Amongst the horizontal regulation of businesses, the Ministry of Justice issues business licenses and INTAFF has responsibilities in promoting fair competition and monitoring labour. BTIB regulates inward foreign investment and also monitors existing foreign businesses.</td>
</tr>
<tr>
<td>Product markets (retail and wholesale)</td>
<td>Ministry of Internal Affairs has most responsibilities, notably through the Consumer Commission and Price Control Act but also through legislation including the Fair Trading Act. However INTAFF notes that in practice it has a limited level of technical capacity to look into competition issues.</td>
</tr>
<tr>
<td>Telecoms, Post and Audio-visual (Radio and TV)</td>
<td>Currently the telecoms operators conduct ‘self-regulation’ or ‘legislated monopoly’ under Cook Islands Investment Corporation. This may change soon with the possibility of an independent regulator. Reforms to regulation of the Telecoms industry and discussed in more detail below.</td>
</tr>
<tr>
<td>Banking</td>
<td>A recent banking review (the 2011 ‘Knowles Report’) made a number of recommendations on banking in areas including the performance and cost of services, causes of interest rate differentials with NZ, and non-performing loans. Amongst the recommendations, the main reform issue for the banking sector at present seems to be around the need for some form of debt resolution mechanism (a ‘bankruptcy law’). This will be a major reform and require a significant amount of preparation and consultation.</td>
</tr>
<tr>
<td>Energy and Fuel</td>
<td>The energy sector, including fuel distribution and retail and power generation, falls under the responsibility of the Energy Commissioner.</td>
</tr>
<tr>
<td>Airport and Ports Authorities</td>
<td>The Ports Authority and the Airports Authority both fall under the control of CIIC. The situation with respect to both authorities is similar: both the port and airport have seen major loan-financed investments in recent years and as a result while charges are amongst the highest in the region. From their side, CIIC are aware of international benchmarks but feels that high charges are justified by the cost of providing international standard infrastructure.</td>
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</table>

One important development is that major reforms are currently being contemplated in the telecoms and audiovisual industries, to match potential changes to ownership through transfer of the incumbent company shares to a new investor. As in other countries, the industry has a history of monopoly state provider giving way to greater private participation. During the 1980s the internal telephone exchange was operated by Cook Islands Post and international traffic was operated by Cable and Wireless. In July 1991 the two were merged to form Telecom Cook Islands (TCI). During the 1997 financial crisis the company was privatised further, with the Cook Islands Government shareholding reduced from 60 to 40 per cent Telecom New Zealand (TNZ).

Current regulation follows the legislated monopoly model under which TCI ‘regulate themselves’, under guidance from its Board which includes Government shareholding. This includes making decisions on the allocation of the telecommunication and radio spectrum. At the present time, the industry is undergoing another major change, with TNZ changing its business model to focus on its domestic business resulting in the recent disposing of its majority shareholding in TCI to Bluesky Cook Islands. A draft Telecoms Act is in the process of being prepared to go to Parliament, but was not available during initial round of consultations for this draft Trade Policy Framework.

It is understood that the draft Act envisions the creation of an independent telecoms regulator. If implemented,
this would be the first time that the Cook Islands adopted such as set-up. An independent regulator would face considerable challenges in the form of a lack of competition in the market, including a lack of local benchmarks and a potential for ‘regulatory capture’. Nevertheless it may lead to greater transparency compared to the existing legislated monopoly, and could prove to be a model and precursor for other markets where there are potential regulatory issues.

**Policy Options**

It is important to emphasise that small size of the economy poses some distinct challenges for regulating key markets for goods and services in the Cook Islands, given that in small markets it is often difficult to judge whether high end-costs are the result of small volume or monopolistic behaviour. Solutions to regulatory challenges need to balance the promotion of viable business and private sector activity against the need to protect consumers. As in all economies, the key to lower prices is to try to foster as much competition in markets wherever possible, and adopt strong safeguards against monopolistic behaviour and anti-competitive practices wherever appropriate. With regard to the latter there may be a need in the Cook Islands to look at whether CIG has (i) policies that encourage competition; (ii) a regulatory framework that works; (iii) realistic compliance costs for regulated business; and (iv) sufficient capacity to regulate where it should.

**Priority Action: Competition Law**

CIG will update and implement the framework for ensuring competition, including through a general competition law that promotes competition, ensures fair pricing and the protection of consumer rights. This will include expanding the role of the Price Commission to look at fair trading, market structure and pricing practices. The precise scope of the framework will depend on existing regulation of other key sectors (including utilities).

Other considerations within the new framework will also include:

- Improving market information and price transparency: including through much greater benchmarking against relevant local, regional and international comparisons, as well as specific sector studies (following for example the regional benchmarking of fuel markets that is already done by PIFS). At the local level there could be more information about pricing at market versus supermarkets, imported versus local goods (as is already done in supermarkets), etc.

- Being aware of possible commitments in international trade agreements including EPA, PACER Plus on competition, state owned enterprises and domestic regulation.

- Dealing with capacity constraints, including potentially looking at the broad institutional setup for regulatory functions – given that these are currently dispersed across a number of government departments and agencies – to see where potential synergies might lie.

- Investigate possibilities for regional cooperation on competition policy matters.
5.3 Intellectual Property Rights and Trademarks

Intellectual property is an increasingly important area of trade policy, covering matters including copyright and trademarks, protection of traditional knowledge (TK) and geographical indications (GIs). Engaging with systems that allow for the protection of intellectual property can be a useful tool for the promotion of cultural goods and services. In addition, companies that do business internationally generally expect a functioning rights protection system in the countries in which they do business; companies also wish to protect their intellectual property in overseas jurisdictions, and are willing to pay fees to do so.

The situation in the Cook Islands is quite basic and is summarised in Table 5.2.

Table 5.2 Intellectual Property Laws in the Cook Islands

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Coverage</th>
<th>Comment</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copyright Act 2013</td>
<td>Copyright</td>
<td>Protection for copyright works is available under the Act; copyright is not a right that requires registration.</td>
<td></td>
</tr>
<tr>
<td>Traditional Knowledge Act 2013</td>
<td>Traditional Knowledge</td>
<td>There is a comprehensive system for the protection of TK provided by the Traditional Knowledge Act 2013. However while the Act is in force, it has not yet been implemented.</td>
<td></td>
</tr>
<tr>
<td>Patents Act 1953</td>
<td>Patents</td>
<td>No registration procedures in the Cook Islands</td>
<td>Update legislation</td>
</tr>
<tr>
<td>Trade Marks Act 1953</td>
<td>Trade Marks</td>
<td>The NZ Trademarks Act 1953 is Cook Islands law, but the Cook Islands lacks any of the framework provided for in this Act, meaning that protection is not available under it.</td>
<td>Establish an office for the registration of Trade Marks as a priority (since this is an income generating activity).</td>
</tr>
<tr>
<td>Design Act 1953</td>
<td>Designs</td>
<td>No registration procedures in the Cook Islands</td>
<td>Update legislation</td>
</tr>
</tbody>
</table>

The Cook Islands is currently considering a draft National IP Strategy provided with the assistance of WIPO, and that the policy is yet to be finalised.


Priority Action: Amongst current actions being considered, prioritise updating the legislation and establishing an office for the registration and processing of trade marks, since this is an income generating activity.

The Cook Islands is not a member of the World Intellectual Property Organisation (WIPO) and as such not a signatory to its main conventions, namely the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property however is still bound to it see footnote. There are two pieces of national legislation on intellectual property recently passed to deal with copyrights and traditional knowledge but this area of the law requires some attention. It may be advisable for the country to consider joining the WIPO which could assist with the drafting and implementation of relevant legislation within the framework of its technical assistance programme.

17 Recent investigations confirm that the Cook Islands is bound to the provisions of the Berne Convention of 1896 through the United Kingdom (UK). The Treaty was applied to New Zealand (NZ) pursuant to Convention Art XIX and the Process Verbal Signature which declared that accession of UK to the Convention would include all the colonies and foreign possessions of Her Britannic Majesty. On the Rome Convention of 2 June 1928, NZ’s treaty action specified as follows: By notification of 2 November 1944 to the Swiss Government, with effect from 18 March 1965, NZ declared Convention applicable to the Cook Islands, Niue and Tokelau.
5.4 Government Procurement

Government procurement is defined as the purchasing of goods and services by governments. Traditionally, governments have procured for their own consumption and to ensure the delivery of public services such as in education, health, justice, police and infrastructure. In many developing countries, it could constitute over 10 per cent of the GDP. The strengthening of government procurement systems, and ensuring compliance, can lead to better use of scarce government resources and assist economic development. Strong procurement systems can also lead to greater flexibility in the use of donor assistance.

In the Cook Islands, a 2012 review\(^{18}\) of financial policies and procedures was undertaken to establish benchmarks for government procurement processes, and made a number of recommendations were put forward to strengthen the process with a view to promoting transparency and maximizing government revenue. Since 2014, the rules governing government procurement have been outlined in the Purchase and Sale of Goods and Services – Cook Islands Government Policy.\(^{19}\)

A number of ongoing issues around government procurement have been noted by central government. There is currently no policy or guidance around a threshold for local companies in bidding for government contracts, and a need for better planning of tenders and procurement of government services in this regard, alongside the need for increased transparency in the process and a strengthening of probity requirements in the process.

International commitments on government procurement can assist a government achieve its reform objectives in relation to procurement by making the reforms more credible and procurement more open to outside scrutiny. On the other hand, government procurement may be used to promote development by providing a preference to local firms and advance other government policies. These can be done in a manner that is consistent with a transparent and competitive procurement system. Some international agreements on government procurement contain procedural obligations in relation to procurement that may be difficult to fully implement in a small country.

Many trade agreements contain chapters on government procurement. At the global level the WTO contains an agreement on government procurement, but it applies to only a minority of members, mostly the larger and/or wealthier members. Cook Islands has committed to liberalising government procurement under art 15 of PICTA, which was the subject of the report to the Pacific Islands Forum Secretariat Study on Procurement Policies and Practices in FICs and Recommendations on the inclusion of Government Procurement in the Pacific Island Countries Trade Agreement, January 2010. The issue also has been discussed in other trade negotiations in which Cook Islands is participating.

Cook Islands should determine the appropriate system of government procurement and seek to avoid international commitments that would be incompatible with that system. A careful national study may be required. A number of broad issues must be considered, including: the thresholds for goods, services and construction covered; the range of entities covered; whether discrimination in favour of local firms is permitted; whether exceptions for national security or other purposes should be permitted; and relationship to regional joint procurement proposals.

5.5 Trade and Gender

The Ministry of Internal Affairs has responsibility over women’s affairs which include not only promoting women in business, but also advancing their interests in issues such as health care, disability, inheritance and domestic violence. There is one dedicated officer who oversees the wide-ranging responsibilities assigned to the Department. The need for women to play a leading role in the economy of the Cook Islands is recognised in the Department’s strategic plan which makes an explicit reference to the commitment of the Government to support the activities of women engaged in the handicraft, and creative industries, as well as professional women in business.

According to data from the labour monograph, female labour market participation rate is high even compared with Australia and New Zealand. In particular the long term trend towards a growing services-based economy has favoured female participation in the workforce.

The Cook Islands is making efforts to ensure it is consistent with global standards and benchmarks. In terms of specific actions, the government supports a project to promote ‘Women in Business’ and there are a number of professional women’s associations and business groups which promote the interests of women in the formulation and implementation of policies. They have been quite active in pressing for the interests of women to be recognised in trade negotiations considering the impact trade agreements could have on women, and it will be important for women to have adequate representation in trade and economic policy making.

Priority Action: Explore and put in place specific measures to deliver on Cook Islands’ commitment to ensure an inclusive trade policy that recognises the value and creates opportunity for greater inclusive gender participation in trade at all levels.

Undertake an assessment of gender representation across national policy making in particular trade and trade related issues.

5.6 Trade and Environment

The promotion of trade without regard for the environment will not lead to sustainable development. Positive measures need to be taken to ensure the environment is not harmed. Maintaining a sustainable environment is a cross-cutting effort that has implications for policy in other areas including tourism, health, mining, fisheries, transport, and energy. Other parts of the TPF have discussed the adoption of policies that are aimed exclusively or in part at the protection and proper management of natural resources, including sections on:

- strengthening quarantine procedures (section 3.2)
- protection of tourism natural assets (section 4.1)
- ensuring the sustainability of fisheries resources (4.2.1)
- addressing sustainability issues in pearl production (4.2.2)
- adequate regulatory framework for the exploitation of sea-bed mineral resources (section 4.5)
- promotion of cultural industries (4.6.2)
- development of national and international legal frameworks for the protection of intellectual property and traditional knowledge (see section 5.3)
- ensuring strong cost benefit assessment of regional trade agreements (section 7)
- ensuring adequate levels of aid for trade for sustainable development (section 8.2)

In addition there are a number of other specific process and policies in the Cook Islands that relate to the linkage between trade and environment.
5.6.1 Cook Islands and Climate Change

The Cook Islands is highly vulnerable to the impacts of climate change, with implications for every sector. Ultimately, climate change impacts livelihoods and wellbeing. As a Small Island Developing State (SIDS) with low lying atolls, the science indicates the Cook Islands will see worsening climate change, and significant adaptation efforts are required to respond to this.

The Cook Islands is committed to the development of a new international climate agreement by the conclusion of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris in December 2015. As a requirement and in preparation for this, the Cook Islands is to outline its post 2020 climate change actions under the new international agreement known as Intended Nationally Determined Contributions (NDCs).

The current policy is outlined in the Climate & Disaster Compatible Development Policy 2013-2016, which promotes low carbon strategies in infrastructure, electricity and transportation, along with abatement measures in our land and ocean use. Low carbon strategies have been developed for infrastructure and electricity, and the Cook Islands Government is currently in the process of preparing its NDCs focusing on an analysis that has already been undertaken on the energy sector. Another important issue concerning trade’s role in greenhouse gas emissions is its link to transportation services. In the Cook Islands, the transport sector is the largest contributor of greenhouse gases, followed by electricity generation, and the transport sector will be targeted in future through the NDC process.

5.6.2 Import Management

Sustainable development may also require the restrictions on the importation of goods and services that are environmentally damaging, and all trade agreements contain provisions to this effect. In addition to the banned substances mentioned above, the Cook Islands has a regulation prohibiting the commercial import of non-biodegradable plastic shopping bags, there have been suggestions to expand this to other significant waste streams such as polystyrene containers, non-biodegradable cutlery and utensils.

Waste management is one of the biggest domestic environmental challenges facing the Cook Islands, and the majority of waste that is contributing to this challenge results from imported commodities and commodity packaging. While the Cook Islands recognises that imports are important, with imports comes waste products, and commodity end-of-life management is needed. The Cook Islands are stockpiling various forms of imported waste, currently without any strategy to manage this waste appropriately at appropriate facilities (e.g. Ozone Depleting Substances used as refrigerants). One potential solution could be to explore (perhaps through trade negotiations, or separately at the regional level alongside other Pacific SIS) a process to repatriate waste back to the exporting partner or to appropriate facilities in New Zealand, Australia or further abroad.

5.6.3. Environmental Resources and Intellectual Property

As a signatory to the Convention on Biological Diversity, the Cook Islands are moving towards establishing a framework for the Nagoya Protocol on Access and Benefit Sharing Arising from the utilisation of genetic resources, this Framework is geared towards ensuring that holders of traditional and indigenous knowledge holders receive equitable benefits for the commercial use of that said knowledge e.g. the Te Tika cosmetic line and its associated medical benefits. This work needs to be linked closely to the development of other national and international legal frameworks for intellectual property and traditional knowledge (see section 5.3).
5.6.4 Environment and Trade within Trade Agreements

Finally, many developed countries have committed themselves to carrying out environmental assessments of preferential trade agreements. Preferential trade agreements also increasingly deal with environmental issues. Provisions dealing with environmental issues may take the form of preambular statements; a few provisions; a whole chapter; or a side agreement. Provisions dealing with the environment may be enforceable through dispute settlement; legally binding but not subject to dispute settlement; or represent political commitments.

Many preferential trade agreements require that environmental standards should be maintained, or not relaxed, and that they should be enforced. Some promote the strengthening or harmonization of standards. The general exceptions provisions in most preferential trade agreements also permit the parties to take measures to protect the environment even where the measure may affect trade.
6 Broader Cross-cutting Constraints to Trade Growth
The macroeconomic analysis shows that the Cook Islands has been comparatively successful in managing its economy and achieving sustained growth, in spite of occasional downturns caused by vulnerabilities to external as much as internal factors. With respect to both key trade and economic indicators the Cook Islands is in a privileged and even enviable position when compared with its Pacific Island neighbours. In a globalising world, it has made the transition to a relatively open small island economy, mainly by exploiting its major comparative advantage as a tourist destination. It faces few specific barriers in terms of market access for the export of goods, services and even labour to developed markets overseas.

At this point however, the Cook Islands faces a considerable set of challenges in creating economic opportunities going forward, and potentially even in maintaining current levels of prosperity. The most important constraints on future trade and economic growth relate not to traditional market access barriers on international trade, but instead centre around a number of domestic cross-cutting (and often interlinked) issues that together contribute to the ‘enabling environment’ for future trade and export growth to occur in the Cook Islands. These include:

- Measures to attract and encourage investment (covered above)
- Domestic competition and regulation (covered above)
- Infrastructure for trade development
- Issues around skills, labour market and migration
- Measures to spread the benefits of trade to outer islands
- Issues around land use

For some of these issues (such as investment, domestic competition and regulation) the linkage to trade policy is direct and they fit well within an overarching trade policy. In other cases the issues go well beyond just trade and economic considerations, and specific policies will need to be developed where there are gaps, and implemented once in place. In all cases however, encouraging growth in the Cook Islands will require tackling some long-standing and difficult policy issues.

6.1 Migration, Labour Market and Skills Issues

Amongst the important challenges facing the Cook Islands in meeting its development goals, are issues around migration, engaging the diaspora, domestic labour market dynamics and skills development which are undoubtedly the most critical for the country going forward. Up until now, these issues have tended to be treated fairly separately from each other, and are subject in varying degrees to policy gaps. In reality however, issues around inward and outward migration and labour market skills converge to create a unique set of policy problems in the Cook Islands. In summary the issues include:

- outmigration of Cook Islanders of mostly working age on a temporary or permanent basis, mainly to New Zealand and Australia (including tackling the drivers of migration, and encouraging return migration)
- engaging the diaspora to participate in the Cook Islands economy and society, either through return migration, investment, temporary visits, contribution of ideas and solutions or other ways
- inward migration of foreign national workers on a temporary basis to fill gaps in the labour market
- the long term goal of fostering appropriate skills for Cook Islanders to fill these gaps
- labour market that is attractive to Cook Islanders without putting pressure on the cost of doing business
- dealing with issues associated with internal migration as Cook Islanders leave the outer islands to work in Rarotonga, either on a temporary or permanent basis, or also on their way to New Zealand

As in all countries, migration is a complicated and sensitive area. The issues themselves in this area also cross-cutting ones: trade-related areas including foreign investment and labour mobility overlap with a host of other policy areas, including local labour market regulations, education and skills policies, foreign policy and relations.
with external partners (for example the labour market trends and policies and social security provisions in New Zealand), and a host of broader economic policies including those on land, housing, utilities and infrastructure, rural development in the outer islands, and even banking regulation.

Assessment
The Cook Islands suffers and has suffered from a declining population over at least the last 40 years. Historically, the Cook Islands population is known to have increased steadily from the early 1900s when records began up until the 1970s when it started to decline. A survey based on census data from 2001 highlighted that the resident population declined by more than one-sixth (16.9 per cent) between 1996 and 2001, from more than 18,000 to just over 15,000 in just five years. More recent data reports that the resident population increased again from a low of 11,900 in 2010 to reach 14,700 in 2011. Since then however, the measure is estimated to have resumed a decline at a rate of around 400 people (around 2.5%) per year over the last three years.

The main factor behind the decline in population is that, by virtue of having New Zealand passports, Cook Islanders have access to employment opportunities in the NZ and Australian labour markets. There they can earn higher wages, across a wider range of jobs and professions, than at home. Recently a booming economy in New Zealand and especially in the mining sector in Australia has led to skills shortages in areas that Cook Islanders can provide, such as construction and mining.

Beyond the ease of access and economics, a range of secondary factors are likely to affect the decision to migrate. These are likely to include the comparable level of opportunities at home, which will in turn depend on employment possibilities at home, or for those wishing to start a business, access to land and capital to invest. Cook Islanders also enjoy better health and education services in New Zealand, especially compared with those available on the outer islands, as well as access to social security provisions. More recently, anecdotal evidence suggests that high and unsustainable levels of personal debt have increased threats of foreclosures on land leases and many young adult Cook Islanders have felt compelled to seek work abroad partly in order to pay off debts that they have accrued at home. This highlights how migration issues link with other policy areas, in this case the need for some form of debt resolution mechanism or ‘bankruptcy law’ (which will also most likely imply also examining sensitive issues around foreclosure and land leases). In short, the various push and pull factors behind migration

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*Nevertheless the absence of immigration and emigration data by occupation prohibits an analysis of the accurate extent of Cook Islander migration by occupation (Gay 2010). For example, while the Cook Islands clearly face a situation of a shortage of well-trained secondary teachers, how much this is attributable to emigration is unknown (Westgraf et al., 2009).*
decisions (and also decisions behind return migration) need to be understood and articulated more clearly in order that they can serve as a basis for a comprehensive policy.

From the perspective of trade and the labour market, the decline in population has some potentially serious consequences for the domestic economy. As a result of high levels of emigration, the Cook Islands has suffered from depopulation and shortages of skills in a number of areas that are essential to the proper functioning of its economy. This has included difficulties maintaining basic services such as health (nurses and doctors) and education (teachers and trainers), but has also affected the construction industry, tourism, management and a range of professional and technical services (such as accountants and lawyers). Internally, the labour market is also complicated by factors including the geographical distribution of the workforce and various levels of development and economic opportunities on the different islands, which also encourages migration from the outer islands to Rarotonga.

The result of these substantial labour shortages has been that temporary importation of labour has increased quite significantly in the last 10 years. One negative effect of the lack of skilled labour has been an increase in the cost of doing business in the Cook Islands with the need to spend time and money on searching for and importing specialist or skilled labour, and increasingly even unskilled labour (Okotai, 2009). Procedures for obtaining work permits appear to be fairly stringent and include the following conditions:

- Applicants must have a full time job, must have a genuine job offer and a contract which is vetted.
- Employers must guarantee repatriation (a flight ticket home).
- Companies must make genuine efforts to recruit locally (through advertising for twelve consecutive days in local print media).
- Applicants must have a character check reaching back 5 years and health check.
- Either applicant must have medical insurance or employee must commit to covering medical expenses.
- If approved, the employer must make efforts to localise the position through having a Cook Islander employed alongside and trained by the foreign worker (although exceptions are often made to this rule).

If approved, the work permit lasts for 12 to a maximum of 36 months (although some workers have been in the Cook Islands for 10 years). There are also separate procedures for obtaining residency. Despite the apparent difficulty in obtaining a work permit, in 2008 there were well over 1,000 work permits issued to foreign workers as well as another 1,100 expatriates were given residency status and residency permits. Traditionally, skilled and semi-skilled workers were imported from New Zealand whilst low-skilled workers were imported from Fiji. In the last 10 years however, the Cook Islands has seen a diversification of country of origin for labour imports, including an increasing number of Filipino workers. Overall foreigners make up around 16 per cent of the total workforce of 7000.

Labour has been imported for the education, health, financial, tourism and hospitality sectors. In the tourism sector, foreign workers have largely been engaged in skilled and managerial positions but increasingly also in lower skilled positions such as housekeeping, as the expanding industry’s labour requirements cannot be met by locals. Currently a new immigration policy is understood to be in draft form with the following key features:

- Creation of a ‘skills shortage’ list (although no labour survey has yet been conducted)
- Increased possibilities for permanent residency for skilled foreign workers and investors
- Creation of new student and research visa
- Measures to encourage retirees

Beyond tourism, some private sector figures have suggested that the shortage of labour also extends even to the agricultural sector, which contributes as a factor behind the relative lack of local produce available on the domestic market or for potential export. There has been some suggestion that in order to meet the scale and consistency of production required for the export market, it may also be necessary to import appropriate levels of low-skilled labourers in a similar way to the New Zealand Recognised Seasonal Employer (RSE) scheme.
Apart from emigration, another reason for skill shortages is the lack until recently of technical and vocational education and training (TVET). A survey in 2009 found that the TVET system in the Cook Islands suffers from significant shortcomings in formal institutional provision of post-secondary education and skills training. It appears that until recently there had been little evidence of a strategic approach to assessing and addressing actual labour market shortages and previous efforts to encourage tertiary level education suffered from mismatches: during the 2000s University of South Pacific offered a Masters in Business Administration programme in the Cook Islands until it generated an oversupply of graduates in the local market. In the past few years however, efforts have been made to focus the TVET system towards skills shortages, with local training institutions providing courses in areas such as tourism management. Consultations for this Trade Policy Framework also revealed a desire to see education as an area where Cook Island service providers could become niche exporters across the Pacific.

**Policy Options**

In light of the range of areas covered by the converging issues of migration, skills development and labour there are a wide range of policies to consider.

At the level of overall policy:

- Issues around inward and outward migration, the labour market and skills development should be given a high priority by the Cook Islands Government.

- To deal with the interlinked problems around migration, labour and skills, the Cook Islands should recognise that it needs to develop an overarching strategy which identifies key problems and deal with them in a coherent way. While many of the issues have already been looked at separately (in terms of outmigration, skills, or foreign labour) the Cook Islands has yet to formulate a coherent strategy.

- The overarching strategy will need to be built on improved policies in various areas (see below). There are currently recognised gaps in information and policy with respect to inward and outward migration, labour market needs and dynamics, and (to a certain extent) skills development.

Specifically on outmigration, diaspora engagement and return migration:

- The Cook Islands needs consensus on new polices in this area. It is hard to define precisely what these should be at this point, since a range of policies have been proposed before, and there are a wide range of views amongst policymakers and the general public on the issue to encourage diaspora engagement and return migration. The lack of information on outmigration also makes it difficult to discuss how to deal with the problems, and this needs to be remedied as soon as possible.

- A broad strategic review of all migration-related policies would be an ideal opportunity to assess past experience, improve information that allows policymakers to understand better the drivers of emigration and return (including how these link to other policy areas) and adopt new long-term proposals for implementation.

Specifically on inward migration and temporary labour:

- The existing immigration laws sets out the procedures for visas, residency and work permits but there would appear to be little in terms of a strategy or rationale behind them, beyond a general need to fill gaps in the labour market while protecting the interests of Cook Islanders. Hence the Cook Islands does not appear at this stage to have a comprehensive and clearly defined strategy with respect to inward temporary labour creating potential inefficiencies in the labour market. Following out this, there is insufficient knowledge about labour needs and potential supply in the Cook Islands. In setting out the rationale for its immigration policy, CIG should assess and make use of available evidence, including conducting a labour market assessment that would also help inform skills policy. A thorough assessment of labour market looking at demand, potential supply, wages and regulations should therefore be a priority, and should be done taking into account current policy and economic forces at play. It may be that on the basis of better information, the Cook Islands can make evidence-based decisions about whether to allow more foreign workers for some types of work and fewer in others, recognising the direct and indirect benefits that foreign workers can bring set against the costs, including those associated with protecting foreign workers and the need for cultural preservation.
• It should be noted that if the Cook Islands is serious about significant agricultural production, particularly on sparsely populated outer islands, it may also be necessary to formalise a scheme to bring in low-skilled seasonal labourers from abroad. Such a scheme could potentially operate in a similar way to the New Zealand Recognised Seasonal Employer (RSE) scheme for Pacific Islanders. This would be a bold move and would require widespread consultation, including on how to overcome practical problems around ensuring foreign workers’ rights, their integration with local communities, and how to provide housing and other basic services. Nevertheless some have suggested that the government should begin to look into the viability, cost and benefits of such a scheme. Given their experience in developing a widely praised policy and scheme for NZ employers, Cook Islanders might consider requesting NZ assistance for scoping out such a scheme.

Specifically on domestic labour markets and skills development:

• The strong link between skills, migration and foreign worker policy should be acknowledged.

• The current investment in the TVET system in the Cook Islands for priority areas is positive and should be continued and closely monitored, as well as being incorporated formally within an overarching migration and labour market policy.

• New ways to actively encourage skills into the Cook Islands, including potentially through professional and skilled retirees under a retiree policy.

• Government should encourage and facilitate the development of new area of export in education services (such as English language schools or specialist schools). Aside from generating foreign exchange, these will create a greater local market providing education and therefore foster greater local competition and choice.

• CIG could encourage linking visas for longer-term visitors (e.g. retirees) to appropriate skills they can provide. In this regard CIG could also explore skilled worker exchange schemes, and volunteer visas.

• Government should encourage online labour exchanges as a way to encourage Cook Islanders living abroad to apply for jobs at home.

Putting in place a coherent set of policies will be a significant undertaking and a strain on current level of resources within government. The Labour Division reports serious capacity constraints in terms of both staff and budget. Although the Cook Islands has requested assistance from the International Labour Organisation (ILO) this was not possible since it was not a member. However, having just joined the ILO on 12 June 2015, the Cook Islands is now in a position to request technical assistance from ILO as well as regional CROP agencies including PIFS and SPC. Where the CROP agencies lack specific knowledge, they can preferably engage or work in partnership with a recognised organisation such as the Pacific Immigration Directors Conference (PIDC) or bilaterally through Australia or New Zealand with expertise in labour market and immigration policy.

The Government should consider building capacity of existing institutions for managing a comprehensive policy on migration, labour and skills. There should also be mechanisms for exchange on policy with private sector stakeholders including employers and associations. In this sense the challenges of managing such a policy are not dissimilar to those for a general trade policy: institutional and capacity are discussed in section 8 below.

21 The Division reports that it has three staff in Rarotonga and one in Aitutaki with an annual budget of $13,000 (much of which was used in 2012 for the Minimum Wage Review). For comparison the cost of ILO membership is $5,000 with a further $20,000 in annual meeting costs. Beyond the cost issue, some international ILO obligations (on forced labour or child labour) have not been implemented in the Cook Islands, meaning that ILO membership will inevitably increase workload.
6.2 Regional and Outer Islands Policy

Alongside the threat from a decline in the national population, the Cook Islands have also seen a parallel trend in the steady decline over time in population in the outer islands, either to come and seek work in Rarotonga, or to migrate to New Zealand. Successive governments have sought to answer the question of how best to stimulate economic activity and spread the benefits of trade across all the islands of the Cook Islands.

The dependency ratio of working age to non-working age population is high in Rarotonga at around 59 per cent, meaning that there is only around 1.7 potential workers for every dependent. However, everywhere outside Rarotonga the ratio rises to around 87 per cent (or virtually one worker per dependent). It is unsurprising therefore, that there is a high level of reliance on national benefits (i.e. given for children up to 10), and especially on retiree pensions and superannuation income. Furthermore, the incomes of the remaining working population is also heavily supported by government sector employment (with around 50 per cent of the Southern Group workforce employed in community and social services and 75 per cent in the Northern Group).

<table>
<thead>
<tr>
<th>Island</th>
<th>Size (km²)</th>
<th>Distance from Rarotonga (km)</th>
<th>Population, resident (2011)</th>
<th>Flights from Rarotonga and other islands</th>
<th>Arrivals ex-crew</th>
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<tr>
<td>Rarotonga</td>
<td>671</td>
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<td>13095</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>Aitutaki</td>
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<td>259</td>
<td>2038</td>
<td>1604</td>
<td>27524</td>
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<tr>
<td>Mauke</td>
<td>18.4</td>
<td>278</td>
<td>307</td>
<td>202</td>
<td>1544</td>
</tr>
<tr>
<td>Mitiaro</td>
<td>22.3</td>
<td>263</td>
<td>189</td>
<td>152</td>
<td>1232</td>
</tr>
<tr>
<td>Manuae</td>
<td>6.2</td>
<td>230</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Atiu</td>
<td>26.9</td>
<td>215</td>
<td>480</td>
<td>330</td>
<td>2450</td>
</tr>
<tr>
<td>Mangaia</td>
<td>51.8</td>
<td>204</td>
<td>572</td>
<td>224</td>
<td>1841</td>
</tr>
<tr>
<td>Palmerston</td>
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<td>500</td>
<td>60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pukapuka</td>
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<td>1324</td>
<td>451</td>
<td>16</td>
<td>104</td>
</tr>
<tr>
<td>Nassau</td>
<td>1.3</td>
<td>1246</td>
<td>73</td>
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<td>Rakahanga</td>
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<td>-</td>
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<td>213</td>
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<td>128</td>
</tr>
<tr>
<td>Suwarrow</td>
<td>0.4</td>
<td>950</td>
<td>-</td>
<td>-</td>
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</table>
In addition it is also worth noting that there were a small number of cruise ships visits to Palmerston and Penrhyn in 2014.

Assessment

The outer islands suffer from a collection of related problems which in many cases make it difficult to see how significant levels of sustainable economic activity can be generated. The situation is most acute in the Northern Group of islands, which lie roughly 1250 km to the North of Rarotonga and at the last census had a combined population of just over 1000 spread across six inhabited islands. There is less than 25 km2 of land mass to support economic activity.

Sea freight connections for the Northern Group are limited to one ship approximately every three months. One side effect of the (otherwise positive) move towards renewable energy is that large volumes of fuel for electricity generation will no longer need to be shipped, possibly making shipping even less cost effective. In addition to inter-island freight ships, for the last few years the Samoan ship Lady Naomi has been chartered to transport Northern Islanders to Rarotonga for the annual Te Maeva Nui cultural festival. Flight connections are also sparse: table 5.1 shows that Penrhyn and Pukapuka received just over one flight arrival every month in 2013 (which was probably mostly due to the movement of government workers and related infrastructure works). A return flight can cost in the region of NZD3000.

Hence the first concern for the Northern group will be to ensure a regular and sustainable shipping service that is able to supply imported necessities, before other trade possibilities can even be considered. In terms of potential economic activities, the fate of the Northern Island economies is linked to the three industries – pearls, fisheries and seabed mining. During its heyday in the 1980s, the pearl industry on Manihiki and to a lesser extent on Penrhyn generated enough income to generate a local economy in terms of secondary goods and services. As noted in section 3 the pearl industry then declined as prices fell, and the industry now requires reinvestment to achieve improvements to be able to produce quality high-grade pearls required by the market. Secondly, there may be some possibility over time to develop support services for fisheries if this industry develops. In theory, artisanal fisheries to supply the tourist trade in Rarotonga could be possible, but this would require a more regular scheduled air service or cost effective shipping services, as well as an improved marketing system including timely information about demand and prices.

Finally, seabed mineral extraction has the potential to change the Northern Islands such as Penrhyn, although it is too early to see the level of engagement and scale of operations. If seabed mining does happen in the Cook Islands, officials currently suggest that there would not be too much effect on local populations since the mining would take place offshore. It would nevertheless be expected that there would be at least some need for onshore bases for supply and support services, including in Northern Islands that are closer to sites, creating the potential for inflows of labour and income. It is not recommended that government invests scarce resources in trying to develop tourism in the Northern Group: the cost and difficulty in reaching the islands alone makes this an unrealistic possibility except for all but the hardiest, most curious and deep-pocketed travellers.

The Southern Group of islands have more potential to develop local industry: populations are still small but the distance from Rarotonga and greater land mass mean that there is at least some basis for developing both tourism and activities that would be based around it, including small-scale agriculture. Aitutaki is already a well-established destination for tourists, with figures showing that more than 80 per cent of internal passenger traffic is between Rarotonga and Aitutaki. Around one-fifth of visitors to the Cook Islands visit Aitutaki during their stay: although many of these will be on the marketed one-day tour from Rarotonga, there are a small proportion of visitors who transfer directly to Aitutaki resorts without staying in Rarotonga.

A recent survey report for Cook Islands Tourism Corporation showed that 79 per cent of visitors ‘would like to include other islands on their next trip’. While most of those responses are likely to indicate a desire for Rarotonga-only visitors to visit Aitutaki, some proportion will be interested in visiting other islands. Flight figures for Atiu and Mangaia show that in 2013 the number of passengers arriving at these islands as around 2450 and 1850 respectively (compared with 27500 for Aitutaki). Under the conservative assumption that around half of these passengers will be Cook Islanders traveling between these islands this puts the number of tourists at 1225 and 925 respectively. As
such, even an increase of just 120 passengers to each island per year (or 10 per month), could increase income flowing to the island enormously. This would be especially true if these tourists spent a few nights on the island, since current passengers again take very short packages such as Air Rarotonga’s ‘two-island adventure’ package which visits Atiu alongside Aitutaki.

Although some stakeholders pointed to the difficulties of developing local economic activities on the outer islands (for example because of issues around availability of land) a number of islands have demonstrated a willingness to experiment. Atiu for example has suggested marketing itself as a retirement centre. Mangaia has also suggested itself as an agricultural centre. In reality, the Cook Islands does not need such a new model for developing economic activities, since it already has a successful existing tourism industry that makes up 40 per cent of GDP and should be expanded as much as possible across the outer islands.

Ultimately this links closely with the direction for tourism policy over the next few years, since a move in this direction may require an attempt to broaden the type of tourists coming to the Cook Islands beyond couples and families who make up the majority of current market. Independent travellers are more likely to travel the outer islands: however Cook Islands should think carefully about the exact type of tourists it wants to attract since this does not necessarily mean exclusively targeting low-margin backpackers but specific niches such as ‘eco-tourists’ or those looking for traditional homestays. Expatriates staying in Rarotonga form a ready-made market that could be encouraged to travel to nearby islands, especially if other policies encourage different forms of stayers (such as retirees) and short-term workers.

Encouraging the spread of tourism to the outer islands will require improvements to the tourist experience and support services. Some self-catering accommodation already exists in both islands, but this needs to be supplemented with additional services and activities. It is also possible that there may currently be some information and marketing gaps for tourists wishing to travel beyond Rarotonga and Aitutaki. Given that most tourists fix their plans and pre-book hotels before departure (including as part of a package holiday) means that any overnight visit to the outer islands may be difficult to organise. The fact that many people take the marketed Aitutaki Day Trip suggests that they have pre-booked their hotel and bookings are fixed therefore cannot stay longer on Aitutaki, even if they wanted to. The same may be also true with regard to tourism planning for other outer islands: plans are made before arrival and are difficult to change. In this sense, Rarotonga’s dominance may even work against outer islands; solving the problem could prove to be difficult but it may be possible to work with hotels for tourists that have perhaps already booked accommodation, but are curious to see outer islands (for example perhaps allowing cancellations in this case).

Finally, there has been some suggestion that commercial agriculture should be a main activity in some of the islands which have the land mass to support it. However there are problems with pursuing agriculture as a main activity such as lack of labour to produce (which may only be solved through opening up channels to import low-skilled labour and bring them to outer islands, as discussed above). Thereafter there are problems with transporting produce from islands to Rarotonga; and whether the produce is meant for the local Rarotonga market or for export, this raises the further question of why it could not be produced there in the first place. Ultimately therefore, as in Rarotonga the development of the agricultural sector in the outer islands should primarily be targeted as an important secondary activity after tourism, through carefully planned import substitution that can take advantage of the ready-made market that is created by tourism-driven growth.

Policy Conclusions
Following the above discussion:

- Under the Government’s current decentralisation programme, each of the Cook Islands ten island governments (which each have a mayor) must elaborate their own local economic strategies within an island economic plan.
- Local governments already operate airports and power systems, and receive grants totalling NZD8m from central government, including education and health increases that total to NZD66m. In addition to the large proportion of outer islanders that rely on national benefits in the form of children under 10 and pensions for retirees.
• In respect of trade, it is unrealistic to expect that the Northern Group will produce goods either for export or for the Rarotonga market, except in traditional sectors such as pearls. Fisheries and Sea Bed Minerals (SBM) offers some hope for income, but it is early to say how the latter will develop and their impact of the Northern Group. Prospects for tourism to the Northern Group are also limited except for yachts and cruise ships, including specialised trips (for example diving) and expeditionary tours.

• Where there is potential for even small increases in tourism, such as in the better connected Southern Group islands, local economic plans should prioritise this area. Here the government could also examine stronger marketing of fewer outer island destinations.

• Key issues will be transport and connectivity, alongside packaging.

**Priority Action:** Central government will continue to work with Island governments and the Outer Islands as they elaborate local economic plans, and seek to address specific issues of connectivity, transport, and packaging, with the expansion of tourism in selected Southern Islands as a particular priority.

### 6.3 Assessing Land Constraints to Private Sector Development

The land tenure system in the Cook Islands has long historical roots. It has been described as inherently traditional reflecting the deep attachment to the customary land ownership system. Land is owned by families and is passed on from one generation to the other. Given the informal nature of land ownership in the Cook Islands, it is sometimes difficult to establish at any particular time the owners of a particular land. This has ramifications for domestic and foreign direct investments as investors who may want to lease land may be dissuaded from going ahead with their projects, especially in sectors such as tourism where a hotel may have to be built or in the manufacturing sector where a factory may have to be built.

The procedures for leasing lands appear to be cumbersome as a prospective lessee may have to negotiate with over 10 lessors for a small piece of land. Agreement with all the owners is necessary, as the lack of consent by one owner is enough to prevent title from being legally transferred. The situation is complicated by the fact that there are absentee landlords who may not be reachable and thus making it difficult to obtain their consent. There is also the customary rule guaranteeing the equal rights of the children of a landowner to a property.

The process involved with securing land leases can be cumbersome and has had a direct impact on investments and delivery of services in the Cook Islands. Tourism, agriculture and construction are land-based industries so for these sectors to flourish, clear and verifiable land titles are a prerequisite. In other sectors such as the financial services sector, banks are often unable to lend due to the lack of clarity over land ownership or land sizes; anecdotal evidence suggests that investment is lost to the Cook Islands due to a lack of clarity with land titles in the Cook Islands land tenure system. Negotiations with land owners are often difficult and time-consuming because there are multiple land owners. While the land tenure system is a sensitive political topic in many of the PICs, their experience provides some examples of best practices – for example on the design of consultation processes and sequencing issues – which the Cook Islands might draw upon to address specific issues in a coherent manner.

**Priority Action:** In light of the recognised issues around land and the future economic development of the Cook Islands, CIG will initiate a review of land practices in order to:

- Aim to improve decision making about land
- Make land dealings more transparent
- Improve land management practices
- Minimise the potential for land related conflict

22 R.Crocombe, M Tongia and .Araitia, “Absentee landownership in the Cook Islands (…).
7 Trade Negotiations: Bilateral, Regional and Multilateral Trade Agreements
The Cook Islands is currently involved in the negotiation of a number of trade agreements that have the potential to change its economic and trade relationship with key partners. These include the Economic Partnership Agreement (EPA) between the PICs with the European Union (EU), the Pacific Agreement on Closer Economic Relations (PACER) Plus between with the PICs and Australia and New Zealand. In recent years, the Cook Islands has also ventured out to forge trade and investment relations with non-traditional partners with a view to increasing and diversifying its trade.

The Ministry of Foreign Affairs and Immigration (MFAI) is responsible for the administration of the external relations of the Cook Islands. As such, it oversees the development and implementation of various treaties and development coordination agreements, the management and administration of Cook Islands’ missions abroad. The Ministry takes the lead in coordinating and negotiating multilateral and regional trade agreements.

MFAI is at the forefront of trade negotiations and as such their trade division unit is charged with co-ordinating negotiating positions in such matters as Sanitary and Phyto-sanitary measures, border controls, tariffs, services sector commitments in such areas as tourism, telecommunications and business activities.

<table>
<thead>
<tr>
<th>FTA</th>
<th>Countries</th>
<th>Coverage</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific agreement on closer economic Relations (PACER Plus)</td>
<td>Australia and New Zealand</td>
<td>Goods and Services</td>
<td>Under negotiation</td>
</tr>
<tr>
<td>Pacific Islands Countries Trade Agreement (PICTA)</td>
<td>PIC’s</td>
<td>Good and services</td>
<td></td>
</tr>
<tr>
<td>Generalized System of Preferences (GSP)</td>
<td>Global</td>
<td>Goods</td>
<td></td>
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<tr>
<td>South pacific Regional Trade and Cooperation Agreement (SPARTECA)</td>
<td>Australia &amp; New Zealand</td>
<td>Goods</td>
<td>PACER Plus will supersede the SPARTECA Agreement</td>
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7.1 Generalized System of Preferences (GSP)
As a developing country, the Cook Islands is a beneficiary of the GSP schemes of leading trading nations, including the European Union, United States and Japan. Preferences have to be given on a generalised, non-discriminatory and non-reciprocal basis. The WTO Appellate Body has ruled that preference-giving countries do not have to extend the same preferences to all developing countries and that they can distinguish among them on the basis of objective criteria. In effect, preferences have to be given to developing countries similarly situated. Under the GSP system the Cook Islands has been able to export garments to the United States, and fish to United States and Japan.

7.2 Pacific Islands Countries Trade Agreement (PICTA)
The Pacific Islands Countries Trade Agreement (PICTA) is a free trade agreement which was signed in 2001 to foster economic cooperation among the Pacific Island Countries (PICs) and to promote economic growth and sustainable development. As an agreement between developing countries, it was notified to the WTO pursuant to the Enabling Clause. While PICTA has been signed by most PICs, only 7 countries, including the Cook Islands have announced their readiness to trade under PICTA. Most products from PICs enjoy duty-free, quota-free treatment in the Cook Islands.
The Pacific Islands Trade Agreement (PICTA) is a regional trade Agreement between 14 Pacific Islands Countries minus Australia and New Zealand. The PICTA Agreement was conceived by the Pacific leaders in recognition of the lack of inter-island trade and investment in the region and a concerted effort to eliminate trade distorting and non-trade barriers to trade. The Agreement came into force in 2001.

The PICs agreed to broaden the scope of PICTA by concluding a Trade in Services Protocol. A number of PICs have signed the protocol but only two countries (Nauru and Samoa) have ratified it. The Cooks Islands has signed the Protocol and undertook commitments in tourism, education, health and telecommunications. Given the importance of migrant labour to the Cook Islands, it would be advisable for the Government to develop a comprehensive policy to ensure that its services industries get the people with the required skills to ensure their continued growth and development. The Cook Islands should also consider undertaking commitments in mode 4 relating to the movement of natural persons under PICTA Trade in Services Protocol and the PACER Plus Agreement. Issues such as immigration quotas, recognition of skills and qualifications could be dealt with under the Agreements.

Inter-island trade has not taken place under the PICTA Agreement as expected due to logistics and transportation costs, however, there is a definite movement of unskilled and semi-skilled labour from other countries to the Cook Islands. As the tourism sector has grown exponentially in the last couple of years since tourist arrivals passed the 100,000 mark, the industry has been struggling to attract local labour to man its industries, business entrepreneurs have looked at other Pacific countries to supply semi-skilled and unskilled labour. With the salary of NZD6 dollars the Cook Islands became an attractive work destination particular for the people from Fiji where the salary is pegged at FJD 2/3 dollars per hour. The tourist projection for 2030 is expected to reach 150,000 with the need to address the shortage of labour in a coherent and reliable scheme is urgently required. The cost to business is therefore high and the Immigration Act need to make provisions for the migrant labour. Without a coherent policy addressing the shortage of unskilled and semiskilled labour, investments in the Cook Islands will be penalized with investors seeking countries that may supply labour.

7.3 Economic Partnership Agreement (EPA) with the European Union

With the other Pacific members of the Group of African Caribbean and Pacific States (PACPS), the Cook Islands is negotiating an EPA with the EU to build on market access preferences in place (General System of Preference) thereby strengthening the region and country’s gradual integration into the global trading system. However, noting the EU’s concerns on the lack of progress being made in concluding regional EPA’s under the proviso of the Cotonou Agreement, it unilaterally decided to step up the pressure on ACP Countries with the adoption of its “Market Access Regulations 1528/2007” proposal governing the market access of 36 ACP Countries to the EU and that unless Countries listed in the annex ratified and implemented EPA’s by 2014, they would subsequently be taken off the list and no longer enjoy duty free/quota free access for their goods to the EU. Against this backdrop, as the trade preferences in the EU market came to an end, on 23rd November 2007 two PACP non-LDCs (PNG and Fiji) initialled the Interim EPA (IEPA) to maintain their market access for tuna and sugar. Cook Islands along with the other non-LDC PACPS are exporting to the EU under the standard GSP preferences extended to all developing countries. Most PACPS opted not to sign the IEPA and elected to continue negotiations on a comprehensive EPA in order to resolve the outstanding contentious issues and ensure additional benefits for the region.

Negotiations have been challenging due to a number of contentious issues, including EU demands for PACPS to change their fisheries conservation and management measures, ‘global sourcing’ rules of origin for fisheries products, export taxes, the most-favoured nation clause and development cooperation assistance. The conclusion of the negotiations is complicated by the parallel negotiation with other ACP regions, in particular concerns that concessions given to the PACPS would need to be given to other ACP regions that have greater importance to the EU.

The benefits (to the extent the negotiations are successful) to Cook Islands would come from improved access to the EU for exports of its fisheries products as well as securing development cooperation assistance to address adjustment costs arising from the implementation of an EPA. The envisaged benefits for the Cook Islands include
increased fish and niche product exports; however they are dependent on the successful negotiation of ‘global sourcing’ rules of origin for fresh, chilled and frozen fish fillets (HS 0304/0305) along with the establishment of a sustainable and environmentally friendly onshore fish processing industry in Cook Islands, thus reaffirming the importance of the Fisheries chapter in the EPA.

The costs of the EPA need to be set against any benefits. There are several key costs: implementation of the EPA; loss of revenue from the elimination of export taxes; loss of revenue from the elimination of tariffs on imports (and its ensuing precedence on the PACER Plus negotiations); and a restriction on the use of a number of government policy measures that Cook Islands might wish to use to implement to achieve relating to its development and other policies. This is particularly important in the area of export taxes where the EU is seeking restrictions on the imposition of export taxes which could set a negative precedent for other trade negotiations. Export taxes constitute a significant area of policy space for the Cook Islands economy and the issue requires careful and thorough consideration in the EPA negotiations.

There are three possibly scenarios in the EPA negotiations. Under the first scenario Cook Islands continues to export to the EU under the GSP arrangements. While there will be limited implementation or adjustment costs, Cook Islands will not benefit from improved rules of origin for fisheries products. To increase exports to the EU increased investment in fishing boats will be required, but there is no legal guarantee the EU cannot unilaterally change the rules of origin.

Under the second scenario, the Cook Islands might sign and ratify the Interim EPA with the EU. The major benefit for some PACPS from the Interim EPA would be the global sourcing rule of origin for fisheries products - in particular for canned fish and canned loins (HS 1604/1605). For the Cook Islands, the benefits from global sourcing only relate to an extension of global sourcing to fresh, frozen and chilled fish fillets (HS 0304/0305) which is only obtainable in the comprehensive EPA. In the Interim EPA there are possibly significant costs from revenue loss from reduction and elimination of tariffs on products from the EU (and follow on reductions and elimination of tariffs on products from Australia and New Zealand under PACER Plus), limitations on the right to use export taxes and implementation of customs and trade facilitation chapters. The treatment of ‘contentious issues’ and non-discrimination under Interim EPA would also constrain the policy space of Cook Islands. It is noted that the global sourcing rule is not critical for growth in exports of fresh and frozen tuna to US and Japan.

The third scenario involves the completion of the negotiations of the comprehensive EPA. At the time of writing, the outcome of the negotiation is uncertain, but the comprehensive EPA is likely to retain many of the features of the Interim EPA. Potentially negative outcomes of the negotiations could include: modification of the global sourcing rule for fisheries products; linkage between fisheries market access in the EU to access to fisheries resources or the fisheries management system in the Cook Islands; implementation of chapters on competition and state owned enterprises; provisions that increase scrutiny of the environmental and labour laws and regulations in Cook Islands; provisions on current payments and capital movement reduce the ability of a Central Bank to use exchange controls when needed; and an agreement to negotiate on investment, services and E-commerce in the future.

On the other hand, improvements on the text of the comprehensive EPA are possible in several contentious areas including: export taxes; infant industry; detailed provisions on customs cooperation and SPS/TBT; a chapter on trade and development cooperation to assist in addressing implementation and structural adjustment costs; and a longer transitional period for liberalisation.

Conclusions

- Cook Islands to continue negotiating the comprehensive Economic Partnership Agreement with the other PACP States as a single region.
- Cook Islands to consider a cost benefit analysis at the end of the comprehensive EPA negotiations on whether to sign and ratify the comprehensive agreement. The EPA is likely to lead to a number of significant obligations for the Cook Islands and specific commitments and costs of implementation of those obligations. These need to be weighed up against the potential benefits of the EPA such as global sourcing for HS 0304/0305 and additional development assistance.
7.4 Pacific Agreement on Closer Economic Relations Plus (PACER Plus)

The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is currently the main non-reciprocal trade agreement between Australia and New Zealand and the PICs, which was signed in 1980. It provides duty-free, quota-free treatment to exports originating in PICs, although the latter have consistently argued that rules of origin are very stringent and as a result the degree of utilization of the Agreement is very low. Countries which have been able to take advantage of the Agreement had to get a derogation from the rules of origin. In the 1980s the Cook Islands was able to take advantage of SPARTECA to export fruits juices manufactured in the Cook Islands and other fruits and vegetables (tomatoes, pawpaw, passion fruit) to New Zealand. The garment industry in the 1960-80s also enjoyed duty free access to New Zealand, but competition from Fiji meant that it was more price competitive to move to Fiji from the Cook Islands. The impact of trade liberalization by New Zealand has since eroded the preferential access that the Cook Islands enjoyed in that market and export levels have declined to almost zero.

The SPARTECA Agreement will remain in force until such a time another agreement is signed, but with the realisation that SPARTECA had failed to enhance the participation of PICs in international trade and the desire to have a WTO-consistent agreement, the PICs and Australia and New Zealand have now decided to enter a new trading relationship. The Pacific Agreement on Closer Economic Relations Plus (PACER Plus) negotiations were launched in Cairns in August 2009.

Following the Eleventh Inter-Sessional Meeting at the Official level in August 2015, negotiations are reportedly close to reaching a conclusion. Texts exist in areas including rules of origin, SPS, TBT, customs procedures, development assistance and labour mobility, and work is ongoing on schedules of concessions and commitments in Trade in Goods, Trade in Services and Investment. The regional coordinating body, the Office of the Chief Trade Advisor, has stated that it is hoped that negotiations on the legal texts will be completed at the next officials’ meeting in Melbourne.

The negotiating positions of the Cook Islands in the PACER Plus negotiations are coordinated by the MFAI. Dedicated PACER Plus consultations have been held with other relevant line ministries, private sector representatives and non-governmental organizations. Given the potential impact of PACER Plus, it is recommended such consultations should continue to ensure inclusive participation by all stakeholders.

Services Sector Negotiations

One of the key issues that the Cook Islands may need to further assess is the commitments it makes in services sectors. The Table is meant to glance through the services sector only since the negotiating position of the Cook Islands is under consideration and not for public consumption.
Cook Islands Service Sectors | Coverage | Commitment considerations | Trade Agreement
---|---|---|---
1 | Business services | Local | Policy space in some services | 
2 | Education | FDI | Encourage development of Education services sector | PICTA
3 | Distribution | Local partnership | Policy space | 
4 | Construction | FDI? | Policy space | 
5 | Environment | Local | Policy space | 
6 | Financial | FDI | Liberalized | 
7 | Health | Local | Liberalized | PICTA
8 | Audio Visual | Local | Policy space | 
9 | Transport | Local partnership | Policy space | 
10 | Postal | Local | Policy space | 
11 | Telecommunication | FDI | Policy space | PICTA
12 | Tourism | FDI | Policy space | PICTA

**Investment**

The third tier of negotiations is Investment. The Cook Islands has the Investment Code which is under the authority of the BTIB. The Investment Code has had numerous reviews as previously mentioned and to date the Code remains as is. There will be a need to align the Investment Code with the investment arrangement being negotiated. The negotiations in investment is still in the early stage and information is ambiguous.

**Conclusions**

- Cook Islands should continue negotiating PACER Plus with the other PICs as a single region.
- Cook Islands will consider a cost benefit analysis at the end of the negotiations on whether to sign and ratify the agreement. PACER Plus is likely to lead to a number of significant obligations for the Cook Islands and specific commitments and costs of implementation of those obligations. These needed to be weighed up against the potential benefits of the agreement.

7.5 Multilateral Trade Agreements: World Trade Organization

The Cook Islands is not a member of the World Trade Organization (WTO) but should it wish to pursue this option in the future, the Cook Islands can apply under Article 12 of the Marrakesh Treaty for Membership as a custom territory.

In reality the open nature of the Cook Islands – plus the fact that it de facto needs to comply with WTO best practice, since all of its trading partners are WTO members – means that it would have little to ‘lose’ in terms of market-opening commitments from joining the WTO. However at the same time its lack of exports, and access to alternative arrangements (such as SPARTECA or a successor) means that it would have little to gain either in terms of additional market access, apart from perhaps access to the WTO Dispute Settlement Mechanism and technical assistance from the WTO. Furthermore the difficulty of the accession process is well-documented: aside from the financial and technical burden the negotiations demand, the process of accession places the acceding country at a disadvantage since it is the WTO member states that determine and shape how the negotiations proceed. For these and other reasons it is not recommended that Cook Islands seek accession to the WTO at this stage.

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23 Countries in the Pacific such as Tonga, Samoa and Vanuatu made far-reaching commitments in their Protocols of accession on services, especially compared to existing members. For example, Solomon Islands is an original member of the WTO and committed only two services sectors for liberalization. For Tonga, Samoa and Vanuatu, they all committed more than ten sectors in their services commitments.
7.6 Bilateral Relationships with US and French Territories and Others

Aside from those listed above, Cook Islands maintains bilateral relations with a wide range of key partners for which there are likely to be a specific set of interests to be assessed. Amongst the most important will be with American Samoa and French Polynesia.

In terms of the relationship with American Samoa there is already a MOU and representative office in place in Pago Pago to oversee issues related to fisheries and Cook Islands Flagged Vessels, since most of the fisheries catch is landed there.

With French Polynesia, there is potential for trade in tourism: there is a weekly direct flight from Cook Islands to Tahiti and cruises also are travelling between the two locations. Opportunities have also been identified in the education services sector, with the Cook Islands Education Sector Strategy already highlighting the potential for investment in the sector to attract students from other PICs. The value of the Cook Islands education system has seen some interest from French Polynesia for their nationals to gain English language skills in the Cook Islands rather than doing so in Australia or New Zealand where it would be more expensive. There is therefore a potential income generation for the Cook Islands, with international students paying international student fees and utilising local facilities such as accommodation.

Beyond these two markets there are also possibilities for greater trade with the United States of America and Asian countries. There are also a range of relevant types of agreements on issues ranging tax information exchange to air services to cooperation. Against this background, stakeholders within MFAI have noted that a major gap currently exists in terms of capacity and a framework for commercial diplomacy (alongside political diplomacy) that should guide its economic relations with bilateral partners (including who it targets). Cook Islands should develop a framework and capacity in this area, with a list of priorities defined as follows:

- Air services and other agreements that further the tourism industry (Cook Islands main export)
- Shipping and other transport arrangements (such as a possible MOU between Pukapuka and Samoa)
- Fisheries agreements where these advance Cook Islands interests in this sector
- Tax information exchanges
- Cooperation and development assistance

Any move to strengthen capacity in this area may need to be complemented with training for MFAI staff, and additional capacity in the Trade Division (from one officer).

Priority Action:

- It is in the interests of the Cook Islands to continue negotiating the suite of trade arrangements that it is involved in, including the PICTA, EPA and PACER Plus arrangements. The main objectives for the Cook Islands are to:
  - (i) ensure that the terms on which it engages with its key trading partners are favourable,
  - (ii) specific benefits (such as additional EU market access for fish, or favourable terms for Australian and New Zealand investors) are realised
  - (iii) ensure that any costs that impinge upon the Cook Islands essential interests (for example as on tax) are rejected
- Being part of negotiations does not commit Cook Islands to sign any agreement. The Cook Islands will consider a cost-benefit analysis at the end of any negotiations on whether to sign and ratify any trade agreement, which weighs up the obligations and commitments (and their costs of implementation) against the potential benefits of the agreement.
- Cook Islands set out a framework on commercial diplomacy that guides bilateral relations and agreements with bilateral partners and develop capacity in the area.
8 Institutions, Capacity and Aid for Trade
8.1 Institutions and Capacity Issues

A key conclusion from the Trade Policy Framework exercise is that while trade is wide-ranging and complicated, it touches upon an important set of policies that aim to boost exports of goods and services and manage aspects such as investment and migration. Trade can therefore be an ‘organising principle’ around which small island states can pursue their economic development goals: if the Government chooses, a trade policy that can be an ‘umbrella’ under which a number of policies can sit and be implemented.

At the same time, Government is limited both in what it can and should do. In terms of the latter, Government cannot boost trade directly: it is well-accepted in the Cook Islands that the State should refrain as much as possible from business and private sector activity. Nevertheless, governments instead have the key role in creating the environment in which exports can grow, and companies can invest and prosper. However, even with a limited role, Government faces enormous constraints in its resources to carry out an effective trade policy and ensuring that challenges are properly identified, information is shared, key decisions are taken and the right measures are implemented and monitored. As such this section looks at how best Cook Islands might organise itself in order to implement an effective trade policy.

Assessment

Overall there was a degree of consensus amongst stakeholders consulted for the draft Trade Policy Framework on the situation with respect to trade policy within Government, which forms the baseline for the assessment of how to approach trade:

- At present, trade and economic issues are not adequately reflected in the National Strategic Development Plan. In general, the Cook Islands has yet to articulate a coherent and overarching strategy that sets out the vision for economic and trade growth.
- As an open small island economy, most of the issues around economic development are also trade-related. There is therefore an opportunity to think about how trade contributes to the economy, raise the profile of trade and use it as one of the key principles in an economic development strategy. Aspects of trade policy may be poorly understood, and more generally the contribution of trade to the Cook Islands may be underappreciated hence its non reflection in broader policies.
- At the level of policy, coverage is patchy: although legislation and policies exist in many trade-related areas, they often need updating. In other areas there are important gaps in policy or strategy in areas such as in migration and labour. There is a feeling that in many trade-related area, existing policies need to be refreshed or new policies adopted in order to meet new challenges. The patchy coverage adds up and contributes to the lack of a coherent approach.
- Where policies exist, implementation tends to be focused on processes for managing day-to-day operations while a significant number of more dynamic reforms that have been delayed for years at a time. The cost of delaying important decisions on the economy is not felt on a day-to-day basis, but is ultimately seen when there is stagnant growth and especially in outmigration. Where such decisions are seen as ‘too difficult’, work needs to be done on communication to build consensus.
- A major problem is that capacity is extremely limited. This may contribute to the tendency for day-to-day operations to be prioritised while there is insufficient attention paid to a broader reform agenda. Overstretched staff means that knowledge is not shared, inability to respond in a timely manner and to undertake detailed analyses, and resources can become focused on the wrong areas.

Responsibilities for trade-related policy are widely dispersed across a range of institutions. The Trade Division sits within Foreign Affairs as the main focal point for international trade negotiations, although it is heavily constrained in the face of a heavy agenda of ongoing and potentially significant negotiations. Currently BTIB executes many key aspects of what could be described as Cook Islands’ trade policy: making decisions (through its board) on foreign investment, promoting local investment and SME development (which is one of the few specific policies and economic growth). It also plays a role in assisting companies to obtain work permits for their temporary workers from abroad, especially when these are linked to foreign investments. As noted in section 4 above, the regulatory landscape beyond foreign investment is also fairly widely dispersed in the Cook Islands. The large
number of institutions dealing with regulatory may contribute to capacity constraints through having too many officers spread too thinly, even though there may be much synergy in the work that different regulatory bodies are respectively doing.

To some extent this is inevitable: it is not uncommon for trade-related policies to be dispersed in this way, and small islands at least have the advantage of being able to coordinate more easily that larger bureaucracies. Nevertheless they can still suffer from a lack of coherence, for example when a sector policy conflicts with a broader strategy for economic development. One of the most notable conflicts is in BTIB’s role of promoting investment while also being the ‘guardians’ of the restrictions protected within the investment code.

**Long Term Options for a Trade Policy Function**

In broad terms, the type of institutional set-up for trade policy will clearly depend on how central a role such a policy will play, and what it will include. The assumption from consultations so far is that CIG will use the TPF to develop a more coherent strategy and that this will require some degree of greater coordination within Government to achieve its goals, and that in turn have some implications for capacity and institutional responsibilities.

Hence with respect to organisation of responsibilities for implementing a trade policy, a number of (not necessarily mutually exclusive) options exist:

1. Implementing a Trade Policy within the Institutional Status Quo: much can be said for maintaining the status quo as much as possible, unless there is a reason to change. The mere existence of a comprehensive trade policy may in itself be enough to improve coordination, especially where it leads to greater prioritisation of activities and is accompanied by efforts to improve capacity.24

2. Focus on Improving Information Sharing Coordination, for example through a National Trade Development Committee: In light of the dispersed responsibilities in trade, most countries in the Pacific and in other parts of the world have attempted to form a National Trade Development Committee (NTDC) or ensure reporting to key national committees. These have been tasked with formulating, implementing and monitoring trade-related policies through improving coordination and buy-in from different stakeholders. Nevertheless they have worked better in some countries than in others and it is necessary to give careful thought to the composition and role of a committee, to ensure it remains a useful and dynamic instrument, rather than an ineffective ‘talking shop’. Lessons from other countries suggest that NTDCs can drive change when:
   a. there is a clear and strong mandate for the committee, and a relevant agenda of issues on which progress is expected
   b. when there is broad participation including at a high-level (for example when the NTDC is chaired by Trade Minister) but also involves and is attended by all of the relevant agencies and potentially also key private sector representatives
   c. most importantly, when the NTDC is supported with adequate resources to ensure that it is serviced effectively, for example with officers preparing agendas and summary background papers, so that monitoring and follow-up of outcomes can occur and accompanying budget. An important related question – which is relevant for the Cook Islands – is where the secretariat for the NTDC is situated institutionally, and how it relates to other committees and development planning structures.

It should be noted that other countries also have National Private Sector or Business Forums where an economic policy agenda is discussed, usually on an annual basis, with private sector representatives. If this option is chosen more detail can be given about what has worked in other Pacific Island countries.

3. Some Clarification or Reorganisation of Roles and Responsibilities aimed at Improving Implementation of Policies around Trade issues. This option would focus on clarifying and potentially reorganising some trade-related and regulatory functions. In particular, the roles and resources of the Trade Division and BTIB (both the Board and the Office, potentially separating the two) could be examined. It may also be useful to review synergies

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24 Given that trade negotiations on PACER Plus are likely to continue until 2016 (and hence some drain on resources cannot be avoided), it seems sensible however to allocate a limited level of additional resources to the Trade Division at least for the next two or three years.
in the delivery of some domestic regulatory and competition policy functions, such as those held by INTAFF, and those of a new telecoms regulator and other regulators such as the Energy Commission. Finally a review could feasibly look at which institutions could best implement a policy or strategy around labour (covering foreign workers and the domestic market), immigration and local skills which brings together various strands of current policy. Larger sector line ministries and institutions, such as agriculture and marine resources, would continue to provide needful services, but would again still be bound by a broader economic or trade strategy mainstreamed within the NSDP.

4. Bringing All Economic Line Ministries Together: One obvious way to align the different departments fully behind a coherent economic development strategy would be to bring all line ministries together (including sector ministries such as marine resources and agriculture). This might help solve some of the cross cutting issues that have been identified above, and was suggested by the ADB (2011) Functional Review of Government. Some stakeholders however expressed a strong view against the creation of a ‘super-ministry’ of Economic Development, which amongst other things might prove overly powerful within the Cook Islands system, and subject to populist economic pressures. As such, elements of the other options above could be considered as alternative, but the most important thing is to ensure alignment behind a clear strategy and improved coordination takes place, rather than its form. It should be noted better coordination between line ministries will not necessarily solve the existing problem of fragmentation with separate reporting lines of authority and accountability between them. Compounding matters is the fact that current structures make it difficult when constructing a national economic strategy to confirm a consolidated vision for the sector with clear accountability on the roles of key stakeholders.

It should be further noted that options highlighted above are not necessarily mutually exclusive: it could be possible to look at a combination of a reorganisation of existing roles as well as new mechanisms to strengthen coordination.

Notwithstanding the above mentioned, the Public Services Strategy consultations in June 2015 uncovered related perspectives including clear private sector support for economic development to be separated from MFEM enabling them to focus on core competencies of revenue and fiscal management (regulatory functions) and to allow for more concentrated efforts in ‘risk-taking’, research, investment and development in productive/economic growth industries,

**Priority Action:** A National Trade Development Committee (NTDC) or similar should be established or commissioned in order to facilitate information-sharing across government stakeholders and drive the formulation and implementation of policies related to trade, including cross cutting issues, and oversee progress on priority actions identified in the TPF Implementation Matrix.

A mechanism for the NTDC to report to Cabinet and the relationship with the existing National Sustainable Development Committee will need to be established. The NTDC will be supported by the Trade Division within MFAI.

A longer term objective will be to review the options on the institutional set-up and capacity on trade policy, including the roles of MFAI, BTIB and other stakeholders.

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25 It is worth noting that the Terms of Reference for the NSDC are currently being revised.
Box 1: Establishing a National Trade Development Committee

The establishment of a NTDC in other PICs has had a discernible impact on the implementation of trade policy in those countries. All relevant stakeholders take part in discussions on the relevant trade policy issues giving them ownership of the process and enabling governments to adopt far-reaching reforms. There is strong evidence in suggesting that coordination, management and monitoring of national trade policy frameworks has proven more effective when channelled through NTDCs. They have played a key role in preparing for trade negotiations and been instrumental in designing and implementing new policy in areas ranging from tourism policy and air services, to trade facilitation to labour mobility and migration.

The Cook Islands will need to prepare a cabinet paper that sets out answers to a number of questions. Some of the issues include:

Chairmanship: the issue of who should chair the NTDC should depend on how best to make the process effective. In some countries Ministers are directly involved through Ministers; others meet at official level. In the Cook Islands, MFAI is a natural candidate since it is at the forefront of trade negotiations and is charged with co-ordinating the CI negotiation positions in such matters as SPS measures, border controls, tariffs, services sector commitments in such areas as tourism, telecommunications and business activities. However as noted above regulatory functions and instruments are dispersed widely. To enhance co-ordination at the departmental and sectorial levels, the chair and secretariat will therefore need to work closely with others, with the private sector a key stakeholder.

Coordination: in other countries a strong Secretariat will be essential for servicing the NTDC and the various sub-committees, following up on implementation, and coordinating or drafting briefings. It is expected that an officer is assigned full time and part time as the need arise. The role of the Secretariat is extremely important since the co-ordination role will be determined by the high level of support extended to the NTDC and the “buy in” of stakeholders.

Budget: As a consequence and as shown clearly in other PICs, the success of any Committee is related to the support the Committee receives from Government and/or donors, for example through a separate budget line. The budget should however be assessed against measurable results (progress on implementation).

Frequency: It is expected that the NTDC will meet regularly to update the workplan and ensure momentum, balanced against the time and cost burden of preparing and attending meetings.

8.2 Aid for Trade

Aid for trade (AfT) is an ‘umbrella term’ covering a range of trade-related donor interventions in areas from large-scale infrastructure, to assistance for trade facilitation (such as in customs and quarantine), to sectors such as agriculture, fisheries and tourism. It also covers trade policy formulation and implementation.

It is important to emphasise that AfT is simply a classification of overseas development assistance (ODA) that has gained some currency since 2005 when donors began to make important commitments and allocated significant sums to trade-related areas. The Cook Islands is already receiving some ODA is classified as AfT, even if it may not be recognised as such (see Table 8.1 below).

The significance of AfT lies in the fact that it is increasingly seen as important for developing countries to be assisted in areas that promote economic activity. Multilateral agencies including Asian Development Bank have historically geared their assistance to infrastructure. Now, as with other donors like New Zealand whose strategic priorities over the coming years are shifting towards increasing the amount of support for private sector development: an opportunity may therefore exist for the Cook Islands to request specific programmes in this area, should it wish to.
The main conclusion is that AfT could potentially play an important role in mobilising technical assistance and putting in place some of the recommendations of the TPF. It is important however that any AfT and trade-related support should be managed fully in line with the broader objectives and implementation plan of the Official Development Assistance Policy. The policy and its implementation plan cover a number of aspects of how aid should be managed and governed that will be relevant to AfT, including most notably:

- All ODA should support objectives that are outlined in the NSDP. As such, trade and economic development concerns clearly need first to be fully mainstreamed and prioritised themselves within the NSDP before aid and technical assistance can be considered.

- Discussion and specific requests for aid should take place through established and formal channels and mechanisms. These are likely to include donor roundtables and sector-level working groups (which should include a working group on private sector development). Since there is often a regional dimension to trade-related technical assistance, the Forum Compact may also be a useful tool in this regard.

- There are various activities planned and outlined in the Implementation Plan for the policy, including:
  - improving the governance and management of ODA (for example ensuring delivery through national systems and improved budgetary transparency)
  - increasing the involvement of private sector actors in ODA activities
  - enacting measures to improve the reporting, accountability, monitoring and evaluation of aid.

**Priority Action:** CIG will continue to encourage donors to provide AfT in bilateral discussions, noting that development partners are increasingly discussing development programmes with references to AfT, and that the concept can be used to leverage new resources and enable shared understanding on trade-related objectives, as well as being a tool for monitoring and improving accountability.

While the Trade Policy feeds into the process of identifying priority actions within existing ODA planning mechanisms, AfT and trade-related support should at all times be managed fully in line with the broader objectives and implementation plan of the Official Development Assistance Policy and existing ODA and budgetary planning mechanisms. Any decisions on AfT-related work programs or initiatives should be communicated to the NSDC for guidance and direction.
### Table 8.1 Aid for Trade to the Cook Islands 2006-12

<table>
<thead>
<tr>
<th>Sector/Portfoilo</th>
<th>2002-05 (avg)</th>
<th>2006-09 (avg)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursemt</td>
<td>Commitmt</td>
<td>Disbursemt</td>
<td>Commitmt</td>
<td>Disbursemt</td>
</tr>
<tr>
<td>Transport &amp; Storage</td>
<td>189,542</td>
<td>104,367</td>
<td>214,423</td>
<td>2,066,942</td>
<td>1,611,172</td>
</tr>
<tr>
<td>Communications</td>
<td>624</td>
<td>624</td>
<td>29,526</td>
<td>14,104</td>
<td>-</td>
</tr>
<tr>
<td>Energy</td>
<td>45,006</td>
<td>-</td>
<td>2,494</td>
<td>2,495</td>
<td>12,127</td>
</tr>
<tr>
<td>Banking &amp; Financial Services</td>
<td>30,507</td>
<td>55,004</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business &amp; Other Services</td>
<td>30,420</td>
<td>62,069</td>
<td>16,867</td>
<td>1,416</td>
<td>-</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8,052</td>
<td>-</td>
<td>310</td>
<td>310</td>
<td>-</td>
</tr>
<tr>
<td>Forestry</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fishing</td>
<td>127,895</td>
<td>1,207,307</td>
<td>1,269,663</td>
<td>329,515</td>
<td>1,393,538</td>
</tr>
<tr>
<td>Industry</td>
<td>40,332</td>
<td>31,192</td>
<td>41,723</td>
<td>98,166</td>
<td>-</td>
</tr>
<tr>
<td>Mineral Resources &amp; Mining</td>
<td>1,844</td>
<td>1,834</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade Policies &amp; Regulations</td>
<td>54,212</td>
<td>563,068</td>
<td>42,217</td>
<td>42,302</td>
<td>81,455</td>
</tr>
<tr>
<td>Tourism</td>
<td>38,036</td>
<td>76,651</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aid ODA</td>
<td>566,468</td>
<td>1,602,315</td>
<td>1,617,022</td>
<td>2,555,248</td>
<td>3,098,292</td>
</tr>
<tr>
<td>Aid ODA</td>
<td>9,064,079</td>
<td>11,985,071</td>
<td>10,936,541</td>
<td>15,687,008</td>
<td>12,882,275</td>
</tr>
</tbody>
</table>

Source: OECD Creditor Reporting System
9 Implementation
Implementation of the Trade Policy will be need done at various levels of government. At the level of economic sectors, the policy decisions and actions outlined in the TPF need to be built into departmental work plans and take place according to the normal ministerial budget processes and established lines of accountability and monitoring.

For some of the major cross-cutting issues, an additional level of coordination will be required. In all cases, policy actions will need to be budgeted properly: additional external assistance may be sought for the implementation may in the form of Aid for Trade resources, but where such supplementary resources are sought, this should be also done through the normal parliamentary budget allocation process, as emphasised in the Cook Islands Official Development Assistance Policy.

In order to help implementation, the TPF proposes two new policy tools will be required: the National Trade Development Committee introduced in the last section, and an Implementation Matrix of Priority Actions related to trade.

The Implementation Matrix is not designed to be a comprehensive listing of all trade-related activities underway at the sector level by agencies. However it will highlight the responsibilities and outputs for a limited set of key priorities in a format that can be easily monitored. It is designed to be a working document that is updated regularly to reflect progress and current priorities. The first version of the implementation matrix is attached to this TPF background document.
## Trade Policy Framework – Implementation Matrix

<table>
<thead>
<tr>
<th>Theme</th>
<th>Sector / Area</th>
<th>Priority Action</th>
<th>Agency</th>
<th>Priority / Timing</th>
</tr>
</thead>
</table>
| Institutional Framework   |                                | Establish a National Trade Development Committee (Chaired by Secretary Ministry of Foreign Affairs and Immigration (MFAI) to ensure greater coherency in CIGs approach to trade and economic issues, and oversee implementation of the TPF:  
- Produce a Cabinet Paper to establish the NTDC.  
- NTDC TOR to include:  
  o establish mechanism to report directly to Cabinet for final decision on proposed recommendations.  
  o Inform national bodies such as the NSDC on key trade progress in particular recommendations prior to reporting to Cabinet, to ensure inclusiveness on trade and trade related issues.  
  o Ensure decisions on aid for trade related work programs or initiatives are communicated to the NSDC for guidance and direction. | MFAI   | DEC 2015         |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | OPM    |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | DEC    |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | DEC    |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | DEC    |                  |
| Broader cross-cutting issues | Migration and Labour Market Issues | Develop a comprehensive policy around the labour market, skills and foreign workers that governs immigration procedures:  
- Evaluate regular data needs (NSDSI) (MFEM)  
- Regularly evaluate and assess labour market and workforce needs (INTAFF)  
- Establish the extent and direction of remittances in the Cook Islands. Research both inwards and outward flows to establish data baselines for all islands. (MFEM)  
- Review the role of the immigration policy, and revise where necessary (MFAI)  
- Review institutions and legislation around employment relations law (including Tribunals) (INTAFF)  
- Reduce barriers to remittance flows (both inbound and outbound), where such barriers exist  
- Utilise ILO TA to strengthen capacity in the area of employment regulations, workplace monitoring, enforcement, and the protection of at-risk workers (INTAFF) | MFAI   |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | MFEM   |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | INTAFF |                  |
| Outer Islands Policy      |                                | Explore how government can further support the process of outer island development and island plans and allow private sector to take advantage of economic opportunities by:  
- addressing and responding to discrimination or structural bias in the services or opportunities offered to different islands, genders, or unique factors on each island;  
- assessing bottlenecks in access to land, skills and resources;  
- creating access to affordable, sustainable and reliable transport, ICT connectivity and energy; | Chamber |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | PBWA   |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | Mayors |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | Association |               |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | Banks  |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | sector  |                  |
|                           |                                |                                                                                                                                                                                                                                                                                                                                              | agencies|                  |
| Gender | Ensuring an inclusive trade policy that recognises the value and creates opportunity for greater inclusive gender participation in trade at all levels:  
- Collaborate with existing gender research and plans in particular those being developed for women and youth economic empowerment lead by INTAF and civil society advocates (INTAFF)  
- Establish gender balance in the NTDC committee (MFAI).  
- Ensure institutional and legislative reviews consider gender as a genuine lever for improvement (CROWN LAW)  
- Develop services to enable greater gender economic participation, e.g. early child and elderly care services, flexible workplace culture (NTDC).  
- Promote the elimination of all forms of gender discrimination in law, regulation, or government policy | MFAI, INTAFF, MoE, CROWN LAW  
Supported by NCW Chamber/PBWA/PPSEWA/WIBDI |
| --- | --- | --- |
| Trade Facilitation | Customs | As part of a Customs strategy:  
- Continued automation of processes  
- Capacity building and training  
- Improve the collection and use of trade data | MFEM/Customs |
| Biosecurity | Institutional strengthening to assess and build capacity to carry out its functions under the Biosecurity Act, including:  
- Retraining of officers in outer islands  
- Connecting systems (including Early Warning Systems) with central government  
Advocate for locally available minimum testing services required for increased trade including soil tests, food tests and export certification. Advocate for a scoping study to guide public action that creates a sustainable self funded independent and internationally accredited centralised laboratory as recommended in WHO review 2014. | MoA  
OPM  
MoH  
MMR  
MoA  
ICI |
| Economic Sectors | Tourism | Recognising tourism as the main long-term tool of development for the Cook Islands, formulate an appropriate policy test to ensure the protection of cultural and environmental endowments that are vital to the industry.  
Develop a new Tourism Master Plan that sets out the long term vision and approach (including sustainable tourism, fiscal support, tax regime, investment, tourism-related industries, outer islands, structural constraints, marketing strategies, destination development, and the role played by the Tourism Corporation)  
Assess the underwrite of Los Angeles and Sydney routes at least every two years from (or before) 2016, both from a PFM and broader industry perspective.  
- Have a timely (24 month) open tender process on both carriers and destinations | MFEM NSDC  
MoC  
TiS  
NES  
Arongo Mana  
Cook Islands Tourism Corporation  
Tourism Industry Council  
MFEM and Tourism |
<table>
<thead>
<tr>
<th>Industry</th>
<th>Activities</th>
<th>Responsible Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fisheries</td>
<td>Conduct an assessment on the viability of an onshore processing facility and sustainable seafood certification (like Marine Stewardship Council (MSC) branding) in the Cook Islands and potential markets - Establish an SPS framework appropriate to the market being targeted</td>
<td>MMR, Chamber, BTIB, TIS</td>
</tr>
<tr>
<td>Pearls</td>
<td>Address supply-side (Manihiki Pearl farmers association, Manihiki Island Government and Marine resources lead supply side or production efforts) and quality factors resource management as outlined in the Industry Support Plan - Conduct an examination of the pearl production and marketing arrangements to ensure greater transparency across the supply chain - Put in place an improved traceability system as part of broader efforts on brand development</td>
<td>MPFA, MIG, MMR, CIPA</td>
</tr>
<tr>
<td>Offshore Financial Services</td>
<td>Continue to develop the industry through product diversification and a robust regulatory framework</td>
<td>FSDA, MFEM</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Complete work on a comprehensive policy for the sector focused mainly on supplying local markets (especially from the Southern Cook Islands) alongside limited exports.</td>
<td>MoA, Island governments Chamber, MoH</td>
</tr>
<tr>
<td>Sea Bed Mineral Resources</td>
<td>Continue work to develop SBM sector: - Regulatory Framework - Environmental Framework - Issuing exploratory licences - Build competency of Tax Authority to handle asset transfers and transfer prices (e.g. trade in licenses) - Establish a Sovereign Wealth Fund to ensure responsible and transparent management of any benefits</td>
<td>MFEM, SBMA, CIIC</td>
</tr>
<tr>
<td>Cultural Industries</td>
<td>Develop a creative industries policy and establish supporting organisations</td>
<td>MoC, Tourism supported by Artists and performing groups</td>
</tr>
<tr>
<td>Trade related Issues</td>
<td>Foreign Investment Update the Investment Code to increase transparency for investors and public</td>
<td>BTIB, MFEM, MFAI, Chamber</td>
</tr>
<tr>
<td></td>
<td>Intellectual Property Finalise a National Intellectual Property Strategy Update the 1953 Trade Marks Act and explore establishing an Office to register Trade Marks.</td>
<td>MoC, MoJ / MoC</td>
</tr>
<tr>
<td>Trade Negotiations, Capacity and Aid for Trade</td>
<td>Continue to participate in ongoing trade negotiations Upon completion of any negotiation carry out a thorough analysis of costs and benefits Improve capacity and knowledge on trade negotiations within MFAI Engage with partners through existing channels on ‘Aid for Trade’ and support for economic development</td>
<td>MFAI, NSAs, MFAI, MFEM, MFAI, MFEM, Chamber</td>
</tr>
</tbody>
</table>