



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.5.2006
COM(2006) 248 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE**

**EU RELATIONS WITH THE PACIFIC ISLANDS -
A STRATEGY FOR A STRENGTHENED PARTNERSHIP**

{SEC(2006) 642}

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE**

**EU RELATIONS WITH THE PACIFIC ISLANDS -
A STRATEGY FOR A STRENGTHENED PARTNERSHIP**

1. INTRODUCTION

The EU and the Pacific ACP countries¹ can look back on more than 30 years of cooperation in the context of the EU-ACP partnership. This long-standing relationship is based on the legacy of a shared history, common values, economic and trade cooperation. Today, developments on both sides warrant renewal of this partnership and establishment of a fully-fledged strategy on the Pacific ACP countries. There are compelling reasons for proposing this first ever EU strategy for the Pacific.

On the EU side, the revised Cotonou Agreement and the European Consensus on Development - a tripartite policy statement jointly adopted by the European Parliament, the Council and the Commission - provide a new basis and impetus for EU-Pacific relations. The Cotonou Agreement strengthens the political dimension of EU-ACP cooperation, allowing an improved political dialogue with partners, while the European Consensus identifies poverty eradication in the context of sustainable development as the core, primary objective, taking into account the importance of ensuring policy coherence for development and generating synergies between different policies, both internal and external, and the objectives of the EU external action. The Paris Declaration on Aid Effectiveness adopted in March 2005 reaffirms the commitments to harmonise and align aid policy and sets specific targets for 2010.

On the Pacific side, the Pacific ACP countries are today experiencing a number of important challenges in terms of vulnerability, poverty and weak governance. All too often the Pacific ACP countries are overlooked as their total population amounts to less than 10 million, with more than half of that number living in Papua New Guinea. In December 2005 Timor Leste ratified the Cotonou Agreement and became the second biggest Pacific ACP country in terms of population. The Pacific ACP countries, with Tonga as the only exception, are democracies. They possess an exceptional cultural diversity, which should be preserved.

At the same time the region is home to substantial natural resources (fish, timber, agricultural produce, oil, gas, minerals). It has a major stake in efforts to mitigate climate change. It has very rich biodiversity (e.g. that Papua New Guinea alone is estimated to have five times as many species of fish than the entire Caribbean region). Many powerful international actors like China, Japan and the USA are increasing their presence in the region.

Moreover, 2005 brought renewed impetus towards cooperation in the Pacific region, with the adoption of the Pacific Plan by all 16 member countries of the Pacific Islands Forum,

¹ Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu.

including 14 Pacific ACP countries², Australia and New Zealand. This marks an important and ambitious step forward in cooperation in the Pacific region which focuses, in particular, on economic growth, sustainable development, good governance and security for Pacific countries through regionalism and offers an opportunity to step up EU-Pacific relations.

In these changing circumstances there is a need for upgrading and recalibrating Europe's strategy for the Pacific. It is therefore proposed to focus on a limited set of specific priorities, where the Pacific has significant needs for which Europe has indisputable comparative advantages.

The strengthened partnership should therefore focus on governance, regionalism and sustainable management of natural resources.

2. REASONS FOR EU ENGAGEMENT IN THE PACIFIC

2.1. Natural resources and environmental challenges of global significance

The Pacific Ocean covers a full **one third of the Earth's surface** which means that environmental developments there will have a significant impact on a global scale, such as the future of the world's fisheries and climate change.

It is in the interest of humanity to preserve the Pacific's immense **biodiversity**, much of which is not even known yet. It has been estimated that as little as 20% of the Pacific Ocean's flora and fauna has been properly researched. The region has the only **fishery** resources in the world which are not yet heavily over-fished, including the world's largest tuna stocks.

The unique marine biodiversity of the region and the prevailing (including migratory) fish stocks are interdependent. The Pacific Ocean has immense potential for human health in terms of biotechnology, such as bioengineered medication and treatments developed from living organisms from the Pacific Ocean. Therefore the Pacific Ocean, like other major ecological zones such as the Amazon, can be considered as a **global public good**.

Moreover, when communities make unsustainable demands on ecosystems, this may result in an **ecological breakdown**, which in turn leads to worsening poverty, tensions and even conflict.

The tropical forests of Papua New Guinea are of global significance in terms of bio-diversity and as regards climate change. Excessive **logging** there, but also in Samoa, Solomon Islands, Timor Leste, Tonga and Vanuatu therefore presents significant risks for the global community. Together with unsustainable agricultural practices, it leads in some cases to land degradation. This finally destroys rural livelihoods and the way of life of Pacific islanders. If climate change continues, many islands in Pacific ACP countries will disappear and the region will face problems with environmental refugees. Moreover, industrial pollution and environmental mismanagement are also serious reasons for concern. The environment has a direct impact on all economic and social sectors, including tourism, fisheries and health.

As existing **natural resources** in other parts of the world are gradually depleted, and as the economies of China, India and ASEAN continue to expand, demand for natural resources will

² Timor-Leste has observer status.

increase further and the substantial resources of the Pacific will become increasingly important and the issue of their sustainable management therefore deserves close attention from the EU.

2.2. The challenge of stability and security

Considering that a number of Pacific ACP countries have experienced **conflicts** in the recent past, continued vigilance by the world community and targeted support addressing the root causes are necessary. The consequences of instability can be dramatic in terms of lost development opportunities. For example, the tensions in Solomon Islands reduced the country's per capita GDP by a third.

The EU has an interest in the **stability** and security in the Pacific region. Recent events in Timor Leste and the Solomon Islands are yet another reminder that this region is threatened by civil strife, crime and political instability. The EU provided an election observation mission for the general elections in Fiji in 2006 and the Commission has gained some experience in supporting the region's own efforts at intra-state stabilisation, such as measures complementary to the ongoing Regional Assistance Mission to Solomon Islands (RAMSI).

Fragile states in the Pacific pose major challenges for the international community. Weak institutions and governance failures combined with low economic growth, high rate of unemployment and poverty contribute to state fragility. The region will face worsening problems in future. On average, the economies of the Pacific ACP countries are hardly growing while rapid **population growth** continues. If this trend is not reversed, it could trigger an explosive social and/or political situation, as poverty will worsen. It is also a sad fact that HIV-AIDS is creeping in on the Pacific ACP countries with Papua New Guinea at the centre of the crisis.

2.3. EU relations with third countries in the region

The 15 Pacific ACP countries are part of the wider Asia-Pacific region, whose geopolitical importance is growing. The EU has already recognised the growing importance of the wider region by establishing a new partnership with South-East Asia in 2003.

Australia and New Zealand are key Pacific players. The EU's relations with both countries are solid and broad based. They include cooperation on foreign policy issues, trade, security, environment and education. Moreover, development cooperation is steadily becoming a more valuable component in the overall relations with Australia and New Zealand and this should be enhanced. The **USA and Japan** are also very important actors in the Pacific. They all have important security, political and trade interests in the wider Pacific region, while the European role has decreased. The EU's bilateral relations with the USA, Japan, Australia and New Zealand could also benefit from an enhanced European role in the Pacific region.

The growing engagement of **China** is a new factor influencing future developments in the Pacific, already injecting a new dynamic in the region and influencing the political stance of a number of Pacific ACP countries.

France continues to play an important role through its three overseas territories and military presence. The **UK**, which has an OCT (Overseas Countries and Territories) in the Pacific, has recently been downgrading its diplomatic presence in the region, while **Portugal** plays a key role in the reconstruction of Timor-Leste.

Four **OCTs** (New Caledonia, French Polynesia, Wallis and Futuna, Pitcairn) in the Pacific are associated with the EU, and they represent a valuable and important European presence in the region. They also constitute an asset to be taken fully into account in the strategy in order to promote their integration in the region.

A strengthened partnership and an enhanced political dialogue between the Pacific ACP countries and the EU can better support joint actions in **multilateral fora** (thirteen Pacific ACP countries are **members of the UN** and they often act as a group), where the two regions often share interests in improved global governance, for instance on climate change.

3. STRATEGY FOR A STRENGTHENED PARTNERSHIP

The Cotonou Agreement is based on five pillars, all of which are highly relevant to today's cooperation between the Pacific ACP countries and the EU: (i) reinforcement of the political dimension; (ii) involvement of civil society, the private sector and other non-State players; (iii) poverty reduction; (iv) an innovative economic and trade cooperation framework; (v) rationalisation of financial instruments and a system of rolling programming.

The strategy proposed consists of three components:

(1) a **strengthened relationship** between the EU and the Pacific ACP countries and region in order to pursue a **broad political dialogue** on matters of common interest ranging from political and security to economic, trade, social, environmental and governance issues, thus enhancing the visibility and political profile of the EU-Pacific partnership on both sides;

(2) **more focused development action**, with greater emphasis on regional cooperation to build up critical mass, enhance regional governance and facilitate cross-fertilisation. The main focus will be on matching the key priorities of the region, notably as defined in the Pacific Plan³;

(3) **more efficient aid delivery**, including greater use of budget support and closer coordination with other partners, in particular Australia and New Zealand.

3.1. A strengthened relationship

The proposal is to **enhance the political dialogue** with the Pacific by increasing contact primarily with and through the Pacific Islands Forum which is the main regional institution for political issues which is about to secure international legal status and which has a mandate and coherent regional policies set out in the Pacific Plan.

The **Post-Forum Dialogue**⁴, which is the current interface between the two regions, has a number of shortcomings, such as limited visibility, interaction and impact and too little time for preparation and discussion at a point when the EU-Pacific agenda is growing.

It should be added that several of the region's partners, such as Japan, have already instituted dedicated interfaces with the region in addition to their participation in the Post-Forum Dialogue.

³ See annex for details

⁴ See annex for details

The October 2005 decision of the Forum leaders to adopt a new Agreement establishing the Pacific Islands Forum as an intergovernmental organisation in accordance with international law offers a good opportunity to strengthen the dialogue between the EU and the Pacific region in order to address the abovementioned shortcomings of the Post-Forum Dialogue.

The modalities for the enhanced EU-Pacific dialogue should be agreed with the objective of conducting the dialogue in the most efficient and effective way.

In addition to the strengthened dialogue at regional level proposed above, the proposal is to conduct the dialogue at national level with key Pacific ACP countries. Such national political dialogues are to be pursued in accordance with the Cotonou Agreement, while recognising the Pacific's specific features, but at the same time making full and systematic use of its potential and provisions.

3.2. More focused development action

Focus is necessary to ensure optimal impact. It is proposed to focus on three priorities reflecting interlinking key needs of the Pacific and European comparative advantages: Governance, regionalism and sustainable management of natural resources.

3.2.1. Governance

The EU can play a constructive role in the form of support for both prevention and stabilisation in post-conflict situations, drawing on the EU's experience from similar situations in other parts of the world. In situations such as these European assistance must support a smooth transition to long-term development and have a clear governance and **nation-building** perspective.

The EU will continue to seek to address the **root causes of conflict**, such as poverty, degradation, exploitation and unequal distribution and access to land and natural resources, weak governance, human rights abuses, gender inequality and democratic deficits. It will promote dialogue, participation and reconciliation.

Good governance is a crucial prerequisite for sustainable development. A central part of good and effective governance is to strengthen credible institutions – such as parliaments, the judiciary and public financial management systems, including statistical services – at both national and regional levels. The EU will continue to offer, in cooperation with other donors, support to the democracies in the Pacific. Some Pacific ACP countries face governance problems in the fisheries and forestry sectors, notably with **leakages**, e.g. in the form of tax exemptions, which result in much lower revenue for the governments concerned.

Furthermore, as regards governance it is essential to encourage greater compliance with international standards in the fight against corruption, money laundering and terrorist financing. In the past there has been an issue with money-laundering in the region. Although this is still a risk, the problem is now much more under control. However, the EU will continue to promote transparency and effective exchanges of information between authorities in order to fight corruption and corporate and financial malpractice. The EU will also support key efforts made by Pacific countries to implement their commitments towards the OECD in the tax area and to eliminate any harmful tax practices. It is in the common interest of the EU and the Pacific countries to ensure that these commitments continue to be effectively implemented.

3.2.2. Regionalism

Achieving critical mass

The Pacific Plan is based on the concept of **regionalism**. Stronger regional cooperation would improve the region's capacity for dealing with the development challenges it faces. An effective development support strategy must therefore be based primarily on assistance for regional integration to build up critical mass, to enhance regional governance and to facilitate cross-fertilisation.

There are concerns about the effects of increasing globalisation, and – by extension – of closer regional integration, on both **diversity** among the Pacific ACP countries and their socio-economic development. Europe's experience based on combining competitiveness and social cohesion demonstrates that it is possible and advantageous, even for small nations, to link up in a globalising world while protecting their national identities and cultures.

A long-term formula for effective and politically well-anchored regional integration in the Pacific is still under construction. In certain areas regional cooperation is already yielding good results, such as the Pacific Islands Forum Fisheries Agency (FFA), which brings together 17 member governments. The Pacific Plan, while an important step, must be considered a “living document” and the start of a process rather than the end. Pacific regional cooperation is bound to evolve and the EU's policy for the region will therefore have to adapt over time. This is best done through sustained support to the Forum Secretariat and other relevant CROP (Council of Regional Organisations in the Pacific) agencies⁵ in particular as regards natural resources management, vulnerability and governance. This will encourage strengthening Pacific regionalism in areas where it is needed and where the EU can bring real added value.

Economic Partnership Agreement

The EPA process is having a **catalytic effect** on economic cooperation and integration in the Pacific region as:

- it stimulates the Pacific ACP countries to negotiate as a group;
- it provides an incentive for openings among the Pacific ACP countries themselves;
- it stimulates and hopefully institutionalises stronger regional governance in the form of peer reviews.

Ten per cent of the Pacific ACP countries' total exports go to the EU. This is a remarkable figure considering the size of these countries and the physical distance between the Pacific and Europe, but is not large in absolute terms. The **benefits** from trade in goods flow mainly from a number of **specific products** relevant to a number of countries. Additional benefits for all countries in the region would accrue from enhanced regional integration and economic governance, particularly if trade-related rules, **services** and **investment** were to form part of the EPA.

⁵ The nine CROP agencies are specialised technical agencies operating on the basis of international agreements at the Pacific regional level.

Only a group of larger Pacific countries are involved in trade in **goods** with the EU. The main traded products are **fish** and fish products, and **sugar**. Fiji, as a Sugar Protocol country, is eligible for assistance for its adaptation strategy following the sugar reform. The expected restructuring of the sugar industry in Fiji together with the EPA should improve competitiveness. Moreover, accompanying measures for Sugar Protocol countries, benefiting from specific EU funding, are very likely to reinforce the action on sustainable development of natural resources, focusing on energy production from biomass and reforestation.

The EU remains a distant and comparatively small trading partner for the region and the eventual impact of trade liberalisation under the EPA on the Pacific ACP countries collectively is likely to be relatively small. On the other hand, the proposed regional free trade agreement with Australia and New Zealand (PACER) is of another order of magnitude and could entail significant **adjustment costs** for the Pacific ACP countries. It will therefore be important to favour a gradual approach to trade liberalisation in combination with other measures, such as opening developed partners' markets to labour from the Pacific ACP countries and increasing development assistance.

In order to maximise the desired effect of the EPA, it is crucial that the negotiations and outcome are closely coordinated with programming and, in due course, implementation of development assistance, at both regional and national levels, in order to harness synergies. Of particular importance are trade-related assistance and capacity-building, socio-economic, financial and tax governance as well as targeted support measures including compliance with international customs standards and trade facilitation where relevant, sugar, the private sector or human resource development and social protection.

Through flexibility, constructiveness and innovation the EU can set new development-friendly standards in trade negotiations with small developing island economies, which could be taken into account by the region's other developed trading partners when (re)negotiating their own trade arrangements with the Pacific ACP countries.

3.2.3. Sustainable management of natural resources

Given the importance of the sound management of natural resources the Commission proposes that one **central “blue-green” theme** for this strengthened cooperation should be to deal with the sustainable management of natural resources and to support Pacific ACP countries in their action to deal with the consequences of climate change, rising sea-level, diminishing fish-stocks, coral bleaching, unsustainable logging, land degradation and increasing pollution and waste.

This is a policy domain where the EU's added value is clearly recognized and where Europe, in addition to its financial assistance, could offer its collective experience and know-how in dealing with environmental problems and resource management issues. This would also allow integration of these EU-Pacific cooperation efforts into the international efforts to deal with key global environmental challenges, where the Pacific ACP countries, New Zealand and the EU share common objectives, such as those of the Kyoto Protocol. A dialogue with other third countries actively involved in the exploitation of natural resources in the region should be sought.

On the basis of the priorities expressed by the region itself⁶, the European Union can assist the Pacific ACP countries in managing their ocean and coastal resources in a sustainable manner through initiatives which could combine conservation of fisheries and marine biodiversity, while at the same time promoting regional cooperation and strengthening the voice of the SIDS (Small Island Developing States). These initiatives could provide for capacity-building measures to support implementation of multilateral environmental agreements and other necessary policies related to sustainable management of natural resources and could also provide a platform for interested EU Member States to become involved. The CROP Marine Sector Working Group under the Forum⁷ would be well-placed to take this initiative forward and oversee implementation.

Fisheries is a sector with great potential to contribute to the Pacific ACP countries' economic development and integration into the world economy. Sustainable utilisation of fisheries resources and good governance of this sector are therefore high on the region's agenda. The EU has already gained considerable experience with regional cooperation on fisheries in the Pacific both under its common fisheries and its development policies, especially where research and stock assessment are concerned. The EU and partners from the region organised in the Pacific Islands Forum Fisheries Agency have a longstanding successful cooperation in regional management organisations, such as the Western Central Pacific Fisheries Convention. The EU could step up its efforts to promote sustainable fisheries management by supporting the region's monitoring, control and surveillance system (MCS) and by strengthening the region's capability to fight illegal, unreported and unregulated fishing (IUU), especially in view of the loss of earnings incurred. There is further potential for fisheries and marine research, which the EU intends to support in order to further sustainable fisheries management in the region.

The new generation of Fisheries Partnership Agreements (FPAs) mark a new approach as, in addition to providing regulated access to fishing opportunities for European vessels, they also envisage close cooperation to promote responsible fishing and ensure conservation and sustainable use of the fishery resources of the partner countries concerned. This approach will be implemented through a policy dialogue and financial support for the sector to provide a key contribution to definition and implementation, by coastal states, of a policy on sustainable development of fishing activities in their waters. The first two new FPAs were concluded with Pacific Ocean partner countries.

Several Pacific ACP countries and OCTs have **tropical forests** and related biodiversity. The EC already has significant experience of cooperating with Papua New Guinea on sustainable logging. Increasingly, verification of the legality of logging operations and timber exports is seen as a key instrument in sector reform programmes. Reliable systems, which can distinguish legal from illegal production, will be essential in order to provide credible guarantees to the market that timber has been legally harvested. In line with the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan for the ACP countries, the

⁶ The Pacific Plan lists as one of the region's key priorities the facilitation of international financing for sustainable development, biodiversity and environmental protection and to counter the effects of climate change in the Pacific. Under this heading the Pacific Plan also refers to an integrated agriculture and forestry plan. The Pacific Islands Ocean Policy adopted in 2002 makes the case for an integrated ocean management in the interest of future generations of Pacific Islanders, and provides an Integrated Framework for Action of Ocean Initiatives.

⁷ The Group consists of the Secretariat of the Pacific Community (SPC), the South Pacific Applied Geoscience Commission (SOPAC) and the Pacific Regional Environment Programme (PREP).

Commission proposes supporting a regional approach, building national and regional capacity to monitor and support FLEGT partnership agreements.

Considering the vulnerability to natural disasters, the Commission proposed in 2005 to the Pacific ACP countries the establishment of a regional **disaster preparedness** programme. This initiative could be followed up and expanded into the field of disaster reduction (risk reduction, hazard mitigation and reduced vulnerability taking into account the need for adaptation to climate change). Such measures complement the existing regional action to reduce vulnerability.

High oil prices, remoteness and small markets are all reasons for the small Pacific islands to place **renewable energy and energy efficiency** high on their agenda. Present EC initiatives in this sector could be followed up and expanded, particularly in the framework of the European Union Energy Initiative (EUEI) and of the related EU-ACP Energy Facility. Pollution control, water and sanitation could also be considered for EC support.

Action on sustainable management of natural resources should help create the conditions for economic growth leading to the creation of productive and decent employment, social cohesion and protection, as well as less poverty thereby contributing to attaining the **Millennium Development Goals**. Continuing attention will be given to the vital issue of human resources development. In this context, **non-state actors** play an important role, because of their crucial contribution to open societies, notably by promoting improved governance, nation-building and empowerment.

Investment in science and technology in the Pacific islands together with investment in human resources and institution building will reinforce the capacity in a range of areas essential for their sustainable development, such as fisheries management, biodiversity and disaster preparedness. Possibilities for **research cooperation** could be followed up under the European Union's Research Framework Programmes.

Modern **information and communication technologies** are important enablers, in particular in a region spanning great distances, and can be integrated systematically into implementation of the abovementioned proposed action, e.g. in the form of surveillance and control systems for fisheries and logging and of facilitating communication in the education sector, as well as allowing the media to present and safeguard the vast cultural diversity of the region and realize its economic potential. The potential for introducing or strengthening distance learning, notably e-learning, for remote rural areas and island communities will be explored.

3.3. More efficient aid delivery

To make EU development assistance more efficient and to reduce the considerable transaction costs on both sides, the Commission proposes that assistance should be more concentrated, as outlined above, with a stronger focus at regional level, more efficient use of small country allocations and greater use of budget support where possible.

3.3.1. Donor coordination

The proposed concentration of the EU strategy will facilitate **donor coordination** both at EU level and with others, notably Australia and New Zealand, which the Commission will continue to pursue in order further ease the pressure on the limited capacity of the national administrations concerned. Co-ordination is critical to avoid overlap or inconsistencies

between those seeking to achieve common goals. Donor coordination is of particular importance in fragile states. The Global Fund to fight AIDS, Tuberculosis and Malaria has a series of programmes in the region, and the existing multi-donor Trust Fund on Avian and Human Pandemic Influenza could be an example of international donor coordination in the health sector should an outbreak occur in the region.

3.3.2. More effective and efficient cooperation with the smallest countries

Full engagement in the Cotonou partnership entails sustained political dialogue, co-management of development cooperation and full participation in the EPA process. For a number of the smallest Pacific ACP countries such intensive cooperation poses a serious challenge for their administrations, in particular for implementing individual country programmes. In order to **increase aid efficiency** and reduce transaction costs, notably for the smallest Pacific ACP countries, while ensuring local ownership, new approaches should be considered, based on existing experience. The on-going multi-country renewable energy programme could be a model to follow.

3.3.3. Budget support

The EU intends to apply more systematically the budget support instrument in its cooperation with the Pacific ACP countries.

To this end, given the limited involvement of Bretton Woods institutions in the Pacific region the plan is to enter into a dialogue with the IMF in particular in order to share analyses, experience and studies with a view to developing stronger cooperation in the Pacific regarding budget support.

Furthermore, the EU will proactively assist the Pacific ACP countries in meeting the eligibility criteria for budget support, i.e.:

- a Poverty Reduction Strategy Paper (PRSP) or a national development strategy under preparation;
- a stable macro-economic framework, which is either satisfactory or under reform;
- transparent and sound public finance management.

At present, there is one relatively modest EC-financed budget support programme in Vanuatu. The Commission is examining the scope for extending such support to other countries such as Samoa and Fiji, and, possibly, to others.

At *regional* level the EC is providing funds to the Pacific Islands Forum in the form of contribution agreements which ensure a high degree of ownership. An institutional assessment will be carried out shortly to establish the conditions for closer cooperation. In future consideration could be given to moving to other forms of funding, implying a greater EU contribution to defining and monitoring relevant programmes.

4. CONCLUSIONS

The Pacific and the EU have a long-standing and close partnership rooted in history⁸. While links inevitably weakened in the second half of the 20th century following decolonisation, since then the two regions have evolved substantially and are drawing closer together again.

This presents a real opportunity for strengthening the partnership in terms of a broad political dialogue, trade and development cooperation. While the Pacific and the EU are far apart from each other geographically, they are more important to each other than is generally realised or understood in Europe. The two regions have much to offer each other, they complement each other considerably and they share key values and interests.

Since only a few Member States and the Commission have representations in the Pacific ACP countries, the Pacific region would appear particularly well-suited for joint EU presence and action in the field, for instance through seconding officials from Member States' services to the Commission's regional Delegations in the Pacific, which could also provide facilities on an *ad-hoc* basis ("Europe House").

A gradual process, combined with the necessary flexibility, would provide a framework for better external representation of the EU in the Pacific, in the form of broader presence, deeper political dialogue and a higher profile for the EU.

⁸ See annex.

ACP COUNTRIES - KEY STATISTICS

	Population	Area (km²)	HDI (UNDP 2003)	EEZ	GDP/ Capita (purchasing power standards \$)
	2004			(1000 km²)	World Bank
					2004
Cook Island	20300	240		1830	4896**
Fiji	848000	18272	0.752	1260	2690
Kiribati*	98000	690		3600	970
Marshall Islands	60000	170		2131	2370
Micronesia	127000	700		2978	1990
Nauru	10100	24		320	1917**
Niue	1800	259		390	2970**
Palau	20000	487		601	6870
Papua New Guinea	5700000	462840	0,523	3120	580
Samoa*	179000	2857	0,776	120	1860
Solomon Islands*	471000	28446	0,594	1630	550
Timor-Leste*	925000	14874	0,513	322	550
Tonga	102000	699	0,81	700	1830
Tuvalu*	11190	26		757	989**
Vanuatu*	215000	12189	0,659	680	1340
Total	8788390	542773		20439	

* Least-developed countries

** figures from 2002, source University of the South Pacific.

Sources: NZaid: AnnualReport 2004-2005; Pacific Development Report (2002); Secretariat of the Pacific Community; World Development Report 2006; UNDP: Human Development Report (2004)

PACIFIC OCT STATISTICS

Country	Population <i>(July 2006 est.)</i>	Area <i>(km²)</i>	EEZ <i>(km²)</i>	GDP per capita (ppp) (2003 est.)
New Caledonia	219,246	19,060	1,347,964	\$15,000
Pitcairn	45	47	837,221	N/A
French Polynesia	274,578	4,167	4,553,115 <i>(second largest of the world)</i>	\$17,500
Wallis & Futuna	16,025	274	271,050	\$3,800 <i>(2004 est.)</i>

ANNEX

1. THE PACIFIC REGION

1.1. Key characteristics

Oceania is an essentially **maritime continent** of about 30 million people with Australia at its centre of gravity. There are 15 countries in this region that have a special development, trade and political cooperation with the EU, governed by the **Cotonou Agreement** between the EU and Africa, the Caribbean and the Pacific (ACP). The total population of the 15 Pacific ACP countries is only about 9 million. Papua New Guinea (PNG) with its 5.7 million inhabitants is the biggest, while Niue with 1800 is the smallest. The Pacific ACP countries are inhabited by Pacific peoples (Melanesians, Micronesians and Polynesians). Papua New Guinea, Solomon Islands and Vanuatu are all **Melanesian** countries. Timor-Leste and Fiji are predominantly Melanesian, while Fiji also has an important Indo-Fijian population. The Federated States of Micronesia (FSM), Kiribati, Nauru, Palau and the Republic of the Marshall Islands are all **Micronesian** countries. Cook Islands, Niue, Samoa, Tonga and Tuvalu are the **Polynesian** countries.

In addition, the Pacific region includes eight **territories**, of which four are European: New Caledonia, French Polynesia and Wallis and Futuna are French territories, while tiny Pitcairn is the last remaining UK territory in the Pacific. Of the remaining four territories three are with the United States (American Samoa, Guam and Northern Marianas); and one with New Zealand (Tokelau).

Apart from PNG, Solomon Islands and Fiji land resources are limited, but **marine resources** are very considerable. Twenty million sq km of the Exclusive Economic Zone (EEZ) of the Pacific region belongs to the Pacific ACP countries⁹. The Pacific has the richest fishing grounds in the world and is one of the world's centres of **marine biological diversity**, with up to 3,000 species found on a single coral reef. It has been estimated that PNG alone has five times more species of fish than the entire Caribbean region and twice as many as the Red Sea. Forests and their biodiversity are other important components of the Pacific islands natural capital, especially for poor rural communities in Melanesia. PNG hosts one of the world's four remaining tracts of **tropical rainforest** and 7% of the world's species of plant and terrestrial life forms, while Solomon Islands has the highest concentration of endemic birds on the planet. The region is rich in **minerals** – gold, copper, nickel – as well as oil and gas, and much of it is still unexplored.

Australia and New Zealand play a special role in the region. Each country has its own Pacific strategy, however, Australia and New Zealand have coordinated policies in some areas.

Australia, the region's dominant economy and political actor, is geographically close to Melanesia. The region's stability has always been an important issue for Australian foreign policy, while the Pacific is less important for Australia in commercial terms. Key concerns for Australia relate to transnational crime, and in recent years Australia has been pursuing a

⁹ Of the 15 Pacific ACP countries six (Cook Islands, FSM, Nauru, Niue, Palau and the Republic of the Marshall Islands) have a total population of around or less than 250,000, but combined EEZs that exceed 8 million km².

robust policy aimed to prevent the emergence of failed states in the region, including important initiatives to stabilise the Solomon Islands, to improve governance in PNG and to promote regional police cooperation. Its policy has been influenced by a number of terrorist attacks outside Australia, where Australian lives were lost. Australia has a delicate balancing act so as not to be seen as over-dominant. The country's relations with its immediate neighbour, Papua New Guinea, have sometimes been strained, while its negotiations with Timor-Leste regarding a permanent maritime boundary, including access to natural resources, have, at times, been difficult. An important ongoing debate in the region concerns the interest of the Pacific ACP countries in gaining access for their citizens to the Australian labour market, in particular for unskilled labour. Australia is the most important donor in the region and has recently announced a very substantial increase of its ODA. Australia is about to launch its first White Paper on Development as well as an analytical report highlighting major challenges facing the Pacific to the year 2020. Australia is highly supportive of EU engagement with the region and keen to coordinate its development assistance with the EU.

New Zealand has close ties to the Pacific, and notably Polynesia, partly for historical reasons, partly because of its large Polynesian population. The Pacific is a primary area for New Zealand's foreign policy. It played an important role in the peace process for Bougainville and it is the second biggest participant in the Regional Assistance Mission to Solomon Islands (RAMSI). New Zealand is committed to promoting Pacific regionalism. The Pacific is a medium-sized trading partner for New Zealand. It concentrates most of its relatively limited ODA to the region and is an important development partner for many Pacific ACP countries. Like Australia, New Zealand is also highly supportive of an active EU engagement with the region and keen to coordinate its development assistance with the EU.

1.2. Geo-political and geo-economic importance

The US, Japan, China, Australia and New Zealand are the key Pacific powers, and they all have important security, political and trade interests in the wider Pacific region, where the US has been the leading power since the end of World War II. Japan and Australia are close US allies, and have underpinned the position of the US in the wider Pacific for decades, while the European role has decreased with decolonisation. France, however, is significantly engaged through its territories and military presence. The growing engagement of China in the region is a new factor influencing future developments in the Pacific in the form of Chinese trade, investments, migration and aid coupled with an intensifying diplomacy. As the economies of China, India and ASEAN continue to grow rapidly, demand for the region's natural resources is increasing.

1.3. Main development challenges

Of the 15 Pacific ACP countries no less than 11 have populations around or below 250.000¹⁰. It is difficult for such small nations to attain a **critical mass** for production and trade or indeed political influence, because of important dis-economies of scale. The concern is that for many small Pacific ACP countries globalisation may not mean interdependence, but increased dependency.

¹⁰ All 15 Pacific ACP countries are **SIDS** (Small Island Developing States), and they participate actively in the UN-sponsored SIDS' process, which most recently resulted in the Mauritius Declaration and Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of SIDS agreed in January 2005.

With the exception of Tonga, which is an almost absolute monarchy, all Pacific ACP countries are fully fledged **democracies**, but modern institutions have not yet taken root everywhere and do not easily combine with traditional power structures. In recent years political developments have proven that a number of Pacific countries are potentially unstable¹¹.

A number of Pacific countries, notably PNG and Solomon Islands, face important problems of **governance** and **corruption**. These are often linked to the issue of nation building in countries that are very heterogeneous, as identification with a clan or similar group may be stronger than with the State¹².

While the region, apart from Tonga, is not in general marred by grave **human rights** problems, there are serious issues related to **gender**. While the situation differs from country to country, violence against women and polygamy constitute important problems and women still have far to go in terms of empowerment¹³.

Poverty and progress towards the **Millennium Development Goals** (MDGs) remain important challenges in a number of the countries. Poverty of opportunity is a particularly acute problem, with rural communities, where most Pacific islanders live, facing problems, such as poor access to basic social services, sustainable, efficient and affordable energy services and telecommunications, and with economic activities hampered by distance, insufficient and expensive transport services and limited access to capital.

Unsustainable management of natural resources is a serious issue facing several countries in the region. In particular, the rates at which **forests** are being depleted and **biodiversity** is being lost are so high that the countries concerned risk losing critical economic assets within a very short time span. Often a result of weak governance, this combines with serious leakages of financial resources away from Government. The result is that critical resources that should be invested in the development of these countries are diverted.

The Pacific ACP countries have relatively good **food-security**, although there is a problem of **malnutrition** in some places. However, while there is a tradition for safety nets and a culture of sharing, community support systems are now under strain in many places.

¹¹ Secessionist war on the island of Bougainville in PNG; tensions in Solomon Islands; repeated coups in Fiji; severe economic and financial crisis in Nauru; democratic deficit in Tonga.

¹² While PNG is ranked 130th in Transparency International's corruption perception index, in some other Pacific countries corruption is a minor issue, such as in Kiribati, where theft is seen as dishonouring, and carries severe social sanctions.

¹³ An extreme case is Solomon Islands, which as late as early 2006 did not have a single female member of parliament.

Pacific



The Pacific possesses an exceptional **cultural diversity**¹⁴, which is the basis for an extraordinary richness of cultural expression. This diversity, including the linguistic heritage, should be preserved¹⁵. Furthermore, this diversity also represents a non-negligible source of wealth in economic terms which the media through the use of ICTs can help realise.. The question of how best to achieve the desired and inevitable **economic modernisation** without jeopardising fundamental strengths of the traditional culture is crucial to the future of the region. When engaging in dialogue and development cooperation with the Pacific ACP countries this cultural dimension needs to be fully taken into account.

For potential investors Pacific culture imposes a number of important constraints. **Traditional collective land ownership** raises barriers to obtaining land for development and using land as collateral. The strong culture of sharing constitutes a disincentive to saving for investment.

Some of these factors may partly explain the **weak economic growth** experienced by most Pacific ACP countries, a concern not least in view of the **growing population** (around 3% a year) A study of economic data (available for 11 of the 15 Pacific ACP countries - excluding Cook Islands, Nauru, Niue and Tuvalu) shows that in the period 2000-2004 average annual GDP growth was only 1.1%. However, some countries, notably Samoa, have recorded strong growth in the same period. Average inflation for the 11 countries stood at a modest 1.6% in 2004. There are considerable differences in GDP/capita requiring adapted policies and cooperation.

The Pacific is particularly **vulnerable to natural disasters**, such as earthquakes, tsunamis and hurricanes, and generally with the poorest population segments being the most exposed. Since 1950 natural disasters have affected more than 3.8 million people in 14 Pacific ACP countries (Timor-Leste not included). In the 1990s alone natural disasters cost the region about USD 2.8 billion (in real 2004 value). From 1990 to 1999 the region had the world's highest rates of disaster-related mortality, percentage of population affected, and damage cost per capita. While traditional coping mechanisms are strong, the number of reported disasters and the population affected per event have increased significantly, reflecting population growth, rapid urbanisation, growing environmental degradation in coastal areas, climate change and variability. With climate change and increasing sea levels many low-laying Pacific islands are at risk and the region may in future face a serious problem in terms of environmental refugees.

Last but not least, the geography of the Pacific is characterised by the **enormous distances** between and within most of its countries. The Cook Islands (population less than 25,000) stretch 1,400 km from North to South, and 1,000 km from East to West, while Kiribati (population 100,000) includes Christmas Island located 3,200 km from the country's capital. In addition, it is the ACP region which is the furthest removed from the EU in geographical terms. This "tyranny of distance" is a serious constraint for development in the Pacific,

¹⁴ It has been estimated that Papua New Guinea alone has more than 1000 cultural groups speaking some 800 different languages.

¹⁵ The forthcoming UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions will offer a new international framework to promote international cooperation aimed at preserving cultural diversity, which may be important in this regard.

because of serious diseconomies of distance resulting notably in low frequency and high-cost transport. However, electronic communication is becoming cheaper and more available.

1.4. Regional cooperation

The **Pacific Islands Forum** (the ‘Forum’) is the premier regional policy-making body of the self-governing states in the Pacific. Established in 1971, its membership includes 14 of the Pacific ACP countries together with Australia and New Zealand.¹⁶ Forum Heads of State and Government meet annually, as do Forum Economics and Education Ministers. Similar meetings are planned for Forum Health Ministers. *Ad hoc* meetings of Transport and Fisheries Ministers are also held. The Chairmanship of the Forum rotates on an annual basis among the Member States. As regards security, the **Biketawa Declaration** of 2000 establishes a framework for Forum intra-state security cooperation, which calls for Forum Foreign Affairs Ministers to meet as part of an *ad hoc* crisis management mechanism for the region.

The Forum is served by its Secretary-General, whose work is supported by the **Forum Secretariat**. The Secretariat’s overall objective is to service the Member States and to promote Pacific regional cooperation, particularly on economic and trade matters. It also acts as the Forum’s administrative arm, implementing its decisions, including delivering development assistance to Member States. In the case of trade-related assistance, it can also act as implementing agency.

The Forum Secretary-General is also permanent Chair of the **Council of Regional Organisations in the Pacific (CROP)**, which brings together the Forum Secretariat and nine other Pacific regional organisations (see annex A)¹⁷.

At the October 2005 meeting of Forum Heads of State and Government two important decisions aiming at strengthening regional cooperation were taken. The Leaders approved an Agreement giving the Forum **legal personality** under international law. They also approved the **Pacific Plan** and a roadmap for its implementation. This decision represents the culmination of a process started in 2003 by initiative of the New Zealand Forum Chair aimed at strengthening Pacific regionalism. The Plan, covering the years 2005-2015, has been presented as a dynamic framework for strengthened regional cooperation and integration. It remains to be seen how far effective implementation can be achieved. Full implementation will depend on continued political commitment and mobilisation of the required financial resources.

Presently, regional cooperation in the Pacific is neither broad nor deep. Among the explanatory factors can be mentioned the geography of the region, the fact that many Pacific countries are still relatively young as independent states and therefore particularly sensitive about issues pertaining to sovereignty, and the asymmetry between Australia and New Zealand on the one hand, and the Pacific ACP countries on the other¹⁸.

¹⁶ Timor-Leste has observer status in the Forum and is not at present considering full membership.

¹⁷ The core activities of these regional organisations are funded by contributions from Member governments, but they are governed by bodies that reflect their varying membership.

¹⁸ Attempts at sectoral regional integration have had mixed results since the 1970s. PNG, by far the largest Pacific ACP country, established its own higher education system (UPNG, Unitech), while the rest of the region created the University of the South Pacific. Nauru, Samoa, Solomon Islands, Tonga and Vanuatu initially created Air Pacific but then quickly set up their own national airlines to promote

In 2004 **intra-regional trade** between the Pacific ACP countries was as low as 3%¹⁹, mainly due to transport costs and the limited size of their markets. These countries have concluded the **Pacific Island Countries Trade Agreement (PICTA)**, aiming to establish a FTA among its parties. The **Pacific Agreement on Closer Economic Relations (PACER)** is a trade and economic cooperation agreement among all 16 Forum Member States. It sets out the basis for the future development of trade relations among these states²⁰.

The **Melanesian Spearhead Group (MSG)** is a sub-regional trading arrangement among PNG, Solomon Islands, Vanuatu and Fiji, with New Caledonia as an observer. MSG aims at a FTA in 2008 and aspires to a Customs Union.

There is scope for increased cooperation and synergy between the Pacific ACP countries and the region's OCTs in areas such as environment and vocational training.

1.5. Key partners of the Pacific beyond Europe, Australia and New Zealand: United States, Japan, China and Taiwan

The **United States** has important security interests in the Pacific, which it has dominated since its victory in World War II. US trade with the larger Asia-Pacific region has now overtaken its trade with the EU, so also for this reason the US has a strong interest in continued stability. The US National Security Strategy from March 2006 highlights the importance of in particular Japan, South Korea and Australia. In its Quadrennial Defense Review Report from February 2006 the US Department of Defense reports that of the major and emerging powers, China has the greatest potential to compete militarily with the United States, adds that the pace and scope of China's military build-up already puts regional military balances at risk, and states: "U.S. policy remains focussed on encouraging China to play a constructive, peaceful role in the Asia-Pacific region and to serve as a partner in addressing common security challenges, including terrorism, proliferation, narcotics and piracy." The US has renewed economic and military agreements (Compacts of Free Association) with Palau, Micronesia and the Marshall Islands. The US also has territories in the Pacific, and Hawaii is a US state. Having curtailed its development cooperation with the region in the past the US has recently reengaged, notably with Vanuatu. The US has indicated its interest in seeing the EU pursue an active role in the region.

Japan has security, foreign affairs, trade and fishery interests in the region, and is traditionally an important donor, specialising mainly in infrastructure. As memories of World War II fade Japan's cooperation with the Pacific ACP countries becomes easier.

China's role²¹ in the Pacific region is growing in line with its increasing economic weight in the world. There is also migration from China to the Pacific ACP countries. China is competing with **Taiwan** for diplomatic relations with a number of the 13 Pacific ACP countries, which are members of the UN²². It already pursues defence cooperation with PNG,

tourist arrivals directly from major airports in Australia, New Zealand and Hawaii. The Pacific Forum (shipping) Line also proved unviable as a way of servicing the more peripheral states.

¹⁹ Timor-Leste, which acceded to the Cotonou Agreement in December 2005, is not included in this statistic.

²⁰ Timor-Leste is neither party to PICTA nor to PACER.

²¹ In 2000 the Pacific Islands Forum agreed to establish of a Pacific Trade Office in Beijing and from 2000 to 2004 bilateral trade with China has doubled from USD 267 million to USD 530 million.

²² Six Forum Member States currently recognise Taiwan: Solomon Islands, Kiribati, Marshall Islands, Tuvalu, Palau and Nauru.

Fiji and Tonga. China has been a “Dialogue Partner” of the Forum since 1989 and has contributed generously to its activities. Since 1992 Taiwan has held its own separate post-Forum meeting with “friendly” Pacific Islands States. This competition between China and Taiwan, through investments and development cooperation, can be destabilising for the Pacific ACP countries concerned, as was seen in PNG in 1999, and most recently in Vanuatu, where it caused a political crisis in 2004.

2. EU AND THE PACIFIC

2.1. EU – Pacific relations so far

EU relations with the region are based on the **colonial past**, most recently with the UK, France and Portugal as the important players, and before that Germany and Spain. These EU Member States have all influenced the region in ways which are still perceptible today. The influence of British political institutions and tradition has been profound. Many Pacific ACP countries are members of the Commonwealth and most of these retain the Queen of England as Head of State²³.

France and UK have **territories** in the Pacific. The EU has an Association Agreement with four OCT in the region. The OCT are subject to a different preferential regime from the ACP countries. Under their statutes of autonomy, the French OCT are showing an increased interest in Pacific regional cooperation as they are enhancing contacts with their neighbours and their region.

France is a regional power with an important military presence and a series of diplomatic representations in the region, as well as a growing cooperation with Australia. France also engages in development cooperation with Pacific ACP countries, in particular with Vanuatu.

While the **United Kingdom** is presently phasing out its development cooperation with the Pacific ACP countries, it remains engaged through its diplomatic representations, its investments, volunteer programmes and its close relations with Australia, New Zealand and the United States.

Several EU Member States are strengthening official contacts with Pacific ACP countries. In addition, many Member States are engaged in other ways in the region, e.g. through scientific research or through a number of **European NGOs**, mainly environmental or faith-based, in particular from the UK, France, Germany, Italy and The Netherlands.

A number of EU Member States, in particular **Portugal**, have cooperation activities with Timor-Leste.

The EU's relations with the Pacific ACP countries are structured, and have been so for decades, first on the basis of the Lome Conventions, and now by the **Cotonou Agreement**. In political terms an important objective for the EU has been to underpin a successful stabilisation following decolonisation while supporting economic and social progress. Considering the political volatility experienced in a number of Pacific ACP countries, this goal has not yet been convincingly attained. Research and evaluations indicate that the development assistance has had a positive impact in the region and that without it growth would have been lower and social indicators poorer. However, analyses indicate that in the

²³ Pacific culture has influenced major European artists, such as the painter Paul Gauguin and the author W. Somerset Maugham. The Pacific also provides a permanent source of inspiration for the European haute couture art and industry. English is an official language in all the present Pacific ACP countries, apart from Timor-Leste, which has Portuguese as an official language, while French is spoken in Vanuatu and in the French OCT. The fact that so many Pacific islanders speak European languages facilitates exchange and understanding between the two regions.

last decade overall economic growth remained sluggish on average and insufficient to reduce poverty.

The EU has furthermore agreed **Joint Political Declarations** with Australia and New Zealand, and entered into a series of separate Agreements with these two countries, on the basis of which regular consultations are held.

The Pacific ACP countries and the EU share **core values**, such as democracy, human rights, rule of law, effective multilateralism and environmental protection. These countries are generally supportive of EU environmental positions. They also play a growing role in international institutions. Some of them, notably Fiji, contribute to **UN peacekeeping missions** worldwide²⁴.

The EU's **political dialogue** with individual Pacific ACP Member States is limited. At the regional level, a broad political dialogue is pursued with the Forum, through the so-called Post-Forum Dialogue, which traditionally follows immediately after the Forum Leaders annual Summit²⁵. Article 96 of the Cotonou Agreement concerning essential elements was triggered in the case of the 2000 coup in Fiji. Cooperation was resumed in 2003.

Members of the European Parliament observed the 2001 parliamentary elections in Solomon Islands. A fully-fledged EU **election observation** mission took place in Fiji in 2006.

EU-Pacific trade is relatively small and erratic. Unprocessed agricultural products, in particular palm oil and sugar dominate Pacific exports to the EC. Machinery, ships and boats are important items in the EC export structure. There has always been a trade surplus for the Pacific in its exchanges with the EC. Australia and New Zealand are major trading partners for the region particularly as regards Pacific ACP imports. The EC is a relatively small trading partner for the Pacific ACP absorbing around 10% of their exports and providing an estimated 5% of their imports. Based on 5-year averages PNG and Fiji together accounted for a full 90% of the Pacific ACP countries' exports to the EU, while taking 41% of the total imports from the EU. In 2004 Pacific ACP goods exports to the EU amounted to € 588 million, while goods imports from the EU amounted to € 333 million²⁶. Fiji currently exports half of its production (i.e. approximately 165,000 tonnes of a total production of 330,000 tonnes) to the EU under Sugar Protocol at guaranteed prices.

The EU has either signed or initialled **fishery agreements** with three Pacific ACP countries: Kiribati, Solomon Islands and the Federated States of Micronesia. A small number of Spanish and French vessels are fishing with licenses under these agreements. In December 2004, the European Community acceded to the Western Central Pacific Fisheries Convention (WCPFC), which is responsible for overseeing the sustainable management and conservation of tuna in the Pacific. The EU also supports the scientific tuna stock work of the Secretariat of the Pacific Community (SPC). The EC is also an active participant in the on-going inter-

²⁴ Fiji's role in international peacekeeping is quite remarkable. This small country has participated in virtually every UN peacekeeping mission - including in Congo, Namibia, Cambodia, Timor-Leste and Lebanon – and also in Europe, where Fiji has contributed to the stabilisation of Bosnia and Herzegovina, Croatia and Kosovo.

²⁵ Cf section 3.1. below.

²⁶ As a result the EU was their second most important export market, after Australia and before Japan, while the EU was only 6th on the list of countries/regions the Pacific ACP countries source their imports from, behind Australia, Singapore, New Zealand, USA and Japan.

governmental consultations for the creation of a regional fisheries management organisation for non-tuna species in the Pacific.

EC **development assistance** to the region is substantial, and total aid granted under successive Lomé Conventions and the Cotonou Agreement exceeds € 1.8 billion.²⁷ Furthermore, Timor-Leste has received more than € 200 M under other instruments since 1999. In addition, the European Investment Bank and the Centre for Development of Enterprises are also active in the region. Together with ODA flows from the EU Member States, such as Portugal's bilateral aid of more than € 300 M for Timor-Leste, the EU is one of the few major donors to the Pacific ACP countries, and this includes support financed by the EU's budget, such as the Erasmus Mundus programme, food security and environment.

In September 2004 the EU and 14 Pacific ACP countries opened negotiations on an **Economic Partnership Agreement (EPA)**²⁸. These aim at arriving at an ambitious and development-oriented arrangement, which should promote regional integration and economic development, policy reform, sustainable management of resources, such as fisheries, thereby also contributing to the reduction of poverty. The ACP side has indicated its interest in securing arrangements relating to services and tourism, fisheries and investment as well as goods. Their commitment to these negotiations was most recently confirmed by Pacific ACP Leaders in October 2005. However, given that negotiations need to be concluded before the end of 2007, there is a need for the ACP side to accelerate preparations and negotiations²⁹. EPA will replace the preferential access scheme contained in Cotonou and which is currently covered by a WTO waiver, which expires in 2008.

2.2. Present challenges facing EU – Pacific relations

Presently, EU relations with the Pacific suffer from a lack of political profile and visibility on both sides, inadequate arrangements for regional interaction and reduced efficiency in development cooperation efforts due to a lack of focus and high transaction costs. Beyond the bilateral consultation mechanisms between the EU and Australia and New Zealand respectively, the only structured interaction between the EU and the Pacific region is provided by the so-called Post-Forum Dialogue.

Immediately following the Forum Summit, the Heads of State and Government interact with main Forum partners and donors through the Post-Forum Dialogue at ministerial level. On the Forum side this involves a panel consisting of three ministers and the Forum Secretary-General with a minister representing the Forum Chair as head of Delegation.

Presently, the EU takes part in this Dialogue with a delegation consisting only of the Commission. However, twice the EU Council Presidency has been associated to the

²⁷ Since independence Timor-Leste has benefited from substantial Community assistance under the ALA Regulation.

²⁸ Timor-Leste, which acceded to the Cotonou Agreement in December 2005, does not at present participate in the EPA negotiations.

²⁹ The EU recognises that the Pacific ACP countries' close links with Australia, New Zealand and the USA make these negotiations more complex. While trade flows between the Pacific ACP countries and the EU are limited, Australia and New Zealand are major trading partners and a FTA with them may imply major adjustment needs for the Pacific ACP countries. However, the opening of the formal negotiations on EPA, have not triggered demands by Australia and New Zealand to open discussions on parallel free trade negotiations as foreseen under Article 6 of the Pacific Agreement on Closer Economic Relations (PACER).

Commission in this exercise. In parallel, France and the UK, the two EU Member States with remaining significant engagements in the Pacific region, hold separate Dialogue-meetings with the Forum panel.

Although positive exchanges have taken place over the years between the EU and the Pacific region through this arrangement, the Post-Forum Dialogue does not fully reflect the importance of EU-Pacific relations and is insufficient in terms of sustaining the bilateral relationship between the regions. Particular shortcomings are as follows:

1. Limited visibility for the EU in the Pacific. The arrangement does not reflect the fact that the EU is the second largest donor in the region. No joint communiqué is issued after the dialogue. The number of Dialogue partners has been increasing over the years.
2. Limited visibility for the Pacific in Europe due to lack of formal preparation in the EU institutions and the fact that the meetings always take place in the Pacific region.
3. Limited impact on both sides due to lack of formalisation.
4. As the Post-Forum Dialogue takes place the day after the Forum summit is concluded, there is insufficient time for the EU side to properly prepare its reactions to the summit outcome.
5. The time allotted to the EU dialogue is insufficient to deal with an increasingly comprehensive EU-Pacific agenda. The distribution of responsibilities between the two parties as regards the issues in the agenda is unsatisfactory.

Full engagement in the Cotonou partnership entails sustained political dialogue, co-management of development cooperation and full participation in the EPA process. For a number of the smallest Pacific ACP countries such intensive cooperation poses a serious challenge. The costs for these countries relating to their Cotonou obligations is substantial, the cooperation may therefore not reach critical mass for them, and may even outweigh the benefits. For countries with **limited administrative capacity** there is the added concern that the cooperation may crowd out other and perhaps more important activities.

The European **OCT** face specific challenges, such as economic, social and environmental vulnerability, as well as problems of scale and progressive erosion of their trade preferences with the EU. At the same time, the OCT have a number of strengths, such as advanced education, health and research facilities and relatively developed economies, which they bring to the growing ACP-OCT interaction in the region.

CROP Agencies

The ten organisations are:

The Pacific Islands Forum Secretariat (PIFS)

Pacific Forum Fisheries Agency (FFA)

Pacific Islands Development Programme (PIDP)

Secretariat for the Pacific Community (SPC)

South Pacific Applied Geoscience Commission (SOPAC)

South Pacific Regional Environment Programme (SPREP)

South Pacific Tourism Organisation (SPTO)

University of the South Pacific (USP)

South Pacific Board for Educational Assessment (SPBEA)

Fiji School of Medicine (FSchM)

The CROP membership varies significantly and is summarised in the table below.

	<i>FSchM</i>	<i>FFA</i>	<i>PIDP</i>	<i>PIFS</i>	<i>SPC</i>	<i>SOPAC</i>	<i>SPBEA</i>	<i>SPREP</i>	<i>SPTO</i>	<i>USP</i>
<i>America Samoa</i>			X		X			X	X	
<i>Cook Islands</i>		X	X	X	X	X		X	X	X
<i>Federated States of Micronesia</i>		X	X	X	X	X		X		
<i>Fiji Islands</i>	X	X	X	X	X	X	X	X	X	X
<i>French Polynesia</i>			X		X	*		X	X	
<i>Guam</i>			X		X	X		X		
<i>Kiribati</i>		X	X	X	X	X	X	X	X	X
<i>Republic of the Marshall Islands</i>		X	X	X	X	X	X	X		X
<i>Nauru</i>		X	X	X	X	X	X	X		X
<i>New Caledonia</i>			X	**	X	*		X	X	
<i>Niue</i>		X	X	X	X	X	X	X	X	X
<i>Northern Mariana islands</i>			X		X			X		

<i>Palau</i>		X	X	X	X			X		
<i>Papua New Guinea</i>		X	X	X	X	X		X	X	
<i>Pitcairn Island</i>					X			X		
<i>Samoa</i>		X	X	X	X	X	X	X	X	X
<i>Solomon Islands</i>		X	X	X	X	X	X	X	X	X
<i>Tokelau</i>		X	X		X			X		X
<i>Tonga</i>		X	X	X	X	X	X	X	X	X
<i>Tuvalu</i>		X	X	X	X	X	X	X	X	X
<i>Vanuatu</i>		X	X	X	X	X	X	X	X	X
<i>Wallis and Futuna</i>			X		X			X		
<i>East Timor</i>				**						
<i>Australia</i>		X		X	X	X	X	X		
<i>France</i>					X			X		
<i>New Zealand</i>		X		X	X	X	X	X		
<i>United States of America</i>					X			X		
<i>United Kingdom</i>					X					
<p>* <i>Associate Member</i></p> <p>** <i>Observer / Special Observer</i></p> <p>*** <i>Plus representatives from the USP, Melanesia, Micronesia and Polynesia.</i></p>										

European Representations in Pacific ACP Countries	
Papua New Guinea	EC Delegation, UK High Commission, French Embassy
Fiji	EC Regional Delegation, UK High Commission, French Embassy
Timor Leste	EC Technical Office, Portuguese Embassy, UK Embassy, Irish Representative Office, French Co-operation Office
Solomon Islands	EC Office, UK High Commission
Vanuatu	EC Office, French Embassy
Samoa	EC Technical Office, UK High Commission
Kiribati	EC Technical Office