

**Implications of Globalisation for Alcohol Use in the Pacific –
The case of the Pacific Island Countries Trade Agreement
By Stanley Simpson, Pacific Network on Globalisation (PANG) Coordinator
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Dear Friends,

Firstly, my appreciation to the Centre for Social and Health Outcomes Research and Evaluation (SHORE), and the NZ Ministry of Health for this meeting.

Let me say from the outset that the organization I represent, the Pacific Network on Globalisation (PANG), is not an expert on the study of alcohol consumption or related effects/impacts or implications of alcohol in the Pacific.

Our focus is on free trade agreements and their various impacts on the Pacific (which of course is a huge undertaking and trying to cover almost every aspect of life and living in the Pacific). Ultimately therefore, we have to look at the impacts of free trade in alcohol and tobacco not only on Pacific Island economies, but importantly on their health and social stability and security.

Most of you would already know that globalization, in particular the opening up of economies to free trade in goods and services, with lower or zero tariffs, and the relaxing of regulations to allow for the free flow of investment and capital, is a contentious issue the world over, more so for the small vulnerable economies of the Pacific with a narrow resource base, and heavy reliance on a few industries (among them alcohol and tobacco) for employment and government revenue.

As I will point out, unfortunately the debate and discussion on free trade in alcohol and tobacco in the Pacific, brought about by globalization and the creation of free trade areas, has been largely centered on its potential impacts on government revenue, employment industry profits and creating more choices for consumers, than on the dangers it poses for the health and social stability of Pacific communities.

This has been one of our major concerns with the negotiations and discussions of these free trade agreements as a whole. Apart from our view that these trade agreements do not take into account the vulnerabilities of small island states and communities, a lot of these trade agreements have been signed and ratified without adequate and comprehensive social impact studies to inform our stance. A lot of the studies have been largely technical in nature with very little or no mention of the potential social, health and environmental repercussions.

The terms and reference of these studies, like the one done on alcohol and tobacco are in our opinion very narrow, and largely focusing on the economic and trade aspects, how free trade and globalisation will affect the local industries, will they be able to compete and survive with foreign competitors, how much will the reduction or removal of tariffs affect government revenue, where will we make up for the lost revenue, and how will we be able to improve our efficiency and productivity to be able to compete in a free trading globalised world.

To summarise what I will go into later, it is disturbing when governments commission studies to explore strategies on how the 'local' tobacco companies and breweries will survive globalisation and actually improve their efficiency and production to compete, (with lower prices as well as profitability), yet nothing is mentioned about the possible health costs and the adverse social impacts of alcohol and cigarette consumption (which is widely proven).

Or how increased importation of alcohol, at very low prices because of tariff reduction, with increased marketing and advertising will lead to increased consumption, a growing culture of alcoholism, and the destructive social and medical consequences which we are all familiar with.

In many ways we do not even know the full impacts (**statistics and data on traffic accidents, crime, costs to the judiciary, medical and health costs, lost productivity, social costs, family breakdown etc caused by alcohol**) of alcohol use in the Pacific as it exists today. Yet we are preparing to open up our markets and our people, to more exposure, marketing and access to alcohol in various forms and styles, cheaper and diverse range of brands, and drinking habits from all over the world.

Unfortunately there is a severe lack of research in the Pacific on these issues, especially by public interest or community groups who see the issues from a social angle, and are much more conscious of the impacts when it hits on the ground. There are a number of reasons for these; lack of resources, little capacity and expertise, lack of advocacy skills, the Pacific's 'culture of silence' etc. These issues need to be addressed to ensure an effective community response to the issue.

Let me start by saying a little about our organization, then to give an overview of free trade agreements in the Pacific brought about by globalization together with the discussions and studies on the issue of opening up alcohol and tobacco industries in the Pacific free trade agreements, and the likely implications.

PANG and its work

The Pacific Network on Globalisation is a relatively young organization. PANG was formed out of a Pacific civil society consultation on globalisation, trade, development and debt held in Fiji in 2001. Organisations, community and church groups present at that consultation realized that they were struggling to comprehend the issues of free trade and globalisation, its technicalities and politics, and more importantly the various impacts on the communities, resources and small vulnerable economies of the Pacific. Concerns about the lack of public information, and a desire to promote informed discussion and debate on free trade and globalisation led to the setting up of the PANG office in 2002.

Since then we have been challenging the process and conventional thinking about the impacts of free trade agreements, including the studies that have been commissioned by our governments and the Pacific Islands Forum on the issue. Among a number of case studies, we have also commissioned Auckland University Law Professor Jane Kelsey to do some studies for us on these trade agreements, the process leading towards them, and likely implications.

An interim report was released in April this year titled *Big Brothers Behaving Badly*, which highlights how Australia and New Zealand forced the PACER trade pact on island countries, as well as flawed processes, dangers and weaknesses of the trade agreements. A more user-friendly report (in question and answer format) was released in August this year for NGOs and Community groups titled *A Peoples Guide to PACER*. I will not get into the details of these here, but you can get these reports from the website www.ecrea.org.fj or by e-mailing us at pang@connect.com.fj

Another of our initiatives was the *draunisalato* (Poison Ivy) award for the worst company operating in the Fiji Islands in 2003. We took the idea from the Roger Awards for the worst TNC operating in NZ. Nominations were called on from the public, a judging panel went through the nominations, research was undertaken and a judgement drawn up which is then advertised in the newspapers so people can read the full judgement and judge for themselves.

The first *draunisalato* award was announced this year, and three companies were winners. Among them was British American Tobacco. I just want to highlight some of the reasons they were given the award.

1. Selling a product with proven evidence of high health risks and addiction.
Selling 417.2 million cigarettes in Fiji in 2002, a figure which is expected to increase by another 10 – 15 million in 2003. (Fiji has a population of 800,000). BAT sold 405 million cigarettes in 2001 which increased by 12 million in 2002.
2. The burden their product creates for the already under-resourced health services in Fiji.
3. Virtual monopoly controlling 99 per cent of the cigarette market in Fiji while still enjoying high duty protection for its dangerous product.
4. Lack of transparency about its research and statistics on effects of tobacco smoking as well as withholding information about the number of smokers in Fiji.
5. Advertising by stealth
6. Huge economic and social costs to society, especially the poor who have become addicted to their product.

Pacific Free Trade Area and Discussions on Alcohol

But now to the main issue I have been asked to speak on which is ‘Globalisation – Implications for alcohol use in the Pacific region’ specifically on the issue of trade treaties and their implications for Pacific governments capacity to control the import, marketing and pricing of alcohol. Most of the information for this section is sourced from the only comprehensive study that has been done on the inclusion of alcohol and tobacco in a Pacific free trade agreement or free trade area. This study was done by Dr. Wadan Narsey of the University of the South Pacific for the Pacific Islands Forum Secretariat and presented to the Forum Trade Ministers last year.

Perhaps Dr. Narsey’s study is on the Forum website by now, but a few months ago when we requested a copy of the study it was not given to us by the Forum who said it had not been cleared by the governments yet for public consumption (although Dr. Narsey has presented some of his findings in other forums). But Fiji is a small place, and I managed to find myself a copy while visiting friends. I also managed to get hold of some briefing papers on the issue prepared for the Pacific Islands Forum Trade Ministers Meeting in 2003.

In the briefing papers provided by the Forum Secretariat to the Forum Trade Ministers in 2003, I saw no mention at all about the social or health costs of including alcohol and tobacco in a free trade agreement. Dr. Narsey’s study itself, while quiet comprehensive in exploring the trade options and opportunities for island countries, also makes only brief mention of the potential dangers in health and social costs. It seems to me, that the terms of reference for the study provided to him, confined him to examine only the trade aspects and options available, and this is a major weakness and a severe flaw with the study. It is disturbing that the major study and briefings provided to our leaders and officials on the inclusion of alcohol in trade agreements does not say much or comprehensive about the social and health impacts these may mean.

It’s as if they have turned a blind eye to any adverse social or health costs to island countries of free trade in alcohol and tobacco. The fact that health and social concerns are not raised in the main briefing papers leads to serious questions about this whole free trade process and how our leaders are making their decisions/or basing their decisions. It says a lot about where their priorities lie, and who is having influence in these trade discussions and agreements. It also calls for urgent action by stakeholders to conduct research, and mobilize community action against the inclusion of alcohol and tobacco in the free trade agreements.

I understand that the Secretariat of the Pacific Community's (SPC) Public Health Program is working to ensure that tobacco remains outside the free trade agreement, and this is something that should be applied to alcohol as well, and we should mobilise towards. The inclusion of tobacco in free trade agreements tends to lower the price and as a result increase the consumption of tobacco (Dr. Harley Stanton). From a health point of view there is good reason to ensure that the price of tobacco remains high and does not move lower. The same thinking should apply to alcohol.

The creation of a free trade area for the Pacific Island Forum member countries was endorsed by Forum Leaders in 1999 and negotiations on the texts went on for another two years before two agreements were ready for signatures at the Forum leaders meeting in 2001.

The agreements were the Pacific Island Countries Trade Agreement (PICTA) which lays out a free trade area for Pacific island countries excluding Australia and NZ, and the Pacific Agreement on Closer Economic Relations (PACER) which Pacific island countries did not really want, but was insisted on by Australia and NZ (bullying perhaps describes it better, but you can read this in Jane Kesley's report *Big Brothers Behaving Badly*). While PACER is not touted as a free trade agreement it does stipulate that Pacific island countries must begin negotiations with Australia and NZ for a free trade agreement 8 years after PICTA comes in force, or if Pacific island countries enter into free trade negotiations with another developed country.

Pacific island countries did not want to include Australia and NZ in their free trade area agreement as they were concerned about the huge adjustment they would have to face in losses in tariffs (Australia and NZ are the regions biggest trading partners), and further there are real worries about the ability of local industries to compete with Australian and NZ companies with their economies of scale.

The objectives of the Pacific Islands-only PICTA agreement was to commit to trade liberalization as a means of bringing economic and social benefits and improving the living standards of all peoples of the Pacific region. These was to be done, among other things through the gradual elimination of tariff or non-tariff barriers to trade, with clear set rules and under conditions of fair competition, "with a view to the eventual creation of a single regional market among the Pacific island economies in accordance with the respective social and economic objectives of the parties, including the advancement of indigenous peoples...(*Dr. Narsey study*).

PICTA was seen as a "stepping stone" or to provide a "training ground" for further economic integration with the wider globalised world order; for business who will need to compete with multinationals and for governments who will need to implement reforms to 'adjust' to the changes (such as in tax systems, legislation regarding product standard, phyto-sanitary measures, quarantine requirements, custom procedures etc). (*Dr. Narsey study*)

The Pacific trade officials also thought according to Dr. Narsey, that being part of the FTA (with all the necessary structural and fiscal reforms could: "*also facilitate a 'lock-in' of economic policies so as to discourage backsliding by individual governments, responding to purely political imperatives rather than strong political rationale.*") (my italics).

In other words....don't give them much room to pull out if they change their mind later.

And this is another area of concern we have regarding free trade rules and in the context of alcohol and tobacco. They lock-you-in. Once you have signed on to these free trade agreements, it is against the rules, or almost impossible that you withdraw your commitments. Future governments are binded by it. So it will be difficult to change the trade rules you sign on to now, even if the adverse social and health costs sink in later.

As we are seeing in the WTO, countries could face trade retaliation and sanctions if they try to protect the local industries or sources of government revenue. Under WTO rules, if there is a public health reason for excluding a product and it applies to all countries then it is unlikely to be contested. However, if countries raise discriminatory barriers (such as higher tariffs) against products being imported from one country to another, simply to support local production or for other non-health reasons, this would be seen as a reason for sanctions against that country.

Therefore, operating under free trade rules and open competition, government would lose or severely limit their ability to control the import, marketing and pricing of alcohol. They will be under severe pressure from their trading partners to allow free trade that will give their consumers more choice and access to cheaper more quality goods. This is after all the theoretical underpinning for free trade and globalization.

For example, when discussing tax on alcohol products, the Forum briefing papers suggest that less excise duties be charged to local Pacific manufacturers so as to give some protection to local producers from the more well known brands from bigger countries. But they add: "These however should not be so high that imports of better quality and diverse range of products are completely shut out." (They are talking here about alcohol).

In the context of alcohol in small island countries, free trade in cheaper, better quality and diverse range of alcohol from all over the world could be dangerous, not to mention its various impacts on small Pacific communities already struggling with the pressures of globalization on culture, development, health, social stability and food security.

Since public health is a valid reason in the WTO for restricting imports, it seems surprising in some ways, that Pacific governments in their deliberations have not considered the health argument as a way of protecting their local alcohol industries and sources of revenue, and restricting foreign competition. Or better still, using the concerns to health and social stability, to keep alcohol and tobacco out of the free trade agreements.

Whether alcohol and tobacco were to be included in the free trade area agreement generated much discussion and debate when negotiations for a free trade area began, but not because of the potential health and social costs it may incur. Wadan Narsey writes: "Early on in the negotiations for a Pacific-wide Free Trade Area, trade officials had decided to exclude alcohol and tobacco from the Agreement. There were fears that reduction of duties might have a severe negative impact on some government's excise and custom revenues. There was also concern that some Forum Island Countries (FIC) breweries, distilleries and cigarette manufacturers might not be able to compete in a Pacific-wide FTA, with the consequent loss of 'unique' goods currently being produced in FICs."

Forum officials therefore requested that a full study be undertaken of the implications of integrating tobacco and alcohol products in a FTA, and this led to the study by Dr. Wadan Narsey.

"Early on, it was envisaged that the implementation of the FTA was to be accompanied by strategies that mitigated against the adverse effects. The focus of the latter was on possible losses in government revenues, and possible changes in fiscal systems to cushion or compensate for these losses." (*Dr. Narsey study*).

The social and health costs of free trade in alcohol and tobacco did not feature much in the thinking of trade officials discussing the issue, as it is not reflected in their briefing papers and reports. Their main concern was on the impact of government revenue and survival of the

local alcohol and tobacco industries when exposed to free trade and competition by foreign alcohol and tobacco producers.

Their main concern which was a general concern on the FTA as a whole was: “How should governments decide between the trade-offs amongst the benefits of the FTA (including cheaper consumer prices and better range of goods (alcohol) and government revenues, short-term domestic policy, employment and income-generation, and the survival of relatively inefficient domestic firms?” (*Dr. Narsey study*).

The potential health and social adverse effects is something that must be addressed now. We must be putting pressure on our governments to immediately institute studies on the social and health impacts of free trade in alcohol and tobacco on the Pacific, before they commit to anything in a FTA. It is also important that health ministries and stakeholders across the Pacific combine efforts and resources to influence government policy on the trade of alcohol and tobacco.

Let me turn now to some of Dr. Narsey’s findings on the alcohol section of his study, and parts that may interest you. I have tried to keep this simple, although these trade issues are often complex and complicated, especially if you are trying to assess something for countries which range from a population of 10,000 in Tuvalu to over four million people in PNG.

Alcohol and Tobacco are significant industries in most FICs contributing to government revenue and domestic employment and income. In the alcohol industry, there are two large breweries (PNG, Fiji) two breweries of moderate size (Samoa and Solomon Is) and five are micro-breweries (2 in Fiji, and 1 each in Palau, Cook Islands and Tonga). With the exception of sugar in PNG and Fiji, most of the inputs to these breweries are imported (such as malt, barley, hops, bottles, labels, caps, packaging etc). There are three distilleries producing spirits, 2 in PNG and 1 in Fiji. (*Issues Paper prepared by the Forum Secretariat for the 2003 Forum Trade Ministers Meeting*)

The contribution of beer taxes alone to total taxes in the FICs is immense. In Samoa at 7.2%, 3.7% in PNG, 3.2% in Fiji, 1.2% in Tonga, 1.0 % in Solomon Islands etc. Similarly the contribution of beer taxes to government revenue is also high. In Samoa at 6.6%, followed by PNG 2.9% and Fiji 2.4%. For Samoa, PNG and Fiji, these are significant contributions by one product to government revenue. (*Issues Paper prepared by the Forum Secretariat for the 2003 Forum Trade Ministers Meeting*).

Dr. Narsey’s study recommends the overall integration of alcohol and tobacco products in the PICTA, although he adds that to protect current government revenues, alcohol and tobacco, whether imported or produced domestically should be charged the appropriate level of excise taxes. As mentioned above, taxes from alcohol and tobacco are significant sources of government revenue for FICs. I guess from an economist and trade point of view, having more people consume or buy more beer is a good thing for the economy. But as I continue to stress, the lack of mention of the implications for increased alcohol use in the Pacific is shocking.

Globalisation and free trade will significantly increase alcohol use, and if the health and social sectors in the Pacific have been marginalized from the start on discussions on the issue, we are in for a rude awakening when the impacts finally hit. These globalization processes is happening at a very rapid pace and our countries are being pushed by the more developed trading partners to reform and conform to these free trade agenda for development. In my opinion, we are not really fully aware of what we are getting ourselves into when trying to include tobacco and alcohol in the free trade agreements and subjecting them to the forces of globalization.

There are many other technical and economic impacts or repercussions of the free trade in alcohol and tobacco in the Pacific that I will not get into here. Alcohol as we know, was one of the earliest products of globalization and trade, when the sailors first reached the Pacific in the 18th and 19th centuries. Today the bigger Forum Island Country brewers are owned or controlled to some extent by 2 or 3 multinational brewers. Needless to say, it is these multinational companies who will benefit greatly if they are given government protection, as they are now considered 'local' industries because they produce beers called 'Vailima' and 'Fiji Bitter' etc.

Some of Dr. Narsey's findings and assessments are worth mentioning in the context of this conference, some of it we will agree with, while some are contentious and need to be challenged.

He writes: "In Metropolitan and developing countries the world over, the universal free market trend has been for economies of scale to prevail and small regional breweries to succumb to the large multinationals...Economically, none of the FIC breweries would be likely to survive completely free open market competition from the breweries and beers of Australia, Philippines, the US and other larger country breweries with the benefits of economies of scale."

However he states that: "A convincing argument may be made, especially in the context of the local tourism industries, that the local FIC beers (in PNG, Solomon Is, Vanuatu, Fiji, Samoa, Cook Islands, Tonga and Palau) should be considered as "unique" national products giving "cultural" identity and diversity to each country, and deserving of preservation and strengthening by state interventions.

He also makes some interesting findings regarding spirit products in the Pacific. "The majority of FIC spirits manufacturers are essentially blending operations where the alcohol is either crudely produced (from bakers yeast and sugar) and distilled locally, or imported in bulk, diluted to the required strengths, and then blended with essences and concentrates, to produce the required spirit – rum, gin, whiskey, vodka, mixed drinks etc Only Fiji's production of rum may be said to be via a genuine distillery creating a genuine rum brand."

The consumers of the blended 'spirits' have usually been low income people who are attracted by the relatively cheap method of getting drunk, rather than concern for quality. Dr. Narsey finds that few FICs require that the spirits manufacturers follow generally acceptable health and sanitary standards at the factories; in the state of the machinery and equipment used, health standards with recycled bottles, the factory environment and the labeling.

He finds that: "For most FIC spirit manufacturers, there is little to no health department monitoring of the 'food quality' of the alcohol which is imported or locally distilled and the drinks which are the final products. The quality may especially be doubtful with ready-mixed drinks where the alcohol is pre-mixed with soft drinks, which would tend to disguise off-flavours that would be normally detected in impure alcohols. Such health issues must urgently be addressed to protect the health of consumers."

Apart from monitoring health standards, labels etc, this is almost all that the report states in terms of the health and social concerns of alcohol in the Pacific.

Two other recommendations are worth mentioning, because it has impacts on our adopting some form of beer culture, and how this is closely tied to trade and globalization. Dr. Narsey writes: "To facilitate the development of niche export markets, FICs examine the holding of annual Pacific alcohol product festivals for beers and spirits, to be rotated across the producing FICs, and the FIC products to be entered in metropolitan beer and spirit festivals and competitions." Unfortunately there is no mention of an annual conference to discuss the

social and health impacts of increased alcohol consumption arising from their being promoted in these beer festivals.

He also suggests that FIC breweries be assisted to examine whether cooperation between them in the purchase of the essential inputs for beer production (malt, barley, hops, bottles etc) may help to reduce unit costs from the current high levels, and to counter their fundamental lack of economies of scale.

I have referred quite a lot to Wadan Narsey's study not only because it is the only study of its type done on alcohol and tobacco in the Pacific free trade agreements, but also because it is a very highly regarded study among Forum Island Countries trade officials. In purely trade terms, Dr. Narsey's study may make good sense. But if we are to consider the social and health impacts of increased trade in alcohol arising from free trade and globalization, which is severely lacking in the studies and negotiations, we have got to be concerned.

Conclusion

A short conclusion from me.

These are the concerns many people have with globalization and free trade. That it is primarily concerned with increasing markets, trade and profit with scant regard for welfare, public interest, the environment, health and social stability. They also see the process as uneven and unequal to the disadvantage of small and developing countries, who need to trade, but face various constraints by barriers put up by developed countries, while at the same time struggling to ensure their own local industries survive.

They are vulnerable to supplying sources of cheap labour, and to the real threat of dumping of products by the more developed countries.

Dumping could be a major implication of alcohol use arising from globalization. The left-over beers and spirits from the more affluent North will be dumped cheaply in developing countries like those in the Pacific. A growing culture of alcoholism will see many Pacific islanders lap up these cheap dumped alcohol brands, the same way they have lapped up cheap unhealthy mutton flaps from New Zealand.

Because the way government's have come to rely on the Multinational beer and tobacco companies for government revenue and employment, they may be given special waivers and less standards and regulations to abide by, so that their investment remain in the country. Multinationals are rewriting investment rules and regulations.

In reference to tobacco Robert Weissman wrote in November last year that the new round of WTO trade agreements also include special provisions which give investors like Philip Morris, BAT and Japan Tobacco International – standing to challenge governmental regulations directly and seek compensation for profits lost due to rules that do not comply with strict investment regulations. You can be sure that the beer companies are looking to secure these as well. Things such as warning labels, ingredients disclosure requirements, bans on misleading descriptors (such as 'mild', 'medium' etc), advertising and marketing restrictions and such could be compromised and watered down if we are not careful.

Globalisation is seeing more and more of our youths getting exposed to beer brands from all over the world. They are in communication mediums everywhere. Turn on to our cable and sky sports channels in Fiji and we see ads for Amstel and Budweiser and such, beer brands many in the Pacific did not know existed until recently. There is a strong presence/relationship of alcohol with sporting events which is a worldwide phenomenon. Fiji's beer 'Fiji Bitter' is known as 'The Sportsman's Beer'. Another beer 'Fiji Gold' is

geared towards women because it is said to be something of a diet coke of beers. These are marketing strategies introduced from abroad.

These things are happening right under our eyes without much response, or if there has been, it has been ineffective or not sustained. Strategies must be put in place to ensure that we are effective in influencing policy decisions and policy formulation that affect our constituents. We really need to build our capacity to understand and influence trade policies such as those affecting alcohol. And in many ways, we have to use the same strategies and tools of globalization to take on the negative effects of globalization such as increased alcohol consumption. We must make strong efforts now to oppose the inclusion of alcohol in the Pacific Island Countries Trade Agreement.

Thank you very much for your attention.

Stanley Simpson
23 September 2004.