



Government of the Cook Islands

2018 Minimum Wage Rate Review Report for the Cook Islands



March 2018

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Preface

The 2018 Minimum Wage Review was undertaken in February 2018 by a Review Panel appointed by the Honorable Albert Nicholas, Minister of Internal Affairs, in accordance with the Employment Relations (Review of minimum rate of pay) Regulations 2014.

Selected members of the Panel included:

- **Sandrina Thondoo** Chair, Director of Labour & Employment Relations, Ministry of Internal Affairs
- **Natalie Cooke** Economic Analyst, Ministry of Finance & Economic Management
- **Tuaine Maunga** President of the Cook Islands Workers Association and Employee Representative
- **Steve Anderson** Executive member of the Chamber of Commerce and Employer Representative
- **Enua Pakitoa** Community Representative

In determining the minimum wage rate for 2018, the Panel was guided by the following five criteria; prevailing economic conditions in the Cook Islands; income distribution (in the community); the need for protection for low income earners; work incentives; and public submissions.

The Panel would like to thank members of the public who participated in discussions; and provided both oral and written feedback.

Secretariat support and data analysis services were provided by Elizabeth Hosking (Senior Inspector of Employment Relations).

The review was made possible by the financial support provided by the Ministry of Internal Affairs.

This report of findings and recommendations is presented by the Panel to the Minister for his consideration in setting the 2018 minimum wage rate.

1 Executive summary

1.1 Review purpose

The *Employment Relations Act 2012* describes the application of the minimum rate of pay as follows:

An employee is entitled to be paid at a fair and reasonable rate, not less than the minimum rate or rates of pay prescribed by the Regulations, that is commensurate with:

- a) The rate normally paid to workers for the same, or similar, work; and
- b) The duties required of the employee; and
- c) The employee's experience and capabilities

In setting the minimum wage the objective is to strike a balance between the needs and abilities of all sectors. In order to hear the views of as many people as possible, there must be the opportunity for active discussion and debate from all corners of the community on Rarotonga and the Pa Enea. In accordance with the Employment Relations (Review of minimum rate of pay) regulations 2014, the minimum wage is reviewed annually to ensure the rate is set at a level that achieves this objective.

1.2 Process

Under the Employment Relations Act 2012, the Minister responsible for administering the Act, has a legal obligation to review the level of the minimum wage by 1st March every year. The 2014 Employment regulations enable the Minister to appoint a Review Panel for the purpose of reviewing the minimum rate of pay under section 34 of the 2012 Act. The Panel is appointed no later than January each year to allow any proposed decision of the Minister to be considered in the context of the next annual appropriation. The five members include representatives from the Ministry of Internal Affairs, responsible for the administration of the Employment Relations Act 2012 designated as Chair; the Ministry of Finance and Economic Management; an association of employers; an association of employees; and one other person representing the Community, appointed at the Minister's discretion.

The Panel works in accordance with a Terms of Reference, and criteria, and invites public submissions. A written report of recommendations is presented to the Minister by 2 March 2018. Upon receiving the report from the Panel, the Minister may increase, decrease or maintain the prescribed minimum hourly rate of pay in accordance with section 88(1) (a) of the Act. The written report must be made available to the public by the Secretary.

The current Terms of Reference is effective from the date of appointment by the Minister and continues until the report is completed or by 2 March 2018, whichever comes first.

1.3 Summary of Key Findings

This section highlights main findings while Section 6 provides a detailed list of key findings under the 5 criteria.

Since the last Minimum Wage Review was completed, there has been no release of any new official national statistical data relevant to the analysis of the minimum wage rate. There was consensus by the Minimum Wage Panel that release of the Census 2016 and the Household Income Expenditure Survey 2016 will provide the basis for a comprehensive analysis for setting of the Minimum Wage, however noted that the information was unavailable for the current review. A Labour Market Assessment is also expected to be undertaken through the Cook Islands Statistics Office in partnership with International Labour Organization later in 2018. In the absence of major new data sets, the Minimum Wage Panel largely reviewed if there were any major changes since the last report carried out in 2017.

As in prior years, the determination of the minimum wage for 2018 was influenced by a range of views depending on whether the respondent was an employer, employee, part of the workforce or not, by age, from the public sector, private sector, Rarotonga or Pa Enea.

However, some consistent themes remain in 2018:

- The Cook Islands are still one of the few Pacific countries that has a universal minimum wage with no exemptions. The universal wage is higher than almost all Pacific Island nations, with only the US Territories and French Polynesia having a higher minimum. Comparisons are often drawn between the Cook Islands and Australia and New Zealand. The Cook Islands should be careful in raising the minimum wage too high, or too quickly, as the economic structure of the country is fundamentally different than that of Australia and New Zealand.
- Much of the consultation among workers and the general public confirmed that cost of living and the provision of a livable wage were the primary concerns of many people, particularly in the Pa Enea. Concern was also expressed about poverty levels and income distribution, and population migration. An ongoing concern raised at this year's panel was the income levels of the migrant workers in the Cook Islands. Most of the suggested minimum wage rates from the general public were to set the rate in a range from \$7 and \$10 an hour – with cost of living in the Pa Enea being a primary concern.
- The majority of employers in Rarotonga pay most, if not all, of their employees at rates of pay in excess of the current minimum wage. The main employers of minimum wage employees were the public sector, small businesses and the few businesses in the Pa Enea.
- Based on the current limited data available it is expected that a minimum wage should not place undue pressure on business viability, prices and inflation. A fair minimum wage should also not allow any employer to treat an employee unfairly, or to compete unfairly with lower overheads by not meeting their employer obligations.

- Even at a minimal increase of 25 cents, the cost for the Government is quite high and particularly in regards to specific Island Administrations (refer to table below). The most likely response from the most severely impacted Island Administrations is that they will be forced to reduce work hours of the staff on/near the minimum wage (personnel appropriations are limited) if there is no increase in the Pa Enea funding model to meet an increase in the rate. If this occurs, then staff take-home pay packets may not change, despite the higher wage – although they will have more free time for other activities.
 - Alternatives to reducing cost of living pressures in the Pa Enea include increasing utility subsidizes, subsidizing fish/agriculture storage, or addressing transport links, but these policy measures would need much more consideration and consultation and fall outside the responsibility of the Minimum Wage Panel. To note that the upcoming shipping subsidy will be monitored to assess the impact on the prices of goods and services in the Pa Enea, and subsequent impacts on cost of living.
- The most recent GDP estimates for the 2016 calendar year suggest a real GDP increase of 5.1 per cent. The 2017-18 Half Year Economic and Fiscal Update projects economic growth to slow somewhat in the coming years, with growth of 1.6 per cent projected for 2017/18.
 - Inflation for the year to December 2017 rose by 0.4 per cent, however this is following a period of deflation, and prices are still below levels seen in 2015. Based on the December result, an increase in the minimum wage of \$0.028 would fully offset the increase in the cost of living over that period. It must also be noted that the minimum wage increased by \$0.75 in July 2017, more than offsetting the minimal increase in the cost of living over this period.
 - Discussion took place on the need for different minimum wage rates for Rarotonga and the Outer Islands. The Outer Islands have lower productivity levels, smaller markets and limited employment possibilities but at the same time, they face higher costs for consumer products, in particular fuel and gas due to shipping costs. To strike a balance between these considerations, the panel agreed that a universal rate should apply for now, pending more thorough research from an economic perspective.

2 Background and context

2.1 A history of Minimum Wage in the Cook Islands

The minimum wage was first established with the passage of the Cook Islands Industrial and Labour Ordinance in 1964. It was adjusted on an ad hoc basis until 1981. From 1981, the Government linked both the minimum wage and public service remuneration increases to changes in the cost of living index. This was renewed annually but was placed on hold after 1987 when the Government changed. After 1987 the minimum wage continued intermittently. In 2000 the minimum wage of \$2.53 was increased by 58% to \$4.00 per hour. It was noted in Cabinet in 2000 that the minimum wage be incrementally adjusted upwards to a target of \$7 per hour over the following 3 years to 2003. This figure was based on the

prevailing youth wage rate in New Zealand (2001 COLA report). However, the next documented minimum wage change wasn't until 2006 when \$5 per hour was set by Government.

The next minimum wage review was conducted in 2014 when the minimum wage was increased by 20% from \$5.00 to \$6.00 (2014 Minimum Wage Review report at www.intaff.gov.ck). This rate was set for all regardless of age, gender, ethnicity, nationality, location, and sector. The following minimum wage review, conducted in 2015, increased the minimum wage to \$6.25. The Panel recommended in its report a gradual increase of \$0.25 annually. Unfortunately, due to lack of internal resources in the Ministry of Internal Affairs, the minimum wage review for 2016 was not completed, leaving the rate of \$6.25 as the minimum rate for two consequent years. The last review was conducted in 2017 and the rate was increased from \$6.25 to \$7.00 per hour.

2.2 International obligations

Since May 2015, the Cook Islands has become one of the latest state members of the International Labour Organization (ILO). The Organization's guidelines on the setting of a minimum wage are a useful measure. According to the ILO, an effective minimum wage is acceptable when it meets the needs of all parties. In addition, the minimum wage should protect low paid workers.

2.3 Criteria for Assessment

In setting the minimum wage, the objective is to strike a balance between the needs and abilities of all sectors. In order to meet this objective through the minimum wage review, five assessment criteria are to be considered:

- I. Prevailing economic conditions in the Cook Islands;
- II. Income distribution (in the community);
- III. Work incentives;
- IV. Need for protection for low income earners; and
- V. Any written/oral submissions made by the public.

i. Prevailing economic constraints in the Cook Islands

Economic conditions may include (but are not limited to) such things as trends in Gross Domestic Product (GDP), average or medium income, the unemployment rate, the economic contribution of a particular sector, international comparisons, or international economic trends and the risks to the Cook Islands.

ii. Income distribution in the Community

This criterion refers to the spread of income across society; by male and female members, geographic area, by industry, within government, across private and public sectors, and/or between income groups. Income distribution is not homogeneous in the Cook Islands. It may differ for each island and can be controlled to a degree by the local government, church, migration, development assistance, and resources. These factors can distort any meaningful development.

iii. Work incentives

The criteria of ‘work incentives’ is defined as increasing the incentives to work for people considering work. Creating the correct incentives requires the minimum wage to be set at a level that makes work attractive compared to not working. They are the extent to which the minimum wage balances the incentives of both labour and business to provide the socially optimal level of employment. Work incentives also encompass the ability of businesses to create and maintain employment opportunities that are affordable at the minimum rate of pay.

iv. The need for protection for low income earners

The criteria of ‘protection’ is defined as offering wage protection to low income workers so that workers are paid wages that reflect their worth or productivity. Workers may have a lack of bargaining power when they face risks in leaving and finding another job (have poor English, or are disabled) or have poor income or employment alternatives. This broadly encompasses the social and economic ability of low income earners to provide a suitable living standard for their households, and includes the provision of publically and socially provided goods and services.

v. Written/oral submissions made by the public

Allowing the public the opportunity of engaging in the review, is part of the democratic process, and ensures that review findings also include public input. Feedback will ensure that the minimum wage set will reflect what the public wants or does not want, and as such, it is more likely to be acceptable by all.

3 The Cook Islands Economy and labour market

3.1 The structure of the Cook Islands economy

The Cook Islands is a small open economy that is largely dependent on tourism. Despite being one of the most remote countries in the world, and one of the smallest (even by Pacific standards), the Cook Islands is the third most prosperous country per capita in the Pacific, behind New Zealand and Australia. The Cook Islands has enjoyed a sustained period of economic prosperity following the rapid growth of the tourism industry and a series of reforms following a fiscal crisis in 1996. Average gross annual income for all residents (as estimated by the 2011 Census) was \$16,848 for males and \$13,243 for females in 2011, for an overall average of \$15,028.¹

Despite the envious position of the Cook Islands in the region, the general public compares their expectations of income, public services and opportunities to those on offer in Australia and New Zealand due to the use of the New Zealand passport by Cook Islanders; they are free to migrate to either of their larger neighbours. Approximately 60,000 Cook Islanders live in New Zealand and around 16,000 live in Australia (according to their most recent census reports), while the Cook Islands was home to just 14,974 residents in 2011. However, the close relationship with New Zealand has greatly benefited the Cook Islands. For example, the Cook Islands has one of the highest life expectancies and literacy rates in the Pacific, due in part to the access afforded to Cook Islanders to the New Zealand health and education

¹ Excluding those who indicated that they earned no income, the average incomes are higher at \$19,210 for males and \$15,598 for females.

systems. While a disadvantage for its labour market, low population density has placed less strain on scarce domestic resources. Despite this, population migration is one of the main topics of the public consciousness, and has significant implications for the Cook Island culture, language, size and structure of the labour market.

The cost of living in the Cook Islands is relatively high on a purchasing-power basis – owing largely to the small population, the extreme distances that goods have to travel to reach Rarotonga, and the inability of Rarotonga harbour (Avatiu) to receive trans-pacific shipping. The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel, as transport costs affect the price of almost all goods. However, while the Cook Islands imports around \$165 million in consumer and capital items; it exports around \$320 million worth of services in the form of tourism and financial services. To this end, the Cook Islands is estimated to enjoy a large trade surplus of around \$156 million (37 per cent of GDP) in 2016/17). Tourism accounts for around 60 per cent of the economy, and the vast majority of services exports.

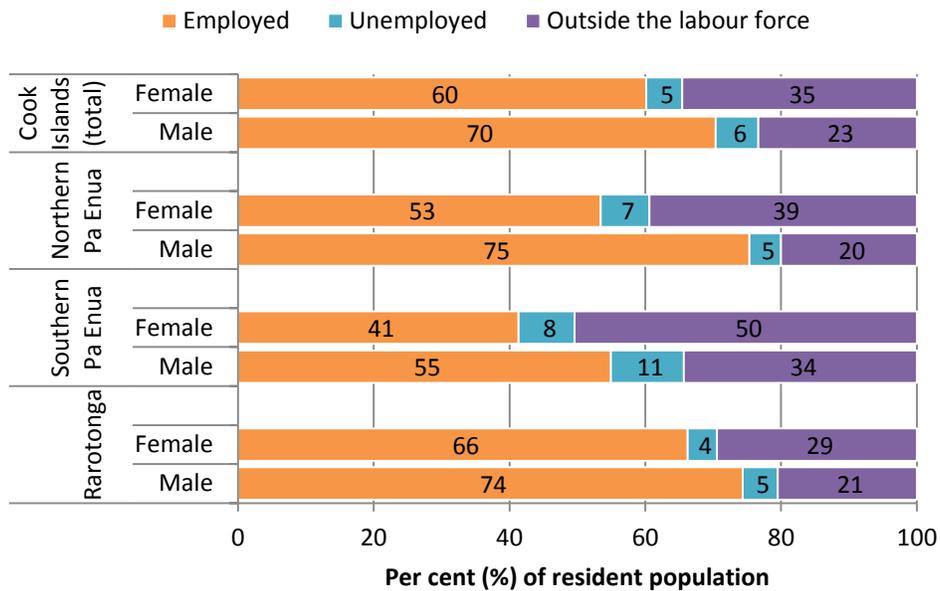
The dependency on tourism has led to exceptional economic development, but a lack of economic diversity or economies of scale make any progress fragile and reversible, and labour market constraints across multiple areas of the economy still present major limitations on economic growth. It is also evident that there are several bottlenecks in accommodation capacity, aging water and waste infrastructure, poor transport links to the Pa Enea (Outer Islands), an ageing population, and increasing demand on public services.

3.2 The structure of the labour market

According to the 2011 Census, 71.0% of the 10,642 residents above 15 years of age were economically active. While not a strict definition of unemployment, 8.2 per cent of the workforce were classified as unemployed – relatively good within the Pacific, but higher than in New Zealand and Australia, who tend to be closer to 6 per cent. This compares to an unemployment rate in the Cook Islands of 13.1 per cent in 2006. The largest employment category is full-time employees (70.1%) followed by part-time (13.0%). Unemployment in the Southern Group is a concern at 16.5% despite a low level of labour force participation, with the Northern group being closer to the national average at 8.2% (although there is a large difference between men, at 5.8%, and women, at 11.9%).

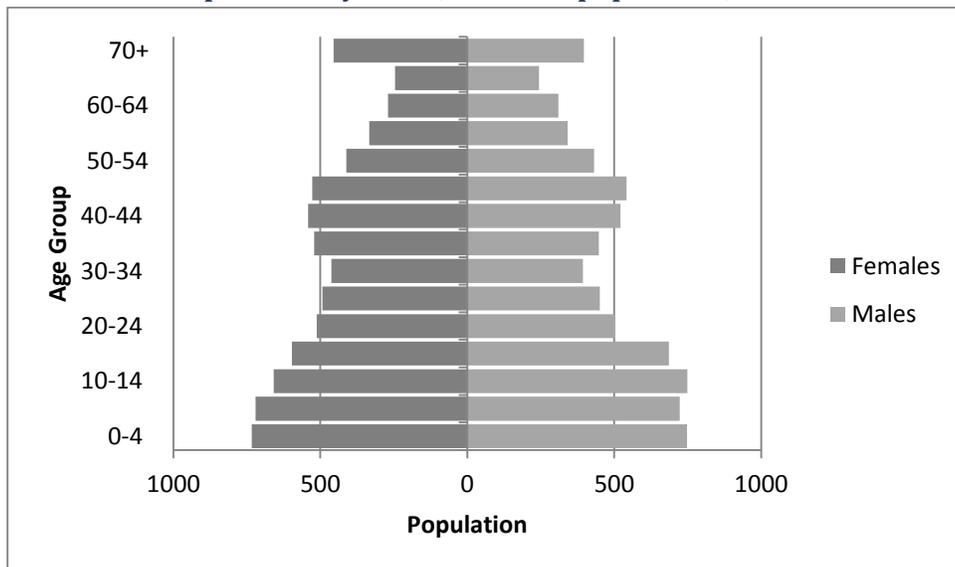
In Rarotonga, the vast majority of men and women work (79.5% and 70.5% respectively) and almost all of them are in paid employment (the majority of which is full-time). Labour force participation is lowest in the southern Pa Enea, and there is a more significant gap between men and women (65.7% of men compared to 49.6% of women). In the northern group, 80 per cent of men are in the labour force, on par with the rates seen in Rarotonga. Women's participation is also high (60.6%), but it is here that the gender gap is the biggest at almost 20 percentage points, most likely due to their tendency for being the primary carer for children and other responsibilities at home. Also included among those "outside the labour force" are full-time students and the retirees.

Figure 1: Employment status by gender and location, Cook Islands 2011 Census



In terms of age profile, most employees are between 15 and 55, but unlike most countries at this stage of development each 5-year age category between 20-24 and 40-49 contains almost the same amount of employees. Notably, the 20-39 demographic in the population does not follow the typical ‘pyramid’ shape, most likely due to outbound migration.

Figure 2: Cook Islands Population Pyramid, Resident population, 2011 Census



Consistent with experiences elsewhere, the largest cohorts of casual and part time labour are the 15-19 and 20-24 categories. The low numbers of workers in these ‘youth’ categories reflects the absence of these demographics in the total population rather than low levels of participation. Unemployment for

those below 25 years of age is higher than the general population, with youth unemployment at 15.5 per cent (217 out of the total 616 unemployed, or 35%, of total).

The lack of a large youth demographic has led to a significant ageing in the Cook Islands workforce. Compared to 1966, the decline in fertility actually explains much of the change in the age structure of the Cook Islands. In 1966, the average age of a Cook Island resident was 20.2 years old,; in 2011 this had increased to 32.6 years old – a substantial increase over a 45 year period. While depopulation is a convenient reason to explain the lack of young people, female fertility of the Cook Islands is at 2.6 – just above replacement (which is often cited as 2.1). Notably, outmigration rates are actually similar to the other Polynesian countries despite the access to the New Zealand passport, but Tongan and Samoan fertility rates are much higher (in the range of 3.5 to 4).

Anecdotally, and consistent with the Cook Islands stage of development, the skills composition and age profile of the labour force reflects neither a developing nor a developed country. There is a perception that highly skilled labour is difficult to attract due to higher earning potential in New Zealand and Australia, and that unskilled labour is not locally abundant because of the high standard of living, employment expectations and reservation wage. The number of workers relative to the size of the economy also goes some way to explaining the relatively high GDP per capita, although low pay rates suggest low returns.

To address labour shortages across the spectrum of professions, inbound migration has been required to fill skill gaps. Total migrant workers make up around 12 per cent of the resident population but 16 per cent of the workforce due to higher labour force participation. Notably, this is far less than Pacific countries of the same size (like Nauru – 21 per cent of resident population, or Palau – 28 per cent), and well behind the Australasian nations (New Zealand – 25 per cent, and Australia – 28 per cent), but relatively higher than the larger Polynesian countries (Samoa – 3 per cent, and Tonga – 4.8 per cent). Census data shows that foreign workers are mainly in the restaurant and accommodation sector where 369 foreigners are employed, representing just over one quarter (27%) of the jobs. The second biggest sector for foreign workers is wholesale and retail trade, with 196 employed (16% of that sector), followed by the 170 foreign workers in the community and personal services sector (35% of those jobs). The jobs undertaken by foreign workers ranges from unskilled, medium skilled and high skilled, but there are concerns that low skilled foreign labour is exploited through illegal work practices (such as confiscation of passports, or making deductions from minimum rates of pay for the provision of accommodation or uniforms) or provision of minimum wage for roles typically paid at much higher rates (like support services). Without a full labour force survey, it is challenging to back up such claims with hard data. Moreover, these figures are likely to be higher in the new Census information to be released this year.

It comes as no surprise that tourism is the major employer in the economy, with the 2011 Census estimating that 2,539 of 6,938 (36.6%) of the working population are employed in the tourism or retail industries. The public and community sector is the next biggest sector (34.5%), with the public service being the largest single employer. The other industries play minor roles, employing 500 people or less each.

Notably, primary production (fisheries and agriculture) employ relatively few people (297, 4.3%), despite the relative abundance of natural resources. One reason for this may be the relatively high wage of the average Cook Islander, compared to the (traditionally) low returns in these sectors. In the homogeneous export industries of agriculture and fishing, the Cook Islands has to compete with its Pacific Island peers as well as the larger economies of tropical Asia. The main costs to these industries are labour, fuel and capital, three things that the Cook Islands face much higher costs on. This means that export opportunities for Cook Islands produced food exports is very limited, and local production will either be expensive, or suffer from low economic returns (especially relative to tourism). The other reason is that there is not a large enough domestic demand to sustain an independent industry of any notable size due to the small domestic population. With this in mind, labour is likely to be attracted away from primary industries into the service industry, where labour productivity and wages are higher.

3.3 Prevailing economic conditions for 2018-2019

According to the 2017/18 Half-year Economic and Fiscal Update (December 2017), the growth prospects for the Cook Islands are positive over the next four years on the back of strong visitor arrivals, and high levels of capital works anticipated. There are however a number of risks to growth; tourism growth may slow over the short term, and delayed implementation of capital projects, notably water and renewable energy, may see growth come in below forecasts. The latest GDP data for 2016 suggests that the economy grew by 5.1 per cent in real terms. While these figures are only provisional, when the strong recent growth in tourism is factored in, it suggests that economic growth over the 2016/17 and 2017/18 financial years will likely remain positive.

Nominal GDP (which includes inflation) is estimated to have grown by 1.5 per cent in the 2016 calendar year compared to 2015, due largely to increase visitor arrivals and capital spending by government. Nominal growth is expected to reach 5.4 per cent in 2015/16, due to continued visitor growth. Growth in 2017/18 and onwards is expected to remain positive, albeit at a lower rate, as capacity constraints in the tourism industry take hold.

Tourist growth has been revised downward from the forecasts at the 2017/18 Budget due to increased competition from other Pacific destinations and capacity constraints affecting Rarotonga. Despite this, growth in visitor arrivals is still expected to remain strong from the 14.9 per cent experienced in 2016/17, to total an estimated 3.5 per cent in 2017/18, with the slowdown in growth largely expected in the New Zealand market. The forecast for the outer years remains at high levels, though the growth rates slow somewhat, to between 1.0 and 2.8 per cent per annum.

Prices, as measured by the Cook Islands Consumer Price Index (CPI) remained slightly deflationary in 2016/17, due mainly to depressed global commodity prices, especially oil. Inflation is expected to increase modestly to average around 1.1 to 1.6 per cent per annum over of the remainder of the period from 2017/18 to 2020/21.

4 Economic and fiscal implications for the minimum wage

4.1 Comparative considerations

The Cook Islands is heavily trade exposed through the provision of exported services (predominantly tourism). Costs of the factors of production are important in determining overall productivity, and hence economic growth. As a services-based economy, labour is a key input to production, and the highest area of local value-add. In terms of goods production, import substitution and industry creation efforts will be hampered by high production costs if factor productivity is not high enough to remain competitive. More generally, comparisons to minimum wage conditions in other countries, as well as local productivity considerations, will form an important part of industrial policy and competitiveness. Local labour also looks to other labour markets as a guide for local reservation wages.

In the 2015 review, additional efforts had been made to understand the structure of minimum wage rules in neighbouring jurisdictions. The added understanding has dramatically changed the comparisons, particularly to Australia and New Zealand.

Table 1: Minimum wages by Pacific Country (as at 1 March 2018)

Country	Hourly rate	Notes
Cook Islands	\$7.00	Universal wage rate
Australia ²	AUD 18.29	The highest minimum wage in the world, but is lower for people under the age of 20. Piece rates (fixed work payments) and commission-based wages allowed on agreement. Casual employees get a 25 percent casual loading, and the rate differs (usually higher) by industry and qualifications. Youth minimum wage for those under 16. Minimum apprenticeship rate.
New Zealand ³	NZ\$15.75 (Adult)	Applies if the employee is 16 years or older. There is no minimum for those under 16 years of age. Exemption for people with disability.
Rate as at 1 April 2016	NZ\$12.60 ("Starting out" wage or those under apprenticeships/accreditation)	Applies for the first six months of paid employment or if the worker is over 20 but

² Rates vary. Figures presented here are from a sample of minimum conditions available on <http://www.fairwork.gov.au/pay>

³ <http://www.dol.govt.nz/er/pay/minimumwage/>

Country	Hourly rate	Notes
		working as part of a attaining an industry qualification.
Samoa	WST2.00 for private sector and WST2.65 for public sector	Private employees are paid the lower rate
Tonga	N/A	Tonga does not have a minimum wage, but has proposed to introduce one
Fiji⁴	FJ \$2.68	
Palau⁵	US \$ 3.50	Some exclusions apply (notably agriculture).Indications that the country is working towards a maximum of \$8.50 per hour.
Marshall Islands⁶	US \$2.50	Recommendation that it shall only increase gradually by USD\$0.50 AND stopping at the maximum rate of USD\$4.00.
Federated States of Micronesia⁷	Up to USD2.34	Varies by National and State Government.
Kiribati⁸	AUD\$1.30 per hour – local companies AUD\$3.00 per hour – Overseas-funded projects	Minimum wage commenced in November 2016
Vanuatu⁹	VT\$200 per hour	This represents around 17% increase from the previous minimum wage rate per hour of Vt170. This movement of raising the new minimum wage rate of VT\$200 an hour came into effect on January 1, 2018.

⁴ <http://www.fiji.gov.fj/Media-Center/Press-Releases/FIJIAN-GOVERNMENT-INCREASES-NATIONAL-MINIMUM-WAGE.aspx>

⁵ <http://pidp.eastwestcenter.org/pireport/2013/May/05-03-17.htm>

<https://www.postguam.com/news/pacific/palau-president-proposes-hourly-minimum-wage->

⁶ <http://rmicourts.org/wp-content/uploads/P.L.2016-12-Minimum-Wage-Amendment-Act-2016.pdf>

⁷ <http://www.nationsencyclopedia.com/economies/Asia-and-the-Pacific/Micronesia-WORKING-CONDITIONS.html>

<https://www.encyclopedia.com/places/australia-and-oceania/pacific-islands-political-geography/micronesia>

<https://www.state.gov/j/drl/rls/hrrpt/2006/78782.htm>

⁸ <http://www.islandlifemag.com/latest-news-pacific/kiribati-government-sets-new-minimum-wage/>

<http://kiribati.me/2016/11/03/kiribati-government>

⁹ <https://ajc-vanuatu.com/vanuatu-government-increases-minimum-wage-effective-1-january-2018/>

Of the island nations, only the US territories exceed the Cook Islands minimum wage. French Polynesia also has a higher minimum wage, but recent official sources¹⁰ showed a minimum hourly rate of US 1.37 since October 2014.

Almost all jurisdictions have requirements on the maximum allowable work week (generally 40 hours) with penalty rates applying thereafter (New Zealand, Australia, Samoa, and the US Pacific Territories). This is similar to the Cook Islands employment relations system, except that this rule only applies to wage workers in the Cook Islands, not salaried employees.

Australia is one of the few jurisdictions with a minimum requirement around weekly pay or work hours.

Most interesting is what the published minimum rates *exclude*. Almost all jurisdictions allow for piece rates (payment for a fixed project) or full commissions (payment based on sales) with the minority of jurisdictions requiring pre-approval. Many jurisdictions also make exclusions for some sectors of the economy (notably agriculture) or sectors of the workforce (with minimum wages only binding after a certain age or level of experience).

Pacific Island comparisons

In terms of relevant comparisons, the Cook Islands minimum wage is well ahead of all other independent Pacific Island Countries.

In its previous report, the Panel had raised awareness on the challenges faced by American Samoa and the Northern Mariana Islands following sharp increases in their minimum wages rates. Over a five year period (2007-2013), the total work hours for tuna canneries in American Samoa fell a massive 58% (11% across all sectors), with employers attributing the labour cuts to the increases in the minimum wage. In the Northern Mariana Islands, there was a 45% decline in total work hours their whole economy over the same period. In both economies, these decreases came in the form of both unemployment and reduced hours for the remaining workforce. Taken together, these labour market crises are a poignant reminder of what can go wrong if minimum wage increases are not given due consideration.

Due to the labour market issues experienced in their economies, Washington was advised to arrest or slow the planned increases in the minimum wages in the US Pacific Territories.¹¹ President Obama accepted the recommendation, and signed a measure to freeze the current minimum wages until September 2015 (a two year delay from the next planned increase).

Australia and New Zealand comparisons

Comparisons to other Pacific Island countries, while fairer in terms of similarities to the Cook Islands, do not account for the open labour mobility of Cook Islanders to New Zealand and Australia.

Despite having the highest minimum wage in the world, there are numerous exemptions to the stated minimum wage in Australia. For those under 20, various rates apply depending on the industry and the

¹⁰ <http://www.servicedutravail.gov.pf/spip.php?rubrique278>

¹¹ Guam being the only exception (as it was already on par with the continental minimum wage rate).

employee's age. There can also be exemptions applied in the case of disabled staff, or where someone cannot perform the full role.

As there is no labour productivity data in the Cook Islands, no objective comparison can be made with the larger Pacific economies. However, the fundamental differences in economic structure are well understood, and it would be unrealistic to expect that the Cook Islands would have the same minimum wage conditions as either New Zealand or Australia, as average labour productivity would likely be much lower.

Conclusions from the comparisons

Perhaps most interestingly, almost all jurisdictions (including Australia and New Zealand) offer exemptions or lower minimum wage rates for youth, trainees and those with disabilities. Such conditions might be a worthwhile addition to the Cook Islands employment relations framework. More research and consideration should be given in this area as a way to help mitigate potential employment losses from these demographics.

In general, the Cook Islands need to learn from the experience of American Samoa and the Northern Mariana Islands – we must be careful about rushing into “equalling New Zealand”. The potential negative effects on the Cook Islands economy and its competitiveness could be dire. In US territories, the consequences were reduced work hours and unemployment, but for the Cook Islands this increasing cost to labour might bear out as slower jobs growth, rather than immediate job losses. If this were to occur, it may accelerate the outmigration of those most likely to be entering the workforce (typically those below the age of 20).

4.2 Effects of inflation on the cost of living since 2014

In 2017, the minimum wage was adjusted by \$0.75 an hour from the \$6.25 per hour set in 2015. In the year to December 2017, general prices, as measured by the Consumer Price Index, rose by an estimated 0.4 per cent, which equals to a 2.8 cents decrease in purchasing power for minimum wage earners. However over this same period, the minimum wage increased by 75 cents, more than offsetting the increase in the cost of living.

It is worth noting here, that fully inflation-adjusted wages are not common practice in the Cook Islands (especially in the public service), and that pegging the minimum wage to inflation may increase domestic wage-price inflation.¹²

4.3 Labour productivity considerations

Wage-price inflation is a major concern for a services-based economy like the Cook Islands. While imported goods are somewhat insulated from domestic wage-price inflation, wage costs for the delivery of these products (retail, stock, and delivery staff) are all relatively low compared to the wages for higher

¹² “wage-price inflation”, or more commonly “cost-push” inflation, is where increasing labour costs force businesses to increase prices to remain profitable. This can lead to a wage-price spiral: wages are constantly bid up in a race to outgrow prices, but prices increase due to the rise in wages. This is particularly relevant to the Cook Islands context, as the main economic driver (tourism) relies heavily on labour inputs as the domestic value-added factor of production.

skilled professionals. Increases in the cost of this labour, with no corresponding increase in labour productivity, could lead to price pressure on everyday consumables for all Cook Islands residents and a deterioration of the competitiveness of the tourism industry. Unlike the VAT, increases in labour costs compound from one supplier to the next, disadvantaging those businesses with longer supply chains who do not import their own products (such as stores in the Pa Enua). These businesses may be forced to close if these wage costs rise without associated productivity gains.

An additional element of wage-price inflation is the flattening of low-wage points. As the minimum wage increases, more workers will find themselves working at the same wage as more junior or less skilled staff. At low levels this is not problematic. However, it is not uncommon for near-minimum wage staff to be supervised by staff who are only receiving one or two more dollars an hour. Increasing the minimum wage too much, or too quickly, may encourage the higher-paid staff to also demand wage increases to maintain the gap between themselves and the previously lower-paid staff. For example, the 2017 increase in the minimum wage resulted in wage changes for all levels of public sector employees, as the minimums of the 3 lowest wage bands fell below the new minimum wage.

For these reasons, an incremental approach to minimum wage setting is advisable. Many countries choose to adjust the rate by as little as 10 cents a year to try and avoid wage-price inflation and allow businesses time to adjust their labour practices. It is an exception, rather than the rule, that countries elect to increase the minimum wage rate in larger, one-off, steps (as occurred in 2017).

4.4 The fiscal impacts of a minimum wage increase

The Government is the largest employer of staff that is close to the minimum wage, particularly in the Pa Enua. The expense to the Government payroll is an important element of considering further wage increases.

The table below summarises the impact on the Government payroll for a range of minimum wage increases. The rates below are illustrative only and do not include the Cook Islands Superannuation Fund contributions. The increases in cost include the costs of those currently earning the minimum, as well as the inclusion of increasing numbers of workers as the minimum wage rises.

Table 2: Estimated cost of minimum wage to government

Minimum Wage (\$/hr)	Impact on the Government payroll
\$7.25	143,719
\$7.50	336,602
\$8.00	786,714

Source: Cook Islands Government central payroll for July 2017

Table 2 demonstrates how increases approaching \$8.00 become more expensive for the Government payroll, with little associated increase in tax revenue due to the presence of the tax-free threshold.

The cost to Government is an opportunity cost of those programs and projects which will not be funded due to the requirement to pay public servants more. For example, in the case of larger increases,

arguments about cost of living in the Pa Enea could be addressed through other means such as reducing the cost of consumer goods, reducing the demand for wage increases in environments where labour productivity is low. This would also avoid businesses on those islands facing higher labour costs and potentially having to close their doors or lay off local staff. However, genuine effort would need to be made towards putting sustainable programs in place, and this would take time. The Pa Enea is discussed more in the next section.

In the event that the minimum wage is increased, the different island agencies would have to absorb the financial burden. Below an estimate of the costs by island:

Table 3: Estimated impact on selected agency Budgets from minimum wage levels

Impact on agency Budget	7.25	7.50	8.00
Aitutaki Island Admin	456	2,281	9,882
Atiu Island Admin	2,748	12,055	40,977
Mangaia Island Admin	8,669	19,801	45,351
Manihiki Island Admin	10,950	22,174	46,533
Mauke Island Admin	1,825	7,756	26,125
Mitiaro Island Admin	21,444	42,888	63,875
Nassau Island Admin	10,494	23,806	49,625
Palmerston Island Admin	456	2,008	7,086
Penrhyn Island Admin	6,844	15,878	37,381
Pukapuka Island Admin	70,719	142,806	292,447
Rakahanga Island Admin	8,213	16,425	32,850
Police	-	-	4,124
Infrastructure Cook Islands	-	274	1,186
Mins of Cultural Development	-	-	1,547
Mins of Education	966	10,812	42,868
Mins of Finance and Economic Management	-	548	3,404
Mins of Health	456	8,904	24,257
Mins of Justice	-	1,368	6,478
OPM	913	2,099	11,055

Source: Cook Islands Government central payroll for July 2017.

The fiscal impact of any minimum wage increase would be largely felt in the Budgets of the Pa Enea, as agencies in Rarotonga tend to have fewer minimum wage workers (more highly skilled workers), larger budgets, or both. As the funding to the Pa Enea is determined through the Pa Enea Funding Model (a rules-based model that ensures fairness in budget allocations), one island cannot be individually allocated a recurring operational budget – additional funding is applied to the Pa Enea as a group, and then the Model distributes the additional funding across the islands using a set of agreed parameters (*see: Cook Islands 2017-18 Budget, Book 1, Section 14.1: Pa Enea Funding Model*).

A review is currently being undertaken of the Pa Enea Funding Model which will likely impact upon the distribution of the minimum wage increase to the Pa Enea. The new system will be taken into consideration in the 2019 review of the minimum wage.

4.5 Considerations in the Pa Enea

With the private sector already a minor player in the Pa Enea, it would not generally be advisable to increase the cost barriers that these business face. If private sector development in the Pa Enea is still a goal that the Government wishes to achieve, consideration might be given to allowing minimum wages to be different between Rarotonga and the Pa Enea (insofar as the Pa Enea minimum was lower than Rarotonga), or more likely, consider that Island Governments increase their hour rates unilaterally of any minimum wage decision (thereby allowing the private sector to reward labour closer to the likely productivity of labour). Other strategies would also include focussing limited public money on addressing the drivers of cost of living *and* the cost of business concerns, namely utility or transport costs.

Anecdotally, the three main industries in the Pa Enea (pearls, fishing and agriculture) already pay at piece rates which would be below the current minimum wage (a practice that is illegal under the current employment relations framework), are self-employed, or are undertaken at subsistence levels. The practical effect of requiring formal businesses to pay the minimum hourly wage would result in many businesses simply not hiring staff and entrenching the difficulties faced in encouraging private sector employment.

Overall, there is not a strong argument for increasing minimum rates of pay in the Pa Enea from a private sector development point of view. Cost of living is an obvious driver for increased wages, but it is unclear whether the minimum wage will result in alleviating cost of living pressures. If work hours are reduced, then the minimum wage has not increased take-home pay packets and residents are no better off. Conceivably, it could actually be counterproductive; as local businesses may decide that they cannot afford to pay staff and may reduce employment (a notable issue in the Southern Pa Enea). Additionally, higher minimum wages may also slow any future private sector development, entrenching the current economic system of relying on public sector employment on all islands outside of Aitutaki.

A more prudent approach might be to address the core reasons behind cost of living pressures. Addressing concerns such as transport costs will decrease pressure on both cost of living *and* the cost of doing business, potentially increasing employment opportunities while also reducing the strain on family budgets. However, as outlined in the previous section, genuine policy efforts would be required in this area, as a piecemeal approach is likely to be expensive, unsustainable, and an ineffective use of limited public money. The impacts on private sector development of continued minimum wage increases could be stark and ultimately counterproductive to the aim of developing the Pa Enea, especially if employment growth is damaged.

In terms of public sector jobs, the employment strategy of many Island Governments has been to supplement subsistence living by employing larger numbers of workers at lower pay rates, rather than employing fewer workers at higher pay rates. Increasing the minimum wage necessarily limits this policy approach to island development. Ultimately, there is nothing stopping Island Governments (the major employers) from paying their staff more than the minimum wage per hour, but it is simply not a development model that most islands have chosen to pursue (potentially due to Budget constraints). If there was to be no effect on the number of people employed (the current business model continued),

then work hours would need to be reduced – potentially reducing the coverage of public services, but freeing up time for workers to engage in other activities.

In short:

- Minimum wage increases may reduce the likelihood of private sector development in the Pa Enea, above and beyond the issues currently experienced
- Minimum wage increases may further encourage the current practices of subsistence, informal or illegal work practices in the Pa Enea
- Increasing the minimum rates of pay may not address cost of living concerns if Island Administrations reduce work hours due to tight budgets
- Cost of living issues may be better addressed by subsidizing activities that will also reduce the cost of doing business
- The strategy of employing larger numbers of people at lower pay rates is constrained by limiting the ability of Island Administrations to pay below a certain rate

5 The Cook Islands community

This year, the Community provided feedback from the radio talk back, public meeting, and random interviews as well as by email and on the phone. A total of 25 callers' participated in the allocated 30 minutes live on air. 23 of these callers' were from Rarotonga and 2 were from the Pa Enea (Aitutaki and Penrhyn). There were 6 attendees at the public meeting. Selective members from the community (on Rarotonga) were interviewed. There were 4 written submissions received by email and, 1 submission by phone.

Elements from the previous report ought to be underlined as considered still relevant. Coupled with this year's submissions it can be observed that there was mitigated feelings about whether the minimum wage should be increased or not however, many were suggesting for an increase between \$7.00 to \$10.00.

5.1 The need for protection of low income earners - Employees

From the feedback received, in general, workers are wanting a further wage increase to the minimum wage between the ranges of \$7.00 - \$10.00 per hour to cope with increase in rents, electricity, transport, freight, health care, communication, costs of basic food commodities and cost of living.

There are also ongoing concerns over poverty and inequality of income distribution across the south and north of the Pa Enea. Any minimum wage adjustment will assist families to rely less upon extended families and community support or reliance on family remittance from overseas. Another possible impact would be limiting further migration for better opportunities and depopulation.

The Cook Islands Workers Association (CIWA) supported in its submission a set rate for youth in employment as they cannot be compared to those already working in employment. They also advocated for the Pa Enea to have a higher Minimum Wage rate compared to Rarotonga arguing that costs of transporting goods and services to the Pa Enea is higher than Rarotonga [electricity, telephone, internet, fuel, oil, consumable products etc). Lastly, they proposed for the review of the minimum wage to be done in alignment with reviewed tax policies.

The Panel recommends a thorough analysis of the issue when all data is made available as mentioned earlier. The next review process will be better placed to provide clearer understanding on the levels of poverty and inequality of income.

5.2 Work incentives – Employers

The Chamber of Commerce conducted an on-line survey of employers. Previous surveys conducted by the Chamber had received responses from 80+ companies across most industry sectors, with approximately 20% coming from the Pa Enuu, notably Aitutaki. However, on this occasion, responses were received from under 30 companies (a fall in the response rate compared to 2015), although Aitutaki and Atiu were represented. The industries responding were dominated by accommodation (36%) and retail (27%). While the response rate does not constitute a statistically rigorous survey, there were consistent trends which allowed qualitative inferences to be drawn from the results, including from the comments sections of the survey.

Of those employers polled, 73% said they paid all their employees above the minimum wage, 54% paid all above \$7.50, and 41% paid all their employees above \$8.00. 86% of responses indicated that a 10-15c increase in the minimum wage would have no impact on their business, 77% said that a 25c increase would have no impact, 41% would not be impacted by a \$1.00 increase. However, 50% said they would experience a major negative impact from a \$1.50 increase.

When asked what employers thought the minimum wage should be, 27% favored the current rate of \$7.00, while 73% favored an increase. Of these, 23% wanted to see \$7.25, 32% wanted \$7.50, 5% wanted \$7.75, 9% wanted \$8.50, and 4% wanted various higher rates.

Therefore: the majority of private sector employers surveyed have few if any employees on the minimum wage, and most pay \$7.50/hour and above. Most employers favor an increase in the minimum wage by way of a regular, modest annual increase. There was clear support for the minimum wage keeping at the very least abreast of inflation.

Most felt that a modest increase of 10-25 cents would have little or no negative impact on their businesses. A substantial number indicated positive impact from an increase, including increased productivity, easier recruitment and improved staff retention and productivity.

There was increased concern expressed that the rate of rise in the minimum wage was putting pressure on other wage bands in some industries (notably accommodation) and that this could raise payroll costs to significantly, beyond the scope of minimum wage bracket.

A significant limitation of the data gathered was the low response rate from businesses in the Pa Enuu.

Given that most employers in Rarotonga pay significantly more than the minimum wage, clearly market forces are at play. All employers are free to pay higher wages within their own budget constraints, and most do.

The current Employment Relations Act 2012 now allows much more flexible working hours and conditions, bringing about opportunities for greater efficiencies in staffing costs, allowing somewhat higher hourly

rates to be paid. A substantial number of employers have a fair number of casual and part-time employees. Anecdotally it appears many of these positions are taken as secondary employment.

Of interest is the call by many businesses to increase the minimum wage when this would have no impact on their own operation. Anecdotally this was identified as either an issue of social conscience, or more specifically a desire to see competitors with lower wage costs brought onto a 'level playing field'.

The Chamber of Commerce continues to express concern at government spending on personnel, and in particular on the number of people in the Pa Enua public sector collecting wages for full-time employment, when productivity might indicate many positions only require a part-time employee. The private sector is keen to see efficient spend in this – as in all – areas, to avoid wastage of public, taxpayer money.

As previously expressed, a blanket increase in the minimum wage would increase costs to government if the number of man-hours paid remains the same. The private sector has embraced more flexible, as-needed, working hours for many staff, and continues to recommend that Government consider the same approach. This would avoid an ever increasing proportion of the national budget going to personnel, and consequently (in a flat economy) a decreasing proportion going to the capital and operating expense area required for effective delivery of public services.

It should be noted that some Outer Island Governments have adopted similar work hour arrangements which have been positively received by their employees. With any increase to the minimum wage, it is expected more Island governments will adopt flexible working hour policies to absorb increasing personnel costs.

5.3 Any written submissions by the Public

As in previous years, this year both oral and written submissions were accepted by the Panel. This year there was an increased effort by Panel members to both inform and obtain information from the public.

The media (newspaper, radio) were used to inform the public about this year's minimum wage review issues and events. In addition the Panel used their networks including government, private sector, religious organization, and employee groups.

The most effective method of obtaining written feedback was through the use of questionnaires. The private sector questionnaire was available online (Chamber of Commerce and Internal Affairs websites) and results of this exercise has been presented above.

Issues papers translated into Maori and containing significant questions were published in the newspaper inviting the general public to provide feedback. E-copies were also sent to all Island Governments with the same invitation.

An oral submission meeting was organized with 5 attendees. Overall, the 5 submissions received advocated for either an increase to \$10.00 or simply keeping the minimum wage to the current \$7.00.

6. Summary of Findings

Below are the main points taken from Section 5. For more detail, please refer to that section.

6.1. Prevailing economic conditions in the Cook Islands

- Data issues limit the ability for a thorough analysis – the labour market assessment scheduled for 2018 and the results of the survey for Household Income and Expenditure Survey 2016 as well as the results for the Census 2016 will provide more information on housing structure, hourly wages, and dependency on wage income.
- Provisional estimates show Real GDP grew by 5.1 percent in 2016, and growth forecasts for 2017/18 and beyond suggest growth will be positive going forward on the back of strong tourism numbers and government’s capital expansion.
- Minimum wage increases are likely to reduce competitiveness in export markets for local fish and produce, due to competing countries having much lower wage rates and higher economic returns. Increases may also impact on cost of living, import substitution and the tourism industry if wages grow faster than labour productivity. The wage-price spiral may become a risk.
- The Cook Islands minimum wage is well ahead of similar Pacific Island countries, except for the US Pacific Territories and French Polynesia. Minimum wage increases in the US Pacific Territories (American Samoa and the Northern Mariana’s) resulted in widespread unemployment in those countries, despite their minimum wages not being much higher than the current Cook Islands minimum.
 - Smaller increases over a longer time are preferable to large once-off increases, as once raised; it is difficult to reduce a minimum wage once in place.
 - Most jurisdictions allow for exemptions or have different rates for some labour market segments – the Cook Islands should explore these options going forward (particularly for those with no experience or a disability that affects their ability to perform a task)
 - New Zealand and Australia both have exemptions that allow minimum wage rates well below their published levels. The Cook Islands should be careful about “rushing to equal New Zealand” as the exemptions and the New Zealand economic structure are very different to the Cook Islands.
- Labour force data suggests an ageing workforce in the Cook Islands, with a lack of young people attributed to both migration and lower fertility rates (fewer births per woman). Migrant labour fills some labour market gaps across a broad range of jobs.
- Inflation data suggests that a 2.8 cent increase in the minimum wage is required to offset increases in the cost of living during 2017. This has already been achieved through the minimum wage increase in 2017 of 75 cents.

- **Table 2: Estimated cost of minimum wage to government**

<u>Minimum Wage (\$/hr)</u>	<u>Impact on the Government payroll</u>
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\$7.25	143,719
\$7.50	336,602
\$8.00	786,714

• *Source: Cook Islands Government central payroll for July 2017*

- A possible response from Island Administrations is to decrease work hours or decrease operational Budgets to cope – leaving workers with no increase in take-home pay or declines in the ability to provide public services on those islands. However, if work hours are reduced, then the staff have more time to engage in subsistence or alternate activities.
- The private sector in the Pa Enea is largely informal outside of Aitutaki, with minimum wage increases likely to increase the practice of informal, self-employed, illegal, or subsistence employment. The current economic development model of relying on public sector employment and social welfare is likely to persist or increase.
- From a public expenditure point of view, the size of the impact on the Budget suggests that alternate uses of the funding might have a greater impact on reducing cost of living and the costs of doing business in the Pa Enea (such as lowering utility costs, subsidizing fish/agriculture storage, or addressing transport links), but any policy measures should be well thought out and widely consulted on.

6.2. Income distribution in the Community

- Community in the context of this minimum wage review exercise can be taken to refer to virtually everyone living permanently or semi-permanently in the country. Given the size of the Cook Islands community, it is therefore difficult to restrict the term to certain sectors only.
- Although the focus of this exercise is on all types of employees in the community, it is nevertheless important to keep in mind the fact that it is not only the employees themselves that are affected by decisions on minimum wage, or decisions on wages in general for that matter; every other member of the household is affected one way or another.
- Although there is no survey on what constitutes a reasonable living wage in the Cook Islands, the review feedback survey shows that some workers have been financing their basic needs by working in secondary employment or overtime.
- Since the advent of the cash economy, people have become more and more reliant on cash to make ends meet in Rarotonga .
- If employees depend completely on their weekly wages to feed a family, without any other means of supplementing the dinner table, life would be hard and the urge to migrate, like thousands of others who have already done so, becomes attractive.
- Government wage is not and should not be the only income employees should depend on. Employees should somehow also see what they can do on the sideline to help make ends meet. There are

undoubtedly many employees who are already doing this (part-time farming, fishing, handcrafts, etc.), and there would not be any harm when many more are able to and have the means to follow suit.

6.3 Work incentives

- A modest increase in the minimum wage is likely to have a slight positive impact on staff retention, productivity and ease of recruitment.
- Without concrete data to prove otherwise, it is doubtful that a small increase in the minimum wage would play any significant part in attracting returning Cook Islanders into the local workforce, or in deterring locals from emigrating.
- The majority of employers in Rarotonga pay most, if not all of their employees at rates of pay in excess of the current minimum wage.
- Entry level employees can achieve wage increments and higher pay based on their gaining experience and 'climbing the ladder' in their chosen job area.
- Foreign workers in un-skilled or semi-skilled positions may have contract benefits of accommodation and meals in addition to their minimum wage rate. Those who have the value of these services deducted from their wages may have little disposable income depending on how their package is calculated.
- Pa Enuā businesses have revenue and profit constraints that might limit their ability to raise wages, but are in the same circumstances as their employees who face similarly increased costs.
- An increase in the minimum wage will have a modest impact on inflation, depending on the scale of the increase.
- Ultimately a minimum wage should not place undue pressure on business viability, prices and inflation, and should not result in employers treating their workers badly.

6.4 The need for protection for low income earners

- The need for protection of low income earners consists of programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks
- Improving individuals' livelihoods and earnings opportunities, to a large extent, is about improving their work opportunities – by helping them either to increase the returns from their current work or to move from inactivity or low return activities into more productive occupations.
- At the same time, jobs that provide an adequate standard of living during good times are not enough. Any job is associated with risks: the risk of being dismissed, the risk of exploitation or abuse, the risk of work injury or disability, or the risk of a drop in the price of the goods or services sold by a self-employed person or small family business.
- An agenda to promote good quality employment thus also needs to consider policies, such as implementing labor regulations or providing insurance, providing affordable minimum wage for decent living standards that reduce or mitigate employment risks.
- it is increasingly important for policymakers to move beyond short-term mitigation measures and tackle structural problems that limit workers' access to productive jobs and formal risk management programs

- Earnings are often insufficient to pull households out of poverty. Low labor participation rates and unemployment are also issues of concern, particularly in the Southern Pa Enuā, while a growing number of youth are filling the ranks of the unemployed.

6.5 Public Feedback Summary

- There is a difference in opinion on what the minimum wage for 2018 should be depending on whether the respondent was an employer, employee, part of the workforce or not, by age, from the public sector, private sector, Rarotonga or Pa Enuā.
- We need to be cautious about increasing the minimum wage, if it causes businesses to reduce staff numbers and/or close shop.
- The minimum wage should be in line with the cost of living and inflation.
- A high number of respondents believe that the current rate of \$7 per hour is inadequate and should be increased. However approximately the same number of feedback believed that \$7 per hour was largely enough.
- Increasing minimum wage would attract young people in to the work force and away from petty crime.
- A minimum wage that makes living in the Cook Islands affordable will decrease migration from the Pa Enuā and Rarotonga to New Zealand and Australia.
- There is no need for a review(s) of the minimum wage as it is linked to the Consumer Price Index and a percentage in the county's CPI would automatically result in the same percentage increase in the minimum wage
- Setting the minimum wage is a financial decision, and regardless of public feedback, the bottom line is whether the government and private sector can afford the wage.

Logistics comments

- The Panel should evaluate the impact on people's lives from last year's increase in Minimum Wage, provided that there is the data to do so.
- More targeted consultations should take place to get more feedback from the community.
- In the absence of data, anecdotal evidence will need to be used by the panel and that anecdotal evidence is suggesting that young people, foreign workers and Pa Enuā are the three main groups who are on the minimum wage (they benefit the most, but are also most likely to be at risk from unemployment if the minimum wage rises to high or too quickly).

7 Recommendations

The Panel recommends the following:

1. An expert comprehensive research to be undertaken to investigate the potential impacts of introducing different minimum wages based on the particularities of Rarotonga, southern Pa Enuā Group and Northern Pa Enuā Group.

2. Government should focus on elaborating and implementing policies that would address the cost of living pressures and poverty reduction outside the minimum wage review process and labour market distortions as soon as possible and based on the results of the HIES 2016, Census 2016 and the Labour Market Assessment 2018.
3. Policy efforts in consultation with Stakeholders should be made to reduce cost of business pressures in the Pa Enea before the 2019 review, taking into account the effects and results of implementing the newly approved shipping subsidy;
4. The Panel must be adequately resourced to conduct each review and depending on the results provided by Statistics Office, start panel review earlier for the 2019 process (refer to appendix 1).
5. The Panel recommends a minimum wage increase from \$7.00 an hour to \$7.25 an hour, effective from 1 July 2018. This increase follows the recommended gradual 25 cent increase per year and meets the needs of both the public and private sector. One member of the panel, representative of the workers was absent for the meeting when the Panel agreed to the \$7.25 minimum wage.

APPENDICES

Appendix 1: Suggestions for 2018 Minimum wage review

- i) **Timing** –adequate time is required to plan work, carry out research, conduct public consultation, obtain feedback and do analysis. In regards to the great amount of data to be available for the next year’s review, four months should be accorded to the review meaning that the period can be from November to February inclusive. In addition, the review should be held at a time that has few competing events. This is of particular importance to the Ministry tasked to carry out the review.
- ii) **Resources** – there should be Minimum Wage Review resources to conduct the review and cover the cost of translation, media advertisements, public meetings, and potential travel to the Outer Islands. As in previous years, the Ministry of Internal Affairs was responsible for funding, and provision of staff for the review. The current review has essentially incurred cost for use of media but staff of the Labour and Consumer Division have been called to assist as Secretariat for the Panel. Additionally, the Panel has recommended that proper data collection and research be undertaken and that would incur costs that need to be planned out for the next review. It is essential to invest in this process to get a valuable output.
- iii) **Panel members and Alternative** – all Panel members should provide the name of an alternative. This will be a requirement in the invitation letter that goes out to prospective members. This will ensure that a representative will participate in all review activities.

Appendix 2: Issues Paper in Maori

AKARA AKAOUANGA I TE MONI MEANGITI-RAVA A TE ARONGA ANGAANGA - 2018

I roto ia Aperira 2017, kua akakakeia te moni angaanga meangiti-rava mei te \$6.25 ki te \$7 i te ora ei ravenga i te akamama i te apainga no te au akakakeanga moni i roto i te basileia, e pera mei te tuatau openga o te akakakeanga i te mataiti 2006 e te VAT i te mataiti i topa 2014.

Ko te moni angaanga meangiti-rava ka arapaki te reira i te tangata katoatoa i roto i te Kuki Airani. No te akanooanga i te moni meangiti-rava kia tau katoa te reira ki te turanga o te au ngai angaanga e te au ravenga kimi puapinga.

Te pati ia atu nei te manako o te iti tangata katoatoa no runga i teia tumu manako puapinga. Ka akaraia te reira e tetai pupu-tangata no teia akakoroanga e ka tata katoa ia tetai Ripoti ki te Minita o te Korona e nana teia tuanga.

Ko teia i raro nei tetai au manako e tau kia akaraia, no reira te pati ia atu nei to kotou au manako. Oronga katoa mai i tetai au manako kare i roto i te akapapaanga i raro nei, taau i manako e ka tau kia akara katoaia.

Au manako ka tau kia akaraia e te katoatoa

1. Ko tetai tutaki-anga moni meangiti-rava ka tutaki ia te reira mei tetai ngai ke mai. Penei-ake mei tetai ngai mai i roto i te pute moni a te Kavamani, me kore ka akamaata ia te moni o te au apinga e oki ia nei, penei kia akaiti ia mai te moni puapinga e rauka mai nei i te au tuanga kimi puapinga, me kore ka akamaata ia te pou o te au tuanga kimi puapinga.
2. Ko tetai tutaki-anga moni meangiti-rava, kia tau te reira no te tutakianga i tetai tangata angaanga ou.
3. Ka anoano te au pu-angaanga kia ngoie ua ia ratou i te kimi tangata angaanga te ka ngoie katoa ia ratou i te tutaki.
4. Ko te akakakeanga moni no te moni meangiti-rava te ka riro ei maata atu i te turanga puapinga o te basileia, ka riro te reira i te apai mai i tetai au moni mei tetai au tuanga ke.
5. E mea meitaki kia paruruia te au peu te ka riro i te apai mai i te au akakakeanga moni maata ki runga i te au apinga e okoia nei i roto i te toa ko te ka riro ei ngata ki te oraanga kopapa.
6. Ko te tutakianga moni meangiti-rava i roto i te Kuki Airani i teia ra (\$7 i te ora), e maata roa atu teia me akaaiteia ki te au enua Asia e te pae moana Pasifika. Inara e meangiti-rava teia me akaaiteia ki to Nuti Reni e Autireria no te mea no raua tetai turanga 'moni meangiti teitei-rava' i roto i teia nei ao.
7. Ko te moni meangiti-rava, kia tau te reira ki te tuanga kimi puapinga i rotopu i te au pu ngai angaanga e pera te aronga angaanga.
8. Eaa toou manako i te tutaki moni meangiti-rava; e mea tau ainei i te kavamani kia akatinamou i te reira, me e meitaki ake kia vaoo na te makete e akanoo i te reira? Akamarama mai i toou manako.

Au manako no te aronga angaanga

1. Eaa i to te aronga angaanga manako te tutaki moni meangiti-rava e tau no tetai tangata te ka akamata i te angaanga?
2. I toou manako e mea tau kia akanooia tetai moni meangiti-rava na runga i te au tuanga kimi puapinga, auraka oki kia aiteite ta te katoatoa?
3. I toou manako e ka anoanoia tetai moni meangiti-rava na te mapu?
4. Ko te moni meangiti-rava no te tutaki aronga angaanga, me te riro ainei teia i te opara i te tangata kia rave i tetai uatu angaanga e auraka kia aere ki tetai ua atu enua ke?
5. Ko te moni meangiti-rava no te tutaki aronga angaanga, te rava ainei teia no te aronga takitaki? me kore te oraanga akaipoipo? me kore no tetai ngutuare tangata?
6. Ka meitaki ainei te oraanga ngutuare me maata atu i te okotai tangata e koi ana i te moni meangiti-rava e \$7 i te ora?
7. Me te tau nei e ko te iki i te rave i tetai angaanga moni meangiti-rava, e puapinga atu te reira i te angaanga tanutanu me kore tau-tai?
8. Ka riro ainei te akakakeanga moni tutaki i te akanauru i te tamariki apii kia akaruke i te apii e kia angaanga moni?
9. Te tau ainei te moni meangiti-rava o teia ra no te aronga angaanga i te Pa Enuu? Me e tau ake e moni meangiti-rava tuke rai ta ratou?

Au manako no te au pu ngai angaanga

1. Eaa to te au pu o te ngai angaanga manako i te moni tau no te au mapu e te au tangata ou ka akamata i te angaanga?
2. E maata ainei te aronga angaanga ta te au pu o te ngai angaanga e tutaki nei ki te moni meangiti-rava, me kore piri waitata atu (kare i mamao mei te \$1) ki te moni meangiti-rava?
3. Ka riro ainei te akakakeanga i te moni meangiti-rava ei ngata ki taau pitiniti?
4. Me ko te reira te turanga, ka anoano ainei te au pu o te ngai angaanga i te akakake i te moni o te

au apinga e okoia nei? Me kore ka tipu mai te ora angaanga? Me kore kia akarukeia tetai au tangata angaanga? Me kore ka tipu ki raro ta ratou moni e rauka mai nei? Me kore ka topiri ia te ngai angaanga?

5. Me akakakeia te moni meangiti-rava, ka riro ainei teia ei manamanata no tetai atu au akanoonoanga moni tutaki i tetai au tangata angaanga?
6. Te akapeea nei te turanga o te moni meangiti-rava no te tukuanga-tika no te apai mai i te au tangata porenā no te angaanga?
7. Ka peea te turanga o te au pu o te ngai angaanga me takiia te moni angaanga ki runga i te Pa Enuā?
8. Mei te a'a te turanga o te au tuanga kimi puapinga te kare e anoano ia te au tangata kite pakari no te rave i te au angaanga, me akakakeia te moni angaanga (mei te tuanga tanutanu)? No runga i te tuanga kimi puapinga, me ka rauka i teia au tuanga i te apai i teia akakakeanga moni?
9. Ka riro ainei te akakakeanga moni i te akamaroiroi i te au tuanga kimi puapinga no te akamaata atu i to ratou puapinga?

Au manako no te Kavamani

1. Me ka rauka i te Kavamani i te akakake i te moni meangiti-rava a te aronga angaanga?
2. Mei teaa te tu-kauī o te akakakeanga moni, e eaa te au tuanga ka ngata?
3. Eaa te turanga tau meitaki no te moni meangiti-rava no te Pa Enuā?
4. Ko tetai akakakeanga moni, ka riro ainei teia i te kaitamaki ki tetai au akanoonoanga a te Kavamani no tetai au tuanga keke mei te pae tanutanu e te tautai?
5. Ka riro ainei te akakakeanga moni meangiti-rava i te akamaata atu i te moni a te au tangata moni meangiti?
6. Ka riro ainei te akakakeanga moni meangiti-rava i te akanoo i tetai au tangata angaanga? Mei teia oki te tu, penei ka inangaro te au pu angaanga kia akaiti mai i te ora angaanga.
7. Eaa te turanga o te au tuanga moni tutaki no te aronga angaanga i roto i te Kavamani me akakakeia te moni meangiti-rava?
8. Penei ka ngata te tuanga moni tutaki a te Kavamani i te aronga angaanga, i vao tika'i i te Pa Enuā. E mea meitaki ainei i te aronga angaanga Kavamani i runga i te moni meangiti-rava i te Pa Enuā kia akaitiia mai to ratou ora angaanga ma te akakakeia ta ratou moni angaanga, kia noo rai me kore kia meitaki atu ta ratou moni angaanga, e oti maata katoa atu to ratou taime ki tetai atu au angaanga keke mei te tanutanu e te tautai?

(Maori Translation by Nga Mataiao)

Appendix 3: Issues Paper in English

2018 Minimum Wage Review

In April 2017, the minimum wage was increased from \$6.25 to \$7 an hour to help those on low incomes cope with inflation since the minimum wage was set in 2006 and the increase in VAT on 1 April 2014.

The Minimum Wage rate will affect everyone in the Cook Islands. In deciding on a minimum wage there needs to be a balance between needs of workers and the ability of all sectors to afford any increase.

Submissions on the Minimum Wage are now invited from the public. Your views are important. All points

raised will be reviewed by the Minimum Wage Review Panel and taken into account when compiling its report to the Minister.

Below are issues identified for consideration in the review. Your input on these is invited. Please add other points that you think are important for the review.

General Considerations:

9. Any minimum wage increase must be paid for from somewhere. It can come from diverted government funds, increased prices, reduced company profits and increased company losses.
10. The minimum wage should balance the need to adequately compensate an entry level worker against affordability of government and businesses.
11. Employers need to access labour efficiently and affordably.
12. The cost of a minimum wage increase beyond the growth of the economy will draw resources, even if only slightly, from other areas in the economy.
13. It is prudent to avoid measures producing excessive inflation and price rises.
14. The current minimum wage (\$7/hour) in the Cook Islands is significantly higher than in most other countries in the Asia Pacific region but is lower than in New Zealand or Australia (noting that New Zealand and Australia are amongst countries that provide the highest minimum wages in the world and it is unrealistic to base local minimum wages on their precedent).
15. The minimum wage should strike a balance at the economy –wide level between workers and employers.
16. Do you think there is a need for a government set minimum wage or would you rather leave that to the market forces to decide? Why?

Issues for Workers:

1. What do you feel is a realistic minimum wage for an entry level worker?
2. Do you think there is a need for industry specific minimum wage rates?
3. Do you think there is a need for a youth minimum wage rate?
4. Are you currently paid the minimum wage? Do you think the current wage is fair relative to other wages?
5. Is the level of the minimum wage a factor in deciding whether to take up unskilled work locally, rather than leave for work overseas?
6. Is the current minimum wage of \$7/hour, enough to meet minimum living costs for a single person? For a couple? For a family?
7. Is employment on the minimum wage preferable to subsistence work such as planting or fishing?
8. Would students' decisions about when to leave school and enter employment be influenced by a higher minimum wage rate?
9. Is the current minimum wage suitable for workers in the Pa Enua? Or should the Pa Enua have a different minimum wage rate?

Issues for Employers:

1. What do employers feel is a realistic minimum wage for an entry level worker?
2. Are employers currently paying a significant number of workers the minimum wage or near the minimum wage (near being within \$1)?
3. Would an increase in the minimum rate have a significant impact on their business?
4. If so, would employers need to increase prices? Reduce staff hours? Lay off staff? Absorb costs through reduced profits? Close down?

5. Would a higher minimum wage put pressure on other wage bands for an increase?
6. How does the minimum wage rate influence decisions to employ foreign workers?
7. Would a higher minimum wage have a greater impact on employers in the Pa Enea?
8. How would an increase in the minimum wage affect industries that rely on relatively inexpensive labour (for example: agriculture)? Would commercial operations in these industries be able to afford an increase?
9. Would the increase encourage businesses to be more productive?

Issues for Government:

1. Will an increase in the minimum wage for public servants be affordable?
2. What are the inflationary impacts of a minimum wage increase, and in which sectors?
3. Are there minimum wage considerations particular to the Pa Enea?
4. Does a minimum wage increase conflict with other Government policies in relation to sector growth (for example, in agriculture or fisheries)?
5. Does an increase in the minimum wage channel more money in the economy to low income earners?
6. Does an increase in the minimum wage cause job losses? E.g. Employers may be forced to reduce hours
7. Will an increase have an impact on government worker job sizing bands?
8. There may be budget constraints for overall government payroll, particularly in the Pa Enea. Should Pa Enea minimum-wage public servants be able to work reduced hours at a higher wage rate, maintaining or slightly improving their current income while giving them more time for fishing / planting etc?