



Doing Business in Cook Islands

Location

The 15 widely-dispersed islands between French Polynesia and Fiji make up the Cook Islands, an island nation with a total land area of 240 square kilometres and an exclusive economic zone of nearly 2 million square kilometres. The islands are spread out into the northern group and the southern group with an overall population of around 21,300 and nearly 70% living in the capital, Rarotonga. More than three times as many Cook Islanders live overseas as at home.

Cook Island Maori is the indigenous language but English is widely spoken throughout the country.

Government

The nation became independent and in free association with New Zealand in 1965 and under the terms of this free association, Cook Islanders hold New Zealand citizenship and enjoy the right of free access to New Zealand.

It is a parliamentary democracy based on the Westminster system and has Queen Elizabeth II as its Head of state and of whom is represented by the Governor-General, Sir Frederick Goodwin.

The Cook Islands' Parliament consists of 24 elected members, with the Speaker appointed from outside the elected members. Parliamentarians are elected every five years, by universal suffrage. While not elected, hereditary traditional leaders (Ariki) maintain considerable influence over matters relevant to the welfare of the people and control large areas of communal land held in traditional ownership.

The legal system is similar to that of New Zealand and is based on common law. The judicial system comprises the High Court, which exercises jurisdiction in respect of civil, criminal

At a Glance

Population: 21,300 (2006)

Land Area: 240 square kilometres

EEZ: 1,830,000 square kilometres

GNP: NZD\$117 million (2005)

Major Industries: tourism, black pearl cultivation

Merchandise Exports (FOB):
NZD\$7.417 million (2005)

Major Exports: pearls; fruit (fresh and canned); live, fresh and chilled fish and clothing

Merchandise Imports (CIF):
NZD\$115.3 million (2005)

Major Imports: machines, transport equipment; food and live animals; and mineral fuels

Currency: New Zealand Dollar

Average Exchange Rate: US\$1 =
NZD\$1.3056 (2007)

and land title matters; the Court of Appeal, which hears appeals against decisions of the High Court; and the Privy Council in London, which is the final appellate for the country.

The current Prime Minister is Honorable Jim Marurai.

Economic Profile and Performance

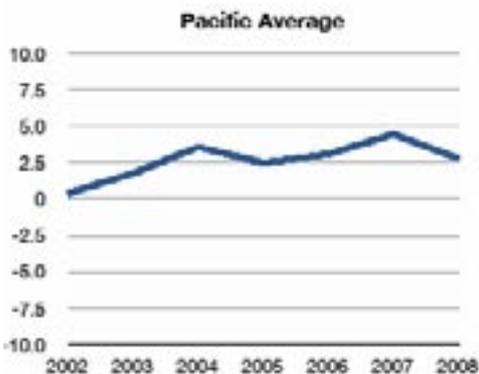
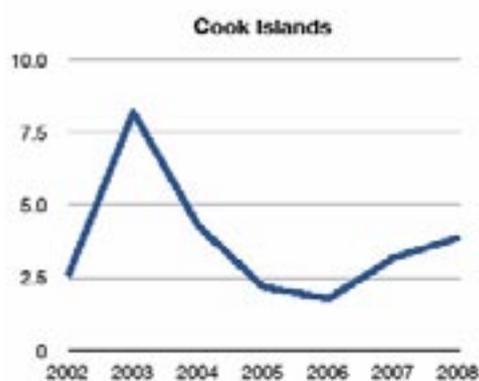
The Cook Islands' economy faces many of the development impediments common to other small island states in the Pacific region: relatively limited natural resources, remoteness from major trade and industrial centres, and a diminishing labour force. Despite these constraints, the Cook Islands have developed a successful tourism industry and the government has given high priority to its further growth.

The development of the marine resources contained within the Cook Islands' large Exclusive Economic Zone (EEZ) has also been given priority, including black pearl farming in the northern group of islands. Despite some economic diversification in recent years, development assistance from New Zealand and Australia and remittances from the large number of Cook Islanders living in New Zealand and Australia remain very important to the economy.

Gross domestic product (GDP) growth for 2006 was 1.8%, slowing from 2.2% in 2005. The agriculture sector was hurt by five cyclones that hit the islands in early 2005. Fisheries income was little changed from a year earlier, but the value of pearl exports fell by 28% from NZ\$2.9 million in 2005, reflecting lower world prices and increased production costs. Tourism remained the key growth sector, with visitor arrivals rising by 5.7% in 2006, with over half coming from New Zealand, the Cook Islands' largest trading partner.

Inflation in 2006 was estimated at 3.3%, in line with that of New Zealand (the Cook Islands uses the New Zealand currency). The removal of most import duties from July 2006 is expected to lower inflation to 2.8% from 2007.

GDP Growth (%) 2002-2008



Source: ADB Asian Development Outlook, 2007. 2007 and 2008 are estimates.

Economic Outlook

Private sector development has picked up on Rarotonga and Aitutaki, but not elsewhere. From 2007 and 2008 economic growth is projected to recover to about 3.5%. Visitor arrivals are expected to grow by 3.2% and 3.9%, respectively, with 2007 growth partially attributable to the filming of the "Survivor Cook Islands" United States (US) television series on the island of Aitutaki in 2006. Pearl exports are expected to increase by about 10% annually from 2007 through to 2009 as the industry recovers from a period of consolidation when many small producers left the industry. This growth will be supported by the Government's reestablishment of the Cook Islands Pearl Authority, which will coordinate and improve marketing, and by the removal of fuel levies on the industry.

A balanced budget is the result of an expected increase in expenditures and a fall in revenues induced by the removal of import duties on many products. This action on duties is aimed at stimulating development of the private sector and is consistent with obligations under the Pacific Island Countries Trade Agreement.

The absence of a clear planning framework for infrastructure has contributed to a backlog of public works and where inadequate roads, water supplies, sewerage, electricity, and ports on Rarotonga and Aitutaki are likely to constrain growth over the medium term. Existing infrastructure imposes high costs on users and, in some cases, is unable to meet the demand at a reasonable standard. The Government is preparing an infrastructure master plan that will involve examining the shortcomings and development requirements.

A decline in population also poses a development challenge. Cook Islanders hold New Zealand citizenship and can access the New Zealand and Australian job markets, the New Zealand health, education and social security systems. An improvement in social services, particularly education, could help stem emigration.

Source: ADB Asian Development Outlook, 2007

Industry Sectors

Agriculture: Due to the limited land area, the country does not have large plantation-style agriculture and most activity involves small-scale, subsistence-based growing of tropical fruits and vegetables. Pawpaw was the main agricultural export item in 2006.

Construction: Several local companies undertake small construction projects throughout the Cook Islands. For the larger projects, overseas companies tender for contracts.

Financial Services: The offshore industry began in 1981 and is one of the main contributors to Government finances. Overseas companies registering with the Centre are granted special status involving exemptions from local taxation and other charges. A number of international companies and banks are operating under these arrangements.

Manufacturing: The manufacturing sector in the Cook Islands is relatively small and most of the products are geared for sale in the local market. The locally produced products include a variety of processed foods (bakery items, ice cream, jams, chutneys, dressings), a variety of small timber products, including artifacts, and resort garments such as printed T-shirts. Some garments are produced for nearby export markets. There is also a small coffee-roasting operation on the island of Atiu.

Marine: The sector has two of Cook Islands largest export industries, namely, fishing and pearl farming, however, earnings from the sector come second to tourism. The industry has potential to help drive economic development in the Cook Islands.

Retail/Wholesale: There is a large number of retail and wholesale operations in Rarotonga and most of these companies handle imported products.

Tourism: Tourism is the largest single contributor to GDP with the number of arrivals in 2005 reaching a record of 88,405 visitors with provisional numbers in 2006 at 92,095. Most visitors are from New Zealand, Australia and Europe. The Cook Islands is currently focused on promoting its rebranded "Cook Islands: Live Differently" tourism promotion campaign.

Imports and Exports

Total merchandise trade in 2005 consisted of NZ\$7.417 million (F.O.B) in exports mainly of pearls, pawpaw and clothing. Total imports for the same year was NZ\$115.3 million (C.I.F) principally food and live animals, machinery, and transport equipment. Most exports went to Australia, Japan and New Zealand, while imports primarily came from New Zealand and Fiji. Provisional figures for 2006 showed a NZ\$5.420 million in exports and NZ\$131.1 million in imports.

Source: Cook Islands Statistics Office

Labour and Human Resources

The latest available statistics on labour is the 2001 survey, which shows participation rates for males at 76.4% and females at 61.4%. The shortages of skilled and qualified workers in both the public and private sectors are due to the high emigration to Australia and New Zealand owing to their accessibility to job markets in both countries under their free association compact.

The education system is based on New Zealand's curriculum system; school is compulsory between the ages of 5 to 15 years and free education is provided at primary and secondary school levels by the government.

Tertiary training is provided by the Teacher's Training College, the Nursing School, the Trade Training Centre and the Hospitality and Tourism Training Centre. The University of the South Pacific has an extension centre, which provides vocational, foundation and degree courses.

The government recognizes that foreign investors may necessarily require experienced and qualified expatriate managerial and technical staff, and work permits can be issued when required.





The Cook Islands' minimum wage rates and labour requirements are laid down in the Industrial and Labour Ordinance. Currently the minimum wage is NZ\$4.00 an hour which was adjusted in year 2000, however, considerations are in place to increase this to NZ\$7.00 an hour.

Infrastructure

There are two main roads on Rarotonga and of which can be used to travel around the island. Apart from the island of Aitutaki, roads on the outer islands are basic and made of limestone.

International air services are provided by Air New Zealand and Pacific Blue, whilst the domestic services are provided by Air Rarotonga.

Rarotonga is the major shipping port of entry and international shipping services connect Rarotonga with New Zealand, Samoa, Tonga and Niue.

Domestic and international telecommunications are reasonably well developed with International direct dial telephone and facsimile services to all islands as well as an internet service on Rarotonga, Aitutaki and Atiu.

Electricity is diesel-generated throughout the country. Rarotonga and Aitutaki have reticulated water-supply systems and the outer islands rely on rainwater catchments and storage.

Local agents provide freight forwarding for worldwide companies (DHL, UPS and Federal Express). The Australia New Zealand bank (ANZ) and Westpac Banking Corporation provide domestic and international banking services. The Bank of the Cook Islands also provides banking and financial services.

A number of banks, trust companies and international insurance companies are also established under the Cook Islands offshore financial regime but are not permitted to operate within the onshore jurisdiction.



Investment Policy and Regulations

The Cook Islands' government actively encourages economic investment and the establishment of new enterprises and business activities that make a positive contribution to the economic and social development of the country. All foreign investment in the Cook Islands is governed by the Development Investment Act 1995–1996. The Act provides for general investment regulations and requirements.

- The Development Investment Act 1995 – 1996
- All foreign organization or companies wanting to set up in Cook Islands must first obtain approval and register their planned activities.
- The Leases Restrictions Act 1976

Does not allow freehold ownership of land, persons may lease land up to five years and any longer period has to be approved by a Committee established under the Act.

- The Entry Residence and Departure Act 1977

Any one other than Cook Islanders and permanent residents wanting to live and work must first obtain a residence permit.

Every foreign enterprise wishing to carry on business in the Cook Islands where foreign equity exceeds 33% must apply for registration with the Business Trade Investment Board (BTIB). Foreign investment applications and the associated investment incentives are also reviewed by the Business Trade Investment Board.

Other sector specific investments shall be subject to the appropriate legislations covering the relevant sectors.

Investment areas and activities which are in the scope and capability of Cook Islanders are set aside as reserved investment areas, however, a number of investment areas have been identified as priority investment areas and are encouraged.

These priority investment areas include:

- Tourism;



- Agriculture and livestock production;
- Fisheries and marine production;
- Manufacturing; and
- Outer islands development;

Applications for incentives must satisfy certain investment criteria's before approval is granted. The types of investment incentives available to investors include import levy exemptions and work and residence permits. All areas not covered under "Priority Investment Areas" are deemed reserved investment areas.

Further information can be accessed through the Business Trade Investment Board.

Land

Land ownership in the Cook Islands is under customary land tenure where, typically, several indigenous owners may own a block of land. Purchase of land under a freehold title is not permitted. The maximum lease obtainable by a non-Cook Islander is 60 years. Foreign enterprise registration by the Business Trade Investment Board is a prerequisite for lease assignments to non-Cook Islanders.

Taxation and Other Regulations

There is no capital gains tax in the Cook Islands, however a resident domestic limited company pays corporate tax of 20% on worldwide profits and non-resident domestic company pays corporate tax of 20% from income sourced in the Cook Islands.

A withholding tax of 15% is payable on any dividends, interest or royalties paid by Cook Islands companies to non residents of the Islands; the rate of withholding for payments to residents are 5%. Interest payable to non-resident depositors by banks is free of withholding tax.

The Value Added Tax is levied at 12.5% on most goods and services. Local companies can claim 100% depreciation on imported assets used in the outer islands which will be in place till 2010.

Cook Islands does not have exchange controls or regulations that hinder the repatriation of capital, profits, dividends, royalties, loan payments, interest earned on loans and other forms of foreign owned finance.

The government had lifted most import levies from July 1, 2006, however levies on pork, fresh fruit, vegetables, pearls, soft drinks, motor vehicles, liquor, tobacco and fuel are still in place. However, import duties on these items will be cut by 50% on July 1, 2008. Further reductions will be subject to review.

Investment Opportunities

The following sectors offer opportunities in the Cook Islands for foreign investors.

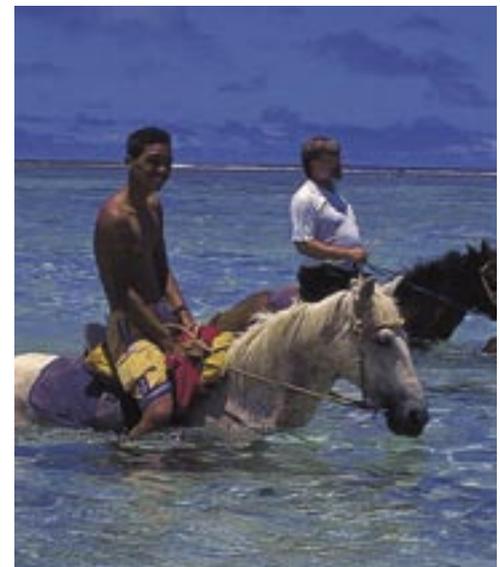
Agriculture: Opportunities include import-replacement and export-related agricultural goods, including livestock production and the processing of pawpaw's, taro, vanilla beans and noni products.

Jewellery: There is a huge potential for value-adding to black pearls through export orientated jewellery manufacturing activities.

Manufacturing: The government encourages small-scale manufacturing, fabricating or assembly of import-replacement or export-orientated products. Of particular interest would be the manufacture of packaging materials, small electrical-assembly operations and basic construction materials.

Marine: The large lagoon areas of the northern group are ideal for live fish export, smoked fish operations and the processing of seaweed. Fisheries and marine exports were valued at NZ\$5,159 million in 2005. Opportunities also exist in export of by-products of pearl shells. Pearl exports decreased in 2005/06 to \$1.6 million; however, modest growth is projected for the industry with higher volumes and slightly higher market prices.

Tourism: Opportunities for accommodation such as up-market and resort style; tourism related areas such as restaurants, cruise charters, etc. A number of small-



scale tourism opportunities also exist on the outer islands in both the southern and northern groups. Visitor arrivals have shown a steady increase from around 74,000 in 2001 to just over 88,000 in 2005.

Business Development Assistance

BUSINESS AND PROFESSIONAL WOMEN'S ASSOCIATION

The Business and Professional Women's Association was set up in 1991 and carries out programmes to promote Cook Island women in business, empowering women through enterprise development workshops and training courses. The available trainings range from business-related skills, human resource management and hospitality.

BUSINESS TRADE INVESTMENT BOARD

The Business Trade Investment Board was established in July 2007 as a result of a merger between the Development Investment Board (DIB) and Small Business Enterprise Centre (SBEC). The organization is viewed as 'one-stop-shop' for investment facilitation and approvals for all foreign companies wanting to set up in the Cook Islands. It promotes and encourages investment in the Cook Islands consistent with its national development and investment policies.

The activities carried out by the organization include:

- Regulating, monitoring and controlling the direction, extent and scope of foreign investment in the Cook Islands;
- Encourage and facilitate the participation of Cook Islands in investment and in the ownership, management and control of investment business;
- Encourage & promote trade to, from & within the Cook Islands;
- Provide and facilitate training in business related skills as well as provide advisory and other business services to encourage and assist Cook Islanders in business development; and
- Other services include business skills training, business facilitating, and mentoring and on-going support programs. Specialist seminars are also provided in marketing, business planning and development, accounting and business growth.

Financial Services

ANZ BANK LIMITED, COOK ISLANDS

The ANZ Bank Limited, Cook Islands, was set up in 1988 offering a full range of commercial and retail banking services. The bank has one branch located in Avarua and five agencies across the island. Its target market is retail customers, local corporate, high net worth individuals, exporters/importers and correspondent banks.

BANK OF THE COOK ISLANDS (BCI)

The Bank of the Cook Islands was established in June 2001 from the merger of the Cook Islands development Bank (established in 1979) and the Cook Islands Savings Bank. The bank is owned by the Cook Islands government providing developmental loans for local businesses as well as commercial banking services.

WESTPAC BANK, COOK ISLANDSNTS

The Westpac Bank, Cook Islands, opened in 1998 after purchasing the operations of the European Pacific Banking Corporation. Today it offers customers a full range of retail, commercial, international and banking services. It has one main branch and an agency located on Rarotonga with another agency on Aitutaki.

Useful Contacts

COOK ISLANDS CHAMBER OF COMMERCE

PO. Box 242, Avarua, Rarotonga, COOK ISLANDS

Phone: (682) 20 925, Fax: (682) 20 969, Email: trott@oyster.net.ck / chamber@commerce.co.ck, Website: www.cookislandschamber.org

BUSINESS TRADE INVESTMENT BOARD

Rarotonga, COOK ISLANDS

Phone: (682) 24 296, Fax: (682) 24 298, Email: markshort@cidib.gov.ck, Website: www.cookislands-invest.com

MINISTRY OF FOREIGN AFFAIRS & IMMIGRATION

Secretary

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The Pacific Islands Trade & Investment Commission, Sydney

Who We Are and What We Do

We are one of four overseas agencies of the Suva-based Pacific Islands Forum Secretariat (PIFS). PIFS has other overseas offices located in Japan, New Zealand, and the People's Republic of China.

We work closely with a network of government and private sector agencies in the 14 Pacific Islands who are members of Pacific Islands Forum.

Our aim is to improve the capabilities of their private sector; in particular in enterprise, export and tourism development.

Our Functions

1. To assist Pacific Island enterprises develop sustainable business and trade activities.
2. To assist Pacific Island governments and private sector service providers develop their tourism potential.
3. To support private sector growth in the Pacific Islands, including promoting intra-regional investment.
4. To support business linkages between government and enterprises in the Pacific Islands and Australia through efficient and effective dissemination of market information.

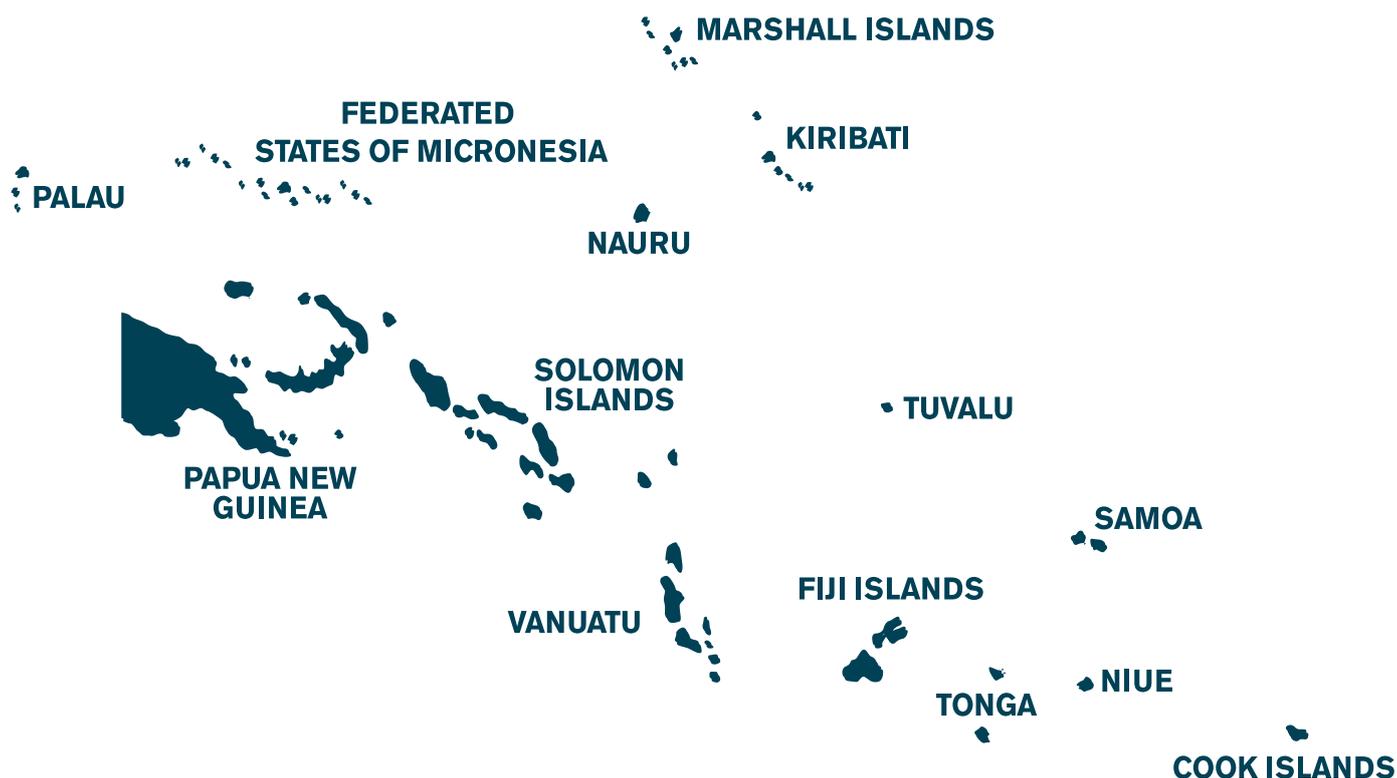
Our Special Projects Unit

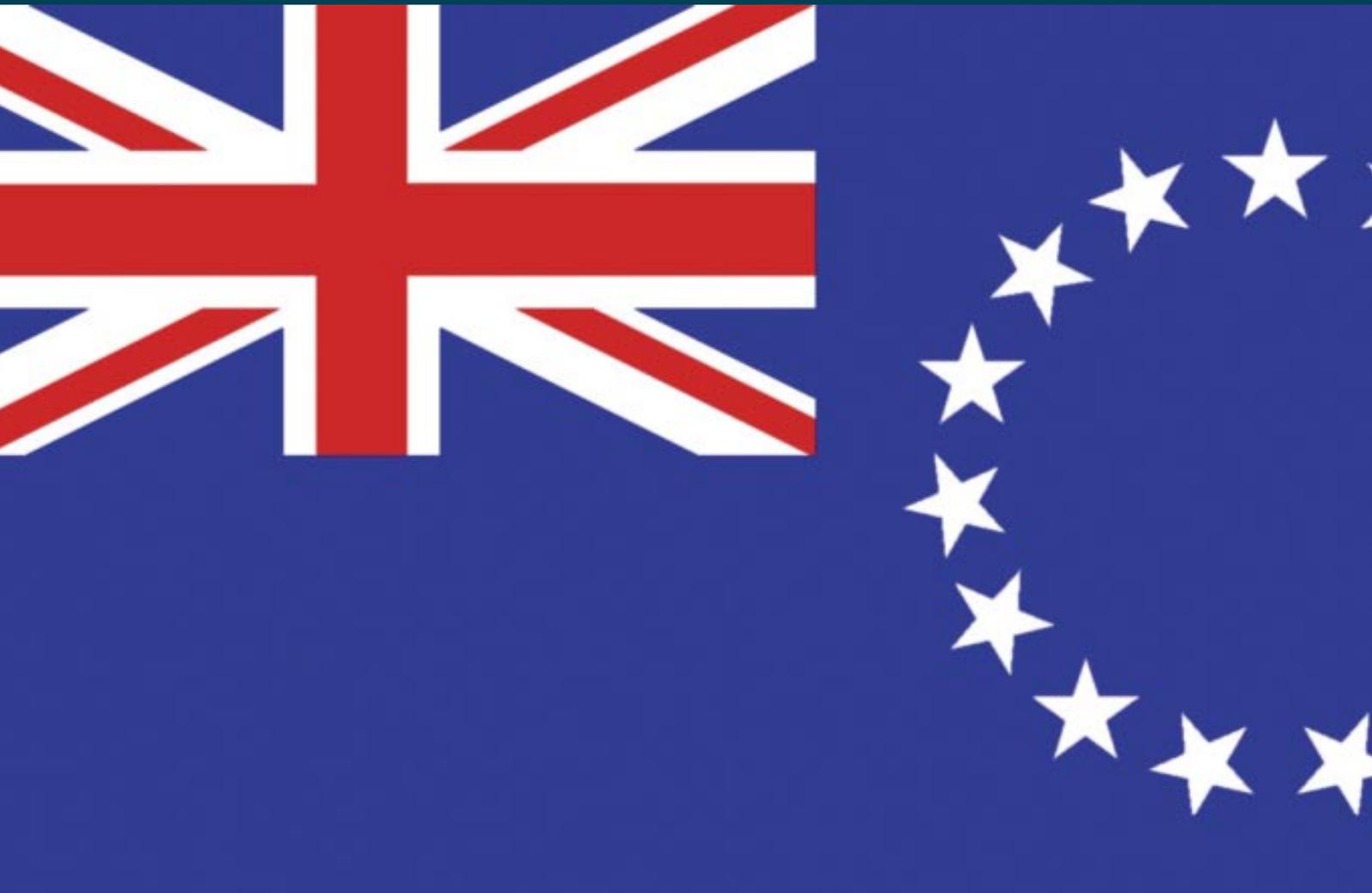
- Supports private sector development in 14 Pacific Islands Countries.
- Promotes intra-regional investment development.
- Supports the business development programs of Small Island States (SIS).
- Supports skills development, including through capacity building initiatives.

Our Newsletters

Our newsletter provides practical information about trade, tourism and investment trends in the Pacific Islands and Australia. Pacific Outlook also contains up-to-date information on developments on regulatory changes and requirements for trade and industry in the region.

Our newsletters are published on a bi-monthly basis. Register online at www.pitic.org.au for your free subscription.





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