



Government of the Cook Islands

2022 Minimum Wage Rate Review Report for the Cook Islands



April 2022

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Preface

The 2022 Minimum Wage Review started in April 2022. In accordance with the Employment Relations (Review of minimum rate of pay) Regulations 2014, the Minister appointed the following members to form the Minimum Wage Review Panel :

- **Sandrina Thondoo** Chair, Director of Labour & Employment Relations,
Ministry of Internal Affairs
- **Tristan Metcalfe** Senior Macroeconomist,
Ministry of Finance and Economic Empowerment
- **Tuaine Maunga** Employee Representative , President
Cook Islands Workers Association
- **Rebecca Tavioni** Employer Representative, CEO
Cook Islands Chamber of Commerce, Employer Representative
- **Nga Teao-Papatua** Community Representative

In determining the minimum wage rate for 2022, the Panel was guided by the following five criteria; prevailing economic conditions in the Cook Islands (including COVID19 pandemic economic and social impacts); 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 was provided by Lazaro Unuka (Labour Inspector).

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 2022 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 Enua. 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. This year's review was delayed in starting due to the ongoing impacts of the COVID19 pandemic.

The Panel works in accordance with a Terms of Reference, and criteria, and invites public submissions. A written report of recommendations is then presented to the Minister. 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.

1.3 Summary of Key Findings

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

Since the last Minimum Wage Review was completed in 2021, there has been no new statistics released. So the current review will still be referring to the Household Income Expenditure Survey (HIES) 2015/16, demographic Census 2016 data as well as the 2019 Labour Force survey.

As in prior years, the determination of the minimum wage for 2022 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.

This year's review also occurs in an uncertain economic environment, shaped by the global COVID-19 pandemic and the subsequent government's economic response plans.

However, some consistent themes remain in 2021:

- The Cook Islands is 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.
- 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. This is further exacerbated by the ongoing impacts of the pandemic. Concern was also expressed about poverty levels and income distribution, and population migration.
- The majority of employers from the private sector are relying heavily on the wage subsidy support offered by Government.
- 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.
- The indicative impacts on the Government payroll range from \$0.3 million for a 25 cent increase to \$8.25 per hour, to \$0.6 million for a 50 cent increase to \$8.50 per hour. The bulk of the impact falls on the Island Administrations.

- The most recent GDP estimates for the 2020-21 financial year suggest a real GDP reduction of 18.2 per cent with strong growth of 11.8 per cent and 13.0 per cent in 2021/22 and 2022/23 respectively (albeit from the low, COVID-impacted base) before moderating to 8.7 per cent in 2023/24 and more 'normal' growth rates thereafter.
- Inflation is expected to increase to 3.2 per cent in 2021/22, 3.5 per cent in 2022/23 and 4.0 per cent in 2023/24. At the current minimum wage of \$8 per hour, this would reduce purchasing power by 26 cents.
- 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 increased by 58 per cent to \$4.00 per hour. It was noted in Cabinet in 2000 that the minimum wage be incrementally adjusted upwards to a target of \$7.00 per hour over the following three 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 was not until 2006 when \$5.00 per hour was set by Government.

The next minimum wage review was conducted in 2014 when the minimum wage increased by 20 per cent from \$5.00 to \$6.00. 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 with the recommendation of a \$0.25 gradual increase 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 consecutive years. The next review was conducted in 2017 and the rate was increased from \$6.25 to \$7.00 per hour. The 2018 review saw a steady increased rate from \$7.00 to \$7.25 and the 2019 review recommended an increase over the following two years from \$7.25 to \$7.60 and lastly to \$8.00. The 2021 review occurred during the pandemic and therefore, the minimum wage was maintained at \$8.00.

2.2 International obligations

The Cook Islands has been a state member of the International Labour Organization (ILO), since May 2015. 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. The ILO is committed to provide support to its member states to continue strengthening minimum wage good practices.

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. To meet this objective through the minimum wage review, five assessment criteria are to be considered:

- I. Prevailing economic conditions in the Cook Islands (including socio-economic impacts of the COVID-19 pandemic);
- 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 conditions in the Cook Islands

Economic conditions may include (but are not limited to);

- trends in the Gross Domestic Product (GDP),
- average or medium income,
- unemployment rate,
- economic contribution of a particular sector,
- international comparisons or international economic trends and;
- fiscal and economic risks to the Cook Islands.

The socio-economic impacts of the COVID-19 pandemic has affected the labour market due to an abrupt halt to the tourism industry as a result of border closures and the implementation of public health measures to delay and mitigate the arrival and spread of COVID-19 in the Cook Islands. Such impacts on the labour market resulted in employers reducing the number of workers employed, the working hours, rate of pay and employment opportunities while the borders were closed. These moves are slowly being unwound with visitors returning, and there is now a widespread recognition of the challenge posed by a labour shortage.

Throughout the past two years, the Cook Islands Government has provided support to businesses and workers affected by the pandemic through the wage subsidy scheme in the Economic Response Plan and Economic Recovery Roadmap. This support was designed to minimize the impact of COVID-19 on the Cook Islands' economy and workforce.

Approximately 3,500 workers have received support from the wage subsidy (paid at the minimum wage of \$8.00 per hour).

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. Work incentives can also contribute to keeping local workforce in country, as opposed to emigrating to New Zealand and Australia, a factor of considerable importance for the recovery of our economy post COVID-19.

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 publicly 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 public expectations, and as such, lead to a higher level of compliance by all.

3 The Cook Islands Economy and labour market

3.1 The structure of the Cook Islands economy prior to COVID-19 pandemic

The Cook Islands is a small open economy heavily reliant 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 was the third most prosperous country per capita in the Pacific, behind New Zealand and Australia prior to the COVID-19 pandemic.¹ The Cook Islands enjoyed a sustained period of economic prosperity following the

¹ See ADB (2018) *Key indicators for Asia and the Pacific 2018*, p100. Available at: <https://www.adb.org/sites/default/files/publication/443671/ki2018.pdf>.

rapid growth of the tourism industry and a series of reforms following a fiscal crisis in 1996 leading to the country's graduation out of Official Development Assistance (ODA) eligibility from January 2020. Average gross annual income for all residents (as estimated by the 2016 Census) was \$18,677 for males and \$15,856 for females in 2016, for an overall average of \$17,221.

The HIES 2015/16 reports an annual average household income of \$50,620 for the Cook Islands, averaging \$55,150 on Rarotonga and \$38,420 in the Pa Enua.²

The bulk of total household income (68.9%) is generated from income associated with employment activities, such as wages and salaries, business profit distribution and subsistence (the net value of home produced and consumed items). Wages and salaries make up 86.9 per cent of income in this category. Following employment income, imputed rents account for 14.5 per cent of total income, while transfer income (pension) amount to 10.9 per cent of the total. The remainder is made up of income from remittances and gifts, capital income and casual receipts (sale of assets).

The HIES 2015/16 also reports that there is a degree of inequality in the distribution of household income across the Cook Islands and within each strata. Household income by quintile indicates that approximately 39.7% of Pa Enua households fall into the lowest quintile, whereas only 12.7% of households on Rarotonga do. Inversely 23.8% of households on Rarotonga appear in the top quintile as compared to 9.1% for the Pa Enua. The Gini Coefficient of 0.36 was estimated for the Cook Islands, 0.329 for Rarotonga and 0.386 for the Pa Enua.³ The report indicates that a Gini Coefficient of 0.36 can be described as a moderate degree of inequality.

The HIES 2015/16 reports annual average household expenditure of \$39,770 for the Cook Islands, averaging \$42,760 on Rarotonga and \$31,720 in the Pa Enua.

For the Cook Islands as a whole, 85.5 per cent of household expenditure is related to goods and services that are consumed by households, 3.8 per cent is non-consumption expenditure with the balance being investment expenditure (10.7 per cent). Consumption expenditure is mainly dedicated to Housing (27.6 per cent of expenditure within this category and mainly consisting of imputed rents), followed by food and non-alcoholic beverages (19.2 percent, mainly consisting of cash) and transport (11.5 per cent).

Despite the comparative level of prosperity 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 by virtue of New Zealand citizenship for Cook Islanders; they are free to migrate to either of their larger neighbours. Approximately 81,000 Cook Islanders live in New Zealand and at least 22,000 live in

² Cook Island Government (2018) Household Income and Expenditure Survey 2015/16. Available at: http://www.mfem.gov.ck/images/documents/Statistics_Docs/5.Census-Surveys/3.Income-and-Expenditure-Survey-Tables/Cook_Islands_2015-16_HIES_final_report_-_FINAL.pdf.

³ The Gini Coefficient is a measure of income distribution, with a value of zero representing perfect equality and one representing perfect inequality.

Australia (according to New Zealand's 2018 census report and Australia's 2016 census reports), while the Cook Islands had a residential population of 14,802 in 2016. 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 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 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. Prior to the pandemic, the Cook Islands consistently reported large trade surpluses reaching close to \$100 million in 2019-20, with exports principally composed of tourism accommodation services and banking services. With the COVID-19 related economic shock to the Tourism industry, which typically accounts for around 65 per cent of the economy, and the vast majority of services exports, the Services trade balance is estimated to have fallen into balance or a small deficit in the 2020/21 year, before the early tourism recovery in 2022 pushes a small surplus again. Overall this results in a far more balanced trade outlook than prior to COVID-19, where the large trade surpluses were bringing considerable income into the Cook Islands.

The dependency on tourism has resulted in strong economic growth, but a lack of economic diversity and economies of scale make any progress fragile and reversible as we have seen in dramatic fashion in the past two years. Labour market constraints across multiple areas of the economy are a key constraint on economic growth, and this is anticipated to drive strong wage growth in the next couple of years. However, the past two years have exacerbated a long-term issue of outward migration of the working-age population of the Cook Islands in search of 'greener pastures'. There is also some evidence of limits in accommodation capacity (particularly the long-term tenancy market), ageing water and waste infrastructure, limited transport links to the Pa Enua (Outer Islands), an ageing population, and increasing demand on public services.

Gross Domestic product (GDP) for the Cook Islands is estimated to have reduced by 18.2 per cent for the 2020/21 financial year, and while the 2021/22 financial year has forecast growth of 11.8 per cent, this still leaves the economy well below the pre-pandemic level. To protect livelihoods of both employers and employees the Cook Islands Government has provided extensive support measures. These have included over \$75 million in wage subsidies to continue maintain the relationship between employees with their employers.

In order to facilitate the support packages under the Economic Response Plan (ERP) and Economic Recovery Roadmap (ERR), the Cook Islands Government has taken on significant debt. As well as spending all of its current reserves from the Stabilisation Account (\$56.7 million), the Government has borrowed approximately \$114.1 million from the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), and has an additional \$85.8 million available in contingent debt in case of either

disaster (\$30.3 million) or cash needs (\$55.5 million). Grant funding of approximately \$82.7 million has also been received across the pandemic. Government forecasts a need to borrow further in the coming years to cover further shortfalls in the forecast financing requirements, in particular associated with large infrastructure projects.

The medium-term future (next four years) will focus on business recovery and supporting employers to help get them back into business.

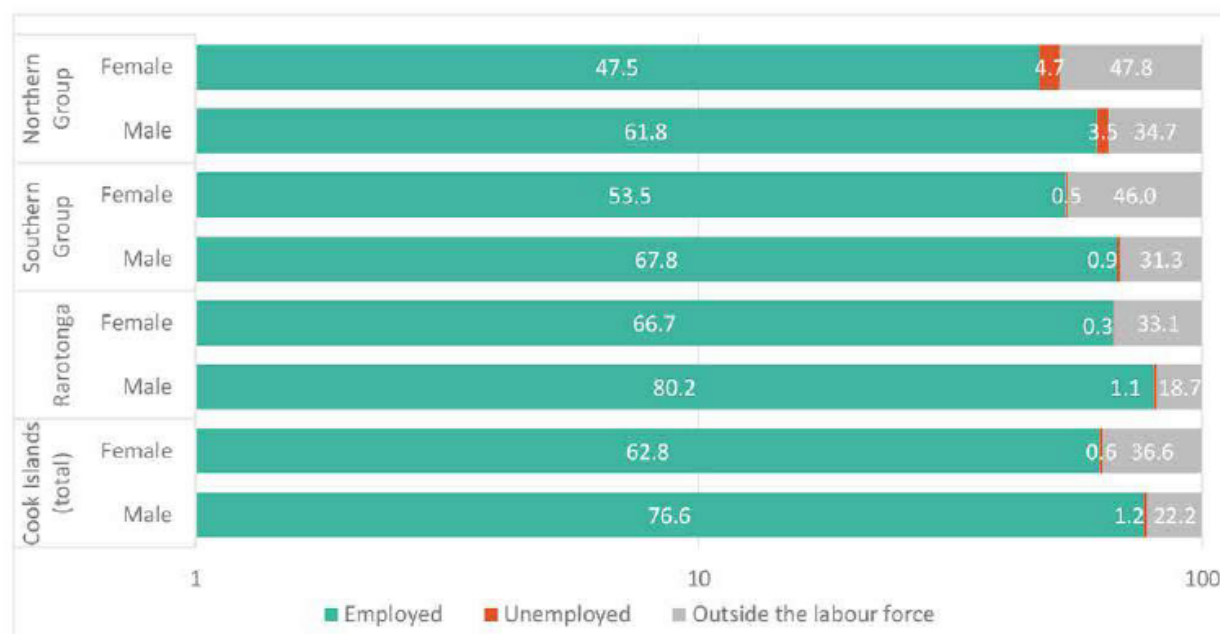
3.2 The structure of the labour market

According to the 2019 Labour Force Survey, 70.4 per cent of the 11,445 residents above 15 years of age were economically active. The same survey reports that 1.3 per cent of the workforce were classified as unemployed –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 (48.0 per cent) followed by part-time (8.5 per cent). Unemployment in the Southern Group is a concern at 7.9 per cent despite a low level of labour force participation, with the Northern group being closer to the national average at 4.8 per cent.

In Rarotonga, 74.0 per cent of men and women work 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 Enua whilst the Northern group has a labour force participation rate of 59.9 per cent. Also included among those “outside the labour force” are full-time students and the retirees.

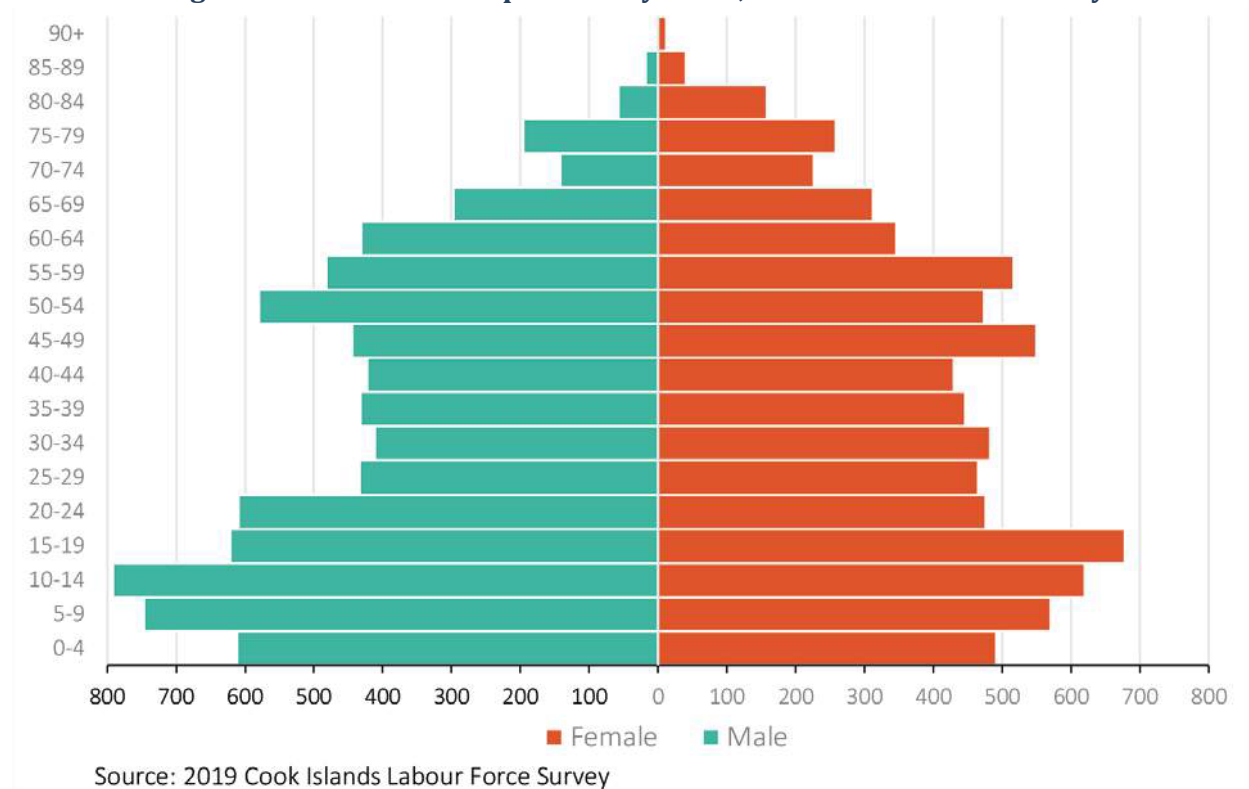
Figure 1: Employment status by gender and location, Cook Islands 2019 Labour Force Survey⁴



⁴ https://www.intaff.gov.ck/wp-content/uploads/2021/02/WEB_LFS-Report-2019.pdf

In terms of age profile, the age pattern is U-shaped with relatively higher rates among young employed people aged 15-24 years (25.5 percent) and the old age 65+ years group (33.6 percent), than among the middle age group 25-64 (12.2 percent).

Figure 2: Cook Islands Population Pyramid, 2019 Labour Force Survey



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 per cent, 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 2.5 – 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 18.1 per cent of the resident population in the Cook Islands. Census data shows that migrant 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 migrant workers is wholesale and retail trade, with 196 employed (16% of that sector), followed by the 170 migrant workers in the community and personal services sector (35% of those jobs). The jobs undertaken by migrant workers ranges from unskilled, medium skilled and high skilled, but there are concerns that low skilled migrant 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).

It comes as no surprise that tourism is the major employer in the economy, with the 2016 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 2021-22

According to the 2021/22 Half-year Economic and Fiscal Update (December 2021), the Cook Islands economy has been one of the most severely impacted by the COVID-19 pandemic and associated restrictions on travel. With borders closed for most of the past two years, and tourism responsible for around 65 per cent of direct economic activity it has resulted in the most severe contraction in Cook Islands' history. This is despite the large support and stimulus package provided under the ERP and ERR, which amounted to approximately 20 per cent of pre-COVID GDP.

The strong performance prior to COVID-19 saw economic growth achieving highs of 8.9 per cent in 2017/18 up from a low of 4.5 per cent in 2014/15. This was driven by record visitor arrivals, with 2009/10 being the first-time total visitor arrivals exceeded 100,000, and 2016/17 breaking the 150,000 barrier. This growth primarily came from the New Zealand and Australian markets, which increased by 34 per cent and 38 per cent respectively over the four years to the 2018/19 peak.

Construction has also contributed to maintaining economic activity through the downturn as well, with a combination of public and private sector projects keeping demand to a consistent level across 2019/20 and 2020/21 and into 2021/22 as well, despite some challenges around availability of labour. This has been vital to maintain employment within the sector through the recession as well as to make progress on key housing and infrastructure projects.

This strong economic performance up to 2020 resulted in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in January 2020. Graduation has resulted in greater difficulty, or even an inability for a number of donor countries to provide support to the Cook Islands during the pandemic. Pre-pandemic estimates by the Ministry of Finance and Economic Management (MFEM) Cook Islands suggested that the impact of graduation on economic growth would be approximately 0.4 per cent of GDP. These impacts are likely higher given the need for strong economic stimulus in response to the pandemic.

Forecasting and analysis in the 2021/22 HYEPU show the Government anticipates rising inflation over the next few years, with CPI growth anticipated to be 3.2 per cent in 2021/22 and 3.5 per cent in 2022/23. These forecasts were before the Russian invasion of Ukraine, so there is a further upside risk to them as well. The drivers of this price growth are largely around the key constraints in the economy – especially relating to labour, as activity recovers from the recession. The impact of imported inflation as a result of supply-line issues and global factors such as rising fuel prices is the other large driver of increasing prices, and poses the largest risk to these forecasts.

The outlook for the Cook Islands economy is centred on recovery from the pandemic after the severe contraction mentioned above. Real GDP is expected to grow by 11.8 per cent in 2021/22, before growth accelerates in 2022/23 to 13.0 per cent. After this, the pace will moderate back towards more long-term growth rates with the economic environment largely back to a more stable one. The 2021/22 HYEPU forecast growth of 8.7 per cent in 2023/24, 4.1 per cent in 2024/25 and 3.5 per cent in 2025/26.

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 2022)

Country	Hourly rate	Notes
Cook Islands	\$8.00	Universal wage rate
Australia⁵	AUD 20.33	The National Minimum Wage applies to employees not covered by an award or registered agreement. This is the minimum pay rate provided by the Fair Work Act 2009 and is reviewed each year 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 Zealand⁶ Rate as at 1 April 2022	NZ\$21.20 (Adult) NZ\$16.96 ("Starting out" wage or those under apprenticeships/accreditation) NZ\$16.96 ("Training minimum wage")	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. Applies for the first six months of paid employment or if the worker is over 20 but working as part of a attaining an industry qualification. Applies to 20 years or older, under their employment, have to do at least 60 credits a year of industry training.
Samoa	WST3.00 for private sector	In January 2020, an increase to minimum wage was legislated with a whopping \$0.70

⁵ Rates vary. Figures presented here are from a sample of minimum conditions available on <http://www.fairwork.gov.au/pay>

⁶ <https://www.employment.govt.nz>

Country	Hourly rate	Notes
		cent increase from \$2.30 tala to \$3.00 tala an hour.
Tonga	N/A	Tonga does not have a minimum wage, but has proposed to introduce one
Fiji⁷	FJ \$3.01	Further increase to \$3.34 per hour on July 1, 2022 and then to \$3.67 on October 1, 2022, to finally \$4.00 by January 2023
Palau⁸	US \$ 3.50	Some exclusions apply (notably agriculture). Indications that the country is working towards an increase to \$4.25 effective October 2022.
Marshall Islands⁹	US \$2.00	Recommendation that it shall only increase gradually by USD\$0.50 AND stopping at the maximum rate of USD\$4.00.
Federated States of Micronesia¹⁰	Up to USD2.65	Varies by National and State Government.
Kiribati¹¹	AUD\$1.60 per hour – local companies AUD\$3.00 per hour – Overseas-funded projects	Minimum wage commenced in November 2016
Vanuatu¹²	VT\$220 per hour	Minimum Wage increase from VT220 per hour on September 5 2019

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.

⁷ <http://www.fijitimes.com/revised-2021-2022-budget-fiji-announces-4-an-hour-minimum-wage-by-2023>

⁸ <http://www.islandtimes.org/president-whipps-hopes-2022-brings-an-increase-in-minimum-wage->

⁹ <http://www.wageindicator.org/salary/marshallislands>

¹⁰ <https://www.minimum-wage.org/international/federated-states-of-micronesia>

¹¹ <http://www.islandlifemag.com/latest-news-pacific/kiribati-government-sets-new-minimum-wage/>

¹² <http://kiribati.me/2016/11/03/kiribati-government>

¹² <http://www.employmentvanuatu.gov.vu>

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.

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 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

Inflation is expected to increase to 3.2 per cent in 2021-22 with further increases of 3.5 per cent in 2022-23 and 4.0 per cent in 2023-24, respectively. At the current minimum wage of \$8 per hour, this would reduce purchasing power by 26 cents by the end of the 2021-22 year, and 54 cents by the end of 2022-23.

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 – or indeed higher than inflation – may increase domestic wage-price inflation.¹³

4.3 Labour productivity considerations

Wage-price inflation is a 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 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 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).

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).

¹³ 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.

4.4 The fiscal impacts of a minimum wage increase

The Government is the largest employer of staff that are either on or close to the minimum wage, particularly in the Pa Enua. The impact on the Government payroll is an important consideration when considering minimum wage increases. Approximately 27 per cent of the Government's annual headcount have salaries on or close to the current minimum wage of \$8.00 per hour. However, this is heavily weighted to the Pa Enua Island Governments, where approximately 76 per cent of employees are at or close to the minimum wage. Excluding Island Governments, approximately 11 per cent of government employees have a salary at or close to the minimum wage. The annual cost to Government payroll of raising the minimum wage by a range of amounts is shown in the table below.

Amount of increase (\$)	Est. total cost to Govt payroll (\$)	Island Govt component (\$)
\$0.10	\$169,000	\$144,000
\$0.25	\$343,000	\$273,000
\$0.50	\$647,000	\$491,000
\$1.00	\$1,305,000	\$954,000

These amounts increase greater than proportionally as with each larger increase, more salary bands are affected.

4.5 Considerations in the Pa Enua

With the private sector already a minor player in the Pa Enua, it would not generally be advisable to increase the cost barriers that these business face. If private sector development in the Pa Enua 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 Enua (insofar as the Pa Enua 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 Enua (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 Enua 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 Enua). 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. One of the objectives of the government subsidy to shipping in the Pa Enua is to put downward pressure on the cost of living through reducing transport costs, and increasing the availability of shipping. 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 Enua, 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 Enua, 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 Enua
- 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 could provide feedback from a radio talk back, written submissions as well as by email and on the phone. From the radio talk back, we received 15 calls. Only 1 written submission was received. The Community representatives met with stakeholders through her various social meetings and gatherings. She also met with stakeholders in Atiu while she was on a personal trip.

Coupled with this year's submissions, it can be observed that there is a general feeling from the community that the minimum wage should increase to help families face the higher cost of living. Some community members felt that the minimum wage should differentiate between Rarotonga and the Pa Enua. Lastly, some community members requested to have the minimum wage reviewed six-monthly.

5.1 The need for protection of low income earners – Employees

The Cook Islands Workers Association conducted their minimum wage review questionnaire in February 2021 on Rarotonga and the Pa enua to draw out responses from workers across the public service and private sector. The 300 responses feedback from the questionnaire indicated that workers wanted an increase of the basic minimum wage to cope with the hardships attributed from the escalated and continuous high cost of living in the Cook Islands. Much burdens on this impact is felt in the Pa enua where basic food commodities are often twice the normal price on Rarotonga and items such as fuel, electricity, shipment of goods, telephone and internet just to name a few remained expensive for low income earners.

The outcome of the 2021 survey will not change the effect of the ongoing concerns over poverty and inequality of income distribution across the south and north of the Pa Enua unless affirmative action on an increase is supported. While increases in the minimum wage is welcomed by workers whatever the minimum wage adjustment, will assist families to survive without dependence on external sources but likely to continue to be more dependent on welfare benefits and family remittance from overseas. Push factors will continue to force Cook Islanders to migrate overseas for better employment, health and education opportunities, a trend that has been in place for decades because of our citizenship status to New Zealand making travelling easier.

The Cook Islands Workers Association (CIWA) represents workers in the Cook Islands both the private sector and public sector. The workers views are collectively from those on the main island Rarotonga and the Pa Enua and the Cook Islands Civil Society Organisation (CICSO). Establish in 1997 after the economic reform, the CIWA has been in partnership with civil society to be the voice of the general community when it comes to inequalities that affects workers and human rights. The CIWA would like to affirm and continue its respect for the business sectors representing the employers.

It is the opinion of the CIWA that the panel cannot deny the right of the people's need for a better affordable living given the recent increase in prices on basic food and other commodities. The milestone wages subsidy during COVID-19 pandemic and to date from Government is complimented. This for a fact assisted employers paying the basic minimum wage to their workers without being further burdened.

Therefore, since the zero minimum wage increase in 2021, CIWA demands their proposal of 50 cents increase over the 2020 minimum wage rate (2021 Min Wage Rate = \$8.50) and another 25 cents on top

of 2021 rate for year **2022 to a minimum wage rate at \$8.75**. This reasonable adjustment called by CIWA is considered affordable and justified based on the 2021 survey. CIWA also noted that based on the survey carried in 2021, most private sectors are already over and beyond the \$8.00 minimum wage rate, however, there remains on Rarotonga some government employees and in the Pa Enua on this rate which have no effect to the current minimum wage rate unless a new increase adjustment is approved.

In conclusion, it is CIWA's opinion that given this is general election, workers and voters expects some kind of increase in the minimum wage rate affordable across the public and business sectors.

Finally, CIWA recommends that the adjustment to the minimum wage rate should not be confused with Government's proposal for the salary banding adjustment but rather to address low income earners at this stage first.

5.2 Work incentives – Employers

In order to ascertain views of the employers on the subject of reviewing the minimum wage for the upcoming period of July 2022 – June 2023, the Chamber of Commerce has collated all feedback received from business owners within the community through the radio talk show, face to face conversations and general enquiries made into the Chambers office.

The view from impacted employers within the private sector, in general, is that the minimum wage should remain unchanged. It should be recognised, that for the period 2021 – 2022 most employers were receiving some form of government assistance to help keep workers employed and this would have substantially affected their feedback. If there was no wage subsidy at this time, there would be wholesale redundancies in Rarotonga and Aitutaki.

It should also be recognised that there is currently a large number of entry level roles that require backfilling. A survey conducted by the Private Sector Taskforce indicated no less than 600 vacancies as of January 2022. These vacancies have been unable to be filled locally, and as such, the costly task of employing labour from overseas will commence following wider border openings. The upfront costs of flights, medical checks, immigration visa checks, transit visa costs etc, is substantial. Businesses have little to no surplus income to introduce new additional costs such as an increased minimum wage.

Many employers commented that it would be inappropriate to consider an increase to the minimum wage due to the economic realities of Covid-19. The Chamber of Commerce concurs with this view.

The view of the private sector pertaining to the minimum wage is in line with the views expressed in the previous panel's report.

5.3 Public Feedback

The media (radio, TV) and social media 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.

Issues papers translated into Maori and containing significant questions were published inviting the

general public to provide feedback.

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

- The 2021-22 Half Year Economic and Fiscal Update estimates real GDP growth to be -18.2 per cent in 2020/21, before growing by 11.8 per cent with tourists returning in the 2021-22 year. This strong growth, coming from the low pandemic-effected base, is expected to continue in 2022-23 at 13.0 per cent and 8.7 per cent in 2023-24 before reducing.
- Inflation outlook is expected to be higher than recent times over the forward years, with a price growth of 3.2 per cent in 2021-21, 3.5 per cent in 2022-23 and 4.0 per cent in 2023-24. This is driven by both global factors (such as the cost of fuel and supply-chain issues) and rising activity in the Cook Islands' economy – particular with labour market constraints. At the current minimum wage of \$8.00 per hour, this would reduce purchasing power by 26 cents.
- 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.
- The indicative impact on the Government payroll for a range of minimum wage increases rises from a low of \$0.3 million for a 25 cent increase in the minimum wage, to a high of \$1.3 million for a \$1.00 increase.

- 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 Enua 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.

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.
- Since the advent of the cash economy, people have become more and more reliant on cash to make ends meet in Rarotonga.
- The National Sustainable Development Plan (NSDP) 2016–20 has an indicator measure (Indicator 1.1) that provides information about the proportion of the population who find it difficult to pay for basic needs. This is done by assessing the percentage of the Cook Island resident population earning under the minimum liveable income. The 2017 NSDP Indicator report estimates a minimum liveable income for 2016 of \$20,561 per person, or \$41,122 per household of two adults and two children.
- The Household Income and Expenditure Survey 2015/16 suggests that most families are earning an income above the average required expenses, and, in the case of Rarotonga, above the NSDP minimum liveable income measure.
- 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.

- Migrant 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 Enua 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 Enua, 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 2022 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 Enua.
- We need to be cautious about increasing the minimum wage, if it causes businesses to reduce staff numbers and/or close shop. In addition, concern was also around the pressure put onto the wage band by a sudden leap in the increase of minimum wage. Most importantly though, the consideration for the pandemic and the budgetary deficit.
- The minimum wage should be in line with the cost of living and inflation.

- 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 Enua and Rarotonga to New Zealand and Australia.
- There would be no need for a review(s) of the minimum wage if it were 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. Recommendation from the public to have a proper system in place with a formula to assist in determining the minimum wage yearly.

7 Recommendations

The Panel notes the proceedings and outcome of the final meeting. The majority vote of the panel (INTAFF, Cook Islands Workers Association and Community) requested for an increase to \$8.50/hour. The reasons for the increase were essentially to support the forecasted inflation rate and the knock-on effects this rate would have on the cost of living within our country. The predicted inflation rate is estimated to reduce purchasing power by 26 cents.

However, this increase in the minimum wage represents approximately NZ\$650,000 increase in the payroll for the public sector. Based on the current vacancies in the private sector, this increase would translate into additional costs on payroll of about NZ\$550,000, bringing the total costs to an estimated amount of NZ\$1.2 million. For the public sector, Government would have to re-prioritize budget allocation for 2022-2023 to meet the new threshold. For private sector, this cost would have to be met by businesses.

These additional costs come at a time of great financial difficulty and whether businesses are able to meet these costs by the 1st of July 2022 is uncertain. Maintaining the minimum wage for another year presents an alternative option in the context of the COVID19 pandemic and the current fiscal deficit.

The Panel recognised the difficulties faced by our Pa Enua communities and discussed the complexities of minimum wage movements in this context. Further work would be beneficial in that area. The Panel further agreed to maintain the annual review process, in order to reassess the situation in light of the rapidly evolving situation.

Therefore, the Panel respectfully recommends to the Minister to consider the two options:

1. Maintain the current minimum wage of \$8.00 per hour, with no increase nor decrease, effective as from 1 July 2022.
2. Increase the current minimum wage from \$8.00 per hour to \$8.50 per hour, effective as from 1 July 2022.

Furthermore,

The Panel notes :

- The Government's efforts to develop a National Minimum Wage Policy in 2023 that will be used to guide minimum wage setting going forward. The policy will set out the Government's minimum wage objective, based on a robust methodology, and informed by an expert comprehensive review to be undertaken with the assistance of the International Labour Organization (ILO) under the Decent Work Country Program. Crucial data extracted from Census 2016, Labour Force Survey 2019, Tax Review 2019 and potentially, Census 2021, will enable experts to assist the Government in creating a national framework and policy to achieve a more effective minimum wage review process.
- The Government's effort to undertake a full research and methodology on establishing livable income thresholds in conjunction with the upcoming national minimum wage policy. This should include the on-going collection of relevant current data to inform and support the annual review process.

The Panel additionally recommends that adequate information be shared with the public on the taxable nature of the minimum wage, and the appropriate calculation of the legal minimum, especially in regards to when accommodation and food allowances are paid as part of the remuneration package.

The Panel must be adequately resourced to conduct the proposed overhaul review of the minimum wage process in 2023.

-END-

Appendix 1: Issues Paper in Maori

AKARA AKAOUANGA I TE MONI MEANGITI-RAVA A TE ARONGA ANGAANGA - 2021

I roto ia Tiurai 2020, kua akakakeia te moni angaanga meangiti-rava mei te \$7.60 ki te \$8.00 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 (\$7.25 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 \$7.25 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 Enuā? 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 vaitata 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 tauu 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 akanoonooanga 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 akamaroiro 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-kau i 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 akanoonooanga 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 Enuu. E mea meitaki ainei i te aronga angaanga Kavamani i runga i te moni meangiti-rava i te Pa Enuu 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?

Tata mai i to kotou au manako ki roto i te reo Maori me kore Papaa ka tuku mai ei ki te Opati o te Internal Affairs i Tupapa. Ko te pupu-tangata ua no teia akakoroanga te ka kite i toou au manako.

Email: intaff.employment@cookislands.gov.ck

Subject: 2021 Minimum Wage Review

Mail: Minimum Wage Review Panel, Tango Ropianga, PO Box 98, Rarotonga, Cook Islands

Ka topiri te tuatau tuku manako tata mai a te Monite ra 25 no Peperuare 2021.

Uipaanga akaari manako: Ka raveia a te Ruitoru ra 20 no Peperuare 2021, 6pm ki roto i te Sinai Hall i Avarua.

Appendix 2: Issues Paper in English

The Government is required by law to conduct annual reviews of the Minimum Wage rate. In 2020, amidst the COVID19 pandemic, the minimum wage increased from \$7.60 to \$8.00 an hour. Making a decision on minimum wage requires a nation-wide consultation as the outcome 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. 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 views are important. Please add other points that you think are important for the review.

COVID19 Considerations:

1. Currently the Cook Islands government is funding the economic response plan (ERP) largely through debt funding. This means Cook Islands have taken on significant debt which will need to be paid back with interest. The economy is much poorer than it was pre COVID.
2. The Government has chosen a continuation of the wage subsidy (longer than virtually any other country in the Pacific including NZ and Australia) as well as other funding for the Economic Response

Plan (eg business grants etc) as being the most important way of supporting all workers in the current environment.

3. The wage subsidy has not only allowed employers to keep paying their staff, but has prevented a huge downturn in people being able to spend money on necessities. Both employers and employees have benefited massively. The alternative would have been a closure of many businesses and exodus of workers.
4. The government debt has occurred not just through expenditure on ERP but also through a significant reduction in taxation through reduced business profitability and company tax, as well as reductions in VAT and PAYE returns (less spending by tourists and lower salaries/wages for many employers and employees).
5. COVID impacts on the ability for either Government or businesses to pay more than the current minimum wage is simply not sustainable for the foreseeable future (due to debt and debt servicing).

Other 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. It is prudent to avoid measures producing excessive inflation and price rises.
13. The current minimum wage (\$8.00/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).
14. The minimum wage should strike a balance at the economy –wide level between workers and employers.
15. 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 \$8.00/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 Enua?
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 Enua?
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 Enua. Should Pa Enua 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?

Written submissions in Maori and English can be emailed or dropped off at the Ministry of Internal Affairs. Submissions will remain confidential to the Panel.

Email: intaff.employment@cookislands.gov.ck

Subject: 2021 Minimum Wage Review

Mail: Minimum Wage Review Panel, Ministry of Internal Affairs, PO Box 98, Rarotonga, Cook Islands

Oral submissions: At a public meeting, 12 February 2021 (Friday) 5pm, at the Sinaii Hall, Avarua.

The closing date for submissions is: 20/02/2021- 10:00 am.