



## APEC Business Advisory Council



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ABAC Chair 2007*

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Department of Foreign Affairs and Trade  
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Dear Mr Spencer

The APEC Business Advisory Council (ABAC) is pleased to present to you our 2007 Brief to the APEC Senior Officials.

This Brief is an initiative of ABAC's to provide APEC Officials with an outline of those issues which are important to the business community in the Asia-Pacific and to enhance the working relationship between APEC and ABAC.

ABAC has taken part in very productive dialogues with APEC. Over 2007, ABAC has participated in APEC's Ministerial Meetings relating to Transport, Small and Medium Enterprises, Energy, Health, Trade, Finance and Women's policies. In particular, ABAC has been engaged in robust discussions at the three Senior Officials Meetings on matters significant to the region's businesses, and on the future direction and form of APEC itself.

In presenting this Brief to the Senior Officials I would like to highlight a number of working-level activities of particular interest to ABAC this year which will be in our priorities for 2008:

- Climate change was highlighted in our recent Report to Leaders and figured prominently in our Dialogue with APEC Leaders in Sydney. Future ABAC work on this issue will focus on steps to accelerate innovation and investment in energy-efficient technologies. The desire by business for clear market signals around climate change policies will also be part of the work by ABAC on energy security matters;
- Convergence of Asia-Pacific trade agreement provisions and the promotion of Model Measures in negotiating FTAs, based on the Marshall School of Business Report into Rules of Origin;
- Further liberalisation of the trade and investment environments in the region through the promotion of the Doha Round and a study into the feasibility of a Free Trade Area of the Asia-Pacific;

- Facilitation of trade by addressing 'behind-the-border' issues such as standards and Intellectual Property Rights protection;
- Enhancing the relationship with APEC Finance Ministers to promote strengthening and deepening financial markets within the region and to study the implications of climate change for financial markets; and
- A joint study by ABAC and the Pacific Economic Cooperation Council will be conducted into the economic implications of international labour mobility, with a view to presenting the recommendations to APEC Leaders in 2008.

This Brief does not include any review by ABAC of the recent Statement by APEC Economic Leaders in Sydney. These issues will be discussed at the First ABAC Meeting for 2008, which will be held in Jakarta in January.

ABAC looks forward to continuing to work with APEC Senior Officials, to enhance APEC as an institution, and to continue to deliver real and valuable outcomes for business and the broader APEC community.

Yours sincerely



Mark Johnson



**APEC Business Advisory Council  
(ABAC)**

**BRIEF TO SOM 2007**



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## **1. ABAC Interaction and Cooperation with APEC**

Interaction between APEC and ABAC continues to deliver important outcomes for businesses in the region. ABAC will continue to deepen this productive relationship as part of its efforts to deliver outcomes which add value for business and the broader APEC community.

In response to APEC's call to enhance coordination, ABAC would identify specific focal points (Liaison Representative) to facilitate the development of a relationship and easier interaction with specific fora.

### ***Recommendations***

ABAC recommends that APEC:

- 1) promote mutual interaction between ABAC and APEC, not only in Leaders/SOM levels, but also at a working level between APEC fora and ABAC working groups;
- 2) recognize and support ABAC Liaison Representatives who are authorized by ABAC members to liaise with designated APEC fora; and
- 3) provide prompt, useful and constructive response or feedback to ABAC on our recommendations, so that ABAC might better refine and focus future recommendations.

## **2. Capacity Building**

ABAC believes that building institutional capacities is critical in fostering stable and fully developed financial systems. Despite their considerable successes in raising living standards during the past several decades, many developing economies in the Asia-Pacific region do not yet have sufficiently diversified, efficient and robust financial markets.

This challenge needs to be addressed if growth is to be sustained in the years ahead. Regional cooperation can significantly contribute to the realization of this objective, which stands to benefit the whole of the region and facilitate the attainment of the APEC vision. There is no lack of financial sector-related capacity building initiatives in the region.

On the contrary, various regional organizations and international financial and development institutions have been undertaking a multiplicity of projects that are helping many emerging markets today to achieve progress in strengthening and deepening their financial markets. The key challenges are how to promote greater synergy among these undertakings and, importantly, how to effectively involve and integrate the private sector in these efforts.

### ***2.1. Advisory Group on APEC Financial System Capacity Building***

Since its establishment in 2003, the Advisory Group on APEC Financial System Capacity Building has been conducting regular discussions with the participation of international public and private sector institutions and organizations to address these challenges. ABAC has worked closely with the Advisory Group and the Pacific Economic Cooperation Council (PECC) to present a number of policy approaches that are now reflected in the group's 2007 Annual Report.

The Advisory Group's 2007 Report on Capacity Building Measures to Strengthen and Develop Financial Systems does make several recommendations which are included in Appendix 1.

## ***2.2. Support for the Development of Regional Bond Markets.***

In recent years various public-private sector dialogues on the development of local currency bond markets in the region have been conducted. Aside from producing important insights and a compendium of key recommendations, these exercises have proven very useful to both public and private sectors by providing advice on measures likely to successfully encourage private sector activity to deepen and increase the liquidity of bond markets, and an understanding of how markets are likely to develop in response to measures being planned and undertaken by policy agencies.

At their Hanoi 2006 Meeting APEC Finance Ministers welcomed a proposal submitted by ABAC that the Advisory Group on APEC Financial System Capacity Building facilitate in-depth discussions with individual economies on how the public and private sectors can collaborate to develop their respective bond markets, with special attention to corporate bond markets.

The timing for such a dialogue was deemed appropriate as many APEC economies are moving beyond goal setting into addressing critical issues and implementation. It was decided that these dialogues would take the form of a series of one-day sessions, each focused on three or four developing member economies' bond markets.

The first Forum was convened on 8 May 2007. The forum was organized by ABAC and the Advisory Group on APEC Financial System Capacity Building. The focus of the first forum was on the bond markets of Indonesia, the Philippines and Vietnam. The Forum did facilitate a dialogue among relevant officials and regulators from APEC economies, private sector market players, and experts from international public and private organizations and highlighted capacity building initiatives that would assist the development of markets.

## ***2.3. SME Promotion and the Building of an APEC Business Community***

Small and Medium Enterprises (SMEs) are a key part of ABAC's agenda. Through ABAC participation in the SME Ministerial process, including the SME Summit ABAC hosted in Melbourne in August 2007, a serious effort is being made to identify ways of enhancing the competitiveness of small businesses throughout the region.

As part of this approach, ABAC Mexico conducted a survey over 2007 to gather information about the contribution of SMEs in each APEC economy, including what actions have been taken to foster SMEs and the preliminary results of promotional efforts. The survey information will be analysed by a working group led by ABAC Mexico and supported by ABAC New Zealand as the basis for recommendations to Leaders in Peru in 2008. ABAC's objective is to support SME participation in the global value chains as an important means of promoting SME growth, creating employment and building an integrated APEC business community.

## ***2.4. SME Access to Finance and the Role of Microfinance***

This year ABAC has considered how the eradication of poverty in the region can be intensified by supporting microfinance institutions within APEC. The development of microcredit has accelerated in response to the increased level of participation by conventional banking institutions and individual and institutional investors.

### ***Recommendations***

ABAC recommends that APEC:

- 4) develop approaches to ensuring microfinance institutions have adequate and continuous supply of funding at a reasonable cost to ensure the success of the microcredit program;
- 5) should encourage the flow of increased investment into the microfinance sector from government, donors, individual and institutional investors; and
- 6) increase the number of microcredit institutions in developing economies.

## **3. Ease of Doing Business**

### ***3.1. Transparency and Ease of Doing Business***

ABAC noted that in the Hanoi Action Plan, APEC Ministers had endorsed a multi-year work programme on 'private sector development' designed to reduce red tape and lift the quality of business regulation. The programme would involve an annual workshop on the margins of the SME Working Group meeting that would address issues identified by the World Bank's Ease of Doing Business (EODB) studies and at the joint ABAC/APEC Symposium in Montreal in May 2006. ABAC agreed to continue to monitor this important area of APEC activity, and to help identify and support appropriate capacity-building measures.

ABAC noted that the first workshop was held in Hobart, Australia, in May 2007, which addressed the issue of business start-up regulations, and that further APEC workshops are planned in Peru in 2008 (on business licensing), in Singapore in 2009 (on obtaining credit), and in Japan in 2010 (on a theme to be decided).

It is apparent that the subject of efficient and cost-effective business regulatory frameworks and other EODB issues, as promoted by ABAC, is increasingly being taken-up as part of APEC's broader discussions on behind-the-border impediments to economic growth and regional integration, and ABAC would like to commend the momentum generated in APEC by and since the 2006 Montreal EODB Symposium. But the challenge will be to maintain and build on that level of focused activity in future workshops. There will need to be careful and constant monitoring of progress towards improving the performance of APEC economies in areas of relative weakness, primarily by means of the annual World Bank survey.



## ***Recommendation***

ABAC recommends that APEC:

- 7) consider increasing the number of topics on Ease of Doing Business, in order to accelerate the capacity building process, that are covered in the SME workshops each year and that more than one workshop be held each year, so that all relevant topical issues can be addressed as early as practicable.

### ***3.2. Labor Mobility***

ABAC has been closely studying the issue of labor migration within the Asia-Pacific region. Although globalization has brought about the free movement of goods and capital, labor as a key component of production is only now beginning to receive the increased political attention it deserves.

ABAC notes that there is growing recognition that migration is an essential and inevitable component of the economic and social life of every APEC economy, and that orderly and properly managed migration can be beneficial for both individuals and societies. The reason however that migration and business mobility remains to be the subject of unfinished business of globalization is because of the complex social and policy dimensions involved.

The main force of international migration is economic: migration of persons seeking entry to the labor force in foreign countries offering the potential of higher earnings not available at home. The large international income differential suggests the potential power of the economic motive.

ABAC has noted the ongoing shifts in demographics in the Asia-Pacific region, including a shortage of skilled and unskilled labor in the ageing population of developed economies and the consequences of changes in market dynamics (tightening of labor supply which in turn provides labor mobility opportunities for the developing economies). ABAC is working with the Pacific Economic Cooperation Council on a joint regional study on International Labor Mobility.

## ***Recommendations***

ABAC recommends that APEC:

- 8) recognize the economic significance of mobility of labor within the Asia-Pacific region, both to the labor-sending and labor-receiving economies; and
- 9) note the ongoing project study on international labor mobility within the region being developed by ABAC and PECC which aims to assess the economic implications of the issue with a view to presenting recommendations to APEC Leaders in 2008.

### ***3.3. Facilitating the Movement of Goods***

ABAC recognizes that inefficient customs processes and port handling can cause delays in the movement of goods. ABAC urges accelerated work on the development of an APEC Single Window system to allow for the single submission of standardised information and documentation to fulfil all importing, exporting and transit-related regulatory requirements while also improving trade system integrity and security.

In addition, in connection with implementation of the APEC Framework for Secure Trade, ABAC urges APEC economies to engage with the private sector in the development of trade security initiatives to promote efficient security regimes for the movement of goods in the region.

### ***Recommendations***

ABAC recommends that APEC:

- 10) accelerate work on the development of an APEC Single Window preferably by 2012; and
- 11) work among member economies and with the private sector to establish mutual recognition of Authorized Economic Operators (AEOs) to expedite facilitation of legitimate and low-risk cargo from secure traders.

### ***3.4. APEC Business Travel Card***

The APEC Business Travel Card (ABTC) Scheme resulted from calls by ABAC in 1996 to facilitate the travel of business people between APEC economies. ABAC recognized the very real costs to business of delays in travel because of visa requirements. Since the ABTC was introduced in May 1997 by Australia, Korea and the Philippines, the Scheme has grown steadily. There are now 19 participating economies and currently over 22,000 cardholders. Two APEC economies have yet to participate in the Scheme: Canada and Russia.

ABAC has reviewed the agreed recommendations to bring about a successful transition period that would enable the non-participating economies to become full members of the ABTC scheme and to urge APEC to improve the scheme's operations.

The first criterion is keeping the transition period of the non-participating economies to a minimal length. As fully participating economies will be asked to accept non-pre-cleared cardholders at their borders, they will have little incentive to accept this proposal, particularly if such conditions would persist for an unreasonably long period of time. Therefore, the transition period should be as short as possible.

The second criterion is capacity building. Currently, only pre-cleared cardholders can proceed through APEC lanes. But under this new scheme, border officials would be asked to distinguish between Visa Waiver Program (VWP) and non-VWP cardholders in the APEC lane. Therefore, APEC should take sufficient steps on capacity building so that border officials will be able to clearly distinguish between the two types of cardholder, avoid confusion and maintain the current level of border-crossing efficiency that is a valued benefit of the card.

The third criterion is public awareness. The transition program allows all cardholders, regardless of pre-clearance, to proceed through APEC lanes, and this might lead cardholders into assuming they have been pre-cleared. Therefore, APEC should clearly publicize changes to the scheme to ensure widespread awareness among cardholders and applicants.

The fourth criterion is ensuring the utilization of the ABAC two-tier model concept. Although it is already incorporated into the new proposal, some hurdles still remain on implementation. Therefore, ABAC believes that APEC should retain the core concept of ABAC's two-tier model proposal to facilitate the transition process.

## ***Recommendations***

ABAC recommends that APEC:

- 12) encourage Canada and Russia to join the ABTC Scheme through a three-year transition period to facilitate their full participation;
- 13) keep the transition period as short as possible, with three years the maximum;
- 14) provide sufficient capacity building to avoid confusion at the border;
- 15) publicise changes to ensure widespread awareness among cardholders and to avoid confusion;
- 16) retain the core idea of ABAC's two-tier model proposal in order to facilitate the transition; and
- 17) continue to improve the operation of ABTC in participating economies, such as further shortening the processing time for pre-clearance, extending the term of the validity of the card, improving online services, ensuring definite recognition of ABTC at ports, and providing clearly marked ABTC lanes.

## **4. Energy and Climate Change**

The impact of climate change on our businesses and communities is both a regional and a global issue. Businesses should be considered part of the solution in addressing the challenges of climate change.

APEC economies are under growing pressure to take steps to reduce greenhouse gas emissions and to promote clean development within the region. In some instances, a range of policies to address climate change are already in place or are being developed. To that end, ABAC considers the sectoral approach and public-private partnership that is at the heart of the Asia-Pacific Partnership on Clean Development and Climate (AP6) to be an effective response to the climate change challenge.

From a business perspective, it is becoming increasingly clear that action on climate change requires APEC economies to implement transparent and consistent policy frameworks. ABAC encourages the development of public policy in this area that takes into account specific regional issues and provides clarity and certainty to business over the longer-term, as investments in research and development, plants and processes is an important consideration for industry.

It is important that APEC economies encourage the sharing of best practices and to disseminate energy-efficient technologies and products around the region. To promote this objective, specialists in the field of energy-efficient technologies and know-how need to be developed in each APEC economy. ABAC believes that the bottom-up approach of promoting energy efficiency and conservation is an effective approach to reducing greenhouse gas emissions.

To achieve technology transfer smoothly it is necessary to establish international rules on the protection of intellectual property rights for those who pioneer development of clean energy, renewable energy and energy-efficient technologies and to eliminate tariffs and other barriers to technologies, products and services.

## ***Recommendations***

ABAC recommends that APEC:

- 18) promote an effective combination of government measures that ensure that large-scale clean energy technology projects, such as carbon sequestration, are not impeded;
- 19) promote the efficient use of energy in industry and commerce as well as at a consumer level in such sectors as building and appliance;
- 20) endorse the key objectives of the AP6 and examine the possibility of applying its core elements in the formation of a post-Kyoto framework;
- 21) establish a framework to protect the intellectual property rights of those who pioneer clean energy, renewable energy and energy-efficient technologies;
- 22) encourages each economy to explore means to provide assistance to its industries and companies to set goals and establish individual action plans, and implement them as soon as possible; and
- 23) review the energy policy to build a firm regional energy infrastructure that:
  - a) encourages investment to ensure that stable supply of crude oil including mining, shipping and refining is continued;
  - b) continues the implementation of recommendations in the Energy Investment Report: Facilitating Energy Investment in the APEC Region endorsed by APEC Energy Ministers in 2004, in order to foster a sound energy investment environment; and
  - c) give due consideration to the work and recommendations of the APEC Energy Business Network (EBN); specifically its proposals in relation to mature energy supply, end-use technology, public and private investment promotion, and specific ways of reducing greenhouse gas emissions.

## **5. Health**

### ***5.1. Pan-Regional Emergency Responses***

ABAC restates the critical requirement of adequate emergency preparation by business and supports APEC's work on public health concerns and the development of the life sciences sector, as it bolsters the region's ability to respond effectively to pandemic events.

This year, ABAC has had the privilege to work with the United Nations System Influenza Coordinator (UNSIC) in helping ABAC in our continuous effort in developing business response to regional emergencies, in particular on influenza pandemic preparedness in the business sector.

The collaboration with UNSIC includes: 1) producing a list of useful websites on best practices and guides which could be disseminated to the business community in each economy through business associations to maximize outreach; and 2) completing a survey to allow ABAC to conduct a 'reality check' on what it has been doing and whether it was indeed effective and the messages passed onto companies. The UNSIC's experience and advice provided a good platform for ABAC to call on.

## ***Recommendations***

ABAC recommends that APEC:

- 24) continue to work closely with ABAC in providing advice and useful information, sharing best practices and guides with the business community; and
- 25) take an active role in reviewing and improving its programs and activities related to avian influenza and pandemic preparedness to identify additional areas where cooperation and collaboration between business and government can be enhanced.

### ***5.2. Life Sciences Innovation Forum***

The efforts of APEC's Life Sciences Innovation Forum (LSIF) to develop the region's leadership in life sciences for enhanced health and socio-economic development are commended by ABAC. ABAC continues to support its strategic plan and priority areas for implementation that will help the region address challenges in science innovation and economic development related to public health.

## ***Recommendations***

ABAC recommends that APEC:

- 26) establish a dialogue on health system resource allocations between LSIF experts and health and finance senior officials as an on-going feature of APEC collaboration with other APEC fora;
- 27) urge interested APEC economies to engage in consultations with industry and academia to develop public-private partnerships for pilot projects in disease management and wellness, investment in innovation, and scientific exchanges and training;
- 28) support an LSIF focus on implementing priority areas of the strategic plan that help address the health and related economic challenges facing the region; and
- 29) continue to support LSIF efforts to combat counterfeiting pharmaceuticals and medical devices through public awareness and training initiatives, as this is a major industry concern.

## **6. Information and Communications Technology**

### ***6.1. ICT-Enabled Growth***

Developing and maintaining regulatory, policy and legal environments for information and communications technologies (ICT) is critical in achieving future economic growth in the Asia-Pacific region. In recent years, ABAC has encouraged APEC to take action on a number of ICT related policy issues that affect an economy's ability to maximize the opportunities offered by ICTs, including Data Privacy. ABAC applauds APEC's efforts to promote accountable data flows across the region through the implementation of the APEC Data Privacy Pathfinder. This

initiative is an example of how APEC economies can effectively address the need to develop regulatory regimes which expand the utility of ICTs.

The Vision of the Asia-Pacific Information Society (APIS Vision) was officially approved by the APEC Telecommunications and Information Working Group (APEC TEL) in April 2007. ABAC endorses the APIS Vision's efforts to reduce the digital divide and foster economic growth in the region, while taking into account the circumstances particularly relevant to the region, the diversity among member economies and their different ICT priorities.

In 2006, ABAC endorsed the ICT-Enabled Growth Initiative which seeks to help achieve economic growth in the region by assuring that regulatory, policy and legal environments across key sectors of the economy are developed in ways that position them to benefit from the information economy and better utilize ICTs.

### ***Recommendations***

ABAC recommends that:

- 30) emphasize the 'users' perspective' in the development of ICT systems, sensor-based computing and radio frequency identification to ensure improved communication infrastructure within the region; and
- 31) the APEC Electronic Commerce Steering Group (ECSG) continues to work collaboratively with stakeholders, including ABAC, to implement the ICT-Enabled Growth Initiative.

### ***6.2. Technology Choice Principles***

ABAC believes that APEC took a significant step forward on the issue of technology choice when Leaders endorsed the Technology Choice Principles pathfinder initiative in November 2006. To date, 15 APEC economies have joined the pathfinder, and ABAC applauds the efforts of these economies in adopting these principles.

### ***Recommendations***

ABAC recommends that APEC:

- 32) advance the implementation of the Technology Choice Principles by encouraging more APEC economies to participate in the initiative;
- 33) conduct a survey of APEC economies on the current status of legal and regulatory regime vis-à-vis the principles; and
- 34) conduct a study on the long-term economic growth and innovation benefits of adherence to the principles.

### ***6.3. Information Security***

Information security is critical in enabling APEC economies to take advantage of the efficiencies that commerce and government can obtain through the adoption of new information and communications technologies. The increasing adoption of new ICTs heightens the exposure of

businesses and public organizations to cybercrimes, including online fraud, viruses, and unauthorized access to networks. ABAC therefore considers that it is critical that APEC reinforce efforts, such as those being carried out in the APEC TEL, to address information security matters given its urgings for regional economies to achieve universal broadband access in the near future.

### ***Recommendations***

ABAC recommends that APEC:

- 35) support strengthened cross border efforts to fighting cybercrime, including cooperative investigation efforts, harmonization of cybercrime laws and exchange of information;
- 36) increase capacity building efforts such as the sharing of best practices and the promotion of training with developing economies; and
- 37) increase public awareness activities related to information security, including training operators in the proper installation and safe use of software, informing the public of cybercrime threats and promoting compliance with laws and regulations.

### ***6.4. Information Technology Agreement***

APEC played a critical role in developing a consensus on the Information Technology Agreement (ITA) in the World Trade Organization (WTO) in 1997. This Agreement has allowed economies to take full advantage of the efficiencies that can be harnessed through the use of information technology by removing tariffs on information technology-related products and devices.

Recently, it appears that advanced versions of ITA products are classified by some economies under tariff codes not covered by the Agreement and are therefore taxing innovative information technology products, in direct contravention of the spirit of the Agreement. ABAC feels it is important to note that in 2006, APEC Ministers referred to the important role the Agreement has played in APEC economies and emphasized the need to review its product coverage.

### ***Recommendations***

ABAC recommends that APEC:

- 38) re-affirm the importance of the ITA;
- 39) support efforts at the WTO to maintain the Agreement as more sophisticated and technologically advanced versions of ITA products enter the market place;
- 40) encourage economies not meeting their ITA commitment through use of their classification practices to proactively change these practices and eliminated duty-free treatment for ITA-covered products; and
- 41) support efforts to update the tariff codes provided in the Agreement from the 1996 to February 2007 versions of the Harmonized System.

### **6.5. *Tariff Elimination for the ICT/Electronics and Electrical Products***

Building on the success of the ITA and its benefits, APEC Ministers should recognize the benefits of the ICT/Electric and Electronics Products sectoral talks which seek to eliminate tariff and non-tariff barriers on all ICT/electronics and electrical products.

#### ***Recommendations***

ABAC recommends that APEC:

- 42) actively support the successful negotiation of an ICT/ Electronics and Electrical Products sectoral talks under the framework of the WTO Doha Development Agenda's Non-Agricultural Market Access (NAMA) negotiations;
- 43) express support that any such sectoral be broad, covering all products of chapters 84, 85 and 90 of the Harmonized System, with limited exceptions or phase-in for sensitive goods; and
- 44) encourage member economies to actively partake in these negotiations and become participants of any concluded ICT/Electronic and Electrical Products sectoral agreement.

## **7. Intellectual Property Rights**

Issues to do with the protection and enforcement of Intellectual Property Rights (IPRs) continue to be a high priority for regional business in the Asia-Pacific region. Issues related to IPR protection have featured prominently in successive ABAC Reports and in the Annual Dialogue ABAC has with APEC Leaders.

ABAC welcomes the strong commitment by APEC in recent years to address these critical issues and to take robust action to protect IPRs. Important regional measures addressing Intellectual Property Rights protection now in place have included the APEC Comprehensive Strategy on IPR, the APEC Intellectual Property (IP) Toolkit, the establishment of IPR Service Centres, and the Anti-Counterfeiting and Anti-Piracy Initiative and calls by APEC Ministers for action to ensure that governments use only fully-licensed products that enjoy IPR protection. ABAC urges APEC to further the implementation of these initiatives.

In 2007 ABAC's consideration of IPR protection has focused on two specific and substantial aspects (1) public awareness and (2) patent application format.

### **7.1. *Intellectual Property Rights Protection Public Awareness***

Last year, APEC endorsed the Model Guidelines for Effective Public Awareness Campaigns, as one of the five sets of guidelines that underpin the APEC Anti-Counterfeiting and Anti-Piracy Initiative. That decision was promptly followed by a public awareness seminar which APEC hosted in November 2006 and an APEC online platform is currently being built to facilitate the exchange of pertinent information and resources.

ABAC commends the approach APEC has taken through the public awareness campaign to highlight the importance of IPRs. It is essential that regional business accepts that it too has a key role and is seen to be active in ways that complement the APEC initiatives and assist in the



protection of IP. An important part of ABAC's contribution is to continue to work closely with relevant APEC organizations and notably the Intellectual Property Rights Expert Group (IPEG) and with IP-focused organizations in individual APEC economies.

In 2007, ABAC:

- produced a booklet of a collection of examples of successful IP public awareness and education campaigns and initiatives, drawn from a cross-section of Asia-Pacific business experience; and
- organized a conference, *Stopping Fakes: Building Awareness – A Dialogue on Public Education Campaigns* on the margins of the APEC Business Summit in September 2007. ABAC will disseminate a report on the outcome of the meetings for presentation to the IPEG in 2008.

### **7.2. Patent Application Format**

It is estimated that 1.2 million patent applications in the Asia-Pacific accounted for three-quarters of the global total of patent applications in 2006. This is a measure of the dramatic surge in regional economic activity. However, about one-quarter of patent applications within the Asia-Pacific are required to be filed in more than one APEC economy. The current situation imposes a significant compliance cost on applicants and ABAC believes this process is extremely inefficient and imposes significant resource burdens on both the private and public sectors.

### **Recommendations**

ABAC recommends that APEC:

- 45) support the development and use of a common APEC patent application format in the Patent Offices in member economies;
- 46) investigate means to enable the results of prior art searches and patent examinations to be made more easily accessible to all APEC economies;
- 47) develop capacity building measures to assist economies that currently have inadequate patent examination resources; and
- 48) encourage those economies which are not yet signatories to the Patents Cooperation Treaty (PCT) to become so.

### **7.3. Signal Piracy**

In 2006 ABAC recommended that APEC address the issue of signal piracy by encouraging governments to make the legitimate licensing of content and respect of copyright a requirement for the issuance of cable licenses, and revoke licenses from cable operators that broadcast content without authorization from copyright holders.

ABAC applauds APEC Ministers' recognition of the growing problem of signal piracy and call for further action by APEC. ABAC plans to address the issue in further detail in 2008.

## **8. Investment**

### ***8.1. Investment Liberalization***

Investment liberalization and facilitation are essential to the economic growth in the Asia-Pacific region. During 2007, ABAC has given priority to issues surrounding the promotion of investment facilitation as a key factor underpinning regional economic growth. ABAC welcomes steps by APEC to complement its trade facilitation work programme with a targeted action plan to foster greater investment liberalisation and facilitation, including work with the Organization for Economic Co-operation and Development (OECD) and its Policy Framework for Investment and utilization of intensive public-private dialogues.

#### ***Recommendations***

ABAC recommends that APEC:

- 49) continue to collaborate with ABAC to advance and promote investment liberalization and facilitation;
- 50) utilize the result gained thorough the Public-Private Symposiums in Montreal, Tokyo and Cairns that identified 10 priority areas of impediments to foreign direct investment (FDI), especially 5 areas as top priority, and 6 key conclusions that promote public-private sector dialogue (Appendix 2); and
- 51) develop a targeted action plan, such as the Investment Facilitation Action Plan, that enables ABAC to plan, carry out and measure the progress of the Action Plan with a tangible scale.

### ***8.2. Increasing Investment Flows***

Increasing the flow of investment is a major challenge for APEC in meeting its Bogor goals, which will form a central part of APEC's structural reform agenda to further regional economic integration. While savings rates are high in the region's economies, investment levels for a number of economies have not yet returned to the levels prior to the currency crisis of the late 1990s.

To meet its Bogor aspirations against the current backdrop of stalled world trade negotiations, ABAC believes that APEC is required to place more emphasis on regionally-generated measures for investment. ABAC strongly supports the work of APEC's Investment Experts Group (IEG) and this year sponsored with APEC Officials, a Public-Private Capacity Dialogue to promote the use of the Organization for Economic Co-operation and Development's Policy Framework for Investment (PFI) as a tool to improve both domestic and foreign investment flows in the region.

This PFI Dialogue was highly constructive and pointed to important changes to investment policies in four APEC economies- Indonesia, Mexico, Philippines and Vietnam. The investment climate is changing positively in these economies and the potential economic gains could be far-reaching - for the economies themselves and for the region. On-going reforms to help build the institutions and the policy frameworks in those economies deserve strong support through capacity building initiatives, work which is being supported by the APEC, OECD, United

Nations Conference on Trade and Development, International Monetary Fund, World Bank and the private sector.

### ***Recommendations***

ABAC recommends that APEC:

- 52) endorse IEG work and the OECD's PFI as a tool to assess the quality of individual economy's policies;
- 53) endorse the convening of further public-private dialogues with interested economies to enhance investment policy frameworks in the region; and
- 54) advocate policies aimed at enhancing investment flows by use of the ABAC check-lists presented to APEC Finance Ministers in 2006.

### ***8.3. Structural Reform***

Sustained improvements in productivity growth in the region's economies will be achieved by implementing key reforms in regulatory regimes, including in financial sectors, the encouragement of competition policy and other elements of the Leaders' Agenda to Implement Structural Reform (LAISR).

ABAC supports the work of the APEC Economic Committee in developing the LAISR program which gives APEC a major new challenge and an opportunity in promoting the policy framework for regional economic integration.

Effective and transparent regulatory regimes which promote growth and investment, competition policies and fair and equitable legal frameworks and the promotion of good governance are some of the essential structural reform challenges in eliminating behind-the-border barriers to growth and development.

ABAC notes that responsibilities for structural reform may involve more than one Minister in any APEC economy, thereby adding complexities to regulatory reform efforts by economies.

### ***Recommendation***

ABAC recommends that APEC:

- 55) convene a standing Ministerial Meeting on Structural Reform to develop and adopt an action plan to promote structural reforms in the region's economies, including support for institutional capacity building.

### ***8.4. Deepening and Integrating Private Capital Markets***

ABAC believes that high priority should be given to deepening and integrating private capital markets to sustain growth in the APEC region and to provide the basis for further regional financial and economic integration.

Deeper private capital markets ensure higher levels of economic stability through the diversification of savings and investment, as well as the transfer of a portion of the risk of debt

default by ownership of equity. A corollary benefit would be that certain burdens traditionally assumed by governments, notably the provision of social security programs and state infrastructure investment, are abated as the responsibility to fund these programs is transferred in part to the individual and the private sector.

In August 2007 ABAC submitted its Report to APEC Finance Ministers on Deepening, Strengthening and Integrating Capital Markets, with recommendations aimed at enhancing the creation of wealth and the stabilization of markets throughout the region. Our report also included recommendations for developing and improving policies on social security and retirement income safety nets.

### ***8.5. Social Security and Retirement Income Safety***

ABAC notes that the APEC Finance Ministers are looking at measures to address the increasing pressures on government resources caused by the ageing of the population. In the developing economies within APEC the acceleration of urbanization will add further pressures as traditional social support groups of family and community begin to decline, and thereby increasing the individuals' reliance on retirement savings and State-provided safety nets. In the developed APEC economies 'pay-as-you-go' retirement systems will place increasing pressure on government budgets unless reformed to reflect the changing demographic dynamic.

The relative cost advantage that 'pay-as-you-go' plans may have had in the past was partially the result of demographic factors that no longer hold in most economies. While the transformation to new demographic realities will not be without difficulty, economies should begin now to move from 'pay-as-you-go' to a fully-funded social security system.

APEC economies will also benefit from efficiency gains if private financial service providers, including foreign-owned groups, are permitted to offer pension, fund and asset management services. Gains could be expected to offset disruptions arising from the transfer of these activities from the public to the private sector.

### ***Recommendations***

ABAC recommends that:

- 56) APEC Finance Ministers work with counterpart agencies within their economies to resolve those challenges, addressing social security and safety net issues.

## **9. Standards**

ABAC has long recognised that effective uniformity of standards regulation is fundamental to the simplification of doing business in the region, and that the development of standards infrastructure and harmonisation of standards in the APEC economies provides the building blocks for successful regional trade and economic development. Standards not only are critical in manufacturing and technological development but increasingly also in all areas of economies including management, services such as financial, educational and health services, government, security, agriculture and food production and the environment. Indeed, World Trade Organization trade negotiations and negotiation of regional and free trade agreements throughout the APEC region all rely upon the development and adoption of international standards.

ABAC has worked for some time towards the goals of improving regional infrastructure for setting and enforcing standards, international harmonisation of standards and raising awareness of the importance of standards. ABAC's ultimate aim is to ensure an effective business environment through a systematic combination of development and adoption of common international standards, conformity assessment, certification and market surveillance in all APEC economies.

### ***9.1. Survey of National Standards Bodies in APEC Economies***

A significant focus of these efforts has been examining the capacity building needs of regional economies. Between December 2006 and January 2007, ABAC conducted a survey to collect information about standards, national standards bodies, funding, government, industry and public awareness and involvement issues, in APEC economies. The aim was to identify areas where capacity building efforts might be directed and where there are collective difficulties confronting APEC economies in aligning standards.

Fourteen APEC economies have responded to the survey. While it is clear that there are developmental differences between levels of standardisation throughout the region, it is also clear that there is a desire to move toward greater regional collaboration and greater international harmonization.

### ***9.2. ABAC Dialogue with Standards Organizations***

In April 2007 an ABAC delegation participated in the meeting of the Heads of the National Standards Bodies held in conjunction with the joint Pacific Area Standards Congress/Pan American Standards Commission (PASC/COPANT) meeting in Cartagena, Colombia. PASC Members present were Australia, Canada, China, Columbia, Fiji, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, Mongolia, New Zealand, Papua New Guinea, South Africa, United States of America, Vietnam. The Secretary-General of the International Organization for Standardization (ISO), the President of ISO, the President of the International Electrotechnical Commission (IEC), the Chair of PASC from Columbia, and the President of COPANT, were present at the Dialogue meeting.

Discussion was wide ranging and drew on the experiences of the national standards bodies as well as the two international standards bodies, ISO and IEC. The meeting:

- recognized the importance of raising awareness of stakeholders especially business, government leaders, small and medium enterprises and regulatory authorities;
- acknowledged the benefits of further facilitation and harmonization of national standards with international standards and encouraged PASC members to continue their efforts to promote regional cooperation; and
- noted that several promotion materials/activities are existing or planned to be made available in the APEC Subcommittee on Standards and Conformance, as well as ISO and IEC.

The PASC members also unanimously agreed to undertake an APEC-wide project that will develop a framework on standards relating to security and emergency management in the protection of critical infrastructure (e.g. hospitals, power supply, water, telecommunications, and government services from security threats and natural disasters).

### ***9.3. Development and Implementation of Standards for Emergency Management***

In September 2007 ABAC received a presentation from Mr John Tucker, CEO of Standards Australia (the peak non-government standards development body in Australia) on the Critical Infrastructure and Support Systems Standardisation Project. This project is being developed out of consultation with PASC and Standards Australia is managing the development of a framework to address the need to protect critical infrastructure in times of emergencies, whether these be caused by natural disasters or criminal activity.

In particular, the project will promote secure standards and systems capacity and building technical capacity for developing APEC economies as well as the harmonization of related standards across the APEC region to help improve the interoperability, and compatibility of systems related to securing critical infrastructure. The main beneficiary of the project, which is expected to take 12 months, will be the business community of APEC economies, as it will contribute to a higher degree of security of critical infrastructure as a result of standardized and tested security management systems to meet emergency situations.

#### ***Recommendations***

ABAC recommends that APEC:

- 57) take a major step towards economic integration in the Asia-Pacific by ensuring that our regional businesses face minimal barriers and costs in complying with standards – and gaining certification of that compliance – anywhere in the region; and that there should be minimal barriers and costs in selling their products and services elsewhere in the world;
- 58) collaborate among member economies to assist one another and ensure a regional voice in the international development processes given resources constraints and varying stages of economic development among members in standards; and
- 59) work with ABAC in the development of an APEC-wide standard to address the need to protect critical infrastructure.

## **10. Trade**

ABAC has been active in pushing for a resumption of the Doha Round. ABAC continued to engage other international business organizations such as BusinessEurope and the International Organization of Employers in making representations to the World Trade Organization in Geneva to promote the importance of freeing-up world trade to the Asia-Pacific. The status of the Doha Round and the consequences of its failure are of deep concern to the business community.

ABAC supports the strong statement of the APEC Leaders on the resumption of the Doha Round and carrying it through to its successful conclusion.

### ***10.1. Free Trade Area of the Asia-Pacific***

The Asia-Pacific economic integration is a key component of ABAC's work. APEC should be front-and-centre of the regional economic integration. ABAC reiterates its belief that options for the future, such as a Free Trade Area of the Asia-Pacific (FTAAP), would offer opportunities to advance the trade and investment liberalization and facilitation agenda envisaged in the Bogor Goals.

An FTAAP could serve both the objectives of addressing the proliferation of free trade agreements in the Asia-Pacific region, as well as promoting a higher level of convergence and consolidation of trade agreements in a comprehensive and WTO-plus manner. Since many issues and steps still need to be undertaken in regards to a possible FTAAP, ABAC and APEC must work together to prepare APEC economies fully for this possibility.

#### ***Recommendations***

ABAC recommends that APEC:

- 60) continue to push strongly for the resumption of the Doha Round; and
- 61) deepen its study of the FTAAP and draw-up a work program toward its fruition.

### ***10.2. Rules of Origin***

This year ABAC has engaged the University of Southern California Marshall School of Business to conduct research with the following objectives:

- 62) Develop a descriptive/evaluative comparison of Rules of Origin across all APEC preferential trade agreements; and
- 63) Evaluate which dimensions of Rules of Origin generate the greatest complexity and associated transactions costs, and have the most impact on business's trade and investment decisions.

The Marshall School had proposed developing a classification scheme based on the proposed APEC Rules of Origin (ROO) Model Measures. However, the 'model measures' do not offer usable 'ideal' criteria for comparing and evaluating the different provisions. Without a model or a standard it is impossible to prepare a catalogue similar to the Free Trade and Regional Trade Agreements (FTA/RTA) Comparative Catalogue which was developed last year, and which compared provisions to WTO. The approach adopted is to prepare a catalogue which compares similarities and differences within each of the main ROO provisions and was presented at the ABAC Sydney meeting in September 2007.

The most important and substantive question with Rules of Origin is which provisions/requirements of ROOs provide the most complexity and impose most of the transaction costs borne by businesses. The Marshall School has selected two industrial sectors – Automotive and Food. ABAC's goals with these case studies is to quantify the costs associated with ROO complexity and to provide guidance on which costs are impacted both the greatest and least due to this complexity.

The key findings from the Marshall School Report include the following:

- ROOs are unnecessarily difficult to understand and interpret. Significant variances exist among ROO provisions across the APEC region. These differences, coupled with the lack of a standard for interpreting Harmonized System (HS) Codes, make ROO certification challenging and costly for business. Companies, particularly SMEs, are forfeiting the benefits of free trade preferences, and paying the tariff, because the origination process is too burdensome;
- Applying ROOs is a non-trivial expense for businesses. Companies that apply ROOs must invest in and develop significant capabilities to do so. Businesses must make significant investments in IT infrastructure and human capital just to prove origination. Additional expenses are incurred by companies that must assist their suppliers in the product certification effort;
- ROO complexity and costs are compounded when companies operate across multiple FTAs or within overlapping agreements. No two ROO regimes are alike within the region. These differences across FTAs make it all but impossible for businesses to realize synergies from IT systems, administrative procedures and subject matter expertise;
- The case study on Food Industries showed that ROO issues are relatively less important to food companies compared to other industries, yet only the largest food companies have the size and capabilities to take advantage of ROOs. Food companies also operate in a highly restrictive and protected industry that dramatically affects their ability to use ROOs. Food-specific ROOs are structured to enable economies to negotiate for special provisions that protect local food interests. Food companies are thus restricted in their ability to truly take advantage of free trade preferences across the APEC region; and
- The case study on the Automotive Industry showed that costs are driven by ROO administration. Costs are compounded when working with multiple suppliers across multiple FTAs. ROO administration requires automakers to make significant investments in human capital, training, IT systems and documentation. Economies of scale on certification are difficult to achieve because the initial fixed costs, overhead and shipping certificates prevent many companies from applying for preferential tariffs. The lack of standard interpretations of HS codes also lead to classification disputes. Moreover, suppliers become the bottlenecks of certification efforts because they lack the capabilities to deal with ROO complexity and have little incentive to comply with certification requests.

### ***Recommendations***

ABAC recommends that APEC:

- 64) consider the research of the USC Marshall School of Business in its deliberations and seek solutions towards harmonizing ROOs;
- 65) work with the USC Marshall School of Business on ROO analysis as research on a sectoral basis is ongoing; and
- 66) Actively support the APEC Chemicals Dialogue effort to develop harmonized rules of origin for the chemical industry and use the results of the effort as a reference for promoting harmonization of ROOs in other industry sectors.



### ***10.3. Trade Facilitation Action Plan***

ABAC has been closely involved with the development of the Trade Facilitation Action Plan (TFAP II) which responds to a call by APEC Leaders in Busan 2005 for a further reduction of trade transaction costs by five per cent in the period 2007 to 2010. It noted that this new plan will also cover other business facilitation activities, including domestic regulatory reform, work on business ethics, secure trade and investment.

ABAC believes that, while much has already been covered on trade facilitation, investment liberalization in the region should also be given equal weight in the implementation of the action plan to help improve the regional investment climate. The Facilitation Working Group has received regular briefings by the APEC Committee on Trade and Investment (CTI) during ABAC meetings in 2007. ABAC will continue to review the decisions taken to implement APEC's TFAP II to assess the implications for business.

#### ***Recommendations***

ABAC recommends that APEC:

- 67) ensure a balanced action plan on trade facilitation and investment liberalization;
- 68) provide regular updates to ABAC on progress of the TFAP II; and
- 69) devise meaningful Key Performance Indicators (KPIs) to realistically assess gains to business from implementation of TFAP II and keep ABAC informed.

### ***10.4. Regional and Free Trade Provisions***

Over 2007 ABAC commissioned a study and assessment of three of APEC's Committee on Trade and Industry-drafted Regional and Free Trade Agreements (RTA/FTA) model measures. The assessments were to determine whether the model measures offered clarity, certainty, coverage and dispute resolution assistance to businesses.

Some ABAC members voiced the concern that unless these model measures are used in future FTAs or incorporated in current FTAs, then their usefulness and that of future work to publish more model measures would be severely limited. ABAC New Zealand presented a draft Model Measure on Customs Administration and Trade Facilitation which they jointly submitted with ABAC Chile.

ABAC would like to be involved in the drafting of these model measures and to possibly start studying best-of-breed FTAs, look at the language used for each of these model measures, and develop 'model text' that can be easily used by economies negotiating FTAs.

The APEC SOM Chair has indicated that a recommendation by SOM has been put forward to the Ministers to attempt to create a model chapter on trade facilitation. ABAC will also submit its draft Model Measure on Customs Administration and Trade Facilitation for consideration by CTI. ABAC would welcome an invitation from SOM to collaborate in producing this model chapter.

### ***Recommendations***

ABAC recommends that APEC:

- 70) Develop model RTA/FTA measures that are consistent with the Bogor Goals and which can be used by APEC economies as model text when negotiating FTAs; and
- 71) Agree to ABAC becoming more involved in the development of model measures, particularly on trade facilitation, before agreement by CTI and presentation to Ministers, in order to ensure business input and a business perspective in these model measures.

#### ***10.5. Expanding relations with external trade bodies and multilateral institutions***

Over 2007 ABAC has actively engaged several international business groups in pushing for a common agenda to support the Doha Development Round of the World Trade Organization, particularly BusinessEurope and the International Organization of Employers. Over the past few years ABAC has sent a high-level delegation to Geneva to impress upon WTO ambassadors and representatives from international business groups the importance to regional businesses of a successful outcome to the Doha Round.

#### ***Recommendation***

ABAC recommends that APEC:

- 72) work with ABAC and the Senior Officials Meeting to create an advocacy network in support of successful WTO negotiations by further expanding relations with international business groups.

## 11. Appendices

### *11.1. Appendix 1 – Advisory Group on APEC Financial System Capacity Building*

The Advisory Group's 2007 Report on Capacity Building Measures to Strengthen and Develop Financial Systems makes several recommendations and asks that Finance Ministers undertake the following:

- Endorse the holding of subsequent APEC Public-Private Sector Forums on Bond Market Development beginning in 2008, based on the format of the successful 2007 First Forum in Melbourne, in conjunction with the APEC Senior Finance Officials Meeting, with discussions covering the bond markets of selected individual developing APEC member economies, and request that officials respond to recommendations arising from the dialogues;
- Endorse the General Principles for Effective Bond Market Development Cooperation in the Asia-Pacific Region developed by ABAC and PECC to guide officials, regulators and the private sector in promoting synergy and public-private partnership in the development of bond markets;
- Endorse the continuation of the Public-Private Dialogue for the Asia-Pacific Region on the Implementation of Basel II and Developments in Regional Banking and Supervision jointly organized by ABAC, ABA, PECC and SEACEN, and encourage wider participation of relevant officials from the appropriate regulatory agencies and ministries in their respective economies in subsequent dialogues, and request that officials respond to recommendations arising from the dialogues;
- Undertake and promote further capacity-building measures based on public-private partnership among government and regulatory agencies, the financial industry and multilateral bodies in the following areas: (a) progress toward implementing Basel II; (b) developing best practices for supervisory colleges among member economies' bank supervisory authorities in the cross-border implementation of Basel II; (c) improving coordination among supervisory authorities in dealing with cross-border issues; (d) development of a financial consumer protection framework and a platform for cooperation on financial consumer protection issues; and (e) monitoring the development and implementation of policies and regulations to promote good governance in member economies' banking systems;
- Endorse the wider adoption by financial institutions operating in the region of the non-binding regional guidelines for informal workouts and accompanying model agreement developed by the ADB in cooperation with the ABA, as well as the adoption of the related reform and capacity-building proposals to facilitate the operation of a region-wide informal workout regime;
- Develop a code of conduct for statistical agencies in the region to increase market confidence;
- Endorse the IMF's Special Data Dissemination Standard (SDDS) as well as its balance sheet approach with special emphasis on improving data from the non-bank financial

sectors of participating economies, as well as the holding of discussions by individual economies of Public Information Notices (PINs) after the conduct of IMF surveillance;

- Endorse and undertake capacity-building activities to assist interested member economies in providing investor relations services, and individual economies that remain concerned about hedge fund and derivatives trading activities in establishing industry surveillance units that can become sophisticated observers of the market using multiple data sources;
- Undertake capacity-building measures to assist developing member economies in: (a) formulating and implementing policies governing access to formal finance that do not discriminate between large firms and SMEs; (b) promoting improvement of accounting standards among SMEs; (c) disseminating information about alternatives to bank loans as a source of financing; (d) promoting training for SMEs to better access venture capital, equity and over-the-counter markets; and (e) providing support to SMEs such as through guarantee schemes and special funds (after commercial possibilities have been explored) in a way that avoids moral hazard, adverse selection and other problems frequently associated with such government assistance; and
- Endorse reform of laws governing collateral, in line with those already in place in developed economies, particularly the inclusion of movable properties. This will alleviate the unnecessary obstruction from formal financial sector for SME's.

## ***11.2. Appendix 2 – Investment Liberalization and Foreign Direct Investment***

(Related to Recommendation 50)

Public-Private Symposiums in Montreal, Tokyo and Cairns identified ten priority areas of impediments to FDI, especially five areas as top priority, and 6 key conclusions that promote public-private sector dialogue

(A) Ten Priority/top priority\*\* areas of investment facilitation:

1. Restricted foreign entry\*\*
2. Performance requirements
3. Restrictions on overseas remittances and controls on foreign currency transactions
4. Restrictions on the movement of people and employment requirements
5. Lack of transparency\*\*
6. Complicated / delayed procedures\*\*
7. Insufficient protection of IPR
8. Lack of infrastructure & human resource, and insufficient incentives\*\*
9. Labor regulations and practices excessively favorable to workers\*\*
10. Limited competition / price controls

(B) Six key conclusions of investment facilitation:

1. High-level commitment
2. Best practices
3. Involvement of third parties
4. Priority Issues and action plan
5. Capacity building
6. Monitoring and Assessment Mechanisms