



Main Report



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I. Introduction

The world economy is headed for another good year, the third of significantly above-trend growth. Growth is becoming more balanced with Japan picking up strongly and the euro area showing advance signs of steadier growth. Investment is gradually picking up helping to weather the continued headwinds from high oil prices. At the same time, a number of challenges and risks remain. These include: current account imbalances between major economies; the vulnerability in the oil market given limited excess production capacity, the conflict in the Middle-East, and with prices increasingly driven by supply side concerns; rising protectionist pressures and the risks associated with a disappointing outcome of the Doha Round; the possible inflationary effects of rapid global growth and given the prospect of continuing upward movement in global interest rates; an abrupt tightening in financial market conditions; and a possible avian flu pandemic.

Against this background and recognizing the need to consolidate efforts in order to achieve the goal of one APEC community, ABAC adopted the theme "Driving Forward a Prosperous and Harmonized APEC Community". The ABAC theme addresses the following key issues:

- **Advancing the Busan Roadmap** to achieve the Bogor Goals
- **Building prosperity together** by strengthening economic, financial and technical cooperation for shared development
- **Fostering a secure and favorable environment** for trade and investment
- **Promoting APEC linkages**
- **Fostering closer APEC-ABAC relations**

The ABAC 2006 Report to APEC Economic Leaders addresses each of these issues and puts forward recommendations on issues of priority concern.

II. Advancing the Busan Roadmap to Achieve the Bogor Goals

In 2005, APEC undertook a midterm stocktake of APEC's progress towards the achievement of the Bogor Goals. The

stocktake showed that while significant progress has been made in the three pillars of liberalization, facilitation and economic and technical cooperation, much more needs to be done. APEC therefore adopted the Busan Roadmap to Bogor which outlines key priorities to reshape APEC work so that it can better respond to the new business environment and continue to drive free and open trade and investment in the region. ABAC urges APEC economies to implement with vigor the Busan Roadmap to Bogor. It submits the following recommendations with respect to the key elements of the Roadmap.

A. Support for the Multilateral Trading System

ABAC is deeply disappointed at the suspension of the Doha Development Agenda (DDA) negotiations. This Round, so critical to maintaining economic growth and promoting development, is now moribund with no clear prospects for resumption. Suspension of negotiations means that the Round will not be completed this year, and businesses and consumers around the world will continue to be excluded from the benefits of expanded trade liberalization.

Failure to conclude the Round means that governments have missed an historic opportunity to lower barriers to trade in agricultural products, improve non-agricultural market access and trade in services. Successful conclusion of the DDA negotiations would have provided a stimulus to world economic growth and extended the benefits of a liberalized trading system to people in developing economies who stand to gain the most from lowered barriers.

The current developments are not without precedent. Prior rounds have similarly hit what seemed to be insurmountable obstacles, but negotiators were able to overcome these barriers and ultimately steer the negotiations to a positive outcome. With the aim of reviving the DDA negotiations, ABAC urges APEC economies to reevaluate and enhance their offers, focus efforts in advancing negotiations in areas with the most potential for tangible progress such as trade facilitation. Further, it is critical that economies move in a timely manner while current offers are on the table. Like the Rounds that have come before, the DDA is a once in a generation opportunity to make progress on trade liberalization and must end in a positive outcome for the world trading community.

ABAC maintains its strong commitment to a robust and balanced outcome. Multilateral trade negotiations have historically proved to be the most effective way to stimulate

trade and thus world economic growth. The multilateral process is the most efficient and feasible avenue for reaching the Bogor Goals. And while the world at large will benefit, a comprehensive and balanced outcome to this Round will be especially helpful to millions of people in developing economies most in need of greater economic opportunity.

Through the APEC Geneva Caucus, APEC should identify areas where it can take a common position on World Trade Organization (WTO) issues to catalyze the development of consensus among other WTO members and advance the

negotiation process; a specific example being the treatment of electronically delivered goods and digital products.

ABAC calls on Leaders to support the accession of all APEC economies to the WTO so that they may share the benefits of multilateral trade liberalization and the rules-based multilateral trading system. Taking into account the anticipated gains for both the acceding economies and current parties to the WTO, ABAC looks forward to the successful outcome of accession negotiations for Vietnam and the Russian Federation and to working with them on appropriate capacity building measures.

Financial Services

Given the critical importance of services in contributing to overall economic efficiency and to sustainable growth, much greater importance should be attached to financial services sector liberalization both in the WTO and in APEC. ABAC has revised a checklist it developed last year for use in negotiations on financial services in the WTO. The list provides a guide on how economies could judge the quality of offers by using the list as a benchmark; it should also help encourage high quality offers by WTO members.

The revised list – Attachment 1 – clarifies the scope and the objectives of the original list, including importantly in area of “national treatment”. ABAC will work with officials in promoting APEC’s influence in the WTO and in promoting investment in APEC member economies. ABAC endorses efforts by WTO members in developing collective or “plurilateral” requests on financial and other services and commends this approach to APEC economies. A copy of the collective or plurilateral requests on financial services made by some WTO members is attached (Attachment 2).

Recommendation

- Use the revised checklist as a benchmark to assess the quality of offers and as a means of encouraging higher quality offers, and promote “plurilateral” requests.

B. Promotion of High-Quality RTAs/FTAs

1. Development of Model Chapters and Catalog of RTAs/FTAs in the APEC Region

The plethora of bilateral and regional trade agreements in the APEC region, commonly referred to as the spaghetti bowl, presents businesses with additional costs and administrative burdens. To further explore this issue, ABAC has undertaken a “Catalog of RTAs/FTAs in the APEC Region”. This resource will compile all regional trading arrangements (RTAs) and free trade

agreements (FTAs) in the 21 APEC economies and will serve as a useful tool for trade negotiators, businesspersons, and others to obtain a panoramic view of trade agreements in the APEC region. The Catalog will include model FTA provisions that the APEC Committee on Trade and Investment (CTI) is working on and an across-the-board compilation of several sectoral provisions of RTAs/FTAs. More importantly, the catalog will analyze the various RTAs/FTAs and provide a matrix indicating whether the chapters of these agreements are WTO plus, WTO consistent or WTO inconsistent.



ABAC commends APEC's efforts to develop model measures for common chapters in RTAs and FTAs. The Model Measures for Trade Facilitation, endorsed by Leaders in 2005, provide a basis for negotiation and development of a high-quality trade facilitation chapter. Additionally, the Model Measures serve the dual functions of capacity building for economies with comparatively less experience in negotiating FTAs and providing a first step towards future efforts to create convergence among agreements in the APEC region. ABAC applauds APEC's continuing efforts to target additional RTA/FIA chapters for the development of model measures and looks forward to actively providing input into the process.

Recommendations

ABAC urges APEC to:

- continue efforts to identify new RTA/FIA chapters for the development of model measures in consultation with the private sector which would best serve to enhance trade and investment in the region; and
- work in an interactive process in consultation with the private sector and ensure that the views and priorities of businesses in the region are represented in the model measures.

2. Feasibility Study on a Free Trade Area of the Asia-Pacific

In 2004, ABAC recommended that APEC undertake a study on the feasibility of a Free Trade Area of the Asia-Pacific (FTAAP). ABAC members considered the FTAAP as an option to advance the trade liberalization agenda within APEC and as a possible fallback plan should the Doha Development Agenda negotiations fail. It was also recognized as an alternative to the existing situation characterized by the proliferation of bilateral and plurilateral preferential trade agreements.

This year, in partnership with the Pacific Economic Cooperation Council (PECC), ABAC undertook a feasibility study on the FTAAP, involving prominent scholars throughout the APEC community. This study examined both the political and economic variables involved in negotiating an FTAAP.

ABAC is disappointed by the suspension of the Doha Round and the strong possibility of its failure. It is concerned that there will be a further rush towards more bilateral agreements and regional FTAs. While RTAs/FTAs may enhance trade among its participants, they have the potential to create discrimination against non-participants and with their conflicting rules, may raise transaction costs. To minimize such adverse effects from occurring and to maximize the benefits from these arrangements, ABAC urges APEC to promote the convergence and consolidation of RTAs and FTAs in a comprehensive and WTO-plus manner.

ABAC believes that an FTAAP offers the highest degree of achieving such convergence and consolidation. However, our study indicates practical difficulties in negotiating an FTAAP at this time. Nevertheless, ABAC believes that it would now be timely for APEC to undertake a serious consideration of a more effective process than presently available for achieving its goal of free and open trade in the Asia-Pacific region, including combining existing FTAs which could create a roadmap for advancing the FTAAP initiative. Such a process should be evolutionary, its pace reflecting the changing dynamics of political and economic conditions in the region and allowing like-minded economies to jointly take the lead.

C. Implementing the Busan Business Agenda

As part of the Busan Roadmap to Bogor, APEC economies agreed to implement the Busan Business Agenda – a comprehensive business facilitation program which aims to improve the business environment and addresses behind-the-border administrative burden and impediments to trade and investment. ABAC urges APEC economies to adopt the following recommendations with respect to the Busan Business Agenda.

1. An Expanded Work Program on Investment Liberalization and Facilitation

Improving the environment for investment in the region is a major business priority. Many impediments exist which deter investment, both domestic and cross-border. In ABAC's 2005 Report, it appended a checklist "Barriers and Impediments to Foreign Direct Investment (FDI) in Financial Sectors". The list outlined ABAC's views on the optimal investment environment that

would encourage foreign investment flows into an economy; it incorporated suggested policy responses to overcome barriers to investment. Given the primacy of this issue in promoting growth in the region, ABAC has reviewed the 2005 checklist to broaden its application to all services and other sectors. The revised list is attached to this year's report (Attachment 3). ABAC considers this could be a major contribution to both supporting efforts in the WTO round to promote cross-border investment, particularly under Mode 3 of services, and in improving the environment for domestic investment in APEC economies. ABAC supports official processes to reduce behind-the-border impediments to investment, to provide frameworks and tools to guide member economies in the removal of investment impediments, including the Organization for Economic Cooperation and Development's (OECD) Policy Framework for Investment (PFI).

Recommendations

ABAC recommends that APEC economies:

- use and promote the revised checklist on barriers and impediments to FDI in the WTO negotiations; and
- endorse ABAC's participation in officials' processes, including the CTI and the Investment Experts' Group (IEG), and work with the OECD, in improving the region's investment environment and in encouraging the adoption of the PFI in the region.

2. An Integrated Program of Structural Reform Issues

ABAC strongly endorses an integrated approach by APEC to structural reform and notes that measures to encourage financial market liberalization complement structural reform. Measures it recommends elsewhere in this report to ameliorate the impact of adverse capital flows, on policies relating to health costs and pensions in ageing societies, on the promotion of regional bond markets, and measures to liberalize investment are interconnected and will contribute to market openness, competition and to the capacity of economies to withstand financial shocks. Greater commitment by economies is needed to implement reform. Frankly, ABAC is disappointed that insufficient progress has been achieved by some economies in implementing earlier recommendations for the development of regional capital markets and inaction

by economies and relevant international and regional agencies to deal with the impact of adverse volatile capital flows.

Recommendation

ABAC recommends that APEC economies:

- endorse ABAC's involvement in promoting and supporting structural reform and measures to improve market openness, and intensify action to deepen regional capital markets through a regional mechanism for the promotion of bond markets, in particular corporate bonds, and the adoption of general principles that underpin bond markets, the promotion of regional framework for informal work-outs of insolvency, and the adoption of measures to improve data collection and dissemination on capital flows, aimed at ameliorating the impact of adverse volatile capital flows.

3. Private Sector Development / Ease of Doing Business

At the APEC Economic Leaders' Meeting in Busan, Korea on 18-19 November 2005, Canada and New Zealand announced a joint initiative aimed at creating an enabling environment for private sector development within the APEC region. The Busan Declaration welcomed this initiative.

An APEC Symposium on Private Sector Development (Ease of Doing Business) was held in Montreal, Canada in May to coincide with ABAC's second meeting in 2006. ABAC members were actively involved in the symposium and made significant contributions, including delivering the results of a regional survey of business priorities with regard to regulatory reform.

Key themes to emerge from the Symposium of particular interest to regional business – and especially to SMEs – included:

- The identification of a strong link between the quality of an economy's regulatory environment and its economic performance;
- The observation that the process of regulatory reform within the APEC region has had mixed

results – and that, while APEC economies continue to improve their business environment, this has been at a slower pace than other parts of the global economy;

- Priorities for reform and capacity building in the areas of regulatory burden, complex taxation regimes, difficulty in accessing finance and rigid labor laws; and
- That existing measurement tools – such as the World Bank’s private sector development monitoring infrastructure – could be used to track APEC progress on regulatory reform.

Recommendations

ABAC calls upon APEC to:

- improve the regulatory environment for business within APEC, especially for SMEs which are most affected by the burden of regulation, and in particular, study four priority areas in more detail in order to plan concrete activities with a definite timeframe and tangible measurement;
- further enhance APEC’s collective ease of doing business performance through ongoing reference to the World Bank study as a guide to help identify common characteristics in specific business regulatory areas and define successful/best practice;
- continue collaboration with ABAC and utilize ABAC’s checklist on “Barriers and Impediments to FDI” as one of the best tools to address such challenges; and
- consider a follow-up APEC/ABAC session: “Ease of Doing Business 2” be held in conjunction with the Second ABAC Meeting of 2007.

III. Building Prosperity Together through Economic and Technical Cooperation and Shared Development

ABAC highlights the crucial importance of economic and technical cooperation (ECOTECH) in achieving the Bogor Goals and in ensuring that all economies share in the benefits of trade and investment liberalization and facilitation. ABAC believes that ECOTECH - the capacity

building agenda of APEC – should be viewed as completely complementary to APEC’s trade and investment liberalization and facilitation (TILF) agenda. Indeed, if APEC is to achieve the Bogor Goals, greater attention and resources need to be directed to ECOTECH priorities.

Through its Capacity Building Working Group, ABAC is committed to working closely with APEC to highlight ECOTECH priorities from the business sector’s perspective. These include such areas as the need to strengthen standards bodies; measures to improve access to financing, technology, and managerial expertise by SMEs; steps to strengthen the region’s financial systems; and anti-corruption initiatives. ABAC is also undertaking work in the areas of avian influenza/health pandemic preparedness and emergency preparedness.

A. Avian Influenza / Health Pandemic Preparedness

Although international cooperation by governments has been extensive in responding to the spread of avian influenza, the response to this threat by the business community has not kept pace. While large multilateral corporations may have continuity plans in place, many smaller companies are not as well prepared, viewing avian influenza as a threat that is ultimately a public health problem.

ABAC believes that there is a critical need for more information about avian influenza within the regional business community to help individual companies prepare continuity plans for the possibility of a future health pandemic. To help build awareness, ABAC has held two business conferences this year – in Singapore in January and Hong Kong in May – aimed at highlighting the need for business preparedness and providing companies with the information needed to develop their preparedness plans.

A number of key themes have emerged at these business conferences. First, *public-private partnership* is the key to ensuring an effective response to a potential health pandemic – whether related to communications, delivery of essential services or development of vaccines and treatments to battle the spread of the pandemic. Second, *effective communication channels* are critically important in disseminating accurate information about avian influenza. In this regard, the media has a major responsibility both to sharing information and avoiding sensationalism and ‘scare-mongering’. Whether communicating with the public – or to employees, shareholders or customers – *transparency* is



the key to maintaining trust in the event of a pandemic. Finally, taking steps now to seek to *prevent* the spread of avian influenza amongst bird populations is imperative to slowing the spread of the disease.

Recommendations

ABAC encourages APEC to:

- review its programs and activities related to avian influenza and pandemic preparedness to identify additional areas where cooperation and collaboration between business and governments can be enhanced. This may include business input in the development of key protocols to ensure continuity of essential services; a private sector role in stronger regional surveillance systems; and in the development of effective communication strategies to educate citizens about avian influenza and how to assist in its prevention; and
- specifically, review initiatives related to assisting SMEs in developing their business continuity plans by highlighting some of the basic requirements and steps that small businesses can take to protect themselves. ABAC looks forward to working closely with the APEC Health Task Force in identifying further areas for collaboration.

B. Emergency Preparedness

Whether related to health pandemics, natural disasters or terrorist threats, recent *events of scale* in the region have highlighted weaknesses in critical infrastructure and the need for further capacity building in emergency preparedness and disaster response protocols in the APEC region. Last year, ABAC made specific recommendations related to the development of an *all hazards APEC regional response network*. ABAC is pleased to note the steps that economies have taken so far in this regard, however more work needs to be done. ABAC is committed to working with APEC in providing input from the business community in the development and implementation of a regional emergency response system in 2007.

C. Strengthening Standards Organizations and Regulatory Dialogue

A key challenge related to capacity building in standards is to convince all the stakeholders (i.e. governments, industry, consumers, and certifiers) that standardization is crucial to

the success of the economy and it is therefore in their interest to support it. Understanding and support for standards is necessary in terms of funding allocations, commitment to participate in standards processes, and recognition and acknowledgement of the importance of international standards.

Strengthening standard-setting bodies and organizations involves clarifying the objectives of these groups and engaging and raising awareness amongst stakeholders in both the public and private sectors. Many APEC economies have in place well-established and developed standards bodies which, in turn, can be of assistance to those economies that are in the process of establishing or strengthening their national standards organizations.

ABAC is committed to making capacity building in standards a priority and is developing a two-year agenda aimed at highlighting the need for – and assisting in the realization of – stronger standards bodies in the APEC region. This program will include: identifying those standards bodies within APEC that are in need of assistance and strengthening; organizing a meeting of national standards body (NSB) heads in early 2007 to discuss opportunities for cooperation; and a program of public awareness on the importance of standards. Serious problems in market access arise from the use of different standards and conformity assessment procedures among APEC economies. As a contribution to reducing technical barriers to trade, there needs to be more dialogue between standards setting regulatory authorities on a sector-by-sector basis. Priority areas for standards cooperation identified by ABAC include security standards, farm/food standards, and further standardization of information technology (IT) and electronic products. Efforts to strengthen national standards bodies will be undertaken in concert with the promotion of global/international standards efforts.

Recommendations

ABAC recommends that APEC:

- work closely with ABAC in the development of an ambitious program aimed at highlighting the need for capacity building of standards organizations within the region, identifying specific areas for cooperation, and developing practical measures to build public awareness of the critical contribution of standards to the economy. As a first step in this regard, ABAC will be facilitating a meeting of the heads of NSBs in the APEC region in early 2007, to which the APEC Sub-Committee on

Standards and Conformance (SCSC) Chair will be invited to participate; and

- develop a framework for regulatory dialogue on a sector-by-sector basis and ensure that relevant stakeholders, including the private sector, participate in standards and conformance-related activities.

D. Supporting the Growth of SMEs

Micro-, small- and medium-enterprises (MSMEs) form the backbone of the economy in all APEC economies, providing employment and income to millions. For this reason, capacity building for SMEs must remain a priority if APEC is to effectively implement its TILF agenda. ABAC continues to emphasize the importance of removing regulatory obstacles to SME growth and improving access to financing, technology and information.

1. Improving SME Access to Financing

The quality of access to formal finance systems can be a major impediment to the growth of SMEs, particularly in some emerging economies. The under-development of credit rating agencies is also a barrier to SME growth. Work undertaken by ABAC this year highlights obstacles to SME access to finance, and policy recommendations which, if implemented, would promote the development of SMEs and the growth of regional credit rating agencies. The policies require a holistic approach by official agencies, public and private financial institutions and industry associations and regional groups, including international financial institutions (IFIs).

Recommendations

ABAC recommends that APEC economies:

- ensure governance arrangements are in place to avoid resource misallocation occurring when traditional fiscal incentives are used to promote SMEs;
- promote credit rating agencies and encourage the development of business associations and network linkages between banks, SMEs and associations to promote information dissemination, and encourage banks and financial institutions to develop policies which reflect the importance of SMEs in their client base; and

- where guarantee schemes exist, encourage financial sector participation to support the commerciality of such schemes and for financial institutions to develop credit evaluation capacities as they relate to SMEs.

2. Anti-Corruption and SMEs

While SMEs face many of the same corruption issues that larger companies do, they are disproportionately affected by this problem because they do not have the time, knowledge of government systems, connections or other resources to respond to bribery or other forms of coercion by corrupt officials. ABAC continues to highlight the importance of anti-corruption measures by both governments and businesses in the APEC region.

Recommendations

ABAC calls upon APEC to:

- review opportunities for strengthening the participation of SMEs in future anti-corruption work within APEC;
- improve transparency by taking specific steps to improve access to information on individual member economy's laws and policies related to such issues as business licensing and customs procedures; and
- focus greater efforts on capacity building and training in such areas as: awareness building for SMEs of their rights when confronted by corruption, alternative dispute resolution mechanisms that are more accessible to SMEs, and capacity building for local government business licensing.

E. Strengthening Financial Systems

The Asian financial crisis demonstrated the need for robust and resilient financial systems in dealing with financial shocks, and supporting economic growth and development. Increasing imbalances in the major economies point to the prospect of future shocks to the region. More efforts are needed in some economies to strengthen the regulatory and supervisory frameworks and the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Programs can be extremely useful in assessing an economy's prudential strengths and weaknesses. Globalization of

financial markets requires more intensive cooperation among the financial supervisory authorities both within and between jurisdictions. Capacity building helps institutions, in both the public and private sectors, strengthen their managerial and technical capacities to effectively undertake critical finance functions, thereby buttressing economies against shocks. The Advisory Group on APEC Financial System Capacity Building is helping strengthen the region's financial systems by supporting the implementation of Basel 2 in banking, in improving risk management and governance, and in promoting capital markets, in particular bond markets, in the region through public-private capacity building partnerships with IFIs and regional agencies, and in improving the culture of credit rating agencies.

Recommendations

ABAC urges APEC to:

- continue to give priority to strengthening their financial systems. APEC economies most vulnerable to external shocks which have not participated in an IMF/World Bank Financial Sector Assessment Program, should do so as a matter of priority;
- encourage greater official participation in capacity building initiatives promoted through public/private partnerships by the Advisory Group on APEC Financial System Capacity Building. Financial supervisory authorities in APEC economies should participate in and promote cooperative approaches to financial system supervision in their own jurisdictions and within and beyond the region; and
- encourage relevant financial institutions – especially in emerging economies – in the region, to be rated by credit rating agencies in conformity with international practices.

F. Strengthening APEC's ECOTECH Agenda

ABAC acknowledges that the capacity building needs of the APEC region are both daunting and diverse. APEC is in danger of losing focus, with a wide range of priorities competing for limited budgetary resources.

ABAC believes that the only realistic way for APEC to address the region's ECOTECH needs is in close partnership and cooperation with the business sector and IFIs. In addition, non-profit organizations play an important role throughout

the region in delivering “grass roots” capacity building to micro-enterprises, women and youth. Taking steps to strengthen the capabilities of these organizations also needs to be a priority.

Recommendations

ABAC recommends that APEC:

- continue to review its ECOTECH activities to ensure that they complement the TILF agenda and contribute to the achievement of the Bogor Goals;
- wherever possible, focus on opportunities for public-private partnerships in the delivery of capacity building programs;
- leverage its limited resources through enhanced cooperation with development banks (IFIs), multilateral organizations, and bilateral aid programs; and
- strengthen the capacity of “grass roots” organizations to deliver training and other capacity building activities as an APEC ECOTECH priority.

IV. Fostering a Secure and Favorable Environment for Trade and Investment

ABAC believes that securing trade is vital to continued prosperity in the APEC region and the world. ABAC therefore urges APEC to remain committed to securing trade flows in a way that is complementary to APEC's goal of trade and investment liberalization and facilitation.

A. ABAC Support of the Implementation of the APEC Framework of Standards to Secure and Facilitate Global Trade

In 2005, ABAC and the APEC economies endorsed the implementation of the APEC Framework to Secure and Facilitate Global Trade. The APEC Sub-Committee on Customs Procedures (SCCP) has adopted the implementation of the APEC Framework as a new Collective Action Plan with the hope of improving supply chain security through expedited facilitation of legitimate and low-risk cargo. ABAC called upon APEC economies to move expeditiously in implementing the APEC Framework and also encouraged APEC economies to work closely with industry in this effort. In

implementing the APEC Framework, both trade and security and smooth movement of containers and cargo should be secured concordantly. It can be realized only by the establishment of globally harmonized operation in collaboration with the private sector.

In its 2005 Report to Leaders, ABAC called on all economies to expeditiously submit letters of intent to implement the Framework. Since its adoption by the World Customs Organization (WCO), 16 APEC economies have submitted letters of intent.

Recommendations

ABAC recommends that APEC economies:

- that are members of the WCO expeditiously submit letters of intent to implement the Framework;
- partner with industry to develop demonstration projects that showcase implementation of many of the APEC Framework requirements. Projects should provide benefits to both traders (e.g., more expeditious clearance) and customs authorities (e.g. efficiencies obtained through implementation of automated processes, human resource development). Lessons learned through the development of demonstration projects should be shared with other economies through existing networks such as the APEC Sub-Committee on Customs Procedures. This sharing of experiences and best practices will lay the foundation for mutual recognition agreements related to the Framework;
- establish a system to provide measurable benefits to secure traders (e.g., reduced inspections, reduced customs clearance time) and a system for reporting on these benefits to demonstrate the results after implementation of the APEC Framework related programs; and
- share and utilize all of the necessary manifest documents among shippers, importers and governments of both origin and destination, by way of the common format of advanced electronic cargo information. In this respect, traders and government will need to work together to assure that in such new systems, the integrity and security of the data is assured and data is made available only to authorized parties for legitimate legal purposes.

Customs Modernization Project

The Socialist Republic of Vietnam and the United States, along with the National Center for APEC and several leading U.S. companies firms will form a public/private partnership to implement a trade facilitation project that will modernize Vietnam's customs procedures and practices with a goal to facilitate and secure trade links between Vietnam and its trading partners, and bring Vietnam Customs more closely into line with the standards laid out by the World Customs Organization (WCO) and the APEC Customs Framework.

The centerpiece of the project is development and installation of an "e-Manifest" system. This system uses advanced electronic information to identify high-risk shipments, which is a key component of the Customs-to-Customs Pillar of the WCO Framework of Standards to Secure and Facilitate Global Trade (WCO Framework). The e-manifest will enable Vietnam Customs to provide timely clearance of express deliveries. While it will be demonstrated at two leading airports, the system will eventually be extended to both airports and seaports. The Conference of Asia-Pacific Air Express Carriers (CAPAEC) along with Unisys Corporation will jointly implement this project with Vietnam Customs by November 2006. This will provide a very visible deliverable for Vietnam prior to the annual APEC Economic Leaders' Meeting in Hanoi. It will also provide significant benefits to the private sector – Vietnamese and non-Vietnamese alike – as well as the Vietnam Customs in terms of a more secure and expedited clearance of express shipments.

Finally, the public-private partnership will lay the groundwork for a bonding system for customs shipments. This phase will consist of a pilot bond program that will be limited to either the express shipment carriers, participants in an Authorized Economic Operators (AEO) program, or some other small subset of importers. The public-private partnership will help Vietnam Customs establish the program, enroll trade participants, and measure its financial and operational impact. The program could generate rapid results for both the Government of Vietnam and the trading community.

B. Trade Facilitation

ABAC believes businesses, in particular SMEs, can greatly benefit from trade facilitation agreements that enhance transparency, simplicity, standardization, and the expeditious movement of business people and goods across borders. ABAC further believes greater progress by APEC officials in this area will enable economies to achieve border security while at the same time advance commercial and trade priorities.

ABAC is encouraged by the progress made thus far on trade facilitation by all 21 APEC economies, leading the way for positive contributions to WTO negotiations in this area. ABAC is particularly encouraged by APEC's development of Model Measures for Trade Facilitation.

As a core element of the APEC agenda, ABAC members will continue to support facilitation efforts through the development of public-private initiatives with special attention to capacity building.

Recommendations

ABAC recommends that APEC economies:

- evaluate the results of the Trade Facilitation Action Plan (TFAP) 2001-2006 using tangible measurements to prove the achievement of the 5% transaction cost reduction as a useful basis for TFAP 2006-2010. In this regard, a recent report by the Asia Pacific Foundation of Canada suggests some useful tools in measuring such achievement¹;
- implement TFAP 2006-2010 based on the results and lessons learned from TFAP 2001-2006 to ensure consistency and continuous improvement;
- implement the following concrete trade facilitation measures:
 - Single window electronic data interchange – it is necessary to implement a paperless declaration process in a single window environment to reduce operating costs and minimize clearance times. The data required should also be harmonized and streamlined (perhaps using such models as the WCO Customs data model).

- Expedited clearance – customs agencies should enable brokers and traders to pre-submit shipment information before shipment arrival and issue shipment release when specific conditions are met. Most goods should be pre-cleared before arrival and physical release should be separate from fiscal release.
- Risk management based inspections – to maximize operational efficiency and reduce resource usage, regulatory agencies should adopt appropriate risk management based inspections.
- *De Minimis* Value Thresholds – customs administration should institute *de minimis* value that will reduce all parties' transaction costs. The cost of collecting marginal duty and tax often outweigh the revenue collected.
- Customs working hours – modern trade moves 24/7 around the globe, so customs clearance must be available at all times to facilitate trade and increase economic efficiency.

C. Transparency

Transparency in government is essential to businesses around the world. ABAC applauds the agreement by APEC Ministers and Leaders to reflect the Transparency Standards into the APEC Individual Action Plan so that economies can report progress on implementation of the Standards. ABAC provided officials with concrete examples of areas where economies can improve the transparency of their governmental, legal, regulatory and administrative functions and is looking forward to continuing to receive responses to the issues raised.

Recommendations

ABAC calls on all economies to:

- step up efforts to implement the Transparency Standards into domestic laws, regulations, procedures and administrative rulings of general application and provide clear plans for addressing impediments to implementation;
- use the APEC Geneva Caucus to transmit APEC's work on Transparency Standards to the WTO and explore the possibility of taking relevant initiatives in the WTO;

¹ APEC's Trade Facilitation Action Plan, Yuen Pau Woo, Asia Pacific Foundation of Canada, 2006 (www.asiapacific.ca)

- include provisions to address transparency in RTAs and FTAs; and
- continue to engage the private sector to identify specific areas of concern to businesses in the region.

D. Business Mobility and the APEC Business Travel Card

The APEC Business Travel Card is a successful business facilitation scheme in operation since 1999. There are currently 12,000 ABTC, issued across the region, with 17 APEC economies participating.

The ultimate goal of the scheme is to facilitate the movement of *bona fide* business travelers within APEC economies. It is essential that all 21 APEC economies are part of the scheme and a substantially higher number of cardholders in order to achieve this goal.

As a means of ensuring the participation of the final four APEC economies in the ABTC scheme (i.e., USA, Canada, Mexico and the Russian Federation), ABAC would encourage the APEC Business Mobility Group to explore the concepts of a two-tiered system, whereby these economies could join the scheme by *providing the sole benefit of fast-track entry/departure to ABTC cardholders*.

With a view to improving the implementation of the ABTC scheme, ABAC conducted a survey of cardholders this year. The objectives of the survey were to:

- prioritize suggestions of ABAC for resource-efficient improvement;
- promote business mobility in the region with more user-friendly ABTC operation; and
- further develop trade and investment activities in the region.

ABAC is grateful that some of the issues highlighted in the survey have been tackled by recent developments, including efforts to reduce the application processing time through interim card issuance, and improvements to the Business Mobility Group website that allows tracking of the application process and provision of application forms online.

Recommendations

ABAC recommends that APEC:

- strongly encourage the remaining four non-participating economies to become full members of the Scheme, as the ABTC facilitates both visa and border processing. In the interim, a two-tier system can be considered to assist in the transition for those economies which currently cannot become full participants in the Scheme, whereby cards are issued that will only allow the use of the APEC lanes at ports of entry;
- urge participating economies to promote the Scheme and make it more useful to participants by speeding up issuance of cards and providing more dedicated APEC lanes; and
- develop an APEC Business Travel Card Handbook that includes basic information such as immigration procedures, map of ports of entry, location of ABTC lanes and a telephone directory. ABAC proposes the distribution of the ABTC users' handbook for cardholders and all pertinent implementers of the scheme, including capacity-building activities for immigration officials, airlines, airport personnel, among others, to ensure appropriate and consistent application of the ABTC scheme in all 17 participating economies.

E. Business Labor Mobility

There is a growing concern about migration in many economies around the region. ABAC supports business mobility as a key element to business development, foreign investment and skills transfer. Recent studies offer evidence that international migration provides many benefits for both recipient and origin economies. ABAC will further consider the issue of business labor mobility in the APEC region.

V. Promoting APEC Linkages

ABAC highlights the importance of developing linkages among APEC economies in the following key areas: energy, intellectual property rights, technology infrastructure and environmental and life sciences innovation.

A. Implementation Agenda for Energy (IMAGEN)

In 2005, ABAC played a critical role in highlighting the importance of addressing the energy imbalance in APEC. This year, APEC Leaders have the opportunity to demonstrate APEC's ability to deal effectively with this kind of region-wide issue by implementing several of the principles adopted last year before these issues escalate and become crises.

Last year, the Energy Ministers shifted their discussion to a constructive menu of options for addressing both supply and demand challenges facing the region. They directed the Energy Working Group to: develop initiatives to support diversity in fuel supply, improve transport and vehicle efficiency, identify benchmarks to assess efficiency improvements, implement the Liquefied Natural Gas (LNG) Public Education and Communication Information Sharing Initiative, increase cross-border energy trade, and encourage the uptake of technologies for new and renewable energy. This was supported in the Leaders' Statement in which the Leaders agreed to respond "urgently" to the current energy situation.

Recommendations

ABAC urges APEC economies to:

- expand the LNG Public Education and Communication Information Sharing Initiative to include LNG supply chain security from source to delivery;
- promote international energy efficiency standards for industrial and consumer products;
- take measures to further increase energy supply by identifying new areas for exploration and development, and diversifying energy services, including the promotion of alternative and sustainable sources, in coordination with the reduction of demand;
- encourage investment in energy infrastructure by working to implement the principles adopted by the Leaders;
- continue promoting transparency, rule of law, and market-based pricing, perhaps as element of regional FTA work; and

- endorse a set of 'policy principles' developed by the APEC Energy Business Network designed to reduce regulatory and market uncertainty in the promotion of innovative energy technology and sound commercial investment decision.

B. Implementing APEC's Intellectual Property Rights Commitments

In 2005, APEC Leaders in Busan committed to strengthened intellectual property protection and enforcement, and adopted the APEC Anti-Counterfeiting and Anti-Piracy Initiative. ABAC applauds the public commitment made to IPR protection principles, and notes that a clear work program arises from the Leaders' commitments.

Despite the considerable progress that is being made, traffic in counterfeit products continues to grow faster than the trade in legitimate products. ABAC notes as an example a recent annual global report by an international anti-counterfeiting organization which identified continuing challenges globally in achieving IPR protection, including in APEC economies.² The continuing problems are mainly in the areas of inadequate enforcement action by police and customs agencies. As ABAC celebrates its tenth anniversary, it notes that strengthening IPR protection has been a recurring recommendation from ABAC in each of its reports to Leaders, and it urges all APEC governments – once again – to redouble their efforts to prevent and interdict the production and trade in counterfeit and pirated goods.

Recommendations

ABAC recommends that APEC economies:

- reinforce and comply with commitments made in the 2005 APEC Anti-Counterfeiting and Anti-Piracy Initiative. In particular to:
 - implement APEC model guidelines for economies' competent authorities to inspect, suspend, seize and destroy counterfeit and pirated goods in each phase of import, export and transshipment of these goods, recognizing existing constitutional requirements,
 - identify customs and law enforcement contacts from each economy who would be an agency, or

² International Anti-Counterfeiting Coalition, February, 2006 (www.iacc.org)

individual within an agency, with operational authority and expertise in investigating and prosecuting intellectual property offenses.

- reaffirm their commitments to the Anti-Counterfeiting and Anti-Piracy Initiative and Three IPR Model Guidelines agreed upon by Leaders in 2005, and commit to the two developing guidelines on: IPR Public Awareness Campaign and Ways to Ensure that Supply Chains are Free of Counterfeit and Pirated Goods, and for all APEC economies to make increased efforts in preventing counterfeiting and pirated goods;
- move to implement the 2005 Guidelines with input and support from the business community. ABAC notes that the guidelines represent good progress in getting agreement on what needs to be done, but counterfeiting and piracy remain ongoing problems;
- 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; and
- promote the sharing of new technologies by reducing various kinds of barriers which are hindering capacity building in the APEC region.

To strengthen interaction between business and government, ABAC wishes to continue its dialogue with the Intellectual Property Rights Experts' Group (IPEG) Chair in an on-going exchange of information, such as providing a stocktake on what has been done with the earlier Effective Practices and Best Practices Survey on Optical Media Protection and other commitments.

C. The Advancement of Technology Infrastructure in APEC – Technology Choice, Broadband Access, and Data Privacy

Twenty-first century economic growth and prosperity in the APEC region will be fueled by technological innovation and access to information. For APEC economies to capture this growth it will be critical to develop the appropriate regulatory and policy environment. This will be sustained by a sound infrastructure that includes three integrated parts supported and recommended by ABAC. Technology Choice, Broadband Access, and Data Privacy will together drive economic growth within APEC.

Recommendation

ABAC recommends that APEC economies:

- support the development of a tool kit of regulatory and policy measures to promote innovation and capture information and communication technology (ICT)-enabled growth.

1. Moving Toward Universal Broadband Access

ABAC has long recognized that universal broadband access in the region is a critical element to technology infrastructure that will lead to optimized growth and prosperity. APEC Ministers of Foreign Affairs and Trade adopted key principles for broadband development in Busan, Korea in 2005, focusing on Market Access and Usage, Facilitation of Continued Competition and Liberalization, Fostering Enabling Regulatory Frameworks, and Building Confidence in the Use of Broadband Networks and Services.

Recommendations

ABAC recommends that APEC:

- actively pursue a target date of 2010 for universal broadband access in the region having agreed to principles, and access to funding for capacity building, recognizing that this target could present difficulties for some developing economies; and
- support projects, such as publishing the key principles for broadband development and the best practices where broadband has been established.

2. Data Privacy

In 2005, the drafting phase was completed in which APEC's E-Commerce Steering Group (ECSG), worked closely with the private sector and with ABAC's encouragement, developed an APEC Framework on Data Privacy to address the complex issues raised by the movement of information across borders.

Ministers endorsed the Data Privacy Framework and the continued work of ECSG on the implementation of the Framework.

Recommendations

ABAC recommends that APEC:

- promote continued work on implementation between ECSG and the business community in the APEC region;
- seek to identify uniform, streamlined and cost-effective methods of trans-border data flows; and
- support efforts to have economies participate in pathfinder projects to framework implementation, as appropriate.

3. Technology Choice

In 2003, both the APEC Leaders' Statement and Ministers' Statement called for senior officials to undertake work on "technology choice" within the Digital Economy Pathfinder Initiative. Technology choice is relevant in the context of standards, provision of services, and procurement.

Recommendations

ABAC recommends that APEC:

- develop technology choice principles to be incorporated into the APEC Pathfinder Digital Economy Statement or adopted as a standalone Pathfinder. General principles would include:
 - on Standards, use of industry-led, voluntary, open, consensus-based, global standards that respect intellectual property;
 - on Procurement, use of merit-based procurement policies where procurement specifications are performance-based and do not mandate or extend preferences to specific technologies; and commitment by member economies to implement the 1999 APEC Non-Binding Principles on Government Procurement; and
 - on Service Providers, promote freedom of technology choice for service providers and consumers.
- complete the Technology Choice initiative in 2006, or if necessary, adopt a standalone pathfinder

approach that will encourage economies that may not yet be ready to agree to these principles to join at a later date.

D. Implement the Life Sciences Innovation Strategic Plan

At their meeting in Busan in November 2005, Ministers endorsed the recommendations of the third Life Sciences Innovation Forum (LSIF), held in September 2005 in Gyeongju, Korea, including that implementation of the LSIF strategic plan should initially concentrate on projects in four priority areas: research; harmonization of standards and regulatory procedures; access to capital; and health services.

Criteria for selecting these priorities included their significance to emerging health and economic challenges in the region, including infectious disease, the rise in chronic disease, and ageing demographics.

Recommendations

ABAC recommends that APEC:

- support LSIF projects underway in the research, harmonization and health services pillars of the LSIF strategic plan implementation, including the biomarker and cohort research projects, Certificate of Pharmaceutical Product (CPP), Quality by Design and anti-counterfeiting capacity building workshops;
- urge interested APEC economies to engage in bilateral consultations with the Chair of the LSIF Access to Capital Group with a view to examining the prospects for venture capital to support the development of Contract Research Organizations and other innovation infrastructure in the region;
- support LSIF interaction and collaboration with related groups and initiatives, including the annual Pacific Health Summit; and
- support an LSIF focus on measures and projects to develop sustainable health systems to support innovation.

E. The Challenges in Creating "The Information Society Vision 2010 in the APEC Region"

An information society has been defined as one in which the creation, distribution and manipulation of information

is becoming a significant and cultural activity. The APEC Telecommunications and Information Working Group (TEL) is developing the core infrastructure to underpin the “Asia Pacific Information Society (APIS)”.

ABAC supports this concept and acknowledges it raises serious policy issues that are also profound for regional business. They include concerns over privacy, intellectual property, cyber security and permanent non-imposition of customs duties. The technology is evolving, and research on concepts such as broadband and multi-platform access, and a universal communication identifier (UCI), is rapid and already well advanced.

ABAC has initiated a comprehensive Study of the Challenges in creating an information society for 2010 in the Asia-Pacific region (to be completed) that will focus on technology issues, legal and economic consequences, capacity building implications, and the desirable policy and regulatory framework for APEC member economies. Subsequently, ABAC intends to organize one or more symposiums to evaluate the findings of the study, further explore the medium-term technology outlook, its integration into society, definitions, legal and regulatory settings, and other related issues.

Recommendation

ABAC recommends that APEC:

- ensure that relevant APEC officials (APEC TEL) liaise with ABAC as the Information Society Vision 2010 study proceeds.

F. Emerging New Technologies

ABAC wishes to draw APEC Leaders attention to the range, depth and sophistication of new IT-supported technologies being “rolled out” in the region. The application of state-of-the-art research originating in APEC economies and making substantial use of innovative IT systems, has exciting potential to drive economic progress, sustainable development, and improvements to human wellbeing.

A significant and growing volume of collaborative research effort is taking place among research institutions in APEC economies. There is also an encouraging trend for those institutions to remain committed to cooperative effort beyond the ‘pure’ stage into active marketing and implementation of commercially-attractive technologies.

Much of this work is being done largely at the initiative of the institutions with minimal government involvement.

Recommendation

ABAC recommends that APEC:

- ensure there is full exposure and exploration of the scope this regional research activity holds, for capacity building projects based on partnerships with economies in a position to advise and assist.

VI. Fostering Closer APEC-ABAC Relations

Formalize Interaction and Dialogue with APEC Ministers and Senior Officials

APEC is premised on the concept of consensus-building and voluntary engagement. The APEC Business Advisory Council was born out of this attempt to fully engage the business community in developing a robust trade policy for the region.

In the context of the current global ecology, the relationship between government and business has never been at a more critical juncture. Economic growth depends on the energy and drive of business and commerce – and as stakeholders in the global economy, there is a need for greater interaction between government and business to ensure a robust, business-friendly, and cohesive policy-making process that will further enhance trade and investment liberalization and facilitation in the APEC region.

Recommendation

ABAC recommends that APEC:

- intensify interaction and dialogue between ABAC and APEC Ministers and Senior Officials. Regular interaction between ABAC and SOM should be established through the presence of key Senior Officials during ABAC meetings and of ABAC representatives in SOM meetings and relevant working groups. Both Senior Officials and ABAC representatives should be invited to participate in deliberations in each other’s meetings on all agenda items of relevance to them. In addition, ABAC and SOM should formally meet once during the middle of the APEC year to tackle specific priority issues.

ABAC is committed to full participation in the next round of IAP Peer Reviews beginning 2007.