

**SUMMARY REPORT OF 2007 APEC AND EARLIER APEC RELATED
MEETINGS ATTENDED BY HIGH COMMISSIONER**

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1. Introduction.

I have attended four meetings related to APEC 2007 which is being hosted by Australia. One meeting was convened by DFAT for APEC Business Forum in Sydney in October 2005 and two other meetings to see venues and be briefed on logistical security issues and preparations for the Leaders Meetings in Sydney and updates and information disseminated and discussed. The fourth meeting recently convened in Melbourne was more substantive in nature and was run concurrently with the Education Sector Senior Officials Meeting (SOM) in Adelaide. Other sectoral meetings have been convened both at SOM and Ministerial levels leading up to the September 2007 Leaders Meeting. They include:

- the Investment and Trade meeting of SOM in Canberra,
- the Mining Ministers Meeting at Perth, Western Australia,
- the Small Business Enterprises Ministerial Meeting at Hobart, Tasmania,
- the Transport Sector Ministerial Meeting in Adelaide, and
- the latest one, a week ago on Education at Adelaide attended by Senior Officials.

Other sector meetings are:

- the second Mining Ministers meeting now being held in Darwin, NT,
- SOM meeting in Cairns to review progress to date on all APEC policy and preparatory work in June 2007
- Finance Ministers meeting in July 2007
- APEC Leaders and Business Leaders meetings in first week of September 2007

The first of the formal meetings for APEC 2007 to be hosted by Australia was on 21st October 2005 (see my Report attached). It was convened by Australia's DFAT to provide an opportunity for Australia's business, diplomatic and academic communities to participate in discussion of Australia's strategic priorities for APEC in 2007 and be briefed by top Australian government officials and senior leaders who are members of Australia's Business Council, on key issues impacting on business today including the WTO (Doha) Round, Avian influenza and energy pricing and markets.

2. Logistics

The next two meetings I attended in 2006 and 2007 were for logistical and security briefings in Sydney. The first one was referred to as an informal visit by Heads of Missions at the invitation of the Task Force for APEC, to Sydney to undertake a guided tour of the venues for the 2007 Leaders Meetings in Sydney. There was a formal briefing introducing key organizing personnel, contact details and roles of each of these managers

of each aspect of the APEC 2007 Program and in particular anticipated arrangements for the Leaders of the Economies.

The venues and logistics briefing was repeated in 4th- 5th April 2007. The briefing was to advise on preparations to date as well as hotel accommodation and transport. For PNG economy, there will be 7 vehicles allocated one for the economy Leader and spouse and other vehicles for support staff and baggage with police escort on arrival from Airport to hotel and departure. The Late Mr. David Tauale and I attended this briefing and Mr. Tauale has all the briefing papers. Due to strict confidential/security nature of 2007 APEC Leaders meetings, such details have been referred to PNG Officials on a need-to-know basis only. Mr. David Tauale, inspected the Hotel where our Prime Minister will be staying.

We did raise the issue with the Task Force members responsible for hotel accommodation that PNG economy is not a high risk economy and our Leader may not wish to be in high risk area so that he may have more flexibility of movement during the Leaders' Meeting. The Task Force members acknowledged this issue and have taken it into account and allocated the hotel accordingly. Media reports recently have clarified further, the security arrangements in the inner Sydney city area where Economy Leaders will be accommodated. In the high security area, there will be no mobile phone use by the public, there will be random searches by police and security personnel on public entering the high risk area effectively a cordon will be placed in the area and closely monitored.

3. Policy Issues

Apart from the sectoral Ministerial and Senior Officials meetings listed above, the Melbourne meeting convened from 18th -21st April was by APEC Centre in Melbourne, organized as a Symposium, meant to bring together Academics, Australian politicians, practicing Business Executives, representatives from various APEC member economies' Think-Tanks, Consultants with specific work experiences and work on APEC Agenda. The Seminar was titled, **Driving Growth-APEC's Destiny.**

From **Hon Michael Duffy**, former Attorney General of Australia, who chaired the whole two and half days' session, to the last speaker, **Mr. Alan Oxley**, Chairman of APEC Study Centre, altogether, there were 45 Speakers presenting papers on:

- APEC policy on trade, investment, constraints to “at the Border and “in” the Border” trade and investment flows, health, demographics and human security and role of IT, Intellectual Property Rights, and bilateral and regional trade liberalization, climate change and carbon trading, financial markets, and China's Trading posture and its impact on APEC.
- APEC Organization and Structure involving discussion of a Free Trade Agreement amongst 21 member economies and possible personnel title changes APEC Secretariat level to provide stability and recognition for Head of APEC Secretariat.

Some of the speakers did not have their papers ready and will be made available on the APEC 2007 web page by middle of the week. The symposium covered an array of issues most of which are directly involved with effectiveness of APEC as a regional body, and its efforts to promote member economies' development and growth.

Summaries of first day's session are provided hereunder and my observations as to their relevance for PNG's Economy. The first session was on a proposed Free Trade Agreement amongst the 21 member economies. The **Hon Theo Theophanous**, Victorian State Minister for Industry and State Development, Major Projects and Small Business, opened the Symposium and welcomed delegates. He told the delegates Melbourne is a multicultural city and the diversity in demographics and culture are somewhat similar to APEC economies. Opportunities and challenges abound in such an environment. He sees key challenges as climate change and globalization. He listed many of Victoria's initiatives relevant in contributing to achieving APEC's regional cooperation agenda. They include:

- Climate change technology as Victoria has a 400 megawatt first gasification plant with brown coal technology sequestration to reduce greenhouse gases.
- Export assistance program
- Large construction projects in China
- Victoria is home to APEC study centre at Monash University
- The redevelopment of Melbourne's Docklands to be the financial hub of Australia which has \$US 1 trillion in Managed Funds, the 4th largest market in the world.
- Victoria is also a supplier of high value consumer services.

Australia's APEC Ambassador, and Deputy Secretary of DFAT, **Mr. David Spencer**, provided progress account of preparations and meetings held to date and provided a summary of APEC's performance to date and problems and successes. These include:

- in 1989 only 12 member economies compared to 21 today.
- doubt about APEC's usefulness, but now the annual meetings of Heads of governments, annual meetings of key Ministers attest to the success of APEC,
- a Secretariat has been formed.
- critics of APEC argue there is too much talking but not enough action.

Spencer outlined what he sees as Australia's agenda for APEC this year and they include the following:

- To strengthen APEC
- A broad ranging agenda but focused
- Bring WTO (Doha) negotiations to satisfactory conclusion
- Ministers for Trade meeting in July in Cairns to move WTO issues forward
- APEC's references for Regional Trade Agreements
- More emphasis on Investment liberalization as too much time is spent on Trade liberalization

- ABBAC proposal for a Regional Free Trade Agreement to progress transport, procurement, health issues etc;
- Barriers “at” Border are much easier dealt with compared to Barriers “in” the Border for example tariff issues. Australia feels not enough effort is applied to resolving “in” the border governance issues and investment in infrastructure.
- APEC sees its role as “walking and chewing gum as well, taking on nitty-gritty issues as well as big picture issues.
- APEC is concerned about energy and environment as APEC economies already have 60% of energy demand. The Mining Ministers in their meeting in Perth considered restrictions on energy use and Transport Ministers considered aviation emissions issues as a focus
- Ways to enhance practical private-public sector cooperation.

On APEC Reforms:

- More efficiency and result orientation
- More funding for capacity building
- Secretariat continues to be small
- Australia will be proposing that Secretariat has a term Executive Director rather than on rotation which does not give him/her status.
- Secretariat to have a number of economists as staff to provide capacity building assistance to economies
- Human security issues including health, food and terrorism.
- Illegal movement of humans where Australia will be seeking APEC’s involvement in enhancing security and member economies to provide greater cooperation on border surveillance and apprehension of human traffickers.
- Australia will be proposing CEO’s of Security in APEC member economies to meet to discuss disasters etc; in APEC economies.
- Cost effectiveness of APEC
- A 10 year moratorium on new APEC memberships

The APEC Ambassador Spencer sees APEC as having succeeded in

- sharing policy experiences
- capacity building, peer review and evaluation and as performing credibly over the last 18 years in:
 - ameliorating impact of cold war,
 - APEC’s achievements are more subliminal rather than obvious.
 - APEC is not a negotiating forum
 - 2007 Agenda is to help bring DOHA Agreement to finality and deal with climate change issues.

The first day’s morning session after welcome speech by Hon Theo Theophanous and Ambassador Spencer addressed the issue of “Is APEC FTA Feasible?”

Speakers included **C Fred Bergsten**, Director, Peterson Institute for International Economics (via video link), **Prof Ippei Yamazawa**, President, International University

of Japan, **Robert Scollay**, Director, APEC Study Centre, University of Auckland, **Prof Ross Garnaut AO**, Research School of Pacific and Asian Studies, ANU.

(a) **Bergsten** discussed “*Making an FTA work*”:

- FTA represents a large economic group and markets
- FTA may be a PLAN B if DOHA fails
- FTA may be a convenient home for Preferential Trade Agreements
- FTA avoids risk of ASEAN countries moving to Regional Trade Agreement on their own or move simultaneously with APEC members.
- APEC can only be strengthened by FTA

There are new developments which are affecting APEC to move forward with FTA. These include:

- Doha Round developments: Recent G4 and G6 meetings provide no persuasive indications that Doha Round will succeed. Therefore APEC FTA could provide significant global gains. Other Plan Bs being considered include:
- The recent visit by Chancellor of Germany, who suggested to US President there should be Trans-Atlantic Free Trade Agreement
- A new consolidation of an Association of Free Trade Area of Americas
- Recent FTA between US and Korea and Japan may ask for the same with USA. Bilateral FTAs will discriminate therefore APEC Regional FTA will ameliorate impact of bilateral FTAs.
- APEC FTA will reduce trade tensions between USA and China which are reflected by tensions in US caused by US running large current account deficits and China running large current account surpluses. Bilateral US-China Trade is not working well, therefore APEC FTA may ameliorate the trade tensions
- Slowing down of evolution of trade negotiations ie; Asia only 10+3, 10+6 arrangements. APEC FTA and Asia only, could proceed in tandem.
- Template for APEC FTA to see where differences and similarities are and how they may progress usefully progress issues. Blue-prints have now been prepared for 10+3 and 10+6 Models.
- USA is hesitant on APEC FTA because USA does not wish to deflect focus on Doha Round and bilateral with Korea.
- USA is also reluctant for APEC FTA because it suspects China may use its overwhelming Asia political leverage to its advantage against USA unless free trade with China is couched in “reciprocal” arrangements.

It should be noted that Bergstens is the most optimistic for APEC FTA compared to the following views expressed by succeeding speakers.

(b) **Prof Ippei Yamazawa’s** topic was, *Relating APEC FTA to East Asian Summit FTA*: **Prof Ippei**;

- recollected that APEC FTA was adopted by Leaders of the APEC Economies in Hanoi meeting of 2006.
- highlights current difficulties in Doha Round of negotiations

- sees uncertainty in US emerging political trends ie; US Democrats may assume control over both houses and Presidency, may result in an inward looking US on Trade matters.
- then argues this may lead to a profusion of bilateral Trade Agreements in APEC Region.
- Also predicts that APEC may continue with its Agenda but FTA may confront increasing political resistance.

(c) Robert Scollay spoke on “*Getting a Liberal Result*” from APEC FTA

- He posed the question whether APEC FTA would be the optimal outcome for APEC- ie; when governments want Preferential Trade
- Is Trade Facilitation a complement or substitute for trade liberalization? TF should be complimentary to and not substitute for Trade Liberalization.
- What is the rationale for APEC FTA?
- As a Plan B for Doha failure or
- ASEAN +3
- ASEAN+6 and
- ASEAN +1ns
- Review of Asia Pacific Trade flows- \$40% intra East Asia, 30% intra Americas, 30% Trans- Pacific.
- Constraints on Feasibility of APEC FTA:
 - *Design of APEC FTA issues*
 - *Regional value-content issues vrs change of tariff classification (note that this was an ongoing debate throughout the symposium)*
 - *Comprehensiveness issue not covered by Doha Round but covered by APEC FTA Agenda including government procurement, investment flows and competition policy, climate change, energy issues etc;*
 - *Possible next steps*
 - Explore APEC FTA in parallel with P4, US-DR-CAFTA*
 - Comparative analysis of existing arrangements*
 - Rules of Origin*
 - Possibilities for convergence*
 - Two tier approach*

(d) Prof. Ross Garnaut spoke on *Politics of trade liberalization*

- argues governments come to conclusions that are wrong sometimes,
- recounts APEC FTA has been a long standing issue beginning in problems with Uruguay Round of talks and emphasis on possibility for APEC FTA began then,
- sees changes occurring in Asia Pacific Region include profusion of bilateral FTAs with discriminatory arrangements
- argues while Doha Round is in trouble, and APEC FTA could be Plan B, the issue is “What is a Good Plan B and the direction it takes, rather than just a good Plan B.”
- sees bilateral FTAs have been mainly disappointing as they have resulted in very little trade expansion
- argues APEC FTA will worsen high transaction costs for business
- sees too many of political-economic barriers to global liberalization

- argues APEC FTA may remove problems caused by bilateral FTAs but not clear in what direction
- warns there must be caution with comparisons
- sees APEC FTA is not really politically feasible due to USA- China Trade problems
- questions whether removal of protectionism in agriculture in Asia is any easier than in USA or EU
- Sees Rules of Origin issues also problematic as current patterns of FTAs promote pattern of distortions
- Are NAFTA type rules feasible and will USA put them aside in favour of APEC FTA type arrangement.
- APEC FTA is not politically feasible.

The next session considered **Gains from Trade Facilitation**.

Chairman: **Michael Crouch**, Executive Chairman, Zip Industries Australia.

- The desirability of APEC FTA is the potential for “playing with one set of rules”.

Cris de Cure OAM, Head APEC Task Force, DFAT Australia spoke on “*Improving the Gains in 2007*”

- Improving gains from past in trade facilitation to 2007
- Trade facilitation is important because of business interests
- Maintaining global supply chain
- Lower trade barriers
- Transparency

APEC as a regional organization is:

- a. non-binding and less threatening
- b. very accommodating
- c. Focused on capacity building and improvement in facilitation process
- d. Allows participation by business with practical focus
- e. Has established a proven track record

Trade Facilitation Action Plan I

Lessons learned

- a. Lacked Strategic Framework
- b. Capacity-building not as targeted
- c. Reporting not as clear
- d. Performance measurement difficult

Trade Facilitation Plan II

- a. Target 5% reduction in Transaction Costs
- b. Key Features : more collective action
- c. Revised menu of actions and measures
- d. Business facilitation a continuum
- e. Link between actions “**at**” the Border and actions “**behind**” the Border.

Examples:

- Single Window Initiative (SCCP) not to provide one form for customs, tax, and quarantine but combined all these forms to one portal.
- Data Privacy and accountability (ECSG)
- Food Safety Cooperation Initiative (SCSC)
- Regulatory Reform- Private Sector development
- Promoting Business Confidence Through integrity
- A secure friendly environment
- Investment liberalization
- Measurement in FFAPI- currently no verification measure ie; Need to balance substance and measurement.
- Consider options

Dr. Sang Kyom Kim, Director, APEC Study Centre spoke on “*A Framework to achieve the Busan Roadmap*”

- APEC Leaders at the 14th APEC Leaders’ Meeting held in Hanoi on 18-19th November 2006, endorsed the Hanoi Action Plan to implement the Busan Road map towards the BOGOR Goals, which is a comprehensive set of specific measures, schedules, and capacity building initiatives particularly the new trade facilitation framework that targets a further reduction of trade transactions costs by 5% in the APEC Regions by 2010.
- Recommends APEC develop a Trade Facilitation Digest after surveys carried out for Korean businesses trading with other APEC countries.
- And also a Trade Facilitation Index
- For PNG for instance, a Trade Facilitation Index from that survey showed that of a sample of 16 PNG companies trading with the surveyed Korean companies, for **customs procedures**, we have an Index of 5.00 for Absolute Value and an Index of 1.11 for Relative Value. For a sample of 15 PNG companies trading with the surveyed Korean Companies for **Standards and conformity**, we have an Index of 5.07 for Absolute Value and an Index of 0.98 for Relative Value. For a sample of 16 PNG companies trading with the surveyed Korean Companies for **Business Mobility**, we have an Index of 5.63 for Absolute Value and an Index of 1.02 for Relative Value. For a sample of 14 PNG companies, and for **Electronic Commerce**, we have an Index of 1.02 for Absolute Value and an Index of 0.89 for Relative Value.

Notes on the Index:

1. The Index differentiates Trade Liberalization and Trade Facilitation (TF). Methodologies to measure Economic effects of Trade Liberalization were through effects of reduction of tariff barriers. Methodologies to measure economic effects of Trade Facilitation by linking TF with non-tariff transaction costs were more recent.
2. Range for AV:1-7 (ie; 1 highest barriers, 7 lowest barriers)
3. $RV=AV/APEC\text{-wide average}$ (eg; 4.96 for Customs Procedures, 5.17 for Standards and Conformity, 5.52 for Business Mobility, 4.97 for Electronic Commerce)

PNG's performance on *Customs Procedures* with an AV Index of 5.00 tends towards lowest barriers, which is good and this applies to *Standards and Conformity* (5.07) *Business Mobility* with a Rating of 5.63 and *Electronic Commerce* on average (4.43). On the Relative Value Index, we rate very well and comparable to all EPEC countries on all the four measures except for Singapore with higher than average on all the 4 measures. The only reservation for PNG is the small sizes of the samples surveyed compared to those of other countries.

Mr. John S Wilson, Lead Economist, World Bank, Washington DC spoke on "*Opportunities in Regional strategies*"

- Why trade costs matter particularly for APEC
- Data from World Bank "Economic Prospects" indicates growth in world trade is the driving force for wealth creation and growth in world economies.
- Poses the question, "How do you outline priorities taking into account of the APEC gains."
- Points out there in a "Global Trust Fund Project" set up by World Bank to assist APEC economies if they so choose to avail themselves of it to promote efforts for trade facilitation and capacity building.

4. Concluding Remarks

The symposium focused on the viability of APEC FTA going forward and the Gains from Trade Facilitation. I have summarized the views of the Speakers but their papers are available and enclosed herewith for more extensive elaboration of the views. I will not summarise the views of the rest of the speakers as they relate to sectors which have been dealt with in other lead-up sector meetings for APEC 2007. They include:

- **Secure Trade- The Impact of Terrorism**
 - *Trade and security* Ambassador Chak Mun See, Senior Advisor, Singapore MFA
 - *Food Defence Initiative* Dr.Natalia Comella,, Office of International Health, USDS.
 - *Challenges for Customs*, Adjunct Prof. Mark Harrison, Aust. Centre for Customs&Excise Studies, University of Canberra.
- **Intellectual Property and Innovation**
 - *Emerging Growth Trends*, Joseph Alhadeff VP Global Public Policy, Oracle, USA
 - *Locking in Value from IP*, Simon Edwards, Manager Government and Industry Affairs, Microsoft, Aust. &NZ
 - *IP and Health*, Duncan O'Brien, Executive Manager, Economics &Operations Strategies, Medicines Australia
 - *IP and innovation and development*, Richard Kjeldgaard, Associate Vice President, International IP, PhRMA, Washington DC
- **Ageing Population in APEC-Impacts on Pensions**
 - *Impacts on ageing and pension reform in Korea*, Dr.Hyungpyo Moom, Senior Fellow, Korean Development Institute
 - *Impacts on ageing and pension reform in Japan*, Hiroshi, Miyai, Director and Manager, Nikko Financial Intelligence, Japan

- *Impact of ageing on capital markets*, Prof, Kim Dietrich, Marshall School of Aconomics, University of Southern California USA
- *Asian Demographics* Prof James Butler, Director, Australian Centre for Economic Research on Health, ANU, Canberra.
- **The Threat to Human Health in APEC**
 - *Animal Diseases, Human health and Food safety*, Dr. Gardner Murray, President Asia and Oceania, World Organization for Animal Health, Canberra ACT
 - *Quarantine Trade Restrictions*, Peter Gallagher, Director, Inquit Pty Ltd, Melbourne, Vic.
 - *Responses to pandemics*, Dr. Andrew Pengilley, Medical Advisor, Office of Health Protection, Department of Health and Ageing
- **Asian Growth- Risks and Forecasts**
 - *The outlook for Asia's Emerging Markets*, Ian Thompson, Managing Director and Head of Research, Asia-Pacific, Standard&Poors, Melbourne
 - *Investment Opportunities*, Jeremy Duffield, CEO, Vanguard Investments Australia
 - *The Fund management market in Asia*, Ben Bruck, Group Head, Macquarie Funds Management, Sydney
- **Energy and Climate Change in APEC**
 - *China's Climate Change Approach*, Dr. Jiang Kejun, Director, Energy Resource Institute, Beijing
 - *Regional Initiatives*, Brendon Pearson, Environment Branch, DFAT, Australia
 - *What can Technolgy Deliver?* Dr. Margo Thorning, International Council for Capital Formation, London.
- **The Future for Carbon Market and Emissions Trading**
 - *How big can global carbon markets get?* Des Moore, Director, Institute for Private Enterprise, Melbourne
 - *Impact of Abatement Strategies on Australia*, Dr. Brian Fisher Vice President, CRA International, Canberra
 - *Prospects for Global Carbon Emissions Trading System*, Bill Bowen, Principal Consultant, ITS Global, Canberra
- **Global Imbalances in Financial Flows**
 - *Do Imbalances Matter?* Prof. Deepak Lal, James Coleman Prof of Development Studies, UCLA, USA
 - *Currency Stability in the Asia-Pacific Region*, Huw Mckay, Senior International Economist, Westpac Bank, Sydney.
 - *The Region Adjusting to China*, Andrew Stoler, Executive Director, Institute for International Trade, University of Adelaide, SA
- **Can The Asia-Pacific Adjust?**
 - *What Can APEC do?* Gordon de Brouwer, General Manager, Macroeconomic Group, Australian Department of Treasury, Canberra ACT
 - *Beyond Trade Liberalization*, Alan Oxley, Chairman, Australia APEC Study Centre
 - *The Challenge of Structural Change*, Prof. Bob Buckley, Chair APEC Economic Committee and Principal Advisor, NZ Treasury Dpt.
 - *Competition for Skills*, Tom Bentley, Executive Director, Policy & Cabinet, Victorian Department o Premier and Cabinet,
- **China's Impact on the Global Economy**

- *Is China cheating?* James A Dorn, Vice president for Academic Affairs and China specialist, Cato Institute, Washington DC
- *Can China maintain a competitive advantage?* Amy Auster, Head of International Economics, ANZ Banking Group, Melbourne
- *What is the challenge to manufacturing?* Dr. John Edwards, Chief Economist HSBC, Sydney. NSW

At this stage, it can be surmised that the debate on APEC FTA will continue for a long time to come as there are hurdles posed by:

- a profusion of bilateral trade agreements in APEC
- China vrs USA Trade tension,
- lack of political will to address the same issue of agriculture subsidies that is currently plaguing Doha negotiations
- existence of and emergence of other Regional Trade agreements and potential Trade Agreements (NAFTA, Proposed Trans-Atlantic Trade Agreement between USA and EU)
- underlying difficult issues of Trade Liberalization including Preferential Tariffs, Rules of Origin and national interest issues including Subsidies.

While the initiative for APEC FTA came from Business Leaders in APEC, it is becoming obvious the success that is now driving APEC is in Trade Facilitation as discussed above. For PNG our story can be told with the employment Visa and relaxation of work permit requirements to allow for longer term stays. The work of our Impediments Committee needs to be highlighted, as it addresses for us the issues of “in” the border constraints for trade and investment flows. Investment flows will be a key issue of discussion in the 2007 APEC as economies are keen to move the agenda forward from trade liberalization.

The above are summary views but more detailed and comprehensive Report to enhance appreciation of the Agenda and issues for APEC 2007 will be provided by the PNG Task Force headed by Mr. Veali Vagi, Acting Secretary, Department of Prime Minister and National Executive Council.

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High Commissioner.