



ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS

FIRST ABAC MEETING FOR 2010

MELBOURNE, 9 – 12 FEBRUARY 2010

Summary

At its meeting in Melbourne ABAC:

- noted the more favourable economic environment but cautioned that significant challenges remain
- expressed concern that threats to open markets remain high as continuing high employment in many economies maintains the environment for protectionist measures particularly where elections are approaching, and agreed to continue monitoring protectionism
- expressed concern that whilst adequate financial regulation and prudential supervision are necessary, there is a risk that recovery may be jeopardised by regulatory incursions which distort financial transactions, limit liquidity in the market, and prevent sound market development
- agreed to work closely with governments to ensure APEC economies continue to grow and that growth is not derailed
- with the above matters in mind, agreed the 2010 Work Programme would develop recommendations to APEC Leaders and policymakers aimed at achieving long-term growth underpinned by strong commitments to regional economic integration, to balanced and inclusive growth and to sustainable development
- received advice on the commencement of Trans Pacific Partnership negotiations in March and renewed their support for regional economic integration;
- considered an initial report from the NZ Institute of Economic Research on

achievement by eight APEC member economies of the Bogor Goals for free and open trade in the region by 2010¹ and agreed to further work

- agreed to develop terms of reference and operational requirements for an ABAC Food Dialogue for consideration by APEC Senior Officials
- agreed on further work to implement ABAC's work on the mobility of temporary labour in the region.

Introduction

1. The first ABAC meeting for 2010 was held in Melbourne 9 – 12 February. This meeting identified key issues and set the work programme for 2010 leading to the annual dialogue with APEC Economic Leaders in Yokohama in November.
2. The Melbourne meeting was attended by New Zealand members Tony Nowell and Gary Judd QC and by Stephen Jacobi as Alternate Member². Gabrielle Rush attended as the New Zealand staffer. The team's objectives for the meeting focused largely on advancing ABAC's trade liberalization agenda including initiating a review of APEC's Bogor goals for free and open trade in the region, resisting protectionism and identifying new business requirements for the proposed Free Trade Area of the Asia Pacific (FTAAP). The meeting also encompassed emerging work of economic and commercial importance to New Zealand including in relation to the APEC Food System. The meeting was also the occasion for ABAC's annual meeting with APEC senior officials a number of whom attended including New Zealand's Stephen Payton. Discussion with senior officials took the form of a brainstorming session about Japan's objectives as APEC Chair for 2010.

A recovering but risky global economy

3. The general consensus within ABAC is that while the worst of the economic crisis is over, the basis of the recovery is still fragile and real risks remain. Asia, and particularly China, has led the global recovery with China's annual growth of 8.7% being well over its official target. The US also achieved positive growth in the 3rd and 4th quarter of 2009.

¹ On 15 November 1994 the economic leaders of APEC came together at Bogor, Indonesia and agreed that APEC would move towards free and open trade and investment in the region for industrialized economies by 2010 and for the remaining membership by 2020. The "Bogor Declaration" enunciated goals to achieve those objectives. The full text of the statement is at http://www.apec.org/apec/leaders_declarations/1994.html.

² The Government has yet to announce a third ABAC representative to replace John Blackham whose tenure concluded in 2009.

The IMF revised its world output growth forecast for 2010 to 3.9% in its January World Economic Outlook.

4. With the recovery fuelled by massive monetary and fiscal stimulus measures, risks to ongoing stability remain including those posed by unemployment, protectionism and inadequate regulation. Current US unemployment exceeds 10%, the highest since the early 80s and US unemployment is expected to remain at high levels for some time. Unemployment heightens the related risk of increased protectionism as the US mid-term elections approach. Adding to global uncertainty are financial institutions, particularly in Europe, which still face significant risks. ABAC has concerns that a new "bubble" will start or may even have started globally due to liquidity support, unprecedented monetary easing, and massive fiscal stimulus which were put in place to respond to the collapse of the previous bubble economy. There are risks including in emerging economies where significant recovery has been made.
5. There was also concern that further tightening of financial regulation could confuse the market and prevent recovery. While adequate regulations are necessary to prevent future crisis, it is important that measures being considered including financial transaction taxes and special taxes for the finance industry are carefully thought through to ensure any new regulations do not distort financial transactions, limit the liquidity in the market and prevent sound market development. The exit strategies from financial stimulus packages adopted by individual governments were crucial to maintaining forward stability. ABAC resolved to write to the IMF Managing Director and APEC Finance Ministers opposing the concept of a tax on financial transactions which is currently under discussion.

Towards freer and fairer trade

6. ABAC's **Liberalisation Working Group (LWG)**, chaired by Tony Nowell, received an update on the status of the Doha Development Agenda (DDA) from Bruce Gosper, Deputy Secretary, Australian Department of Foreign Affairs and Trade. Gosper said current problems related to market access provisions. Most WTO members were happy with the deal on the table but the US was not. The position of China in the negotiation was also important as the dynamics between China and the US were the major influence on the negotiation. A formal stock-take of the negotiation would take place in Geneva in March and it was hoped a series of Ministerial meetings would build momentum throughout the year. Expressions of business support for the DDA would be very useful in particular seeking active engagement in the market access process. Bruce Gosper thought it unlikely that the round could be concluded in 2010. He suggested and ABAC agreed that any lobbying by ABAC should focus on key capitals rather than representations in Geneva.
7. American and New Zealand representatives provided updates on developments with the **Trans Pacific Partnership (TPP)** negotiations noting that the US machinery was up and

running confirming its commitment to engage in negotiations and that a first round of negotiations would commence on 15 March.

8. A report on the impact of **protectionism** was introduced by New Zealand's Stephen Jacobi who noted that significant problems remain with tariff increases, state aid, export subsidies and offsets all presenting continuing problems for a range of sectors. The WTO felt that trade was about as open as it was before the financial crisis yet the Global Trade Alert (www.globaltradealert.org) felt that the situation was not business as usual. ABAC agreed that a real risk of further protectionism remained and that ABAC should keep it on its agenda.
9. John Ballingall, Deputy Director of the NZ Institute of Economic Research (NZIER), presented an initial report reviewing the achievements of eight APEC member economies in implementing the **Bogor Goals for free and open trade** in the region by 2010. This research project, led by New Zealand, is designed to inform ABAC's input to APEC leaders on their official review of the Bogor Goals due later this year. Initial conclusions noted that the world had changed considerably since 1994 when the Bogor Goals were adopted – the focus of liberalisation efforts had moved from market access being the almost exclusive focus to a far wider range of issues – which made the assessment less than straight forward. The initial report was well received and ABAC agreed to further funding for next steps which include seeking more detailed responses from each APEC economy. It was agreed that the review needed a forward-looking focus.
10. Following up on ABAC's decision to elaborate on what business would like to see included in new FTAs including FTAAP and TPP, Stephen Jacobi spoke to an ABAC New Zealand paper on **regulatory principles** which sought to address market integration issues. The paper proposed a number of principles which could be applied to regulatory chapters and aimed at promoting high quality in future trade agreements. They included non-discrimination, comprehensiveness, transparency, accountability, and a new concept of "least efficiency distorting". Australia's Bruce Gosper responded that new principles such as the idea of "least efficiency distorting" were just the type of thing officials were looking for from ABAC to help APEC economies shape new "21st Century" trade agreements. Future papers would look at services and digital economy issues.

Facilitating trade and investment

11. The **Facilitation Working Group (FWG)** agreed to focus in 2010 on three themes – facilitating the movement of investments, facilitating the movement of goods and services and facilitating the movement of people. ABAC Hong Kong reported on efforts to disseminate the results of a USC Marshall School of Business study on Temporary Labour Mobility to the private sector in APEC economies noting that reactions from each economy were unique. It was clear that the mobility of temporary labour across the region was a contentious issue. Some see it as a business issues, others place it firmly in the immigration camp. There was a need for continuing dialogue but three steps were identified as precursors to importing labour – 1) skills mapping; 2) domestic training; and

3) outsourcing. It was agreed more generally that the issue of labour mobility needed to be re-defined, differentiated from immigration and presented in a way that was less threatening to member economies.

12. ABAC Australia reported on a mini-Ministerial on supply chain logistics held between five economies – Australia, New Zealand, Malaysia, Singapore and Thailand. The aim had been to exchange ideas on harmonizing transport safety and other related regulations across the region. There may be a follow up to this meeting in the margins of ABAC's third meeting of 2010 in Thailand in August.
13. ABAC USA reported on an initiative to create a commercially useful tariff database which would provide up to date information on tariff rates in FTAs as well as rules of origin and other relevant information. The initiative will be further developed in coming months.

Ensuring the region's financial health

14. The **Finance and Economics Working Group (FEWG)** spent some time discussing the draft letter to be sent to the IMF opposing additional taxes on financial regulations. In response to representations led by Australia, it was agreed that the draft be strengthened considerably making clear ABAC's strong opposition to such measures which it was felt would effectively punish the vast majority of the world's financial institutions for the actions of a handful of largely US and European institutions that had caused the crisis.
15. A seminar was held in Melbourne on 9-10 February focusing on **infrastructure Public Private Partnerships**. This brought together over sixty people drawn from business, the public sectors, the ADB, academia and professional groups involved in PPP design, administration, financing and management. The seminar concluded that PPP is a priority for APEC Leaders; the size and scale of needs is enormous; the global financial crisis has changed the dynamics of financing and risk management, but the model that has evolved remains in good shape; the private sector is committed to support mobilizing capital and to designing and implementing PPPs; and longer-term access to local pools of savings in Asia would be a critical source of funding. The idea of an **Asia Pacific Infrastructure Partnership (APIP)** was considered aspirational and one to work toward.

Promoting sustainable development

16. The **Sustainable Development Working Group (SDWG)** received briefings from Jo Evans from the Australian Department of Climate Change on the outcomes of Copenhagen and from Bob Pritchard from the Australian Energy Alliance on energy challenges and business led pathways to tackle climate change.
17. Jo Evans said that while the media portrayed **Copenhagen** as a failure, it did deliver an accountable accord with directions for implementation. She emphasized three aspects of the Copenhagen Accord – 1) the personal contribution by Leaders to the Accord; that

the Accord was noted by Leaders but not signed; and 3) the Accord had key outcomes on temperature, action, transparency, funding and REDD and technology. Ninety four countries, including the EU had signed onto the Accord since Copenhagen and 65 had agreed to targets representing more than three quarters of global emissions. Among APEC economies, fifteen countries had signed and 12 had agreed to targets.

18. Jo Evans agreed that ABAC could provide leadership in a number of ways. One would be work on examining the implications for different economies of measures under the Accord – ABAC Brunei and ABAC Australia agreed to develop thinking on this. Following a suggestion from SDWG Chair, John Denton, ABAC Australia undertook to explore possible ABAC action on environmental goods and services under the clean technology part of the Accord.
19. Mr Pritchard outlined future challenges and the need for business-led pathways on action on climate change. ABAC Hong Kong China agreed that it was important to bring climate change and **energy security** together noting challenges in Hong Kong with the need for increased housing construction and modernization. The APEC Energy Ministers Meeting in June would provide a good opportunity to communicate the views of business to Ministers and the Chair undertook to try and ensure a mechanism to have business leaders sit down with Ministers to work through relevant issues.
20. ABAC agreed to increase its focus on **food security** in the region over the 2010 year with an ABAC Food Dialogue proposal to be considered at the first meeting of APEC Senior Officials. Work on the APEC Food System³, in its broadest sense, is of particular importance to New Zealand. During the meeting Tony Nowell made clear ABAC New Zealand's interest in being involved in ABAC work on the APEC food system and on ensuring that ABAC's efforts cover a good balance of issues and a cross section of interests. ABAC New Zealand will be undertaking some further consultation with industry stakeholders on these issues.
21. Following a presentation by Carl Voight from the USC Marshall School of Business, it was agreed that the Marshall School would do further work on examining issues relating to environmental goods and services (EGS).

³ In 1998 ABAC called for APEC Leaders to commit to building an APEC Food System (AFS) as a comprehensive approach to action in the food sector. In 1999 in Auckland, APEC agreed that the overriding objective in building the AFS would be "to efficiently link together food production, food processing and consumption to meet the food needs of our people as an essential part of achieving sustainable growth, equitable development and stability in the APEC region." See http://www.apec.org/apec/apec_groups/other_apec_groups/apec_food_system.html.

Conclusion

22. ABAC's discussions in Melbourne developed a comprehensive work plan for the 2010. ABAC New Zealand will remain closely involved in ABAC's trade liberalisation agenda and work on issues of particular interest to New Zealand including food security, broader sustainable development and energy security, and supply chain logistics. ABAC's next meeting will be in Taipei in May.

For further information

23. Please contact Stephen Jacobi at 0294 725 502 or Stephen@nzibf.co.nz. Further information including ABAC's final report and press statements from the meeting are available at www.nzibf.co.nz and www.abaonline.org.