



The Asia-Pacific Economic Cooperation (APEC) Meetings in Vladivostok, Russia: Postscript

Michael F. Martin

Acting Section Research Manager/Specialist in Asian Affairs

November 19, 2012

Congressional Research Service

7-5700

www.crs.gov

R42842

CRS Report for Congress

Prepared for Members and Committees of Congress

Contents

Summary.....	1
Outcomes of the Leaders' Meeting.....	2
Key Issues for U.S. Policy.....	3
Agreement on Environmental Goods Tariff Reductions	3
Energy Security	3
Food Security and Sustainable Agriculture	3
Innovative Growth.....	4
Supply Chains.....	4
Technical Barriers to Trade and Trade Facilitation.....	5
APEC and the Trans-Pacific Partnership.....	5
Implications for Congress.....	6

Appendixes

Appendix. List of Environmental Goods.....	8
--	---

Contacts

Author Contact Information.....	10
Acknowledgments	10

Summary

Russia hosted the Asia-Pacific Economic Cooperation's (APEC) week-long series of senior-level meetings in Vladivostok on September 2-9, 2012. The 20th APEC Economic Leaders' Meeting, the main event for the week, was held September 8-9, 2012. It was the first time that Russia had hosted the APEC meetings, as well as the first APEC Economic Leaders' Meeting at which all the members were also members of the World Trade Organization (WTO).

U.S. expectations for the 20th APEC Economic Leaders' Meeting were relatively low for a number of reasons. First, several of the members' leaders either did not attend (e.g., President Obama), were effectively lame ducks (e.g., President Hu Jintao of China), or were facing political uncertainty at home (e.g., Prime Minister Yoshihiko Noda of Japan), making it difficult for the members to consider major commitments. Second, in the eyes of U.S. officials involved in the preparations for the meetings, Russia's lack of experience and past lack of commitment to APEC weakened the pre-meeting preparations for the Leaders' Meeting. Third, by holding the Leaders' Meeting in September (rather than in November, as in previous years), Russia foreshortened the time to work on various initiatives. Fourth, recent events and initiatives, including the ongoing Trans-Pacific Partnership trade agreement negotiations, have raised questions within the Obama Administration about APEC's role on the promotion of greater economic integration in the Asia-Pacific region.

Despite the low U.S. expectations, U.S. officials indicate that they think the week-long event in Vladivostok was relatively productive. Below is a summary of the main results of these meetings, according to senior officials in the Obama Administration:

- The 21 APEC members¹ agreed to lower their tariffs on 54 categories of environmental goods to no more than 5% by 2015.
- The APEC members endorsed a model chapter on transparency for reference when negotiating multilateral or bilateral trade agreements.
- The APEC members agreed to cooperate in developing policies and technology to promote sustainable agriculture, including encouraging the harmonizing of domestic regulations on food safety.
- An APEC report concluded that its members had improved the ease of doing business by an average of 8.2% between 2009 and 2011, fulfilling nearly a third of APEC's goal to obtain a 25% improvement by 2015.
- The APEC members agreed to continue to promote technological innovation by developing non-discriminatory, market-driven innovation policies and fostering greater communication between academia, businesses, and governments.

¹ APEC currently has 21 members: Australia, Brunei, Canada, Chile, China, Hong Kong (officially Hong Kong, China), Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan (officially Chinese Taipei), Thailand, the United States, and Vietnam. They are referred to as "members" or "economies"—not "countries" or "nations"—because of the involvement of Hong Kong and Taiwan.

U.S. officials are apprehensive, however, about APEC's prospects for the next two years when first Indonesia and then China will be the host members.

This report also examines the role of Congress with respect to APEC, including appropriations necessary to finance APEC's secretariat and U.S. support of APEC activities.

Outcomes of the Leaders' Meeting

APEC's annual Leaders' Meeting is the association's paramount event, culminating a year of meetings designed to foster trade and investment liberalization among the 21 APEC members. Because APEC operates under a system of voluntary action and "open regionalism," in which changes in trade policy are extended not just to APEC members, but to all trading partners, these meetings rarely result in concrete, binding "deliverables." The Leaders' Meeting, in particular, usually results in a joint Leaders' Declaration that enumerates a series of commitments and pledges on steps to be taken to liberalize the trade and investment regimes of the APEC members.

In addition, the United States usually has taken advantage of the gathering of the 21 APEC leaders to hold bilateral meetings with selected leaders. Although President Obama did not attend this year's meeting, Secretary of State Hillary Clinton did meet with the representatives from Japan, Malaysia, Russia, Singapore, South Korea, and Taiwan while in Vladivostok. Plans for a meeting with Hong Kong's new Chief Executive Leung Chun-ying were cancelled because he was unable to attend due to important domestic duties.² Prior to her arrival at the APEC Leaders' Meeting, Secretary Clinton met with Indonesia's President Susilo Bambang Yudhoyono and China's President Hu Jintao.

This year's Joint Leaders' Declaration focused on the four themes selected by host member Russia: (1) Advancing trade and investment liberalization and regional economic integration; (2) strengthening food security; (3) establishing reliable supply chains; and (4) promoting cooperation to foster innovative growth. On the issue of regional economic integration, the declaration reaffirmed APEC's commitment to the Bogor Goals,³ as well as "APEC's role as an incubator of a FTAAP [Free Trade Area of the Asia-Pacific]." The declaration also noted the completion of a model chapter on transparency, adding to the list of model chapters developed by APEC for use by its members when negotiating bilateral or multilateral trade agreements. On trade and investment liberalization, the document highlighted the agreement of tariff reduction for environmental goods (see "Agreement on Environmental Goods Tariff Reductions" below). Regarding food security, the Leaders' Declaration called for the implementation of the Niigata Declaration of 2010 and the Kazan Declaration on Food Security (see "Food Security and Sustainable Agriculture" below) and a commitment to strengthen efforts to combat illegal trade in wildlife. The leaders also agreed to promote more reliable supply chains by various means, including reducing the "time, cost, and uncertainty of moving goods and services through the Asia-Pacific region," in order to achieve the goal of a 10% improvement in supply-chain performance by 2015. In addition, the declaration committed the APEC members to develop non-

² Government Information Agency, "CE Cancels Plan to Attend APEC Meeting in Russia," press release, September 5, 2012.

³ The Bogor Goals, adopted by APEC in 1994 during the Leaders' Meeting in Bogor, Indonesia, are to achieve free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and by 2020 for developing economies.

discriminatory, market-driven innovation policies that promote greater involvement of small, medium, and micro-sized enterprises (SMMEs) and women in the field of technological innovation.

Key Issues for U.S. Policy

Although as the host for this year's meetings, Russia set the overall agenda for the Leaders' Meeting and the resulting Leaders' Declaration, the United States delegation had its own priorities to pursue in Vladivostok. Below is a summary (in alphabetical order) of the five key issues addressed at the APEC meetings in Vladivostok, according to officials with the U.S. State Department and U.S. Trade Representative's (USTR) office.

Agreement on Environmental Goods Tariff Reductions

The leading outcome for the United States, according to U.S. officials, was the agreement to lower tariffs on 54 categories of "environmental goods" to 5% or less by 2015.⁴ At the 19th Leaders' Meeting held in Honolulu in November 2011, the APEC members agreed to lower tariffs to 5% by 2015 on a then-undesignated list of environmental goods. During the ensuing 10 months, representatives of each APEC member suggested goods to be included on the list. The U.S. representatives reportedly focused on goods that were clearly related to environmental issues and would be commercially credible. According to interviews with State Department and USTR officials, the United States is generally pleased with the final list of environmental goods.

Energy Security

Noting the "negative influence on the world's economy from carbon emissions," the leaders pledged to "strengthen APEC energy security" by promoting greater energy efficiency and the development of cleaner sources of sustainable energy. The APEC leaders also reiterated the commitment made at the 19th Leaders' Meeting to reduce aggregate energy intensity by 45% by 2035, based on 2005 data. In Annex B to the 2012 Leaders' Declaration,⁵ the APEC members agreed to: increase the use of natural gas; promote investment in energy infrastructure (including natural gas liquefaction facilities); and strengthen cooperation in the peaceful use of nuclear energy.

Food Security and Sustainable Agriculture

In their declaration, the leaders recognized the global and regional challenge of providing secure access to a safe and sufficient food supply to a growing population. To that end, they made a commitment to increasing sustainable agricultural production by investing in improved agricultural technology; developing a "more open, stable, predictable, rule-based, and transparent agricultural trading system"; and combatting illegal and/or excessive fishing and harvesting of

⁴ Annex C of the Leaders' Declaration provided a list of the 54 categories of goods included in the agreement. A list of the 54 categories is provided in **Appendix** of this report.

⁵ The complete text of Annex B is online at http://www.apec.org/Meeting-Papers/Leaders-Declarations/2012/2012_aelm/2012_aelm_annexB.aspx.

flora and fauna. Secretary Clinton, partially as the result of her August trip to Africa, reportedly pressed for stronger measures by APEC members to combat the trade in illegal wildlife.

The leaders' efforts on food security and sustainable agriculture built on two previous APEC declarations. In October 2012, APEC held its first ministerial meeting on food security in Niigata, Japan, resulting in the issuance of the Niigata Declaration.⁶ The Niigata Declaration established two shared goals for APEC members: (1) The sustainable development of the agricultural sector; and (2) The facilitation of investment, trade and markets. In May 2012, APEC released the Kazan Declaration following its third ministerial meeting on food security, held in Kazan, Russia.⁷ The Kazan Declaration confirmed APEC's commitment to increasing sustainable agricultural production by promoting foreign direct investment, sharing agricultural technology and research, harmonizing domestic regulations with international standards, and improving food access for "socially vulnerable groups." The ministers made particular note of the damage caused by overfishing in the region, and called for sustainable management of marine ecosystems.

Innovative Growth

The 18th Leaders' Meeting, held in Yokohama, Japan, called for APEC to create a path for a "robust community" based in part on innovative growth. The theme of innovative growth has been further explored in subsequent Leaders' Meetings, including this year's event in Vladivostok. The 2012 Leaders' Declaration highlighted the importance of including small, medium, and micro-sized enterprises (SMMEs) and women into the development of innovation in the Asia-Pacific region. Annex A of the declaration maps other aspects of promoting innovative growth that the APEC members agreed to pursue.⁸

Supply Chains

APEC has sought ways of improving the reliability and efficiency of supply chains in the region for several years. The 2010 Leaders' Declaration set a goal of achieving a 10% improvement in supply-chain performance by 2015, by reducing the time, cost, and uncertainty of moving goods and services through the Asia-Pacific region. This year, one of the foci of discussion was on the identification of "chokepoints" in the supply chains, and improving infrastructure and policies to ameliorate the identified "chokepoints." In addition, the Leaders' Declaration called for APEC members to promote "greener, smarter, more efficient, and intelligent supply chains." Another issue identified as critical to improving supply chain efficiency was improving export consolidation.⁹ According to U.S. officials, the APEC leaders agreed that in preparation for next year's Leaders' Meetings, the members would conduct comprehensive supply chain performance assessments. In addition, APEC would examine ways of networking smaller ports in the region into existing supply chains.

⁶ The complete text of the Niigata Declaration is available online at http://www.apec.org/Meeting-Papers/Ministerial-Statements/Food-Security/2010_food.aspx.

⁷ The complete text of the Kazan Declaration is available online at http://apec.org/Meeting-Papers/Ministerial-Statements/Food-Security/2012_food.aspx.

⁸ The complete text of Annex A is available online at http://www.apec.org/Meeting-Papers/Leaders-Declarations/2012/2012_aelm/2012_aelm_annexA.aspx.

⁹ Export consolidation involves the combining of cargo shipments to increase the cost efficiency of air or ocean shipping containers.

Technical Barriers to Trade and Trade Facilitation

During this year's meeting, the APEC leaders also discussed efforts to reduce barriers to trade and to enhance trade facilitation. The Leaders' Declaration reaffirmed their commitment to "rollback protectionist measures," such as export and investment restrictions. To reduce technical barriers to trade, the APEC members agreed to increase the transparency of their trade regulations, and continue their efforts to advance regulatory convergence based on international standards. In addition, APEC will continue its capacity building initiatives, including the exchange of best practices related to key issues, such as secure trade.

According to some observers, past APEC efforts designed to lower technical barriers to trade and facilitate trade have had a significant impact on intra-regional trade and investment. A study released by APEC's Economic Committee a month after the 2012 Leaders' Meeting appears to support this assertion.¹⁰ The study reports that the ease of doing business in APEC economies, as measured by several commercial factors,¹¹ had improved by an average of 8.2% between 2009 and 2011. The results exceed APEC's target of a 5% improvement during the same time period, and was nearly a third of APEC's goal of a 25% improvement by 2015.

APEC and the Trans-Pacific Partnership

During President Obama's first term, there seemed to be a subtle shift in the role of APEC in U.S. trade policy and its interaction with the ongoing TPP negotiations. The TPP was initially presented by the United States as a model for establishing a Free Trade Area of the Asia-Pacific (FTAAP) as part of APEC's efforts to promote trade and investment liberalization in the region. Other APEC members have similarly portrayed alternative regional integration models, such as the ASEAN+3¹² and the ASEAN+6,¹³ as possible paths towards the creation of a FTAAP. More recently, senior U.S. trade officials describe APEC as an incubator of new ideas or concepts that can eventually be incorporated into a binding and more formal TPP. In addition, the annual APEC Leaders' Meeting is often portrayed by U.S. officials as a forum at which the current TPP negotiating nations can present to the other APEC members the status of the trade talks.

The 2012 Leaders' Declaration does not mention the TPP, but does direct APEC ministers to take note of "various regional undertakings that could be developed and built upon as a way towards an eventual FTAAP," which presumably includes the TPP. By various accounts, the TPP negotiations have been a source of some tension among the 21 APEC members, with some viewing the negotiations as a divisive initiative introduced by the United States. Recent Leaders' Declarations provide different portrayals of the importance of the FTAAP, as well as the TPP. The 2009 Leaders' Declaration—the first following the U.S. announcement of its intention to negotiate the TPP—refers in general terms to APEC's exploration of "a range of possible pathways" to the creation of an FTAAP without explicitly mentioning the TPP.¹⁴ Following the

¹⁰ An electronic copy of the report can be downloaded at http://publications.apec.org/publication-detail.php?pub_id=1330.

¹¹ The commercial factors included starting a business, dealing with permits, obtaining credit, contract enforcement, and trading across borders.

¹² ASEAN+3 is a proposed trade agreement between the 10 ASEAN members, plus China, Japan, and South Korea.

¹³ ASEAN+6 expands the ASEAN+3 to include Australia, India, and New Zealand.

¹⁴ See http://www.apec.org/Meeting-Papers/Leaders-Declarations/2009/2009_aelm.aspx.

2010 Leaders' Meeting held in Yokohama, Japan, the Leaders' Declaration was more explicit about the role of the FTAAP and its relationship to APEC:

We will take concrete steps toward realization of a Free Trade Area of the Asia-Pacific (FTAAP), which is a major instrument to further APEC's regional economic integration agenda. An FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership, among others. To this end, APEC will make an important and meaningful contribution as an incubator of an FTAAP by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping, and addressing the "next generation" trade and investment issues that FTAAP should contain. APEC should contribute to the pursuit of an FTAAP by continuing and further developing its work on sectoral initiatives in such areas as investment; services; e-commerce; rules of origin; standards and conformance; trade facilitation; and environmental goods and services.¹⁵

While APEC official statements focus on FTAAP—not TPP—and present FTAAP as an instrument to achieve APEC's agenda, U.S. officials appear to place a greater priority on the TPP. For example, Secretary Clinton highlighted the TPP in her comments to the press in Vladivostok, saying, "[A]s leaders meet here in Russia, our negotiating partners are engaged in intense diplomacy to advance the Trans-Pacific Partnership, known as the TPP. *This free trade agreement is central to America's economic vision in Asia* [emphasis added]."

For several years, critics in the United States and in Asia have questioned the value of APEC and its annual Leaders' Meeting. Despite having helped organize the first APEC Leaders' Meeting in 1993, former Australia Prime Minister Paul Keating subsequently referred to APEC as a "talk shop of debatable output." Confidential sources have suggested to CRS that given the growth in high-level events in Asia at which the President of the United States is expected to attend, the United States could be represented at future APEC Leaders' Meetings by the Secretary of State or the Vice President. Although President Obama did not attend this year due to the conflict with the Democratic Party's National Convention, the Obama Administration is consulting with Indonesia, next year's APEC host, to set dates for the Leaders' Meeting so that the President can attend.

Implications for Congress

To the extent that APEC remains one of the leading economic and trade fora in Asia for U.S. foreign policy, Congress will continue to have an active interest in APEC's major meetings and any resulting commitments. In addition, Congress must appropriate funds to pay the U.S. share to support APEC's secretariat and operations. Finally, Congress may be asked to approve funding for various APEC studies and initiatives agreed to at events such as the annual Leaders' Meeting.

At this year's Leaders' Meeting, the 21 APEC members pledged to reduce the tariff rates on 54 categories of environmental goods to below 5% by 2015. Under current U.S. law, four of those 54 categories have peak rates above 5%.¹⁶ As a result, the 113th Congress may consider legislation to bring U.S. tariff rates in compliance with the APEC commitment.

¹⁵ See http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm.aspx.

¹⁶ The four categories with peak rates over 5% are: auxiliary plant for use with boilers (840420)—5.6%; parts for steam and other vapor turbines (840690)—6.7%; optical devices, appliances, and instruments (901380)—6.6%; and parts and (continued...)

As an APEC member, the United States contributes to the support of the APEC secretariat in Singapore, as well as various APEC programs. The 112th Congress provided an estimated \$1.023 million to APEC-related activities in FY2012 as part of the State Department's contributions to international organizations. President Obama has requested \$1.028 million for FY2013. Of that amount, \$144,000 is for the 18% share of the APEC member assessments provided by the United States. The rest of the funding is for APEC-related activities. According to the Department of State Operations Congressional Budget Justification for Fiscal Year 2013,¹⁷ APEC-related activities involve 17 different federal departments, agencies and supported organizations in such areas as advancing regulatory reform, enhancing Customs procedures, promoting anti-corruption efforts, and improving transportation security. The 113th Congress will also be asked to provide funding for APEC activities, including some related to the key issues discussed in Vladivostok.

(...continued)

accessories for optical devices, appliances, and instruments (901390)—16.0%.

¹⁷ See <http://www.state.gov/s/d/rm/rls/statecbj/2013/pdf/index.htm>.

Appendix. List of Environmental Goods

The following table lists the 54 categories of goods included in the APEC agreement to lower tariff rates to 5% or less by 2015 by harmonized system code. Categories with peak tariff rates above 5% according to U.S. law are highlighted in italics.

Brief Description	Harmonized System Code (2007)	Harmonized System Code (2012)
Other assembled flooring panels, multilayer, of bamboo	441872	
Steam or other vapor generating boilers	840290	840290
Auxiliary plant for use with boilers	840410	840410
<i>Auxiliary plant for use with boilers</i>	<i>840420</i>	<i>840420</i>
Parts for auxiliary plant for use with boilers	840490	840490
<i>Parts for steam and other vapor turbines</i>	<i>840690</i>	<i>840690</i>
Other gas turbines of a power exceeding 5,000 kW	841182	841182
Parts of gas turbines		841199
Engine and motor parts, nesoi	841290	841290
Other industrial or laboratory furnaces and ovens	841780	841780
Industrial or laboratory furnaces and ovens	841790	841790
Instantaneous or storage hot water heaters, non-electrical	841919	841919
Dryers, other	841939	841939
Machinery for liquefying air or other gases	841960	841960
Machinery for the treatment of materials involving a change in temperature	841989	841989
Parts of machinery, plant and equipment of heading 8419	841990	841990
Filtering or purifying machinery and apparatus for liquids	842121	842121
Filtering or purifying machinery and apparatus for liquids, other	842129	842129
Filtering or purifying machinery and apparatus for gases	842139	842139
Centrifuges	842199	842199
Crushing and grinding machines	847420	847490
Mixing, kneading, crushing, grinding, screening, sifting, homogenizing, emulsifying or stirring machines, nesoi	847982	847982
Machines and mechanical appliances, nesoi	847989	847989
Parts of machinery and mechanical appliances of heading 8479	847990	847990
AC generators of output exceeding 750 kVA	850164	850164
Other electric generating sets: wind-powered	850231	850231
Electric generating sets and rotary convertors	850239	850239
Parts suitable for use solely or principally with the machines in heading 8501 or 8502	850300	850300
Parts for electrical transformers, static convertors, and inductors		850490
Resistance heated furnaces and ovens	851410	851410

Brief Description	Harmonized System Code (2007)	Harmonized System Code (2012)
Furnaces and ovens, functioning by induction or dielectric loss	851420	851420
Other furnaces and ovens	851430	851430
Parts of industrial or laboratory electric furnaces and ovens	851490	851490
Photosensitive semiconductor devices	854140	854140
Parts of the machines and apparatus of heading 8543	854390	854390
<i>Optical devices, appliances, and instruments, nesoi</i>		901380
<i>Parts and accessories for optical devices, appliances, and instruments, nesoi</i>		901390
Other surveying, hydrographic, oceanographic, hydrological, meteorological, or geophysical instruments and appliances (excluding compasses), nesoi		901580
Instruments for measuring or checking the flow, level, pressure, or other variables of liquids or gases	902610	902610
Instruments and apparatus for measuring or checking pressure	902620	902620
Other instruments and apparatus for measuring or checking other variables of liquids or gases, nesoi	902680	902680
Parts and accessories for articles of heading 9026	902690	902690
Gas or smoke analysis apparatus	902710	902710
Chromatographs and electrophoresis instruments	902720	902720
Spectrometers, spectrophotometers, and spectrographs using optical radiations	902730	902730
Other instruments and apparatus using optical radiations	902750	902750
Instruments and apparatus for physical or chemical analysis, nesoi	902780	902780
Microtomes; parts and accessories of instruments and appliances of heading 9027	902790	902790
Other measuring and checking instruments, appliances, and machines, nesoi	903149	903149
Other instruments, appliances, and machines	903180	903180
Parts and accessories of the instruments, appliances, and machines of heading 9031	903190	903190
Automatic regulating or controlling instruments, other	903289	903249
Parts and accessories for nominated articles of heading 9032	903290	903290
Parts and accessories, nesoi, for machines, appliances, instruments, or apparatus of chapter 90	903300	903300

Source: Annex C—APEC List of Environmental Goods to the 2012 APEC Leaders' Declaration, released on September 9, 2012, in Vladivostok, Russia.

Note: nesoi – not elsewhere specified or included.

Author Contact Information

Michael F. Martin
Acting Section Research Manager/Specialist in
Asian Affairs
mfmartin@crs.loc.gov, 7-2199

Acknowledgments

The author would like to acknowledge the assistance provided by Dindi Robinson, Information Research Specialist, in the preparation of this report.