



Asia-Europe Business Forum (Milan, October 15-16, 2014)

JOINT BUSINESS DECLARATION

Enhancing business relations to foster economic integration between Europe and Asia

Business leaders from Europe and Asia met on 15-16 October 2014 for the 14th edition of the Asia-Europe Business Forum (AEBF). This bi-annual business forum was organised by Confindustria and BUSINESSEUROPE back-to-back with the 10th Asia-Europe Meeting (ASEM) in Milan, chaired by Herman Van Rompuy, the President of the European Council, and hosted by the Government of Italy in the framework of the Italian semester of Presidency of the European Union. High-level business representatives and CEOs from both regions had in-depth discussions under the overall theme of “*Enhancing business relations to foster economic integration between Europe and Asia*”.

The AEBF was honoured by the presence and speeches by Political Leaders from Asia and Europe in the closing session. Herman Van Rompuy – President of the European Council, José Manuel Barroso – President of the European Commission, Matteo Renzi – Prime Minister of Italy, Najib Razak – Prime Minister of Malaysia, Nguyễn Tấn Dũng – Prime Minister of the Socialist Republic of Vietnam, and Shinzō Abe – Prime Minister of Japan delivered their perspectives and visions for a further strengthening of the ties between Asia and Europe.

This 14th AEBF took stock of the previous fora to ensure continuity of the process, while consolidating existing partnerships and addressing new paths of economic cooperation. Business Leaders from both sides highlighted the enormous untapped potential that still lies in further deepening and expanding the Asia-Europe relationship.

Four dedicated taskforces worked on specific subjects of common interest to businesses and society in both regions, focusing on conditions to improve and take the EU-Asia cooperation a step further. They addressed specific recommendations to the ASEM Political Leaders.

The Asian and European business Leaders renewed their commitment to boost economic and trade relations as well as to reinforce industrial collaboration in view of a more solid and sustainable integration across the two regions and expressed their appreciation for the preparation of the forthcoming International Exposition EXPO 2015 that will be held in Milan starting from May 2015 to address the global challenge of “feeding the planet, energy for life”.

The full taskforces reports are enclosed to this joint business declaration, their main recommendations are summarised below.

Taskforce on Trade and investment to foster integration between Europe and Asia

- Establish stable macro-economic frameworks that encourage and facilitate trade and investments, commit to further liberalising economies, fight protectionism and refrain from policies that impede free flow of trade and investments.
- Strongly support the WTO, fully implement the WTO Trade Facilitation Agreement, conclude the Doha round negotiations on ambitious terms, expand the WTO Government Procurement Agreement (GPA) and include new generation issues in the future WTO work programme.
- Ensure coherence between parallel trade initiatives, work towards the adoption of global standards, as well as promoting the harmonization and mutual recognition of technical regulations and standards in order to prevent regulatory divergences.
- Ensure the respect and effective protection of intellectual property rights at a global level, facilitate the voluntarily exchange and transfer of technology on commercial terms.
- Strengthen dialogues among the private sector, government and multilateral institutions.
- Ensure transparency and the rule of law in order to prevent and fight corruption.

Taskforce on Food and water safety and security as drivers of global welfare and stability

- Create an enabling environment for private-sector investment by establishing effective public-policy frameworks and incentives for investing in essential infrastructure and services; target policy measures able to catalyse, de-risk and incentivize sustainable private-sector investment – including by SMEs – in agriculture and food value chains.
- Identify public sector incentives, including the creation of investment funds and establishment of water pricing, so to improve the efficiency of water use in food production, encourage public-private collaboration to improve water resource management.
- Address volatility in food commodity prices in the short term by: opening global markets to food trade; avoiding export restrictions, price controls and similar bans; eliminating trade-distorting subsidies; and avoiding limits on the use of modern technologies.
- Address volatility in food commodity prices over the long term by: ensuring cost-effective approaches to competition from other sectors for access to land, water, nutrients and energy sources; boosting innovation, education and capacity building; focusing efforts on sustainable production and supply involving public-private collaboration and modern technologies integrated with local and traditional knowledge.
- Reduce post-harvest losses and food waste by investing in agricultural and livestock infrastructure and technology, and exchanging best practices for waste and loss reduction by engaging both public and private sectors and by taking a value chain approach to improving transport and distribution, storage, cold chain technology, energy efficiency, and waste recycling along the chain.

Taskforce on Energy, green technologies and sustainable management of natural resources

- Establish a special Europe-Asia dialogue in view of ensuring well-functioning global energy markets; strengthen dialogue among the private sector, government and multilateral and bilateral institutions; and develop a much more robust external energy strategy by using trade, diplomatic and development policy resources to improve relations with major suppliers.
- Put cost-competitiveness, security of supply and climate objectives on an equal footing and make sure that the three objectives are well balanced.
- Ensure the energy consumer bill reflects the market based cost of energy and cannot not be used as vehicle for financing other policies.

- Strengthen R&D policies and funding, and support the least mature renewable technologies by enhanced R&D efforts rather than by production subsidies.
- Enhance bilateral dialogues and implement joint activities among business, authorities and research institutes to speed up activities to close the gap between research and commercialization of cutting-edge technologies.

Taskforce on EU-Asia cooperation in infrastructures, connectivity networks and space technology

- Establish sound and stable macro-economic policy, and an institutional, legal and regulatory framework which is transparent, consistent and stable.
- With a view to strengthening existing mechanisms to facilitate preparation of economic and technical projects, execute well-structured contracts in a reasonable lead time, and improve risk-reducing schemes.
- Increase the number of sound and bankable projects in infrastructure, particularly projects that are developed at provincial and municipal levels with private companies strongly involved.
- Improve project preparation by also using the help and advice of international institutions as well as representatives from the public and private sectors.
- Encourage the use of fresh sources of capital and the emergence of new business models, the development and integration of new technologies, especially in transport infrastructures and in space applications, and promote more competition in procurement and operation.
- Implement legal and administrative changes to speed up planning, procurement and implementation; application of new technologies and new schemes to enhance efficient use of infrastructures and better manage demand.

Task Force

“Trade and Investments to foster economic integration between Europe and Asia”

Recommendations for the AEBF Joint Business Declaration to ASEM

Trade matters for everyone, especially in today’s world with increasingly integrated global supply chains. Trade liberalisation and opening up for investments have created millions of jobs, and helped many countries to move up in their economic development. However, we have to remain vigilant that countries around the world refrain from introducing protectionist measures, as witnessed in particular during the recent economic crisis.

Today global production is organized by international or global value chains and this puts pressure to find answers on how these supply chains can be better supported. At global level, comprehensive elimination of tariffs and non-tariff barriers, regulatory approximation, and facilitation of trade and investments are the right approaches to this new international trading environment. The World Trade Organization in particular must play a strong role in addressing this global economic environment, and European and Asian countries should be at the forefront of such a renewed push for more trade and growth.

But a trend has also taken place to shift from the multilateral approach to the negotiation of bilateral and plurilateral agreements. Preferential trade agreements advance free trade, and have a positive effect in the sense that they may enhance more trade openness. They can serve as building blocks for the multilateral system, and are a way for countries to further open their economies in order to reap the benefits of increased trade and investments. However, it is very important that these different initiatives are mutually supportive and do not create unnecessary divergences.

- 1. How should Europe and Asia cooperate in order to ensure that trade can be a tool for advancing economic growth and we prevent protectionist tendencies?***
- 2. Where should Europe and Asia focus in order to ensure that trade agreements can better respond to global supply chains?***
- 3. How to ensure integration and harmonisation of trade disciplines and rules with the proliferation of bilateral and plurilateral agreements?***

Introduction

The world has changed tremendously during the last decade, i.e. since the launch of the Doha round negotiations in 2001. Today, global production is organised to an increasing extent by international or global value chains. Goods and services are not produced in a single location, but are the result of a combination of tasks executed in different countries. The lion's share of traded goods in these global value chains are intermediates. This puts pressure on the WTO and its members to find answers on how global value chains can be better supported. At global level, comprehensive elimination of tariffs and non-tariff barriers, and facilitation of trade and investments are the right answers to this new international trading environment.

The trend towards global value chains has been accompanied by the rise of new trading powers: emerging economies that had previously been developing countries. Benefitting from the multilateral system, they have increased their share in global production and trade. However, their increasingly important role in international trade has not been accompanied by taking up more responsibility for the development of the multilateral system.

The WTO – as the only international organisation creating rules and setting standards on trade at the multilateral level – continues to play a strong role as a guardian of free trade in times of protectionist attempts around the globe. Moreover, the WTO dispute settlement system has proven itself to be recognised as the most reliable and acceptable enforcement instrument for trade rules at multilateral level.

Given increasing interdependence both at regional and global level, the ASEAN economies are putting in place rules-based systems to establish the ASEAN Economic Community (AEC) by 2015. Indigenous regional economic integration like the AEC and the EU also provides background for the recent bilateral and plurilateral agreements. Furthermore, this shift is in part a result of the frustration over the lack of progress in the Doha Round negotiations. Prominent examples are the on-going negotiations for the Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU, the Trans-Pacific Partnership (TPP) between a number of American and Asian countries, the RCEP (Regional Comprehensive Economic Partnership), the EU-Japan FTA/EPA, or the plurilateral Trade in Services Agreement (TiSA). Preferential trade agreements advance free trade, and have a positive effect in the sense that they may generate more trade openness. They can serve as building blocks for the multilateral system, and are a way for countries to further open their economies in order to reap the benefits of increased trade and investments. However, it is also true that compared to the multilateral approach they can only be a second best route and have to be compatible with the WTO rules in order to avoid the negative effects of trade diversion.

Recommendations

In order to respond to the new international trading environment characterized by complex global supply chains, the Asia Europe Business Forum calls on Political Leaders to work towards ensuring smooth and efficient trade and investments around the globe by carrying out trade conducive policies, such as:

- Establishing stable macro-economic frameworks that encourage and facilitate trade and investments.
- Fighting any protectionist trends and refraining from policies that impede free flow of trade and investments.

- Strongly supporting the WTO in its role as the only international organisation creating rules and setting standards on trade at the multilateral level.
- Fully implementing the WTO Trade Facilitation Agreement, as committed during the WTO Ministerial Conference in Bali (December 2013).
- Concluding the Doha round negotiations on ambitious terms. ASEM members should work towards an early conclusion, preferably at the 10th WTO Ministerial Meeting in 2015.
- Actively contributing to the future WTO work programme, which must include new generation issues such as investment, competition, export restrictions, subsidies, energy and raw materials.
- Encouraging ASEM countries to join the WTO Government Procurement Agreement (GPA) on ambitious terms, matching the commitments taken by the current parties of the agreement.
- In addition to the WTO, increasing cooperation in international organisations, such as the OECD, IMF, WorldBank, ILO and other international fora.
- Committing to further liberalising the ASEM member economies according to their economic weight and level of competitiveness.
- Ensuring coherence between parallel trade initiatives (negotiations of free trade agreements, plurilateral negotiations) in order to prevent the 'spaghetti bowl' effect.
- Working towards the adoption of global standards, as the well as promoting the harmonization and mutual recognition of technical regulations and standards in order to prevent regulatory divergences.
- Ensuring the respect and effective protection of intellectual property rights at a global level.
- Facilitating the exchange and transfer of technology which can only be carried out voluntarily on commercial terms, without forcing local investments, and with a self-selected partner.
- Maintaining and strengthening regular and deeper dialogues among the private sector, government and multilateral institutions about ways to further enhance trade and investment.
- Ensuring transparency and the rule of law in the conduct of trade and investment in order to prevent and fight corruption.

Task Force

“Food and water safety and security as drivers of global welfare and stability”

Recommendations for the AEBF Joint Business Declaration to ASEM

Food and water safety and security are not only essential to guarantee a more balanced global economic growth but also to ensure stability and meet our global future needs. The engagement of the private sector on food and water safety and security is critical to translate government commitments into implementation actions on the ground. The most effective way for the private sector to make its contributions is as part of an integrated, long term strategic approach that involves national governments, civil society, international institutions, development agencies and food chain partners. There is enormous potential to increase yields of farmers worldwide through access to knowledge, improved varieties, inputs, and markets. New farming and animal production techniques have to be successfully introduced enabling to raise productivity of agriculture and animal production for the delivery of food, feed and fibre. Food supply chains in many countries are still very inefficient. In order to ensure global welfare and stability it is essential to improve operational efficiency, minimize logistics costs and reduce wastages, including through better storage and processing facilities, then a significant amount of food can be made available at affordable consumer prices. Therefore a deeper and solid cooperation between European and Asian private sectors, founded on sharing best practices and technologies for environmentally sustainable agricultural and animal practices, is the basis for future stability and growth. More specifically, adequate funding, effective technical assistance, specialized training and more efficient markets' analysis and monitoring must be made available through an enhanced EU-Asia economic cooperation so to build capacities and provide the food & water supply chains, from farmers to processing industry and related/integrated sectors, with skilled human resources, efficient industrial processes, advanced technologies, sound and comprehensive market and after-market strategies and suitable distribution channels. Quality requirements, standards and controls must be accurate while avoiding unjustified burden on business. To such purposes three basic questions must be answered.

- 4. *What can be the role of EU-Asia cooperation in research and innovation to guarantee concrete advancement in food and water safety and security?***
- 5. *What actions should be implemented jointly by governments and private sectors to make production and processing of food the key economic activity creating employment, attracting investments, supporting rural and urban economies?***
- 6. *To what extent Asian and European SMEs can contribute to such objective?***

Introduction

Food and drinking water represent fundamental human needs and access to them constitutes a basic human right. Safe and secure food and drinking water supply became the priority and challenge of a modern society as well as important issues determining economic and political stability around the world.

Many interrelated factors contribute to the complexity of food insecurity around the world today, including supply disruptions, government policies that inhibit trade and negatively affect farmers, the impact of agriculture on the environment, under-investment in research and development and price volatility.

As populations continue to grow, so does the pressure on land use and the challenge of protecting biodiversity. Agriculture will need to make better use of natural resources – especially water and land – through innovation and conservation. The need to produce more food will place increasing demands on the environment. Moreover, export restrictions and trading bans isolate local markets and give farmers little incentive to expand production, limiting the potential supply response to soaring prices.

Trade plays a crucial role in ensuring food security by allowing agricultural commodities to move from places of surplus to places of deficit. In addition, advances in technology and innovation will be required to produce the significant yield increases needed to boost global food production sustainably. Increased funding for agricultural research and development will be needed to produce long-term growth in the supply, availability and affordability of food over the coming decades.

While governments play a key role in incentivizing and enabling more efficient natural resource management, the private sector has a key role to play in applying and disseminating best practices.

Establish fair, transparent and predictable international regulatory frameworks

Trade rules are important in achieving global economic development, including increased food security and reduced poverty. Technical solutions based on science should be found and internationally harmonized standards should be implemented globally to address food safety and to assess environmental performance, thereby enabling international trade without constituting additional barriers.

Improving trade policy and reforming policies to enable increases in the sustainable and equitable trade of agricultural goods can provide significant economic opportunity for farmers while also expanding consumers' access to affordable goods.

It is urgent that progress continue on negotiations to reduce market barriers and market distorting incentives. Governments have to resist the pressures to impose export and import restrictions that undermine confidence and reduce incentives needed to mobilize the resources, technologies and expertise for developing sustainable value chains.

The Doha Round remains an opportunity for vital agricultural reform and it could provide a more conducive framework for international trading system to tackle the present and future food security challenges. The key mandate guiding agriculture negotiators is to achieve substantial improvements in the area of market access (i.e. tariff reduction), substantial reductions in trade-distorting subsidies and the eventual elimination of all forms of export subsidies.

The reform of global trade rules and a better functioning international transmission belt for food are vital components of an enhanced food security picture. The failure of the Doha Development Agenda represents, besides many other problems, a missed opportunity to take the most important regulatory measures to improve food security worldwide: to reduce tariffs and price support and to prohibit export restrictions for staple food production. In such situation, Asia and Europe should firmly engage to give new impetus to the debate.

Create an enabling environment for investment

Productivity growth must deliver food and nutrition security for all in an environmentally sustainable manner, while assuring economic growth and improved livelihoods and income for farmers. The European and Asian private sector can contribute considerably to this goal, in partnership with key stakeholders including governments, international and research organizations, civil society and farmers. Governments in particular have a central role in creating the right stimulus and regulatory conditions to unleash the potential of the land and the private sector, including farmers.

Investing in agriculture-related infrastructure, including transport, energy and storage, will attract and accelerate investment in agriculture value chains. This is an area where European and Asian public-private financing and collaboration can be highly beneficial.

Significantly greater investment will be needed to meet the growing global demand for food and agricultural products, driven by population increase, rising incomes, climate change and resource scarcity. Public spending on agricultural programmes should be carefully targeted to maximize positive economic impacts on rural economies and ensure environmental sustainability, while also ensuring the efficient use of public-sector finance.

European and Asian public and private actors can achieve this by improving risk management and policy solutions to incentivize private investment, and fulfil previous commitments of public sector funding. The public and private sectors can also work together in individual countries to prioritize specific food value chains or regions for increased investment. Attracting such investment will require improvements to the enabling environment to reduce the costs and risks of doing business; remove barriers to entry; and improve physical infrastructure, policy and legal frameworks, and institutional capacity.

Moreover, the private sector could actively support pilot projects that demonstrate the effectiveness of increased investment and can lead to best practices applicable in a variety of growing regions.

A platform for discussion and collaboration: 2015 Milan Universal Exposition

The theme of safe and secure food and water is a truly global issue that directly or indirectly involves most of the earth's population. "*Is it possible to ensure sufficient, good, healthy and sustainable food for all mankind?*" This is the question that underpins the challenge of the 2015 Milan Universal Exposition. Expo Milano 2015 represents an occasion not only for dialogue between international stakeholders, but also for their active collaboration in addressing the main challenges facing the food safety topic and for exploring the technology of entire food production chains, illustrating advanced technologies in the food processing industry. The application of best practices in agriculture, livestock farming and the conservation of biodiversity are all themes on which Expo Milano 2015 stands as a platform for collaboration to promote, coordinate and facilitate global and local actions leading to improved food and nutritional security. The AEBF community

therefore calls on Expo Milano 2015 to provide a framework where European and Asian companies can outline strategies, actions and projects to be jointly set up on the issue of food and water security and encourages organizers and participants to cooperate accordingly.

Recommendations

- Create an enabling environment for private-sector investment through establishing effective public-policy frameworks and incentives for investing in essential infrastructure and services.
- Target policy measures able to catalyze, de-risk and incentivize sustainable private-sector investment in agriculture and food value chains.
- Investments should especially ensure the sustainable use of resources and should expand market access for SMEs.
- Identify public sector incentives, including the creation of investment funds and establishment of water pricing, so to encourage the development of technologies and practices which improve the efficiency of water use in food production.
- Address volatility in food commodity prices in the short term by: opening global markets to food trade by successfully concluding the Doha Round, avoiding export restrictions, price controls and similar bans, as these will discourage the necessary additional investment required for agricultural production, impede access to agricultural raw materials and threaten food security, eliminating trade-distorting subsidies to ensure a level playing field in the global marketplace and avoiding limits on the use of technology which can hinder opportunities and deprive farmers of agricultural tools;
- Address volatility in food commodity prices over the long term by: ensuring cost-effective approaches to competition from other sectors for access to land, water, nutrients and energy sources, boosting innovation, education and capacity building to better mitigate and manage price volatility through improvement in agriculture distribution and storage systems, among others, focusing efforts on sustainable production and supply involving public-private collaboration and modern technologies integrated with local and traditional knowledge, as well as improving education and capacity building.
- Reduce post-harvest losses and food waste by investing in agricultural and livestock infrastructure and technology, and exchanging best practices for waste and loss reduction. Such efforts should engage both public and private sectors, taking a value chain approach to improving transport and distribution, storage, cold chain technology, energy efficiency, and waste recycling along the chain.
- Encourage public-private collaboration to improve water resource management. This can include promoting fact-based, cost-effective water management (such as the World Economic Forum's Water Resources Group) and increasing investment in water capture, storage, distribution, and reuse, particularly in farming communities of developing countries.

Task Force

“Energy, green technologies and sustainable management of natural resources”

Recommendations for the AEBF Joint Business Declaration to ASEM

Access to secure, reliable and competitive energy sources is in ASEM economies’ strategic interest. Energy demand worldwide is expected to increase by 27% by 2030. How do economies face this high demand? Huge investments in energy infrastructures will be needed in the upcoming years. The International Energy Agency predicts a cumulative global investment bill of more than \$48 trillion by 2035, consisting of around \$40 trillion in energy supply and the remainder in energy efficiency.

Well-functioning global energy markets, in particular for gas, will be a key determinant of energy security as well by ensuring a diversification of energy suppliers. High energy prices are affecting industrial competitiveness of some major economies, in particular the EU and Japan. The achievement of a global climate agreement next year in Paris should contribute delivering a global level playing field. Efficient and innovative energy and environmental technologies will equip societies with the means to tackle environmental challenges while boosting competitiveness. Increased collaboration in these fields, while respecting intellectual property rights, offers interesting jobs and growth perspectives. The main questions that the EU-Asian business community is keen to answer to are:

- 7. Given the expected increase in energy demand worldwide, should a Europe-Asia dialogue be put in place to ensure well-functioning global energy markets, in particular for gas?***
- 8. What policy reforms must be implemented in Europe and in Asia to ensure access to secure, reliable and competitive energy sources?***
- 9. How should Europe and Asia cooperate in order to foster the development of efficient and innovative energy and environmental technologies?***

Introduction

Energy is an important factor in the industrialized value chain in the globalized world. Ensuring a reliable and steady flow of energy is a fundamental requirement for our modern economies. Energy is, if not the engine, at least the fuel of our economic growth. And for this we require secure sources, an environment open for trade in energy products and competitive, affordable prices.

The growing global population and expanding economy will continue to push energy demand higher and predictions say it will be 27% higher in 2030 than in 2011. In addition, as of today, 1.3 billion people lack access to electricity. While renewable energy will be an increasingly important element of the energy mix, fossil fuels will continue to be the major source of primary energy. All energy sources – oil and gas (including unconventional), coal, nuclear and renewable energy – must be mobilized in the coming decades to meet increasing demand.

Well-functioning global energy markets

Every economy relies on energy, but energy resources are unevenly distributed around the world. As a result, trading of energy is essential to global economic development. It enables both energy exporters and energy importers to realize economic benefits that would otherwise be impossible to attain.

For both oil and gas, Europe and Asia Pacific are the two key importing regions, while the Middle East and the Russia/Caspian region the two largest exporters to world markets. The US are facing a significant energy “revolution”, one that is having and will continue to have a major impact on global energy markets.

In terms of oil, Europe is expected to remain a significant importer of liquid fuels. The Asia Pacific region already relies on imports for about 70% of its liquid fuels demand. This proportion is expected to grow even higher through 2040 as local demand grows by about 50%.

For natural gas, Europe, which imports about 45% of its gas requirements today is likely to see that percentage rise to about 60% by 2025 as local production continues to decline. Still, the largest shift in net imports is likely to be seen in the Asia Pacific region, where the percentage of natural gas demand met by imports from outside the region is expected to rise from 15% today to 35% by 2040 (2014, ExxonMobil – The Outlook for Energy: A view to 2040).

A more determined inter-governmental dialogue is needed to effectively promote global energy security on the basis of transparent, stable and non-discriminatory global energy markets and diversified energy sources; for example non-discriminatory treatment of all sources of energy and the increased use of liquefied natural gas (LNG) while always maintaining full compliance with environmental regulations.

Recommendations

- As the two key importing regions of energy, establish a special Europe – Asia dialogue in view of ensuring well-functioning global energy markets.
- Regular, deeper debate among the private sector, government and multilateral and bilateral institutions.
- Develop a much more robust external energy strategy by using trade, diplomatic and development policy resources to improve relations with major suppliers.

Policy reforms for secure, reliable and competitive energy sources

The energy sector is moving towards greater state control in many regions. However, to create a more sustainable energy system for the future, it is of vital importance to attract private capital and know-how. This can only be achieved if government intervention in the energy sector is restricted to a minimum, comprising goal-setting, oversight, monitoring and control functions, only.

In particular, regulatory frameworks must always be based on the highest standards of stability and predictability. This is essential to attract the investments required for capital-intensive sectors such as energy.

Governments must find ways to ensure that actions to address environmental challenges, particularly climate change, enhance economic growth and do not threaten security of supply. This can only be achieved by a transparent and thorough assessment of the effectiveness, costs and benefits, and energy security impacts of energy and environmental policies for the economy and society at large. Governments should also seek to align their policies better because uneven ambitions in fighting climate change can be a disadvantage to businesses operating in different regions across the globe.

Policies affecting energy supply should more effectively integrate the issue of “competitiveness”. The economic crisis and global energy trends have propelled this to the top of the agenda. As a result, energy policies should strike the right balance between competitiveness, security of supply, and environmental protection.

Renewable and low-carbon technologies offer interesting investment opportunities. However the energy price impact of some support schemes is too great a burden for some national societies to bear. In the EU for instance, in 2010 public spending on support schemes for the deployment of renewable energy sources has been two orders of magnitude larger (€48 billion in the five largest EU countries) than spending on R&D&I support (about €315 million).

Therefore, support of mature energy sources should be progressively phased out to allow the markets to determine energy choices in light of technology-neutral policy frameworks for competitive, secure and sustainable energy. For the less mature technologies, support should come from Research and Development Funds and they must not be massively deployed in early stages of development in order to avoid an excessive financial burden.

Recommendations

- Put cost-competitiveness, security of supply and climate objectives on an equal footing. Closely monitor energy competitiveness and security of supply to make sure that the three objectives are well balanced.
- Ensure that the energy consumer bill reflects as far as possible the market based cost of energy and that it cannot be a vehicle for financing other policies.
- Strengthen R&D policies and funding, and support the least mature renewable technologies by enhanced R&D efforts rather than by production subsidies.

Strengthen research and energy technologies collaboration

The scale of our global energy challenges makes it imperative to accelerate innovation in energy technologies and solutions, in order to rapidly reduce costs and speed-up the introduction of cutting-edge technologies to the market. This innovation strategy requires stronger collaboration, support and exchange of best practices in areas offering significant potential. These include: renewable energy technologies, smart grids, storage capacities, modular nuclear, nuclear fusion energy, shale gas and oil, energy efficient building technologies, industrial processes and transport, as well as technologies like carbon capture that reduce or mitigate environmental impacts.

Recommendations

- Enhance bilateral dialogues among business, authorities and research institutes to speed up activities to close the gap between research and commercialization of cutting-edge technologies.
- Implement joint activities in the above-mentioned research areas such as coordinated research calls on certain technologies and further information exchange in others.
- Support universities / research institutes exchange programs in strategy research fields.

Task Force
**“EU-Asia cooperation in Infrastructures, Connectivity Networks
and Space Technology”**

Recommendations for the AEBF Joint Business Declaration to ASEM

High quality economic infrastructure strengthens economic activity both within and across national borders. It is one of the most powerful levers available to support businesses – from SMEs to large multinationals – to make the investments that drive inclusive, sustainable growth across the globe. It promotes development in emerging economies, growth and employment in developed economies and trade between all. However, economies around the world face significant challenges in meeting current and future demand for infrastructure, driven by growing populations, rapid technological innovation (including green technology), the increasing integration of the global economy and value chains, the legacy of ageing or poorly managed assets, as well as public balance sheet and fiscal pressures. While governments have a crucial role to play in closing the gap, a big part of the solution relies on greater involvement by the private sector. EU-Asia cooperation in this field will be of strategic importance since the most valuable infrastructure opportunities require co-ordinated action to support regional and global value chains and improve flows of resources, products, services, information, people and ideas between countries. The main questions that the EU-Asian business community is keen to answer to are:

- 10. Demand for infrastructure is set to continue to expand significantly in the decades ahead, driven by major factors of change such as global economic growth, technological progress, climate change, urbanization and growing congestion. However, challenges abound: many parts of infrastructure systems, especially in European countries, are ageing rapidly, public finances are becoming increasingly tight and infrastructure financing is becoming more complex. What role Asian and European cooperation will play in this field?***
- 11. What actions are to be set up in order to strengthen the financial, organizational, institutional and regulatory dialogue able to adequately manage the complex challenges and provide sustainable solutions over the longer term?***
- 12. Given the crucial role of cross-border infrastructure in the process of Asia–Europe economic integration, what are the best practices that can be mutually exchanged both involving public and private stakeholders?***

Introduction

Infrastructure is critical to support social progress and can be an agent of change in addressing the most systemic development challenges of today's world—social stability, rapid urbanization, climate change adaptation and mitigation, natural disasters, and global issues such as food and energy security. Finding solutions to these challenges requires tackling the complexity and inter-connectivity among sectors. This realization—that infrastructure is more than the sum of actions by individual sectors—is shaping the global agenda and should be given the utmost attention from all international institutions.

Infrastructure, both hard and soft, plays a crucial role in facilitating trade and, more generally, economic development through tighter inter-regional coordination and cooperation, helping to capitalize more fully on positive spill-over effects. Adequate investments in infrastructure and deeper cross-border cooperation in the sector can create virtuous circle between growth, trade expansion, and international integration.

The longer-term future performance of the global economy will depend to an important extent on the availability of adequate infrastructures to sustain growth and social development. Up to 2030, annual infrastructure investment requirements for electricity, road and rail transport, telecommunications and water are likely to average around 3.5% of world gross domestic product (GDP)¹. Even if a large share of investments will be undertaken in the developing world, OECD countries too, despite their significantly lower economic growth rates, will be required to invest heavily to maintain, upgrade or replace existing (and often ageing) infrastructures, and to preserve their international competitiveness.

Moreover, the demand for information and related services (such as finance and telecommunications) can be expected to grow faster than the demand for transportation of goods and people. The telecommunications and internet revolution has re-stimulated international integration, resulting in growing trade in information and ICT, in outsourcing services, and in migration of highly skilled labour. Efforts to expand and enhance infrastructure services (a typical example is air transport) will reduce costs of doing business, of achieving economies of scale, and of international trade, helping to maximize growth and the benefits of regional trade and investment integration. At the same time, infrastructure improvements, complemented by trade expansion, will attract and facilitate greater investment in productive capacity, expand access to markets and employment opportunities for the poor, and broaden the range of consumer choice for Asia's billions.

The infrastructure needs in Asia and Europe

Asia's limited infrastructural development poses a serious obstacle to the increase of productivity and competitiveness of the entire region. The quality of transport infrastructure (air, rail and road) and access to electricity and communication infrastructure facilities are, in many cases, far below those of European nations.

Therefore, for most countries, infrastructure development is a key element in economic growth strategies and especially landlocked countries place particular emphasis on cross-border infrastructure.

¹ OECD, *Infrastructure to 2030*, Vol. 2, 2007

The existing inefficiencies in transportation and trade facilitation indicate that the potential for regional cooperation is large and regional integration through connectivity infrastructure can help increase industrial investment levels and unlock the growth potential in the region. Though there is enough evidence on the positive impacts of infrastructure on economic development, the extent of such benefits is determined by complementary policies and investment that are needed to make best use of the facilities.

Both in Asia and in Europe, infrastructure investment will be challenged by a range of fundamental long-term trends. These include:

- Demographic developments (e.g. ageing populations, population growth or decline, urbanisation trends etc.);
- Constraints on public finances;
- Environmental factors, such as climate change and rising quality standards of life;
- Technological progress especially, but not only, in information and communication technology;
- Trends towards decentralization, and growing local public involvement;
- The expanding role of the private sector.

Bridging the infrastructure investment gap will demand innovative approaches, both to finding additional finance, and to using infrastructures more efficiently and more intelligently through new technologies, demand management strategies, regulatory changes and improved planning.

Infrastructure needs will be growing in the foreseeable future and the private sector has the technological know-how and expertise in this area. Multilateral and regional financial institutions as well as capital markets are potential sources of funds. As such, cooperation in infrastructure should become one of the flagship activities of the Asia-Europe business cooperation.

It is well known that space technology not only provides concrete benefits in addressing societal issues, but strongly contributes to technological development of local economies through spill-over effects. Special attention should be paid to increasing cooperation between EU and Asia in space applications, like Earth Observation (for instance for urban development and nature protection, agriculture and forestry management, in emergencies and maritime security) and Navigation services.

Recommendations

In order to guarantee the most efficient cooperation in this field, through an adequate participation of the private sector, several pre-conditions can be identified:

- Foremost, sound and stable macro-economic policy.
- Robust financial infrastructures supported by policies aimed at developing domestic financial markets, in order to speed up private involvement in infrastructures.
- An institutional, legal and regulatory framework which is transparent, consistent and stable.

- Regular and deeper debate among the private sector, government and multilateral financial institutions.

Specific recommendations include:

- With a view to strengthening existing mechanisms to facilitate preparation of economic and technical projects, execute well-structured contracts in a reasonable lead time, and improve risk-reducing mechanisms, Asia and European countries should encourage necessary actions such as macro-economic and institutional measures to speed up the emergence of deeper domestic financial markets; stronger co-ordination of external funding sources, such as multilateral financial institutions and export credit agencies; closer co-operation with the private sector.
- Need to increase the number of sound and bankable projects in infrastructure, particularly projects that are developed at provincial and municipal levels with private companies strongly involved.
- Proper project preparation is a key factor determining the success of a project. The preparation helps specify some key issues of the future partnership such as pricing or the sharing of responsibility thereby avoiding incorrect assessment by public authorities. Multilateral agencies such as the World Bank and ADB, the European Commission, representatives from the public and private sectors and interested ASEM countries should be associated with the assessment of the present situation and of possible new commitments.
- Finally, human resources development, technology transfer and co-operation, regulatory harmonization across Europe and Asia, environmental issues and strategic business alliance between European and Asian partners are crucial ingredients for effective and sustainable infrastructure development.

On the side of Governments, crucial issues include:

- the search for fresh sources of capital with a wide array of other measures. These must include inter alia: regulatory changes to encourage the emergence of new business models and the development and integration of new technologies;
- the promotion of more competition in procurement and operation;
- legal and administrative changes to speed up planning, procurement and implementation; application of new technologies and new schemes to enhance efficient use of infrastructures and better manage demand;
- financing and funding with long-term strategic planning.

Finally, the planning, financing and management of infrastructures will need to be supported by better basic tools. Information, data collection, research and analysis need strengthening. Accounting for improved asset management should be used more widely, as should rigorous evaluation methods for stronger evidence-based policy making. Greater use can be made of online tools for communication and dialogue. And there is ample scope in education and training institutions for greater efforts to develop the interdisciplinary skills and knowledge that will be required to tackle the opportunities and problems raised by infrastructures in the years ahead.