SUMMARY OF THE EC'S REVISED REQUESTS TO THIRD COUNTRIES IN THE SERVICES NEGOTAITIONS UNDER THE DDA

Brussels, 24 January 2005

EXECUTIVE SUMMARY

On 24 January 2005 the EU submitted revised requests for improved market access on services to other World Trade Organisation members in Geneva.

These requests DO seek to reduce restrictions and expand market access opportunities for European services companies and thus through increased competition bring lower prices and more choice to consumers and business in third country markets with a resulting increase in efficiency across the whole economy. The requests cover generally the following sectors: professional services, other business services, telecommunications, postal and courier services, distribution, construction and related engineering services, financial services, environmental services, tourism, news agency services, transport and energy services.

They DO NOT seek commitments that would dismantle public services, nor is their aim to privatise state-owned companies. For instance:

- no requests are being made on health services or audiovisual services to any country, and only the US will receive a request on higher education services but strictly limited to privately-funded education services ;

- when requests are being made in sectors such as telecommunications, postal services or environmental services, they fully respect the possibility to safeguard public policy objectives such as universal service provision and to regulate the quality of the service provided. For example, requests on environmental services (water-related services, waste management) leave public authorities free to choose the mode of management of their services (whether by a public operator, or concession, or any form of PPP they deem useful) and do not intend to question the right to regulate the access to natural resources (such as water).

I. CURRENT STATE OF PLAY IN THE SERVICES NEGOTIATIONS UNDER THE DDA

The General Agreement on Trade in Services (GATS) is the first multilateral trade agreement to cover trade in services and the agreement was one of the major achievements of the Uruguay Round of Multilateral Trade Negotiations. The GATS has established basic "rules of the game" that are predictable and that apply to all countries. The agreement is based on principles of transparency and non-discrimination (the MFN principle[1]), that is equal treatment for all countries, regardless of their share in world trade or their level of development.

But despite the growing domestic and international importance of services and the increased worldwide recognition of that importance, efforts to reap the benefits of more open services markets has so far lagged far behind efforts devoted to opening world markets for goods. The Uruguay Round, while successful in developing trading rules for services, was less successful in creating new market access opportunities.

However, written into the GATS was a commitment to start a **new round** of trade negotiations in 2000 and consequently a new round of services negotiations was launched in early 2000.

[1] The "most-favoured-nation" principle amounts to a prohibition, in principle, of preferential arrangements among groups of Members in individual sectors or of reciprocity provisions which confine access benefits to trading partners granting similar treatment.

Negotiations take place through the exchange of "requests" and "offers" in a process that is essentially bilateral in nature, although the results will at the end be implemented on an MFN basis. At the Ministerial Conference in Doha, Qatar, in November 2001 Trade Ministers agreed on a timetable for the ongoing negotiations on services and at the same time brought these negotiations under the new multilateral trade round called the **DDA**[2] and they now form part of the "single undertaking"[3]. The Doha Declaration called for the submission of initial requests for services by 30 June 2002 and for the presentation of initial offers to other members by 31 March 2003. Given its increasingly central role in the global economy and services constitute one of the central pillars in the DDA.

The services negotiations under the DDA have inevitably been affected by the general slowdown in negotiations following the Cancun Trade Ministerial. Too many Members have still have not submitted any offers, among them a number of important developing countries. Furthermore, a critical assessment of the 50 other services offers currently on the table reveals that the quality of initial offers is very varied with many offering few or practically no improvements.

The EU has already demonstrated its ambition in these negotiations by bringing to the table an offer containing very substantial improvements, including on mode 4, which are of real interest to several developing countries. The EU offer is still unmatched by most, if not all, offers currently on the table.

The wide imbalance in the quality of offers is not sustainable and only if the overall quality of offers can be improved can these negotiations be successfully wrapped up and bring about meaningful improvements in trading environment for services. At the same time more countries must be drawn into the negotiations and those countries that have not yet submitted offers must be encouraged to do so.

The decision on the Doha Agenda work programme (the "**July package**") reached by the WTO's General Council on 1 August 2004 has provided renewed impetus to the services negotiations and sets out a process for improving the quality of the offers submitted. The text calls for revised offers to be tabled by May 2005 and for Members who have not yet presented offers to do so as soon as possible.

The tabling of revised requests therefore represents a unique opportunity to clarify what kinds of improvements the EC is looking for in the revised offers to be tabled in May 2005.

The EC has from the outset taken a leading role in the services negotiations. During the Uruguay Round the EC already made substantive commitments - making commitments in more than 120 sub-sectors - and its trade interests in this area are essentially offensive. It submitted negotiating proposals in all key sectors in December 2000 and outlined its general objectives in a communication submitted in March 2001, see Annex I.

For the EC, the **principal aim of the services negotiations** is to improve market access for European services exporters in foreign markets and to secure a more transparent and predictable regulatory environment for services. The EC will therefore be pursuing the following main objectives:

- **Elimination of entry barriers** that reduce competition such as limitations on the number of services suppliers, limits on foreign ownership or shareholding, restrictions on the type of legal entity, compulsory joint-venture or numerical quotas.

[2] Doha Development Agenda.
[3] "Single undertaking" means that virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately or in other words that "nothing is agreed until everything is agreed".

- Development of disciplines on domestic regulation based on Article VI of GATS while safeguarding WTO Members **right to regulate** to achieve public policy objectives. Market access is often hindered by cumbersome and non-transparent regulation. Governments should administer their regulations, insofar as they have an impact on trade in services, in a reasonable, transparent and objective manner. These objectives can be obtained, through *inter alia* the development of disciplines on domestic regulation based on Article VI of GATS, and, where appropriate, the development of more pro-competitive disciplines to provide a basic international discipline to certain practices preventing or reducing market entry. This should ensure a regulatory framework which can provide legal certainty and confidence to service suppliers, investors, users and consumers.

- Make liberalisation of trade in services not only consistent with, but also supportive of **sustainable development**, including in that context the liberalisation of trade in environmental services.

- Facilitate **increased participation of developing countries** in world trade in services by duly taking into account national policy objectives and levels of development, both overall and in individual sectors. GATS is particularly relevant to development, as it provides a key opportunity for all countries to attract stable long term investment and to improve the related infrastructure (transport, telecommunications, financial services), fostering their long-term growth and the competitiveness of their economies as a whole.

In July 2002, the EU presented its **initial requests** for improved market access to WTO members. A summary of the EC's requests is accessible at the DG Trade web site[4].

The **revised requests** seek a reduction in market access restrictions and thus an expansion in trading opportunities for the European services industry. They cover professional services, other business services, telecom, postal services, distribution, construction & related engineering services, financial services, environmental services, tourism, news agency services, transport and energy services.

The revised requests do not seek to dismantle public services, nor to privatise state-owned companies. No requests are being made on health services or audiovisual services to any country, and only the US has received a request on education services limited to privately funded higher education. As far as environmental services are concerned the revised requests that have been made seek to capitalise on the experience and skills of the European environmental services industry in tackling environmental problems.

In order to prepare for the GATS negotiations the Commission has conducted broad consultations to ensure a comprehensive and balanced input into the formulation of the Community's position. These consultations have provided an opportunity for the participants to convey their particular interests and/or concerns. The Commission is committed to continue its **consultations with Civil Society** and welcomes any input that help it define the EC's negotiating positions.

The principal areas of concern that have been raised concern the continued provision of public services in general, and health, education, audio-visual services in particular, privatisation, the right to regulate, sustainability and the provision of other services of general interests like water and energy distribution.

[4] http://europa.eu.int/comm/trade/services/index_en.htm

The EC fully shares the importance citizens in Europe and elsewhere attach to maintaining and developing public services. Public service remains an essential feature of the European model of society and the EC will not undertake any action in the course of the current negotiations that may undermine the European socio-economic model.

As far as government-owned undertakings are concerned, the EC has no intention to promote or request their privatisation during the course of these negotiations irrespective of whether they are entrusted with the provision of public services or not. However, public undertakings can coexist with private competitors. In fact, a gradual opening to competition may often enhance the quality of the services provided and afford lower the prices for consumers.

The EC fully recognises that pursuit of reform in the services sector raises challenges, in particular to developing countries. Liberalisation of service may have, in certain cases, to be underpinned by an institutional and regulatory framework to ensure competition and to help improve access to such services for the poor. WTO Members maintain the sovereign right to regulate within their territory in pursuance of public policy objectives, and the GATS does not seek to influence these objectives. Rather, the Agreement simply establishes as a general principle that services regulations are administered in a reasonable, objective and impartial manner and do not constitute unnecessary barriers to trade. These are simply principles of good governance.

II. SPECIFIC NEGOTIATING OBJECTIVES

a.) General

The EC is generally seeking an improvement in the level of commitments and where required a clarification of existing commitments. The EC is furthermore looking for a reduction in scheduled limitations both of a horizontal and sector specific nature. In so doing, the EC is not seeking in any way to undermine public services nor the privatisation of state owned companies.

b.) Professional Services

Professional services are particularly important for economic development through their relevance for the build-up of infrastructure (architecture, engineering), and the role they play in the creation of an investment- and business-friendly institutional framework (legal and accounting services). Opening these services to competition on a non-discriminatory basis is indispensable for attracting Foreign Direct Investment and for promoting the transfer of knowledge.

EC providers of professional services enjoy worldwide reputation for their expertise and competence. They are increasingly expanding their geographical reach, but find market access and regulatory barriers in their way. The same opportunities and problems have been identified by other WTO members' suppliers of professional services. Further liberalisation of trade in professional services should be beneficial for all of them.

The EC is seeking improved access in the following sub-sectors: legal services, accountancy, auditing and bookkeeping services, taxation services, architect services, engineering and integrated engineering services and urban planning and landscape architectural services. No requests are being made for services provided by health professionals.

c.) Business Services

Business services are typically provided business to business, and not to the general public. They provide the business infrastructure to enable industry (whether in the manufacturing, agricultural or services sectors) to operate effectively and competitively. The revised EC requests in business services cover a diverse range of sub-sectors, including computer services, real estate services, advertising, market research, management consulting, surveying, building management, R+D services and maintenance and repair of equipment.

The EC is seeking commitments from partners across a broad range of business services, with a particular emphasis on those which are important and/or useful for economic development and attracting FDI, such as computer services, and management consulting and related services. The requests have been modulated to take account of the level of development of different partners. In computer services, the EC also asks its partners to refer to the "Understanding on the scope of coverage of the computer services sector", in order to increase clarity and legal certainty of trade commitments in this sector.

d.) Telecommunications Services

A competitive telecommunications market reduces costs for industry and private users, and facilitates and improves communication between both businesses and individuals. For instance, in the EC, long-distance prices are down by 45% since 1998, mobile and internet penetration have doubled and quadrupled respectively between 1999 and 2001, reaching now 73% and 36% respectively, and new technologies are taking off rapidly (e.g. DSL access has tripled in the course of 2001). This enables companies in all sectors to react more quickly and adequately to the needs of consumers, to gain efficiency, raise their productivity and provide more goods and services more efficiently and at a better price.

European telecom operators have been expanding abroad for some years: they have invested to provide services, whether to individual or corporate consumers, in more than 50 countries outside of the EC. They have contributed to the expansion of networks and to the introduction of new services. They wish to continue to do so in the future.

Accordingly, the EC requests all countries, except least-developed countries, to allow full competition in their telecom markets, including satellite transmission of broadcast signals. To ensure full coverage of the sector and consistency in the presentation of trade commitments, the EC also requests all countries to schedule their telecom commitments in accordance with the definition of the sector stated in the GATS Annex on telecommunications (telecommunications = all services consisting of the transmission and reception of signals by any electromagnetic means). In addition, in order to ensure that competition does take place, the EC requests that the telecom regulatory frameworks follow a number of principles that had been worked out in the previous negotiations concluded in 1997: independence of the regulator, adoption of competition and interconnection rules, as well as some basic principles for licensing, universal service and the attribution of scarce resources such as frequencies. As regards more vulnerable countries, the EC invites them to also adopt an adequate regulatory framework along those principles, and suggests to focus on and allow competition first in data services (which are the backbone of business exchanges, including for SME) and mobile voice services (which have often allowed a quick development of the network coverage).

e.) Postal & Courier Services

The postal and courier sector provides a key infrastructure for communications with high economic and social importance. Overall in the EC, postal/courier services are estimated to employ directly approximately 1.7 million people, of whom 1.3 million are employed by the universal service postal operators.

This sector has in recent years experienced worldwide movement towards liberalisation. This is the case in the EC where liberalisation is being fostered while respecting the need for ensuring universal service in the sector. In addition, the EC has in the WTO proposed a new, activity-based, classification of the sector, which reflects the current reality of the market better than the current CPC classification, widely considered as obsolete.

The revised requests of the EC are mostly unchanged in comparison with the initial requests: more ambitious commitments are sought for activities where liberalisation is more advanced or that particularly facilitate integration in international trade (such as parcels and packages, express delivery services, press products, non-addressed items and document exchange) while in other subsectors (such as handling of letters) commitments are sought to a lesser extent, without undermining universal service provision. The main change is that a request is added to adopt a so-called reference paper containing commitments on anti-competitive practices, licensing, independence of the regulator, while recognising explicitly the right of Members to develop and safeguard universal service. This updating of the request takes into account the development of negotiations since 2002. The EC had favoured the principle of a reference paper in postal and courier since 2001 and has recently proposed a text for such a reference paper.

For all LDCs and many developing countries, no request is made in the sector.

f.) Distribution Services

The distribution sector is the crucial link between producers and consumers and its performance has a strong influence on consumer welfare. Increased efficiency and competition in the distribution system can lead to lower prices and a greater choice for consumers. The distribution sector accounts for a significant part of economic activity. In many economies, the sector is only second to manufacturing in its contribution to GDP and employment.

Despite the importance of this sector, less than 40 WTO Members (EC counted as one) made commitments on distribution during the Uruguay round, and only a minority of the DDA initial offers tabled so far includes significant commitments in this sector. In the EC, the distribution sector is largely open to foreign competition. The EC has presented a very significant DDA initial offer in the distribution sector.

The EC is seeking in these negotiations to eliminate the discriminatory treatment that its distribution companies still face in many foreign markets, while respecting regulation aimed at ensuring the quality of services and consumer protection. The revised requests addressed to many developing countries in this sector focus on the wholesale and retail sub-sectors.

g.) Construction and related Engineering Services

Construction is a fundamental economic activity that permeates all economic sectors and provides them with essential infrastructure. It constitutes one of the largest single sectors in the economy and is a major employer (9 million employees in the EC). As such, it is a strategically important industry for creating employment and sustaining growth. For the developing economies, the construction sector carries particular significance because of its role in building social and industrial infrastructure, training of local personnel, transfers of technologies, and improved access to information channels. Companies from developing countries have increasingly entered into ad-hoc co-operation agreements with companies of developed countries, focused around specific projects. This provides opportunities for acquisition of experience and access to technology for developing country firms.

In its revised requests, the EC is accordingly seeking from its trading partners that they pledge open competition in their construction markets.

Construction services procured by government at all levels are estimated to account for as much as half of the total demand for construction services. Government procurement practices, which often discriminate against foreign suppliers, have therefore a significant impact on trade in this sector. More open and effective competition in procurement markets would enable governments to obtain services at more competitive prices, thus getting better value for money. The EC therefore has a keen interest in moving forward the negotiations on government procurement of services under the mandate of Article XIII-2 GATS.

h.) Education Services

The improvement of human capital and expertise is a key objective of every country and is a determinant of the success of an economy. The enhancement of the education infrastructure and the development of high quality education services are therefore the key elements through which a society can achieve better living standards.

Most EC Member States already allow access to foreign providers with regard to privately funded education services. Such commitments have not impaired in any way the governmental prerogatives with regard to the organisation and support of the education system.

The EC is presenting a request to the US on privately funded higher education services, in line with the commitments taken by the EC in the Uruguay Round and the interests of European providers of education services in that market.

i.) Financial Services

The financial services sector is of great importance to the economy, companies and employment world-wide. It is also a key sector for the functioning of all economies, including developing economies, given its role as an infrastructure for all other sectors. Extended negotiations till 1997 produced some results, but much more needs to be done. Further progress is needed on sub-sectoral coverage. Generally speaking, securities services are less well covered than insurance, which is less covered than banking, and the quality of commitments is still very uneven. Most OECD countries scheduled in accordance with the Understanding on commitments in financial services (a model schedule drafted in the Uruguay round), but some developing countries also did.

Financial services (banking, insurance and securities) represent 3.4% of employment and more than 6% of GDP in the EC. EC companies are very active in international trade and this sector represents a major interest for the EC economy as a whole. The EC made initial requests on financial services to 85 WTO Members. Requests are tiered according to the level of development of countries' financial systems. On cross-border trade, the EC has only requested commitments in sectors that involve little or no capital movements. For countries with developed financial systems, the EC has requested members to schedule in accordance with the Understanding on Financial Services. For other countries, the EC has effectively only requested a number of market access provisions, and for the poorest countries, EC requests have been very modest.

The requests for most countries have remained largely unchanged in the revised requests, except that some information requests have been removed and initial offers from other WTO members acknowledged. For the more vulnerable countries, financial services are one of the sector options recommended to them. A model schedule, which covers only a limited number of financial services, has been attached to the request.

j.) Transport Services

Far too much trade is lost due to inadequate policies. An efficient transport infrastructure - a result of the right policy choices - is a key facilitator of trade.

Access to dense and cost-effective networks determine a country's exports competitiveness. It may make the differences between countries that can export and those not able to do so. High transport costs reduce margins, push up import prices and may disintegrate an economy from international trade or create adverse effects for remote regions. This is particularly critical for developing economies when they depend on labour-intensive manufacturing, and wages remain the only other element of the cost-base to cut.

In markets with a developed transport infrastructure the users of transport services can chose between alternative modes of transport (i.e. road or maritime) and different trade routes and operators (i.e. in ports). This puts pressure on transport providers, creates competition and limits misuse of monopoly situations. It is striking, that once an economy benefits from effective transport networks, the cost of transportation represents only a tiny fraction of the price that end-users and customers pay for a product. Typically, a TV-set can be moved around the World (port-to-port) for less than 2% of the retail price.

The Uruguay Round failed to deliver adequate results for transport services and for maritime transport in particular. The GATS negotiations on transport services gives WTO members a possibility to create the legally binding framework that can attract the necessary investment for the provisions of modern transport services. It is reassuring, that a number of the offers put on the table in the DDA present potentially solid commitments in the transport area, but it is also disappointing that other countries have left the sector unbound, or committed well below the actual level of liberalisation.

Free access to cargo, choice among shippers and providers, and non-discriminatory practices for use of scarce infrastructure are the key concerns for the up-coming negotiations. The EC focuses its requests on maritime transport, air transport and auxiliary transport services (freight forwarding and agency activities) for almost all WTO-members. For the advanced economies it also addresses road transport and elements of rail. At the same time the EU has introduced significant flexibility in its request to developing economies: to allow an approach with tailor-made, simple and suitable commitments

k.) Energy Services

Energy represents a key industrial sector of the economy. In addition, given the dependence of the whole economy on energy supply, competitive energy prices represent a major element for the competitiveness of the whole economy.

As energy services were not addressed as a separate sector during the Uruguay Round, the clarification of their classification in GATS needs to be addressed during these negotiations.

The EC is focusing its requests mainly on the following activities: services related to exploration and production, construction of energy facilities, storage services, services related to energy networks, services for the supply of energy (wholesale, trading and brokering of energy products), services for the final use (energy auditing and energy saving) and decommissioning.

As far as the more vulnerable countries are concerned the revised requests have only been addressed to a limited number of countries with important energy resources.

l.) Environmental Services

The Doha Declaration has recognised the role which the reduction or elimination of barriers to trade in environmental services can play to make trade and environment mutually supportive. Environmental services are of growing importance in all countries, and there is a strong potential for the liberalisation of this sector to result in 'win-win' situations through better environmental protection, diffusion of modern technology and know-how at more competitive prices.

Environmental services are a key sector for the EC. European companies are world leaders in this sector, and have been providing high-class environmental services within the EC, but also in a growing number of countries outside the EC

The EC's requests are based on the EC's proposal for classification of environmental services and cover all environmental sub-sectors. This includes water collection, purification and distribution services, sewage services, waste management services, services related to protection and clean up of air and climate, soil and water, as well as services related to the protection of biodiversity, and other related services.

In comparison with the initial requests, the revised requests include a number of clarifications and a reduction of the scope of the requests, especially for LDCs :

- the requests places more focus on advisory ("consulting" services), where commitments are notably requested for cross-border supply. In the same vein, the request under other environmental services is restricted to environmental impact assessment and environmental risk analysis, two key activities for sustainable development :

- for infrastructure services (water and solid/hazardous waste), the request makes a clearer distinction between services supplied directly to business (industrial customers notably), where more ambitious commitments are sought, and the traditional public services (notably municipal services), where the request is more focussed. In particular, countries (or their local authorities) would keep the possibility (i) to apply exclusive rights (for instance through concessions) (ii) to choose freely the management arrangements for the service (for instance : municipalities managing directly the service - "régie", public operator, cooperative, concession to a private operator), (iii) to choose the mode of attribution of the exclusive rights (open competition or not) and (iv) to change from one mode of management to another (for instance, at the end of a concession contract, to return to a public or cooperative management mode). However, in cases where the authorities decide to award exclusive rights through a competitive procedure (call for tenders), foreign operators would be granted national treatment in the bidding procedure (possibility to bid) and, if they are chosen, in the operation of the service ;

- for the more vulnerable countries (including all LDCs), environmental services would be an optional sector to commit, within a group of 5 sectors. Furthermore, within environmental services, some sub-sectors would also be optional.

m.) Tourism and Travel Related Services

Tourism is considered as one of the most important and fastest-growing sectors and one which has a very positive impact on employment and growth. The tourism sector is a major employer throughout the world. It is an important foreign exchange earner, in particular for developing countries. It is estimated that tourism represents about one third of the total value of world trade in services. The EC is the main source as well as the main destination of international tourist flows.

The level of commitments undertaken by WTO members in the tourism sector is far greater than any other sector. Nevertheless, some barriers remain, such as limitations for foreign operators to own and operate hotels, or for travel agencies and tour operators to provide their services via the internet to clients in other countries. The EC has already very substantial commitments in the tourism sector covering all sub-sectors, and has tabled a significant initial offer. The EC's objective in the negotiations is to improve market access for European operators in third countries.

n.) News Agency Services

News agency services gather, edit, investigate and distribute information that covers for example events, people, companies and public authorities. European news agencies have been expanding their activities abroad and/or have broad international interests. They wish to further develop their activities in third markets. News agencies can greatly help to promote transparency and to facilitate the flow of independent information in societies. Free, pluralistic and independent media is vital for the creation and the development of a democratic culture in any country. So far, only a limited number of WTO members have made specific commitments in news agency services and therefore there is room for more and better commitments in this sector. The EC's initial demands have generally been maintained in the revised requests.

o.) Mode 4

Mode 4 is the provision of services through the temporary presence of foreign nationals. In the particular context of the EC's requests, it means enabling employees of EC companies (and in some cases, self-employed persons based in the EC) to travel abroad to provide services. Mode 4 is an important means of providing services where personal contact with clients, or travel to the site where the services are to be provided, is a significant element.

In the revised requests, the EC is encouraging WTO Members to schedule their commitments according to a common format (listing explicit commitments by type of service supplier) and reiterating its desire to see an expansion in the level of commitments of WTO partners to reflect its economic interest in enabling EC services suppliers to move their highly skilled employees around the globe to provide and improve the provision of services. It is seeking to do this:

- where a company has a commercial presence overseas (so-called intra-corporate transfers),
- where there is no commercial presence overseas, but a company has obtained a contract to provide services overseas (so-called contractual service suppliers). This is of particular interest to EC Small and Medium Sized Enterprises (SMEs), and
- in a small number of cases, where highly skilled self-employed persons have obtained a contract to provide services overseas (independent professionals).

III. The Importance of the Services Negotiations under the GATS

The economic rationale calling for services liberalization under GATS is not different in principle from the rationale that has driven the liberalization of trade in goods under GATT since 1948: a country's competitiveness depends on the capacity of its industry to innovate and upgrade. Open markets lead to increased competition in services provision and thereby encourage companies to innovate to reduce cost and to improve the quality of their products and services. Open markets also reduce the scope for waste and rent-seeking and constrain the economic power of any individual actor and this in turn ensures users a continued choice of the relevant goods and services at competitive prices.

Services are critical for any economy. The services sector is already contributing more to economic growth and job creation worldwide than any other sector and continues to expand rapidly. As incomes continue to rise, people's needs become less "material" and they tend to begin to demand more services. The lower mechanization of services also explains why employment in the service sector continues to grow while employment in agriculture and industry declines because of technological progress. Eventually the service sector replaces the industrial sector as the leading sector of the economy.

But although it currently accounts for over 60 percent of global production and employment, it represents no more than 20 per cent of total trade. What is the reason for this apparent discrepancy? The main reason is that services companies still face many barriers in foreign markets and these barriers mean less competition and leave consumers with fewer choices. No country can prosper today without an efficient service infrastructure. It is the prerequisite for the competitiveness of any economy. Services constitute key inputs for other goods and services. Producers and exporters of textiles, cars or computers will, for example, not be competitive without access to efficient banking, insurance, accountancy, telecom or transport system.

European services companies are among the most competitive and successful in the world. The EC is the world's largest exporter and importer of services, with around 30% of world trade in services (20% of world trade in goods). The services sector is the single most important economic activity in the EC accounting for over three quarters of GDP and employment. In addition, more than half of the EC's incoming and outgoing foreign direct investments occurs in services. More open services markets and increased competition in services provision will provide more opportunity for our companies to grow and therefore to sustain growth and employment within the EC. More open services markets will also bring lower prices and more choice to consumers and business and increase in efficiency across the whole economy.

The EC therefore has a paramount interest in the further liberalisation of services trade and has encouraged the drive to remove barriers to create a truly global market for services.

Developing countries also have a big stake in these negotiations. Services are a growing part of their economies. Even in low income countries that are still in the process of industrialization, the services sector is growing faster than the rest of the economy. Liberalisation of the services sector, in particular in sectors such as telecommunications, transport and financial services, through establishing an appropriate domestic policy framework, and through opening up to international trade, can contribute to growth, modernisation of the economy and increased international competitiveness. This will contribute to achieving the objectives of Article IV of the GATS, including the strengthening of domestic services capacity and the increased efficiency and competitiveness of the services sector. This will benefit both domestic producers and consumers, and will help to build up productive and export capacity throughout the economy.

Developing countries account for almost 30 percent of world services trade. Moreover, among the 40 leading exporters of services in the world, some 25 are developing countries. Some developing countries have started to diversify their economies and consequently their exports are to a growing extent made up of services.

The EC is committed to the objectives and principles stated in the GATS, in particular Article IV and XIX, as well as the negotiating guidelines agreed by the Council for Trade in Services in March 2001 and the modalities for the special treatment of Least Developed Counties (LDCs) agreed in September 2003. The EC's initial requests to developing countries took account of the level of development of individual members. Generally, the EC sought commitments in fewer sectors and modes of supply and, for LDCs, the EC requested market access commitments in only about 3-5 sectors. In its revised requests the EC has continued to take account of the level of development of individual countries and for many, particularly LDCs, the EC has requested commitments in two out of five sectors, focused on key infrastructure services such as telecommunication, financial services, transport, construction and environmental services, which are key to economic development and to greater participation in the world economy, thus leaving a clear choice to the recipient countries. The EC believes that these sectors can provide essential infrastructure for the economic development and are sectors in which the EC can offer extensive expertise and technological skills whilst at the same time representing its export interests

Of course, opening services to international competition poses a number of challenges, in particular for developing countries. While globalisation provides substantial economic opportunities the ability to seize these and address any negative impacts depends to a large extent on domestic policy. Implementing the appropriate institutional and regulatory framework is key to reaping the benefits from liberalisation, which is why the EC is putting such emphasis on trade-related technical assistance and capacity building. The EC is already the largest provider of bilateral development assistance, including trade-related assistance and will maintain its commitment to this important aspect of the Doha Development Agenda.

So what kind of barriers are we talking about? Trade liberalisation essentially involves providing greater market access to foreign firms by removing **barriers** that either:

- restrict access by foreign firms, such as
    - limitations on the number of service suppliers (Example: annually established quotas for the number of service suppliers, e.g. only three licences awarded annually);
    - limitations on the total value of services transactions or assets (Example: foreign bank subsidiaries limited to x percent of total domestic assets of all banks);
    - limitations on the number of persons that may be employed in a particular sector or by a particular supplier (Example: Foreign employees may not exceed say 20% of workforce);

or

- that discriminate against them, once they are in the market (Example: Charges for port services may be higher for foreign ships than for national ships).

Barriers such as these essentially seek to regulate competition directly or indirectly and can have two important negative consequences. First, they stifle rivalry and innovation as companies devote resources to dealing with regulators and to protecting what they already have. Second, it makes the industry a less dynamic and less desirable buyer or supplier. By removing such entry restrictions for service suppliers the GATS can not only create new business opportunities for service companies, but also help ensure more vigorous competition and thus provide consumers with a better choice in terms of quality and price of goods and services.

It is barriers such as these that the EC is trying to reduce or eliminate in the current negotiations.

ANNEX I

- Communication from the European Communities and their Member States: Overall Approach to Services Negotiations, (S/CSS/W/15 - 30 November 2000).

- Communication from the European Communities and their Member States: GATS 2000: Professional Services, (S/CSS/W/33 - 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Business Services (Other than Professional Services), (S/CSS/W/34 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Telecommunications, (S/CSS/W/35 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Construction and Related Engineering Services, (S/CSS/W/36 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Distribution, (S/CSS/W/37 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Environmental Services, (S/CSS/W/38 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Tourism Services, (S/CSS/W/40 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Transport Services, (S/CSS/W/41 – 22 December 2000).

- Communication from the European Communities and their Member States: GATS 2000: Temporary Movement of Service Suppliers – Mode 4, (S/CSS/W/45 – 14 March 2001).

- Communication from the European Communities and their Member States: GATS 2000: Energy Services, (S/CSS/W/60 – 23 March 2001).