



Trade SIA in support of negotiations on a plurilateral Trade in Services Agreement (TiSA)

Executive summary

Prepared by:
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Executive summary

The EU and 22 other WTO members are currently in the process of negotiating a plurilateral agreement on Trade in Services (the Trade in Services Agreement, or TiSA). Negotiations started in March 2013, and by June 2017, 21 negotiating rounds had taken place.¹ The negotiations cover a wide range of topics, related to market access and new or enhanced disciplines relevant to services trade - notably in the areas such as domestic regulation (including transparency); international maritime transport; e-commerce; telecommunications; postal and courier services; financial services; professional services; temporary movement of natural persons; government procurement of services; export subsidies; and state-owned enterprises.

As formulated in the terms of reference, the SIA aims to “assess how the trade provisions under negotiation could affect economic, social, environmental, and human rights issues in the EU, in other selected TiSA parties and on a selected number of third countries, including developing countries and least developed countries (LDCs). Furthermore, it should highlight elements which might be considered by the Commission during the negotiations in order to maximise the overall benefits of the agreement and prevent or minimise potential negative impacts.”

This Final Report presents the results of 1) the overall (macro level) analysis of the expected economic, social, human rights, and environmental impact of TiSA, 2) the social and environmental case studies, 3) the sectoral analyses, and 4) the conclusions and recommendations.

Approach and conceptual framework

Our approach is based on the two methodological components of an SIA described in the terms of reference and the SIA handbook: 1) economic, environmental and social assessments as such, applying both quantitative and qualitative analyses; and 2) stakeholder consultations. The methods applied include screening and scoping, experiment analysis, gravity analysis, Computable General Equilibrium (CGE) modelling, additional quantitative and qualitative social (including human rights) and environmental analysis.

Consultations

The objective of the consultations is to receive relevant input and feedback from business, national administrations and civil society, including social partners. It also aims to ensure a better understanding of the SIA process among civil society and to disseminate of research methods, processes and results.

The main consultation tool used to inform stakeholder about the study and its progress is the SIA website (<http://www.trade-sia.com/tisa/>). The website contains information on the study approach, study team, timeline and future meetings, but also updates on the TiSA negotiations (e.g. link to the summary report of the negotiations). All study reports, presentations, and newsletters are published on the website. Other tools used to inform stakeholders are:

- Electronic newsletters;
- Facebook (<https://www.facebook.com/Ecorys.TSIA.TISA/>);
- Twitter (@EcorysTrade);
- LinkedIn (TSIA TiSA);

¹ The parties have missed the deadline of 31/12/2016 to finalise the negotiations and a new deadline has not been fixed.

At the same time stakeholders could provide feedback and comments on the study or share their inputs via several tools:

- Email address: tsiatisa@ecorys.com;
- Stakeholder survey (now closed);
- Civil Society Dialogue on the draft reports

The study team also conducted interviews with experts and/or stakeholders in order to obtain specific inputs.

Definition of the experiments

Based on inputs from the Steering Committee, the negotiations are likely to bring binding of the existing level of liberalisation and an improved overall regulatory framework for trade in services. Possibly parties might agree to some new market access, but this is difficult to predict at this stage and likely to be limited; therefore, this has not been included in the experiments. With respect to improvements of regulatory frameworks, unless these relate explicitly to discrimination in market access, such changes in policy are not taken into account in the modelling experiments, where we have placed specific emphasis on modelling of bindings for market access conditions under TiSA. The potential effects of an improved regulatory framework in other areas (e.g. effects like reducing the administrative burden for companies as a result of increased transparency) are briefly discussed in this report but are not quantified. The relevant elements are analysed in more detail in the in-depth sectoral analyses.

Our study is based on the assumption that binding the existing level of liberalisation is the main outcome of the TiSA. This is considered key because there are substantial differences between commitments made in the GATS compared to actual policy, a gap referred to as "binding overhang". Further reducing the binding overhang implies a change in the certainty related to the existing level of market access. The main challenge of this study is therefore to measure the effects related to the reduction in policy uncertainty.

Another issue for assessing ex-ante impacts related to the negotiations is that participation is not fixed, although it has been stable by the end of 2016.

Based on the above, two experiments for the analysis have been identified. The first (experiment A) involves binding current market access across all current TiSA participants. The second (experiment B) involves an expansion of TiSA to cover more Asian countries: China, Malaysia, Philippines, Thailand, and Vietnam. The results are presented for the year 2025. Full details of the experiments are available in Annex A.

Expected economic effect of TiSA

As a first step in the economic analysis, we carried out a gravity analysis to estimate econometrically the trade costs associated with the current policy insecurity related to binding overhang. On average (for sectors and countries), the results of the analysis are that exporters are expected to respond to more secure market access as if trade costs fell by 3.4 percent on average for OECD participant destination markets, and by 5.8 percent for low and middle income destination markets (for further explanations see section 2.1).

Subsequently, we aimed to assess the impact of TiSA (see the two experiments above) with the use of a CGE model. The CGE model only takes into account the incremental effect of TiSA, leaving other developments and policies as fixed (i.e. in comparison to the baseline). All existing FTAs and FTAs that have recently been concluded are included in the

baseline scenario, which means that we assume both in the situation with and without TiSA that these agreements have been implemented.²

It should be noted that services trade is not as straightforward to measure as goods' trade. Hence due to data limitations, the quantitative part of this SIA does not include direct modelling and estimation of services trade through mode 3 (commercial presence) and 4 (movement of natural persons), which are very important modes of supply. Nevertheless, we use the "overall" Services Trade Restrictiveness Index (STRI) which includes modes 3 & 4 for the gravity estimations. The regressions therefore link overall restrictions (in all modes) with cross-border trade. Given these limitations, our analysis is not able to fully capture the impacts of TiSA, but provides a best estimate. In the additional sector-specific analysis we supplement the quantitative results with qualitative analysis in light of these limitations, which will give a more complete view on the potential impacts for some selected sectors (see below).

Macroeconomic effects on the EU

TiSA will have a positive impact on the EU economy, albeit macroeconomic effects are modest under both experiments. The EU's real national income is expected to increase by 0.1 percent under both experiment A and B. In value terms, this is an increase of 8,665 and 11,461 million Euro respectively. Thus, while in percentage terms there is no significant difference between the two experiments, the increase in real national income is slightly larger under experiment B. This is because of the larger number of participants in TiSA that will reduce their binding overhang.

Household income and wages show similar increases, and this is true for all skills groups (lower skilled, medium skilled, and higher skilled) and in both experiments.³

The largest effects are expected on trade flows, although these changes are relatively small as well, with an expected increase in total EU exports and EU imports of around 0.2 percent in experiment A and an increase of 0.3 percent in experiment B.

Macroeconomic effects on other countries

The other TiSA participants are also expected to experience an increase in real national income, although the gains are relatively small, and there is some variation across countries. The expected gains in national income range from very marginal increases (less than 0.1 percent) for ten of the TiSA participants in both experiments to 1.2 percent for Hong Kong in experiment A, and 1.4 percent in experiment B. Mauritius is the only other country for which income is expected to increase more than 0.2 percent, with an increase of 0.5 percent in experiment A and 0.6 percent in experiment B. A higher increase in real national income is associated with a higher services export share in GDP. Changes in household income and real wages show similar patterns (see section 2.3). Thailand, if it joins TiSA (as assumed in experiment B), is the only country that is expected to experience a very small loss in real national income (-0.1 percent). This effect is mainly driven by the small (2.8 percent) contraction in trade and distribution sector, a sector in which Thailand has the highest binding overhang but which is a relatively important sector for the Thai economy.

Most countries' total exports and imports are estimated to increase only by less than 0.5 percent. The countries expected to see the highest benefits in terms of real national income increases are also the countries which are estimated have the biggest increase in their trade flows. In addition, several countries with relatively high binding overhangs are expected to trade more. The highest increases in trade flows are projected for Hong Kong

² The baseline also includes TPP. As the CGE modeling exercise took place before the executive order of President Trump that the US would withdraw from TPP, the baseline scenario includes TPP with the US as full member of the agreement.

³ Under experiment A wages for low-skilled workers increase by 0.11 percent, compared to 0.092 percent for medium skilled workers and 0.097 percent for high skilled workers.

(increase of 1.3 percent in export and 1.9 percent in experiment A) and Mauritius (increase of 2.6 percent for exports and around 1.4 percent for imports in experiment A).

For countries not participating in the TiSA negotiations we find no significant impact of TiSA. In experiment A, for all countries the estimated effects on national income are close to zero (smaller than 0.1 percent). This is also the case of Least Developed Countries (LDCs) and EU Neighbourhood countries. In experiment B, Cambodia is expected to experience a small income increase, as under this experiment, more Asian countries join TiSA, and Cambodia has strong economic linkages with these countries.

Sectoral effects in the EU

At sectoral level⁴, TiSA is expected to have a small but positive impact in most sectors. Most services sectors are expected to expand their output, but the changes are very small, as only for two sectors the expected increase in output is 0.1 percent or more in experiment A: finance (0.1 percent) and insurance (0.2 percent). In addition, the motor vehicles sector is expected to expand (0.1 percent), due to indirect effects. In experiment B, slightly more sectors expand their output by 0.1 percent, in addition to the sectors in experiment A: distribution, communication, public services⁵ and the non-service sector processed foods. Expected changes in sectoral employment follow a similar pattern.

These gains result partly from commitments in the sector and partly from increased demand from other sectors. As shown in the in-depth study of the finance and insurance services sector, for example, just over half of the output increase in insurance services is due to additional commitments under TiSA in the sector, while the other half is driven by the increased demand from other sectors, most importantly from the finance sector. As indicated earlier, it should be kept in mind that the FDI-related impact of TiSA is not fully taken into account in the model (only to the extent that it impacts cross-border trade), while this is the dominant mode of supply for finance and insurance. Results are therefore likely to be underestimated.

Water transport is the only sector that is expected to contract by more than 0.1 percent, though the expected decrease in output is still small, with 0.3 percent in experiment A and 0.5 percent in experiment B. This result is at first sight somewhat surprising given that the EU is a very strong player in this sector. In the in-depth sector analysis, it was explained that this is the sector where the EU is committed to undertake the highest amount of reduction in binding overhang, implying this sector will experience the highest reduction in policy uncertainty. Foreign competition is therefore projected to increase. Although the EU water transport sector also benefits from more secure market access, this does not compensate for the effects of increased competition. The in-depth analysis also showed that this sector is a very global sector, and many larger companies have offices all over the world. The gains that EU companies achieve in their offices abroad are not taken into account in the effects for the EU by the model, but in the country where the office is located. Additional calculations show that when focussing solely on the shipping volumes of EU firms, irrespective of their flagging, we see that TiSA is likely to bring small gains in terms of increased shipping volume.

Effects on SMEs

It is well known that SMEs in general have difficulties in accessing the right information on (and complying with) relevant regulations and procedures when exporting. SMEs are therefore likely to benefit from TiSA, especially to the extent that it will increase transparency and lead to binding of policies. In addition, they could benefit indirectly, if demand for their products or services increase as a result of TiSA.

⁴ For an overview and further definition of the service sectors (based on correspondence tables), we refer to Annex A.

⁵ For public services, no trade cost reductions are assumed, as they are assumed to be excluded from the negotiations. Therefore, any results for this sector stem for indirect effects.

Expected social effect of TiSA

In line with the economic effects, the social effects of the TiSA for the EU are estimated to be limited.⁶

TiSA is not foreseen to include specific social provisions or a Trade and Sustainable Development chapter as in other EU trade agreements. As such, TiSA is not expected to directly promote the Decent Work Agenda.

Concerns have been raised on TiSA's effect on public services, it should be noted that TiSA is not expected to produce any change in the obligations of the EU relating to public services as compared to GATS and other EU FTAs. Also the effect of TiSA on the right to regulate has raised concerns among stakeholders, but this right will be embedded in the agreement, making it legally binding.

The social impact from TiSA is therefore mainly indirect, stemming from changes in economic indicators (changes in wages, sectoral employment, prices, etc.). Based on the CGE results, TiSA is likely to have a positive impact on real household consumption and real wages in the EU (increase of 0.1 percent for all three skill groups (lower skilled, medium skilled, and higher skilled)). Reallocation of labour (the share of the labour force that could move to other sectors as production patterns change as a result of the agreement) is very close to 0 for all skill categories. Also no significant changes in consumer prices are expected.

Other TiSA participants could also experience positive but very small effects of TiSA in social indicators, although some are likely to benefit more than others, largely reflecting the economic effects outlined above (e.g. with Hong Kong and Mauritius experiencing a relatively higher increase in wages than other TiSA participants).

With respect to the effects on consumers, it is expected that TiSA will include some explicit provisions that may lead to small but positive implications for consumers. Such provisions can, for instance, take the form of *carve outs* to allow for measures related to consumer protection and consumer rights.

Human right effects

With respect to the right to health, the right for access to health care and the right to education, the EU has communicated clearly that it is committed to protecting public services at all levels of government, including the local level – this includes specifically issues regarding regulation and (de)privatisation. As indicated above, the EU has confirmed that TiSA will not produce any change in the obligations of the EU relating to public services. Civil society organisations have expressed concerns on whether binding commitments will make it difficult for services in areas that have been privatised to be brought back into the public sphere if this is deemed desirable e.g. by a new government, but this would actually be possible under the "public utilities " reservation included in the EU's schedule of commitments (see Section 3.4.4). Other elements of the agreement, like increased possibilities of temporary movement of natural persons (mode 4) may contribute positively to human rights. From a quantitative point of view, the modelling results show that TiSA is expected to lead to economic growth, which will enhance tax revenues and thus could increase public expenditures on health, education and other public services. Whether this happens is of course a matter of national or local policy and impossible to predict at this stage.

⁶ All numbers in the remainder of this executive summary are based on experiment A, but differences with experiment B are limited.

The positive changes in income and wages will contribute to the right to an adequate standard of living. The expected increase in wages also points to an increase in the demand for labour and could in reality lead to higher employment levels and therefore contribute to the right to work. Although overall adjustment effects are expected to be small (e.g. workers that need to move from one sector to the other), they may need to be addressed for some specific groups (e.g. for workers in contracting sectors that cannot easily move to sectors that expand). The overall effect on labour rights is unclear, as there are both positive forces (increased economic development which allows for better working conditions) and negative forces (increased competition that may put pressure on standards) at play. Although the EU has not taken a formal position on the issue of data flows in TiSA negotiations, the EC has indicated it will seek to use trade agreements “to set rules for e-commerce and cross-border data flows and tackle new forms of digital protectionism, in full compliance with and without prejudice to the EU’s data protection and data privacy rules.” This objective has been endorsed by the European Council (Council conclusions of 27 November 2015) and in the European Parliament’s resolution on TiSA. On this basis, the right of protection of personal data is not expected to be negatively impacted.⁷

Expected environmental effect of TiSA

The impact of TiSA on the environment is expected to be small and indirect, mainly stemming from changes in economic indicators. Based on the CGE results and estimation of the impact of emissions, TiSA is expected to lead to a negligible increase in emissions of air pollutants (smaller than 0.1 percent). A distinction is made between composition and scale effects, and for all pollutants the scale effects offsets the positive composition effect (i.e. the sectoral redistribution resulting from the agreement contributes to a reduction in air pollution but the negative effects from increased economic activity are larger).

Given the large baseline emission values for some sectors, even small percentage changes could still lead to relatively larger impacts on the emission of air pollutants. CGE results for the EU show that CO₂ emissions are expected to increase in experiment A by 0.6 million metric tonnes (MT) due expected changes in sectoral composition and the expansion of the economy, while in experiment B a decline of 0.1 million MT is expected. Natural resource intensity is not expected to change in the EU (effect smaller than 0.1 percent). For none of the countries the expected change in natural resource intensity is larger than 0.3 percent.

With respect to environmental services, there are some concerns among stakeholders over how TiSA may affect semi-public sectors like waste management. Notably the possible increase in private sector participation in these sectors, resulting in an increase in bargaining power of private economic interest and a possible loss of government control, have been raised as issues of concern by certain civil society groups. However, in its offer for TiSA, the EU reserves the right to run monopolies and grant exclusive rights in almost all sectors, including environmental services. In addition to that, governments will always keep the ability to regulate public services as long as they do not discriminate between domestic and foreign operators.

On the positive side, TiSA can help accelerate the diffusion and uptake of environmental services (and indirectly of environmental goods), depending on the extent to which commitments are made. Case studies on solid waste management and waste water also pointed to the positive environmental impact related to technology transfer associated with

⁷ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee of the Regions, “Trade for All: Towards a more responsible trade and investment policy”, COM(2015) 497 final, 14 October 2015, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015DC0497>.

increased FDI as a result of TiSA, especially in countries that currently apply less advanced technologies in environmental management.

Environmental goods and services can also benefit from increased competition in other services, e.g. through lower prices, as they use these other services as inputs (e.g. financial services, marketing, engineering, etc.).

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