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**U.S. Proposals for Liberalizing Trade in Services
Executive Summary**

Services are what most Americans do for a living. Service industries are a major component of U.S. economic activity, accounting for 80 percent of U.S. employment and 63 percent of the U.S. Gross Domestic Product (GDP). The United States also is the world's largest exporter of services. U.S. services exports have more than doubled over the last 10 years, increasing from \$137 billion in 1990 to \$279 billion in 2000, according to U.S. Department of Commerce data.

Consumers as well as businesses benefit from more open services trade. The World Bank reports that services make up 64 percent of GDP for high-income countries like the United States, and more than 50 percent in developing and emerging markets - pointing to potential economic gains from more competition in these markets. In noting that developing countries have much to gain from services liberalization, the World Bank estimates that under some scenarios, services liberalization can yield income gains for developing countries about 4.5 times greater than gains for these countries from trade liberalization in goods alone.

The GATS negotiations

The WTO General Agreement on Trade in Services (GATS) establishes rules on trade and investment in services. Much like the WTO's goods agreement - the General Agreement on Tariffs and Trade - the GATS consists of a core set of disciplines including most_favored_nation (MFN) treatment, market access, and national treatment. Upon joining the WTO, each country decided whether and how to apply these core disciplines to services trade in its market. The agreed objective of the current GATS negotiations is to extend that coverage, and the purpose of this stage of the negotiations - submission of requests - is to allow each WTO member to inform its trading partners of the improvements it seeks in those countries' GATS commitments.

Among the services sectors included in the negotiations are professional services such as accounting, engineering, and legal services; computer and related services; advertising; telecommunications services, audiovisual services, express delivery services; construction services; wholesale, retail, and franchising distribution services; educational and training services; environmental services; energy services; financial services, including insurance, banking, securities, and other financial services; and tourism services. The United States is a competitive exporter in each of these services categories.

The GATS covers four "modes of supply" of services, including cross-border delivery of services from one market to another by electronic or other means, establishment of a commercial presence in another

market, travel by individuals to foreign markets to supply services, and from foreign markets to consume services.

The Doha Ministerial Declaration calls for submission of initial offers in the GATS negotiations by March 31, 2003. By that date, WTO members should be prepared to inform trading partners of proposed responses to requests received, in the form of proposed improvements to their GATS schedules of commitments. For example, Country A may request removal of ceilings on foreign investment in the insurance industry in Country B. Country B may request a new commitment on electronic delivery of retailing services in Country C. Country C may request a commitment to allow tourists from Country D to freely visit Country C. All of the new commitments, when finalized at the end of the negotiations, are applied on an MFN basis - that is, the commitments in the new schedule of Country A will be available to services suppliers from Countries B, C, D, and all other WTO members.

Exclusions in GATS

The GATS contains three important exclusions:

- The GATS does not apply to services supplied in the exercise of governmental authority, defined in the GATS as any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers. The GATS does not force or require any government to privatize any publicly provided service. The GATS does, however, anticipate that in some cases public providers of services will compete with private providers of those same services - for example, in the express delivery sector. The GATS allows governments to take on obligations in the WTO to promote fair competition in such a sector. But the GATS also allows governments to continue to provide preferential assistance to public providers such as educational institutions. These are choices for governments to make.
- The GATS excludes from its scope most air transport services. Liberalization in this important sector is being pursued increasingly successfully bilaterally, and most recently through plurilateral (multi-party) agreements.
- The GATS excludes governmental purchases (procurement) of services.

In addition to these exclusions, the GATS provides that WTO members can deviate from their commitments in important areas of domestic policy: The GATS does not prevent governments from taking actions necessary for the protection of national security interests, public morals and order, human, animal or plant life or health, to secure compliance with non-discriminatory laws or regulations, to equalize imposition or collection of direct taxes, or avoid double taxation.

Summary of the services requests:

The U.S. services requests advance objectives reflected in the 15 U.S. negotiating proposals submitted since July 2000. Those submissions identified U.S. interests and objectives in 12 services sectors and call for improved transparency in regulation of services among other issues.

The requests state that each WTO member can establish, maintain, and enforce its own levels of protection for consumers, health, safety, and the environment, as well as take certain actions it considers necessary for the protection of its essential security interests. Here is a summary of the requests:

Transparency in regulation of services

Transparent domestic regulation can create more efficient markets and an attractive environment for investment and economic growth by providing firms with the information necessary to evaluate their ability to access and operate in foreign markets. Non-transparent domestic regulation results in additional trade barriers, which can undermine the value of a liberal trade regime. This is particularly important for

service suppliers because of the complexity and costs involved in the establishment of a commercial presence or the cross-border supply of services.

In addition to enhancing commercial relations, regulatory transparency helps people better understand domestic policy objectives, which not only increases public confidence in government, it also strengthens the rationale for trade liberalization. Transparent regulatory regimes can benefit both small and large economies. The U.S. request addresses procedural aspects of regulation in all relevant service industries and proposes that all WTO members:

- Establish clear, publicly available domestic procedures for application for licenses or authorizations, and their renewal or extension.
- Establish domestic procedures providing for a standard formal process of informing the public of regulations, or changes to existing regulations, prior to their final consideration by the relevant authority and entry into effect. Procedures should also provide meaningful opportunities for comments and questions by interested parties.

Telecommunications services

Developed and developing countries that want to benefit from the growth opportunities provided by an increasingly “networked” global economy will need to attract extensive private investment to build an infrastructure of telecommunications and computer facilities.

Worth over \$1 trillion in 2001, the global telecommunications market is a critical services market. Before the 1997 WTO basic telecommunications agreement came into force, only 17 percent of the world's top 20 global markets were open to U.S. firms; now, measured by annual sales, U.S. companies have gained access to over 95 percent of global telecommunications markets, according to the International Telecommunications Union.

Though statistics on actual e-commerce revenue vary widely, some estimate that the revenue generated by e-commerce was \$1 trillion globally in 2001. A majority of U.S. companies now sell online, and advertising revenue on the Internet in 2000 was over \$8 billion.

The United States is requesting increased access for telecommunications services, including basic and value-added services. In addition, the United States requests that WTO members adopt commitments in the WTO Basic Telecommunications Reference Paper, which sets out a number of key pro-competitive regulatory obligations. In addition, the United States may urge members who have not fully privatized their incumbent telecommunications carrier to do so in the near future. The United States also is requesting commitments in cable network services, defined as owning or leasing cable facilities for the distribution of video programming services.

Financial services

Financial services liberalization - including for insurance, banking, securities, asset management, pension funds, financial information and advisory services, and other financial services - enhances and strengthens capital market efficiency, bolsters financial sector stability, stimulates innovation, and provides consumers with the broadest range of services at the lowest cost. The United States is one of the world's most competitive suppliers of financial services. In 1999, in the insurance sector, U.S. majority-owned affiliates' sales in foreign markets reached \$48 billion.

The United States recorded \$ 2.4 billion in net cross-border export of insurance services in 2000, with \$8.9 billion in premiums collected from foreigners, up sharply from \$1.3 billion in net cross-border

exports in 1999. For other financial services, even excluding core deposit-taking and lending business, U.S. majority-owned banking and securities affiliates recorded sales abroad of \$25.4 billion in 1999. U.S. cross-border exports of all non-insurance financial services reached \$17 billion in 2000. Growth of the U.S. financial sectors in overseas markets also stimulates demand for a wide range of other U.S. services, including telecommunications, professional services, and computer and related services.

A strong and vibrant financial sector is particularly important for emerging economies to provide a strong basis for their trade in a diverse range of goods and services. Ambitious commitments for financial services also makes countries more attractive destinations for investment in e-commerce networks and associated technologies. Liberalization of financial services, when implemented in conjunction with transparent and strong regulatory regimes, is one of the most important catalysts of economic and trade growth.

The United States is requesting increased market access in insurance, banking, securities, asset management, pension funds, financial information and advisory services, and other financial services. The United States also proposes commitments on regulatory transparency and fairness in application of financial services regulations; and, for insurance, additional regulatory framework issues, including speed-to-market initiatives.

Express delivery services

The world market for express delivery services, estimated at over \$50 billion, is projected to grow rapidly over the next several years, partly driven by the increasing use of on-line purchasing by businesses and consumers and the need for vendors to match the speed of electronic ordering with rapid physical delivery. These services have become an essential feature of a modern, efficient economy. Consumers benefit not only from speed of delivery, but also from lower costs resulting from efficiencies of operation. In addition, express delivery service providers employ tens of thousands worldwide.

The United States is requesting increased access for express delivery services, including road freight transport, order processing services, inventory management services, and various other related services. The United States proposes that countries address certain cross-subsidization of express delivery services by revenues derived by government-granted monopoly services, such as first-class letter carriage. The request excludes services reserved to the postal authorities, as well as services provided as part of air transport or maritime transport services.

Energy services

Energy services involve a wide range of activities, including exploration of energy resources; services related to energy transmission and distribution; marketing and trading of energy; and services that promote the clean and efficient use of energy.

Broad market openings in the sector are fundamental to the economic health of both developed and developing countries. The energy services initiative offers developing countries the opportunity to benefit from significant efficiencies in energy development and usage and to provide energy to the roughly 2 billion people today that do not have access to commercial power.

During the last major round of trade negotiations, the Uruguay Round, little attention was paid to energy services. This was largely because, at the time, most service functions were performed 'in-house' by state-owned oil companies and power generation utilities that controlled the whole production and distribution chain. Today, deregulation and privatization have led to an unbundling of energy services activities and the development of a \$600 billion energy services sector.

The United States is requesting increased access for energy services, including exploration and development services; services incidental to energy transmission and distribution; energy marketing

services; and other services important to energy, energy products, and fuels (for example, engineering and integrated engineering services, environmental services, management consulting services and services related to management consulting)

The United States also requests commitments with respect to third-party access to and use of essential facilities for transportation of the energy source necessary to providers of energy marketing services - for example, interconnection with energy networks and grids, taking into account the need of WTO members to impose public service obligations. The United States is not requesting commitments on generation of energy, nor on ownership of energy resources.

Environmental services

The benefits of services that prevent, reduce, or correct environmental degradation are important to ensure that environmental problems are adequately addressed and that future problems are prevented or limited. Liberalization in this sector will benefit all countries, not only developed economies that have the technology to compete in this industry. The trans-boundary effects of many environmental issues make this sector important to both developing and developed countries. The reduction of barriers to the provision of environmental services will enhance competitive forces, ensuring that technology advances are better dispersed and provided at more affordable rates.

The United States is requesting increased access for wastewater treatment services, solid/hazardous waste management, protection of ambient air and climate, remediation and cleanup of soil and water, noise and vibration abatement, protection of biodiversity and landscape, and other environmental and ancillary services.

Distribution services

Efficient distribution systems are an essential feature in the infrastructure of modern economies. Supply chains from manufacturers to wholesalers, retailers, franchisors, direct sellers, and marketers provide consumers with a wide selection of products and reasonable prices - important factors in improving the quality of life. These companies consistently produce large numbers of jobs and income opportunities both directly and in other ancillary services, such as transportation, packaging, logistics management, and information technology. Retailers and wholesalers are among the largest employers in a number of countries.

The United States is requesting full market access for retail, wholesale, and franchising services rendered either directly to customers from a fixed location or away from a fixed location via direct person-to-person, catalog, telephone, video or electronic sales.

Education and training services

Specialized education and training is needed in many countries, particularly in high-tech fields. Such education is becoming more important in the development and operation of modern economies. Hundreds of thousands of foreigners visit the United States each year to study at our educational institutions. U.S. balance of payments receipts from incoming students amount to some \$10 billion annually. In addition, receipts from training services add another \$400 million a year. This does not include the receipts of a growing number of branches and other ventures established overseas by U.S. educational service providers. The most popular courses of these establishments are business administration, management and leadership training, language training, computer and information technology education, some of which are delivered by a combination of classroom discussion and interactive Internet sessions.

The United States is requesting increased access for higher education, training services and testing services provided in traditional institutional settings, such as universities or schools, or outside of traditional settings, including workplaces, or elsewhere. Training services include job-related courses,

often requiring hands-on operation of tools, equipment, and certain devices. Educational testing services include designing and administering tests, as well as evaluating test results. The United States is not requesting commitments in primary or secondary education, nor is the United States requesting commitments with respect to public institutions, subsidies, or other assistance in the education sector. The U.S. approach does not seek to displace public education systems, but rather proposes to help upgrade knowledge and skills through privately provided educational and training programs, while respecting each country's role of prescribing and administering public education.

Lodging and other tourism services

Tourism is regarded as the world's largest industry and one of the fastest-growing, accounting for over one-third of the value of total worldwide services trade. Highly labor-intensive, it is a major source of employment, especially in remote and rural areas. Tourism ranks in the top five export categories for 83 percent of countries, according to the World Tourism Organization, and is the leading source of foreign exchange in at least one in three developing countries. Tourism generates not only employment but retail sales and tax revenues. The United States is the world's leading exporter and importer of tourism services, with annual receipts in excess of \$75 billion and payments of over \$50 billion.

Besides leisure travel, business travel is an important element in the tourism sectors. American travelers visit hundreds of destinations around the world. The hotel industry is a most important part of the tourism industry with worldwide revenues estimated at \$253 billion.

The United States is requesting increased access for hotels, restaurants, travel agencies and tour operators, tour guides, and other travel-related services.

Professional services

With the acceleration of world economic integration, law firms have become increasingly important in advising clients on a variety of business matters, including mergers and acquisitions with foreign companies and business contracts involving multiple jurisdictions. In many respects, lawyers and law firms pave the way for international trade and investment and are regarded as part of the infrastructure of commerce. For the United States, balance of payments receipts for legal services amount to roughly \$3.2 billion annually.

International revenues of accounting firms amount to tens of billions of dollars and are growing annually. Two million accountants are employed worldwide. Accounting firms create job opportunities in virtually all countries; they assist manufacturers and businesses in developing and maintaining cost-effective operations and in preparing tax returns and financial statements.

The United States is requesting increased access to make it easier for these professionals to serve clients internationally as foreign legal consultants or fully licensed legal professionals (for example, remove citizenship requirements for licensing and remove restrictions on foreign ownership, form of organization and association with local professionals).

Computer and related services

The computer and computer-related services sector has evolved dramatically. Software and communications advances, particularly the advent of the Internet as a global information infrastructure, have led to the increasing use of this infrastructure to deliver computer and software services. While the Internet increases the potential for cross-border trade, the physical location of computers and other equipment and personnel can affect the delivery of many services, and thus commercial establishment and the movement of personnel retain their importance for many service suppliers. The computer services offered today often blend aspects of consultancy services, software development and/or implementation, data processing, database services, and systems integration and maintenance. They are often provided in a

networked environment where data can be distributed across multiple physical locations simultaneously and information is transmitted back and forth between the service provider and the end user in real time. Access to computer services is becoming increasingly important as customers rely more and more on information technology (IT) service providers to meet their information systems needs. Last year for the first time, worldwide spending on IT services (\$426 billion) exceeded worldwide spending on IT hardware (\$376 billion).

The United States is requesting increased access for data processing services, software- and hardware-related services, and other computer-related services.

Advertising services

Advertising is a powerful catalyst for economic growth, promoting the entry of new firms, new goods, and new services. Advertising helps to launch new goods and services, provide consumer information and choice, and promote competition, thereby lowering consumer prices. Advertising revenues contribute significantly to the financial support of a free press, significantly offsetting the cost of newspapers, magazines, cable, satellite and broadcast services. Total world advertising expenditures in measured media projected for 2001 is \$481.1 billion. Added to this is an estimated \$721.5 billion in non-measured media, for a global total of \$1.2 trillion.

The United States is requesting increased access for advertising services, such as planning, creating, and placement services of advertising in various media.

Audiovisual services

Today's audiovisual sector has changed significantly during the last 10 years. New technologies stimulate the growth and development of audiovisual services and products from around the globe and offer consumers worldwide access to a multitude of entertainment and information services. As part of the explosion in information technology that has taken place in the past decade, audiovisual services play their role in fostering a nation's economic development, both through the spread of information and ideas and by fostering investment in a nation's advanced communications infrastructure. Electronically delivered audiovisual products and services that increase use of this are helping to create an environment that will encourage investment in the digital networks of tomorrow.

The United States request on audiovisual services is designed to contribute to the growth of the audiovisual sector of all WTO members by fostering a transparent, open and predictable environment for trade in audiovisual services while providing flexibility for members to address public concern for the preservation and promotion of cultural values and identity. With this in mind, the United States requests countries to schedule commitments that reflect current levels of market access in areas such as motion picture and home video entertainment production and distribution services, radio and television production services, and sound recording services.

Commercial presence

In addition to the sectoral requests, the United States has made selective requests that countries remove unclear, discriminatory, or market-restricting procedures and investment barriers. Examples include investment screening and economic needs tests, investment approval procedures that may impose restrictions, restrictions on form of establishment (e.g., subsidiaries permitted but not branches), and inability for foreigners to lease commercial real estate.

Temporary entry of professional employees

An important component of U.S. competitiveness in the services sector is human capital – skilled managers and professionals involved in the delivery of services in foreign markets. Too often, however, companies face regulatory hurdles in moving personnel to foreign locations.

The United States is requesting increased access for temporary entry and stay of highly skilled workers. With respect to these categories, the requests address economic needs tests and labor market tests; provisions for expedited processing when needed for temporary admission by the petitioner; and commitments confirming that U.S. natural persons admitted under the categories may make multiple entries for the duration of stay initially granted to that same person.

Text of proposals

The U.S. requests were preceded by U.S. negotiating proposals submitted in 2000 and 2001. Those are available on the USTR website (www.ustr.gov/sectors/services/docsvcs.shtml) and the World Trade Organization (WTO) website (www.wto.org/english/tratop_e/serv_e/s_propnewnegs_e.htm).

Both the negotiating proposals and today's requests are based on advice received through Federal Register notices in April 1999, March 2000, April 2001, and March 2002.

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