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Benefits of Expanding U.S. Services Trade Through an International Services Agreement

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Chairman Brady, Ranking Member McDermott, Members of the Trade Subcommittee, thank you for the opportunity to testify on the benefits of expanding U.S. services trade through an international services agreement (ISA).

I am testifying today on behalf of UPS, and as a member of the Coalition of Service Industries (CSI), which represents the interests of the dynamic American service economy and has shaped domestic and international economic policies on behalf of the services sector. CSI has been interested in an ISA for a long time, and has been a strong proponent of engaging in negotiations for an ISA since it became clear that success in the Doha Round was beyond our reach.

UPS is a global leader in logistics, offering a broad range of solutions including the transportation of packages and freight; the facilitation of international trade, and the deployment of advanced technology to more efficiently manage the world of business. UPS employs approximately 324,000 employees in the United States and 74,300 employees internationally.

In my written testimony, I will outline the importance of the services sector, elaborate on the role of express delivery services in facilitating trade, and highlight a number of opportunities, including an ISA, and challenges impacting the services trade.

SERVICES IN THE U.S. ECONOMY

The U.S. enjoys a strong comparative advantage in services. Services accounted for 78% of US private sector GDP in 2011, or $11.8 trillion – roughly comparable to the combined economies of Japan, Germany, and the United Kingdom. Services jobs accounted for over 83% of US private sector employment, in fields ranging from highly-paid blue-collar work in construction and telecommunications, to summer jobs that help teens get ready for productive careers, to scientific research and engineering, financial services, arts and entertainment, and the professions. Across this wide range of industries, services jobs pay an average of $60,608 per year. In addition, workers in export-intensive services industries earn 15-20% more than comparable workers in other service industries.

The U.S. remains the single strongest exporter of services in the world. Our services exports in 2011 reached $588 billion with a surplus of $193.5 billion. Both figures are new annual records. Total exports are likely, as in past years, to be more than twice the total of the 2nd and 3rd-ranking nations, and have grown by roughly $100 billion since the economic crisis of 2008-2009. This export growth has enabled U.S.-based companies to keep up employment during a period of depressed domestic demand and slow growth.

Although U.S. services exports are strong, the U.S. still has the potential to export far more services. In a recent study, Dr. Brad Jensen of Georgetown University's Center for Business and Public Policy, my fellow panelist, estimated that U.S. services exports could be about $860 billion more than they are now. Technological change, in particular widening Internet access worldwide – make this entirely realistic. This suggests about 3 million more US jobs could be created just from increased cross-border trade, <u>if</u> we can remove the many, complex barriers to our services trade. In UPS's experience, the primary barriers to international commerce and export growth are: navigating complex customs processes, access to capital, and finding global opportunities. With 87 percent of global economic growth over the next five years taking place outside the U.S., essential to increasing exports, is access to foreign markets through the negotiation and approval of new trade agreements such as an ISA.

While services trade is significant in itself, services are essential to enabling all international trade, including agricultural and manufacturing trade. High-tech services enable the research and development. Professional and financial services provide the support needed for the development and sale of products. Retail services provide the venue for the sale of products. And of course logistics and delivery services get products – auto parts, fresh food, specialized semiconductor chips – to and from the market. In short, services are the lifeblood of the economy. If you want to make it, buy it, move it or sell it, you need services.

THE ROLE OF EXPRESS DELIVERY SERVICES IN FACILITATING TRADE

UPS and other express delivery service (EDS) companies and their logistics operations are enablers of economic growth, providing fast, reliable, secure, door-to-door delivery of packages and documents to manufacturers, service providers, small and medium-sized enterprises (SMEs) and consumers. EDS are crucial to fast-cycle logistics, e-commerce and the efficient functioning of international supply chains, enhancing the movement of goods across borders and providing increased access to international markets, especially for SMEs, businesses in rural and reservation districts, and individuals or families using Internet auction sites to become exporters. By the same token, EDS companies make on-line shopping for consumers possible, creating much greater choice, extending leisure time for families at home, and improving prices. The competitiveness and efficiency of the EDS sector is critical to developing worldwide value chains and supporting key industry growth in: research and development, manufacturing, distribution, transportation, retail and after-sale services and repair. Therefore, encouraging investment in and parity for global EDS companies will enhance global competitiveness and productivity.

Using UPS's expertise in trade promotion is an important part of our corporate engagement with the U.S. Government. In 2007, UPS became a strategic partner of the U.S. Commercial Service (USCS). Since the partnership's inception, UPS has counseled more than 18,000 customers regarding USCS' offerings. UPS and USCS also have convened more than 70 export-related customer seminars. With trade professionals in over 100 U.S. cities and in nearly 80 countries the USCS helps U.S. companies get started exporting to increase sales to new global markets.

In 2010, UPS launched the "Beyond One: New Export Markets" initiative. The objective of this initiative is to leverage UPS's USCS partnership to help single-market exporters – roughly 58 percent of the U.S.' 293,000 exporting companies as of 2010 – reach additional markets. UPS and USCS are also developing a suite of special programs to help boost exports. These programs include a UPS landing webpage and industry-specific pages, as well as the assignment of personnel specifically to handle companies looking to enter new markets.

One way the Congress can support the U.S. EDS industry immediately is to raise the customs de minimis level. The current de minimis level has not been changed since 1993. It does not reflect inflation and is an impediment to commerce, including online commerce. If the de minimis level were to be raised, the U.S. EDS industry would benefit from expedited deliveries of time-sensitive shipments and reduced costs.

POLICY CHALLENGES (1): MARKET ACCESS AND NATIONAL TREATMENT

The potential for addressing services trade and investment issues in an ISA is very encouraging. There is no lack of traditional services trade issues to be addressed, and new issues are emerging.

In all services negotiations in which the U.S. participates, a foundational objective is to achieve access to foreign markets. For services, the keystone is to achieve the right to establish your business in a foreign market, to own it fully, and to establish in the corporate form most suitable to your business. UPS has had some challenging experiences in this area, including our pursuit of a domestic license in China to provide competitive parcel delivery services within the Chinese domestic market – one of the largest untapped business markets worldwide.

Hand in hand with the right of establishment is the right to the same treatment that a local company receives, which is the freedom from discrimination by government and regulatory authorities (also known as 'national treatment'). This is particularly important for services companies, which are typically highly regulated, and where authorities may enforce onerous licensing requirements that stifle growth and tip the playing field toward local participants.

POLICY CHALLENGES (2): 21st CENTURY ISSUES

Together with these longstanding challenges, it is imperative that an ISA address some of the emerging 21st century issues faced by U.S. services companies around the world. These are issues that have manifested themselves more recently, and thus are not covered adequately in existing trade agreements.

State-Owned Enterprises (SOEs)

One of the most important 21st century issues is that of foreign government policies that favor state-owned enterprises (SOEs) and state-supported enterprises (SSEs). These entities are sponsored as national champions, and they create major competitive distortions in markets around the world.

These market distortions take many different forms. Regulatory favoritism takes place when governments use policy instruments – such as regulations and subsidies – to change market results.

For instance, governments sometimes provide preferential market access to SOEs and SSEs, which adversely affects foreign companies selling to or competing with these favored domestic businesses. As noted earlier, the importance of promoting competitive neutrality with SOEs is particularly important to EDS providers that compete with national postal services.

Governments should ensure that there is a level playing field for all businesses, irrespective of ownership, and not confer competitive advantages on SOEs and SSEs at the expense of private business, including U.S. competitors.

Data Flows

Cross-border trade in services has grown in recent years, due in large part to the internet, which has allowed worldwide electronic delivery of previously untraded services. In the current global economic climate, it is more essential than ever for this growth, and the jobs created by it, to be sustained.

Knowledge-based services, including logistics services, business services, financial services, computer and information services, insurance services, audiovisual services, telecommunication, and professional services, can readily be delivered around the world via advanced communication networks. As stated in a recent article of *The Economist*, "services, which account for only 20% of world trade but are more important on a value-added basis, have hardly been liberalized at all." U.S. digitally-enabled trade in services was $116 billion in surplus last year.

Such growth opportunities in ICT-enabled services are threatened, however, by the potential for restrictions on cross-border data flows. Many countries are considering restrictions on the location of storage and processing for various types of data, a problem that existing trade agreements do not address. For example, exceptions in the World Trade Organization General Agreement on Trade in Services give countries the right to regulate for national security, privacy, compliance with regulations, protection of public safety, and the prevention of fraudulent practices, to ensure the integrity of the financial system, among other reasons. Any of these reasons might be used as an excuse to block data flows and effectively create barriers to insurance and other forms of services trade.

While governments have the right to regulate, they should rely on market forces, voluntary best practices and public-private partnerships whenever possible. When regulation is necessary, it should be done in the most narrowly tailored, least-trade-restrictive way possible to redress the specific and demonstrable policy concerns.

It is in the interest of the U.S. to address these cross-border data issues in all bilateral, regional and intergovernmental negotiations and organizations. For instance, an initiative could build on the U.S.-EU Trade Principles for ICT Services and the OECD Internet Policy Principles, and be added to the work on e-commerce and services trade in ongoing free trade agreement negotiations.

Forced Localization

Forced localization occurs when a country requires multinational companies to conduct their business activities domestically, or requires that business processes or hiring be conducted "in-country". While most companies prefer to source locally whenever it is reasonable to do so, forced localization is a growing impediment to economic efficiency and commerce. Forced localization can take many forms and reach across many services sectors. Examples include mandating in-country data processing centers, mandating that national systems are used for all electronic payments, requiring that national banks and depositories be used for financial transactions, and requiring that percentages of employees in sectors such as oil and gas exploration be nationals of the host country, among others.

As is the case with other forms of protectionism, forced localization in one country only encourages the spread of forced localization to other countries, to the detriment of global commerce and domestic economies alike.

THE SERVICES TRADE NEGOTIATIONS AGENDA

How do we address these challenges, and so take full advantage of our strength in services? I believe that an ISA presents an enormous opportunity for doing so.

The past year has seen remarkable achievements in trade liberalization, with the passage of free trade agreements with Korea, Panama and Colombia. We hope Congress will act soon to grant Russia permanent Normal Trade Relations tariff status with Russia's accession to the WTO last month.

Going forward, the new agenda over the next years offers a remarkable chance to open new opportunities in our relationships with the developed economies that now account for most of our services trade, and with rapidly growing developing regions. In addition to an ISA, the Trans-Pacific Partnership, the US-E.U. High Level Working Group, and the Trade and Investment Partnership for the Middle East and North Africa (MENA), and bilateral investment treaties (BITs) and bilateral trade and investment framework agreements (TIFAs) offer tremendous opportunities for expanding trade in services.

International Services Agreement (ISA or "plurilateral")

Perhaps the most exciting opportunity for expanding services trade and investment is an ISA. The current members of the "Really Good Friends of Services (RGF) represent well more than 70% of global services trade, and we expect that as more progress is made toward making the ISA a reality, more countries will join. The RGF must fashion an agreement that will take the best elements of the FTAs already negotiated and address the "21st century" issues" described above in one agreement. I was encouraged by the July statement of the RGF stating their common purpose, and I urge the RGF members to push forward with negotiations. What is clear to us in the services sector is that an ISA must be the result of a high level of ambition and must be a high-standard agreement.

We applaud the work of USTR, especially Ambassador Michael Punke, who is leading this effort in Geneva. The ISA offers an important opportunity to establish a global standard ensuring the right to establish, and freedom from discrimination, in a transparent regulatory context.

Trans-Pacific Partnership (TPP)

The TPP provides another very important opportunity to liberalize global trade and investment in services. Our government is actively supporting disciplines on state-owned and state-supported enterprises (SOEs and SSEs) and the free flow of information in the TPP among other important endeavors. Of special concern to express delivery operators is the ability to compete on a level playing field with national postal operators that are SOEs and SSEs.

We are pleased that Mexico and Canada are on track to join the TPP, and hope that Japan will make the necessary commitments to join the TPP sometime in the near future. The three together have in recent years accounted for nearly 25 percent of U.S. services exports – including $4.5 billion out of $20 billion in freight receipts, by the Commerce Department's count of services trade - and are all among the top five markets for U.S. services exports. TPP should be open to all regional trading partners who wish to join it and can (1) accept the high standards being developed in this agreement, and (2) ensure that the negotiations will not be slowed down to accommodate their participation.

United States – European Union High-Level Working Group

The U.S.-EU High-Level Working Group presents an opportunity to increase cooperation and services trade between our two giant services-based economies. Our services trade relationship with the 27 European Union members is vast, accounting for $300 billion of $900 billion in total U.S. services trade, and nearly 10 percent of all world services trade. UPS is very supportive of the launch of the negotiation of a potential U.S.-EU Free Trade Agreement to strengthen our strategic economic partnership across the Atlantic. We see strengthening and deepening the U.S.-EU trade relationship as a cornerstone of our own success and our pending acquisition of Netherlands-based TNT Express underscores our own commitment to the European market and global trade more generally. This acquisition – our largest in our 105-year history – broadens UPS' global footprint. When you take a strong European brand and you combine it with a great U.S. brand, the winners are the customers. UPS is excited about the possibilities of what a combined brand means to our customers. So too a stronger partnership in trade between the U.S. and the EU will bring tremendous benefits for U.S. and Europeans exporters alike.

The U.S. and the EU share a common outlook and a similar determination to maintain open markets. Both enjoy the benefits of liberalized services trade regimes. Both have cooperated in the WTO and other forums to expand their open approach to trade in services to other markets. Increased cooperation and communication between the U.S. and EU through the High-Level Working Group could expand opportunities for services trade between the two economies, improve the position our economies in relation to third parties, and define a path for policy in the global trading system.

Harmonizing transportation security requirements between the US and the EU must be a priority of the dialogue. The aim of harmonization should be to end up with “one-stop-security”: if a package is screened in the EU, it should not need to be re-screened along its route as long as the supply chain remains secure. We applaud U.S. and EU efforts to complete the preparatory work on mutual recognition of trade partnership programs, namely the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) and the EU Authorized Economic Operator (AEO) programs. We support trusted-trader programs, but ask that regulatory authorities recognize the efforts and costs behind the requirements and accordingly, ascribe commercially useful benefits to carriers and shippers as an acknowledgement of such cooperation and increased network safety. Both markets have agreed on the need for pre-landing information for air cargo and to work towards making this principle an international standard through the World Customs Organization (WCO). However, we hope that both governments will note that the most successful program to date is best evidenced in the U.S. Department of Homeland Security’s (DHS) Air Cargo Advance Screening (ACAS) program. It is our understanding that EU authorities are examining a very similar program and it is our hope that such a carrier-initiated, risk-based system is employed on both sides of the Atlantic.

We support a common customs policy that adopts a reasonable de minimis value threshold for the imposition of duties and customs requirements. As I mentioned earlier, modernizing the de minimis level is important for making the EDS sector more competitive. Currently, the EU de minimis value is significantly below that of the U.S., creating barriers for small and medium-sized exporters. Harmonizing and raising the de minimis level would benefit shippers in both markets.

The U.S. and EU should avoid unilateral actions that could harm trade in services. Currently, the EU and the US are at odds regarding the imposition of a European Emissions Trading Scheme (ETS) designed to affect direct air carriers serving the EU. This dispute has the potential to adversely affect trade in services, particularly global transportation of goods and passengers, and it is of significance to our EDS industry. We urge the negotiating parties on both sides of the Atlantic to continue useful dialogue regardless of forum, and move forward constructively to harmonize efforts to reduce greenhouse gases. In doing so, the U.S. and EU must avoid any result that may serve to harm a transportation provider’s ability to effectively and efficiently serve its customers in either market.

Trade and Investment Partnership for the Middle East and North Africa (MENA)

The Trade and Investment Partnership for the Middle East and North Africa was launched last year by the Administration to strengthen business ties between the U.S. and the MENA region. Though the U.S. Government does not intend for the initiative to lead to trade negotiations, the goal of government agencies in developing a roadmap to encourage MENA economic activity should be to move incrementally toward our trade and investment goals. I believe that the delivery and logistics services offered by UPS and other EDS providers can play a significant role in supporting economic growth in the MENA region, whose economies and people have suffered over decades from fragmentation, high internal trade barriers, and consequently low growth and in many countries falling living standards.

Bilateral Investment Treaties (BITs) and Trade and Investment Framework Agreements (TIFAs)

The U.S. government recently announced the conclusion of the Model BIT review. This marks an important milestone and provides the U.S. with another tool to address some of the obstacles impeding the growth of services investment overseas. Likewise, TIFAs can lay the groundwork for greater integration and cooperation between economies.

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In summary, the U.S. is the world's most successful services exporter. UPS believes expanding services trade, particularly through agreements like the ISA, would greatly benefit the United States. Even though services trade is an unrivaled source of well-paying U.S. jobs, U.S. services providers encounter substantial trade barriers around the world, including numerous -21st-century barriers. It is essential that we promote commercially meaningful trade agreements that allow U.S. producers and manufacturers to compete on a level playing field in the global marketplace.

At this critical point in the global economic recovery, it is imperative that the U.S. continue to be a leader in the talks about an international services agreement in Geneva. Impressive progress has been made in advancing the U.S.' trade and investment priorities, but we must ensure that pressure to embrace protectionism is resisted. We cannot afford to turn the clock back on international services trade and international trade more broadly.

Thank you again for the opportunity to share UPS' views with you today. I am willing to answer questions and respond to specific inquiries going forward.