ESF06/12

M. Peter Mandelson
Member of the European Commission
Trade Commissionner
European Commission
Rue de la Loi, 200
B - 1049 - Brussels

Brussels, 21st March 2006

Subject: **EXTERNAL ASPECTS OF COMPETITIVENESS**

Dear Commissioner,

The European Services Forum considers the release of the DG Trade Issues Paper on Trade and Competitiveness as a welcome opportunity to initiate the debate on this important matter. Our main concern, however, is that the paper fails to reflect adequately the contribution which services make to the European economy, and its importance to trade policy.

ESF welcomes the consultation of the stakeholders that the Commission undertook on 18th January 2006 on the Issues Paper dated September 2005 and thanks the Commission for the useful questionnaire circulated to business organisations. The ESF Director-General is sending separately to your services a summary of the points he made at that meeting.

Our main message is that the competitiveness of the European economy now relies very largely on services.

Services represent roughly 70% of the EU GDP and growing. Europe depends on services for employment. Today, more than 70% of jobs in the EU are in its rapidly growing services sector. Between 1999-2003 nearly 8 million services jobs were created in the EU. Service exports are increasingly important to the EU economy. The latest Eurostat figures show that in the second quarter of 2005 the EU 25 recorded a deficit in its external current account of 22.4 billion euros, but a surplus of 16.5 billion euros in external trade in services. Services represent 26% of global trade, and the EU is the world biggest exporter as well as importer of services. The EU enjoys a comparative advantage over many trading partners in many services sectors, which is not the case in many areas of manufacturing, and we have to do our utmost to keep that advantage. This needs to be done, first, by improving our internal market in services and keeping our market open so that we continue to remain attractive to foreign direct investment, which in turn stimulates competitiveness; and, second, by pushing vigorously for opening external markets, so that our companies can expand their business on a global scale, and thereby further increase their competitiveness.

EU Trade Policy has to be redefined to take into consideration the fact that the EU economy is now essentially a services based economy. This has not been seriously considered in the Issues Paper, where only a very small section has been dedicated to services, and is based on an outdated Australian study of 2000. The services economy has greatly developed since then. We understand the difficulty of properly handling the diversity of the services sectors, but the Commission has to take into consideration the reality of today's economy and should attempt to make a qualitative analysis of the contribution of services liberalisation to its international competitiveness. A better comprehension of the various services sectors and their importance to EU competitiveness is essential to understanding the real impact (or lack of impact) of trade policy on these crucial sectors for the EU, and its relevance to competitiveness. On the quantitative side, Eurostat has made good progress in assessing the various services sectors, and all the relevant Directorates General of the Commission dealing with services sectors have information on the external aspects of their sectors.

Dedicating a larger part of the forthcoming Communication on this issue to services will help in developing the policy of the European Union in the context of multilateral, regional or bilateral trade and investment agreements. Pioneering EU work on the competitiveness impacts of services liberalisation could also be useful for EU trade partners – especially developing countries – that want to develop their service economies through trade liberalisation.

The European Services Forum is very ready to continue the debate on this important matter and remains at your disposal for any further information.

Yours sincerely,

Vallance of Tummel
Chairman of the ESF

Cc: Commissioner Günter VERHEUGEN - Enterprise and Industry
Commissioner Charlie MC CREEVY, Internal Market and Services
Director General David O'SULLIVAN, DG Trade
Director General Heinz ZOUREK, DG Enterprise and Industry
Director General Alexander SCHAUB, DG Internal Market and Services

Brussels, March 2006

ESF INPUT TO COMMISSION ISSUES PAPER ON TRADE AND COMPETITIVENESS

The text below does cover only few questions raised by the Commission to the business stakeholders at the meeting that took place on 18th January 2006 in Brussels.

a) Level of protection for the EU

ESF agrees with the statement that the EU has an open economy and needs to focus on vastly improving market access for our services exports. The EU has already largely open and consolidated its commitments under the WTO rules at the end of the Uruguay Round and at the occasion of the subsequent deals finalised in 1997 on Telecommunications and Financial Services. The conditional offer that is now tabled by the EU in the current GATS negotiations will further improve market access to foreign companies within the EU. ESF supports such an approach as to keep the EU attractive to FDI in the services sectors. We also support a further openness of the movement of natural persons in the services sectors, under the national treatment conditions, as to ensure that high skills services providers from abroad will contribute to keep the EU competitiveness at a high level in the services sectors. Without taking any sector specific views, and with the same objectives than mentioned above, ESF also supports the further improvement of the internal market in services. Therefore, ESF would like to encourage the EU not to take ideological stances opposing further services liberalisation on issues such as services of general interest but rather to adopt a realistic view of the competitiveness needs of EU services industries when assessing how to make its services offers.

b) Barriers to export in third countries

Barriers to export services are primarily non-tariff or regulatory barriers that are often enshrined into domestic sector specific legislation. To remove or reduce them often requires a modification of a law, or of a government regulation, or simply – but not easier to handle by trade negotiators – of an act by a sector specific regulatory body. The barriers are numerous and specific for each service sector. The main ones are: capital requirements, licences requirements, qualification requirements, foreign equity caps, limited number of licences, geographical restrictions, joint ventures requirements, restriction on the legal form of company and partnership, restriction on the repatriation of profits to headquarters, residential requirements, etc.

It is extremely important to understand that EU service providers need trade negotiations to get increased market access in many countries. Some countries do understand the value of foreign direct investment in their domestic services sectors. To achieve this, the regulator or the legislator decides to make a so-called autonomous liberalisation and open up its markets to foreign companies. But unilateral market opening is not guaranteed by WTO rules and the investors are subject to possible discriminatory policy changes in case of government's shift. Furthermore, many countries do not undertake any autonomous liberalisation as to allow foreign companies' access, hence the need of trade negotiations.

European companies contribute to local economic development once the market is open. In a large number of cases, an EU company will either create a joint venture with a local partner or set up a subsidiary. These new companies are registered at domestic level. They will invest locally, employ locally, expand locally, and provide new services locally for the benefit of the local economy, i.e. except the original FDI crossing the border, none of the activity of this EU parentage's company will appear in the statistic of the balance of payment of International Trade in Services. However, without a trade agreement, such activity would not have been possible. It will only be after 5, 10 or 15 years, depending on the sectors, that some profit might be repatriated – if allowed – to the company's headquarters, and will appear in the international trade statistics. This also explains why services count only up to 26% of the world trade share. Statistics do not capture the full picture of the value of services liberalisation. Although growing, notably thanks to increase of cross-borders services supply (e.g. e-commerce via internet) and trade of direct branches, a large part of the benefit of the trade agreements (allowing further commercial presence abroad) are not translated into an increase of traditional international trade, but in foreign affiliates trade in services (FATS). So it is not because this share in world trade will not increase very much that trade policy does not have a huge influence in the competitiveness of the services sectors.

c) Geographic priorities

The services industry is a much diversified sector and its target countries in term of improved market access will certainly reflect this diversity. Despite certain relatively good performances in developed country markets, improvements are still possible in: United States, Japan, Canada, Australia, New Zealand, South Korea and Mexico. However, services negotiations focussing only on OECD countries will not be acceptable. Many key emerging markets, with already important market and with enormous potential in the near further, must also participate actively to the negotiations. These countries are in particular: China, India, Brazil and South Africa. In addition to these big four, we want to mention Hong Kong China; Singapore; Chinese Taipei; Russia; Israel, Egypt and Morocco as Mediterranean countries; Thailand, Malaysia, Indonesia and Vietnam as ASEAN Countries.

d) Best tools to tackle market access obstacles

The first priority of the ESF is to conclude an ambitious WTO agreement, with substantial results in the services negotiations. The opportunity to engage 150 countries in one agreement is the main advantage of the WTO. For Services, the slow and difficult process of bilateral requests and offers has not produced so far the expected results. That is the reason why ESF supports the process confirmed in Hong Kong allowing plurilateral negotiations to be launched in key services sectors, targeting in common with other looking-forward trading partners the key emerging markets. ESF urges however the Commission to continue the bilateral request/offer process as to obtain further market access in services sectors that will not be negotiated on plurilateral basis, in particular the professional services like architects and accounting services, as well as distribution and tourism.

In the event that the Doha Development round will provide no adequate or insufficient response to European offensive market access interests on third country markets, further action will be required to ensure that EU competitiveness in services sectors will continue to progress. The Regional Trade Agreements will be an option. However, one must admit that the EU has already started some of these exercises without any success, and only low perspectives for the services sectors. Negotiations with Mercosur and Gulf Cooperation Council (GCC) have started eight years ago, and the only offers for the services are four or five different national schedule of commitments when the EU has increased its offer by scheduling one single package by 25 markets. Negotiations with Mediterranean countries are also very slow and only few of them have agreed to start negotiate on services. As for the EPA (European Partnership Agreements) with the ACP countries, only one out of the 6 has agreed to have proper negotiations on the services. An EPA with a services package with the Caribbean will be welcome but will have small impact on the EU economy. A feasibility study for a RTA with ASEAN would have been launched, but if such an agreement would need to have a political section like it is the case for all EU international agreements, it is quite clear that such negotiations will also take years to find a solution given the presence of Myanmar in the ASEAN.

Many European services companies are concerned that meanwhile, many of our trading partners, including the biggest one like USA and China, are engaged in a race to sign bilateral Free Trade Agreements (FTA). ESF would like to draw the attention on the fact that every time that a FTA is signed in the world, our European companies loose a small percentage of the market share that will go to a competitor that will have preferential access. Given the number of FTAs that have been signed in the recent years, our companies legitimately wonder why the EU is not reacting. What is the EU strategy to ensure that EU business does not lose out because of these FTAs? While it takes us more than 8 years to get poor (potential) result in 4 different set of services commitments with the 4 Mercosur's countries, our competitors have preferential market access in Singapore, Australia, New Zealand, Peru, Malaysia, etc. and even Morocco, which is supposed to have close links with the EU.

e) Types of obstacles

Services companies face many investment barriers in emerging countries and economies in transition that make business life difficult and slow. The GATS negotiations should tackle them at multilateral front in the horizontal part of the schedule of commitments by encouraging countries to remove real estate access and to remove or reduce the caps on the foreign equity ownership. In many sectors, the recognition of international standards (banking, insurance, accounting, etc.) would greatly improve attractiveness of many countries and should be strongly advocated by EU trade negotiators.

Among the obstacles that have a great impact on the EU services companies and the removal of which would allow them to take profit of their competitive advantage are the important barriers to open public procurement markets in services. Public authorities in a larger sense do use a large amount of services as to be able themselves to supply proper public services (financial services, transport services, IT and computer related services, telecommunication services, cleaning and catering services, environmental services, energy services, legal services and other professional services, construction services and related services like architects and engineering, etc.). The opening of these services to foreign services suppliers in non discriminatory conditions would allow European services companies to provide better and/or cheaper services to tax payers all around the world.
