The voice of the European Services Industry
in international trade negotiations

European Services Forum

INTERNATIONAL SERVICES TRADE & INVESTMENT

Local and exportable services drive EU growth

- 150 million EU jobs and 68% of all employment
- €9 trillion in GDP and 75% of EU GDP

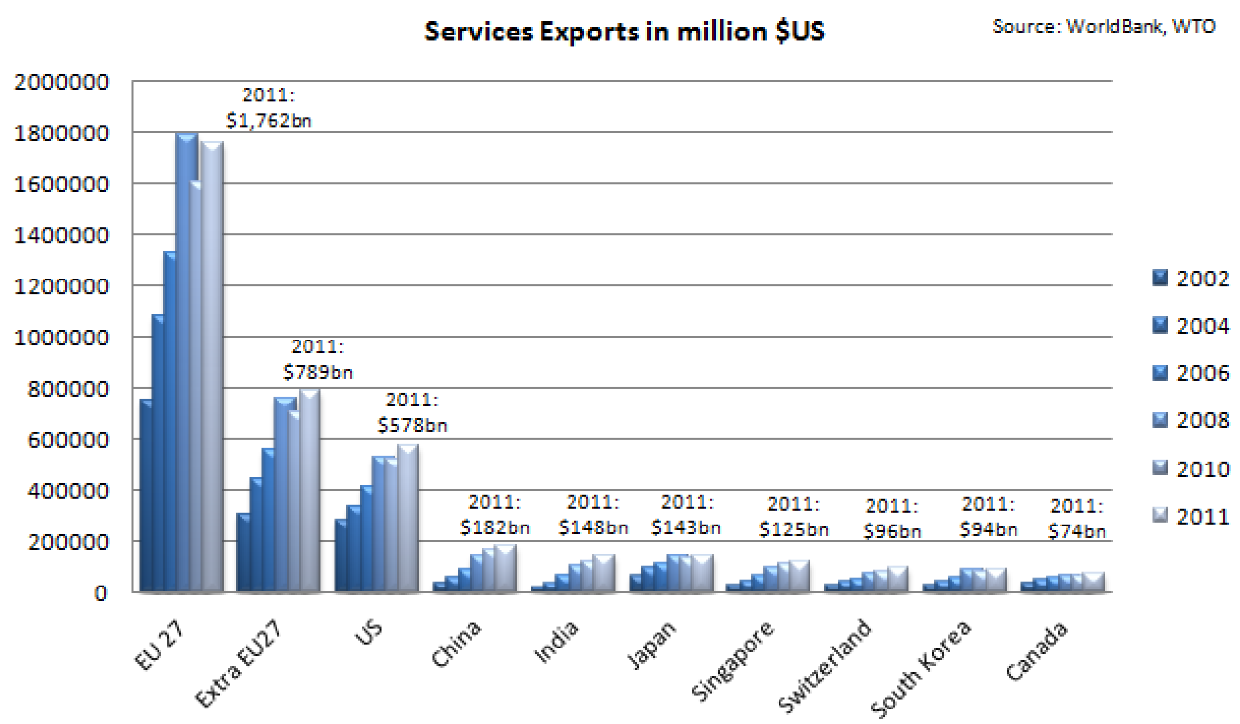
The EU is the world's largest exporter in services

- 32% of global services exports worth €579 bn in 2011 (excludes intra-EU)
- Intra-EU services exports worth €729 bn in 2011
- €153 bn trade surplus in services in 2012 (against a deficit in goods)

The EU is the world's largest investor and recipient of Foreign Direct Investment

- €3.0 trillion FDI stocks held inside the EU[2] - 64% held in Services[1]
- €4.2 trillion FDI outward stocks held by EU[2] - 61% held in Services[1]

1 2009
2 2010



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1.1 WHAT IS ESF

The European Services Forum is an organisation representing the interests of European services industries in bilateral trade agreements and the WTO.

The ESF Membership (inside back-cover) comprises international services companies and European trade federations from all EU member states and covering a wide range of service industries. ESF has been a registered NGO and official member of the EU delegation at all WTO Ministerial Conferences since its inception in 1999. ESF actively contributes to services negotiations through the promotion and prioritisation of its memberships' interests to the trade negotiators and other stakeholders. This is achieved through excellent relationships with key interlocutors and close monitoring of developments within the EU's portfolio of bilateral, regional and multilateral trade negotiations.

1.2 ESF STRUCTURE

The **European Services Leaders Group (ESLG)** consists of ESF company members' Chairmen and CEOs. The group's mission is to meet the EU Trade Commissioner, EU Trade Ministers and other high level interlocutors in charge of trade policy to raise the profile of services trade and investment liberalisation.

The **ESF Policy Committee** comprises one representative from each ESF member. It adopts policy papers and horizontal position papers. The approval procedure works by consensus, with opting out a possibility for members who do not support a specific position. It meets every three months with debriefings from EU trade officials and acts to reinforce the tradition of regular contact between the service's industry and officials. This Committee also meets regularly with EU Member State officials and for WTO delegations in Geneva. ESF policy papers are published on the ESF website: www.esf.be

1.3 ESF POLICY POSITION

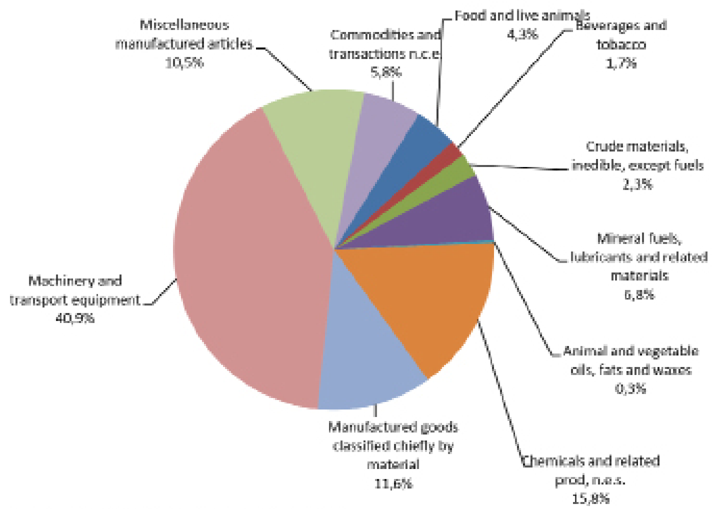
ESF strongly supports policies aimed at removing unjustifiable barriers to trade and investment with the aim of liberalising international services markets. ESF acknowledges the strong evidence supporting the argument that among other benefits, liberalising services improves inputs into the wider economy and improves competitiveness for both developed and developing countries. ESF also believes that liberalisation needs to be accompanied by a sound regulatory infrastructure which encourages transparency, competition and fairness.

- ESF represents the vast majority of European services industries that have a direct interest in services markets within the EU and throughout the world.
- ESF company members employ more than 3 million workers in more than 200 countries, generating consolidated annual revenues of more than €500 bn.
- ESF has 28 European trade federations representing the interests of more than 500 national trade associations and national professional institutes, members of which employ more than 90 million workers and professionals and provide services to hundreds of millions of consumers and clients in Europe and around the world.

ESF members represent 20 services sectors

- Accounting
- Air Transport
- Architecture
- Audio Visual
- Banking
- Construction
- Distribution
- Energy
- Engineering
- Environmental
- Express Delivery
- Insurance & Intermediation
- Investment, Securities, Asset Management
- IT & Computer Related
- Legal services
- Management Consulting
- Maritime Transport
- Postal services
- Telecommunications
- Tourism

EU-28 merchandise exports to extra EU-28 by sector, 2013 shares (%)



Source: Eurostat (Comext, Statistical regime 4)

Aided by technological developments that improve services tradability, services are gaining increased importance in international trade. Despite this, unjustified barriers to trade and investment in services remain in many services sectors. ESF's mission is to work towards improving this situation for the benefit of European services suppliers.

Further information about the activities and structure of the European Services Forum and membership can be obtained by contacting the secretariat:

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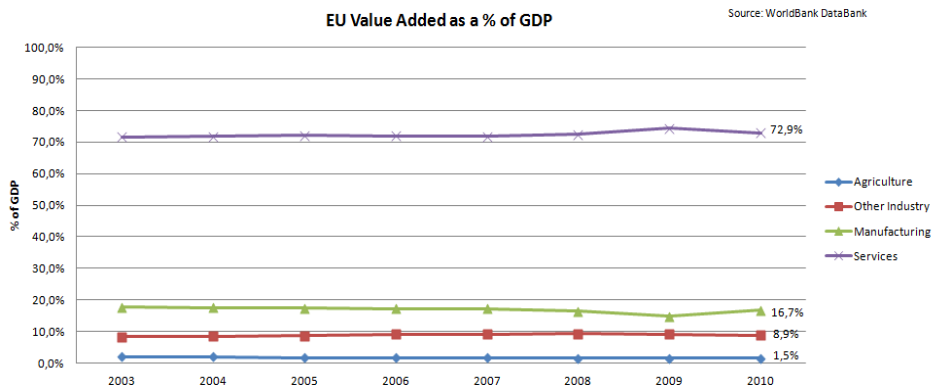
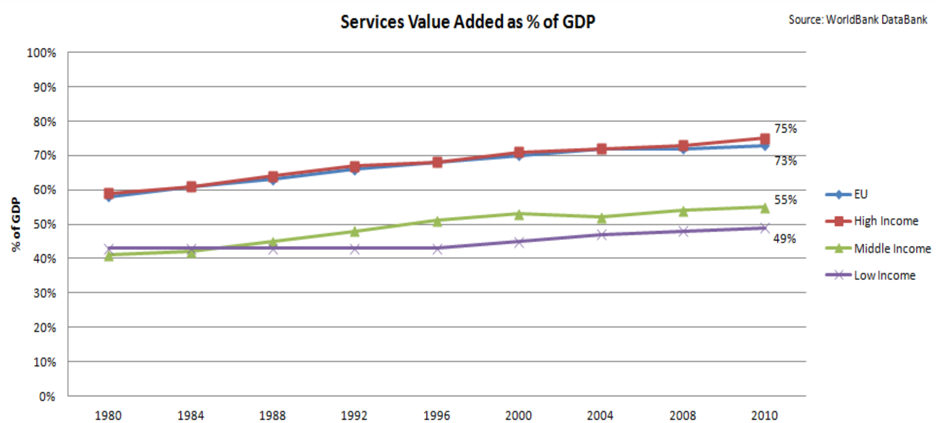
2.1 SERVICES AND GDP



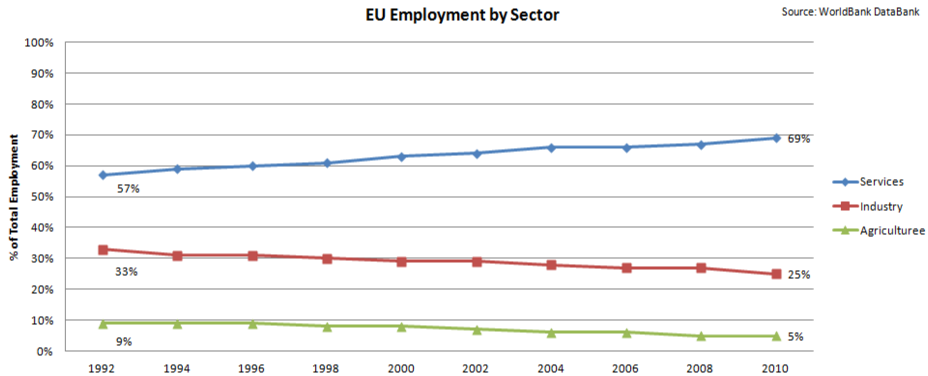
The services sector is by far the EU's largest GDP contributor, making up over 70% of EU value-added as a percentage of GDP.

Globally, the services sector accounts for an increasing share of GDP. Middle income economies, for example, had services sectors close to 40% of GDP in 1980, today it is 55%; a 15% increase in just over a generation. The increasing share of services in the economy creates opportunities for tradeable services to be exported by European suppliers.



- In tradable services, world-wide services exports in 2010 amounted to €2.8 trillion (including €0.7 trillion in intra-EU exports) - a 15% increase in value from 2009.
- Extra-EU services exports valued €579 billion in 2011, giving the EU a services trade surplus of €109 billion.
- Figures do not include cross trade - for example - EU controlled shipping companies' maritime transport in cross trade between non-EU countries, which could be worth, in the region of, an additional €50 billion.
- The EU ran a deficit of €153 billion in Goods trade in 2010 further distinguishing the importance of the EU's services trade surplus to the EU economy.

2.2 SERVICES AND JOBS



- **Services also drive employment growth**. In the OECD, **services account for over 70% of employment**.
- Within the EU, services accounted for 56% of employment in 1991, by 2010 this figure had risen to 69%.
- **The ability of European companies to export services internationally impacts job growth in the EU**.

2.3 SERVICES AND GROWTH

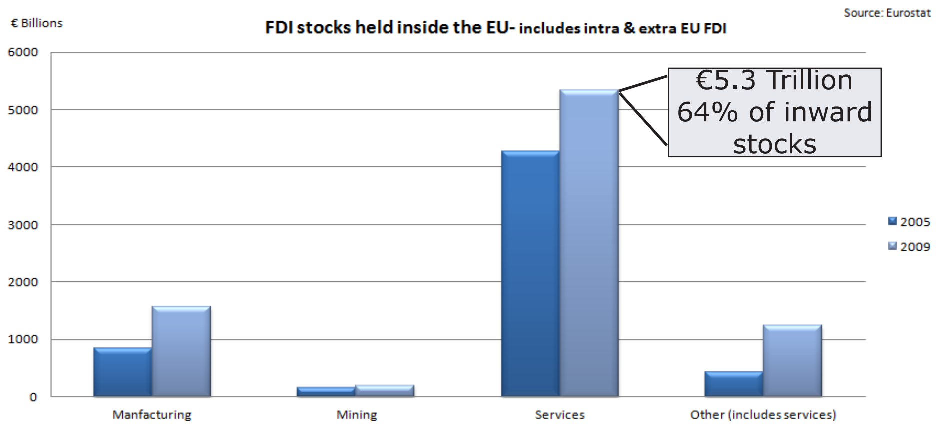
Total Imports of Services

	2003 US$	2010 US$	2013 US$	Increase
World	$ 1,861 bn	$ 3,552 bn	$ 3,615 bn	94%
OECD	$ 1,400 bn	$ 2,327 bn		66%
North America	$ 296 bn	$ 494 bn	$ 560 bn	89%
BRICS	$ 130 bn	$ 465 bn	$ 677 bn	420%
Brazil	$ 15 bn	$ 63 bn	$ 83 bn	453%
Russia	$ 27 bn	$ 74 bn	$ 123 bn	355%
India	$ 25 bn	$ 117 bn	$ 126 bn	404%
China	$ 55 bn	$ 193 bn	$ 329 bn	498%

Access to emerging and developing markets is of increasing importance as their services sectors grow at increased rates. Services play a crucial role in the economic structural development of developing and emerging countries with infrastructure services such as Transport, Telecommunications, Finance, Logistics and Postal & Courier services, amongst others, vital inputs for all sectors of the economy and key to international competitiveness.
Between 2003 and 2013 the BRICS' services imports increased by 420%. Emerging countries increasingly need the best services suppliers from around the world, offering potential new opportunities, when markets are open, to European service suppliers.

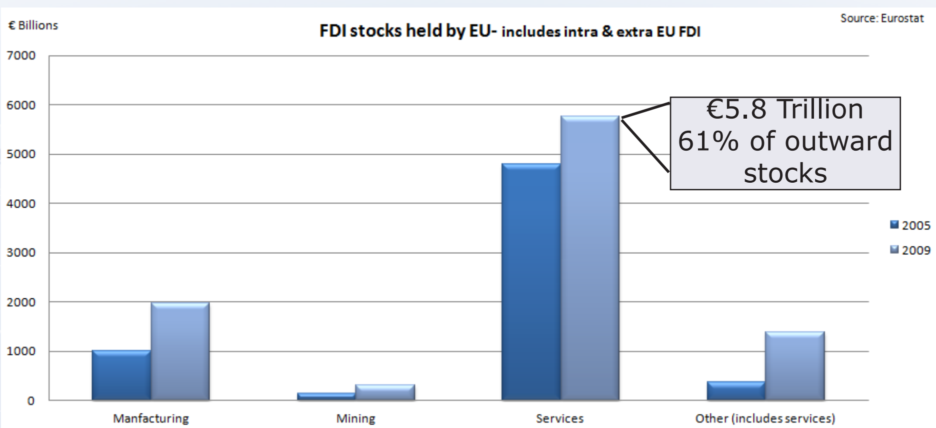
3.1 INVESTMENT, SERVICES AND GROWTH

Services sectors are the primary destinations for inward Foreign Direct Investment (FDI). €5.3 Trillion, or 64%, of inward FDI stocks to the EU went into services.



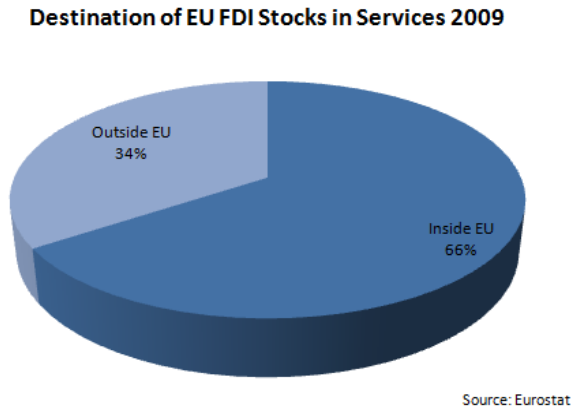
FDI is vitally important in enabling businesses to produce efficiencies via new technological developments and know-how brought in by investing companies. Furthermore, external investment is often crucial in developing new infrastructure that can require considerable sums of investment and expertise, particularly important for developing countries, and often found abroad. FDI is also crucial for gaining access to new markets where a commercial presence may be needed. For European companies, expansion abroad in this way can help European service providers to supply more consumers, ultimately creating new jobs and support positions within the EU and bringing new know-how to the business.

The graph below illustrates the importance of services for EU outward investment.

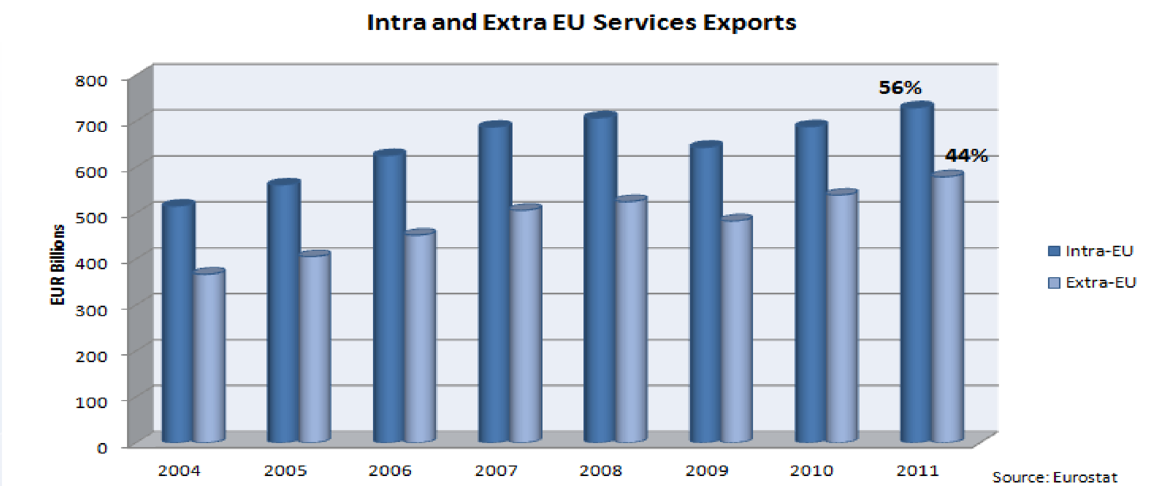


3.2 INTEGRATION, TRADE & INVESTMENT

An open, liberalised economy that is well integrated into the global economy through the adoption of international standards and regulations is best able to attract FDI; **underscoring the value of openness, transparency and integration.**



The figures on intra and extra EU services exports below further highlight the benefits of pursuing global integration through liberalisation and transparency.



The chart indicates that the value of intra-EU services exports are approximately 25% greater than extra-EU services exports. This highlights the benefits and successes of the EU's single market, it also demonstrates the conseauences of barriers applied by the EU's trading partners that effectively hamper international exports. Moreover, this **demonstrates the potential value to be found from pursuing an ambitious international trade agenda** and by **directly supporting the work of the European Services Forum.**

4.1 BENEFITS OF SERVICES LIBERALISATION

> "Services are both the backbone and the growth engine of economies in the 21st century, developed and developing alike. Services are key to all economic output and are behind more dynamic economic growth patterns" - *Peterson Institute for International Economics, April 2012*

Technological advancement simultaneously acts as an engine on greater services productivity growth and also on the 'tradability' of services; for example, the internet and digital communications in delivering advisory services without the necessities of physical proximity. **European service suppliers are highly competitive** and **services should continue to take a more prominent position within international trade negotiations**.

The economic benefits of trade liberalisation, in general, are already well documented and studies explicitly show the potential economic gains achievable from global services trade liberalisation. One study carried out by experts from the World Bank development research group estimates, for example, that **growth rates in countries with fully open telecommunications and financial services sectors (both infrastructure services) are up to 1.5 percentage points higher than those in other countries.**

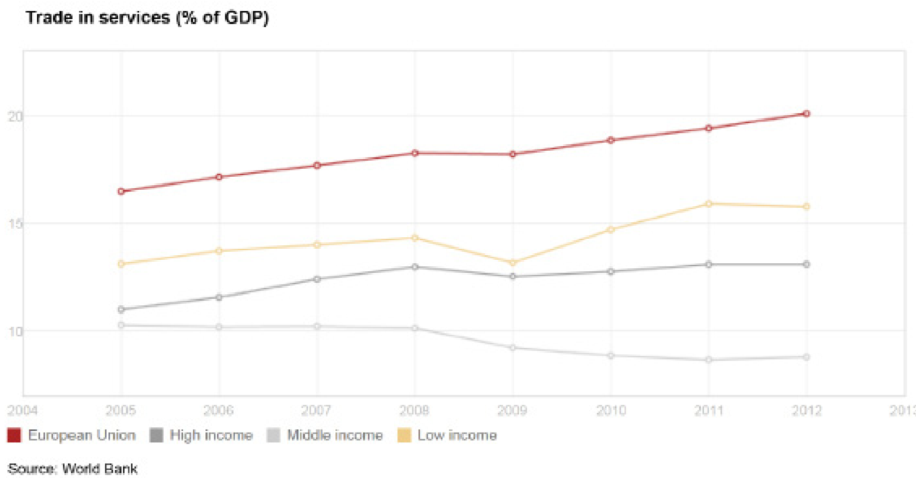
4.2 PROTECTIONISM & LIBERALISATION

Despite the economic support for services liberalisation, services suppliers continue to be negatively impacted by discriminatory trade regimes in many countries. Barriers to services trade include:

- Barriers to commercial establishment (including foreign ownership caps and joint venture obligations).
- Restrictions on types of commercial presence (branch / subsidiary) and number and type of services that can be provided.
- Discriminatory registration requirements and licensing procedures.
- Nationality and residency requirements.
- Economic needs tests and discriminatory treatment advantaging domestic companies over foreign companies.
- Closed sectoral market access.
- Non-Tariff Barriers (NTBs) such as technical barriers and complex regulatory environments.

Recent economic turmoil has heightened the problem of protectionist trade measures in some countries. While not specifically focused on services, the European Commission noted that in 2010, 130 new trade restrictive measures had been introduced by the EU's trading partners - a rise of 30%. Furthermore, only 17% of all protectionist measures introduced since the start of the 2008 economic crisis had lapsed by 2010. Protectionist measures are a concern, **even where they do not apply directly to services, a general protectionist stance could have scope to be applied more broadly**. For this reason, **it is important that the EU secures legally binding commitments from its trading partners.**

This is particularly important given that the EU is home to some of the most internationally competitive services companies in the world, which is reflected in the increasing size of services trade relative to GDP, as shown below:



Trade in services as a percentage of GDP is higher for the EU on average than for other high income economies; consequently, **European services companies have a large stake in securing legally binding services liberalisation commitments internationally**. For this reason, **the primary objective of ESF is the liberalisation of international trade in services and investment with legally binding commitments to match**. ESF seeks to advocate improving international market openess during trade negotiations in a number of ways:

- Remove existing market access barriers
- Legally bind current levels of openness
- Adopting ambitious horizontal regulatory disciplines
- Adopting ambitious sector specific disciplines
- Adoption of mutual recognition agreements
- Improve regulatory cooperation between authorities
- Open access to public procurement
- Commitment to secure cross-border data flows
- Commitment to strong investment protection
- Improving administration of movement of qualified persons

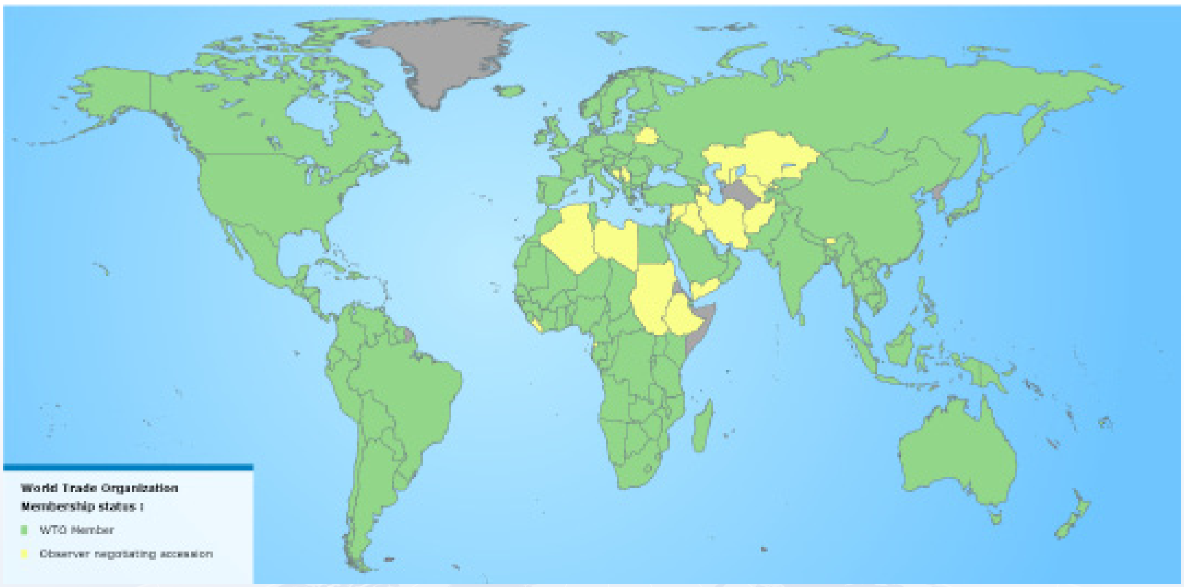
European service suppliers need international trade negotiations to help increase trade volumes and provide legal security to operations. This is particularly true in the markets of developing and emerging countries where the medium and long term projections indicate substantial growth, but where markets are relatively closed to foreign companies.

International trade negotiations generally take place in one of two ways:

1. Multilaterally through the World Trade Organisation (WTO), or
2. Bilaterally through Preferential/Regional Trade Agreements (PTAs & RTAs).

5.1 MULTILATERAL

The World Trade Organisation came into being in 1995, following the Uruguay Round of trade negotiations, as the successor to the General Agreement on Tariffs and Trade (GATT) which had been established in the wake of the Second World War. The WTO has over 159 members on March 2013 accounting for about 95% of world trade. The creation of the General Agreement on Trade in Services (GATS) was one of the landmark achievements of the Uruguay Round and the results entered into force in 1995, with all WTO members also members of the GATS. The GATS was inspired by essentially the same objectives as the GATT: to create a credible and reliable system of international trade rules. The WTO can be said to have two pillars, a trade rules pillar and a trade liberalising negotiating pillar. All members of the WTO have adopted the rules enshrined in the GATS. In addition, most of the members adopted a schedule of commitments that legally bind open market access and nondiscriminatory treatment to all other members of the WTO under the Most Favoured Nation (MFN) clause. More than 140 economies have now committed some level of services liberalisation; although with great divergence in the scale of commitments and with much remaining to be achieved through ongoing services negotiations.

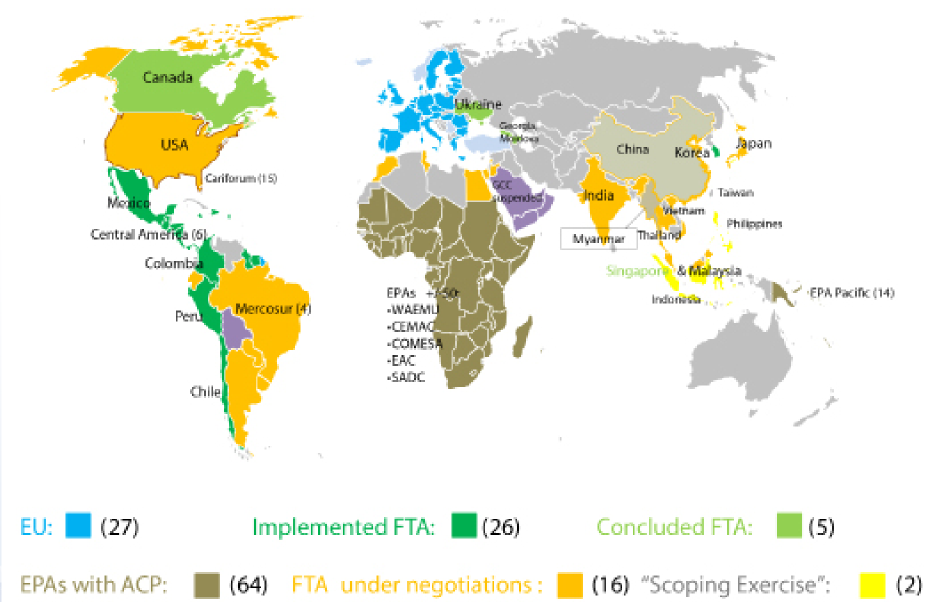


Under the WTO system, services can be delivered in 4 modes (cross-border, consumption abroad, commercial presence and temporary movement of persons). The WTO's dispute resolution mechanism helps to resolve trade issues that arise. The current round of negotiations, the Doha round, was launched in 2001, though Services negotiations started in 2000. Under the negotiations, each country has the right to decide which sectors it wishes to open to foreign companies and to what extent these sectors will be accessible; for this countries produce initial and revised offers in reply to group requests from other countries. In order to gauge progress in the services negotiations a 'Signalling Conference' at ministerial level was held in July 2008 with some 30 countries in attendance. Despite this, the round has so far failed to be concluded due to a number of differences between developed and emerging members. A group of 23 participants accounting for around 70% of global trade in services, that have called themselves the "Real Good Friends of Services" have begun negotiations early 2013 for a standalone Trade In Services Agreement (TISA) aims to go behond the GATS.

5.2 BILATERAL

Despite the power of the WTO to promote trade through a rules based system, multilateralism must inherently satisfy many countries' interests and can suffer slow progress. The Doha round has been in progress for 10 years without conclusion and while the WTO is indispensable, trade liberalisation must continue and bilateral trade negotiations are key instruments in achieving this. The EU is currently negotiating with a range of countries that are interested in gaining preferential EU market access in exchange for providing greater market access and nondiscriminatory treatment to EU businesses. For example the EU and US are negotiating the Transatlantic Trade and Investùent Partnerhip (TTIP) based on the removal of trade barriers in a range of economics sectors, with the general idea to get an agreement within two years.
Each set of negotiations are at varying stages of development (implemented, concluded but not yet implemented, under negotiation, scoping stage). Economic Partnership Agreements (EPAs) include some trade provisions also.

EU Bilateral Trade Agreements



Modern Comprehensive and Deep Free Trade Agreements seek to cover the following:

- Elimination of tariffs on +/- 95% of goods
- Non-tariff Barriers
- Rules of Origin
- Trade in Services
- Intellectual Property Rights
- Public Procurement
- Competition
- Regulatory disciplines and cooperation
- Dispute settlement mechanism
- Sustainability

5.3 EXAMPLE OF KOREA FTA

The FTA signed between the EU and Korea is an example of an agreement following the framework of a new generation trade agreement. Studies indicate that the **Korea agreement will increase EU services exports to Korea by more than 30% for almost all services sectors**. **It is estimated that EU-South Korea bilateral trade could increase by up to 82.6%, and it is also estimated that the EU's bilateral trade balance with South Korea could improve by up to €10.1 bn.** The third anniversary of the FTA has been on the 1st July 2014., it has already been revised through an agreed protocol aiming at including the accession of Croatia to the EU. The trade volume for the EU is now beneficial (+24% of exports since 2010), while Korea exports have decreased by 4%, although. **Crucially, it demonstrates the importance to EU service suppliers of actively supporting the interests of services in international trade negotiations through the European Services Forum.**

Examples of benefits gained by European services companies from the Korea agreement include:

- In telecommunications, Korea will relax foreign ownership requirements, allowing 100% indirect ownership, two years after entry into force of the FTA at the latest. In addition, EU satellite operators (telephone and TV) will be able to operate directly cross-border into Korea, avoiding having to liaise with or go through a Korean operator.
- In environmental services, Korea has committed to allow EU companies to treat non-industrial waste waters (sewage services).
- EU shipping firms will have full market access and the right of establishment in Korea, as well as non-discriminatory treatment in the use of port services and infrastructure.
- New business opportunities for European companies will arise with respect to a large number of maritime auxiliary services.
- There will be improvements for auxiliary air transport services such as ground handling.
- Korea will abolish the obligatory subcontracting requirement for construction services.
- All financial firms will gain substantial market access to Korea and will be able to transfer data freely from their branches and affiliates to headquarters.
- EU providers of international express delivery services will have access to the Korean market. After Korean postal reform, commitments will be spread to further areas outside the definition of the reserved postal monopoly.
- European law firms will be allowed to open offices in Korea to advise foreign investors or Korean clients on non-Korean law. Law firms will also be able to form partnerships with Korean firms and recruit Korean lawyers to provide 'multijurisdictional' services. Lawyers will be allowed to use their domestic job titles such as Solicitor, etc...

5.4 MAKING TRADE COMMITMENTS

Market access liberalisation in the trade of services can be separated into two categories: Horizontal and Sector Specific. Horizontal topics are those broadly affecting multiple sectors and can therefore include any number of factors that impact upon trade, be it the approach to negotiations, investment regulations, real estate restrictions, the temporary movement of persons, or the scope of rules and regulations. **One of ESF´s primary goals is to ensure horizontal barriers are removed and international best practises are employed for trade negotiations and regulatory cooperation.** This is particularly important as **horizontal barriers can apply to all services sectors**. Sector specific topics are those that may apply to a number of sectors but which are tackled on a sector specific basis so as to allow different levels of commitment within each sector and sub-sector. **ESF works with its members on the basis of eliminating both without harming necessary regulatory infrastructure for the proper functioning of health systems, legal systems and public security.**

ESF Members May 2014

1. Architects' Council of Europe –ACE | 2. BDO | 3. British Telecom Plc

4. Bundesverband der Freien Berufe – BFB

5. Bureau International des Producteurs et Intermédiaires d'Assurances – BIPAR

6. BUSINESSEUROPE | 7. BUSINESSEUROPE WTO Working Group

8. Conseil des barreaux de la Communauté Européenne – CCBE

9. Conseil des Notariats de l'Union Européenne – CNUE | 10. Deutsche Bank AG

11. Deutsche Telekom AG |12. Deutsche Post DHL

13. DI – Confederation of Danish Industries |14. EuroCommerce

15. EK - Confederation of Finnish Industries | 16. Ernst & Young

17. EuroCommerce | 18. EuroCiett | 19. European Association of Cooperative Banks – EACB

20. European Banking Federation – FBE | 21. European Broadcasting Union - EBU

22. European Community Shipowners' Associations – ECSA

23. European Express Association – EEA

24. European Federation of Engineering and Consultancy Associations – EFCA

25. European International Contractors – EIC

26. European Public Telecom Network – ETNO

27. European Savings Banks Group – ESBG

28. European Satellite Operators Association - ESOA

29. Fédération des Experts Comptables Européens – FEE

30. Fédération de l'Industrie Européenne de la Construction – FIEC

31. Foreign Trade Association - FTA | 32. IBM Europe, Middle East & Africa

33. Inmarsat | 34. Insurance Europe

35. Irish Business and Employers Confederation IBEC | 36. KPMG

37. Law Society of England & Wales | 38. Microsoft Corporation Europe

39. Mouvement des entreprises de France – MEDEF

40. Oracle Europe, Middle East & Africa | 41. Orange | 42. PostEurope

43. Purdential Plc. | 44. Siemens AG.

45. Standard Chartered Bank

46. Svenskt Näringsliv (Confederation of Swedish Enterprise) | 47. Telefónica SA

48. Telenor Group | 49. TheCityUK | 50. Thomson-Reuters

European Services Forum

Members are leading services companies with interests in over 200 countries and major European trade federations representing more than 500 national trade associations

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