

COMMUNICATION FROM THE EUROPEAN COMMUNITIES AND THEIR MEMBER STATES^{1/2}

GATS 2000: Distribution

The attached communication³ has been received from the delegation of the European Communities and their Member States with the request that it be circulated to Members of the Council for Trade in Services.

I. INTRODUCTION

1. **Distribution is a key sector for trade in goods and has major significance for GDP and employment in all member countries ...**

1. The EC fully share the assessment made at the exchange of information⁴. Indeed, in modern market economies, the distribution sector is the crucial link between producers and consumers and its performance has a strong influence on consumer welfare. Increased efficiency and competition in the distribution system can lead to lower price levels, particularly since distribution margins form a significant portion of the price of final products, and a wider variety of products. Failures of the distribution sector to perform its role adequately can lead to a significant misallocation of resources and economic cost.

2. The distribution sector accounts for a significant part of economic activity from around 8% of GDP in Germany to over 20% in Hong Kong and Panama. This is also the case in many developing countries (such as Ecuador - 19% of GDP, India - 11%, Nigeria, Thailand, Turkey, Venezuela - 15 to 17% etc.). In many economies, the sector is only second to manufacturing in its contribution to GDP. The contribution of the sector to economy-wide employment is usually even greater than that to GDP, reflecting the relatively high labour-intensity of the sector.

2. **... but few members have taken commitments**

3. Surprisingly, given the importance of this sector, only 33 amongst all WTO Member⁵ have made commitments in at least one distribution sub-sector. Out of these 33 members, most have made

¹ Hereinafter "The EC".

² The EC reserve their right to modify this proposal at any time. This proposal does not prejudice EC's position on other services sectors, nor any possible future offer on this or other sectors. This proposal has to be read together with the general approach of the EC to the services negotiations.

³ This document should be read in conjunction with S/CSS/W/32.

⁴ See "Distribution services – Background note by the WTO Secretariat" (S/C/W/37, 10 June 1998).

⁵ The EC are counted as one member.

commitments for both wholesale (31) and retail (30) services, and some have also committed for commission agency services (18) and franchising (20). Only health and education have been the subject of fewer commitments. This situation must be addressed.

3. EC commitments are fairly liberal

4. The distribution sector within the EC is largely open to foreigners, and commitments have been given by the EC in all sub-sectors. There are no important restrictions in the EC, except some limited goods carve-out and an economics needs test for department stores in some cases (in respect of which the main criteria are clearly specified). The openness of the distribution sector in the EC allows EC citizens to have a wider choice of better quality products at much more affordable prices.

5. Our proposal aims at reducing unnecessary trade distortive barriers without affecting the quality of service and the protection of consumers.

II. SCOPE OF THIS PROPOSAL⁶

1. Distribution sub-sectors included in this proposal

- Commission agents' services (CPC 621,⁷ 6113, 6121);
- Wholesale trade (CPC 622, 61111, 6113, 6121);
- Retail trade (CPC 631, 632, 61112, 6113, 6121, 613); and
- Franchising (CPC 8929).

6. In accordance with the W120 classification, the EC proposal on "Repair services of personal and household goods" (CPC 633) is included under "Business services".

2. Products included in this proposal

7. All goods⁸, except:

- water through mains (under EC environmental proposal);
- waste, scrap and material for recycling (under EC environmental proposal);
- foods and beverages consumed on the spot (under EC tourism proposal - bars, restaurants, etc.);

⁶ The coverage of this proposal is without prejudice to the EC's final positions on classification issues and to the EC's classification of their existing commitments. CPCs mentioned refer to Provisional CPC classification.

⁷ Commission agents' services for Motor vehicles are also covered by this proposal.

⁸ In accordance with the principle that any content supplied electronically consists of services, none of those electronic supplies are covered in the distribution sector, which refers to distribution of goods, but are rather classified in their respective services sector.

- electricity and gas through mains;
- written correspondence.

8. For clarification, this proposal does not include activities falling under CPC 96113 and 96114.

9. Distribution services from a fixed location or away from a fixed location (direct selling) are included.

III. PROPOSAL

10. The Council for Trade in Services in Special Session should initiate a debate, whether in the Council or in a subsidiary body established for the purpose, on broad aims for negotiations in the distribution services.

11. Within the distribution services sector, there are usually product exclusions, including pharmaceutical, medical and orthopaedic goods; agricultural raw materials and live animals; food, beverages and tobacco; precious metals. There are also other sectoral restrictions such as citizenship and residency requirements; registration and licensing for non-residents; unspecified economic needs test, etc. Finally, some horizontal restrictions have a particular impact on distribution, for example unspecified approval requirements; limitations on the purchase or rental of real estate; restrictions on equity holdings; certain tax and subsidy measures; etc.

12. This enumeration of restrictions is not exhaustive, and other restrictions are also maintained by WTO Members. The debate should consider:

(a) Modes 1, 2 and 3:

- Whether any restrictions would be justified. In our view, it is hard to see any justification for restrictions other than:
 - For all modes and all sub-sectors, very limited number of extremely sensitive products. Other products should in principle, be included fully in the commitments, taking into account as appropriate the specificities existing in certain sectors for the distribution of certain products.
 - For Mode 3 in retailing services, clearly defined, and non-discriminatory economic needs test.
- In our view, it would appear appropriate that commitments apply both to distributors and to foreign-invested manufacturers as regards the goods they produce.

(b) Mode 4:

- The EC schedule includes, *inter alia*, temporary movement of intra-corporate transferees as well as contractual service suppliers (i.e. the service is supplied, on the basis of a contract, by an employee of a company not established in the Member's territory). The EC propose that, on this basis, further discussions are held on how to improve and facilitate the temporary movement of natural persons for the provision of specific services.
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