

## *Chapter 12*

# TRADE IN SERVICES

## 1. OVERVIEW OF RULES

The phrase “trade in services” applies to international transactions in a diverse array of fields, including financial services, transportation, communications, construction, and distribution. The trend toward a “softening” (or services) economy is becoming increasingly apparent. Since the 1970’s, the service industry share of the global GDP has increased steadily and the rate of employees in service industries vs. all industries is also increasing. When considering barriers to trade in services, domestic regulations governing their supply and consumption are more important than border measures (such as tariffs). (This contrasts with trade in goods, where border measures play a significant role.) It is desirable to eliminate domestic regulations that are potentially trade barriers. These domestic regulations are put in place for a variety of reasons -- sometimes to protect domestic industries, but just as often to meet public objectives such as protecting culture and traditions, or protecting the interests of consumers. Frequently, the request for liberalizing multilateral disciplines regarding services is not as strong as these pressures.

The developed countries, including the US, which has pursued a policy of deregulation and has grown competitive in the sectors of financial services and telecommunications services and led efforts to establish international regulations governing trade in services, and Japan, argued that trade in services should be included in the Uruguay Round negotiations. The developing countries, including India and Brazil, initially objected to the inclusion of trade in services, claiming that it was beyond the jurisdiction of GATT, but eventually agreed that trade in services should be included in multilateral trade negotiations during the Uruguay Round.

At the beginning of the negotiations, the scope of the agreements; duties/general principles applied to the agreements; relations with the existing international rules; and special treatment for the developing countries, were among the main issues. The General Agreement on Trade in Services (GATS), stipulating most-favored-nation treatment, market access commitments and national treatment, was agreed to at the end of the Uruguay Round negotiations as an Annex to the WTO Agreements. All WTO Members, including developing countries, are signatories to the GATS. The GATS covers a wide range of service industries, including financial services, transportation, communications, construction, and distribution. (It does not exclude certain sectors due to consideration of interests of specific countries, as in agriculture or textiles in GATT.)

## 2. Legal Framework

### ***Four Modes of Supply***

The GATS covers governmental measures that affect trade in all services (excluding services supplied in the exercise of governmental authority). The GATS defines 155 service sub-sectors based on categories developed by the GATT Secretariat (WTO Secretariat) and specifies four modes of trade in services:

1) Cross-border supply (supply of services from the territory of one Member into the territory of another Member);

2) Consumption abroad (supply of services in the territory of one Member to a service consumer of another Member);

3) Commercial presence (supply of services by a service supplier of one Member through commercial presence in the territory of another Member); and

4) Presence of natural persons (supply of services by a service supplier of one Member through the presence of natural persons of that Member in the territory of another Member.)

(See Figure II-12-1, below, for a more detailed overview of the four modes.)

**Figure II-12-1**  
**Four Modes of Trade in Services**

Mode	Description	Example	Schematic Diagram
1. Cross-border supply	Supply of services from the territory of one Member into the territory of another Member (Border-crossing of services)	<ul style="list-style-type: none"> <li>- Receiving legal advice by telephone from a lawyer living abroad</li> <li>- Outsourcing of telephone centers to abroad</li> </ul>	
2. Consumption abroad	Supply of services in the territory of one Member to a service consumer of another Member (Border-crossing of consumers)	<ul style="list-style-type: none"> <li>- Local consumption by a foreign tourist or business person (lodging, theatergoing, rental of electronic equipment, etc.)</li> <li>- Receiving repairs of ships and aircrafts, etc. abroad</li> </ul>	
3. Commercial presence	Supply of services by a service supplier of one Member through commercial presence in the territory of another Member (Border-crossing of commercial presence)	<ul style="list-style-type: none"> <li>- Financial services provided by a foreign branch</li> <li>- Distribution services provided by a foreign branch</li> </ul>	
4. Movement of natural persons	Supply of services by a service supplier of one Member through the presence of natural persons of that Member in the territory of another Member (Border-crossing of supplies)	<ul style="list-style-type: none"> <li>- Invitation of a foreign artist</li> </ul>	

Note: Symbols in the Schematic Diagrams

■: Service supplier (natural or juridical person)

▲: Service consumer (natural person or juridical person)

■: Commercial presence

◆: Natural person

△: Service consumer before movement

◇: Natural person before movement

←: Movement

← - - - : Supply of service

## ***Outline of Major Provisions***

As shown below, obligations under the GATS include: (a) "obligations which apply to trade in services in all service sectors"; and (b) "obligations regarding trade in services in sectors where specific commitments have been undertaken."

GATS leaves to future, post-Uruguay Round multilateral negotiations negotiations for providing discipline (c) "obligations to negotiate cross-cutting rules"; on Discipline of Domestic Regulation (Article VI), Emergency Safeguard Measures (Article X), Government Procurement (Article XIII) and Subsidies (Article XV)). Discussions on these issues have been taking place in the Working Group on GATS Rules established by the Council for Trade in Services.

Discipline of Domestic Regulation (Article VI) has also been discussed by the Working Group on Domestic Regulation (previously the Working Party on Professional Services), established in April 1999.

### ***1) Obligations which apply to Trade in Services in All Service Sectors***

#### **(a) Most-Favored-Nation Treatment (Article II)**

Members must accord equal treatment (MFN treatment) to all other Members (*see* Chapter 1 of Part II for a discussion on MFN).

#### **MFN Exemption**

Trade in services, however, spans a wide range of fields that contain many measures that cannot be subject to MFN treatment for various historical or other reasons (e.g. reciprocal measures and favorable treatments based on bilateral agreement). Accordingly, the GATS stipulates that measures could be exempted from the MFN obligation subject to certain conditions, if such measures had been previously registered at the time the GATS entered into force. The Council for Trade in Services reviews all exemptions granted for a period of more than five years. In principle, such exemptions should not exceed a period of 10 years. These exemptions are subject to negotiation in subsequent trade liberalizing rounds.

#### **(Cases in Which MFN Treatment Obligations Do Not Apply Under the GATS Provisions)**

- Each Member is not prevented from taking part in an agreement liberalizing trade in services between or among the parties. (Article V)
- Each Member is not prevented from taking part in an agreement establishing full integration of the labor markets between or among the parties. (Article V *bis*)
- Each Member may recognize education, licenses, and certification granted in a particular country as domestically valid. (Article VII)
- Most-Favored-Nation treatment shall not apply to the procurement by governmental agencies of services purchased for governmental purposes

not with a view to use in the supply of services for commercial sale.  
(Article XIII)

**(b) Transparency (Article III)**

The lack of transparency in laws, regulations and other measures pertaining to or affecting trade in services may constitute a barrier to trade in services. The GATS, therefore, provides a general obligation to publish all such laws and regulations. This provision is designed to remove any barrier resulting from non-transparent procedures and to facilitate future negotiations on such procedures.

***2) Obligations Regarding Trade in Services in Sectors Where Specific Commitments Have Been Undertaken***

The GATS requires Members to list in the “Schedule of Specific Commitments” the sub-sector in which it is making a liberalization commitment and the nature of the commitment. The GATS seeks to achieve progressively higher levels of liberalization through successive rounds of negotiations focused on expanding areas and enhancing the content of liberalization.

Under the GATS, Members schedule liberalization commitments by listing the applicable sector or sub-sector (one of the 155 sub-sectors) and mode of supply (one of the 4 modes), and the nature of the commitment. This method -- where a Member itself identifies those sub-sectors in which it has made a commitment -- is known as a “positive-list” (or “bottom-up”) approach. Members are allowed to add conditions and restrictions to Market Access and National Treatment, where it is considered necessary, to their Schedules of Specific Commitments. They can also make “Additional Commitments” if they consider it appropriate to take on additional obligations apart from market access and national treatment. (Figure II-12-2 contains an example of a Schedule of Specific Commitments; Figure II-12-3 contains Specific Commitments of Major Trading Partners and Figure II-12-4 contains Overview of MFN Exemption Lists of Major Trading Partners.)

Japan made commitments in approximately 100 sectors and undertook MFN obligations in all areas without exemptions as a result of the Uruguay Round.

**(a) Market Access (Article XVI)**

Each Member may decide through negotiations to undertake a market access commitment (*i.e.*, a commitment not to maintain or adopt certain measures contained in an exhaustive list in Article XVI) in each sub-sector and mode. There are six types of measures: (a) limitations on the number of service suppliers; (b) limitations on the total value of services transactions or assets; (c) limitations on total output; (d) limitations on the total number of natural persons that may be employed; (e) measures that restrict the types of legal entity through which a service is provided; and (f) limitations on the participation of foreign capital. Members may maintain some or all of these

restrictions, which must then be specified in the Schedule of Commitments as reservations. Member countries may take measures that do not fall within the six types, or which have been reserved, unless they violate other articles in the GATS. The Market Access Article, however, does not guarantee specific market access results (in terms of market share or otherwise)

**(b) National Treatment (Article XVII)**

The national treatment principle requires each Member to accord services and service suppliers of any other Member no less favorable treatment than that accorded to its own like services and service suppliers (*See* Chapter 2 of Part II for a discussion of National Treatment). The national treatment obligation is determined through specific commitments and each Member may decide through negotiations whether to undertake national treatment commitments in each sector and mode. In undertaking a national treatment commitment, a Member may maintain some discriminatory measures by making reservations. For example, in undertaking a national treatment commitment in the banking sector, a Member may promise national treatment in all sectors of banking except for deposit operations. Any such reservation must be specified in the Schedule of Commitments.

**(c) Additional Commitments (Article XVIII)**

Pursuant to Article XVIII of GATS, Members may agree at their own discretion through individual negotiations or other procedures to add conditions and restrictions that do not fit in the purview Market Access and National Treatment to their Schedules of Specific Commitments, in the form of “Additional Commitments”. This is done where it is considered that active government measures are needed in the service sector in addition to the elimination of measures restricting market entry and measures discriminating against foreign services and service providers. The responsibility to implement these kinds of government measures is not covered by the obligations of market access or national treatment.

**(d) Domestic Regulations (Article VI)**

In sectors where specific commitments are undertaken, each Member shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective and impartial manner.

**(e) Payments and Transfers (Article XI)**

A Member may not restrict international payments and transfers for current transactions covered by specific commitments undertaken in the GATS except to safeguard its balance-of-payments (*see* Article XII) or at the request of the IMF.

Nothing in the GATS, however, affects the rights and obligations of the Members of the International Monetary Fund under the IMF.

**Figure II-12-2**  
**Example of Schedule of Specific Commitments**

#### Horizontal Commitments

Sector or Subsector	Limitations on market access	Limitations on national treatment	Additional commitments
All sectors included in this schedule	4) Unbound except for measure concerning the entry and temporary stay of a natural person who falls in the following category: i) Activities to direct a branch office as its head.	3) Unbound for research and development subsidies.	

#### Sector-Specific Commitments

Sector or Subsector	Limitations on market access	Limitations on national treatment	Additional commitments
Services related to management consulting  *	1) Unbound 2) None 3) The number of licenses conferred to service suppliers may be limited 4) Unbound except as indicated in horizontal commitments	1) Unbound 2) None 3) None except as indicated in horizontal commitments	**

Modes of supply: (1) cross-border supply; (2) consumption abroad; (3) commercial presence; and (4) presence of natural persons.

#### Notes

\*Sector or subsector, when making liberalization available, shall be inscribed in this column. Articles XVI and XVII shall not apply to sectors or subsectors not indicated in this column.

\*\*Commitments with respect to measures affecting trade in services but not covered by Articles XVI or XVII shall be inscribed in this column.

**Figure II-12-3 Specific Commitments of Major Trading Partners**

Sectors		US	CH	EU	CA	KR	HK	SG	MY	ID	TH	AU	PH	IN	JP
Business Services	Professional	*	*	*	*	*	*	*	*	*	*	*		*	*
	Computer and related	*	*	*	*	*	*	*	*	*	*	*		*	*
	R & D			*	*	*			*	*		*		*	*
	Real estate	*	*	*	*	*	*		*		*	*		*	*
	Rental/leasing	*		*	*	*	*		*		*	*	*		*
Communication Services	Other	*	*	*	*	*	*	*	*	*	*	*		*	*
	Postal	*	*		*		*						*		
	Courier	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Telecommunications	*				*	*	*	*		*			*	*
	Audio-visual					*	*	*	*		*			*	*
Construction Services	Other														
	Buildings	*	*	*	*	*		*	*	*	*	*			*
	Civil engineering	*	*	*	*	*		*	*	*	*	*		*	*
	Installation and assembly	*	*	*	*	*	*	*	*	*	*	*			*
	Completion and finishing	*	*	*	*	*	*	*	*	*	*	*			*
Distribution Services	Other														
	Commission agents	*	*	*	*	*					*	*			*
	Wholesale trade	*	*	*	*	*					*	*			*
	Retailing	*	*	*	*	*	*				*	*			*
	Franchising	*	*	*	*	*					*	*			*
Education Services	Other				*										
	Primary		*	*							*	*			*
	Secondary		*	*							*	*			*
	Higher	*	*	*							*	*			*
	Adult	*	*	*							*	*			*
Environmental Services	Other		*									*			*
	Sewage	*	*	*	*	*					*	*			*
	Refuse disposal	*	*	*	*	*					*	*			*
	Sanitation	*	*	*	*	*					*	*			*
	Other	*	*	*	*	*					*	*			*
Financial Services	Insurance	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Banking	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Other														
Health Services	Hospital	*		*					*			*		*	*
	Other human health											*			
	Social			*											
	Other														
Tourism and travel services	Hotels and Restaurants	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Travel agencies/Tour operators	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Tourist guides	*		*		*		*			*	*		*	*
	Other														
Recreational, cultural and sporting services	Entertainment	*		*					*			*			*
	News agency	*		*								*			*
	Libraries, archives, museums	*		*			*	*			*	*			*
	Sporting	*	*	*					*		*	*			*
	Other											*			*
Transport Services	Maritime transport		*	*		*	*	*	*	*	*	*	*		*
	Internal waterways		*	*		*	*		*	*	*	*	*		*
	Air	*	*	*	*	*	*		*	*	*	*	*		*
	Space														
	Rail	*	*	*	*	*					*	*	*		*
	Road	*	*	*	*	*					*	*	*		*
	Pipeline		*	*	*	*					*	*	*		*
	Auxiliary		*	*	*	*	*				*	*	*		*
	Other			*		*					*	*	*		*
Other services									*						



Notes:

- 1) Sectors for which liberalization commitments have been made are shown with symbols (\*). However, there are many cases in which liberalization commitments cover only a part of the sector or in which measures that are inconsistent with national treatment or that restrict market access are reserved. This table should not, therefore, be interpreted as a direct indication of the level of liberalization. The WTO Secretariat Categories, defining 155 sub-sectors, are more detailed than those in this table.
- 2) CA: Canada; CH: China; KR: Korea; HK: Hong Kong; SG: Singapore; MY: Malaysia; ID: Indonesia; TH: Thailand; AU: Australia; PH: Philippines; IN: India; JP: Japan.

**Figure II-12-4**

**Overview of Article II (MFN) Exemptions of Major Trading Partners**

<i>United States</i>	<ol style="list-style-type: none"> <li>1. Cross-sectoral (measures related to movement of natural persons, taxation measures, measures related to land use, measures regarding securities reporting by small businesses)</li> <li>2. Telecommunications services (One-way satellite transmission)</li> <li>3. Banking services</li> <li>4. Insurance services</li> <li>5. Air transport services</li> <li>6. Space transport services</li> <li>7. Road transport services</li> <li>8. Pipeline transport services</li> </ol>
<i>EU</i>	<ol style="list-style-type: none"> <li>1. Cross-sectoral (measures related to movement of natural persons, measures related to land use, measures related to investment)</li> <li>2. Rental/Leasing services</li> <li>3. Audiovisual services</li> <li>4. Insurance services</li> <li>5. Internal waterways transport services</li> <li>6. Air transport services</li> <li>7. Road transport services</li> </ol>
<i>Canada</i>	<ol style="list-style-type: none"> <li>1. Business services (Fishing-related services)</li> <li>2. Film, video and television programming</li> <li>3. Insurance services</li> <li>4. Air transport services</li> <li>5. Maritime services</li> </ol>
<i>Korea</i>	<ol style="list-style-type: none"> <li>1. Air transport services.</li> </ol>
<i>Hong Kong</i>	None

<i>Singapore</i>	<ol style="list-style-type: none"> <li>1. Cross-Sectoral (Measures related to movement of natural persons, Measures related to investment, taxation measures)</li> <li>2. Professional services (Legal services)</li> <li>3. Audiovisual services</li> <li>4. Banking services</li> <li>5. Insurance services</li> <li>6. Air transport services</li> <li>7. Maritime services</li> </ol>
<i>Malaysia</i>	<ol style="list-style-type: none"> <li>1. Cross-Sectoral (measures related to movement of natural persons, measures related to foreign investment)</li> </ol>
<i>Indonesia</i>	<ol style="list-style-type: none"> <li>1. Cross-Sectoral measures related to movement of natural persons</li> <li>2. Construction services</li> <li>3. Banking services</li> </ol>
<i>Thailand</i>	<ol style="list-style-type: none"> <li>1. Professional services (auditing services, publishing newspapers)</li> <li>2. Maritime services</li> <li>3. Air transport services</li> <li>4. Road transport services</li> </ol>
<i>Australia</i>	<ol style="list-style-type: none"> <li>1. Audiovisual services</li> </ol>
<i>Philippines</i>	<ol style="list-style-type: none"> <li>1. Cross-Sectoral (measures related to movement of natural persons, measures related to investment)</li> <li>2. Banking services</li> <li>3. Maritime services</li> </ol>
<i>India</i>	<ol style="list-style-type: none"> <li>1. Telecommunications services</li> <li>2. Audiovisual services</li> <li>3. Entertainment services</li> <li>4. Maritime services</li> </ol>
<i>Japan</i>	None

**Figure II-12-5**  
**Examples of Limitations**  
**On Market Access and National Treatment**

(WTO document S/L/92)

GATS Article XVI measures which a Member shall not maintain or adopt	
(a) Limitations on the number of service suppliers	<ul style="list-style-type: none"> <li>• License for a new restaurant based on an economic needs test.</li> <li>• Annually established quotas for foreign medical practitioners.</li> <li>• Government or privately owned monopoly for labor exchange agency services.</li> <li>• Nationality requirements for suppliers of services (equivalent to zero quota)</li> </ul>
(b) Limitations on the total value of transaction or assets	<ul style="list-style-type: none"> <li>• Foreign bank subsidiaries limited to x percent of total domestic assets of all banks.</li> </ul>
(c) Limitations on the total number of natural persons	<ul style="list-style-type: none"> <li>• Restrictions on broadcasting time available for foreign films.</li> </ul>
(d) Limitations on the total number of natural persons	<ul style="list-style-type: none"> <li>• Foreign labor should not exceed x percent and/or wages by percent of total.</li> </ul>
(e) Restrictions or requirements regarding type of legal entity or joint venture	<ul style="list-style-type: none"> <li>• Commercial presence excludes representative offices.</li> <li>• Foreign companies required to establish subsidiaries.</li> <li>• In sector x, commercial presence must take the form of a partnership.</li> </ul>
(f) Limitations on the participation of foreign capital	<ul style="list-style-type: none"> <li>• Foreign equity ceiling of x percent for a particular form of commercial presence.</li> </ul>

GATS Article XVII examples of limitations on national treatment
<p>- Domestic suppliers of audiovisual services are given preference in the allocation of frequencies for transmission within the national territory. (Such a measure discriminates explicitly on the basis of the origin of the service supplier and thus constitutes formal or <i>de jure</i> denial of national treatment.)</p> <p>- A measure stipulates that prior residency is required for the issuing of a license to supply a service. (Although the measure does not formally distinguish service suppliers on the basis of national origin, it <i>de facto</i> offers less favorable treatment to foreign service suppliers because they are less likely to be able to meet a prior residency requirement than like service suppliers of national origin.)</p>

### ***3) Obligations to Negotiate Cross-Cutting Rules***

#### **(a) Domestic Regulation (Article VI)**

Article VI:4 aims to prevent procedural matters such as qualification requirements/procedures, licensing requirements/procedures or technical standards concerning the provision of services (e.g. procedures concerning the establishment of financial or construction service companies and acceptance of accountants) from being used as undue trade barriers by avoiding excessive regulations while securing regulatory transparency. To ensure that measures relating to qualification and licensing requirements and the like do not constitute unnecessary barriers to trade in services, the Council for Trade in Services shall, through such subsidiary bodies as it may establish, develop any necessary disciplines.

#### **(b) Emergency Safeguard Measures (Article X)**

Article X provided for multilateral negotiations on the question of emergency safeguard measures based on the principle of non-discrimination. The results of such negotiations were supposed to enter into effect on a date not later than three years from the date of entry into force of the WTO Agreement. Although discussions have continued at the Working Group on GATS Rules established based on this Article, to date agreements have not been reached.

#### **(c) Government Procurement (Article XIII)**

Article XIII provides that major articles such as Article II (the MFN obligation); Article XVII (market access); and Article XVIII (national treatment) do not apply to the procurement of services for governmental purpose.

Article XIII also provided for multilateral negotiations on government procurement in services under this Agreement within two years from the date of entry into force of the WTO Agreement. This has also been discussed at the Working Group on GATS Rules, but agreements have not been reached.

#### **(d) Subsidies (Article XV)**

Members recognize that, in certain circumstances, subsidies may have distortive effects on trade in services. Article XV provided that Members should enter into negotiations with a view to developing the necessary multilateral disciplines to avoid such trade-distortive effects. This has also been discussed at the Working Group on GATS Rules, but agreements have not been reached.

#### ***4) Other Provisions***

##### **(a) Negotiation of Specific Commitments (Article XIX)**

To further the objectives of the GATS, Members shall enter into successive rounds of negotiations aimed at achieving progressive liberalization of trade in services, beginning not later than five years from the date of entry into force of the WTO Agreement (1 January 1995), and periodically thereafter. Based on this article, negotiations for liberalization were started in 2000. The process of liberalization shall take place with due respect for national policy objectives and the level of development of individual Members, both overall and in individual sectors.

##### **(b) Annexes**

###### **Annex on Financial Services**

Nothing in the GATS prevents a Member from taking measures for prudential reasons and to ensure the integrity and stability of its financial system.

###### **Annex on Telecommunications**

Members shall ensure that any service supplier of any other Member is accorded access to and use of public telecommunications networks and services on reasonable and non-discriminatory terms and conditions to supply a service included in its Schedule.

###### **Annex on Air Transport Services**

The Annex applies to measures affecting trade in air transport services and ancillary services. The GATS does not apply to measures affecting a Member's traffic rights, or services directly related to the exercise of those rights, as recognized under existing bilateral agreements.

###### **Annex on Movement of Natural Persons Supplying Services under the GATS**

The GATS does not prevent a Member from applying measures to regulate the entry of natural persons into, or their temporary stay in, its territory, provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any Member under the terms of specific commitments regarding market access, national treatment, and similar issues. (*See Reference "GATS and the "Movement of Natural Persons".*)

#### ***Sector-Specific Rules***

In addition to the Annexes for specific sectors, GATS, which was agreed during the Uruguay Round negotiations, provides special rules in the form of understandings and reference papers for specific sectors, such as financial services and telecommunications. For the financial services sector, there is also an Understanding on Commitments in Financial Services that provides more specific details regarding market access and national treatment provisions and provides for a higher degree of

liberalization. For basic telecommunications sector, there is a Reference Paper, which was formulated through post-Uruguay Round negotiations, on the regulatory framework for basic telecommunications services discussing interconnection, universal service, public availability of licensing criteria and other aspects of frameworks to promote competition. These additional commitments are attached to many Members' Schedule of Commitments as "Additional Commitments" on a voluntary basis. (See Reference: "Reference Paper on Regulatory Framework for Basic Telecommunications Services".)

## **Reference : GATS and the "Movement of Natural Persons"**

### **1. GATS Rules**

#### **(1) Scope**

The scope of the "movement of natural persons" in GATS is defined by Article I (Scope and Definition), and by the "Annex on Movement of Natural Persons Supplying Services under the Agreement."

Article I defines the "movement of natural persons" as the supply of a service "by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member," one (mode 4) of the four modes of trade in services.

The "Annex on Movement of Natural Persons," recognizes the right of Members' immigration control measures, allowing Members to apply "measures to regulate the entry of natural persons into, or their temporary stay in, its territory." However, it does not apply to "natural persons seeking access to the employment market of a Member," that is to say, measures affecting workers who move to seek employment, nor does it apply to "measures regarding citizenship, residence or employment on a permanent basis."

#### **(2) Outline of Disciplines**

Mode 4 places the same obligations on all categories as other modes: (a) "Most-Favored-Nation Treatment" (GATS Article II); (b) "Transparency" (GATS Article III); and (c) securing of tribunals or procedures for administrative decisions (GATS Article VI, Paragraph 2). In addition, it places on Members the obligation for commitment details based on GATS Article XVI: Market Access and Article XVII: National Treatment.

### **GATS "Annex on Movement of Natural Persons Supplying Services under the Agreement"**

1. This Annex applies to measures affecting natural persons who are service suppliers of a Member, and natural persons of a Member who are employed by a service supplier of a Member, in respect of the supply of a service.
2. The Agreement shall not apply to measures affecting natural persons

seeking access to the employment market of a Member, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis.

3. In accordance with Parts III and IV of the Agreement, Members may negotiate specific commitments applying to the movement of all categories of natural persons supplying services under the Agreement. Natural persons covered by a specific commitment shall be allowed to supply the service in accordance with the terms of that commitment.
4. The Agreement shall not prevent a Member from applying measures to regulate the entry of natural persons into, or their temporary stay in, its territory, including those measures necessary to protect the integrity of, and to ensure the orderly movement of natural persons across, its borders, provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any Member under the terms of a specific commitment.

## **2. Mode 4 Commitment Methods of Individual Countries**

The “movement of natural persons” was included in GATS during the Uruguay Round. However, as was detailed in 1. above, the actual level of recognition is determined by each Member individually in its Schedule of Commitments. The majority of countries have not scheduled Mode 4 commitments for individual service sectors, but rather have established comprehensive provisions in a table of “horizontal commitments.” The types Japan committed to are as described below.

### **[1] Intra-corporate Transferees**

A natural person who, for a period of more than one year immediately preceding the date of entry into Japan and application for temporary stay, has been employed by a corporation of a Member other than Japan and will be transferred to a Japan office of the same corporation for no more than five years, is permitted the following activities: (1) managing a branch office as the manager; (2) managing the corporation as a senior executive or auditor; (3) managing one or more corporate departments; (4) physics, engineering, and other natural science activities that require high levels of technical expertise and knowledge; and (5) law, economics, business administration, accounting, and other humanities activities that require a high level of knowledge.

### **[2] Business Contact (Business Visitors)**

Business contacts (including negotiations for the sale of services) and other related activities are allowed for a period of up to 90 days. However, this is based on the conditions that: (i) no compensation is received within Japan; and (ii) that neither direct sales nor direct provision of services are rendered to the general public.

### [3] Self-employed Service Providers (Independent Professionals)

A natural person who, for a period of more than one year immediately preceding the date of entry into Japan and application for temporary stay, has been employed by a corporation of a Member other than Japan and will work in Japan for no more than five years, is permitted to provide the following services: lawyer, foreign lawyer licensed in Japan, patent agent, marine procedure commission agent, certified public accountant, and licensed tax accountant. However, necessary qualifications must be met. For instance, a “lawyer” is required to have received qualification to be a lawyer in Japan and also be licensed as a lawyer in Japan.

Japan’s Immigration Control and Refugee Recognition Act outlines the requirements to issue visa status; however, Japan has the right to implement relevant measures for immigration control, even in instances where such a right is not expressly reserved, provided that benefits rendered to Members from special commitments are not negated and there is no damage.

Main Types of Horizontal Commitments		Consumer Country	Source Country	Examples
Intra-Corporate Transferees: ICT				CEO, Manager, Professional Engineer
Business Visitors: BV				Business negotiations (no activity receiving compensation at that time)
Independent Professionals: IP				Independent lawyer who enters foreign country through contract with foreign consumer
Contractual Service Suppliers	Contract between corporations			Computer engineer employed by corporation dispatched to Japan via contract between corporations
	Contract between a corporation and an individual			Independent computer engineer who enters Japan via contract between corporation and individual



**Reference: Reference Paper on Regulatory Framework for Basic Telecommunications Services**

**Items of the Reference Paper**

Scope of Application: These disciplines apply to major suppliers who have the ability to materially affect the terms of participation in the relevant market for basic telecommunications services as a result of control over essential facilities or use of its position in the market.

**1. Competitive Safeguards**

Appropriate measures shall be maintained for the purpose of preventing major suppliers from engaging in or continuing anti-competitive practices.

**2. Interconnection to be Ensured**

Interconnection with a major supplier will be ensured at any technically feasible point in the network.

**3. Interconnection with a major supplier will be ensured at any technically feasible point in the network.**

Any Member has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive per se provided that they are administered in a transparent, non-discriminatory and competitively neutral manner, and are not more burdensome than necessary for the kind of universal service defined by the Member.

**4. Public Availability of Licensing Criteria**

Where a license is required, the following will be made publicly available: (1) all the licensing criteria and the period of time normally required to reach a decision concerning an application for a license, and (2) the terms and conditions of individual licenses.

**5. Independent Regulators**

The regulatory body shall be separate from, and not accountable to, any supplier of basic telecommunications services.

**6. Allocation and Use of Scarce Resources**

Any procedure for the allocation and use of scarce resources, including frequencies, numbers and rights of way, will be carried out in an objective, timely, transparent and non-discriminatory manner.

### 3. Negotiation History

#### *Extended Negotiations*

The Uruguay Round negotiations failed to reach agreement on three areas: maritime transport services, financial services and basic telecommunications services. Negotiations on these sectors, as well as the movement of natural persons (at the request of developing countries), continued after the conclusion of the Round (*see* Figure II-12-6). With regard to movement of natural persons, the developed countries sought liberalization commitments on intra-corporate transferees while the developing countries strongly requested commitments on acceptance of natural persons on a contract basis. Extended negotiations took place and some developed countries amended their commitments. An agreement regarding movement of natural persons was quickly reached in July 1995.

In the maritime services negotiations, the Uruguay Round negotiations included international shipping, auxiliary services such as freight handling, and port usage. Cabotage<sup>1</sup>, however, was not included in the negotiation because many countries restricted foreign service providers from domestic shipping. Negotiations on maritime transportation continued, but ultimately were suspended in June 1996, because the United States did not submit an offer. Negotiations in maritime services resumed when the Doha round of service negotiations began in 2000. Most-Favored-Nation Treatment (MFN) obligations of GATS Article II will not be applied until conclusion of negotiations; thus countries are under a standstill agreement to maintain their present level of restriction.

Regarding financial services, a provisional agreement was reached in July 1995 and, in December 1997, a full agreement was reached among 70 countries on a Most-Favored-Nation basis. The 5<sup>th</sup> Protocol entered into effect and, as of February 2004, had been ratified by 67 countries. As a result, permanent agreement was reached with the United States, EU and with major developing countries in Asia and Latin America.

The initial deadline for basic telecommunications was April 1996, but negotiations were subject to considerable delay. A successful agreement among 69 countries was finally reached on a Most-Favored-Nation basis in February 1997. The agreement resulted in the signing and entering into effect of the 4th Protocol in February 1998 (which defines the deadline for ratification and the procedures for entering into effect; the additional liberalization commitments made by Members are annexed to this protocol).

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<sup>1</sup> Cabotage refers to a right granted to foreign carriers and is defined as coastal navigation and trade, especially between parts within a country. *See Webster's New World Dictionary*, 3<sup>rd</sup> ed. at 194 (1988).

**Figure II-12-6 Framework of the Four Unfinished Areas**

	<b>Financial Services</b>	<b>Basic Telecommunications</b>	<b>Maritime Transport Services</b>	<b>Movement of Natural Persons</b>
<b>Present Situation</b>	Concluded Dec 13, 1997 (came into force on Mar 1, 1999)	Concluded Feb 15, 1997 (came into force on Feb 5, 1998)	Suspended in June 1996 (negotiations resumed in 2000; no significant progress to date)	Concluded July 28, 1995 (came into force on Jan 30, 1996)

### ***The Uruguay Round and Before Seattle***

GATS mandated the continued study of several issues without waiting for the start of the new negotiating round.

First, work on establishing disciplines for professional services was started. In professional services, work had begun in the accounting sector, where progress was being made toward standardization. The Working Party on Professional Services focused on establishing “Guidelines for Mutual Recognition Agreements in The Accountancy Sector” (May 1997) and “Disciplines on Domestic Regulation in The Accountancy Sector,” concerning of elimination trade barriers (December 1998). The disciplines included general, abstract and neutral provisions for transparency, licensing requirements, qualification requirements, qualification procedures and technical standards.

Later, in light of the three years that were required just for the accounting sector and the fact that Article VI:4 of the GATS is not limited to professional services only, some argued that a single organization should discuss disciplines for services as a whole, including professional services. This resulted in the reorganization of the Working Party on Professional Services in April 1999 into the new Working Party on Domestic Regulation, responsible for developing disciplines on domestic regulations for services as a whole, including professional services.

Working groups are also studying government procurement, safeguards and subsidies as they relate to services.

With regard to government procurement, issues had arisen relating to the mandates of GATS Article XIII (to what extent to include transparency, market access, national treatment and MFN), the relationship between government procurement rules and government procurement agreements under GATS, methods of specifying main categories in relation to government procurement spanning multiple categories, and threshold values, among other things.

Some developing countries have taken the position that safeguard measures are required as a safety valve when aiming for ambitious levels of liberalization, but most countries had been passive in negotiations because they are of the view that: existing rules provide sufficient flexibility, the large number of technical issues are regarding the definition of domestic industry, and questions as how to measure injury in service areas where there is no statistical data available

In regard to subsidies, it was agreed in Annex C of the Hong Kong Ministerial Declaration that, bearing in mind issues including the definition of subsidies, and their distorting effect on trade (definition methods, extent of impact on service sectors), etc., further efforts should be made to strengthen information exchange, and that the proposals of Member countries in regard to definitions required for consideration of the subsidy issue should be prioritized. Nevertheless, there was no agreement regarding the scope of subsidies to be considered, and the situation had remained in deadlock.

As described above, the deadline of the negotiations pursuant to the GATS has repeatedly been extended and discussions have continued.

In addition, the Committee on Specific Commitments is discussing development of the procedures for the modification of schedules and revision of the current classification. With regard to classification, the committee has been studying whether there is a need to revise the current classification, as well as the question of new services, and other issues.

The areas in which negotiations are still ongoing were priority areas for both developed and developing countries at the Uruguay Round. In such areas, Member States not only define specific measures regarding market access and national treatment, but also promise some elements which exceed market access and national treatment, such as relaxation of regulations relating to capital investment ratios, and preparation of the "Reference Paper" on the regulatory framework for basic telecommunications services, based on GATS Article XVIII additional agreements (See section 2 of this chapter, "Legal Framework", (2)d) "Other Regulations")

## 4. Economic Aspects and Significance

In many developed countries, service industries account for about 60 to 70 percent of the gross domestic production and a similar percentage of the total labor force, making them a vital component of the national economy. Although to varying degrees, as mentioned in the opening parts in this chapter, this tendency toward a so-called soft economy or service economy is something that can be observed around the world.

### ***Movement of Production Factors***

Unlike trade in goods, trade in services is usually accompanied by movement of production factors such as capital, labor, technology and managerial resources. Although trade in services can sometimes be accomplished without any movement of the service provider or consumer, as in the case of cross-border movement of visual and software products, this is rarely the case. Trade in services often requires relocation of the service provider to the place of consumption (*e.g.*, establishment of a business in the country of consumption, or relocation of natural persons to the country of consumption to provide services), or movement of the consumer to the place where the service is

provided (e.g., repair of machines abroad, or overseas trips for sight-seeing purposes). In addition, services have another characteristic distinct from that of goods: one cannot hold stock in services.

Since trade in services often requires movement of production factors, including capital, labor, technology and management expertise, liberalization of trade in services will create new relationships among production factors originating in different countries. The effects on the domestic economy tend to be large, although the degree differs according to the form it takes, such as direct investment and movement of labor.

Direct investment will, in many cases, take the form of market entry of high-quality competitive service providers. Their participation may, in turn, change business practices in the importing country, have a positive effect on efficiency in the service industry there and provide consumers with a wider range of choices. In this case, existing domestic service suppliers would be faced with increased competition and, at times, be subject to merger or be driven out. However, the negative effects on the labor market are often small, and where new services are created, it will have a positive effect.

Movement of labor will have a more direct effect on the labor market. For example, if there is movement of unskilled labor from a low-wage country to a high-wage country, service suppliers will benefit from the use of cheap labor and be able to supply more cost-effective services. On the other hand, foreign unskilled labor will directly compete with domestic unskilled labor. Significant social costs may arise, depending on scale of the movement of labor.

### ***Effects of Increased Efficiency in the Service Sector***

We need to keep in mind that most services, such as financial services, transport and shipping, communications, distribution, construction, and energy, are inputs to other industries. Therefore, increased efficiency in a certain service sectors may benefit not only the specific service sector itself, but will often have a greater positive spill-over effect in other service and manufacturing sectors. Benefits of trade in a service sector are not limited to increased efficiency in that specific service sector.

To conclude, although the liberalization of trade in services may result in a short-term selection of some inefficient service providers, it will lead to improved economic welfare for consumers through increased competition over quality and prices. Over the long term, it will contribute to better productivity and competitiveness of service providers not only in the liberalized service sector, but also in industries that use that service as an input. The economic benefits gained from liberalizing trade in services are therefore immense. Thus, even in areas where regulation is required, steps must be taken to ensure transparency, procedural fairness and fair competitive conditions.

## **2. TRENDS OF TRADE IN SERVICES NEGOTIATIONS IN THE DOHA DEVELOPMENT AGENDA**

### ***1) Background of Discussions***

#### **(1) Original Negotiation Period (Until January 1, 2005)**

Services liberalization negotiations (Negotiation of Specific Commitments) were mandated by the final agreement of the Uruguay Round, which called for entering into successive rounds beginning in 2000 (GATS Article XIX); this so-called “Built-in Agenda” also applied to agriculture. Discussions after the Seattle Ministerial Conference did not progress smoothly. Following over one year of discussions, the “Guidelines and Procedures for the Negotiations on Trade in Services” was finalized in March 2001; it stipulates negotiating goals, principles, scope and modalities.

Later, at the Doha Ministerial Conference in November 2001, the deadline for the service negotiations along with other negotiation items was set as January 1, 2005. The service negotiations along with other negotiation items became a subject of the single undertaking in the comprehensive round. The Ministerial Declaration requested Members to submit their first request (initial request) for elimination of trade barriers by the end of June 2002, and to respond with the first reply (initial offer) by the end of March 2003.

Japan submitted its initial request to all of the Members; it included the areas voluntarily liberalized after the Uruguay Round. Japan additionally submitted comprehensive negotiation proposals and a joint proposal promoting maritime negotiations, movement of natural persons, exemption of the Most-Favored-Nation Treatment, energy and education. As regards the cross-cutting rules concerning trade in services, Japan submitted a proposal on discipline of domestic regulation (GATS Article VI, 4) and actively participated in negotiations. Despite the deadline for submitting initial offer being the end of March 2003, only a limited number of Members mainly from developed nations submitted the offer. Further, the negotiation at the Fifth Ministerial Conference in Cancun in September the same year practically broke down. As a result, the deadline was extended, causing the negotiation in services to practically stagnate.

Later in the “Framework Agreement” of July 2004, it was agreed to submit improved initial offer, the “Revised Offer” before May 2005. Actions for revitalization of negotiation had been taken including delivering a statement which emphasized the importance of progress in negotiation in each area of trade in services. However, even after the deadline, insufficient numbers of Revised Offers were submitted, which raised the issue that an ordinary approach would not work for achieving sufficient liberalization, and acknowledged the need for an alternative approach among the Members. Accordingly, discussions on objective approaches such as introduction of quantitative objectives, qualitative objectives, and plurilateral negotiations by fields / modes were held.

#### **(2) After the 6th Ministerial Conference (December 2005 in Hong Kong)**

In December 2005 during the Hong Kong Ministerial Declaration, the Members agreed on: (a) setting a qualitative objective as goal of efforts on each of the Modes; (b) introduction of plurilateral negotiations by fields / modes as a negotiation format; and (c) submission of joint requests from concerned Members by the end of February 2006 (as soon as possible), the second version of revised offers from each Member by the end of July, and the final offers by the end of October.

Huge difference in positions between the developed and developing countries toward negotiations in services was a cause of slow progress in the negotiations. In general the developed countries are active in the negotiations because they have competitive service industries in major service sectors such as finance and telecommunications, while the developing countries, which do not have developed service industries, have strong concerns about negotiations on liberalization of trade in services led by the developed countries. Such differences are also evident in interests of developed and developing countries toward the 4 Modes in trade in services; for example, the developed countries are mostly interested in locating their commercial bases in the territory of another country (Mode 3), while the developing countries are highly interested in movement of natural persons (Mode 4).

Following the Hong Kong Ministerial Declaration, plurilateral requests were submitted in February and March 2006 and joint requests in 21 fields were submitted (including the request on tourism in 2007). Japan actively participated in negotiations of all fields, as a requesting Member in 15 fields (including computers, finance, telecommunications, maritime, construction and logistics) and as a non-requesting Member in 6 fields (including movement of natural persons and cross-border trade).

At the informal Ministerial Meeting on services hosted by the EU in July 2006, the importance of the field of services was recognized again at the ministerial level. Also the atmosphere was extremely positive and regarding the contents of the second revised offer, for which the deadline was end of July, Members presented each other their revised offers. However, some developing countries associated the quality of the offers or timing of submitting them with the progress in agricultural field. Submission of all major Members' offers around the deadline was uncertain. Under such circumstances, following the result of Ministerial Meeting on agriculture/NAMA in late July 2006, the WTO Director-General declared suspension of the whole negotiating process, which resulted in the deadline for the revised offer becoming invalid.

Later at the informal committee on trade negotiation in November 2006, the WTO Director-General declared the resumption of negotiations at the working level under the chairman of each negotiating groups. Discussions on future process and contents of liberalization in the second revised offer were resumed. Negotiations meetings were held in January, April, September and November 2007. Discussions were carried out regarding creating guidelines for the liberalization content that should be included in the offer and re-setting the deadline for submission of the next revised offer.

### **(3) Signalling Ministerial Conference (July 2008)**

By 2008, negotiations had further accelerated. The Senior Officers' Meeting (SOM) and the meeting at the Ambassador level, had been convened in Geneva, and also numbers of approaches had been taken in each Member's capital city and bilateral negotiations had been held. As a result, the "Chairman's Report" was issued and the

“Signalling Ministerial Meeting” was convened. In February 2008, the Chair of the service negotiations presented the “Chairman’s Report” to the Members. That report practically contained the draft text for the services, which should be agreed upon when agriculture/NAMA modalities were agreed upon. In May and July of the same year the revised report was presented. The report presented after the informal Ministerial Conference in July 2008 stipulated (a) the level of ambition in services; (b) liberalization standards for future Round offers; and (c) the deadline for the future Round offer and final schedule (depending on the trends of Doha Development Agenda). Also, at the WTO informal Ministerial Conference in July 2008, a “Signalling Ministerial Conference” was convened to share (signal) what should be included in the future Round liberalization offers. (This Conference was attended by the Japanese Minister of Economy, Trade and Industry). At this Conference, many countries (both developed and developing) made positive statements with regard to major service areas, and a statement was issued promising deregulation regarding foreign capital and expansion of market access in the sectors of finance, telecommunication, construction and distribution, and progress was acknowledged in service area negotiations. (As for the results of the conference, a summary was contained in the report by the WTO Director-General, who convened the Conference, without listing individual countries’ names (WTO: JOB(08)/93)). However, the WTO informal Ministerial Conference failed to reach agreement on modalities because the United States and India/China were divided regarding special safeguard measures (SSM) for developing countries, mainly on imported agricultural products.

After the Signaling Ministerial Conference in July 2008, technical discussions regarding the Service Agreement rules continued, but no progress was made in liberalization negotiations for services because of lack of progress regarding agriculture and NAMA modalities. (During this same period, the US fell into a financial crisis, and as a result the leaders of the G20 countries issued a statement agreeing that “within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports”)

During the G8 Summit (in L’Aquila, Italy) in July 2009, there was Ministerial agreement on promoting solutions within the year 2010, and negotiation meetings with experts in different service fields were held. However, the gap between the requesting and non-requesting Members did not diminish, and Members were even worn out as regards bilateral negotiation on market access. Practical progress was not evident after the Signaling Conference. In order to get out of the stagnation of such negotiations, and also to give a good indication to industry of progress in service negotiations, new negotiating approaches including the clustering approach, a negotiation of relevant fields as a whole, had been proposed in mid-2010s and discussions were held.

#### **(4) Toward Bali Package (December 2013)**

The leaders at the APEC meeting in Yokohama and the G20 meeting in Seoul at the end of 2010 committed to conclude the Doha Round, and negotiations accelerated since the beginning of 2011. Although intensive discussions on market access negotiations have been conducted, they have deadlocked, along with negotiations in other areas. Thus, the negotiations have stagnated once again. Progress was made in LDC Modality, the framework of preferential treatment for least developed country



(LDC) Members. (GATS Articles IV:3 and XIX:3 provide that special treatment shall be provided to LDCs.) In June 2011, the WTO Director-General presented nine items in which prior agreement should be sought before the WTO Ministerial Conference to be held in December of the same year. Among the items included was the scheme for preferential treatment to services and services suppliers of LDCs.

At the 8th WTO Ministerial Conference in December 2011, after 10 years had passed since the Doha Round negotiations in 2001, Members acknowledged that the single undertaking, which the Doha Round had been seeking, could be unlikely achieved in the near future. They shared the necessity of exploring “different negotiating approaches” and agreed to proceed with discussions on sectors for which progress could be achieved. In addition, the content of LDC Modality was agreed upon as follows: (a) providing preferential treatment to services and service suppliers of all LDC member countries; (b) the country providing preferential treatment will determine sectors and modes of supply of any service; and (c) the preferential treatment period is 15 years from the date of its adoption.

Through subsequent negotiations, a common understanding was established that trade facilitation and the development of part of agriculture were the sectors for which progress could be made. At the 9th WTO Ministerial Conference held in Bali, Indonesia in December 2013, intense negotiations resulted in agreement on the Bali Package. In that Package, implementation of the LDC Modality was agreed upon, including holding a high-level meeting on LDC Modality six months after the submission of an LDC collective request identifying the sectors and modes of supply in which they were interested in moving toward achieving preferential treatment.

## ***2) Current Overview***

At the 9th WTO Ministerial Conference, it was agreed, as a post-Bali work program, to prepare clear work plans for the remaining issues of the Doha Development Agenda (DDA) within 12 months. However, at the General Council meeting in November 2014, while the significant outcome of the adoption of the protocol of the Trade Facilitation Agreement was achieved, the deadline for post-Bali work plans, including the services sector, was extended to the end of July 2015. As for LDC Modality, LDCs submitted the “LDC collective request regarding the services waiver” to the Council for Trade in Services in July 2014, and a high-level Meeting on the Operationalization of the LCD services waiver was held as a formal Council meeting in February 2015.

An overview of recent discussion held at meetings of the Council for trade in services and its subordinate bodies is as follows.

- (a) At the Council for trade in services, discussions are being held on issues including the above-mentioned LDC services waiver and the Work Programme on electronic commerce, which was agreed upon at the 9th WTO Ministerial Conference.
- (b) At the taskforce on Domestic Regulations, following the Hong Kong Ministerial Declaration, in which Members agreed to develop discipline of Domestic Regulation (international regulations on the license/standard of qualifications/procedures regarding supply of services) before the conclusion of current Round; discussions have been undertaken in parallel with market access negotiations. As a result of intensive discussions, the chairman’s text with

annotations of probable points of conflict and controversy was made publicly available on March 14, 2010. During 2011, despite intensive work on preparing draft text, substantial convergence was not achieved among Members regarding substantive matters of regulation. Currently, discussions mainly focus on: (i) technical issues related to the draft disciplines, (ii) regulatory issues in sectors and modes of supply, and (iii) domestic regulations in regional trade agreements.

- (c) The Committee on Specific Commitments, mainly addresses the classification issue. The sectoral examinations on services classification issues the current GATS was facing associated with rapid technological and commercial advancement in the last 20 years initiated in 2011 and were concluded in 2014. At present, discussions on the classification of “new services” that are not yet classified are taking place.
- (d) At the Working Party on GATS Rules, discussions on emergency safeguard measures, government procurement and subsidies are being held. Discussions on emergency safeguard provisions in regional trade agreements were initiated in 2014. Discussions on government procurement are also continuing, and the final version of the Staff Working Paper is expected to take place in 2015. As regards subsidies, the Secretariat issued its Background Note, but responses of Members varied. More conceptual work on subsidies would be needed.
- (e) The committee on Trade in Financial services is holding discussions on trade in financial services and development, regulatory issues in financial services, and technical issues (classification issues), etc. Regarding trade in financial services and development, discussions on “financial inclusion” were embarked, and seminars on mobile banking were held in November 2014 at the proposal of China. The committee also continues to monitor the status of acceptance of the 5th Protocol of GATS (Brazil has not accepted).

### **3) A Negotiation on New Agreement on Trade in Services**

A long time has passed since GATS came into force in 1995. During this period several countries have requested the WTO to revise commitments and develop new rules corresponding to changing circumstances due to the technology revolution including expansion of internet, and changes in the reality of supply/consumption of services. However, the Doha Round remained in deadlock with little hope for rapid progress, and Members had driven forward the liberalization of trade in services through conclusion of EPAs/FTAs.

At the 8<sup>th</sup> WTO Ministerial Conference held in December 2011, agreements were made on: (1) non-suspension of the Doha Development Agenda which developing countries strongly support; and (2) working on “new approaches” which build upon possible outcomes, including partial agreements and prior agreements, while admitting that a single-undertaking would be impossible to fulfill at the moment.

Accordingly, in the beginning of 2012 some Members volunteered to start holding discussions on development of a new negotiation for liberalization of trade in services as one of the “new approaches”. With the purpose of upholding and expanding momentum in negotiation, securing transparency toward developing countries and encouraging them to join the discussions, the media release “Advancing Negotiations on Trade in Services”, a summary of the unanimous opinions in 6 months of discussions, was made publicly available on July 5, 2012. The voluntary Members

continued holding discussions, and proceeded to the full-scale negotiation phase by June 2013. Members from 22 nations/regions participated (Japan, United States of America, European Union, Australia, Canada, Republic of Korea, Hong Kong China, Separate Customs Territory of Taiwan, Penghu Kinmen and Matsu, Pakistan, Israel, Turkey, Mexico, Chile, Colombia, Peru, Costa Rica, Panama, New Zealand, Norway, Switzerland, Iceland, Paraguay, Liechtenstein and Uruguay (as of February 2015)).

This new negotiation aims at developing new advanced rules suitable for the 21<sup>st</sup> Century, adopting more liberalized rules in trade in services than the current GATS rules and outcomes of the current EPAs. Japan will actively address consensus-building in these important fields of trade in services working together with concerned Members.

**Reference: Advancing Negotiations on Trade in Services**

**Abstract of Media Release (Issued on July 5, 2012)**

- Over the past several months, a number of WTO Members have been exploring different negotiating approaches aimed at the progression the liberalization of trade in services.
- We have found that the WTO General Agreement on Trade in Services (GATS) provides a strong foundation. At the same time, there have been considerable developments in advancing the liberalization of trade in services in the sixteen years since its conclusion.
- A significant number of Members have made great advances in opening up their markets, both autonomously as well as through more than 100 services trade agreements notified to the WTO. Many of these agreements have broken new grounds both in terms of market access and in the development of improved services trade rules.
- We believe it is time to bring this progress back to Geneva with the ultimate aim of reinforcing and strengthening the rules-based multilateral trading system.
- We plan to move our exploratory discussions to a new phase aimed at clearly defining the contours of an ambitious agreement on trade in services to allow us to undertake any necessary consultations or procedures prior to any negotiations. Any such agreement would build upon the achievements of the GATS and the developments mentioned above. Such an agreement would aim to capture a substantial part of the liberalization achieved in other negotiations on trade in services. The outcomes of the agreement could then be brought into the multilateral system.
- Any such agreement should:
  - Be comprehensive in scope, including substantial sectoral coverage with no *a priori* exclusion of any sector or mode of supply;
  - Through negotiation, include market access commitments that correspond as closely as possible to actual practice and provide opportunities for improved market access; and
  - Contain new and enhanced rules developed through negotiations.
- We encourage other WTO Members who share a high level of ambition for the liberalization of trade in services, including these objectives, to take part in this

effort. We are considering how to further broaden participation of developing countries and how to take into account the interests of least developed countries.

### **3. MAJOR CASES**

#### ***1) Canada –Measures Regarding Automobiles (DS139, 142)***

Canada's preferential measures for wholesale automobile services under the "Auto Pact" violate the most-favored-nation (Article II) and national treatment (Article XVII) obligations of the Services Agreement (GATS). Japan, together with the EC, contested Canada's auto program before the WTO; the Panel upheld virtually all of Japan's arguments. However, in May 2000, the Appellate Body overturned the Panel ruling, finding insufficient evidence that Canada's program impacted services. Canada, after completing its public comment procedures, issued an administrative order eliminating the preferential measures effective 18 February 2001. (For details, *see* the section on Canadian automobile measures in Part II, Chapter 1, Most-Favored-Nation Principle.)

#### ***2) Mexico –Telecommunication Services (DS204)***

Mexico permits several carriers to offer international telephone services, but the international long-distance telephone service regulations mandate "negotiations on interconnection rates with telecommunication businesses from certain countries by the long-distance service licensee that has achieved the largest share in the long-distance telephone market over the 6 months preceding the negotiations." In practice, accounting rate systems for settling interconnection rates with carriers from certain countries are conducted solely by TELMEX (Mexico's telecommunications company), which controls 60 percent of the market; other Mexican carriers merely apply the rates to which it agrees (the so-called uniform accounting rate system). The United States claimed that: (i) this accounting rate system is not based on actual costs; (ii) the system allows exclusive negotiation rights and the uniform accounting rate is unreasonable because it permits the major service provider to engage in anti-competitive activities; and (iii) the practice is contrary to the "Reference Paper on the Regulatory Framework for Basic Telecommunications Services" ("Prevention of Anti-Competitive Practices" and "Interconnection to be Ensured") included by Mexico in its specific commitments. The United States also claimed that Mexico's measures prohibiting foreign companies from supplying services by using public telecommunications transport networks and services violates the duty set forth in the GATS "Annex on Telecommunications," which obligates Members to ensure access to and use of public telecommunications transport networks and services on reasonable terms and conditions. In August 2000, the United States requested WTO consultations with Mexico. In November of that year, the United States requested that a panel be established and again sought consultations with Mexico. The consultations took place in January 2001 and in February 2002. Japan participated as a third-party. A WTO panel was established on April 17, 2002. The panel issued its report in April 2004; the report was adopted on June 1, 2004. The panel found against Mexico with respect to the GATS "Annex on Telecommunications". (Concerning measures prohibiting the provision of services by foreign companies using public telecommunication transport networks and services, although Mexico has committed to

the liberalization of Mode 3 (commercial presence), it has not committed to Mode 1 (cross-border supply of services). Therefore, prohibiting the provision of services in Mode 1 did not constitute a breach of the Agreement, and only the section that prohibited the provision of services in Mode 3 was considered a breach of the Agreement.)

In accordance with the findings of the panel, Mexico and the United States reached an agreement in June 2004. Mexico issued revised international long-distance telephone service regulations in August of the same year

### ***3) United States –Online Gambling Services (DS285)***

The United States regulates internet gambling services. In March 2003, Antigua and Barbuda requested WTO consultations with the United States claiming that the US regulations violated US commitments to liberalize entertainment services (no restrictions to be imposed on Mode 1: cross-border supply of services), as well as GATS Articles XVI (Market Access), VI (Domestic Regulation), XI (Payments and Transfers) and XVII (National Treatment). Antigua requested the establishment of a WTO panel in June 2003. The panel issued its report on April 30, 2004, and circulated copies to Members in November 2004. The panel found that US federal regulations and state laws violated US market access commitments under GATS Article XVI. However, the panel did not make any judgment on the consistency/inconsistency with other articles of GATS. Both parties appealed the ruling of the panel in January 2005, and the Appellate Body found violation of GATS Article XVI on the part of the United States.

After that, an implementation panel pursuant to Article 21.5 of the DSU was established due to the divergent opinion among the parties regarding the existence and/or consistency of measures implemented by the United States to comply with GATS. A panel report saying that the US had not implemented the DSB's recommendations was issued on March 30, 2007 and adopted by the DSB on May 22, 2007. Thereafter, on June 21, 2007, Antigua requested approval of countermeasures (suspension of concessions and other duties under the GATS and TRIPS agreements) pursuant to Article 22.2 of the DSU. Upon the request of the US on July 23, 2007, the case was submitted to arbitration regarding the amount of the countermeasure. On December 21, 2007, the arbitrator's report approving the countermeasure on the TRIPS Agreement was issued, although its amount was drastically reduced (from the 3.443 million US dollars per year that Antigua demanded to 21 million US dollars per year).

Meanwhile, on May 8, 2007, the US informed the Member countries that it would renegotiate its Schedule of Specific Commitments to exclude gambling and betting services. Concerned countries have the right to negotiate for compensation if this action by the US has any negative effect on their interests. Negotiations were not successful, so Antigua and Costa Rica requested arbitration to determine the level of compensatory adjustment as provided by GATS Article XXI:3(a). (Later, Costa Rica came to an agreement on the US proposal for compensation, and reported the completion of negotiation and suspension of arbitration to the Dispute Settlement Body. The arbitration between Antigua and the US has been suspended upon mutual agreement).

Antigua had been requesting mediation by the Director-General to resolve the problem since the issuance of the above arbitrator's report. However, it requested that the DSB approve the suspension of concessions and other duties under the TRIPS Agreements pursuant to Article 22.7 of the DSU on December 13, 2012.

***4) China — Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products (DS363)***

On acceding to the WTO, China agreed that, within three years of accession, it would bring its measures regarding the import and distribution of publications (books, newspapers, etc.) and audiovisual products (CDs and DVD, etc.) by foreign companies into compliance with WTO requirements. However, the Chinese government still restricts operating in such industries to either national Chinese companies or companies in which the majority investment is Chinese capital. In April 2007, at the same time as the U.S. raised the problem of intellectual property rights systems regarding import and distribution restrictions relating to Chinese copyright (DS362), it also requested a consultation with China based on the WTO Agreement. The subsequent bilateral consultation failed to reach an agreement, and in October of the same year the U.S. requested the formation of a Panel. The Panel was established at the November meeting of the WTO Dispute Settlement Body.

In August 2008, the Panel found that there had been a violation of Article XVII (national treatment) of the GATS Agreement, mainly because of the following four points:

- (1) While China had agreed to unlimited national treatment under the terms of its GATS Agreement for third mode distribution (wholesale) service, foreign-owned companies within China were effectively prevented from participation in the distribution of imported publications.
- (2) While China had agreed to unlimited national treatment for distribution (wholesale and retail) services, it in fact prohibited foreign-owned companies from engaging in master distribution (one form of distribution for which the permission of a master distributor is required for the sale of publications).
- (3) Discriminatory minimum capitalization requirements and operating period restrictions placed only on foreign-owned companies when engaging in the wholesale of publications. (In regard to the prohibition on foreign-owned companies distributing publications in electronic form, the Panel found that this may also constitute a violation of GATS Article XVII, but the Panel denied the claim by the U.S. on this point since the proof that foreign-owned companies were unable to engage in the distribution of publications in electronic formats was not sufficiently made).
- (4) China had included within its agreement the category of "Sound Recording Distribution Services" under the heading "Audio Visual Services", and this could be interpreted to include distribution of audiovisual recordings in non-tangible forms, for example in electronic formats using technology such as the internet. In effect, however, foreign-owned companies were prevented from engaging in the distribution of audiovisual products, particularly in electronic formats using technology such as the internet.

Furthermore, the Panel found that there had been a violation of Articles XVI and XVII of GATS in the measure that disqualified companies with more than 50% foreign capital from engaging the distribution of videos, DVDs or other audiovisual home entertainment products despite the fact that China had agreed not to restrict investment ratios by foreign-owned companies engaging in mergers with companies involved in video distribution services. (China appealed the Panel decisions in regard to sound recording distribution services to the Appellate Body, but it upheld the Panel's decisions). Ultimately, the breach of the treaty obligation by China was confirmed in December 2009, with the DSB setting the period to comply with the measures as ending on March 19, 2011.

Afterward, at the meeting of the WTO Dispute Settlement Body held on February 22, 2012, China announced that it had fulfilled the majority of the DSB's recommendations, and that both China and the US reached a memorandum of agreement to settle the dispute on February 18, 2012. According to the US-China joint communication addressed to the chairman of the Dispute Settlement Body as of May 9 of the same year, the memorandum includes requiring: (1) the importation of at least 14 titles of IMAX and 3D, high-definition films on top of the 20 titles that the Chinese Government set for itself within the framework of the annual distribution restrictions for foreign films (import approval calculated according to the profit sharing formula); (2) raising profit distribution for film producers to 25%; (3) to allow Chinese enterprises including private enterprises to enter the market of foreign film distribution; and (4) the United States and China to hold consultations on the main factors of the memorandum five years later and discuss the issues of the DSB's recommendations. China announced that it had fulfilled all of the DSB's recommendations at the WTO DSB meeting held on May 24, 2012. Meanwhile, the United States stated that the agreed memorandum represents major progress but is not the final solution.

Japan will continue to follow the development of this situation between the US and China, and also the development of the reform and implementation of relevant Chinese judicial systems as well as seeking further deregulation regarding foreign capital in bilateral policy dialogues and the WTO service negotiations.

### ***5) China — Regulations Related to Electronic Payment Services (DS413)***

The Chinese government is currently implementing various measures in order for China Union Pay ("CUP") to monopolize electronic payment service ("EPS") for payment in China's domestic currency, Renminbi ("RMB") in China. The United States requested consultations with China on September 15, 2010, alleging that China appears to be acting inconsistently with its obligations under Article XVI (market access) and Article XVII (national treatment) of GATS. A panel was established on March 25, 2011. Japan reserved its third-party rights (as did Australia, Ecuador, the EU, Guatemala, India and Republic of Korea).

The United States alleged that China refuses to allow foreign suppliers of EPS to establish the processing infrastructure and network in China or to process payment transactions in China denominated in local currency (RMB). Therefore, foreign suppliers of EPS need to make payments through China's monopolized payment network (China Union Pay) by entering into a joint venture with Chinese operators. The

United States believes that these regulations are not consistent with China's commitment when it acceded to the WTO to provide by December 11, 2006, both market access and national treatment for "all payment and money transmission services, including credit, charge and debit cards" to foreign financial organizations in foreign and local currency.

The Chinese measures that the United States claims to be inconsistent with obligations under the GATS are the following:

- 1) Requirements that mandate the use of CUP and/or establish CUP as the sole supplier of EPS for all domestic transactions denominated and paid in RMB.
- 2) Requirements for institutions that issue payment cards to bear the CUP logo on RMB-denominated payment cards (including bank, credit, charge and debit cards) issued in China. The institutions that issue payment cards to consumers must also have access to the CUP system.
- 3) Requirements that all automated teller machines ("ATMs"), merchant card processing equipment, and POS terminals in China accept CUP cards.
- 4) Requirements that mandate all acquirers (contracting merchants) to post CUP logos and accept all payment cards with CUP logo.
- 5) Broad prohibitions on the use of non-CUP cards for domestic and inter-bank transactions.
- 6) Requirements pertaining to card-based electronic transactions in China, Macao and Hong Kong. (China requires that CUP be used to handle all RMB transactions in Macao or Hong Kong using bank cards issued in China, and all RMB transactions in China using bank cards issued in Macao and Hong Kong.)

Whether the measures described above breach the commitments China made when acceding to the WTO are dependent on the WTO service category in which electronic payment services and RMB transactions are classified.

The United States claimed that the services in question constituted "all payments and money transmission services (in Sector 7B, under the Banking and Other Financial Services in China's Service Schedule), and stated that China committed to providing market access and national treatment in the Specific Commitments in its GATS Schedule when it acceded to the WTO.

China claimed that it had not made commitments to open RMB bank cards and the clearing and settlement market to foreign-funded institutions, and that these services were categorized as "settlement and clearing services for financial assets (which relate to issues such as securities settlement)" in the Annex on Financial Services.

The panel report was distributed to the Members on July 16, 2012. Neither the United States nor China brought an appeal to the Appellate Body, and the panel report was adopted at the DSB meeting on August 31, 2012.

The panel first construed China's commitment taking into account the regular meaning of its words in their context and in light of object and purpose of the agreement. EPS was found to fit in the category of "all of the payment and transfer services (including credit, charge and debit card)".



Second, the panel reviewed whether or not the above measures of 1 to 6 existed as the US claimed, and recognized existence of measures 2, 3, 4, and 6. As regards to existence of the measures 1 and 5, after conducting reviews on each legal document indicated by the US, the panel did not recognize that such measures would establish CUP as the sole supplier or prohibit the use of other service supplier upon EPS paid in RMB.

Third, the panel found that measure 6 violated Article XVI, Paragraph 2 (a), which prohibits restricting the number of service suppliers. The panel found that China made CUP the exclusive service supplier on certain transactions.

Fourth, the panel considered that measures 2, 3, and 4 violated Article XVII, Paragraph 1 because it treated EPS suppliers from other member countries less favorably than CUP.

As reported above, the US and China reached an agreement to set the implementation period as 11 months from the adoption of the panel report (August 31, 2012), ending on July 31, 2013.

## **Column: E-Commerce-Main Points of Discussion**

### ***1) Main Points in WTO Discussion on E-Commerce***

E-commerce has prompted WTO discussions over its relationship with existing WTO agreements because it symbolizes a new form of trade which frequently involves cross-border transactions. Specific areas being discussed are as follows:

#### **(a) Handling of Digital Content Under Current Agreements**

E-commerce is bringing substantial changes to the distribution structures for goods and services. The change does not remain in electronic processing of contracts and settlement of accounts; digital content lends itself to on-line distribution and, as a result, a market for international distribution is growing.

In the context of trade, the question is how to discipline on-line cross-border transactions of digital content within the context of the WTO.

The EU asserts that electronic commerce is a service activity and, from the standpoint of technical neutrality, should be disciplined only by the GATS. Digital content as well should be recognized as a form of service trade similar in nature to the programming content of broadcasting services.

Japan's position on this issue is that in cases where recording and cross-border transactions of digital contents through carrier media, for example paper or diskette form, fall within the coverage of GATT disciplines, it is appropriate that the same digital contents transmitted through the Internet should also be granted GATT-level treatment, *i.e.*, unconditional application of MFN, national treatment and the general prohibition of quantitative restrictions. The US similarly argues that, in discussing disciplines on digital content, it is essential to keep in mind the need to develop electronic commerce instead of restricting it via the narrow confines of the GATT or GATS. The US also argues that those disciplines should not reduce the level of market access currently

enjoyed. Japan is wary of the EU's position that electronic commerce should be governed entirely by the GATS. The United States argued that, if governed exclusively by the GATS, the rapidly developing e-commerce field could be subject to the most-favored-nation exemptions and reservations of market access and national treatment obligations that the EU has invoked for the 155 service sectors (particularly cinema, broadcasting), primarily for cultural reasons. It is essential to assure basic WTO principles such as most-favored-nation and national treatment for the distribution of digital content.

### **(b) Taxation of Electronic Transmissions**

Digital content that used to be delivered in physical form on floppy disks and CD-ROMs is increasingly being delivered on-line across national borders. The main problem in attempting to tax these cross-border transactions is that it is almost impossible for customs agencies to monitor them. If one attempts to tax the means of electronic transmission (for example, the transmission log) as a substitute, one runs the risk of imposing taxes far in excess of the value of the content because it is impossible to value the digital content itself separately from the means of transmission.

In addition to these difficulties in collecting customs duties on electronic transmissions, there is also the need to ensure a free trading environment to foster the growth of e-commerce. This has led many to support the establishment of an international agreement not to impose custom duties on electronic transmissions.

At the Second WTO Ministerial Conference in 1998, Members agreed to a "Ministerial Declaration on Global Electronic Commerce" that promised to maintain the current practice of not imposing customs duties on electronic transmissions until the next Ministerial Conference (1999). However, when physical goods are moved, ordinary tariffs apply.

The impasse at the Third Ministerial Conference in 1999 delayed agreement on the handling of the taxation moratorium. The Fourth Ministerial Conference in Doha, Qatar in November 2001, however, officially announced that the moratorium would be extended until the Fifth Ministerial Conference. Although the September, 2003 Fifth Ministerial Conference in Cancun collapsed and the taxation moratorium was not extended, Members agreed in the General Council in July 2004 that the moratorium would be extended until the Ministerial Conference in Hong Kong scheduled for the end of 2005. Afterward, Members agreed to extend the moratorium until next Ministerial Conference at the Sixth WTO Ministerial Conference in Hong Kong (December 2005), the Seventh Ministerial Conference (December 2009), the Eighth Ministerial Conference (December 2011), and the Ninth Ministerial Conference (December 2013).

### **(c) Fiscal implications of e-commerce.**

It is difficult in electronic commerce to identify where goods are produced and consumed. This raises the question of how to harmonize electronic commerce with traditional concepts and practices in state taxation. Developing countries have expressed concern that the expansion of electronic commerce will lead to a reduction in state tax revenues. In order to convince developing countries otherwise, it is necessary

to study the positive effects that the promotion of electronic commerce will have on national economies as a whole and on the negative impacts that may be seen in state tax revenues.

#### **(d) Japan's Effort**

The development of concrete rules will be crucial in facilitating the further evolution of e-commerce and the creation of an internationally harmonized e-commerce environment. Recognizing this, Japan has participated actively in WTO discussions on e-commerce. The Ministry of Economy, Trade and Industry (the former "Ministry of International Trade and Industry") issued its first proposal in June 2000, a second in October and a third in June 2001 to identify and stimulate discussion on key issues for consideration in relation to e-commerce and the WTO. The paper is available on the Ministry of Economy, Trade and Industry website at:

[http://www.meti.go.jp/policy/trade\\_policy/wto/wto\\_db/html/ec\\_pro0010e.html](http://www.meti.go.jp/policy/trade_policy/wto/wto_db/html/ec_pro0010e.html).

#### **Summary of Japan's proposal:**

##### ***- Basic Concept***

E-commerce is a powerful tool in the future world economy. It has the ability to alleviate the international gaps in information and to help achieve a global "eQuality". The term "eQuality" implies a strong faith in the absolute necessity of "equality" and "quality of life" for people living in the information society. The ideas expressed in the "eQuality" proposal are based on the principles and concepts founded in the "Okinawa Charter on Global Information Society" issued by the Kyushu-Okinawa Summit in July 2000, and on the Basic Law on the Formation of an Advanced Information and Telecommunications Network Society (IT Basic Law) that took effect in January 2001. The proposal attempts to balance three sets of competing interests.

The first is the balance between the interests of enterprises and the interests of consumers. We seek to ensure "eQuality" in the information society of all countries, and we must take care that corporate activities do not harm the interests of consumers. WTO members should take into consideration the viewpoints of both consumers and the industries when they formulate and implement policies.

The second is the balance between developed and developing countries. It is vital that we provide reliable, stable networks at a global level so that both developed and developing countries have the opportunity to expand their e-commerce opportunities. As we make the transition to an information-centered society, liberalization and facilitation alone will not be enough. We must create consistent environments that accommodate different social and cultural circumstances, and we must build capacity in developing countries so that both developed and developing countries enjoy "eQuality".

The third is the balance between liberalization and rules. Liberalization in the network economy invigorates economies by enabling corporate activities to expand internationally. On the other hand, there are justified fears that the information economy may give rise to an international oligopoly of global companies. Enjoying the benefits

of liberalization is predicated upon fair competition in liberalized markets. Rule-making is also vital to the building of a vigorous, active cyberspace, because people must be able to participate in market environments with full confidence that they will work. Thus, there must be a balance in the legal environment between promotion of the liberalization of e-commerce and the maintenance of necessary consumer protection and order.

***- Main points raised in Japan's proposal***

***The establishment of the "E-commerce Committee"***

To take these considerations a step further, Japan proposed the establishment of an "E-commerce Committee" (provisional title) under the auspices of the General Council. The new Committee should follow the progress of negotiations at the various Councils, providing guidance to them where appropriate, while also conducting its own considerations centered on cross-cutting issues beyond the mandates of individual Councils.

***Trade Liberalization of E-Commerce-related Sectors***

As borderless e-commerce entails the cross-border provision of telecommunications, settlements, distribution and other related services, market access also needs to be secured for these related services.

From the perspective of promoting the liberalization of trade in services closely related to borderless e-commerce, Japan supports the idea of selecting certain services as the "e-commerce cluster".

***Consideration of domestic regulatory principles***

The development of e-commerce makes it easier for companies to participate in markets in a number of countries, but also underscores issues related to domestic regulation. States continue to introduce a range of domestic regulations to achieve their respective policy goals, and these domestic regulations could potentially obstruct cross-border e-commerce and restrict trade.

It is desirable that domestic regulations in different countries be unified and minimized so as not to impair the development of e-commerce. Objectivity, transparency and necessity (*i.e.*, "no more burdensome than necessary") in domestic regulations related to e-commerce should be ensured as domestic regulatory principles. It is important to work toward the formation of additional principles and the criteria for determining them in light of the principles mentioned above.

***Capacity Building of Developing Countries***

The WTO and its Members should consider assistance to developing countries so that the benefits of e-commerce are spread equally to them. Specific forms of cooperation might include technology cooperation, infrastructure creation, sharing of information and experiences through close policy dialogues, and cooperation using regional frameworks like APEC.

The full paper on e-commerce is available on the Ministry of Economy, Trade and Industry website at: (Japanese only)

[http://www.meti.go.jp/policy/trade\\_policy/wto/wto\\_db/html/ec\\_pro0106j.html](http://www.meti.go.jp/policy/trade_policy/wto/wto_db/html/ec_pro0106j.html)

## **2) *Background of WTO Discussion***

The background of WTO discussions on electronic commerce is as follows:

### **(a) Adoption of Ministerial Declaration on Global Electronic Commerce**

At the second WTO Ministerial Conference (the Geneva Ministerial Conference) in May 1998, ministers adopted a “Ministerial Declaration on Global Electronic Commerce.” The Declaration paved the way for the formulation of a work programme for the consideration of all trade-related aspects of e-commerce and instituted a moratorium on the taxation of electronic transmissions.

### **(b) Creation of Electronic Commerce Working Programme**

The work programme was created in October 1998 in response to the May 1998 declaration from the Second WTO Ministerial Conference. Subsidiary bodies (the Council for Trade in Goods, Council for Trade in Services, Council for TRIPS, and Committee on Trade and Development) discussed these issues through July 1999 and reported their findings to the General Council

### **(c) Suspension and Re-Opening of the E-Commerce Work Programme**

The E-Commerce Work Programme had, for all intents and purposes, been suspended since the collapse of the Seattle Ministerial Conference in October of 1999. However, high demands for liberalization and rule formulation for rapidly developing e-commerce-related sectors, spurred the General Council to announce the resumption of the Work Programme in July 2000, nearly six months after its suspension at the Seattle Ministerial. While various WTO subsidiary organizations are addressing individual e-commerce issues, Japan and other WTO Members have come to recognize that many issues regarding the impact of e-commerce on WTO disciplines require crosscutting consideration beyond the capacity of these organizations. Subsequently, it was decided to hold a dedicated discussion on e-commerce in June 2001 as an arena for intensive discussion among experts on crosscutting issues. Presently, the WTO is considering the establishment of a taskforce on e-commerce to develop a broad understanding of the impact that it will have on WTO disciplines (the impact on trade in goods, services and intellectual property, etc.).

### **(d) Fourth WTO Ministerial Conference**

The Fourth WTO Ministerial Conference adopted a Ministerial Declaration. It was agreed to continue the moratorium on taxation of electronic transmissions until the Fifth Ministerial. Members also agreed to continue the Work Programme on Electronic Commerce and instructed the General Council to consider the most appropriate institutional arrangements for handling the Work Programme and to report on further progress to the Fifth Session of the Ministerial Conference.

### **(e) Discussions after the Doha Ministerial Conference**

After the Doha Ministerial Conference, electronic commerce issues were examined principally in the dedicated discussion under the General Council. At the second meeting (May 2002) and thereafter, discussions on classification issues and fiscal implications have continued. Along with other countries, Japan actively contributes and has submitted a paper outlining its cooperation in IT areas from the perspective of development. Since a seminar under the auspices of the Committee on Trade and Development was held in April 2002, developing countries were interested in these issues. As a result of Members' efforts and intensive discussions, developing countries gradually understand the importance of promoting electronic commerce.

Also, the United States proposed that Members seek to reach an agreement on basic principles for the further development of electronic commerce (assurance of free trading environment, expansion of market access, permanent moratorium on custom duties, etc.). This idea was broadly supported by developed countries.

Moreover, parties agreed during the July 2004 General Council meeting that the moratorium would be extended until the Ministerial Conference in Hong Kong in December 2005.

#### **(f) Sixth WTO Ministerial Conference in Hong Kong (December 2005)**

The Sixth WTO Ministerial Conference declared that Members would maintain their current practice of not imposing customs duties on electronic transmissions until the next Session of the Ministerial Conference. Members took note that the examination of issues under the Work Program on Electronic Commerce was not yet complete, and they agreed to reinvigorate that work, including development-related issues and discussions on the trade treatment of electronically delivered software.

#### **(g) Seventh WTO Ministerial Conference in Geneva (December 2009)**

Since no regular WTO Ministerial Conference was held between the Hong Kong Ministerial Conference and this conference, the moratorium on payment of customs duties had been ongoing. At the 2009 Ministerial Conference, however, Cuba led said that developing nations were not seeing sufficient benefits from Electronic Commerce, and opposed maintaining the moratorium. However, since there were some developing countries pressing for the extension of the moratorium, claiming they benefited from it, it was agreed to extend the moratorium until the next Ministerial Conference in 2011. Concerning the Work Program on Electronic Commerce, it was agreed: a) to revitalize the work energetically; b) for the General Council to conduct regular reviews on the progress of the Work Program; and c) for the Work Program to include discussions on the fundamental WTO principles and the handling of software sent electronically during trade.

#### **(h) Eighth WTO Ministerial Conference in Geneva (December 2011)**

At the eighth WTO Ministerial Conference, WTO Members agreed to extend their current practice of not imposing customs duties on electronic transmissions until the ninth Ministerial Conference. Concerning the Work Program on Electronic Commerce, in order to present any recommendations on possible measures related to electronic commerce to the next Ministerial Conference, during sessions of the

Work Program in July and December 2012 and July 2013, it was agreed to continue the reinvigoration of the Work Program, with special consideration toward developing countries, and particularly least developed country Members, in order to: (a) enhance access to public internet sites; (b) to examine access to electric commerce by micro-, small and medium-sized enterprises; and (c) for the General Council to hold periodic reviews to assess the progress of the Work Program and consider any recommendations.

**(i) Ninth WTO Ministerial Conference in Bali (December 2013)**

At the ninth WTO Ministerial Conference, WTO Members agreed to extend their current practice of not imposing customs duties on electronic transmissions until the next Ministerial Conference. Concerning the Work Program on Electronic Commerce, it was agreed to continue active work, comply with the basic principles of the WTO (including non-discrimination, predictability, and transparency), expand application of electronic commerce while providing developing countries (in particular, least developed countries) with special considerations, continue investigations of access to electronic commerce by micro, small and medium-sized enterprises, and hold periodic reviews on the progress status of the Work Program by the General Council, etc.

***EU Value Added Tax (VAT) on Electronically Distributed Services***

The EU adopted an amended Directive VAT (2002/38/EC) in May 2002, requiring non-EU companies selling digital contents to EU consumers to collect a VAT based on the country in which the consumer resides. EU members had to implement the directive by July 2003. Almost all Members have completed domestic legislation.

Under the directive, for transactions between non-EU businesses and EU consumers, companies will be required to register with a VAT authority in any one EU member state of their choice, and to levy a VAT at the rate applicable in the member state where the consumer of the service resides (place of consumption). On the other hand, for transactions between EU businesses and EU consumers, the companies charge a VAT at the location where the supplier of the service is established when making sales to the final consumer (country of origin approach). There are concerns that non-EU companies with no establishment in the EU will face more onerous administrative and compliance costs than EU companies, because they would have to verify the locations of all purchasers and charge the appropriate VAT rate.