HOW TO INCLUDE ‘MODE 5’ SERVICES COMMITMENTS IN FTAS AND AT MULTILATERAL STAGE

Presentation by

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How to include ‘Mode 5’ services commitments in FTAs and at multilateral stage

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Servicification

Services increasingly traded as part of or linked to goods by service sectors (Mode 5)

Including:
- Financial
- Transport
- Logistics
- Software
- R&D
- Environmental

Used by:
- Primary sectors
- Industrial sectors

Used as:
- Inputs
- Bundled
- Firms' activities

“MODE 5”

GOOD'S TRADE
A laser sensor scans 360 degrees around the vehicle for objects and helps determine its location.

Radar helps determine speed by detecting and measuring the speed of vehicles ahead.

Orientation sensor located inside the car tracks the car’s motion and balance.

A processor reads the data from the sensors and regulates vehicle behavior.

Wheel hub sensor detects the number of rotations to help determine the car’s location.
NZ Productivity Commission (2014): Over 50% of value logging, loading, harvesting, trucking, marshalling at the port, fumigation.

China and Hong Kong (P. Low 2014) study:
- 30 different services
- 72% of value
MODE 5

Challenges

recognized as a mode of supply under the GATS

transactions subject to tariff barriers/quotas for goods

rules of origin in FTAs favor country of assembly

Penalizes high services value added exports

...or knowledge
Key Findings

Turning attention to liberalization of trade in goods to reflect Mode 5 concerns on short term

More comprehensive solution on longer term e.g. comprehensive Global Value Chains [GVC] treaty at WTO

Work on definition: suggested preliminary definition for Mode 5 services

Services added or linked to goods whose value and origin can be detected for customs valuation of the relevant goods
## WTO options explored

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<thead>
<tr>
<th>Option</th>
<th>Pros</th>
<th>Cons</th>
<th>Complexity</th>
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</table>
| **Customs value addition (Art 8.1 (b) CVA WTO)** | Explores options outside formal amendment (e.g. CVA Com Decision) | • Limited in scope territorially and services  
• To check admin burden on business  
• Objection by dev’ing countries | Medium-Low (depending on scope) |
| **Expanding carrier media exception** | • Soft law option e.g. CVA Com Decision  
• Applied by a subset of MS | • Very limited in scope and not suitable to address Mode 5 | Medium-Low (depending on scope) |
| **Amending the Harmonized System (WCO)** | • Multilateral approach (all HS Parties)  
• WCO as front-runner | • Lengthy timelines  
• Identify technical feasibility | Medium-High |
| **GVC Treaty** | • Multilateral approach  
• Comprehensive long-term GVC friendly rules  
• Possibility of a plurilateral | • Lengthy timelines  
• Still need for consensus for plurilateral | Medium-High; Outside WTO (?) |
## As options

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<tr>
<td>Customs value deduction (Art 8.1 (b) GATT/WTO)</td>
<td>Bilateral; easier to agree</td>
<td>To check admin burden on business</td>
<td>Medium-low</td>
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</table>
| Secondary rule of origin (RoO) | • Bilateral option so easier to agree  
• Minor re-design of RoO | Sensitivity of RoO in EU and divergent interests by sector and countries | Medium-low |
Recommendations

- Improve definition of Mode 5 services
- Develop additional economic analysis (case studies)
- Conduct awareness raising (industry, Member States)
- Consolidate relevant knowledge at WTO, OECD, UNCTAD
- Map out possible implementation issues under selected options
Further Research

Sectorial case studies

Further assessment of gains for developing countries

Legal decision-making options (pluri- or multilateral agreement) at WTO (or outside)

A GVCs treaty
THANK YOU

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