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Distribution services

Note by the UNCTAD secretariat

Executive summary

Distribution services are at the core of the logistics chain through which markets materialize. An efficient distribution system is needed to support development, enhance consumer welfare and improve international competitiveness of developing countries. Developing countries seek access to global distribution channels for their goods and services as a means for their effective integration into the global economy. In most developing countries, distribution services retain a dual structure, with traditional and modern market segments. SMEs often account for a large number of firms in distribution services, which at the same time provide employment opportunities for people with a low level of skills, as well as for women. Measures need to be put in place and liberalization needs to follow a proper sequencing to ensure that local providers still have a niche and an opportunity to grow and that adjustment costs, including social impact, are kept to a minimum. Distribution markets worldwide are undergoing major transformations, with increasing concentration, application of new technologies and business methods, internationalization of distribution firms and emergence of global distribution networks. Negotiations under the GATS provide a unique opportunity for developing countries in terms of obtaining improved access to distribution channels leading to better access to global markets for their goods, especially for their agricultural products, and services.

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I. Introduction

1. Distribution services are at the core of the logistics chain through which markets materialize. Three dimensions can be distinguished in assessing distribution services in terms of their role in: (i) ensuring the efficiency of domestic markets for goods and services; (2) enhancing consumer welfare due to their role in price formation and expanding choice; (3) linking the home economy with the rest of the world. Distribution services are important in their own right as a domestic services industry, as well as in their distributive function for goods and services. In terms of its social aspect, the relevance of this sector is particularly pronounced with regard to employment generation for people with lower skill levels, which makes a direct contribution to poverty alleviation. At the core of distribution services are millions of micro and small firms operating in countries all over the world. This explains why liberalization and deregulation of this sector give rise to concerns among stakeholders and policy makers with regard to the possible social and economic implications. The present note aims to highlight some of the issues that may need to be taken into account in assessing policy options and in seeking to increase the contribution of distribution services to trade and development of developing countries and the attainment of the Millennium Development Goals.

II. Classification, definition and scope of distribution services

2. Distribution services encompass a number of different activities related to bringing together producers and consumers, dealing both with business-to-business transactions and transactions between business and the final consumer. Distribution services perform an intermediation role, and are closely articulated with other services such as transport, packaging, warehousing, financial services and commercial real estate development. Distribution services are increasingly linked to the provision of other services, inter alia credit advance, quality control and standard setting, advertising, management of inventories, and after-sale servicing. They operate at the margin between ex-factory and wholesale and retail prices. The value added in the global chain of supply of goods and services has made distribution services a key infrastructural service and a vehicle in international trade and competitiveness, as well as a sector by itself in the services trade negotiations in the WTO. The General Agreement on Trade in Services (GATS) provides a unique multilateral legal framework for trade in services and for negotiations on their further liberalization. Following the GATS services sectoral classification,[1] distribution services include commission agents' services, wholesale trade services, retailing services, and franchising. However, their coverage could be understood in a broader way to include distribution of other services. A specific development commitment has been made by the WTO members to improve access to distribution channels for services under the GATS Article IV. Development gains from trade liberalization in both goods and services would depend on effective access of developing countries to established global distribution networks.

A. Commission agents' services, wholesale trade services, retailing services, and franchising

3. Distribution services can be classified according to their position in the distribution chain, their business format, and also the products they supply. The classification adopted in the GATS follows the UN CPC[2] approach and identifies distribution services according to the type of service delivered, which corresponds to their position in the distribution chain. The GATS classification includes:

(a) Commission agents' services (CPC 621);
(b) Wholesale trade services (CPC 622);
(c) Retailing services (CPC 631+632+6111+6113+6121);

[1] MTN.GNS/W/120.
[2] UN Provisional Central Product Classification, 1991.

(d) Franchising (CPC 8929);
(e) Other

However, a closer look at these definitions indicates that the headings do not fully correspond to the definitions provided by the CPC numbers. Notably, retail services would in part cover wholesale and commission agents' services under CPC 6111 and 6113.

4. **Commission agents' services** involve intermediaries, which also include brokers, auction companies and commission merchants. They handle products in bulk but do not own them, delivering them to wholesalers, retailers or other individual users. Intermediaries trade on behalf of others, and while some intermediaries handle the goods themselves, as in the case of commission agents, others, brokers for example, sell products without even seeing them.

5. **Wholesalers** collate, store and disburse products. They cater to retailers and to other wholesalers, and, for example in the food business, to what are called "institutional customers", such as restaurants, hospitals, and catering services. They are either broad-line distributors, dealing with a wide range of products, or product-specialized wholesalers. Wholesalers perform both physical and trading functions. The physical functions include, *inter alia*: transport, which is often subcontracted; sorting, de-bulking and handling; stocking; processing; and delivery. Trading functions include sourcing and assortment of supply, selling, marketing and merchandizing, and managing financial and administrative flows, such as management of risk and stocks.

6. **Retailers** are distributors selling to end-consumers. In addition, retailers provide a set of different services such as product assembly and display, supply of product information, customer services such as delivery, credit and implicit warranties, and production services such as packaging and processing goods in a suitable form for consumers. The retail sector includes two main types of retailers: store and non-store retailers. While the first operates fixed point-of-sale locations, non-store retailers or retailers "away from a fixed location" reach customers and market merchandise with methods such as broadcasting "infomercials", paper and electronic catalogues, door-to-door solicitation and selling from portable stalls. Store retail services can be classified according to size, business format, and product mix or specialization.[3]

7. **Franchising** is classified as a subsector of distribution services, but in practice it is a business format. It is a certain system for reproducing business of a franchisor, which involves a standardized approach to delivering a product or service. The franchisee sells goods or services that meet the franchisor's quality standards and operates under the franchisor's trademarks. Despite uniformity in appearance, a franchisee is independent from its franchisor. The growing trend is towards increasing use of franchising, including in services such as medical and professional services.

8. The above descriptions are somewhat simplified; in practice, elements of every type of distribution service may be combined in a business relationship. Depending on the product and other overall market conditions, the distribution channel can involve different types and numbers of participants. Some products enter the market through wholesalers who in turn distribute the products to a variety of retailers, while in other cases the producer sells directly to the retailer. In some instances there is active participation of intermediaries, and in other cases such players do not play a significant role. In relation to certain categories of goods, for example capital goods, distribution services do not necessarily play an important role.

[3] There are different retailing formats: corner store, cash and carries, convenience stores, specialized stores, department stores, discount stores, hypermarkets, superstores, supermarkets, warehouse clubs, supercentres, mail-order catalogue sales, and virtual stores.

B. Distribution in services

9. The distribution of certain services can be of particular importance and can be distinguished from the other stages of service supply.[4] This is the case with services amenable to "storage", *inter alia* tourism products, audiovisuals, energy, telecommunications, air transport and a growing number of services that can be digitalized.

10. In distribution of **tourism products**, the role of wholesalers continues to be important, along with the emerging trend towards on-line retailing of tourist packages. As in many other sectors, the share of distribution services in the valued added chain is in the 30-50 per cent range. During the last two decades, the product cycle and delivery of travel and tourism services have been radically transformed by changes in the distribution system. Now global distribution systems (GDS) are the backbone of a sophisticated system of market communications integrating a number of networks including the Internet platform. It influences competitive strategies of operators in the tourism sector and enables the product supplier to link more directly with customer sources, therefore reducing market transaction costs. These systems are being further developed in order to embrace other constituent elements of the tourism services distribution network, such as travel agents and hotels.

11. In the ongoing GATS negotiations and in the current WTO accession negotiations, discussion on **audiovisual services** has emerged in the area of distribution services in connection with distribution/licensing of rights. In that context, distribution of audiovisual products would be negotiated with a view to obtaining market access commitments such as "Distribution of motion pictures and radio and TV programmes for licensing of rights to exhibit, transmit films and broadcast of TV and radio programmes". Those countries that feel reluctant to treat audiovisual services like any other commercial activity may consider that this approach is likely to come into conflict with traditional policies used in the audiovisual services sector, including quotas or local content requirements.

12. The GATS proposals on **energy services** classification capture services such as wholesale trade services, retailing services and storage services; they refer to sales of fuels and wholesale brokerage (CPC 62113); wholesale trade services of solid, liquid and gaseous fuels and related products (CPC 62271); and retailing services of fuel oil, bottled gas, coal, and woods (CPC 63297). According to the proposing countries, no appropriate category was found in either MTN.GNS/W/120 or the CPC for wholesale trade and retailing of electricity, gas, steam and hot water.

[4] GATS defines supply of service in its Article XXVIII (b) as production, distribution, marketing, sale and delivery of service.

III. Market structure and regulatory frameworks

13. On the demand side, level of development and income, cultural and historical factors, consumer tastes and geographic and demographic factors, as well as the overall regulatory environment, influence the structure and evolution of the distribution services market. Government regulations with respect to large-scale operations, zoning laws, hours of operation, etc., also influence the structure of these services. On the supply side, the growth of the distribution sector is driven by competition, market and trade liberalization, the introduction of new technologies and access to inexpensive credit.

Table 1
Value added of distribution services* as % of GDP

Countries	1970	1980	1990	1995	2002
All economies	26.5	21.1	13.9	14.8	15.2
Developed economies	16.2	14.4	14.7	15.1	15.6
Developing economies	14.0	12.5	14.1	13.6	13.5
Latin America	18.3	15.5	14.9	13.3	14.3
Caribbean	25.1	23.0	21.5	18.9	18.7
Africa	16.1	13.1	15.7	15.6	14.4
North Africa	13.6	11.1	15.6	17.9	15.3
Sub-Saharan Africa	17.1	14.0	16.3	14.3	13.9
Developing Asia	10.3	10.2	13.3	13.4	13.0
West Asia	11.9	9.2	14.1	14.1	12.6
Developing Oceania	14.4	15.2	16.9	15.9	17.3
South-East Europe and CIS	n/a	n/a	5.7	16.2	16.8
Least developed countries (LDCs)	19.5	19.1	18.9	15.7	16.9
Heavily indebted poor countries	20.2	18.5	18.8	16.5	17.8
Landlocked countries	16.2	15.5	7.5	13.5	12.7
Developing economies excluding China	15.5	13.4	14.8	14.3	14.6
Major exporters of manufactures	12.9	12.5	13.4	12.7	13.3

**Measured as wholesale, retail trade, restaurants and hotels*
Source: UN National Accounts database.

14. Distribution services have made a significant contribution to GDP and employment in many countries, but this contribution varies widely, as shown in tables 1 and 2.

15. In developed countries, a basic stability in the sector's contribution to GDP can be noted over the last 30 years, suggesting that distribution activities have been growing at least at a rate similar to that of other economic activities and the economy as a whole. In the case of economies in transition, there is a clear pattern of increased participation of the distribution sector in total value added. There seems to be no significant statistical correlation between level of development, measured in terms of GDP per capita, and the sector's contribution to GDP.

Table 2
Distribution services*, value added as % of GDP

Top 12 countries	2002	Bottom 12 countries	2002
Vanuatu	33.6	Norway	10.0
Mongolia	29.0	Rwanda	10.0
Kenya	27.6	Nepal	9.6
Senegal	27.0	Malta	9.4
Paraguay	25.6	Lesotho	9.4
Lebanon	24.9	China	8.9
Guatemala	24.8	Bulgaria	8.3
Morocco	24.1	Azerbaijan	7.8
Trinidad and Tobago	22.5	United Arab Emirates	7.4
Samoa	22.4	Nigeria	6.9
Mozambique	22.3	Brazil	6.8
Barbados	22.2	Saudi Arabia	5.8

**Measured as wholesale, retail trade, restaurants and hotels*
Source: UN National Accounts database.

16. Distribution services are dominated by wholesale and retail services. The ratio between the two varies depending on the national characteristics of the market and product supply chain, which also depends on the level of development. The role of wholesalers in developed countries tends to be more pronounced where small retailers command a larger share of the market, as in the case of Japan. In many developing countries, wholesale sales are considerably smaller in value terms than retail sales, while in most developed countries they tend to be equal. Only recently, the share of wholesale sales in developed countries began to decline, since part of the value added has been appropriated by producers and large retailers, to the detriment of wholesalers.

17. The sector is dominated in terms of turnover by food retailing and consumer care products. These are followed by textiles and clothing, the segment which has been creating tensions among trading partners following the phasing-out of the ATC in the WTO but where retail margins remain notably strong at 70 per cent. Household appliances and motor vehicles are the last among the major segments of the distribution services market.

18. E-commerce is picking up as a new trend contributing to the further shortening of the distribution chain and the increasing transfer of market power to consumers. On-line retailing is still in its infancy and represents a minor share of total sales, but it is significant for selected products, such as books and computers. In Europe, for example, on-line retailing accounts for 2 per cent of total grocery sales, but it is growing by 50 per cent annually. The overall on-line retailing business in the United States reached 40 billion US dollars in 2002 and is expected to grow to more than $130 billion in 2006. In 2000, 70 per cent of the global top retailers already operated a transactional web site. Producers are also engaging in direct sales to consumers through on-line retailing, bypassing retailers. At the same time, e-commerce is acting as a force towards creating genuine international markets by exposing price discrimination and trade-limiting regulatory measures and standards.

A. Developments in distribution services market

1. Developed countries

19. Distribution services in both retail and wholesale sectors have become a highly concentrated activity in developed countries, and they also play a commanding role in the overall organization of production, with large retailing conglomerates dominating markets. The top 100 retailers (see table 3) account for 25 per cent of worldwide retailing sales. The distribution chain has become shorter, and a direct relationship between producers and retailers has emerged, driven by enabling technologies and the desire to lower transaction costs. Retailers have integrated backwards into wholesale operations, and producers have integrated forward, performing wholesale functions by distributing their products directly to retailers. Rapid diffusion and incorporation of new business methods and technologies have brought about fundamental institutional and organizational changes; they relate to procurement, inventory control and new in-store technologies and management methods, as well as introduction of novel payment and credit systems supported by new technologies. A shift is occurring towards personalized services and user-friendly store facilities, as well as the development of customized store formats to respond to the particularities of consumer preferences.

20. Private grades and standards (G&S) and private labels introduced by major retailers are proliferating and growing in importance, as they increasingly become instruments of product differentiation and market share and niche protection. They also act as a tool for implementing process and quality standards at each level of the chain. Some distributors have chosen to adopt labour and environmental standards for their suppliers. Different fair-trade initiatives and environmental certification schemes have been launched by private actors in response to customers’ preferences. G&S and private labels have a significant effect on market behaviour and increase the market power of large retailing conglomerates. These may act as market entry barriers for products originating in developing countries.

Rank	Corporation	Home country	Industry segments	Sales: Total	Sales: Foreign (%)	Number of host countries
1	Royal Ahold NV	Netherlands	Cash & carry, convenience, discount, drugstore, specialty, hypermarket, supermarket	66 339	80	26
2	Wal-Mart Stores	United States	Discount, hypermarket, supermarket, superstore, warehouse	244 524	19	9
3	Carrefour SA	France	Cash & carry, convenience, discount, hypermarket, supermarket	72 737	49	31
4	Metro Group	Germany	Cash & carry, department, do-it-yourself, hypermarket, specialty, superstore	54 531	46	27
5	Delhaize Group	Belgium	Supermarkets	21 895	83	7
6	Pinault-Printemps-Redoute	France	Department, mail order, specialty	28 972	58	15
7	Tengelmann Group	Germany	Cash & carry, discount, do-it-yourself, drugstore, hypermarket, specialty, supermarket, superstore	28 226	48	15
8	Aldi	Germany	Discount	33 837	38	11
9	Ito-Yokado Co. Ltd	Japan	Convenience, department, discount, food service, hypermarket, specialty, supermarket, superstore	25 258	47	12
10	Christian Dior	France	Specialty	13 936	81	48
11	IKEA	Sweden	Specialty	..		32
12	Auchan	France	Department, do-it-yourself, hypermarket, specialty, supermarket	26 071	40	19
13	Kingfisher Plc	United Kingdom	Home improvement	13 695	67	8
14	Intermarché	France	Cash & carry, convenience, discount, do-it-yourself, food service, speciality, supermarket, superstore	31 688	29	7
15	Otto Versand	Germany	Mail order	16 463	53	18
16	Rewe	Germany	Cash & carry, discount, do-it-yourself, drugstore, hypermarket, specialty, supermarket, superstore	35 405	23	10
17	Tesco Plc	United Kingdom	Convenience, hypermarket, supermarket, superstore, specialty	33 503	22	10
18	Lidl & Schwarz	Germany	Cash & carry, discount, hypermarket, superstore	21 728	31	19
19	Rallye	France	Cash & carry, convenience, department, discount, food service, hypermarket, specialty, supermarket, warehouse	25 062	23	15
20	Sears, Roebuck and Co.	United States	Department, mail order, specialty, e-commerce	41 366	10	2

Table 3. The world's 20 largest retailers, ranked by foreign sales, 2002 (millions of dollars)

Source: UNCTAD World Investment Report, 2004.

2. Developing countries

21. The level of maturity of the distribution sector among developing countries varies significantly, as shown in table 4. Countries have followed different paths of distribution sector reform, ranging from "big-bang" liberalization to a gradual and more cautious approach. Many developing countries tend to extend market access on an ad hoc basis initially, with greater degrees of foreign competition being introduced only gradually so as not to undermine the viability of domestic distributors. They choose the gradual opening up of the retail sector as the first step, allowing large-scale providers to cater to customers at the higher end of the market. Only as a second step is foreign investment then allowed to enter wholesale trade. In most developing countries, particularly in LDCs, traditional players still dominate the distribution industry, while the modern retailing sector caters to high-income segments of the population and is located mainly in major cities. In some developing countries, there has been a rapid transformation of the distribution sector in recent years, and in some cases these activities are already displaying features similar to those of developed market economies.

22. Employment in the distribution sector accounts for a sizeable share of non-agricultural employment in developing countries, and it is significantly higher than in developed countries. Another feature of distribution services in developing countries is the prevalence of non-structured distribution activities, which provide for an even higher level of employment and serve as a refuge for people in the lowest income groups. For example, in some countries, informal traders, mainly street vendors, represent 73 to 99 per cent of employment in the retail sector and contribute a significant share of from 50 to 90 per cent of valued added by distribution services.

Table 4. Annual average growth rates of the value added of distribution services*

	1970-1980	*1980-1990*	*1990-1995*	*1995-2000*	*1995-2002*	*2000-2002*
High-income countries	5.9	2.6	5.4	4.5	3.5	-0.4
Middle-income countries	5.8	2.2	4.2	1.7	1.8	2.6
Low-income countries	5.0	6.0	5.4	4.7	5.3	7.4
Least developed countries (LDCs)	3.3	3.0	1.7	3.9	5.2	11.2
Heavily indebted poor countries	2.8	3.1	1.1	3.7	4.9	10.4
Landlocked countries	4.4	6.1	-1.8	4.8	4.7	5.2
Developing economies excluding China	5.7	2.8	4.8	3.4	3.2	2.4
Sub-Saharan Africa	3.0	2.8	0.8	1.9	3.3	8.9
Major exporters of manufactures	6.0	4.3	5.7	4.6	4.3	2.9

***Measured as wholesale, retail trade, restaurants and hotels.**

Source: UN National Accounts database.

23. Distribution services in developing countries are experiencing a rapid and profound transformation, which is manifested through the growth of domestic distribution networks. In the food retail business, there has been an impressive expansion of supermarket chains. Latin America has led the way among developing countries in the growth of the supermarket sector. Due to the recent restructuring of retail activities, supermarkets saw their share rise from 20 per cent of total national food retailing in 1990 to 50–60 per cent of total turnover in 2002. The development of supermarket chains in Asia and Africa has followed a similar pattern to that of Latin America, but with a later take-off. The share of supermarket chains in grocery retail is currently around 33 per cent in Indonesia, Malaysia and Thailand and around 63 per cent in the Republic of Korea, Taiwan (China) and the Philippines. On the other hand, supermarket penetration in India stands at only 5 per cent. The most recent venue for supermarket take-off is Africa, especially Eastern and Southern Africa; in South Africa, supermarket chains represents 55 per cent of total national groceries sales, while in Nigeria they still account for only 5 per cent.[5]

B. Factors promoting trade liberalization

24. The globalization of retailing has been spurred by both push and pull factors (see table 5). The mature character of the industry in developed countries, characterized by high competition and low profitability, as well as domestic regulation restricting large store development and hindering growth in the domestic market, has encouraged international strategies by major retailers. Foreign expansion of retailers has been mostly through acquisitions of domestic chains in other countries, some greenfield investment, and joint ventures with local companies. However, many joint ventures have led to the acquisition of the local partner. Retailers have internationalized through franchising, especially in the speciality-store segment, where restrictions on commercial establishment were in effect. The pull factors are related to the growing business opportunities provided by developing

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[5] Reardon T.; Timmer C.P.; Barrett C.B.; Berdegué J. "The Rise of Supermarkets in Africa, Asia, and Latin America", American Journal of Agricultural Economics, Volume 85, Number 5, December 2003, pp. 1140-1146.

country markets, with rapid urbanization, high population growth rates, rising incomes and liberalization of FDI in the sector. Wholesale has been internationalized to a greater extent than retail trade, mostly through investments made by producers in their own distribution networks, for example in respect of home appliances and automobiles. In most developing countries there are enormous expansion possibilities due to the low level of development of modern distribution services.

25. By 2002, the world's top 30 retailers were active in 88 countries, nearly 70 per cent more than in 1997, and the overseas expansion of major retailers is constantly increasing. The internationalization of the retail industry has been led by European firms. United States companies, even though some have already ventured abroad, are still mostly concentrated in the domestic market. Six of the worlds' top 10 grocery retailers are from the United States, and four of these do not operate outside home territory. On the contrary, most European top retailers have operations outside the home country. Foreign sales represent a significant share in total sales of the main European retailers.

Table 5. Estimated world inward FDI stock in the distribution sector (US$ millions)

1990			2002			
Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
209 168	24 159	233 327	617 058	148 293	28 373	793 724

Estimated world outward FDI stock in distribution sector (US$ millions)

1990			2002			
Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
135 637	1 826	137 463	420 738	59 370	688	480 796

Source: UNCTAD World Investment Report, 2004.

26. A growing number of domestically owned firms from developing countries have also ventured abroad, mostly expanding operations to neighbouring countries, with some entering developed markets as well. For example, South African companies have been active in other African countries, India, Australia and the United Kingdom. In Latin America, Chilean companies have expanded to Argentina, Colombia, Peru, Mexico and Brazil, and Mexican company operates in the United States. In total, stock of Asian investment in the retail trade in the United States in 2002 stood at US$ 3 billion in retail trade.

C. Challenges and opportunities in liberalizing distribution services

27. Inefficient distribution services can lead to misallocation of resources and increased costs for other economic activities, thus affecting an economy's overall productivity and competitiveness and consumer welfare. Liberalization of trade in distribution services, under appropriate regulatory and policy framework, would be expected to contribute to enhancing global welfare through increased productivity, lower prices, greater choice of products and increased competition at a country level. The effects of liberalization and deregulation could be assessed along three dimensions: (i) impact on the domestic distribution sector at large, including SMEs; (ii) the effect on domestic suppliers of goods, in particular agricultural products, and services; (iii) impact on international trade in goods and services. In assessing the impact of distribution sector reform, it would be important to distinguish outcomes resulting from the overall modernization of the sector from those that could be attributed specifically to foreign participation.

Box No.1 Experience of selected countries in liberalization of distribution services

Chile

….has implemented a liberal policy in the distribution sector, removing restrictions on foreign participation. Distribution services were modernized significantly and started displaying features similar to those in developed countries, in particular in terms of consolidation. Foreign retailers, like Ahold and Carrefour, entered the market, achieving an important position in terms of market share. These foreign retailers have been bought by local capital, which now dominates the distribution sector. Chilean retailing chains are expanding to other countries in the region.

India

…continues to take a cautious policy approach to liberalization of distribution services, a sector which has a traditional structure, with SMEs accounting for the bulk of retailing sales. Of 12 million retail stores, 78 per cent are family businesses. These firms account for 60 per cent of retail sales of food and food-related items. Modern retailing chains cater to only 2 to 3 per cent of the population, and less than 4 per cent of retail shops have an area of more than 500 sq.ft. Foreign participation in retailing has not been allowed, but licenses for cash-and-carry wholesaling have been granted to foreign companies, including the German firm Metro and the South African Shoprite Checkers. Other domestic companies are beginning to invest in retail; for example, Tata has opened retail stores and a chain of restaurants. A public debate is taking place in the country about the benefits of opening up to foreign investment in retailing.

Republic of Korea

The liberalization of the distribution sector in 1996 followed the liberalization of FDI policies and land ownership in the wake of the Asian financial crisis. The regulatory reform started in 1998; 11,225 regulations were reviewed, of which half were abolished and another quarter simplified. Since the beginning of the reform, the number of small retailers has declined by more than 10 per cent, while the top three largest department stores account for 60 per cent of total sales, the top five largest discount houses account for 55 per cent of total sales, and the top two companies account for 30 per cent of total sales in the case of home shopping operators. Foreign companies have been dominating the convenience store sectors, while elsewhere domestic and foreign companies are competing at the same level. With the increased penetration of Internet and cable TV, non-store operators became the third largest operators in the retail market behind discount houses and department stores.

Lithuania

…has undergone a drastic reform process since 1990 in the transition from a planned to market-oriented economy. As a result, by 2003 wholesale and retail trade had become the third most important sector in the economy, accounting for 17 per cent of all FDI flows. The regulatory environment was built from zero, and the first law on trade, introducing the notion of retail trade and wholesale and provisions on competition, was adopted only in 1995. Over the last four years, five chains have emerged as key players in the distribution sector, accounting for 70 per cent of food retail sales. Only one big foreign food retailing chain (Ahold) is operating in Lithuania, and it is not a top player. The leading national chain in food and consumer care products has expanded its operations into regional markets, becoming a key player in one of them.

Mexico

…opened the doors to foreign investment in distribution services. The market is segmented between modern businesses, limited to urban areas, and a wide range of traditional businesses, serving rural areas and poorer customers in urban areas. Modern retailing accounts for 30 per cent of the total market, and four leading companies control 65 per cent of it, with three of the four being domestic companies. Wal-Mart entered the market in 1991 through a joint venture with a leading domestic company, which it bought later. It has expanded aggressively in the market, controlling around 20 per cent of modern retailing. Wal-Mart has significantly outperformed other competitors and is progressively increasing its market share. The four leading domestic companies are ranked among the top 200 retailers in the world, and some have internationalized their activities, including in the United States market.

South Africa

…whose dormant capacity was unleashed by the end of apartheid in 1994, is the frontrunner in supermarket development in Africa, with 1,700 supermarkets. The market displays a level of sophistication comparable to that of the industrialized countries and an intense level of competition, with two dominant domestic chains controlling 80 per cent of the market. These strong local supermarket chains have made it difficult for foreign competitors to enter the market, and currently only Metro Cash & Carry and Woolworths have done so. South African companies are expanding their operations into other countries in the region, mainly in Eastern and Southern Africa.

28. Market deregulation and trade liberalization policies facilitate foreign direct investment (FDI) and have a major impact on accelerating structural changes and concentration of industry. Trade liberalization is likely to create adjustment costs at the outset. Concerning the domestic distribution sector, this means that a number of local suppliers, especially small ones, would not be able to adjust to the competition and would be forced to leave the market. In the case of Colombia, for example in 1995 small retail establishments accounted for approximately 47 per cent of total retail sales, down from more than 75 per cent in 1985. In Europe, there has been a 27 per cent decrease in the number of shops in the region since 1998. Considering the high incidence of unemployment in developing countries and the role of the distribution sector as one of the leading employers of low-skilled labour, developing countries may find it difficult to advocate any reform measures in the absence of complementary policies, including providing for alternative employment and trade opportunities.

29. The growing power of retailers has a significant effect on domestic suppliers, especially small ones or those that do not command strong brand products, by offering lower prices for their products. Pressure on prices could be such that even efficient producers could be threatened by their inability to recover fixed costs as a result of being forced to price at short-term marginal cost. Even large producers may be deterred from making product and process investments if the prices they can get from large retailing conglomerates prevent them from securing an adequate return to cover their costs. Studies have shown a strong impact of large retailers in terms of appropriating value, especially at the expense of small agricultural producers.

30. International retailers tend to feature international procurement, and their increasing role in the domestic market may lead to a negative balance of trade caused by growing imports. On the other hand, experience in many developing countries, for example Viet Nam, China and the Philippines, shows that large international retailers operating in the domestic market can become an avenue for increasing exports as domestic suppliers are incorporated into the global procurement network.

31. It is important to ensure that all measures are put in place to maximize positive gains from trade liberalization and thereby to achieve efficiency gains in the economy at large and enhanced consumer welfare. Restrictions on large stores have often been designed to protect small shops from competition, with the aim of safeguarding employment and the amenities that they provide. Adjustment among small retailers has come through specialization, and the size of the specialty markets in developed countries has allowed for this adjustment to take place, but in the case of developing countries the size of the market may not allow adjustment of small retailers through specialization.

D. Regulatory issues

32. Distribution services are affected by general laws and regulations as well as by specific domestic regulations targeting these activities (table 6). General measures that are particularly relevant include those regulating establishment, operation of companies, the environment, foreign investment, taxation, building codes, real estate and land ownership. Regulation of distribution services is enacted by both central and local authorities, with municipalities, provinces and other sub-central levels of government being most likely to be involved in setting and enforcing conditions for the provision of distribution services.

33. Developing countries often do not maintain specific regulations aimed at distribution services as such, or seek to target trade in distribution services. One of the explanations is that Governments in developing countries tend to focus their attention on the development of manufacturing and agricultural activities, not these related to services. Trade-related aspects of regulating distribution focus on what can be traded, i.e. on lists of goods or on the conditions under which they may be

imported. The need to regulate distribution services more specifically tends to emerge in those developing countries that are increasingly engaged in trade.

Table 6. Regulatory measures affecting distribution services	
Establishment of commercial presence	• Land ownership and use • Limitations on FDI in distribution • Requirements for the operation of large-scale stores • Limitations on form of establishment • Performance requirements • Licensing requirements and economic needs tests • Exclusive rights
Regulation of operations	• Building codes • Opening hours • Promotional activities • Price regulation • Taxation • Limitations on product categories • Limitations on the number of outlets • Zoning regulations • Limitations on vertical and horizontal integration • Incentives and government support measures • Use of commercial names
Regulations on movement of people	• Limitations on foreign employment • Work and residency permits • Economic needs tests • Visa requirements and other administrative procedures

34. Developing countries tend to have two socially and economically equally important market segments in retail distribution services, namely the traditional and modern segments, which appeal to different types of consumers. Policies and regulatory frameworks, as well as any regulatory reform, would follow different objectives in relation to these two segments. The traditional market, which provides employment opportunities and entrepreneurship at the grass roots level, will need regulations to support and promote competition while ensuring at least a minimum degree of protection of consumers' interests. Other measures of support for traditional suppliers may need to be put in place, for example to provide better retail space and other consumer amenities. The modern market can include domestic and foreign providers, both SMEs and large companies. However, measures need to be put in place, including adjustment mechanisms, and liberalization needs to follow the proper sequencing to ensure that local providers still have a niche and an opportunity to grow.

IV. Factors affecting supply capacity and participation of developing countries

A. Distribution of goods

35. Given the increasing value created at the stage of distribution, the development of capacity and competitiveness in this sector in developing countries is one of the critical factors that can help a country move up the value chain. Developing countries may be pursuing a dual objective when promoting development of their distribution sector, namely having strong and efficient domestic distribution sectors and becoming regional and international players in the area of distribution services.

36. Positive measures at the policy level need to be put in place to translate these potential benefits into capacity building for domestic providers of distribution services. Given the disadvantaged position of developing country suppliers in terms of capital, management techniques and access to technology, local distributors are in a weak competitive position. In addition, positive policy measures are often put in place in favour of foreign investors, but not domestic providers. In the majority of developing countries, competition policy frameworks tend to be weak, and opening up the retail sector can lead to concentration of providers in profitable segments of the country. Such a situation could further exacerbate the imbalance between urban and rural areas in developing countries. Given the overall regulatory weakness in developing countries, liberalization of the distribution sector could result in sub-optimal outcomes.

37. Provided that the necessary conditions are in place, the supply capacity of developing country suppliers can also be improved by opening up to foreign distributors. A great variety of business undertakings can be introduced to developing markets through foreign participation, which can bring advanced operational concepts and expertise to the distribution sector and put competitive pressure on domestic counterparts to invest and expand their operations to capture economies of scale, hence stimulating competition and growth in the domestic distribution market. In addition, growing competition in the distribution market can be expected to produce a decline in prices. Such competition could also have an impact on product quality and in terms of introducing a services culture in general. The experience of a number of developing countries shows that foreign providers subject local products to standardized quality control, which enables them to sell those products to the world market through outlets in other countries.

B. Distribution of services

38. In considering distribution in the context of selected services sectors, specific ideas emerge for the implementation of GATS Article IV provisions aimed at increasing participation of developing countries in terms of improvement of their access to distribution channels.

1. Audiovisual services

39. The suppliers of audiovisual services in most developing countries are continuing to lose their market share to products supplied through major distribution channels. This trend is often aggravated by the poor state of cinemas and the growing presence of multiplex theatres, which tend to be foreign owned and vertically integrated in the supply chain of audiovisual products, excluding largely local products. At the same time, even successful producers of audiovisual products, such as India or Brazil, find it difficult to market their products abroad, penetrate the existing distribution chains and set up their own distribution networks abroad.

40. Market access barriers affect cross-border supply of audiovisual products through specific quotas for local content on radio and television broadcasting. For instance, the EU's Broadcast Directive requires that the greater part of television transmission time be reserved for programmes of European origin. These local content regulations become significant barriers in view of the changing trend in the distribution of films, with home entertainment contributing significantly to film revenues as a result of an increase in the number of delivery platforms. New technology has the potential of unlocking new revenue streams for the industry with the emergence of digital platforms for the distribution of films, television and music. Increased access to digital technology could improve not only the quality of production but also distribution and projection if access can be gained.

41. A large number of developing country distributors are keen to set up offices overseas, but restrictions in some countries are coming in the way of exports. Countries like Australia, Canada and the European Union (EU) encourage distributors of recorded media, cinema and television to invest in the production of audiovisual products and have programmes that promote distribution of domestic products. In some cases, distributors have an obligation to pay a portion of their receipts into a fund responsible for the production and broadcasting of national programmes. The United States has built up its export competitiveness in audiovisual products through control of distribution networks, where its major companies are becoming even more important in convergent markets. Economies of scale enabled the United States to become the most competitive supplier, offering inexpensive and attractive products.

2. Tourism services

42. The distribution of tourism services relies on different distribution channels. Up to the end of the 1990s, face-to-face contact was required and tourism services were distributed mainly by tour operators and travel agents or directly by carriers/transporters, fully integrated with global distribution systems (GDS). By 1998, four GDS were managing about 80 per cent of the world tourism market. More recently, the Internet began to provide a platform for suppliers to gain direct access to customers and offered cost reductions through the disintermediation of travel agents and operators. It is forecaste that by 2010 in most developed countries more than 60 per cent of sales related to mass tourism (booking of hotels, car leasing and transport) will be finalized on line. It is also foreseen that about 50 per cent of tourism packages will be purchased directly on line by independent travellers.

43. With the advent of new technologies and the globalization of markets, supply of tourism products began to focus on targeting different segments of the market within the framework of e-tourism and circumventing intermediation. Internet-based distribution of tourism products has become crucial for effective market entry and for the competitiveness of tourism operators from developing countries. Despite changes in distribution channels, such market outcomes as leakages and the question of the commercial viability of tourism in developing countries continue to prevail. National tourism authorities and travel and tourism operators from developing countries face growing erosion of trade benefits, coupled with multiplier and spillover effects. The main causes for this are linked to the effective control of distribution chains in segmented markets by the integrated suppliers of tourism business on a global scale.

V. Competition-related issues

44. It is worth recalling that, at the national level, a large number of developing countries still lack competition related legislation. At the multilateral WTO level, there are no agreed rules on competition, and the GATS has only limited provisions in Article IX on business practices and Article VIII on monopolies and exclusive service suppliers: it requires Members to ensure that an incumbent natural monopolist in the distribution market does not act in a manner inconsistent with the MFN obligation and with the Member’s specific commitments in that market, and that the incumbent monopoly does not abuse its position in other liberalized segments of the market, which are the object of specific commitments under the GATS. Other relevant disciplines can be developed under GATS Article XVIII, following the example of the Reference Paper on basic telecommunications.

A. Issues related to distribution of goods

45. Distribution services have given rise to concerns about horizontal and vertical integration. Some distribution markets have developed along vertical division lines, with specialized retailers and wholesalers around each product, for example in the brand name or automobile markets. In such instances, manufacturers can have a strong influence over distribution systems, making it difficult for new products to enter the market, including foreign products and establishment of foreign firms. Liberalization of trade in the distribution market leads to the distribution sector assuming key roles in marketing, designing and branding, and power shifts away from manufacturers. The increased buying power of retailers has emerged through their role in negotiating prices and introducing own-brand products. The factor that could limit the dominant market position of retailers is the increasing reliance on e-commerce and the shift in power to consumers.

46. Mergers and acquisitions have played an important role in the growing concentration of the retailing industry. This process has led to a concentration of sales, with large firms and chains dominating the market. In Chile, for example, the top four chains already represent 46 per cent of total

national grocery retailing, and in Latin America as a whole, on average the top five chains represent 65 per cent of total sales. In the case of Indonesia, the top five chains account for 60 per cent of the market. The resulting trend is towards oligopolistic competition and growing intra-firm and inter-firm competition.

47. Market concentration has effects on other players in the distribution sector and suppliers of goods. The dominant market position of large retailers has been strengthened through cross-border buying alliances among nominally independent retailers. These alliances incorporate various degrees of collaboration – sharing of information on buying prices, acting as a single purchasing unit, and often collaborating on the sourcing of private-label products. These techniques may lead to buying power malpractices and restrictive business practices covering many aspects of contractual and operational relations with suppliers: (i) requiring payment for access to shelf space; (ii) imposing conditions on suppliers' trade with other retailers; (iii) applying different standards to different suppliers; (iv) imposing an unfair imbalance of risk; (v) imposing retrospective changes to contractual terms; (vi) restricting supplier's access to the market; (vii) imposing charges and transferring costs to suppliers; and (viii) requiring suppliers to use third party suppliers nominated by the retailer.

48. Large retailers may also engage in selling below cost and predatory pricing whereby prices are cut aggressively to force competitors to sell at a loss. Not all countries have legislation prohibiting below-cost selling, and large retailers can sustain controlled losses in certain product baskets in order to increase their market share. Retailers operating internationally can also resort to so-called transfer pricing. Another impact of concentration is on the labour market, where labour practices, the nature of employment and wages can be affected. These effects may arise not only as a result of their own operations, but also through their suppliers.

49. Even though there have been some cases in which competition authorities in developed countries have been willing to deter consolidation through mergers and acquisitions, in most cases authorities have allowed consolidation to proceed and have shown little interest in limiting retail concentration.

B. Issues related to distribution of services

50. With the increasing degree of liberalization of market access in services, issues of competition, especially in the context of distribution, are becoming more pronounced, raising concerns among stakeholders and authorities.

1. Audiovisual services

51. Certain business practices of distributors of audiovisual services give rise to concern about possible anti-competitive behaviour, especially due to the vertical linkages between producers and distributors. The practices listed below may undermine the competitiveness of developing countries in the distribution of audiovisual services:

(i) The "window" distribution system, which enables the sequential release of films, videos and television programmes in stages (windows), so that the product can be re-sold to different markets over time at little additional cost;

(ii) Price discrimination in distribution, which has sometimes been likened to dumping because the initial costs of production are largely recovered in the home market and the price charged in foreign markets bears little relation to actual production costs;

(iii) Parallel import restrictions on films, videos and television programmes intended to enforce distribution windows, which also underpin the financing structures of most television and film projects and the valuation of distribution rights;

(iv) Restrictive trade practices in international programme distribution; for example, many countries provide a limited antitrust exemption for the formation and operation of associations of otherwise competing businesses to engage in collective export sales;

(v) Minimum exhibition period requirements set by distributors for films, which may force smaller exhibitors to forego particular titles and thereby diminish their commercial viability;

(vi) Output deals, whereby a distributor requires a cinema operator or broadcaster to purchase all or some of the future output of a distributor or producer rather than purchasing programmes individually as they are released;

(vii) Block booking or bundling of films and TV programmes by international distributors, whereby less popular products are tied to those that are sought after;

(viii) "No share" periods imposed by major distributors, which prevent a cinema from showing different titles at different times of the day/week and which are particularly onerous for small independent exhibitors;

(ix) Refusals to supply and exclusivity clauses in film contracts, whereby a distributor may refuse to supply first run prints for potential blockbuster films to two competing cinemas unless the additional audience generated is sufficient to outweigh both the loss of rentals through shared receipts and the additional cost of the print; in such cases, independent distributors often lose out because by the time they hire the film for exhibition, demand may have waned.

2. Tourism services

52. Lack of fair competition in the area of tourism could directly affect the efficiency, viability and sustainability of tourism in developing countries, especially given the limited ability of developing countries to counter its effects. The global tourism market is dominated by a number of integrated suppliers of tourism product packages. The control of inbound and outbound operations at home and overseas provides integrated suppliers with absolute advantages. They keep consumers dependent on the products they supply at the expense of imposing onerous commercial conditions on independent suppliers in different tourism destinations. The huge supply capacity of dominant players in all segments of tourism, including transporters, GDS, tour operators, travel agencies and hotels, allows them to prepare holiday packages and retail them through their own business networks, as well as to impose prices and conditions on suppliers in tourism destinations.

53. The predatory pricing practices in the distribution of tourism products have two main effects: unbalanced trade benefits, and the deepening of the leakage effect. Their combined impact minimizes the positive spillover and multiplier effects inherent in tourism and undermines the financial capacity of developing countries and their ability to earmark necessary resources to maintain and upgrade basic infrastructure and quality standards in order to adapt in an adequate way to competitive conditions and international demand. Moreover, in most vulnerable and small developing economies, particularly LDCs, the foundations of tourism are threatened by unbalanced results in their business operations, which are in turn threatening the social, economic and environmental sustainability of tourism.

3. Energy services

54. Developing countries aim to accommodate competing policy objectives when seeking to open up energy markets. On the one hand, they seek to stimulate competition, while on the other they need to encourage the efficient operation and development of the industry by promoting quality of service and infrastructure extension. The electricity and natural gas sectors have some peculiarities that make competition-related issues particularly relevant: opening up networks to all market players and establishing fair conditions of competition are preconditions for both effective market liberalization and international trade in electricity and gas to take place.

Box No. 2
Retailing of gasoline

The oil industry has become much more concentrated and vertically integrated, providing the oil majors with significant market power in the retail market and putting greater pressure on non-integrated incumbents to become integrated. It is also becoming more difficult for an entrant in the upstream market to find outlets for its product. Many service stations carry the brand of one of the oil majors (BP, Shell, Mobil, etc.); others carry the brand of secondary marketers, while still others carry the brand of a distributor and some carry their operators’ own brand or no brand at all. Fuel is mainly retailed under three types of arrangements: the “dealer owned and operated” type, where sites are owned and operated by distributors or independent operators; the “dealer franchise or lessee” type, where the dealer leases the service station from an oil company and markets its fuel or sells fuel on a commission agency basis for the franchisor; and finally the “company or agent operated” type, where the station is managed directly by an oil company agent. In recent years there has been a significant increase in multi-site franchise operations, where one operator can operate between about five and 60 retail outlets. All stations operate under the "solus trading" system whereby the branded fuels of only one oil company are sold. Intensified competition and diverse demand from consumers have led to further business diversification in this sector through the incorporation and improvement of other concepts and business tools such as car maintenance facilities, convenience stores and sophisticated point-of-sale systems. For the vast majority of sites, revenue from fuel sales represents the majority of site turnover; fuel, however, does not provide an equivalent share of site profits.

55. While power generation was the first segment of the electricity industry to be reformed, more recently distribution and retail supply have also become areas for reform. Experience with the privatization of distribution systems indicates that potential cost savings in distribution, which accounts for about 30-40 per cent of the total cost of electricity, could also be significant. Many recent reform programmes aim to unbundle distribution networks from supply, introduce consumer choice and re-regulate distribution networks. To achieve competition, the network operator would have the obligation to provide its network to other enterprises. Rules on priority of access and transparent and non-discriminatory access tariffs are essential in this context.

56. In the electricity and natural gas sectors, the core of competition rules would deal with: (a) the right of access to infrastructures, mainly electricity grids and gas pipelines, but also gas storage facilities and LNG terminals; (b) unbundling industry segments through vertical separation of functions; and (c) consumer choice, by establishing eligibility thresholds for choice of suppliers among the different classes of customers (power utilities, industrial, commercial or residential users). These structural remedies are designed to reduce excessive market power in the non-competitive segments of the electricity and gas markets by curbing the incentives for self-dealing among incumbent operators controlling transmission and distribution networks.

VI. Distribution services and interests of developing countries in the GATS

57. Distribution services are traded through the four GATS modes of services supply, commercial establishment abroad being the most important one. The importance of cross-border trade has been recognized for some time, but with growing e-commerce and the related development of more reliable and versatile technology, as well as declining fixed and operating costs, among other factors, it is expected to gain further in prominence. Consumption abroad, especially in the context of the relationship between retailing and tourism services, is commercially important for a number of countries and could be vital for small island developing States and least developed countries. Distribution services also involve temporary movement of natural persons. This is particularly important for after-sales services and for intra-corporate transfers of large distribution networks. In addition, natural persons move abroad to provide franchising consultancy services and as sales

representatives.

Box No. 3
Assessment of trade in distribution services

The Government of Thailand liberalized retail trade in the late 1980s, seeking to provide consumers with lower prices and a greater choice of products and to create more efficient and less costly supply chains. The retail trade was subsequently left to operate in a relatively unregulated environment. The increase in FDI and the growth in modern retail stores in Thailand, particularly convenience stores, have led owners of small, traditional retail shops to petition the Government to halt further expansion of modern retail outlets. This opposition received broad-based support from the public, and prompted the Government to study the regulatory practices of major countries to learn from their experience. Various measures were adopted to increase the competitiveness of small domestic retailers, including providing training in modern managerial skills and marketing techniques and building community networks among small retailers for joint purchase and transport.

China's small and medium-sized retailers faced difficulties in competing with foreign retailers. Taking sales volume as an example, China's biggest domestic retailer had a sales volume of US$ 1.7 billion in 2001, equivalent to less than 1 per cent of the sales volume of Walmart, the biggest US retailer chain. While it is recognized that foreign-invested retail chain stores provide customers with better services and cheaper merchandise, there is also a fear that domestic retailers will be crowded out, which would have a negative impact on employment and economic dynamics.
Source: WTO documents *TN/S/W/4, TN/S/W/9.*

58. Only about a third of the members of WTO have made commitments in respect of distribution services, making them one of the sectors with the least commitments. In the context of the ongoing GATS negotiations, developed and some developing countries have proposed improving market access in the sector with respect to: local equity requirements, limitations on purchase and rental of real estate, joint venture requirements, minimum capital requirements, limitations on scope of operations, ENTs, citizenship/residency requirements, export contribution requirements and local production requirements, overly burdensome administrative procedures, including burdensome fees, taxes and profit repatriation requirements, lack of predetermined, objective criteria for licensing requirements, and barriers relating to the temporary entry of specialized, skilled personnel, among others. Product exclusions were also raised as an issue in this regard, as well as the need to keep such product lists to a bare minimum and to have them only to the extent necessary. Transparency with respect to domestic regulation was among the suggestions to facilitate trade in this sector. Developing countries have additionally stressed the need for the liberalization in this sector to be mindful of Article IV:1(c) objectives. They have also voiced particular concern in relation to distribution of agricultural products, including the prohibition on the establishment of commercial presence by intermediaries or distributors of agricultural products and improved commitments with regard to the presence of natural persons.

59. As part of the ongoing negotiations on services, 68 offers have been made so far, with 21 covering the distribution services sector. Eight of the 10 developed and 13 of the 58 developing Members introduced changes in their distribution services offer, as shown in table 8.

Table 8. Barriers to commercial establishment in distribution services

Present specific commitments			New offers	
	Market access	**National treatment**	**Changes proposed**	**Remaining limitations**
Developed Countries	Product exclusions; Limitations of geographical scope of commitment; Economic needs tests (ENTs), including economic, public convenience, necessity tests; Nationality requirements for establishment; Monopoly rights for distribution of certain products.	Tax measures; Residency requirements on establishment; Residency requirements for managers.	Expansion of sectoral coverage; Reduction of product exclusion list; Expansion of geographical application of commitments. Providing criteria for ENTs; Deletion of prior residency requirement for managers; Removal of restriction on sales area; Abolition of approval to conduct certain activities.	Inclusion of additional services not listed in CPC; Limitation on the allocation of distribution rights and, where applicable, imposition of mandatory export marketing strategies; Limitations on number of licenses; Requirement to establish a juridical person.
Developing Countries	Product exclusions; Nationality requirement; Joint ventures; Foreign equity limitation; ENTs; Exclusion of cooperative stores from foreign capital.		Expansion of sectoral coverage; Reduction of product exclusion list; Elimination of restrictions due to phase-in commitments; Providing criteria for ENTs; Limiting the application of ENTs; removal of foreign equity limitations	Commercial presence requirement; Full foreign ownership must meet a minimum equity requirement; for full foreign ownership agent must export 60% or more of its output; ENTs maintained (criteria defined); Foreign equity limitations

VII. Conclusions

60. Distribution services are emerging as being central to the development of developing countries. Lack of efficiency in domestic distribution networks will undermine overall economic productivity and competitiveness and hinder effective integration into the world economy. There is no one-size-fits-all approach to reconciling efficiency considerations with social concerns, which are particularly pronounced in this sector. Developing countries should base their policy decisions on an assessment of the particularities of distribution services and their interlinkages with other economic activities. Regulations and complementary policy measures need to be put in place to achieve positive outcomes in terms of reconciling efficiency with social considerations. This objective has guided the evolution of regulations in many developed countries.

61. The growth of international trade in goods is directly linked with the growing importance of distribution networks and channels, where the value added in the distribution stages can greatly exceed the value added in the production stage; for example, the value created in distribution accounts for 70 per cent of total value for textile products and over 75 per cent for food products. Also, with the growth of trade in goods and services, the expansion of distribution networks globally implies increasing trade in distribution services. Developing competitiveness and capacity in distribution services is one of the critical factors that could help developing countries move up the value chain. This is also an area where efficiency gains could bring considerable cost advantages and savings. New technologies and techniques, including e-commerce, and new ways of trading that take into account the growing importance of international logistics chains all point in that direction. Distribution services are driven by innovation, with such segments as retailing becoming the most attractive

destinations for investment. A great variety in market structures in the distribution sector is emerging across countries, reflecting both consumer preferences and the impact of regulatory differences.

62. In terms of market developments, developed country providers have been present in the markets of developing countries and economies in transition in many different forms. More recently, developing countries' providers have begun to expand into regional markets and started to compete successfully with their foreign counterparts from developed countries. This trend has emerged in all regions of the world, making it an important factor in South-South trade. Developing country firms have also ventured into developed country markets, but this is a marginal phenomenon. The GATS negotiations need to take into account the sensitivities of this sector, and developing countries need to approach liberalization of this sector with appropriate pace and sequencing. The ongoing GATS negotiations provide a unique opportunity to assure that commercially meaningful market access commitments for developing countries are offered by developed countries, with effective access to global distribution channels being provided for services from developing countries. Such access would also require market liberalization for movement of natural persons involved in the distribution services.