

Restrictions on Distribution and Post-Sales Services

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Based on work with Joscelyn Magdeleine and Juan Marchetti of
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Four questions

- Does the existing goods NTM classification adequately cover services-related measures?
- What **measures** should be covered and how should they be classified?
- What **sectors** (and **modes**) should be covered and how should they be classified?
- How should the relevant data be covered?

Services-Related Measures in the Existing UNCTAD NTM Classification

- J. DISTRIBUTIONS RESTRICTIONS

- J1 Geographical restriction
- J2 Restriction on resellers

- K. RESTRICTIONS ON POST-SALES SERVICES

(also H. MEASURES AFFECTING COMPETITION

- H1 State-trading enterprises, for importing; other selective import channels
- H2 Compulsory use of national services; insurance, transport, other services)

A closer look at key services-related measures

- J. DISTRIBUTION RESTRICTIONS

- J2 Restriction on resellers

- Restriction to limit the sales of imported products by designated retailers

- Example: Exporters of motor vehicles need to set up their own retail points, as existing car dealers belong exclusively to national car producers

- K. RESTRICTIONS ON POST-SALES SERVICES

- Measures restricting producers of exported goods provide post-sales service in the importing country

- Example: After sales servicing on exported TV sets must be provided by a local service company of the importing country


- H2 Compulsory use of national services; insurance, transport, other services

When do barriers to entry in distribution and post-sales hurt imports?


- When bundling goods and services enhances efficiency


After sale service

"A no cost scheduled maintenance plan with 24/7 roadside assistance. Now that's caring for you *and* your car."
-Jan

 **ToyotaCare**
No Cost Service & Roadside*

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 **ServiceCenter**
Award-winning Service, Parts, and Collision. All at one dealership.



There's iPhone.
And then there's everything else.

What makes an iPhone unlike anything else? Maybe it's that it lets you do so many things. Or that it lets you do so many things so easily. Those are two reasons iPhone owners say they love their iPhone. But there are many others as well.



Not just a theoretical concern: Growing evidence of manufacturers selling services

- The ratio of services revenue to total revenue in UK manufacturing sector increased from 5% in 1997 to slightly over 20% in 2007 (Breinlich et al., 2014).
- Manufacturing's sales of services in Sweden have increased from 13.6% to 20.3% of total sales over the 1997-2006 period (National Board of Trade (2010), Lodefalk (2013, 2015)
- Rolls-Royce generated nearly half its revenue from services in the period 2006-2009, Ericson about one-third and Arcelor Mittal one fifth.
- Service intensity was small on average in formal manufacturing in India, but varied significantly across sectors (Grover and Mattoo, work in progress)

This evidence could, of course, reflect economies of scope in the *production* of goods and services.

When does denial of access to national distribution and post-sales services hurt imports?

- When there are significant economies of scale in services



Considerable evidence of economies of scale and concentration in the formal retail sector.



Implications of past and present GATT disputes; e.g. access to ports.

The technology of distribution and post-sales services determine what measures matter for goods trade

		Optimal scale of distribution services	
		Small	Large
Integrating goods and services improves efficiency	No	Neither liberalization nor pro-competitive regulation is necessary	Denial of access is an issue. Pro-competitive regulation may be necessary
	Yes	Liberalization of services is necessary	Liberalization of services is necessary Pro-competitive regulation enhances competition but may hurt efficiency

Source: Mattoo (1998), Dealing with Monopolies and State Enterprises: WTO Rules for Goods and Services, Chapter 3 in Bernard Hoekman and Petros Mavroidis (eds.), Trade Liberalization and Property Ownership: State Trading in the 21st Century, University of Michigan Press.

Both the presence of restrictions and the absence of pro-competitive regulation can be a barrier to goods trade

Relevant measures related to distribution and post-sales services

- *Barriers to entry*: Measures restricting foreign entry
 - Of all foreign providers
 - Of foreign exporters of manufactured goods
- *Denial of access*: Measures denying access to local providers
- *Absence of pro-competitive regulation*: No measures ensuring non-discriminatory and reasonable access to services

Barriers to entry

Can cover the different modes of delivery:

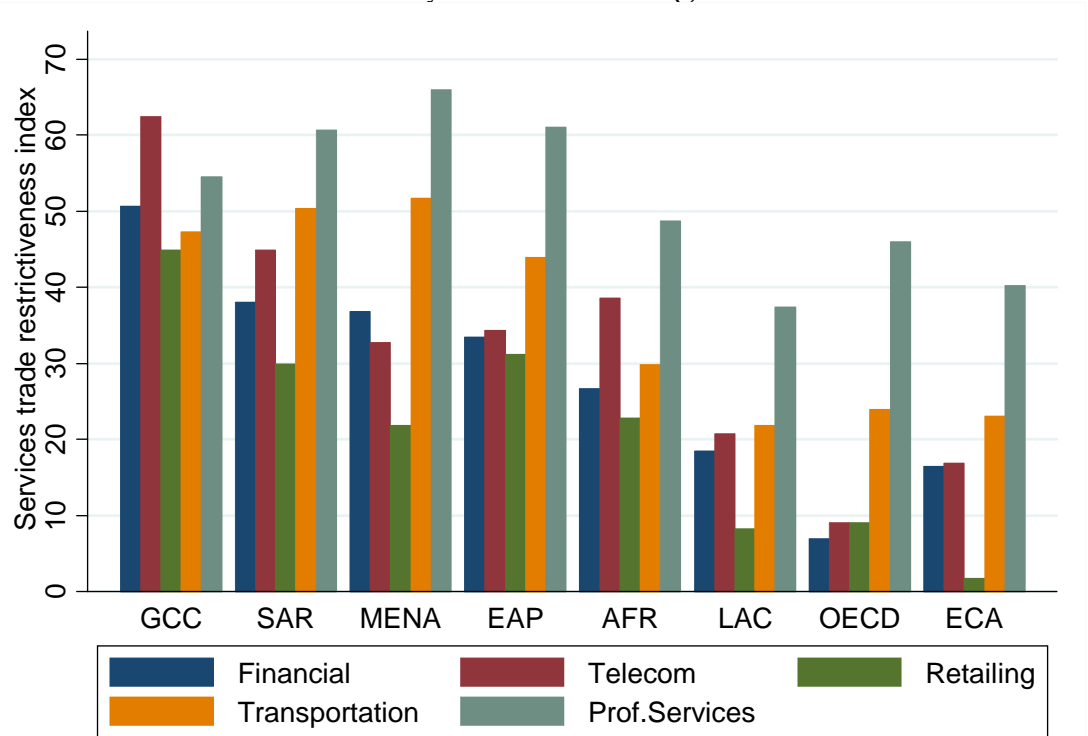
- Cross-border supply
- Consumption abroad
- Commercial presence
- Presence of natural persons

And any of the following classes of measures

- Conditions on market entry
- Conditions on operations
- Barriers to competition
- Regulatory transparency

Protection persists in retail services – but average levels of protection are lower than in other services

STRI by sector and region:

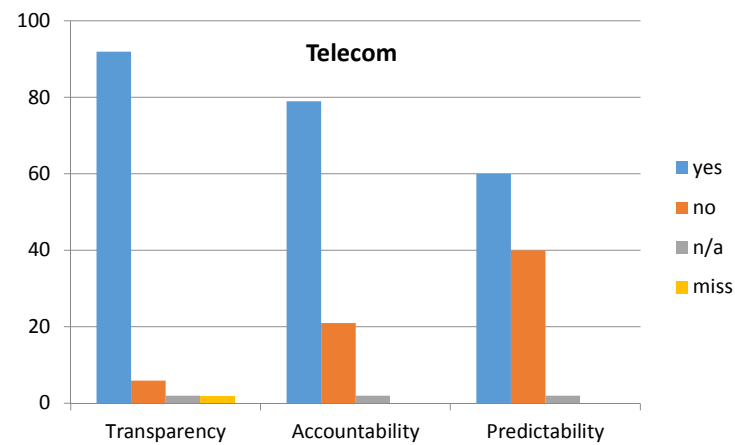
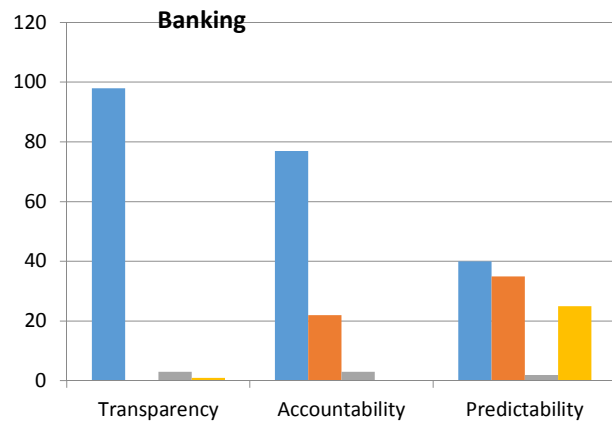


Note: 103 countries included.

Protection in services often takes a subtle form: Licenses are almost always required and almost never automatic

Transparency, accountability and predictability

Criteria are usually public, reasons for denial are often provided, but fulfilment of publicly stated criteria does not automatically lead to a license being issued



Source: World Bank Services Trade Restrictions Database

GATS W/120 Sector Classification corresponding to distribution services

- 4. DISTRIBUTION SERVICES Prov CPC
- A. Commission agents' services 621
- B. Wholesale trade services 622
- C. Retailing services 631+632
6111+6113+6121
- D. Franchising 8929
- E. Other

GATS W/120 Sector Classification corresponding to post-sales services

Post-sales services could include installation work, and maintenance and repair services of various categories of goods and is not a single comprehensive category in the GATS classification.

- Installation and assembly work is part of “construction and related engineering services” (3C)
- Maintenance and repair is part of transport services, e.g. maintenance and repair of maritime vessels (11Ad), aircraft (11Cd), rail transport equipment (11Ed), and road transport equipment (11Fd)
- Installation of computer hardware (1Ba) and implementation of software (1Bb) are part of business services
- Maintenance and repair of personal and household goods is part of business services (1Fn)
- Maintenance and repair of equipment (including metal products, machinery and equipment) is also part of business services (1Fn)

When should services measures be covered by the goods NTM database rather than the services trade restrictions databases (STRD)?

- **If scope of STRD is inadequate**
 - Because it does not fully cover the relevant services sectors (e.g. post-sales services)
 - Because it does not provide goods sector-specific information (e.g. the HS codes of affected goods)
 - Because it does not cover all measures affecting trade in goods
- **If pace of STRD development is too slow**

Looking ahead

- Distinction between goods and services is being blurred
- Goods and services are being sold together and there are examples of firm-specific complementarity
- Exports of goods require access to a series of services and there are examples of denial of access
- Yet classifications are separate and data collection is diverging
- Important to take a coherent and coordinated meta-view on data across institutions, encompassing:
 - classification,
 - collection,
 - dissemination

RESIDUAL SLIDES

World Bank-WTO Classification of Measures Affecting Services Trade

- Conditions on market entry
- Conditions on operations
- Barriers to competition
- Regulatory transparency
- Miscellaneous measures

Conditions on market entry

- Sector openness
- Form of entry
- Quantitative and administrative restrictions
- Licensing of firms (market access related issues)

Conditions on operations

- Restriction of Provision of Service
- Restriction on Service Provider
- International standards
- Government procurement
- Other measures

Barriers to competition

- Conditions on conduct of domestic/incumbent firms
- Conditions on conduct of foreign providers
- Governmental rights/prerogatives
- Public ownership
- Other measures affecting competition

Three dimensions of licensing

- Law, regulation, rule
- Administrative decision
- Procedures