



Coalition of Service Industries

**Statement of Robert Vastine
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to the U.S. International Trade Commission**

November 5, 2003

**Investigation 332-456, Express Delivery Services:
Competitive Conditions Facing U.S.-Based firms in Foreign Markets**

Thank you, Madame Chairwoman and Members of the Commission. It is a pleasure to appear today on behalf the Coalition of Service Industries (CSI). I appreciate this opportunity to share with you CSI's views regarding the effect of trade impediments on the competitiveness of U.S. express delivery service providers in foreign markets.

CSI is the leading business association dedicated to reducing barriers to U.S. services exports and foreign investment, and to mobilizing support for domestic U.S. policies that enhance the global competitiveness of U.S. service providers. In addition to express delivery companies, our membership includes companies and associations engaged in transportation, telecommunications, construction, insurance, banking, securities, fund management, pensions, consumer financial services, travel, energy, audio-visual, professional services and computer and information technology services.

CSI first would like to express its gratitude to the House Ways and Means Committee and other members of Congress who have expressed an interest in this important issue, and to the International Trade Commission (ITC) for initiating this investigation. The liberalization of trade in services is essential not only to the success of the U.S. services industries, but also to the facilitation of trade in goods, and to the growth of the U.S. economy generally.

Services now drive the U.S. economy and the economies of all the advanced countries. In 2001, services accounted for 81%, or \$7.1 trillion, of U.S. private sector's GDP. Moreover, services industries employ more than 85 million Americans, accounting for approximately 81% of U.S. private-sector jobs. Almost all new jobs for American workers are in services – between 1992 and 2002; services industries created 21 million new jobs in the United States.

The strength and competitiveness of the U.S. services sector is reflected in our cross border services trade. The United States is the world's leading exporter of services, with more than \$280 billion in exports in 2002, and a positive balance of trade of \$74

billion, in spite of the adverse effects of the 9/11 and the severe drop in travel and tourism. Sales of services to foreigners by foreign affiliates of U.S.-owned companies total almost \$432 billion in 2001. Such sales generated inflows of income from investments of about \$68 billion in 2001, and they create substantial additional supporting jobs at home offices in the United States.

Some economists believe that the US service industry can be much more successful in global cross border trade and trade stemming from foreign investment. That is because the WTO-led effort to reduce global services trade has only just started. The Uruguay Round produced the General Agreement on Trade and Services but very few scheduled commitments. The 1997 Agreements on Telecommunications and Financial Services somewhat improved commitments, but much remains to be accomplished to achieve a meaningful measure of global services trade liberalization. That is why the success of the Doha Round is so important to our sector.

The express delivery industry is of course a key component of the U.S. services sector. It employs more than a half million American workers, operates in more than 200 countries, and earns revenues in excess of \$50 billion annually. Like other U.S. services industries, the growth of the U.S. express delivery industry depends on companies' ability to compete on a fair basis throughout the world.

It is important to bear in mind that the ability to operate globally is essential to the day-to-day business operations of these companies. They are by nature global operators. If they are to serve their US clients effectively for example, they must be able to deliver goods virtually everywhere in the world.

Express delivery services is of course essential to trade in goods, which is increasingly conducted on the basis of "just-in-time" deliveries and must be precisely planned to meet strict inventory management requirements. These disciplines are now requirements of the marketplace.

As a result, the most successful manufacturers and sellers of all kinds of goods, including food and agricultural products, increasingly rely on sophisticated express delivery services that can reliably ship and deliver small or large items, including parts and components, *on time*. Express delivery service providers do much more than deliver; they offer on-line tracking, insurance, financial services such as factoring and lending, and other services that put them in virtual partnership with their manufacturing customers. Indeed, these companies are the leaders in the brand new field of logistics services which is only now being defined.

Express delivery services also are essential to the expanding world of e-commerce. Internet transactions make the world a global marketplace, but goods bought and sold on the Internet need to be shipped to their buyers, and that's mainly the job of express delivery.

Currently, U.S. express delivery providers face a wide range of barriers to trade in overseas markets, including burdensome customs procedures, restraints on market access, on establishment of commercial presence, on national treatment, on regulatory transparency, and on discriminatory regulation.

These and other barriers threaten the ability of U.S. express delivery suppliers to expand their business in many growing markets around the world. For this reason, and because express delivery services provide critical infrastructure for international trade in goods and other services, USTR must give a high priority to achieving significant liberalization in all the sectors, including express delivery, where US providers are clearly competitive.

U.S. leadership is essential, as fewer than thirty of our trading partners have made meaningful commitments to opening the express delivery sector.

Definition of Express Delivery Services

The recognition of the express delivery services industry as a distinct sector is a key issue for U.S. express delivery providers in the Doha Round, as well as in other trade negotiations. Most existing trade agreements do not include a specific definition of express delivery services. As a result, Parties to those agreements typically rely on the UN Provisional Central Product Classification Code (CPC), last updated in 1989, for a definition of express delivery services. But the CPC's approach inappropriately focuses on the nature of the service provider rather than the service itself. Under the CPC, express services provided by a private operator are classified as "courier services," but when the same services are provided by a public postal administration, they are classified as "postal services."

The CPC's approach creates a serious problem because countries are likely to argue that services provided by private express delivery providers can be distinguished from the exact same services provided by a postal administration. As a result, national treatment violations would be nearly impossible to prove. This is why a new, specific definition for express delivery services is needed. Otherwise, provisions in trade agreements on national treatment and most-favored nation treatment would offer little, if any, help for express delivery service providers that seek competitive equality. We therefore urge the U.S. Government to move forward on an expedited basis to present an offer setting forth specific language for express delivery services at the WTO and to continue to advance this issue in other bilateral and multilateral negotiations.

Monopoly Abuse

Another important issue faced by the U.S. express delivery services industry in foreign markets today is abuse by government postal administrations of their monopoly powers. This situation arises when government postal administrations use the resources, privileges or immunities granted to them in their public service activities to undercut

private companies in the express delivery and other sectors. For example, in some countries, such as Germany and Canada, postal administrations have used cash or other resources from their government-granted monopoly operations to subsidize their own express delivery operations. Similarly, postal administrations in several countries use special expedited customs procedures for their express shipments, but these are not available to private providers. Likewise, postal monopolies in some countries are not required to pay taxes and fees that are regularly imposed on private express delivery suppliers.

Abusive practices by government monopolies affect numerous industries other than express delivery services. In industries such as telecommunications, health services, transportation and financial services, U.S. service providers also compete with government-sanctioned monopolies that can use their resources to extend their market power beyond the major services sectors that they control to disable fair competition in related sectors. For example, in the telecommunications industry, companies with government-granted monopoly rights in telephone or cable markets can use resources obtained from their monopoly activities to cross-subsidize activities in other markets, such as the satellite television, internet, data and mobile phone markets, where they compete with private sector companies.

A recent article in *The Economist* (copy attached) of March 29, 2003 paints a textbook picture of abusive action by a government-sanctioned monopoly. The article analyzes the problems created by Japan Post's becoming a private, profit-seeking institution that competes against private companies. It highlights how Japan Post, which sells three main products—postal services, savings and insurance—may create havoc in the insurance and financial services industries. Here is how *The Economist* put it:

“In its new incarnation, the post office will lose only a few of the perks that it currently enjoys. Japan Post will remain exempt from nearly all taxes. Like bank deposits, postal savings are fully protected by the government; unlike the banks, however, Japan Post will not have to pay any deposit-insurance premiums. This, complains the Japanese Bankers Association, has saved the post office around ¥4.5 trillion in the past decade.

Life insurers are miffed too... Its policies, unlike the private sector's, are guaranteed by the government. “

Japan Post's insurance operations are exempt from taxes and fund payments required from private insurers. The Japanese government extends its unlimited full faith and credit guarantees to Japan Post's insurance policies, and Japan Post is not subject to the Japanese Insurance Business Law. Currently, it is not subject to oversight by the Japanese Financial Services Agency, which is contrary to international regulatory standards.

The article in *The Economist* focuses on the distortions that Japan Post's abusive practices have created in the domestic Japanese economy. These practices pose substantial market access barriers to U.S. companies seeking to compete in the Japanese market for express delivery services, financial services and insurance. As the Japan Post example makes clear, a government-sanctioned monopoly with vast resources has the ability to cross-subsidize in any number of sectors that are unrelated to its monopoly activities. As such, cross-subsidization and other trade-distorting practices by government monopolies represent some of the most significant trade impediments facing U.S. express delivery providers and other U.S. service suppliers today.

Accordingly, we urge the U.S. Government to make services liberalization, the recognition of express delivery services as a unique sector, and the development of remedies to address cross-subsidization and other abusive practices by government monopolies, a top priority throughout our trade negotiations. As the most competitive services exporter, the United States has the most to gain from true liberalization of services trade, and the most to lose from the continued unfair trade practices in foreign markets.

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Thank you again for the opportunity to testify today. I would be happy to answer any questions.