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**United States House of Representatives
Committee on Financial Services
Subcommittee on Domestic and International Monetary, Trade and Technology**

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Introduction

Thank you, Chairman Pryce, for the opportunity to testify today on the crisis in the Doha Round Financial Services Negotiations. The Coalition of Service Industries (CSI) is the leading business organization dedicated to the reduction of barriers to US services exports. CSI was formed in 1982 to ensure that US trade in services, once considered outside the scope of U.S. trade negotiations, would become a central goal of future trade liberalization initiatives.

Today's hearing is timely, as only 28 days remain until the Sixth WTO Ministerial Conference in Hong Kong. This conference will determine whether the four-year-old Doha Development Agenda (DDA) negotiations can conclude successfully in 2006 and fulfill our ambitious agenda for services including financial services.

As you are undoubtedly aware services are critical to our economy, our foreign trade and to American jobs. Services account for nearly four-fifths of US economic output and represent 80% of the private sector workforce. We are the largest services exporter, with cross border exports of services having grown to \$340 billion last year. We enjoy a \$50 billion trade in services surplus, of which \$16 billion is accounted for by financial services. Sales of services by US affiliates in foreign markets are even larger, rising from \$190 billion in 1995 to over \$477 billion in 2003. The operations of these affiliates are vital to US companies' global competitiveness, and thus to American jobs.

Along with agriculture and goods, services are one of the three main "pillars" of negotiation in the Doha Round. But the attention accorded to services in trade negotiations, at least until recently, has not been equal to that of the other two pillars. WTO members' participation in the services negotiations has been uneven and generally weak, and the talks are far behind schedule as a result. Failure would be a tremendous loss for the United States. It would be impossible for our sector to support a Round that did not achieve substantial liberalization in services.

The Road to Hong Kong

All World Trade Organization (WTO) Members signed the "rulebook" for services, the General Agreement on Trade in Services (GATS) at the conclusion of the Uruguay Round. But Members' actual commitments to free trade in services were in general poor. Lack of time and the sheer novelty and complexity of negotiating services precluded negotiating better commitments.

Recognizing that much work remained to be done in services, the Uruguay Round provided that negotiations continue immediately after the Round in four sectors: financial services, telecommunications, maritime and professional services.

The negotiations on telecommunication and financial services concluded successfully in February and December 1997 respectively.¹ A previous effort to negotiate a financial services agreement was terminated in 1995, when the United States decided that the agreement did not contain sufficient new liberalization to allow it to agree to the deal.

The 1997 financial services negotiations took place over 8 months, ending on December 13 that year. Members of the financial services business community visited Geneva during six of the monthly negotiating sessions to meet with the 20 Member delegations the Financial Leaders Working Group (FLWG) had targeted as those of most interest. Industry representatives from as many as 60 companies and associations from Europe and North America regularly met jointly with the chief financial services negotiators of both the EU and the US, and with representatives of the EU member states. This remarkable industry cooperation resulted in a well sustained common position.

The Current State of Play in Services and Financial Services Negotiations

Against this background, what is the state of play in the Doha Round services sector negotiations?

The bottom line is that while there is a sufficient quantity of offers to hold a negotiation, their quality is poor. The offers provide for little new liberalization, and in many cases do not even reflect current levels of openness. At this time, 69 initial offers have been put forward, meaning that more than 20 WTO Members that should do so still have not yet tabled an initial offer. Revised offers were to have been submitted by May 31 of this year. To date, only 28 members have tabled revised offers.

In his July 2005 report to the WTO Trade Negotiations Committee, Alejandro Jara, the former Chairman of the WTO Council for Trade in Services in Special Session, noted that "...a majority of these offers do not propose any improvement. If the current offers were to enter into force, the average number of sub-sectors committed by Members would increase only from 51 to 57... the overall quality of initial and revised offers is unsatisfactory. Few, if any, new commercial opportunities would ensue for service suppliers. Most Members feel that the negotiations are not progressing as they should. It is clear that much more work will be necessary in order to bring the quality of the package to a level that would allow for a deal."

The Critical Role of Financial Services for Economic Development

Financial services, broadly comprising banking, insurance, insurance intermediation, asset management, pension and retirement services, payments systems including credit cards, brokerage and securities, are essential prerequisites for dynamic modern economies. Liberalizing trade in financial services improves capital market efficiency, bolsters financial sector stability, and supports economic growth and job creation for both developed and developing countries. A World Bank study found that "a sound financial system boosts economic growth and particularly

¹ Maritime negotiations ended unsuccessfully, and professional services negotiations concluded with agreements on mutual recognition and related issues.

benefits people at the bottom end of the income league.”² Enhanced competition stimulates modernization and provides consumers with the broadest range of products and services at the lowest cost. It is unfortunate that in “two poor states in India where the financial system is largely controlled by the government, borrowers paid bribes to officials amounting to between 8% and 42% of the value of their loans.”³ A level playing field for foreign financial services providers is critical. It can help reduce corruption and ensure that both agriculture and manufacturing become more competitive.

Sectors of Particular Concern

While the membership of CSI includes a broad array of financial services providers, for the purposes of this hearing I have been asked to address issues relating to insurance, asset management and pensions.

Insurance: Insurance can provide unique and important benefits to a society, including financial security to support economic growth, private compensation of loss in place of government compensation or no compensation, investment in basic infrastructure and a financial and political focus on loss prevention and mitigation. Insurance companies and intermediaries can only provide these societal benefits if the market is liberalized and insurers and intermediaries can enter, operate, and earn a profit. The FLWG Insurance Model Schedule and Best Practices outline the essential elements of market liberalization which must be addressed in the requests and offers, to realize these benefits.

Asset Management: Asset management companies also provide important benefits to countries whose markets are open. By offering mutual funds to investors, both small and large investors are afforded the opportunity to obtain professional management and diversification while saving for their future. In doing so, asset management companies contribute to economic growth by channeling individual savings into the world's capital markets. This can be particularly important for emerging markets, where mutual funds' portfolio investments provide a much needed source of stable long-term capital.

Pensions: As countries undertake reforms to ensure the stability and sustainability of their retirement systems by developing private pension systems, countries should provide effective market access for firms in managing private retirement assets worldwide. Pension plans should be permitted to invest in a wide range of investments to maximize returns to pension participants; and sponsors of defined contribution plans should be able to provide a wide range of permissible investment options.

Objectives for Financial Services Industry

Through negotiations on financial services since the Uruguay Round industry has sought to achieve the following priorities: the right to establish and own the majority share of a business, the right to be treated the same as a domestic company, the right to transparency, the ability to trade across borders, and protection of rights acquired in a market prior to the conclusion of a trade agreement.

² Demirgüç-Kunt, A., L. Laeven and R. Levine “Finance, Firm Size, and Growth” World Bank, December, 2004.

³ “The hidden wealth of the poor” The Economist November 3, 2005

Mode of Establishment and Ownership: Developing countries should permit the right to establish through a wholly owned entity or other form of business ownership such as a branch, and the right to operate competitively through established vehicles available to national companies, since companies have different strategic objectives and ways in which to structure themselves to achieve their objectives. Developing countries often cite concerns with regard to permitting branching; however, this form of establishment provides access to the home office capital as well as any local capital, and therefore has more financial protection than a subsidiary. Full ownership of the entity is important, particularly for financial services companies.

National Treatment: Our companies are often not offered a level playing field; national treatment should be afforded to ensure that we are not excluded from certain areas of a market, or regulated differently from domestic companies. Equal treatment benefits consumers since it encourages competition, greater product choice and lower prices and foreign and domestic financial services providers through an increase in demand, resulting in additional income.

Regulatory Transparency: This is of particular importance for global companies, particularly the financial services industry due to its complexity and heavily regulated nature. Similar to the U.S. Administrative Procedures Act, we seek notice and comment on rulemaking, prompt licensing decisions, clearly laid out requirements for licenses, explanations when licenses are denied, and the right to appeal to an objective tribunal. Regular interaction between regulators and the private sector in the form of notice and comment allows regulators to consider comments received prior to promulgating their final regulation. It has been shown that in instances where this dialogue exists, the quality of regulations has increased. CSI recently developed 'The Open Government Project' a website on regulatory transparency. It includes a set of best practices drawn from an analysis of current practice in fourteen countries (www.ogproject.org). Industry supported a U.S. proposal that amplifies GATS disciplines for transparency in domestic regulation at the WTO earlier this year.

Cross Border Services: Countries should remove unnecessary restrictions on cross-border trade in financial services. This is of particular concern to the asset management and insurance industry. All professional insurance intermediaries should be permitted to place business in the most suitable market for each risk and to render related services without being required to establish in the country where such services are delivered. This applies particularly to marine, aviation, and transport placements, and to clients facing international risks, large undertakings, or the need for reinsurance support.

Acquired Rights: Trade agreements should not impair the existing operations of those companies already established and should permit them to continue to expand their business on the basis of their existing license and corporate structure.

Reasons for Lack of Progress in Financial Services Negotiations

Chairman Pryce, earlier I indicated that the negotiations are going badly, that there are a number of offers, but that they have little commercial value. I believe there are two reasons for this.

The first is that many of the important developing countries from whom we most seek offers have not had a sufficient incentive to provide them. We believe that these countries can be divided into three groups, each of which will respond to offers from the United States and other developed countries.

Agriculture: Trade officials and observers in Geneva and in capitals are virtually unanimous in their agreement that an agriculture breakthrough is the lynchpin to the entire Doha Round undertaking. Agriculture has been the central issue in this Round from the outset. Many developing countries have explicitly linked their willingness to liberalize financial services and other services trade with progress in the agriculture negotiations.

We strongly supported Ambassador Portman's bold proposal in Zurich last month, in which he outlined US proposals for the reduction of subsidies and other forms of support that distort agricultural trade. Reciprocation by the EU would generate positive momentum for the Round. Those countries that have made services conditional on progress in agriculture would then have no further excuse not to negotiate services in earnest. But the EU response has fallen far short. Until agriculture is resolved, the services negotiations will not make progress. This is the single most important issue determining the outcome of the Hong Kong Ministerial Conference, particularly for Brazil and a number of other Latins.

Many developing countries export agricultural products. They are right in their demands that global markets, especially in developed countries, be opened to them. This is essential if they are to earn their way out of poverty.

Business Travel Facilitation: US business needs a new business travel facilitation program for two main reasons. First, existing programs do not meet our own companies' needs. Second, a group of about 13 important trading partners including India⁴, have made it clear that their willingness to liberalize financial and other priority sectors is dependent on the willingness of the United States to discuss business travel facilitation.

We are unable to engage in such discussions in the Doha Round because there is no agreement in the United States Government on how to proceed. This impasse is adversely affecting the efforts of US services companies to expand their market share in key foreign countries.

A good example of problems we face relates to the entry of foreign professionals for training in the U.S. Current regulations do not, for example, permit on-the-job training. As a result, very few in-house corporate training programs are ultimately approved. The solution for one U.S. company was to establish a training facility in Ireland.

We are also regularly losing initial public offerings to London, Frankfurt & Hong Kong because senior executives cannot obtain their visas in a timely manner in order to hold "road shows" with major US investors across the country. A 2004 study by the Santangelo Group estimated that US business suffered \$30.7 billion in lost revenues and added costs over the last two years as a result of visa problems.⁵

The Congress, US trade negotiators and the business community need to work together to shape a business travel facilitation initiative. The business community has fashioned a proposal to facilitate the temporary entry of key business personnel, by which we mean professionals, managers, consultants, and highly skilled experts and technicians. Congressional support, for this proposal will give us a much-needed way to move forward to solve our business travel problems, and also obtain valuable negotiating leverage in the Round.

⁴ Argentina, Bolivia, Brazil, China, Chile, Colombia, India, Mexico, Pakistan, Peru, Philippines, Thailand and Uruguay

⁵ "Do Visa Delays Hurt U.S. Business?" [The Santangelo Group](#)

Emergency Safeguard Mechanism. Another group of developing countries, led by some of the ASEAN nations, have advocated an Emergency Safeguard Mechanism (ESM) for services, similar to anti-dumping remedies for goods. The U.S. and a large number of other WTO members have taken the position that an ESM for services is neither feasible nor desirable. The nature of services trade is such that it would be extremely difficult, if not impossible, to demonstrate damage from increased service imports. It would be even more difficult to determine remedies. For goods, the remedies are quantitative, in the form of tariffs and quotas, options which are not possible in services. Moreover, the record of the use and abuse of the escape clause for goods should make anyone interested in free trade hesitant in trying to apply it to services.

Despite the inherent problems with ESMs, some countries are unlikely to abandon their demands. An effort will therefore have to be made to find some acceptable compromise without sacrificing core US interests.

Efforts to Break the Deadlock

I stated earlier that there are two reasons why the services talks are floundering. The first reason is the lack of incentives to negotiate, caused by a lack of offers in agriculture, business travel facilitation and safeguards. The second reason is the capacity and time-intensive nature of services negotiations.

Services are based on a “request-offer” process, requiring multiple intensive negotiating sessions in which initial offers are followed by further negotiations, leading to improved offers, followed by further negotiation. These negotiations are undertaken trading partner by trading partner, sector by sector, across the range of service sectors in which concessions are being sought. It is easy to see how effective services negotiations can take, at a minimum, many months. Unfortunately, this process has not gained traction in the Doha Round.

The breakdown of the request-offer bargaining process is of concern to many governments. Some have therefore suggested “complementary approaches” to simplify the complex and time-consuming request-offer process. The European Commission (EC) has put forward an approach whereby developed countries would commit to liberalize in 80% of the 156 service sub-sectors identified in the GATS and developing countries in 60% of the sub-sectors. Developing countries generally have made commitments in a small portion of the sub-sectors identified in the GATS (about 15-20%), while the portion is higher for developed countries (about 60%).

Developing countries strenuously object that the EC proposal undermines their flexibility. A further flaw is that countries could meet the numerical requirement simply by making commitments in sectors in which we have no interest, while making no new commitments in priority sectors for the U.S., like financial services. The U.S. has been working on compromise proposals to bridge the gap between the EC and developing countries. But the EC insists that its formulaic approach be adopted or it cannot justify the cuts it has offered in the agriculture negotiations. Consequently we run the risk of de-railing the entire talks if the EC and other WTO Members are not prepared to show flexibility in their negotiating stance.

Success in Financial Services

Industry’s experience in the 1997 WTO negotiations on financial services demonstrated conclusively that Finance Ministries must lead the financial services negotiations or they will not succeed. In those negotiations the highest officers of the U.S. Treasury were committed to their success and worked aggressively with fellow finance ministers to secure commitments.

It is good to report that Treasury Secretary John Snow and the new Undersecretary of the Treasury for International Affairs, Timothy Adams, have taken a fresh interest in the negotiations, in part responding to the concern of the U.S. financial services industry that Treasury leadership is urgently necessary, and to strong expressions of interest by the Members of this Committee and other Members of Congress, for which we thank you.

But as they have taken up in a more determined way the call for financial services liberalization, the new Treasury leaders report they have found a surprising lack of interest among their counterparts in other governments. Demonstrating the gulf that exists in many governments between Trade Ministries and Finance Ministries, US Treasury officials have found many of their opposite numbers unaware of or simply disinterested in the Doha Round negotiations and the opportunities the Round presents.

Therefore an important message that we all must continually emphasize is that financial services liberalization is first and foremost in the interest of the liberalizing country. Financial services form the infrastructure essential to economic development and are crucial to other areas of an economy. Countries where world class financial and other services are available are more attractive to foreign investment. Costs of investment, and associated risks for US providers, are higher in markets where there are not bound commitments.

Conclusion

Chairman Pryce, to achieve our goals for financial and other services, will require concessions by the United States in agriculture, business travel facilitation and safeguards. Demonstration of US willingness to engage these issues is the best way to elicit the offers we need in financial services.

We also need the support of the Congress to achieve these goals. Clear signals from Congress that services liberalization is a critical US interest and that no agreement is acceptable without such liberalization, would be very helpful for our cause.

Failure to negotiate commercially meaningful commitments for financial and other services would mean that the trade rules for services would fall far behind the reality of markets. This would mean lost opportunities for both US services producers and for countries that failed to modernize their services trade. The US services sector could not support a Doha round outcome that failed in this respect. We would enthusiastically support a conclusion of the Round that moved significantly forward in liberalizing services.

I thank you for your time, and would be glad to answer any questions you might have.
