The attached document is submitted to Working Party No. 2 of the Competition Committee FOR DISCUSSION under item III of the agenda at its meeting on 14 June 2010.

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The STRI and competition
Presentation to the Working Party no 2
14 June 2010
Hildegunn Kyvik Nordås/TAD/TPLS

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Objectives of the STRI project

• Provide a tool for analysing services trade policy and regulatory reform and contribute to better understanding of driving forces for and barriers to trade in services:
  – Peer review and benchmarking
  – Impact analysis
Outputs of the STRI project

1. A regulatory database
2. Composite indices of trade restrictiveness, documentation, methodology papers and sector studies;
3. Impact analysis: trade and welfare effects of trade liberalisation and regulatory reforms

STRI is a composite index

- Uses information on regulation
- A snapshot of trade restrictiveness for the countries and sectors included at a particular point in time
- Gives the broad picture rather than the fine details
- Does not necessarily capture the commercial attractiveness of countries.
  - Commercial attractiveness is determined also by market size, growth rate, culture and institutions
- Changes in the index over time is as useful as capturing restrictiveness levels in the first year
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Sectors included to date

- Computer services
- Construction
- Professional services
  - Accounting
  - Architecture
  - Engineering
  - Legal services
- Telecommunications
- Extensions to new sectors are being discussed

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The steps taken and choices made

- Which policy measures to include
- How to transform qualitative information to quantitative scores
- How to structure the information
  - Policy areas
  - Sub-indicators
- Which weight to give to measures and sub-indicators
Selection of measures

- Mentioned explicitly in the GATS
- Mentioned explicitly in regional trade agreements
- Identified by experts at services expert meetings
- Related to future negotiations on rules in the WTO/GATS

Measures are organised under five policy areas

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restrictions on foreign ownership and other market entry conditions.</td>
<td>Foreign equity limits&lt;br&gt;Restrictions on board of directors&lt;br&gt;Restrictions on legal form&lt;br&gt;Screening</td>
</tr>
<tr>
<td>Restrictions on the movement of people</td>
<td>Labour market needs tests; Quotas&lt;br&gt;Recognition of qualifications&lt;br&gt;Duration of stay</td>
</tr>
<tr>
<td>Other discriminatory measures and international standards</td>
<td>Discrimination in public procurement, taxes and subsidies&lt;br&gt;Adoption of international standards</td>
</tr>
<tr>
<td>Barriers to competition</td>
<td>State owned enterprises – privileges&lt;br&gt;Pro-competitive regulation of firms with significant market power (e.g. in telecoms)&lt;br&gt;Trade-restricting anti-competitive regulation (e.g. minimum prices)</td>
</tr>
<tr>
<td>Regulatory transparency and administrative requirement</td>
<td>Publication of regulation, procedures for dealing with licensing, qualification recognition, visa etc.</td>
</tr>
</tbody>
</table>
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### Barriers to competition

<table>
<thead>
<tr>
<th></th>
<th>Horizontal</th>
<th>Professional services</th>
<th>Telecoms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public ownership:</td>
<td>Minimum or maximum fees</td>
<td>Independent regulator</td>
<td></td>
</tr>
<tr>
<td>Government controlled firms have privileges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign suppliers have access to appeal in regulatory systems</td>
<td>Restrictions on advertising and marketing</td>
<td>Access regulation:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Interconnection</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Local loop unbundling</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Collocation</td>
</tr>
<tr>
<td>Foreign firms have redress when business practices restrict competition</td>
<td>Price regulation</td>
<td>Regulation motivated by switching costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Vertical separation</td>
</tr>
</tbody>
</table>

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### Sources of information

- Laws and regulations in each country: government and regulator websites, one-stop shops for foreign investors;
- OECD codes of liberalisation and capital movement, and measures of national treatment;
- OECD Communications Outlook;
- ITU
- OECD Product Market Regulation
- OECD Governance indicators
- World Bank Doing Business database
Scoring of measures

- Assigning numbers to qualitative information
  - Binary scores
  - Refinements:
    - Break complex measures into several thresholds; e.g. foreign equity limits;
    - Construct nested layers of measures
    - Construct regulatory packages

Scoring example:
Foreign equity limits

<table>
<thead>
<tr>
<th>Thresholds</th>
<th>Score if max 49%</th>
<th>Score if max is 65%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No foreign equity</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Less than a third</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Less than half</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Less than two thirds</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Less than 100%</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
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Scoring: Nesting

- Foreign equity
  - Not allowed
  - Allowed
    - Restr. on board members
    - Quotas
    - Screening

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Weights

- Ideal: should capture the marginal contribution to trade cost;
  - Requires better coverage and quality of services trade and FDI data than is currently available;
- Meanwhile:
  - Weights based on expert judgement;
  - Robustness checks: calculate the STRIs with equal weights, principal component analysis, Bayesian econometrics and random weights
Conclusions

- Barriers to competition are important restrictions on trade in services – and trade barriers are also barriers to competition
- Barriers to competition are sector-specific
  - more details on barriers to competition in sectors subject to market imperfections
  - Barriers to competition carry a higher weight in the STRI in sectors subject to market imperfections (e.g. telecommunications)
  - Lack of pro-competitive regulation may constitute a trade barrier
  - E.g. price regulation in inherently competitive markets may be trade restrictive

Thank you for your attention

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