
2 Services

The service sectors account for almost 80 per cent of Australia's gross domestic product and around 20 per cent of the nation's exports.

The proposed WTO Millennium Round negotiations should provide an opportunity for Australia to further liberalise its service sectors, while simultaneously negotiating with its trading partners to liberalise theirs. Many of Australia's service sectors are already open to trade, and its negotiating position can be strengthened where it can inform its trading partners of the economic costs of their restrictions on trade in services.

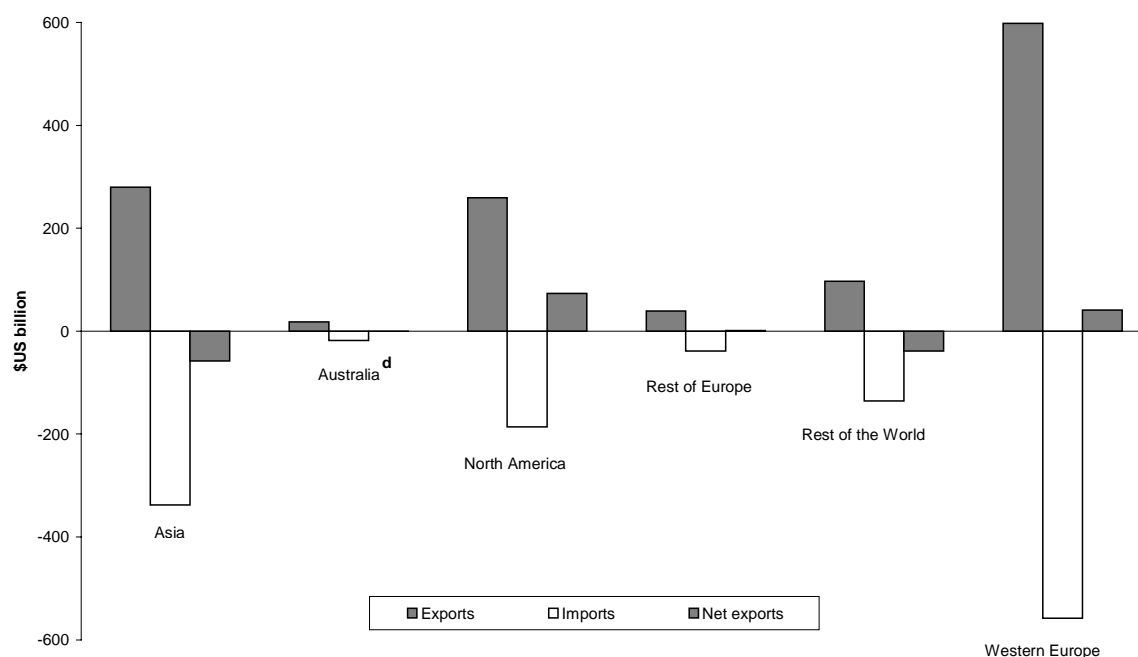
In this chapter, after outlining data on services output and trade, the Commission:

- summarises its new methodology for determining the extent and price impacts of a country's restrictions on services trade;
- presents data on the degree of restrictiveness in a range of countries, and the impacts of those countries' restrictions on prices in their own economies; and
- discusses a number of policy issues relating to the liberalisation of services trade.

2.1 Trade and production: a snapshot

World exports of services in 1997 were \$US1312 billion, or about 20 per cent of total world exports (WTO 1998c). As would be expected, the flow of exports and imports of services is the greatest for Asia, North America and Western Europe (figure 2.1). North American and Western European economies are the largest net exporters of services. Asia and the 'rest of the world' are the largest net importers of services. Australia accounts for around 1.4 per cent of services trade (WTO 1998c).

Figure 2.1 1997 world exports and imports of services for selected regions^{abc}
 \$US billion



a The data cover commercial services, defined as all services other than government services. Commercial services are sub-divided into transport, travel and other commercial services. **b** North America includes Canada and the United States. Western Europe includes Croatia, European Union member states, Iceland, Malta, Norway, Slovenia, Switzerland, Turkey and the former Yugoslavia. The Rest of Europe includes Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States. The Rest of the World includes Africa, Latin America and the Middle East. **c** Data for some economies are not available. **d** The WTO reported a net trade figure for Australia. This is not visible on the graph due to its scale.

Data source: WTO (1998c).

Services account for about 20 per cent of Australia's total exports and total imports.¹ Over the past five years, services exports have grown at an average annual rate of 6 per cent, while services imports have grown at 4 per cent annually. The ABS reported a services trade deficit for Australia in 1998-99 of \$800m (ABS 1999b).

In line with global trends, the services sector's share of domestic economic activity has grown considerably over recent decades. Today it accounts for some 77 per cent

¹ The ABS revised its trade in services data in 1998. The data are now expressed as a 'chain volume' measure rather than in 1989-90 constant prices. Royalty and copyright fees are now classified as service transactions (ABS 1999a, 1999c and 1999d).

of gross domestic product and 80 per cent of employment (ABS 1998a and 1998b). Some of the largest service sectors are property and business, transport and storage, and finance and insurance (refer to table 2.1).

Table 2.1 Service sectors share of gross product and employment, 1997-98^a

<i>Services sector</i>	<i>Gross product^b</i>		<i>Employment^c</i>	
	<i>\$m</i>	<i>Percentage share</i>	<i>'000 persons employed</i>	<i>Percentage share</i>
Property and business	59 662	16.6	895	13.1
Transport and storage	33 464	9.3	394	5.8
Finance and insurance	32 398	9.0	312	4.6
Health and community	31 714	8.8	800	11.7
Retail trade	30 792	8.6	1 245	18.2
Wholesale trade	30 727	8.6	499	7.3
Construction	30 003	8.4	597	8.8
Education	23 788	6.6	584	8.5
Government administration and defence	23 185	6.5	340	5.0
Communication	15 665	4.4	149	2.2
Electricity, gas and water supply	14 292	4.0	65	0.9
Personal and other	12 122	3.4	340	5.0
Accommodation, cafes and restaurants	11 321	3.2	404	5.9
Cultural and recreation	9 904	2.8	203	3.0
Total services	359 037	100.0	6 825	100.0
Total services as a percentage of total gross product and total employment		77.2		80.6

^a Figures may not add to totals due to rounding. ^b Gross product data is the industry gross value added at basic prices using the 1997-98 chain volume measures. Ownership of dwellings is excluded. Total output is the total gross value added. ^c Employment is the average number of persons employed during 1997-98.

Source: ABS (1998a and 1998b).

2.2 Measuring the effects of restrictions on trade in services

Measuring restrictions on trade in services is more difficult than measuring restrictions on trade in goods. International trade in goods involves an exchange of a product between a producer and a user or consumer, and restrictions on such trade usually take the form of a tariff. The effect of trade restrictions on the price of goods can be measured relatively easily by the amount of the tariff. In contrast, trade in services involves a less tangible exchange between the producer and the user or

consumer, and restrictions on trade in services are often difficult to identify and quantify.

Recent work involving the Commission, the University of Adelaide and the Australian National University, and partly funded by the Australian Research Council, has estimated the effect of restrictions on trade in selected services, not just for Australia but also for a range of our trading partners. A methodology has been developed which:

- classifies the different types of restrictions on trade in services;
- measures the nature and extent of these restrictions; and
- estimates the effect of the restrictions on the profit margin or price of services.

Classifying restrictions on trade in services

The methodology classifies restrictions on services in two ways, both of which align closely with the classification of restrictions under the General Agreement on Trade in Services (GATS).

The first way of classifying a restriction is by whether it applies to:

- a business's *establishment* — the ability of service providers to establish a physical outlet in a territory and supply services through those outlets; or
- a business's *ongoing operations* — the operations of a service provider after it has entered the market.²

The reason for distinguishing restrictions on establishment from restrictions on ongoing operations is so that the former can be modelled as restrictions on the movement of capital, while the latter can be modelled as restrictions on world trade in services. About \$600 billion of services exports are supplied through foreign direct investment, mainly for establishment of businesses in overseas countries, and \$1 trillion are supplied across borders, mainly for ongoing operations (Dee and Hanslow 1999).

² This classification is similar to the modes of supply used in the General Agreement on Trade in Services (GATS). Restrictions on establishment are a subset of services supplied through 'commercial presence'. Restrictions on ongoing operations are similar to services delivered through 'cross-border supply', 'consumption abroad' and the 'temporary movement of people'.

The second way restrictions are classified is according to whether they:

- limit *market access* – that is, restrictions on entry which treat domestic and foreign service providers equally, but restrict activity. This type of restriction may provide competitive benefits to incumbent firms over the new entrants. Such restrictions may be more burdensome than necessary to achieve a competitive and efficient services sectors. For example, an economy may have a legislated government monopoly over the provision of workers’ compensation insurance; or
- violate *national treatment* – that is, restrictions which treat foreigners less favourably than domestic service providers. Restrictions on national treatment often aim to restrict trade. For example, a foreign bank may be prohibited from entering a domestic financial service sector.

This classification leads to four categories in a two-by-two matrix. Table 2.2 provides an example.

Table 2.2 An example of classifying banking trade restrictions

	<i>Establishment</i>	<i>Ongoing operations</i>
<i>Restrictions on market access</i>	The number of banking licences is restricted.	Banks are restricted in the manner in which they can raise funds.
<i>Restrictions on national treatment</i>	The number of foreign bank licences is restricted.	Foreign banks are restricted in the manner in which they can raise funds.

Restrictiveness indexes for selected service sectors

A restrictiveness index uses available information on regulation to quantify the extent to which comparable economies have more or less restrictive trading regimes for services. An index summarises the nature and extent of restrictions on trade in services, although not their impacts on price.

A collaborative project by Commission staff and others calculated the restrictiveness indexes for three key services in selected economies — banking, telecommunications and maritime. McGuire and Schuele (1999) and McGuire et al (1999) used an index to summarise (non-prudential) trade restrictions on banking services, and restrictions on maritime services. Warren (1999a) used a similar index methodology for telecommunication services.

While these sectors comprise a minor part of all service industries, they are important in facilitating trade and, as noted earlier, the transport and financial

sectors each account for around 9 per cent of gross services output. That said, maritime accounts for only a small proportion of the transport sector in Australia. The communications sector, of which telecommunications forms a part, accounts for just over 4 per cent of services output.

The studies compile information on restrictions in these sectors from a wide range of sources such as the WTO and, in the case of telecommunications, an International Telecommunications Union survey (ITU 1998).

A score is assigned to particular restrictions applied in an economy, under the classifications in table 2.1, and an overall score is calculated for each economy. Scores range from 0 to 1.³ The greater the number of restrictions and/or the more these restrictions impede trade, the higher the index score for an economy. The assignment of scores is inevitably subjective, but it aims to capture the relative economic significance of various restrictive measures.

An overall economy score is calculated for all restrictions on market access — a domestic score — and for restrictions on market access plus restrictions on national treatment — a foreign score. A domestic score measures the restrictions on local service providers entering and operating in a services market. A foreign score measures all the restrictions governing foreigners' entry and operation in the domestic market. These include those requirements which apply to local service providers as well as those additional requirements which apply only to foreigners.⁴

In arriving at an overall economy score, these studies generally did not seek to determine which restrictions, if any, that contributed to the score might be justified to enhance the efficiency of a service sector and which might not. In general, trade restrictions, by reducing competition in a services market, will reduce the efficiency of that market. However, sometimes regulation which limits competition is necessary to deal with 'market failure' and to meet particular social objectives. Most obviously, prudential regulation of banking services is generally considered necessary to ensure the stability of the financial system. For this reason, the study of banking services excluded all prudential regulation from its restrictiveness index. However, the studies did not incorporate any other judgments about the merits or

³ Warren calculated a number of openness indexes for telecommunication services. The highest possible scores for these indexes ranged from 1 to 6. The Commission converted these openness indexes to restrictiveness indexes. These converted indexes are grouped into the same classifications as outlined in table 2.2 and normalised so that the scores range from 0 to 1.

⁴ The Commission added Warren's national treatment and market access scores for telecommunications to obtain an index of restrictions applying to foreign operators.

otherwise of the restrictions they covered. This is partly because the merits of any other class of restrictions are more doubtful, and partly because of the practical difficulties involved in making case-by-case judgments of the merits of all the restrictions covered by the studies in each of the various economies studied.

The results of these cross-country studies indicate that Australia is liberal in the banking and telecommunications services sectors and moderately restrictive in maritime services (refer to table 2.3). Many of the economies experiencing financial difficulties in recent years, mainly Asian and South American, have medium to high restrictiveness index scores. These economies were also found to be the most discriminatory against foreign suppliers.

Table 2.3 Summary of foreign restrictiveness index results for economies^a

<i>Service sector</i>	<i>Restrictiveness scores from 0 to 0.25</i>	<i>Restrictiveness scores from 0.26 to 0.45</i>	<i>Restrictiveness scores greater than 0.45</i>
Banking	Argentina, Australia, Austria, Belgium, Canada, Colombia, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Portugal, South Africa, Spain, Sweden, Switzerland, the United Kingdom, the United States and Venezuela.	Chile, South Korea, Singapore, Thailand and Turkey.	Brazil, India, Indonesia, Malaysia, the Philippines and Uruguay.
Tele-communications	Australia, Austria, Belgium, Chile, Denmark, Finland, France, Germany, Hong Kong, Italy, Japan, Luxembourg, Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom and the United States.	Argentina, Brazil, Canada, Ireland, the Philippines, Singapore and Spain.	Colombia, Greece, India, Indonesia, South Korea, Malaysia, Mexico, Portugal, South Africa, Thailand, Turkey, Uruguay and Venezuela.
Maritime ^b	Luxembourg, Singapore and the United Kingdom.	Argentina, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Portugal, Spain, Sweden and Switzerland.	Brazil, Chile, Colombia, India, Indonesia, South Korea, Malaysia, Mexico, the Philippines, Thailand, Turkey and the United States.

^a Refer to tables 2.5, 2.7 and 2.9 for a full list of results. ^b Inland waterways were covered as part of the maritime study.

Banking

In McGuire and Schuele's study of trade restrictions applying in 1997 on banking services in 38 economies, Australia was rated as very liberal (refer to table 2.5 at the end of this chapter). Australia has few restrictions on the entry and ongoing operations of banks. The main restriction is a condition on a foreign bank acquiring any of the four major banks (PC 1998b). The Government will apply the principle that any large-scale transfer of Australian ownership of the financial system to foreigners would be contrary to the national interest (Costello 1997).

Brazil, India, Indonesia, Malaysia, the Philippines and Uruguay are the most restrictive economies for foreign banking services. Some of these economies prohibit or restrict foreign bank entry. Several also limit foreign equity participation in domestic banks to a minority shareholding. These economies also have varying restrictions on banks raising and lending of funds, and on expanding the number of banking outlets.

Telecommunications

In Warren's study of trade restrictions applying in 1998 on telecommunications services in 136 economies, Australia was rated as very liberal (table 2.7). Operators are free to enter and operate in Australia. However, the Government retains a specific foreign investment restriction on Telstra (IC 1997). Under the *Telstra (Dilution of Public Ownership) Act 1996*, aggregate foreign ownership is restricted to 35 per cent of the equity sold. Individual foreign investors are also limited to no more than 5 per cent of that equity (Fahey 1999).

Of the same 38 economies examined in the banking study (discussed above), Colombia, Greece, India, Indonesia, South Korea, Malaysia, Mexico, Portugal, South Africa, Thailand, Turkey, Uruguay and Venezuela are the most restrictive economies for domestic and foreign telecommunications operators. Telecommunications services in most of these economies are supplied by government-owned monopolies. In some instances, where some form of private participation in the communications industry is allowed, governments limit foreign investment to a minority or completely prohibit foreigners from investing in telecommunications operators. The provision of callback services and the use of private leased lines also tend to be prohibited.

Maritime

In the McGuire et al study of trade restrictions applying in 1998 on maritime services in 35 economies, Australia was rated as moderately restrictive (table 2.9). Australia imposes a number of restrictions on the entry and operation of maritime service suppliers. To provide coastal shipping services, a ship must also fly the national flag or have a special voyage permit. To fly the national flag, a ship must be majority Australian owned and registered under the *Shipping Act 1981*. Pilotage and towage are also mandatory in some ports and liner conferences are exempt from competition policy legislation (see section 2.3).

Brazil, Chile, Colombia, India, Indonesia, South Korea, Malaysia, Mexico, the Philippines, Thailand, Turkey and the United States are more restrictive than Australia. These economies are characterised by strict conditions on the right to fly the national flag, strict conditions on cabotage, and restrictions on the carriage of certain cargoes. Most of these governments also permit liner conferences to form and operate, and reserve the right to impose discretionary retaliatory measures against trading partners.

Price effects of restrictions for selected service sectors

A price impact measure is an estimate of the effect of trade restrictions on the price of services. It is normally estimated by taking a direct measure of price or profit and statistically ‘regressing’ that on a number of determinants, including an index measure of trade restrictions. The determinants of price can be decomposed to reveal the effect of trade restrictions on the price of services.

Kalirajan et al (1999) estimate the price effect of restrictions for banking, while Warren (1999b) calculates the price effects for telecommunications services. The estimated price effects generally reflect the number and/or strength of the restrictions imposed by economies, which are summarised in the restrictiveness index — that is, the greater the restrictiveness, the greater the price impact. Table 2.4 provides a summary of the estimated price effects.

Table 2.4 Summary of foreign price effects for economies^a

<i>Service sector</i>	<i>Price effects from zero to 10 per cent</i>	<i>Price effects from 11 to 30 per cent</i>	<i>Price effects greater than 30 per cent</i>
Banking	Argentina, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Luxembourg, Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.	Colombia, Japan, Mexico, South Africa and Venezuela.	Brazil, Chile, India, Indonesia, South Korea, Malaysia, the Philippines, Singapore Thailand, Turkey, and Uruguay.
Tele-communications	Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, South Korea, Luxembourg, Netherlands, New Zealand, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.	Colombia, Malaysia, Mexico, South Africa, Uruguay and Venezuela.	Indonesia, the Philippines Thailand and Turkey.

^a Refer to tables 2.6 and 2.8 for a full list of results.

Banking

Kalirajan et al found that non-prudential trade restrictions on foreign banks raise the price, or ‘net interest margins’, of the different banking services studied by 5 to 60 per cent (table 2.6). That is, the prices of the banking services are estimated to be 5 to 60 per cent higher than they would be in the absence of these trade restrictions.

The estimated price effect of restrictions on Australia’s banking services is around 10 per cent, among the lowest found in the 38 economies studied.

At the higher end of the range, Chile, Singapore, South Korea, Thailand, Turkey and Uruguay have estimated price effects of between 30 and 45 per cent, while Brazil, India, Indonesia, Malaysia and the Philippines have estimated price effects of at least 45 per cent.

The effect of the domestic score alone — which measures those restrictions on ‘market access’ which apply equally to domestic and foreign banks — is estimated to raise the price of banking services by more than 20 per cent in some cases. Chile, Japan, South Korea, Malaysia, the Philippines and Uruguay all have market access

price effects of greater than 10 per cent. That said, most economies studied have market access price effects of zero.

Telecommunications

From Warren's (1999b) study it is estimated⁵ that, for the majority of the 38 economies, the price effect of all restrictions facing foreign telecommunications providers is less than 20 per cent. The estimated price effect of restrictions on Australia's telecommunications services is negligible.

Colombia, the Philippines, South Africa, Thailand and Turkey have large price effects ranging from an estimated 20 per cent to 75 per cent. Indonesia has the largest price effect of more than 100 per cent.

The estimated effect of the domestic score by itself can be to raise the price by up to 70 per cent (table 2.8).

2.3 Trade policy developments

Other developments are increasing the awareness of restrictions on trade in services and the benefits of reducing many of these restrictions. International trading forums are focusing increasingly on services issues and improving the transparency of restrictions on services. The WTO is expected to commence a new round of trade negotiations in 2000 and APEC member economies commit actions to liberalise trade in services each year. As well, in the past year, the Commission has contributed to the policy debate on reforming Australia's trading regime for air services and liner cargo shipping services.

World Trade Organization

The WTO's Third Ministerial Conference to be held in Seattle in late 1999 will be an important precursor to the proposed Millennium Round. The purpose of this meeting will be to seek agreement among WTO Members to hold the round and to determine the scope, structure and timeframes of the following negotiations. Among

⁵ Warren (1999b) produced 'quantity impact' and 'tariff equivalent' measures for restrictions on market access and national treatment in telecommunications. The Commission has converted the tariff equivalent measures to price effect measures.

other things, the trade ministers will discuss whether negotiations should proceed:

- on an integrated basis, or with ongoing agenda items being dealt with separately from additional items;
- on a sector-by-sector basis, or as a total package — the former allowing rapid progress on non-contentious issues, while the latter facilitating cross-sectoral trade-offs; and
- via ‘request and offer’, or by some other mechanism.

Such procedural issues will bear significantly on the dynamics of the negotiations.

The WTO has recently released a number of sectoral papers on services. They outline the nature of specific services, the structure of a services market, and commitments made under the GATS. The papers provide background information to stimulate discussion by Members on issues for services sectors. They show that Members have made more commitments in financial and professional services than in other service sectors. Increasing the number and quality of commitments in the next round of negotiations will be a move towards further liberalisation.

With respect to the negotiations themselves, negotiators will need to focus on whether restrictions applying to supply by foreigners are necessary. Discriminatory restrictions usually aim to deliberately restrict trade in services. The fact that they go beyond the restrictions imposed on domestic services providers immediately casts doubt on whether they are necessary to ensure a competitive and efficient service sectors. As the earlier price impact work shows, trade restrictions increase the price of services. This is likely to mean adverse effects for other sectors of an economy.

However, negotiations should also aim to improve market access for all entrants, not just foreigners. Dee et al (1999) argue that liberalising trade for domestic and foreign service providers together should be a better approach than only reducing discriminatory restrictions on foreign service providers. This is because reducing discriminatory restrictions on foreigners alone can have a negative impact on the level of services supplied by domestic firms. It should result in lower prices and higher total sales, but domestic service suppliers will end up with a smaller share of this market. However, if restrictions that affect foreign and domestic service providers equally are reduced, all service providers will have the same opportunities to increase the amount of services they supply in an expanding market.

Recent modelling work by Commission staff provides an indication of the benefits that could flow if Australia is successful in negotiating to improve access to services

markets with its trading partners. Dee and Hanslow (1999)⁶ projected an increase in world real income of some US\$250 billion (or about 1 per cent) as a result of eliminating all post-Uruguay Round trade barriers. More than half would come from liberalising services trade. Australia's real annual income would be higher by about US\$1.9 billion from global liberalisation of services trade. These results are the projected gains in annual income, about ten years after the liberalisation has occurred and the associated resource adjustments have taken place. While projections of this nature need to be interpreted with caution, they nevertheless provide a useful indication of the gains available from further liberalisation of services trade.

Australia's strategy for negotiating on services could comprise an approach to negotiate on all service sectors with a more detailed strategy for specific services sectors. The aim for all service sectors could be to liberalise restrictions on 'establishment'. For each service sector, important sector-specific restrictions could be identified, such as nationality requirements for professional services, and the negotiations could focus on liberalising these sector-specific restrictions.

Australia might focus on negotiating to open the more restricted foreign markets — generally, Asian and South American economies. As discussed above, these economies are more restricted than others in banking, telecommunications and maritime services. Opening up these economies, with appropriate attention to prudential requirements, will not only benefit Australia's and other economies' access, but also improve efficiency within the economies where trade restrictions remain substantial.

Asia Pacific Economic Cooperation

At the September 1999 Economic Leaders Meeting in New Zealand, APEC Leaders continued to pursue trade liberalisation and regulatory reform. Most of the APEC initiatives were to further harmonise regulation and enhance financial system stability within the region. APEC Leaders also strongly supported the upcoming WTO 2000 round of negotiations.

⁶ The effects of liberalisation were examined using version 4.1 of the Global Trade Analysis Project (GTAP) model and database of world trade. The model was modified for services delivered via 'commercial presence' through the inclusion of bilateral foreign direct investment flows and to allow for income earned abroad. The model was used to examine the importance of multilateral liberalisation of services trade, relative to liberalisation of trade in agricultural and manufactured products (see Dee and Hanslow 1999).

The major initiatives adopted by APEC Leaders were to:

- *liberalise air services* — APEC Leaders agreed to eliminate some restrictions on air-related services and freight services, to allow multiple airline designations and to permit airlines to cooperate through code-sharing;
- *strengthen financial systems* — in the wake of the Asian financial crises, APEC supported enhancing supervision of financial markets, developing domestic bond markets, and applying APEC corporate governance principles to financial institutions; and
- *enhance competition* — the APEC Principles to Enhance Competition and Regulatory Reform were adopted by member economies. These principles aim to enhance the role of competition to improve efficiency and the quality of regulation in APEC member economies.

Australia, as part of its contribution to liberalisation within APEC, submitted its 1999 Individual Action Plan (IAP). An IAP is submitted annually by each member economy to update its commitments on liberalising trade in goods and services. In services, Australia made the following substantive commitments in the APEC forum.

- *Relaxing foreign investment restrictions* — Australia committed to liberalising foreign investment for business acquisitions, property and airlines. Subject to the passage of regulations through Parliament, the foreign investment notification threshold will increase to \$50m for business acquisitions and developed, non-residential commercial real estate. The allowable level of foreign investment in Australian international airlines, other than Qantas, will be increased from 25 per cent for individuals and 35 per cent for aggregate foreign interests to 49 per cent for both.
- *Negotiating to liberalise air services* — Australia will negotiate reciprocal ‘open skies’ arrangements with like-minded countries subject to meeting national interest requirements. Where negotiating for open skies is not an option, Australia will aim to negotiate for the most liberal arrangements. This commitment is consistent with the Commission’s recommendations in its international air services report (see below).
- *Liberalising postal services* — Australia also committed, subject to the passage of legislation through Parliament, to remove from 1 July 2000 the Government-owned monopoly on postal services for incoming international mail and some domestic mail of certain weight.

International air services

International air services are governed by a system of bilateral air services arrangements (ASAs) between economies. Trade in air services can only occur where it is explicitly permitted in ASAs, which set out terms and conditions under which airlines can fly. Typically they specify capacity, frequency, routes, cities, ownership provisions, and safety certification and price approval processes. ASAs influence the nature of competition between airlines by controlling market entry and the quantity and variety of the rights allocated to particular airlines.

Australia has 51 ASAs with its bilateral partners. These ASAs facilitate the operation of international services between Australia and other countries, but also contain a number of restrictions on ownership, capacity, freedom rights, city designation, cabotage, stopovers, codesharing and tariffs.

The Commission's inquiry into international air services made a number of recommendations to improve the efficiency of Australia's airline industry (PC 1998a). Major findings are summarised below.

- *Benefits of reciprocal 'open skies' agreements* — A bilateral 'open skies' policy which removes restrictions on access to each country's markets would loosen the regulation which constricts airline growth. Airlines would be able to respond quickly to market opportunities and pressures. Consumers would benefit from greater capacity and frequency, expanded networks, innovative travel products and competitive fares. The costs to governments and airlines would also be reduced.
- *Problems with the regime for designating international airlines* — The Commission found the greatest bilateral constraint on international air services to be national designation. This requires national flag carriers to be locally owned and controlled and aims to ensure that safety and technical standards of airlines are regulated effectively. However, domestic ownership is not a prerequisite to ensure this safety.
- *Benefits of including air transport services in the GATS* — International air services could be negotiated as part of a multilateral basis in the WTO round in 2000. A liberal multilateral agreement under the GATS would drive progress towards enhancing international competition by replacing inefficient carriers and removing restrictions on entry. An agreement under the GATS would be easier to administer and comply with than the current bilateral system.

The Government accepted the Commission's recommendations in these areas, along with several other (but not all) of the recommendations in the report. Further detail on the Government's response is provided in the Commission's *Annual Report 1998-99* (PC 1999b).

International liner cargo shipping services

Many countries, including Australia, which have pro-competitive legislation — such as Australia's *Trade Practices Act 1974* — provide special conditional exemptions for liner conferences.

Liner conferences, or groupings of liner shipping operators who coordinate services, account for the majority of liner shipping capacity on major global routes. Conference members are typically permitted to engage in price setting, capacity rationalisation, revenue and cost pooling arrangements, and customer loyalty agreements.

The supply of international shipping services differs from many other sectors. A shipping company usually incurs high fixed costs when providing a shipping service on a route. Shipping service providers may be unwilling to risk incurring these fixed costs where demand is uncertain. Cooperation among shipping companies can achieve economies of scale and scope while allowing them to provide regular scheduled and coordinated services at reasonable prices. Cooperation on a particular route can reduce demand uncertainty and encourage shipping companies to commit larger and more efficient vessels.

However, concerns are sometimes expressed that sheltering liner conferences from competition may give shipping operators market power. This would occur were there is a lack of competition between conferences and non-conference operators such that conference members could charge excessive prices or provide inadequate service.

The Commission has been considering these and other issues as part of its current inquiry into Part X of the *Trade Practices Act 1974*.

Part X describes the conditions under which international liner shipping operators are permitted to form conferences to provide joint shipping services for Australian exporters and importers. The stated aim of Part X is to ensure that Australian exporters have continued access to outward liner cargo shipping services of adequate frequency and reliability at internationally competitive freight rates.

The Commission's position paper on international liner cargo shipping services found that preliminary evidence suggests that Part X, together with effective competition in liner shipping markets, has promoted the provision of efficient liner shipping services to Australian exporters (PC 1999a). The benefits of conferences might be best passed through to Australian shippers by a balanced and comparatively non-interventionist framework which recognises the role of conferences while also promoting market competition and countervailing power.

Table 2.5 Restrictiveness indexes for banking services^{ab}
score

<i>Economy</i>	<i>Domestic</i>			<i>Foreign</i>		
	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>
Argentina	-	-	-	0.03	0.04	0.07
Australia	-	-	-	0.09	0.03	0.12
Austria	-	-	-	0.03	0.04	0.07
Belgium	-	-	-	0.03	0.04	0.07
Brazil	-	0.01	0.01	0.39	0.12	0.51
Canada	-	-	-	0.03	0.04	0.07
Chile	0.19	0.10	0.29	0.27	0.13	0.40
Colombia	0.05	-	0.05	0.08	0.15	0.23
Denmark	-	-	-	0.03	0.04	0.07
Finland	-	-	-	0.03	0.04	0.07
France	-	-	-	0.03	0.04	0.07
Germany	-	-	-	0.03	0.04	0.07
Greece	-	-	-	0.03	0.04	0.07
Hong Kong	-	0.04	0.04	0.03	0.07	0.09
India	0.05	-	0.05	0.31	0.29	0.60
Indonesia	-	0.07	0.07	0.37	0.18	0.55
Ireland	-	-	-	0.03	0.04	0.07
Italy	-	-	-	0.03	0.04	0.07
Japan	-	0.13	0.13	0.03	0.17	0.19
South Korea	-	0.19	0.19	0.21	0.22	0.43
Luxembourg	-	-	-	0.03	0.04	0.07
Malaysia	0.19	0.08	0.27	0.38	0.26	0.65
Mexico	-	-	-	0.13	0.04	0.17
Netherlands	-	-	-	0.03	0.04	0.07
New Zealand	-	-	-	0.03	0.03	0.06
Philippines	0.10	0.05	0.14	0.37	0.16	0.53
Portugal	-	-	-	0.03	0.04	0.07
Singapore	-	0.11	0.11	0.13	0.25	0.37
South Africa	-	-	-	0.03	0.16	0.19
Spain	-	-	-	0.03	0.04	0.07
Sweden	-	-	-	0.03	0.04	0.07
Switzerland	-	-	-	0.03	0.05	0.08
Thailand	-	-	-	0.24	0.15	0.39
Turkey	0.05	-	0.05	0.27	0.10	0.37
United Kingdom	-	-	-	0.03	0.04	0.07
United States	-	-	-	0.03	0.04	0.06
Uruguay	0.14	-	0.14	0.18	0.29	0.46
Venezuela	-	-	-	0.07	0.10	0.17

- Nil. ^a Figures may not add to total due to rounding. ^b The restrictiveness index scores range from 0 to 1. The higher the score, the greater are the restrictions for an economy.

Source: McGuire and Schuele (1999).

Table 2.6 Price effect measures for banking services^a
percentage

<i>Economy</i>	<i>Domestic</i>			<i>Foreign</i>		
	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>
Argentina	-	-	-	2.53	2.81	5.34
Australia	-	-	-	7.08	2.22	9.31
Austria	-	-	-	2.52	2.80	5.32
Belgium	-	-	-	2.52	2.80	5.32
Brazil ^b	-	0.87	0.87	35.06	10.50	45.56
Canada	-	-	-	2.53	2.81	5.34
Chile	15.47	7.73	23.20	22.74	11.26	34.00
Colombia	3.54	-	3.54	6.47	11.88	18.35
Denmark	-	-	-	2.52	2.80	5.32
Finland	-	-	-	2.52	2.80	5.32
France	-	-	-	2.52	2.80	5.32
Germany	-	-	-	2.52	2.80	5.32
Greece	-	-	-	2.52	2.80	5.32
Hong Kong	-	2.65	2.65	1.97	4.94	6.91
India ^b	3.54	-	3.54	28.58	26.50	55.08
Indonesia	-	5.35	5.35	32.91	16.42	49.33
Ireland	-	-	-	2.52	2.80	5.32
Italy	-	-	-	2.52	2.80	5.32
Japan	-	10.03	10.03	2.05	13.22	15.26
South Korea	-	14.93	14.93	18.15	18.58	36.73
Luxembourg	-	-	-	2.52	2.80	5.32
Malaysia	15.38	6.73	22.11	35.92	24.69	60.61
Mexico ^b	-	-	-	10.48	2.92	13.40
Netherlands	-	-	-	2.52	2.80	5.32
New Zealand ^b	-	-	-	2.52	2.18	4.69
Philippines	7.32	3.66	10.99	33.28	14.08	47.36
Portugal	-	-	-	2.52	2.80	5.32
Singapore	-	8.15	8.15	10.69	20.76	31.45
South Africa ^b	-	-	-	2.64	12.27	14.90
Spain	-	-	-	2.52	2.80	5.32
Sweden	-	-	-	2.52	2.80	5.32
Switzerland	-	-	-	2.24	3.71	5.95
Thailand	-	-	-	20.56	12.50	33.06
Turkey ^b	3.54	-	3.54	23.12	8.43	31.54
United Kingdom	-	-	-	2.52	2.80	5.32
United States	-	-	-	1.95	2.80	4.75
Uruguay ^b	11.00	-	11.00	15.35	24.99	40.34
Venezuela ^b	-	-	-	5.35	8.09	13.44

- Nil. ^a Figures may not add to total due to rounding. ^b The estimates for these economies are extrapolated from Kalirajan et al (1999).

Source: Kalirajan et al (1999).

Table 2.7 Restrictiveness indexes for telecommunications services^{ab}
score

<i>Economy</i>	<i>Domestic</i>			<i>Foreign</i>		
	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>
Argentina	0.12	0.17	0.29	0.12	0.17	0.29
Australia	0.04	-	0.04	0.04	-	0.04
Austria	0.13	-	0.13	0.13	-	0.13
Belgium	0.03	0.07	0.10	0.13	0.07	0.20
Brazil	0.17	0.03	0.21	0.28	0.03	0.31
Canada	0.04	0.10	0.14	0.14	0.30	0.44
Chile	0.02	0.07	0.09	0.02	0.07	0.09
Colombia	0.10	0.10	0.20	0.16	0.30	0.46
Denmark	0.03	-	0.03	0.03	-	0.03
Finland	-	-	-	-	-	-
France	0.05	-	0.05	0.21	-	0.21
Germany	0.05	-	0.05	0.05	-	0.05
Greece	0.16	0.10	0.26	0.16	0.30	0.46
Hong Kong	0.11	0.10	0.21	0.11	0.10	0.21
India	0.19	0.20	0.39	0.29	0.40	0.69
Indonesia	0.14	0.20	0.34	0.27	0.40	0.67
Ireland	0.19	-	0.19	0.35	-	0.35
Italy	0.14	-	0.14	0.14	-	0.14
Japan	0.04	-	0.04	0.04	-	0.04
South Korea	0.15	0.20	0.35	0.28	0.40	0.68
Luxembourg	0.17	-	0.17	0.17	-	0.17
Malaysia	0.04	0.20	0.24	0.18	0.40	0.58
Mexico	0.03	0.20	0.23	0.13	0.40	0.53
Netherlands	0.03	-	0.03	0.03	-	0.03
New Zealand	0.03	-	0.03	0.03	-	0.03
Philippines	-	0.13	0.13	0.12	0.33	0.45
Portugal	0.11	0.20	0.31	0.11	0.40	0.51
Singapore	0.21	0.13	0.34	0.31	0.13	0.44
South Africa	0.19	0.20	0.39	0.19	0.40	0.59
Spain	0.18	0.03	0.21	0.18	0.23	0.41
Sweden	0.10	-	0.10	0.10	-	0.10
Switzerland	0.20	-	0.20	0.20	-	0.20
Thailand	0.23	0.20	0.43	0.39	0.40	0.79
Turkey	0.27	0.20	0.47	0.40	0.40	0.80
United Kingdom	-	-	-	-	-	-
United States	-	0.03	0.03	-	0.03	0.03
Uruguay	0.22	0.13	0.35	0.22	0.33	0.55
Venezuela	0.16	0.20	0.36	0.16	0.40	0.56

- Nil. ^a Figures may not add to total due to rounding. ^b The restrictiveness index scores range from 0 to 1. The higher the score, the greater are the restrictions for an economy.

Source: Calculated from Warren (1999a).

Table 2.8 Price effect measures for telecommunications services^a
percentage

<i>Economy</i>	<i>Domestic</i>			<i>Foreign</i>		
	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>
Argentina	1.60	2.22	3.81	1.60	2.22	3.81
Australia	0.31	-	0.31	0.31	-	0.31
Austria	0.85	-	0.85	0.85	-	0.85
Belgium	0.22	0.44	0.65	0.87	0.44	1.31
Brazil	3.19	0.61	3.81	5.07	0.61	5.68
Canada	0.30	0.76	1.07	1.08	2.29	3.37
Chile	0.40	1.28	1.68	0.40	1.28	1.68
Colombia	5.28	5.28	10.55	8.44	15.83	24.27
Denmark	0.20	-	0.20	0.20	-	0.20
Finland	-	-	-	-	-	-
France	0.34	-	0.34	1.43	-	1.43
Germany	0.32	-	0.32	0.32	-	0.32
Greece	1.58	0.98	2.56	1.58	2.94	4.52
Hong Kong	0.65	0.61	1.26	0.65	0.61	1.26
India ^b	ne	ne	ne	ne	ne	ne
Indonesia	29.66	41.04	70.70	56.34	82.08	138.41
Ireland	1.46	-	1.46	2.67	-	2.67
Italy	1.00	-	1.00	1.00	-	1.00
Japan	0.26	-	0.26	0.26	-	0.26
South Korea	1.83	2.47	4.30	3.49	4.95	8.43
Luxembourg	0.65	-	0.65	0.65	-	0.65
Malaysia	1.23	5.50	6.73	5.08	11.00	16.08
Mexico	0.81	5.43	6.24	3.58	10.85	14.43
Netherlands	0.20	-	0.20	0.20	-	0.20
New Zealand	0.27	-	0.27	0.27	-	0.27
Philippines	-	21.43	21.43	19.28	53.57	72.85
Portugal	1.35	2.45	3.80	1.35	4.90	6.25
Singapore	1.28	0.82	2.10	1.90	0.82	2.72
South Africa	6.65	7.12	13.77	6.65	14.24	20.89
Spain	1.71	0.32	2.03	1.71	2.22	3.93
Sweden	0.65	-	0.65	0.65	-	0.65
Switzerland	1.23	-	1.23	1.23	-	1.23
Thailand	15.88	14.01	29.90	27.09	28.03	55.12
Turkey	11.20	8.40	19.59	16.74	16.79	33.53
United Kingdom	-	-	-	-	-	-
United States	-	0.20	0.20	-	0.20	0.20
Uruguay	4.74	2.87	7.61	4.74	7.18	11.92
Venezuela	4.21	5.37	9.57	4.21	10.73	14.94

- Nil. **ne** not estimated ^a Figures may not add to total due to rounding. ^b India has a very large quantity impact measure which produces negative tariff equivalents and negative price effects.

Source: Calculated from Warren (1999b).

Table 2.9 Restrictiveness indexes for maritime services^{ab}
score

<i>Economy</i>	<i>Domestic</i>			<i>Foreign</i>		
	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>	<i>Establishment</i>	<i>Ongoing operations</i>	<i>Total</i>
Argentina	0.01	0.08	0.10	0.05	0.29	0.33
Australia	0.06	0.07	0.13	0.19	0.23	0.42
Austria	0.13	-	0.13	0.15	0.19	0.35
Belgium	0.10	0.05	0.15	0.13	0.21	0.35
Brazil	0.13	0.10	0.23	0.15	0.37	0.52
Canada	0.01	0.08	0.09	0.04	0.28	0.32
Chile	0.03	0.10	0.12	0.20	0.30	0.50
Colombia	0.09	0.09	0.18	0.24	0.23	0.47
Denmark	0.01	0.07	0.08	0.05	0.24	0.28
Finland	0.04	0.07	0.11	0.07	0.24	0.32
France	0.06	0.07	0.13	0.09	0.24	0.33
Germany	0.10	0.09	0.19	0.13	0.26	0.39
Greece	0.04	0.09	0.13	0.07	0.20	0.28
Hong Kong	0.01	0.08	0.09	0.15	0.26	0.40
India	0.14	0.11	0.25	0.26	0.34	0.61
Indonesia	0.10	0.11	0.21	0.24	0.32	0.56
Ireland	0.09	0.07	0.15	0.17	0.18	0.35
Italy	0.13	0.05	0.18	0.16	0.22	0.38
Japan	0.10	0.05	0.15	0.13	0.28	0.41
South Korea	0.10	0.19	0.28	0.23	0.36	0.58
Luxembourg	0.06	0.05	0.10	0.09	0.16	0.25
Malaysia	0.12	0.13	0.25	0.26	0.26	0.52
Mexico	0.12	0.05	0.17	0.26	0.22	0.48
Netherlands	0.10	0.05	0.15	0.13	0.22	0.35
New Zealand	0.01	0.09	0.10	0.09	0.26	0.35
Philippines	0.03	0.14	0.17	0.27	0.37	0.64
Portugal	0.01	0.07	0.08	0.05	0.21	0.26
Singapore	0.01	0.09	0.10	0.04	0.17	0.21
Spain	0.12	0.07	0.19	0.15	0.24	0.39
Sweden	0.10	0.07	0.17	0.18	0.24	0.42
Switzerland	0.10	-	0.10	0.22	0.13	0.35
Thailand	-	0.13	0.13	0.24	0.36	0.60
Turkey	0.03	0.05	0.08	0.26	0.23	0.49
United Kingdom	0.01	0.05	0.06	0.05	0.19	0.24
United States	0.08	0.10	0.17	0.20	0.40	0.60

- Nil. ^a Figures may not add to total due to rounding. ^b The restrictiveness index scores range from 0 to 1. The higher the score, the greater are the restrictions for an economy.

Source: McGuire et al (1999).