

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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Group of Negotiations on Services

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Progressive Liberalization

The following communication is circulated at the request of the delegation of Canada to the members of the Group of Negotiations on Services.

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## PROGRESSIVE LIBERALIZATION

### BACKGROUND:

Progressive liberalization has been integral to the work of the Group of Negotiations on Services from the outset. In their declaration at Punta del Este, Ministers decided that progressive liberalization was one of the basic conditions under which the expansion of services trade should be promoted during the Uruguay Round. This commitment to progressive liberalization was deepened at the December 1988 meeting in Montreal, where Ministers agreed that progressive liberalization was one of the concepts, principles and rules that should be part of a multilateral framework on trade in services. The text agreed on by Ministers at Montreal included substantive language concerning progressive liberalization.

Liberalization can result from the establishment of an agreed framework of discipline for international trade in services, the application of the framework to the practices of signatories and the removal, during the Uruguay Round and subsequently, of specific barriers and impediments to trade in services.

While a certain degree of liberalization can be made effective immediately upon agreement and in the implementation of a framework, it is understood that liberalization will need to be progressive because:

- liberalization in any sector may require adjustment in domestic economies. If the participants in the GNS are to take on meaningful obligations to liberalize their services trade regimes, the rate at which those obligations are introduced must inter alia take account of their ability to carry out the necessary changes domestically;
- the negotiation of a services trade agreement is a dynamic project. We have to expect that our ability to deal with the breadth and depth of the service sectors, and to keep pace with the evolution of modern service industries, will continue to develop beyond the Uruguay Round; and
- progressive liberalization provides a method for adjusting the obligations of signatories to reflect their individual circumstances.

The history of the GATT provides an example of an approach to the liberalization of trade through the establishment of basic liberalizing principles in a framework of discipline, through the application of those principles, and through the negotiation of concessions concerning a broad range of specific trade barriers and impediments, over time. Although the GATT does not provide a complete model for services trade negotiations, nevertheless it does suggest some basic approaches that can be applied to the work of the Group of Negotiations on Services.

Two features of the GATT can be identified as having been particularly conducive to the establishment of more stable and predictable conditions for trade and the gradual reduction of barriers. The first feature is the framework of rights and obligations assumed by contracting parties which inter alia gives meaning and security to the specific concessions exchanged between them. The second is the provisions for negotiations directed to "the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce", effected both by request and offer and through various formulae. The GATT system is founded on lists of concessions which record undertakings to lower tariffs and other barriers. Concessions carry with them the legal obligation not to reduce their benefit directly or indirectly. Negotiated concessions may not be rescinded or amended without providing equivalent compensation to the other contracting parties that are affected.

The Group of Negotiations on Services should also establish a foundation for the progressive liberalization of trade in services through the adoption of a framework of principles and rules. Some of the liberalizing effect of this framework would be immediate, on the existing regimes, some could be prospective, and some could be through guiding further negotiations toward future liberalization. Key principles and rules with liberalizing effects would include transparency, most-favoured-nation treatment, market access, national treatment, consultation and dispute settlement, as well as procedural and institutional provisions.

A draft framework including provisions dealing with progressive liberalization should be in place by the end of this year in order to guide the negotiations on trade in services during the remainder of the Uruguay Round. In its final form, it would be a basic element of the services Agreement.

#### ELEMENTS OF PROGRESSIVE LIBERALIZATION:

There are several elements involved in progressive liberalization, each of which needs to be addressed during the Uruguay Round negotiations. Although not set out as a separate consideration since it needs to be taken into account

appropriately throughout the negotiations, the goal of development of developing countries should be facilitated by the approach described below.

### **1. Binding of Existing Regimes**

As a first step in the process of progressive liberalization, there could be a binding of the degree of openness of participants' regimes affecting services trade subject to the Agreement. Although participants would be free to make changes to their regime, they could only do so in such a way as not to increase the trade restrictiveness (i.e. to reduce the trade opportunities) of the regime. In other words, the commitment to progressive liberalization would take as a base this bound level of liberalization.

This binding of existing regimes would be a significant undertaking. However, as the regimes of participants do not all have the equivalent level of openness, and in order to provide for an equitable balance of the rights and obligations of participants, further measures of liberalization might need to be taken.

### **2. Further Liberalization on a "Formula" basis**

The second element would be the liberalization of measures or practices which distort or restrict trade. This could be accomplished through the application of the framework disciplines to existing measures, either by sector, by factor of production, or by type of transaction. This second element is akin to "formula" liberalization, since liberalization would come, for example, from providing market access or national treatment for one or more whole sectors, or would open up particular transactions or activities across a range of sectors.

It is possible to conceive of this formula liberalization being accomplished either by means of a "positive" or a "negative" list, to appear in a national schedule. In either case, the results would be bound against trade restrictive change.

### **3. Exchange of Concessions**

A third means of carrying out trade liberalization would be the negotiation of defined "concessions", which would reduce or eliminate specific measures in a particular market which had been identified as barriers or impediments from the point of view of exporters to that market. The concessions would be bound in the importing country's national schedule.

The exchange of concessions could begin with individual countries indicating to others their interest in negotiating changes to specific regulations or other measures. Bilateral or pluralateral negotiations concerning the identified measures would ensue under procedures designed to provide appropriate transparency to the negotiating process; and the agreed MFN clause would be applied to the results of the negotiations.

#### CONCLUSIONS:

Canada looks forward to progressive services trade liberalization as one result of the Uruguay Round. The approach set out above proceeds from this basic assumption. The principles and rules of the framework agreement, the binding of existing regimes and measures of liberalization, could all take effect immediately upon the conclusion of an agreement.

Some of the commitments made in the negotiations, e.g. on the formula basis or resulting from an exchange of specific negotiated concessions, could however be implemented over time, as in the case of the changes to national tariff schedules in previous MTN rounds. Liberalization would thus be carried out progressively during the implementation period, although the commitments would exist as of the entry into force of the agreement. The timetable for implementing obligations may vary from country to country, depending on the results of the negotiations.

Given the complexity of the issues involved in the trade in services negotiations, there should be an undertaking to pursue the issues after the end of the Uruguay Round. This undertaking would include further liberalization, as provided for in the Montreal text. The framework agreement should contain a mechanism for further negotiations aimed at increasing liberalization, as well as arrangements for reviewing and improving the operation of the agreement.

The elements outlined above are not intended to represent alternative approaches to progressive liberalization. They are complementary parts of a comprehensive foundation for the services negotiations in this Round. They should therefore all be provided for in the services work programme beginning this autumn. All of the participants would make appropriate contributions toward their achievement.