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September 10, 1976

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEEProposed AgendaMonday, September 13, 1976

- Book*
1. Sugar Situation Agriculture
 2. Report of Task Force on Services and the Multilateral Trade Negotiations Commerce
- Q*

Tuesday, September 14, 1976

- Cannon*
1. Public Service Employment Bill Labor
 2. Report of Task Force on Productivity CEA

Wednesday, September 15, 1976 EPB/ERC

- Q*
1. Assumptions for the September Troika II Forecast Troika II
 2. Clean Air Act Amendments Gorog
 3. Dealers Day in Court FEA
 4. Drilling Statistics on Oil and Gas (Tentative) FEA

Thursday, September 16, 1976

- Cannon*
1. Report of Task Forces to Improve Government Regulation MacAvoy
 2. Report of Task Force on Small Business SBA

Friday, September 17, 1976

No Executive Committee Meeting

THE SECRETARY OF COMMERCE

WASHINGTON, D.C. 20230

September 8, 1976

MEMORANDUM FOR MEMBERS OF THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

SUBJECT: SERVICES AND THE MTN

On September 3, copies of "U.S. Service Industries in World Markets: Toward Improved Policy Development" were circulated to members of the EPB Executive Committee. This report is based, in part, on the work of the interagency Task Force on Services and the Multi-lateral Trade Negotiations. It is to be discussed at a forthcoming EPB Executive Committee meeting.

The report is over 300 pages in length. For convenience, attached are the report's introduction, which summarizes its scope and conclusions, and a list of its recommendations.

Following discussion at the EPB, comments on the recommendations will be solicited.



Elliot L. Richardson

Attachments

INTRODUCTION

The Trade Act of 1974 included "services" for the first time within the President's trade negotiating authority. This inclusion was at the behest of service industry representatives who stated their international problems had not received adequate attention by the U.S. Government.

In February 1976 the Executive Committee of the Economic Policy Board established an interagency Task Force on Services and the Multilateral Trade Negotiations (MTN), chaired by the Department of Commerce. The Task Force was directed to:

- Review international issues of significance to U.S. service industries, describe what forums exist for international cooperation on these issues, and determine how adequate these forums are;
- Identify those problems faced by U.S. service industries in international commerce that are not adequately covered by current means of international cooperation; and
- Identify appropriate approaches to the solution of these problems and the relationship of such solutions to the Multilateral Trade Negotiations.

This report is based on the work of the Task Force. During the course of review of the Task Force's analysis, it became obvious that the scope of the effort had to be broadened considerably beyond the MTN. Accordingly, the Task Force analysis, along with all available relevant sources of information and opinion, were incorporated in the development of this report: formal and informal submissions by representatives of industry and labor and of relevant government agencies; academic research and private contract research initiated expressly for this study.

In highly condensed form, the report's major conclusions are:

- Service sector participation in international markets is large and growing -- and its international problems have not received adequate government attention.
- Service sector participation in international markets is predominantly associated with investment rather than with trade. About 86 percent of estimated U.S. service sector sales overseas result from investment in foreign affiliates; exports account for only 14 percent. (To a considerable extent this is inherent in the characteristics of "services". Most, by their nature, cannot feasibly be shipped.)
- Service sector affiliate sales abroad are estimated at about \$43 billion for 1974 -- nearly one-fifth of all U.S. non-petroleum affiliate sales overseas.
- Service industries face a variety of international problems; most of which are investment-related.
- Aside from a few industries with very complex problems, service industry trade problems are scattered and heterogeneous.
- Five of 18 service industries examined now have serious international problems: air transportation, maritime transportation, insurance, motion pictures, and construction/engineering services. Problems for other service industries presently are not, on the whole, serious -- but may increase in significance in the future.
- Most service industries' investment problems, and some of their trade problems, are similar in kind to those of goods-producing industries. Only a few service industries have complex trade or trade/investment problems that are unique to the particular industry sector.
- Existing forums for international cooperation on investment problems appear as adequate for service

industry investment problems as they are for goods-related problems. While there is clearly a need to improve the effectiveness of existing forums, new investment forums are not needed.

- While it is the case that service industry trade-related problems have not been addressed in previous trade negotiations, the wholesale introduction of services into the MTN is to be avoided. Substantively, it would not be wholly appropriate; and practically, it would likely be counterproductive.
- A responsible and comprehensive approach toward the better solution of the service sector's international trade and investment problems would:
 - Introduce service industry trade problems into the MTN in a highly selective manner calculated both to maximize chances for successful negotiations and to pave the way for future negotiations, focusing on those service industry non-tariff barriers (NTBs) most similar to goods NTBs;
 - Continue to treat certain complex service sectoral problems on a sectoral basis through existing industry-specific forums, paying increased attention to the insurance industry -- which generally has been overlooked by the government;
 - Treat generic investment-related services problems within the existing investment forums, but providing increased emphasis on the problems of greatest concern to the service industries;
 - Provide a focal point within the government for addressing service industry international problems and for improving the government's contact with the service industries; and
 - Improve the longer-run ability of the government to handle present and future

service industry trade and investment problems by beginning to increase the analytic, data-gathering, and policy development resources focusing on services.

These conclusions are developed more fully in the body of this report -- which is organized as follows:

- Section I treats necessary definitional issues and, for contextual and reference purposes, summarizes the size and role of services in the domestic economy.
- Section II examines the participation of U.S. service industries in world markets, presenting a set of consistent estimates for both service sector exports and the sales of U.S. service sector affiliates abroad.
- Section III identifies and categorizes foreign trade and investment barriers and obstacles affecting service sector industries.
- Section IV discusses the availability and adequacy of multilateral and bilateral forums for addressing the general problems identified in Section III.
- Section V focuses particularly on the problems and forums relevant to the five service industries which have assessed their present international problems as most serious.
- Section VI develops specific recommendations intended to comprise a responsible and comprehensive approach to the improvement of policy development with respect to the international trade and investment problems of the service industries. These recommendations pertain to: the Multilateral Trade Negotiations, government/industry consultation, government organization, investment problems, special problems with regard to less developed countries, selected sectoral problems, and data improvement.

In addition, two appendices accompany this report:

- Appendix A contains detailed discussions of each of 18 service industries examined in the course of this study. Each discussion reviews the industry's position in the U.S. and international economies, and lists the international problems cited by the industry. (These problems were cited in response to a Federal Register notice seeking such, and in response to specific consultations arranged exclusively for this purpose by the Department of Commerce.)
- Appendix B discusses the sources of certain international trade and investment data used in the study, with particular emphasis on the methodologies used to derive necessary estimates. This appendix also includes caveats as to the limitations of the estimates and the possible degree of inaccuracy.

In several respects this report suggests that the development of an international services economy is proceeding considerably ahead of government's capacity to appreciate and understand that economy -- and as a consequence, ahead also of government's capacity to address the services sector's emerging international policy problems. Weaknesses in this report are evident; indeed, they are often symptoms of the very problems the report seeks to remedy. In this context it is worthy of note that this report represents the first comprehensive effort to examine the scope and problems of U.S. service sector participation in world markets.

RECOMMENDATIONS: TOWARD IMPROVED POLICY DEVELOPMENT

This report finds that service industries do participate to a significant degree in U.S. international commerce, but that their participation is predominantly through investment rather than trade. Service industries, moreover, do face problems in conducting their international business. For most service industries, these problems are investment-related--and are similar in kind to those faced by other industries. The problems of most service industries are not serious as yet, although there is reason for concern that they may become so. Five of the industries do face problems that are serious impediments today. The forums and mechanisms available for addressing service industry problems appear adequate, though they are not utilized as well as they could be.

The report finds that there is a need for improved U.S. Government policy-oriented action to address the service industries' present and emergent international problems. Some of the recommendations for action pertain to international initiatives that should be taken by the U.S. Government. Most of the recommendations, however, pertain to improvement of the manner in which the international activities and problems of the service industries are considered within the U.S. Government--which for too many years has been virtually oblivious to the rising importance of service industries in the international commerce of the United States.

The recommendations which follow are organized in relation to several categories of concern: services and the MTN; government/industry consultation; government organization; services and investment; services and the LDCs' selected sectoral initiatives; and services data.

SERVICES AND THE MTN

1. Service industry trade problems should be raised for discussion in the MTN on a carefully-selected basis, focusing on those problems most similar to the goods-related NTBs already scheduled for discussion.

2. The wholesale introduction of service sector negotiations for either services as a whole or for individual service industries should be avoided in the MTN.
3. The Special Trade Representative (STR) should be requested to explore the feasibility of:
 - (a) introducing selected and specific trade-related service industry problems into discussions of codes pertaining to subsidies and to government procurement practices;
 - (b) discussing a limited number of barriers pertaining to services trade with selected countries in the bilateral phase of the MTN; and
 - (c) introducing service industries in the broader context of GATT reform efforts.
4. As services have not previously been dealt with in multilateral trade negotiations, realism should be maintained and the generation of undue expectations of success are to be avoided. A longer-term objective in raising services in the MTN should be to put our trading partners on notice that greater attention will be paid to services in future negotiations.
5. Building upon information developed for this report, a detailed inventory of specific service industry trade barriers should be compiled to aid in evaluating which of these barriers should be explicitly raised.

GOVERNMENT/INDUSTRY CONSULTATION

6. A service sector ISAC should not be created.
7. A "Service Industries Consultation Committee" should be established under the auspices of the Department of Commerce. This committee would be comprised of industry and labor representatives of those service sectors that participate most heavily in international commerce, but should not focus on the transportation industries that already possess good communications channels with the government.

8. The Service Industries Consultation Committee should provide advice and communication on the broad spectrum of international business and economic issues that affect the service industries, including investment-related matters and promotional questions. The committee should be outside the ISAC structure, but its focus should be restricted to international commerce--rather than on matters generally relevant to domestic commerce.
9. Staff support for the committee should be provided by the Commerce Department. A principal point of contact and responsibility for the service sector should also be identified in the Office of the Special Trade Representative.
10. A joint Commerce/Labor study group should be formed, with input from the International Trade Commission, to examine the feasibility and ramifications (including both the financial and legal aspects) of extending the coverage of the trade adjustment assistance provisions of the Trade Act to include dislocations arising from imports of services. During the course of its examination, the study group would be expected to meet with and seek the advice of the recommended Service Industries Consultation Committee.
11. The President's Export Council should be expanded to include representation by service industries that participate to a significant extent in export markets.

GOVERNMENT ORGANIZATION

12. A joint Commerce/State/Treasury committee should be formed to focus attention on the international trade and investment matters relevant to the service industries. Other agencies, such as STR and Labor, should participate as appropriate. The Committee should have the general purpose of increasing the awareness of service industries' problems throughout the relevant parts of these agencies, and should also serve as the focal point for the implementation of specific courses of action that may be decided upon as a result of this report and for the development of such future policies and initiatives as may be indicated. The committee should be established at least at the Deputy Assistant Secretary level.

13. The joint committee should, as one of its first actions, consider the means by which the OECD Committee on Invisibles can be brought to focus more closely on service industries than is now the case. Achievement of this objective would be a valuable step toward raising the awareness of service industries on the part of other developed nations.
14. Agencies represented on the joint committee should be encouraged to review resource allocations with a view toward increasing the now under-represented analytic and policy resources applied to services trade and investment.

SERVICES AND INVESTMENT

15. The analyses in this study tended to indicate the mix and priority of service industries' investment problems differed from those of the extractive and manufacturing industries, but the analyses were not conclusive. This point should be discussed in the Service Industries Consultation Committee. Its advice should be employed by the joint committee recommended in (12) to determine whether and how the government's process of assigning priority to individual investment issues should be modified.
16. The joint committee should also determine the means by which specific investment problems of the service industries can be more fully included in bilateral investment discussions, particularly with LDCs.
17. The joint committee should further serve as the point through which the State and Commerce Departments can jointly develop an effective "early warning" system for identifying specific service industry investment obstacles as they may occur in the future. The Commerce Department in particular should designate an analytic and policy focal point for service industry investment problems.

SERVICES AND THE LDCs

18. The creation of small and inefficient service companies by LDCs can in many instances retard, rather than advance, economic development by consuming resources in a less than optimal manner. Barriers to foreign service companies can also retard technology and managerial know-how transfer. A study of the economic behavior, contributions, and costs of service industry investments in LDCs should be initiated. Its results, both positive and negative, should be provided to U.S. service industries, developmental agencies, and appropriate LDCs.
19. The joint committee recommended in (12) should investigate the means by which specific investment problems of service industries can be more fully included in bilateral investment discussions with LDCs and in multilateral investment discussions--particularly in UNCTAD.

SELECTED SECTORAL INITIATIVES

20. Given both the complexities of the maritime industry's problems and the extensive attention already being devoted to them, initiatives in this area--such as those to deal with increasing bilateralism--should be left to the agencies and mechanisms in the government most cognitive of the variety of issues present. It would seem counterproductive either to add more agencies to this process or to seek inclusion of the maritime industry in the MTN.
21. The joint committee recommended in (12) should develop a detailed proposal for upgrading the existing OECD insurance mechanism into a forum that addresses the fundamental disagreements that now exist regarding liberalization of insurance in the developed countries.
22. The joint committee should also investigate the means by which specific U.S. insurance industry complaints can be discussed with particular LDCs in bilateral negotiations, and should review strategies and approaches taken by the United States with regard to insurance in UNCTAD.

23. The Department of Commerce should begin devoting resources to the economic and policy analysis of general and life insurance in the international economy, broadening its present scope beyond maritime insurance. Particular attention should be given to the role that U.S. insurance companies can play in assisting the development of the LDC economies.

DATA AND INFORMATION

24. A working group on international services data should be formed as part of the joint committee recommended in (12). Membership should include the Bureau of Economic Analysis and input from OMB's Statistical Policy Division.
25. The Bureau of Economic Analysis should be requested to prepare a presentation for this group of the means by which service industry international data are presently obtained, the ways in which presently unpublished data can be made available more broadly, and the ways in which the industry and geographic coverage of the data can be improved within the context of the President's forms-reduction program. Particular attention should be devoted to the manner in which services affiliates are to be handled in the proposed new benchmark survey of U.S. direct investment abroad.
26. The working group should discuss with industry representatives, trade associations, and trade publications the possibilities for improving data and conducting special surveys.
27. The working group should formulate and present to the joint committee recommended in (12) the specific steps that can be taken to improve services trade and investment data, along with recommendations for the provision of the requisite resources.