

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**Working Party No. 2 on Competition and Regulation**

**THE STRI AND COMPETITION**

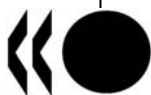
**-- Presentation by Hildegunn Kyvik Nordas --**

**14 June 2010**

*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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ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT



# 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


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## 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

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## 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

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## 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


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## Measures are organised under five policy areas

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

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### Barriers to competition

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

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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


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## 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

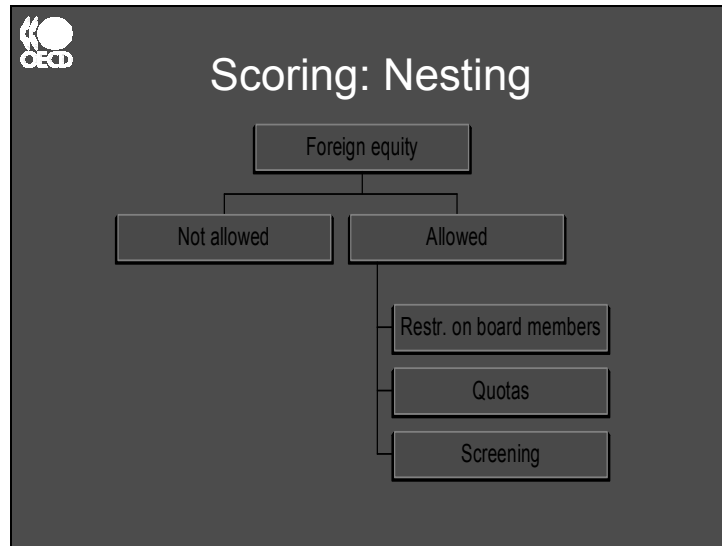
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## Scoring example: Foreign equity limits

Thresholds	Score if max 49%	Score if max is 65%
No foreign equity	0	0
Less than a third	0	0
Less than half	1	0
Less than two thirds	1	1
Less than 100%	1	1

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- The slide, titled "Weights" and featuring the OECD logo, discusses the challenges and methods of assigning weights in the scoring system.
- 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




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## 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

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## Thank you for your attention

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