

COMMUNICATION FROM AUSTRALIA

Negotiating Proposal for Financial Services

The following communication has been received from the delegation of Australia with the request that it be circulated to the Members of the Council for Trade in Services.

1. The following paper sets out an Australian negotiating proposal for the financial services sector, pursuant to paragraph 2(b) of the "Roadmap" adopted by the Council of Trade in Services on 26 May 2000. Australia reserves the right to submit more detailed proposals on this sector at a later date. Australia also reserves the right to modify this proposal at any time. This proposal does not prejudice Australia's position on other services sectors, nor any possible future offer on this or other sectors.

I. IMPORTANCE OF TRADE LIBERALISATION IN THE FINANCIAL SERVICES SECTOR

2. Globalisation, technological innovation and greater competition has had, and will continue to have, significant implications for trade in financial services.

3. Foreign financial service providers, attracted by lower market access barriers, are an important source of competition for a country's domestic market, and are also a source of innovation. This competition and innovation promotes lower transaction costs and provides increased expertise and greater choice of products and services for corporations and consumers. In addition, foreign firms provide further channels for valuable investment funds.

4. Liberalising trade in financial services allows member countries to become more integrated into international capital markets and to more effectively access investment capital. This generates improved efficiency and allows low-cost funds to be channelled towards those firms and sectors that are better placed to use them, further improving economic growth and investment. A competitive, dynamic, efficient, as well as stable and secure financial system is therefore critical to the efficient functioning and growth of a country's economy.

II. NEGOTIATIONS FRAMEWORK

5. Our objective is to build further on the progress already achieved in liberalisation in the financial services industry. The General Agreement on Trade and Services (GATS) and its Fifth Protocol provide a framework for identifying, classifying and removing barriers to trade in financial services. Through these negotiations we hope to obtain commitments that facilitate reduced

restrictions on national treatment and market access, consistent with the Most Favoured Nation (MFN) principle.

6. Australia, as a medium-sized trading nation, is a strong supporter of these principles and the Understanding on Commitments in Financial Services. In this context, we would encourage the removal of barriers which place potential new entrants at a disadvantage with respect to incumbent foreign service providers.

7. The GATS Annex on Financial Services also recognises the importance of prudential measures for ensuring the integrity and stability of the financial system and, accordingly, the right of Members to regulate in pursuance of this policy objective. In this context, Australia encourages prudential regulations which are both transparent and effective.

III. IMPEDIMENTS TO FURTHER LIBERALISATION

8. Australia's schedule of commitments includes very few GATS-restrictive measures, reflecting the openness of the Australian market. Previous reforms by Australia were guided by the principle that less intrusive regulation would make our financial system more efficient and internationally competitive and, most importantly, would deliver improved choice and quality of financial services for consumers.

9. Australia has identified, inter alia, a number of market access priorities which we hope will be addressed during the financial services negotiations. These include:

- greater opportunity for foreign equity participation, including through a greater number of operating licences and more transparent licensing criteria;
- greater flexibility on required forms of commercial establishment, particularly by liberalising the requirement to operate through joint ventures;
- improved ability to sell products to locals or provide services from offshore;
- greater flexibility in the number and types of products which can be offered;
- relaxed government-directed lending or operational control;
- greater freedom for transfer and employment of company personnel;
- recognition of qualifications obtained overseas.

IV. PROPOSALS

10. Australia proposes that members review restrictions on all modes of supply of financial services, focusing particularly on the priorities mentioned above.

11. Australia presents this proposal for the consideration of member countries.
