

COMMUNICATION FROM CANADA

On the importance of Mode 3 Commitments

The following communication, dated 29 September 2004, from the delegation of Canada is being circulated to the Members of the Council for Trade in Services.

I. ISSUE

1. The recent publication of UNCTAD's World Investment Report 2004 (WIR 2004) entitled "The Shift Towards Services" and one of its key findings - that the composition of Foreign Direct Investment (FDI) has shifted towards services in all regions - provides an important and timely message for negotiations under the General Agreement on Trade in Services (GATS). Given the relationship of GATS Mode 3 to investment in all economies, this, and other findings of the report, highlight the opportunity that all Members may have to capitalize on an improved investment climate for services providers by focussing on the enhancement of Mode 3 commitments in the context of present GATS negotiations.

II. BACKGROUND

2. Among the WIR 2004 key findings are indications that the composition of FDI has shifted to services in all regions and, that this trend is expected to continue. In addition, the composition of service industries making up services FDI is becoming more and more diverse and all regions are expected to experience improvements in their FDI receipts in the coming months.

3. Equally interesting is the finding that, while developed countries will drive the renewed growth of world FDI flows, developing countries are becoming investors in their own right. The report indicates that outward FDI from developing countries is becoming more and more important. Moreover, it is suggested that trans-national companies (TNCs) from developing countries are becoming "trans-nationalized" at a faster rate than their developed country counterparts – a trend that is also expected to continue.

4. A third finding illustrates the importance of international trade agreements – such as the GATS – that deal with investment. The report finds that they can provide a stable, predictable and transparent enabling framework for attracting investment and benefiting from it. At the same time, it is noted that the optimal realization of these potential benefits can remain a challenge.

5. It is Canada's view that the GATS is well positioned to address the challenge of striking an appropriate balance between using investment-related trade agreements as part of a strategy for attracting FDI and benefiting from it, on the one hand, and preserving the flexibility needed for the

pursuit of national development strategies in the services sector on the other - an issue that may be particularly important for developing country Members.

6. Given these findings it seems clear that advancing on Mode 3 issues and commitments during this round of GATS negotiations should be of interest to a broad cross section of the WTO membership. By giving more focus to their commercial presence interests in these negotiations, Members can facilitate the realization of the potential benefits of FDI by providing a conducive climate for this important private sector activity.

III. PROPOSAL

7. In light of the findings outlined in the WIR 2004 and, as an important step towards exploring the potential of Mode 3 commitments for all Members, Canada suggests that an invitation be extended to UNCTAD to make a presentation on the World Investment Report 2004 at the next meeting of the Council for Trade in Services Special Session.
