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# PPD approach to regulatory reform to foster competitive services sectors

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# Government regulations underpin services sector competitiveness

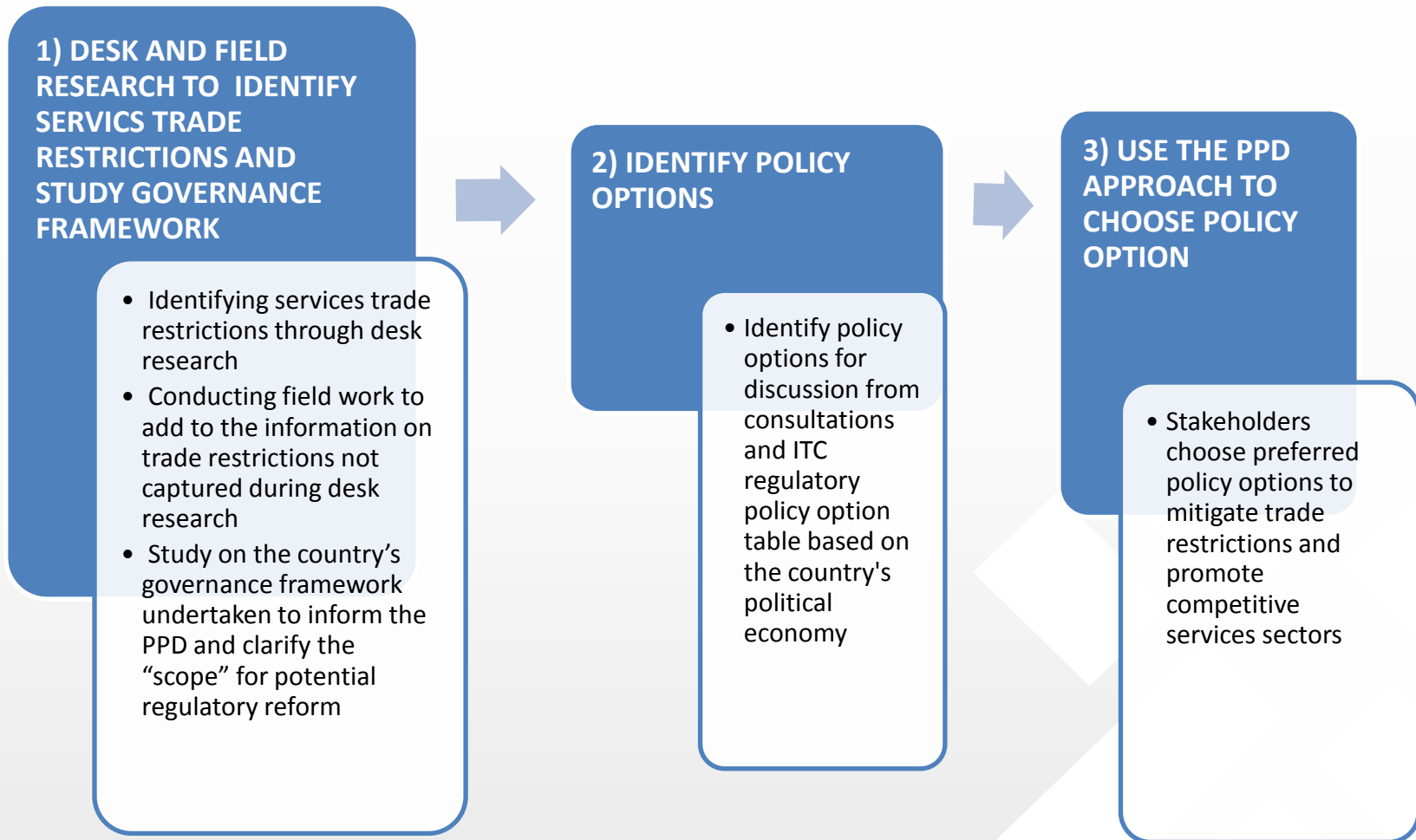
What drives governments' proclivity for services sector regulations?

- Guarantee essential services,
- Protect consumers,
- Correct market failures,
- Ensure adequate competition and
- Meet social objectives.

# Government regulations underpin services sector competitiveness (cont.)

- The governments should also recognize the business costs in complying with regulations
- Business groups seek a regulatory environment where such costs are kept to a minimum.
- The key to service sector regulatory reform is to ensure that **policy objectives are achieved with minimum market distortions.**

# PPD approach to strike a balanced regulatory outcome



# Step 1: Identify services trade restrictions and study governance framework

Measures affecting trade in services	Sectors covered	Origin		Regulatory goals (objective of the regulation)	Impact (e.g. discriminatory vs. non-discriminatory, possible problems mentioned, which modes specifically affected, does it prevent entry of new operators)	Remarks (e.g. possible alternatives considered or proposed by stakeholders, possible reasons behind the approach)
		Type (Law/regulation, practice, guidance etc.)	Authority in charge (ministry, regulatory body, professional association etc.)			
Screening of all foreign investments	Horizontal	Law on Foreign Investments			Discriminatory, creates unpredictability for market access/entry, criteria not known, affects mode 3 in all sectors.	
Foreign ownership limited to 49 %	Telecommunications	Law on Telecommunications Markets		Technology transfer		Industry has proposed abolishing the limit.

# Step 2: Identify policy and regulatory options

## Policy option table: A few illustrations

Regulatory measure	Rationale and possible problems	Alternative policy approach
<b>Measures affecting operations</b>		
Performance requirements (e.g. requirement of showing net benefit locally, creating employment,	<p>Avoid such measures, since they may discourage investment, if conditions are too restrictive.</p> <p>If necessary to maintain, ensure that information about criteria and conditions is clear, transparent and accessible, so that prospective investors can take them into account in their investment decisions. Avoid discretion in or vague criteria for assessing “net benefit”.</p> <p>When it comes to minimum requirement for share of personnel, replace with a system of payroll tax credits applicable to all companies. The approach is more transparent and may benefit the foreign company at its choosing.</p>	<p>Avoid such measures, since they may discourage investment, if conditions are too restrictive.</p> <p>If necessary to maintain, ensure that information about criteria and conditions is clear, transparent and accessible, so that prospective investors can take them into account in their investment decisions. Avoid discretion in or vague criteria for assessing “net benefit”.</p> <p>When it comes to minimum requirement for share of personnel, replace with a system of payroll tax credits applicable to all companies. The approach is more transparent and may benefit the foreign company at its choosing.</p>
Limitations on pricing	<p>May be required to limit price effects of lack of competition. Minimum prices may be a response to concerns over “predatory pricing” or social objectives (e.g. decreasing the consumption of a specific product/service).</p>	<p>Ensure horizontal competition law addresses predatory pricing.</p> <p>Use price monitoring and disclosure regimes to ensure abuse of dominant position in pricing.</p> <p>Ensure access to information to facilitate comparison between services.</p>

# Step 3: Chose the most appropriate policy option

## OECD principles for regulatory quality and performance

Good regulation should:

- i. serve clearly identified policy goals, and be effective in achieving those goals;
- ii. have a sound legal and empirical basis;
- iii. produce benefits that justify costs, considering the distribution of effects across society and taking economic, environmental and social effects into account;
- iv. minimise costs and market distortions;
- v. promote innovation through market incentives and goal-based approaches;
- vi. be clear, simple, and practical for users;
- vii. be consistent with other regulations and policies; and
- viii. be compatible as far as possible with competition, trade and investment-facilitating principles at domestic and international levels.

'One size fits all' approach should be avoided and solutions may need to be adapted on a case-by-case basis, depending on the local socio-political and economic environment.