



ITC

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Australian Government

Department of Foreign Affairs and Trade



LDC Services: Geneva Practitioners Seminar Series: “Making Sense of GATS and Applying Good Practices in Services Negotiations”

Seminar 4: “Services in Global Value Chains”

Quan Zhao

Services in Goods GVCs

WTO Building, Room B

27 March 2015



SERVICES IN GLOBAL VALUE CHAINS
SOLAR PANEL MANUFACTURING IN CHINA



International Trade Centre

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FGI CASE STUDY
SERVICES IN GLOBAL VALUE CHAINS PROJECT

Pigment Production in China

Denise Cheung, Patrick Low, and David Sit
December 2014

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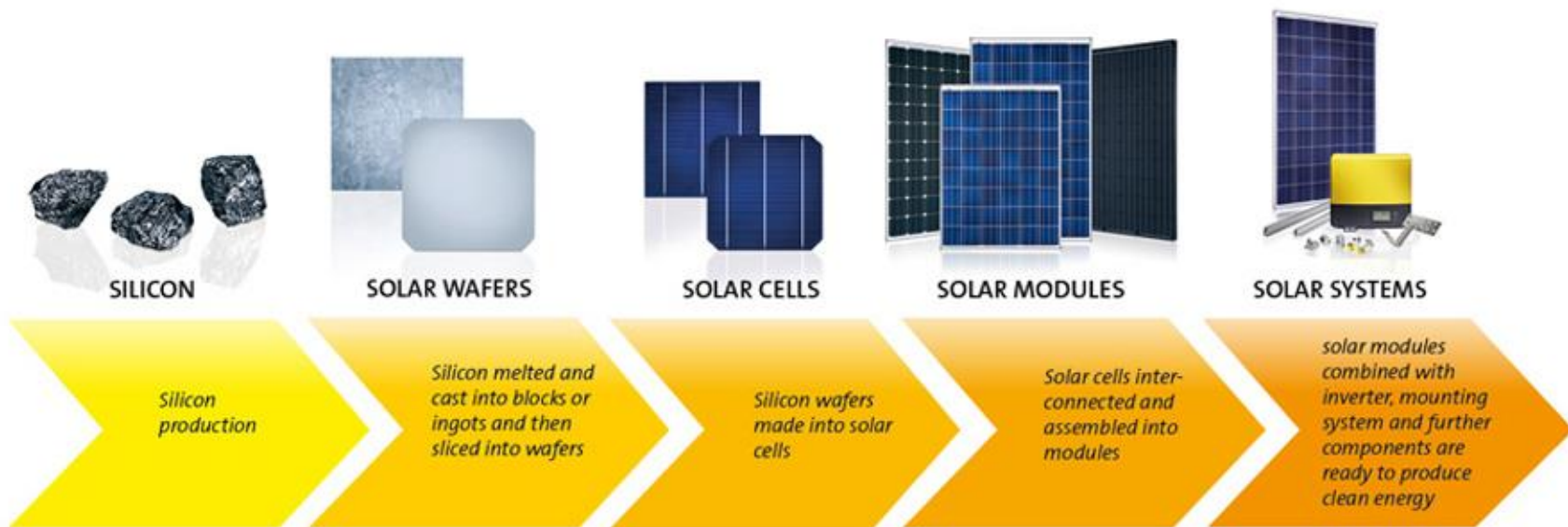
FGI CASE STUDY
SERVICES IN GLOBAL VALUE CHAINS PROJECT

**Hong Kong-based Bakery Chain:
The Short Life of a Loaf of Bread**

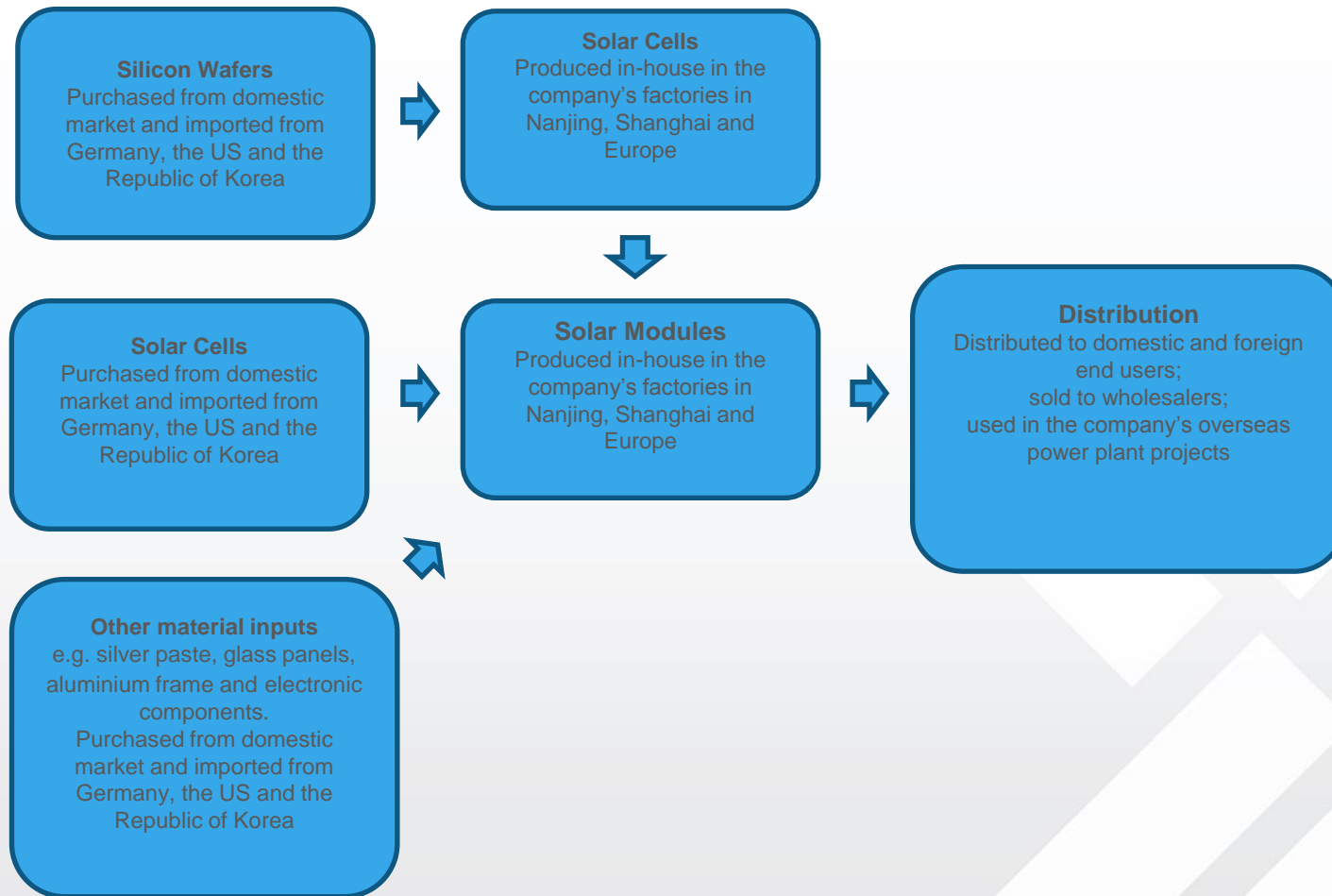
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SERVICES IN A HONG KONG-BASED BAKERY CHAIN 1

PV value chain



Company's value chain



40 (or 68) types of services

Importation of material inputs	In factory and factory-related services	Sales and export-related services	Operation and management-related services
<ul style="list-style-type: none"> • Customs-related services • Procurement services • Technical testing • Freight transportation 	<ul style="list-style-type: none"> • Production administration • Utilities • Installation, maintenance and repair • Storage • Technical testing (Quality Control) • R&D • Packaging • Accommodation and Canteen services • Training services • Security, Cleaning, Sewage treatment • Government inspections 	<ul style="list-style-type: none"> • Product testing for obtaining certifications • Transportation & logistics • Freight insurance • Warehousing • Design, Advertising & Marketing • Wholesale & retail • Market research & consulting • News and information 	<ul style="list-style-type: none"> • Company registration and licensing services • Financial services • Social and commercial insurance • Legal consulting • IPO related services • Accounting, auditing and bookkeeping • Public relations (PR) • Business hospitality • Human resources • IT & Telecom • Visa and Travel services

Services as % of total cost

Material inputs: 75%

Services: 20-25%

Material inputs excluded

Services: 70%

Loan interest + wage for manufacturing workers: 30%

Manufacturing posts: 70% of total workforce

Wage share: less than 7% of total cost

3/4 services outsourced

Outsourced

- Customs-related services
- Technical testing
- Freight transportation
- Utilities
- Installation, maintenance and repair
- Storage
- Technical testing
- R&D
- Packaging
- Accommodation and Canteen services
- **“Labor supply” services**
- Government inspections
- Product testing for obtaining certifications
- Transportation & logistics
- Freight insurance
- Warehousing
- Design, Advertising & Marketing
- Wholesale & retail
- Market research & consulting
- News and information
- Company registration and licensing services
- Financial services
- Social and commercial insurance
- Legal consulting
- IPO related services
- Auditing
- Public relations (PR)
- Business hospitality
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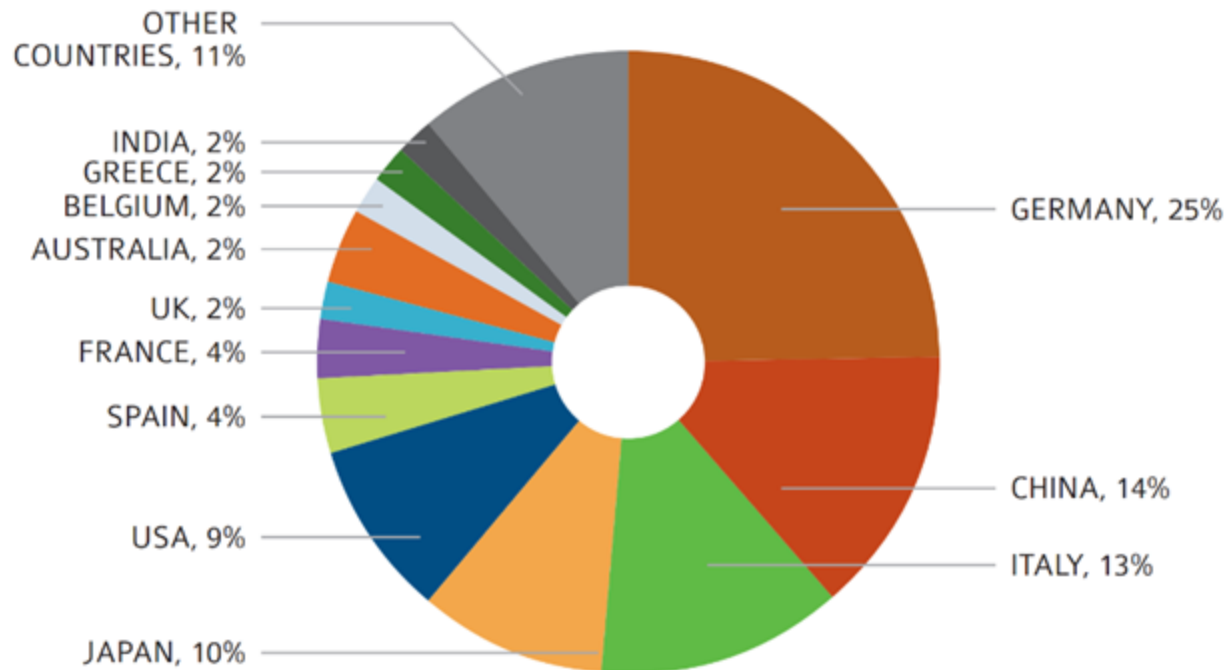
In House

- Procurement services
- Production administration
- Quality control
- Storage
- Packaging
- Human resources/training
- Accounting and bookkeeping
- R&D
- Accommodation
- Security, Sewage treatment

Government's role in economic activities

- Policy incentives encouraged private investment into the PV sector, but also contributed to overcapacity
- Intertwined relationship between government and business allows government to exert considerable influence over the decisions and operations of companies
- Lack of clarity on grid connection policies, and lengthy and opaque licensing procedures discouraged investment in the downstream segments of the value chain, such as the construction of solar power plants
- Resulting in the sector's heavy dependence on the export market

Figure 5. Global PV Market at the end of 2013: cumulative capacities



Source: IEA PVPS, EPIA

Trade Policy Impact

- The largest trade dispute between EU and China (€21 billion), and the largest antidumping case undertaken by the EC
- Resolved through a negotiated outcome on a minimum (or floor) price commitment
- China's share in EU PV market dropped from 70% to 30%
- Trade diverted to countries with higher price, higher quality products
- Labor mobility (mode 4)
- **Indirect effect: increased services costs**

Not fully supported by EU industries

“ Around 70% of the PV supply chain’s value in the EU market is created in Europe. The value added created by the upstream and downstream activities in the EU is immense, at € 40 billion, providing 265,000 EU jobs along the solar PV value chain according to European Photovoltaic Industry Association (EPIA). By contrast, the employment represented by the complainant, EU ProSun, and its supporters in the ongoing investigations based on the data they presented is a maximum of 8,000 jobs. Module manufacturing represents at most 30% of the 70% value added by EU solar industry. Thus, imposing duties may be beneficial to only perhaps 30% of the industry while harming the remaining 70%.”

- The Alliance for Affordable Solar Energy (AFASE)

Building a solar plant in UK

- Solar modules: 30%
- Engineering Procurement Construction (EPC) : 40%
 - including building of the power plant and installation of the solar modules – outsourced to a local UK company
- Permit cost: 20%
- Land rental, legal consultation, technical consultation and related testing and conformity assessment services, and project management services: 10%

Conclusion

- Services are essential for manufacturing
- Services contribute significantly in higher value-added segments of the value chain
- In GVC, trade policies, while helping the domestic manufacturing sector, might harm the related services stakeholders
- Trade disputes can affect companies indirectly through increased costs on services
- Innovative services can help manufacturers save costs
- Government policies need to be objective, effective and transparent