

FDI in Service Sector - Policy for India's Services Sector

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Abstract: *Services sector has been particularly important for India. This paper focuses on the major policy issues for India's services sector. In the beginning, the paper dwells briefly on the importance of services for India in terms of GDP growth, services export growth and openness of the economy; the country-wise exports of services of India; and the important services for India. The paper then directly examines the major policy issues under three major headings: domestic policy issues, domestic regulations and market access issues. Domestic policy issues cover many areas like FDI, disinvestment, tariff & trade, credit & finance and other general & sector-specific policy issues. FDI related policy measures include putting the FDI policy on the website in a user friendly way and opening at least some segments of insurance sector like health insurance. Policies for disinvestment include a listing of PSUs in services sector for disinvestment. Tariff and tax related policy measures include many suggestions like rationalization of taxes in shipping and telecom sectors, allowing advance tax instead of TDS in some services and a single return for service tax and excise tax which is being administered by the same department. Credit & finance related issues include exempting External Commercial Borrowings (ECBs) from withholding tax for financing export-related activities and overseas acquisition including acquisition of ships. Other general and sector specific issues include among others increasing visibility of India in services, facilitating services exports by setting up joint offices with common facilities, setting up a portal for services, resolving the issue of preconditions in overseas tenders, facilitating international accreditation for Indian health services and skill certifying unskilled labour. Domestic regulations perform the role of tariffs in regulating services. So the paper underlines the need to list domestic regulations in India which need to be disciplined to help the growth of the services sector and exports, while retaining those domestic regulations which need to be retained at this stage. Some of the policy suggestions related to domestic regulations include addressing restrictions on inter-state movement of goods, resolving the issue of ban on use of logos of accounting firms, removing the unnecessary regulations under Banking Regulations Act and competition policy for services.*

Keywords: Policy for India's Services Sector

1. Introduction

Services sector is particularly important for India for various reasons. The ratcheting up of the trend rate of GDP growth of the economy reaching 9.4 percent in 2006-07 was to a great extent due to the ratcheting up of the trend growth rate in the services sector of around 10 percent since 2004-05. Even in 2008-09 when GDP growth was relatively lower at 6.7 per cent due to global recession, services growth was at 9.7 per cent with its share in GDP at 57.3 per cent. State wise growth rate of GSDP is also closely associated with higher growth of tertiary sector. The primary importance of services sector in the growth process of India and most of the states of India has been strongly established in the last two decades. India is also moving towards a services dominated export growth. Even in 2008-09 when the merchandise export sector was severely affected by the global recession, services exports grew by a respectable 12.5 percent. The openness of the Economy reflected by total trade including services as a percentage of GDP shows a remarkable increase from 27.4 percent in 2000-01 to 52.1 percent in 2008-09. Some services have been particularly important for India. Software is one sector in which India has a brand identity. Tourism and travel related services and transport services are also major items in India's Services exports.

2. Policy Issues

Major Policy Issues

The major policy issues in the services sector are:- 1) Domestic Policy Issues including FDI, Disinvestment, Tariff & Tax Issues, Credit & Finance related issues and Other Policy Issues – General & Sector Specific; 2) Domestic Regulations-Sector Specific and General; 3) Market Access Issues due to domestic regulations, subsidies and other barriers; and 4) Other Issues like bilateral, regional and multilateral negotiations and policies of multilateral institutions. This paper focuses only on Domestic Policy issues and Domestic Regulations though a sample of issues under Market Access has also been given. Other issues like bilateral, regional and multilateral negotiations and policies of multilateral institutions have not been dealt here though they are interesting and emerging issues.

Domestic Policy Issues

(i) Foreign Direct Investment (FDI)

Some important policy issues in the case of FDI in Services sector for India are the following:

Opening retail trade, where FDI is prohibited (except single brand product retailing subject to 51% cap) while there is a large unorganized sector with low tax compliance. Along with allowing FDI in retail in a phased way beginning

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with metros, the existing mom and pop shops (kirana shops) could be incentivized to modernize and compete effectively with the retail shops foreign or domestic.

Raising FDI cap in the insurance sector from 26% has been in the Government's agenda for long but could not be implemented for various reasons. One such segment is health insurance and FDI cap at least in health insurance can be raised in India on a priority basis as it will also help the export of super-specialty hospital services. There is also a 10 year disinvestment clause in the insurance sector which could be removed.

In the Banking sector Though foreign investment (FDI+FII) of 74% is allowed, there are licensing requirements. There is also a limit of ten percent on voting rights in respect of banking companies. While many concerns have to be addressed here particularly in the light of the recent global financial crisis, at least some segments of this sector could be opened up to foreign investment in areas like rural Banking with the help of mobile technology.

In Construction Sector, though 100% FDI is allowed under automatic route, there are conditions like minimum capitalization norms of US\$10 million for wholly owned subsidiaries and US\$ 5 million for joint venture, minimum area norms under each project – 10 hectares in case of development of services, housing plots and built-up area of 50,000 sq. mts. in case of construction development project and any of the above in case of a combination project.

Telecommunications: In the case of ISP without gateway, the 26% disinvestment clause in 5 years to companies listed in other parts of the world could be relaxed.

Air Transport Services: 49% FDI is allowed (100% for NRI Investment) subject to no direct or indirect participation by foreign airlines thus preventing those with experience from operating in this sector. Ministry of Civil Aviation's initiative to liberalise this sector needs to be taken to its logical conclusion, while security concerns are also addressed.

FDI in railways: FDI is not allowed in railways. FDI up to 26% could be thought of which can help in modernization of railways.

(ii) Disinvestment

There is plenty of scope for disinvestment in the case of Public Sector Units (PSUs) in services sector under both the Central and State governments. Around 27 PSU's in Services sector can be considered for disinvestment.

(iii) Tariff & Tax related.

Some important tariff and tax related suggestions in different services which need to be examined and addressed to make Indian services more competitive compared to our competitors are the following:

Shipping Services:

Strengthening Indian fleet by rationalizing the taxes in Shipping Sector: Studies show a positive contribution by the Indian Shipping Industry to the Indian economy with a 1 per cent change in Gross Tonnage (GT) likely to bring about 0.0068 percent change in GDP. While trade has increased, India's Shipping has not kept pace with it. The strength of the Indian fleet is 9.3 million gross tonnage as on 01.04.2009. Though the Indian shipping industry has benefited due to the introduction of tonnage tax, Indian flag vessels are gradually diminishing and even Indian owners are increasingly opting to own vessels outside India by paying, virtually zero tax, employing shipboard personnel of any nationality, while accessing India's booming cargo base. Though 100 % FDI in shipping has been allowed since the late 90s, no worthwhile foreign investment has taken place due to the high taxes and rigid regulations like manning norms in India. Indian shipping is presently subjected to 12 direct/indirect taxes over and above the tonnage tax that add to its costs thereby increasing the effective tax rate of around 2 % under the tonnage regime to around 9 per cent. The 12 taxes are corporate income tax on interest and other income, minimum alternate tax (MAT) on profit on sale of vessels, dividend distribution tax, withholding tax liability on interest paid to foreign lenders, withholding tax liability on charter hire charges paid to foreign ship-owners, seafarer's taxation cost to employer, wealth tax, fringe benefit tax, sales tax/value added tax (VAT) on ship supplies/ spares, lease tax on charter hire charges, customs duty on import of certain categories of ships, stores, spares & bunkers and service tax. These services include brokerage, commission and finance charges, general insurance services including P&I insurance, ship management services; and manpower recruitment and supply agency services.

Tourism Services:

Rationalizing the tax structure for tourism as the overall tax impact on tourism is around 30-35%. Reduction in taxation on ATF which directly affects airfares. It is better to bring ATF under "Declared goods" which will reduce duty to 4 percent. While state governments are opposing this as it will lower their revenue, there is also concern that the benefits may not be passed on to the consumers needs to be sorted out and states convinced of the possible advantages due to increase in business volumes. This is a long term solution and better than the alternative to reduce sales tax on ATF by states ranging from 12 percent to 35 per cent as lower but widely varying rates may not end the problem.

Entertainment Services:

Tax credit issue: UK gives 25 percent tax credit for films i.e. 25 percent of expenditure of budget of films is rebated (though subject to a limit). Though this is actually a subsidy, it is disguised as tax credit and is not at all related to the usual taxes which have to be paid. This type of subsidy given by UK and other countries led to investment in film production in these countries. India does not give such benefits and many film producers of India produce films in

UK to avail of this benefit and show only a part of their work from India where there is no benefit and taxes are high.

may be collected while re-exporting the equipment as per certain norms.

Aviation maintenance/repair Services:

Addressing the issue of sales tax on aircraft parts imported by aircraft service companies. When a service centre imports aircraft parts into India, it is required to first pay an import duty (around 20-25%) and again when it sells these parts to an aircraft operator, a sales tax/VAT (around 10-13%) is applicable. Whereas if an aircraft operator directly imports aircraft parts, no sales tax/VAT is incurred and same import duty is payable only if the parts imported are meant for a private category aircraft. Reducing the import duty for spare parts of Aircraft which is 20-25% for special tools and 30-35% for equipment as aviation repair/ maintenance are affected by it.

Printing and Publishing Services:

Exemption of customs duty on import of state-of-the art printing and allied machinery and equipment which are not being manufactured in India; on paper and paperboard of 10%. Exemption of central excise duty imposed on diaries, registers, labels etc.

Engineering, Construction & Infrastructure Services:

Taxing each member's share of profits/losses instead of tax as Association of Persons since infrastructure construction contracts are generally executed through a prime contractor or a consortium of companies or established through Joint Ventures (JVs). Allowing advance tax instead of TDS as it creates a severe cash flow problem in a business where margins are low.

- Customs and Excise issue: To give a big boost to infrastructure projects, all imports including spares and parts, can be lowered or made duty free.
- Procedural changes: Liberal import of high tech equipment is permitted for infrastructure projects but the procedures require fine-tuning as indicated below:
- Withdrawing the 5-year restriction on sale of imported equipments as these are expensive, having 10-15 years of useful life, but may be used for only 2-3 years in a project.
- Allowing member companies of Joint Ventures to import duty exempt goods in their own name instead of in the name of JV, since these have to be held for 5 years as per policy, while a JV may cease after 2-3 years on completion of a project.
- Extension of duty under project import to contractor's plant and machinery used for initial setting up of a specified project.
- Project exporters who have executed projects abroad be allowed to import equipment purchased abroad at lower duty of around 5 percent instead of at 50 percent as at present. The bank guarantee may be waived as the export obligation is already met.
- Cross border lending/hiring of equipment be allowed with a bank guarantee for the duty for period of lease/hire. Duty

Healthcare:

Focused approach to healthcare sector both to increase the welfare of the people and to increase exports of healthcare services is needed. At the central government level zero customs duty for all equipment/spares to enable hospitals to provide the latest technology as available in the West; lower excise duty to the indigenous manufacturers of medical equipment, drugs and other consumables; higher depreciation allowance to counter the high rate of obsolescence of technology and to generate internal accrual for replacement.

IT Services & Telecom:

Addressing the issue of customs bonding as Companies operating under the STP scheme are required to get their premises customs bonded necessitating multiple approvals from DOE-STP and also the Customs and the Excise departments resulting in delay of movement of computer and other equipments from one STP to another. Need for clarity on applicability of sales tax or service tax on IT Software.

Credit and Finance related issues:

Addressing the issue of withholding tax on interest paid on ECBs. The requirement of overseas lenders/ investors is that in interest due to them be paid without deducting any withholding tax in India. Exemptions could be considered at least for foreign currency borrowings raised for financing all export related activities and overseas acquisitions. Venture capital funding, given the difficulty of arranging security/ collateral especially by first time entrepreneurs, as in the case of software sector in US where more than 20 percent of the investments has been due to venture capital since the 1980ies. The venture industry not only provides the capital to create some of the most innovative and successful companies, but also becomes actively engaged with a company, typically taking a board seat.

Other policy issues – General

Increasing visibility of India in services by showcasing India's services overseas by workshops, buyer-seller meets and positioning people in some major markets for services including by sectors or regions and a sincere effort to reorient our foreign missions to focus on India's commercial interests by placing professionals and experts on services in these missions. Supplier companies must make sure that they appear on the first page of Google and other search engines in response to the relevant key words entered into a search engine. Standardization of services on the lines of National Manufacturing standard. Setting up an institutional mechanism as lack of a single nodal department/division/institution is one of the weaknesses of the services sector, particularly for domestic policy making. Since, coordinated policy action is needed, there is a need for a nodal department or division, preferably in the

Department of Economic Affairs, Ministry of Finance which can look into all aspects related to services.

Other policy issues - Sector specific Telecom Services

Addressing the issue of multiple levies and duties, license fee on unrelated activities like revenue from sale of handsets, lack of uniformity in the fee structure across States and services, etc. The fee also needs to be reduced, simplified and rationalized. This can be done by a simple formula of dividing total revenue of telecom department by the total license fee the government is getting out of it. Telecom licenses should be disaggregated from spectrum allocation. Spectrum should be auctioned and be freely tradable among companies having a telecom license. Auctioning of 3G Technology immediately which is long overdue and introduction of high speed connectivity in all cities and towns.

Shipping and related services

Strengthening Indian fleet and funding as the strength of cargo ownership provides a strong leverage, to build a substantial Indian flag tonnage as well as to moderate freights quoted by foreign owners and provide more stability in the freight costs of Indian charterers. With the overall share of Indian ships carrying Indian cargo (in export-import trade) falling below 12% from as high as 40% a couple of decades ago and the need to scrap around 40% of existing shipping capacity due to IMO regulation. The following measures could be considered for financing ship acquisition:

- Raising rupee resources by providing tax incentives for investment as in the case of the proposal for power bonds (Vidyut Vikas Patra).
- Relaxing ECB funding norms for the shipping industry by particularly addressing the withholding tax issue.

Long term shipping contracts and cargo support for Indian flags. The shipping requirements of the PSUs could be channeled and long term contractual cargo support to Indian shipping companies ensured. Such long term contracts would, in turn, enable the Indian companies to invest in Indian flag tonnage and help in the growth of the Indian fleet. Long term contracts and similar cargo support (including coastal cargo cabotage measures), are also now a necessity for securing funding. Most lenders worldwide are now seeking the comfort of contracts backing up ship acquisitions.

Port Services

Infrastructure facilities at major ports for handling crude oil need to be strengthened through a facilitative policy on single point moorings. The facilities at existing ports with regard to cargo handling, stevedoring, pilotage services, bunker services, warehousing facilities etc. need to be upgraded. The transshipment of Indian cargo taking place outside the country at present needs to be handled at Indian

ports through concerted measures. This would include increasing the drafts available at Indian ports, rationalization of port dues and providing differential levels of tariff for different sizes of vessels or for different cargoes to attract mother ships to berth at Indian ports. The many port charges in India need to be reduced as they are higher than in many other countries due to inefficiency of ports, and inclusion of unrelated costs like pension & other contributions to port labouring port services.

Construction Services & Project Exports

The Standard Contract Document for all domestic civil engineering projects. Setting up consortiums to bid effectively for international projects. Exploring the opportunity for low-energy buildings using sunlight with the growing emphasis on climate change. Even existing buildings in UK and some other developed countries are being redesigned and modified to be environment friendly.

Healthcare Services

Need for international accreditation apart from national standardized accreditation. External assessment of healthcare services is being increasingly used to regulate, improve and promote healthcare services all over the world. In many countries, external assessment of healthcare services is in demand by governments, healthcare professionals, patients and communities. Though the Quality Council of India (QCI), an autonomous body set up by the Government of India, announced the National Accreditation Board for Hospitals and Healthcare Providers (NABH) in order to have standard accreditation and make available accreditation standards at lower costs, international accreditation is a very important step to make the hospitals eligible for the coverage with foreign insurers.

Accounting, Auditing, Bookkeeping and Legal Services

Tie-ups to overcome the weakness of small size of domestic accountancy firms. Allowing representative offices of foreign law firms to practice non Indian law in India on a reciprocal basis. Tapping outsourcing in niche areas like actuarial and accountancy services as there is good scope for outsourcing actuarial services and accountancy services to India including setting up back offices. But Indian service producer's need good training on US tax laws and laws related to insurance, pension etc.

Financial Services

Mergers and acquisitions including acquisition of small banks by big banks. A coordinated policy for setting up bank branches to avoid mushrooming of banks in the same place in cities. Operationalising offshore financial centres by removing any hurdles. The report on Implementation Model for Free Ports in India has suggested the setting up of offshore Banking units in SEZ's. The report of the High Powered Expert Committee (HPEC) on 'Mumbai: An International Financial Centre' has suggested the setting up of International Financial Centre in Mumbai. These need to

be examined and a decision should be taken on their implementation and the time-frame for implementation. Some of the recommendations of the HPEC include the creation of a currency spot market with a minimum transaction size of Rs.10 million, accessible to all financial firms; an Indian rupee settled exchange traded currency derivatives market with trading in futures, options and swaps on currencies, accessible to all; opening up fully to foreign investment in Indian rupee denominated sovereign bonds issued by Government of India; replacement of rules based regulation by principles -based regulation; inclusion of financial services under GST with simultaneous removal of all central and state transaction taxes including the Securities Transaction Tax (STT), stamp duties, etc. Including climate change related financial schemes/instruments as climate change issues are gaining in importance. These could include developing insurance schemes against climate related risks; structured emission products, carbon funds, European Union Allowances (EUAs)/ Certified Emission Reductions (CERs) swaps, avoided deforestation/ Reducing Emissions from Deforestation and Forest Degradation (REDD), synthetic portfolios and carbon securitization; SRI (Socially Responsible Investment) funds, Low-carbon technology stocks, index products; forestry bonds; Carbon venture capital; energy efficiency/green building real estate investment trusts; and hedging Instruments like weather derivative products, catastrophe bonds and insurance products.

Tourism Services

Facilitating measures like issue of visas on arrival for select countries, establishing special tourism police force, slum clearance with proper resettlement facilities, stopping begging on a priority basis, etc. Promoting services like trade fairs and exhibitions by setting up convention centres. It is really a pity that India does not have a convention centre for international exhibitions in Mumbai, the financial capital of India. Creating holiday homes by utilizing idle resources with public sector units. Many public sector units have holiday home facilities availed by employee at nominal prices, often unused and not well maintained. A public private partnership mode for more efficient utilization of these facilities could generate enhanced revenue streams besides continuing to make available the facilities to employees though on a more commercial basis. This could be achieved, for instance, through tie-ups with agencies that offer such facilities on their own; often nationwide this could also include Central/State government guest houses and port guest houses.

IT and related Services

Addressing the issue of weakness of India in retesting computer software. Improving the quality of the new -breed of IT professionals as there is a feeling abroad that the new talent pool in IT is not as efficient as the old pool, particularly when new competitors have emerged. Shifting from low-end service to high-end services like programming in the light of competition in Business Process Outsourcing

(BPO) from other countries like Ukraine, China, Bolivia, South Africa, etc., and policy in countries like U.K. to employ locals . There is a need to move to systems software coupled with hardware-software combination along with further progress in applications software. Need for Data Protection Act as EU and other developed countries are very particular on data protection as half of offshore work does not come to India due to this. This should be on the lines of EU Safe Harbour Decision and EU directives on data protection. The IT Amendment Act includes this issue. This Act needs to be implemented urgently.

R&D Services and Consultancy Services

Tapping the potential for R&D services, particularly in healthcare, electronics and biotech. Problems in India are due to lack of local R&D and Intellectual Property Rights (IPRs). While the IPR laws are good, litigation takes a long time and Indian legal system has not understood the IPRs.

Education Services

Replacement of bureaucratic controls on educational institutions by professional regulation, encouraging public-private partnership in education, rating the quality of educational institutions and regulated entry of large quality foreign and rated domestic institutions in higher education.

Review of the built in space norms and patient load factor norms to be in tune with present day equipment intensive care and modern practices and procedures as some institutions of higher education like medical colleges are found mainly in some states, with even Delhi having few medical colleges with fewer seats, while the demand is very high for such education. Entrance to medical education and jobs in the medical sector should be based only on quality.

Domestic Regulations

One major issue in services is the domestic regulations in India. Using the strict definition as indicated in the WTO documents, domestic regulations basically include licensing requirements, licensing procedures, qualification requirements, qualification procedures and technical standards. Since domestic regulations perform the role of tariffs in regulating services, we have to list the domestic regulations in India which need to be disciplined to help growth of the sector and exports, while retaining those domestic regulations which need to be retained at this stage. As per the World Bank & IFC publication "Doing Business 2010" India ranks 133 among 183 countries in the ease of doing business. Though in trading across borders, India was the top reformer in 2006/07, India's poor ranking in most of the sub indicators is mainly due to domestic regulations like licensing and procedural delays. The difference between different cities in India is still sharper.

Transport Services

Restrictions on inter-state movement of goods and coordination issues between government departments in the

case of multimodal transportation and need for changes in merchant shipping Act and Multimodal Transportation of Goods Act, 1993. There are also restrictions on free movement of cargo between ICDs, CFSs and Ports.

Construction, Engineering and related services

Restrictions like minimum capitalization norms, some restrictions on repatriation, minimum area norms and a general umbrella clause that all applicable rules/ bye laws/ regulations of the state government/ municipal/local body concerned have to be complied with. Restrictions under the Urban Land Ceiling and Regulation Act. As a result of this Act, construction services firms in India operate at a small scale, and do not exploit economies of scale.

Healthcare Services

Restrictions on foreigners providing healthcare services: While there is no cap on FDI in health services, foreign individuals are prohibited from providing services for profit and their movement is subject to registration by Medical/Dental/Nursing council of India.

Accountancy Services

Besides FDI not being allowed in this sector, Foreign Service providers are not allowed to undertake statutory audit of companies as per the provisions of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India Acts. There is also ban on use of logos of accounting firms which need to be disciplined to facilitate tie-ups and penetrate foreign markets given the potential for exporting these services by the outsourcing mode. The accountancy professionals are only allowed to operate either as a partnership firm or as a sole proprietorship firm. Since the Partnership Act of India permits only 20 or less professionals under one firm, this de facto means that the numbers of partners in Indian accounting firms are limited to 20 or less. Further, the numbers of statutory audits of companies per partner are restricted to 20. Indian regulations also proscribe inter-disciplinary professional models, i.e. accounting firms are not allowed to hire management professionals to perform consulting/ management services. As a result of the above restrictions, less than 200 firms (or 0.5% of total accountancy firms) have more than 10 partners. Due to their small size, domestic firms have been less successful in competing with international firms.

Legal Services

FDI is not permitted and International law firms are not authorized to do advertising and to open offices in India. Foreign Service providers can neither be appointed as partners nor sign legal documents and represent clients. Bar council is opposed to entry of foreign lawyers/law firms in any manner. With recent developments like outsourcing of administrative work of legal firms of UK and other countries, there is a need to be more open on legal services

to at least facilitate overseas firms to outsource legal services to India.

Education Services

Multiple controls and regulations by central and state governments and statutory bodies as education come under the concurrent list in India. Regulations with respect to establishment of new medical colleges and need to review patient load factors to be in tune with present day equipment intensive patient care and modern practices and procedures of medical education, as mentioned earlier.

Infrastructure services

Reforming the regulatory framework which include efficient, transparent and standardized bid process/ procurement; clarity in contractual structure/concessions/ incentives and adoption of equitable contract as under International Federation of Consulting Engineers (FIDIC) or Construction Industry Development Council (CIDC) guidelines; well defined prequalification norms; single window regulatory approvals; effective dispute resolution mechanism; harmonized legal definition of infrastructure; and liberalized investment guidelines for debt & equity instruments.

Entertainment services

Regulations related to cable TV channels like getting license and having an agent in India to downlink channels needs to be examined.

Others – General

Need for a competition policy for ‘Services’ in India and a regulatory body. While there are regulators for some services like Banking, Insurance, Telecom and Ports, there are no independent regulators for most professional services with de facto regulation taking place through a combination of statutes provided in law and by professional all-India and state councils.

Market access issues

This is another important issue as domestic regulations and policies in India’s major services markets deny market access for India’s services exports. Market access barriers can be due to domestic regulations, subsidies or other barriers. However, this paper does not deal with them in detail and gives only some examples under the different categories.

Market access barriers due to domestic regulations in the US

Include state level licensing and the ‘Buy American’ provisions in the case of business services and IT services; the requirement of the Office of the Comptroller of the Currency (OCC) and some State banking supervisors to maintain “asset pledges” in addition to the paid up capital

they maintain in their home country in the case of financial services; the fragmentation of the insurance market into 56 different jurisdictions and direct discrimination on a number of fronts, such as need for foreign insurance companies to first be licensed in another state before seeking a license in the first state to underwrite risks in one state; difficulty in opening bank branches and restrictions even after licensing in banking sector; need in some states of US for foreign insurers to buy reinsurance from state -licensed companies before allowing re-insurance premiums to leave the state.

Market Access barriers due to subsidies include the huge subsidies in the Civil Aviation sector to aircraft in both US and EU; the subsidy programme in shipping providing an operating cost subsidy of \$100 million a year for a period of ten years for US registered ships meeting certain requirements etc.

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