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*Series on General Agreement on Trade in Services: Part 2*

## Defining Trade in Services

The WTO General Agreement on Trade in Services (GATS) defines trade in services by means of four different ways in which they can be supplied. These so-called "modes of supply" distinguish between the location of the supplier (supplying services to foreigners from its own market or by going abroad) and the consumer (consuming services of foreigners either from within the country of residence or by going abroad). As a result of its scope, the GATS applies, and extends trade rights and obligations, to both the services and the service suppliers of WTO Members. It also covers the activities of both "natural" persons and "juridical" or corporate entities supplying and consuming services.

The reason it is important to understand the modes of supply is because it helps to understand your trade rights and benefits under the GATS. You need to know which mode(s) of supply you are using to supply your service and how they are used in the GATS schedules. The schedules contain the levels of commitments and the types of restrictions applied, if any, in service sectors where commitments have been made.

	Description	Example
<b>Mode 1</b> Cross-Border Supply	Delivery to another country, from the territory of the supplier.	A Thai customer visits a Swiss architect in Geneva to initiate a building project (mode 2).  The Swiss architect faxes her plans to Thailand (mode 1) and then travels to Thailand to work on the building project (mode 4).  Her Swiss architecture firm opens an office in Bangkok (mode 3).
<b>Mode 2</b> Consumption Abroad	Delivery to a consumer from another country, within the territory of the supplier.	
<b>Mode 3</b> Commercial Presence	Delivery within the territory of another country, by establishing a commercial presence in that country	
<b>Mode 4</b> Presence of Natural Persons	Delivery within the territory of another country, by staff or independent professional who travel to that country.	

- **MODES OF SUPPLY: MODE 1**

**Mode 1, or Cross-border Supply:** Services are supplied under *mode 1* when it is the service that moves across borders, while the supplier and the consumer remain in different territories.

Most *mode 1* transactions are conducted through the telecommunication or postal infrastructure. Cases in point are consultancy services, medical diagnoses or distance training that are received by a domestic consumer from abroad.

- **MODES OF SUPPLY: MODE 2**

**Mode 2, or Consumption Abroad:** It refers to instances when a service is supplied in the territory of one Member to the consumer of another Member. In other words, the consumption takes place in the territory of the supplier.

The most common example of *mode 2* services trade is the consumption of hotel and restaurant services by tourists who spend their vacations abroad. Other examples of *mode 2* trade relate to ships or aircraft which are registered in one territory and sent to be repaired in another.

- **MODES OF SUPPLY: MODE 3**

**Mode 3, or Commercial Presence:** A service is supplied under *mode 3* when a service supplier of one Member has set up a commercial presence in the territory of another Member. The supplier is therefore present in the territory of the consumer by having established a commercial presence. Examples of *mode 3* trade include the services provided by foreign-owned and foreign-controlled bank, hotel groups or supermarket chains in their host markets.

- **MODES OF SUPPLY: MODE 4**

**Mode 4, or the Presence of Natural Persons,** relates to the temporary admission of foreign nationals into a Member's territory for the purpose of supplying services. It covers two forms in which persons may supply services: 1) as independent service providers; or 2) as employees of foreign service providers. The GATS specifically excludes from *mode 4* admission for the purpose of seeking access to the employment market, or measures regarding citizenship, residence or employment on a permanent basis. It is left up to each Member to indicate, in their scheduled commitments, the duration of stay that they consider to be 'temporary' in various categories of natural persons (e.g. consultants or intra corporate transferees) or services sectors. As in *mode 3*, the supplier, in this case a natural person, is present in the territory of the consumer. Examples of trade through *mode 4* include, for example, foreign construction workers or foreign IT specialists providing their services in another market on the basis of a contract that they or their firms have concluded.

*Next week: "General Obligations—MFN Treatment, Transparency and Domestic Regulations"*