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Services Trade Restrictiveness Index (STRI): Distribution Services

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Abstract

SERVICES TRADE RESTRICTIVENESS INDEX (STRI): DISTRIBUTION SERVICES

by

Asako Ueno, Massimo Geloso Grosso, Iza Lejarraga, Hildegunn Kyvik Nordås,
Sébastien Miroudot, Frederic Gonzales and Dorothée Rouzet.

This paper presents the services trade restrictiveness indices (STRIs) for distribution services. The STRIs are composite indices taking values between zero and one, zero representing an open market and one a market completely closed to foreign services providers. The indices are calculated for 40 countries, the 34 OECD members and Brazil, China, India, Indonesia, Russia and South Africa. The STRIs capture de jure restrictions. This report presents the first vintage of indicators for distribution services and captures regulations in force in 2013. The scores range between 0.02 and 0.40, with a sample average of 0.13. It is observed that the regulatory profile differs across countries. Restrictions on foreign ownership and other market entry conditions significantly contribute to the results for almost half of the countries covered by the STRI. The paper presents the list of measures included in the indices, the scoring and weighting system for calculating the indices and an analysis of the results.

Keywords: Services trade, services trade restrictions, distribution services, regulation

JEL classification: F13, F14, K33, L81

Acknowledgements

The STRI project for distribution services started with an expert meeting where the list of measures was discussed. The STRI team is grateful for the insights and advice that all the participants brought to the meeting. The STRI database has been put together by going through laws and regulation in each of the 40 countries included. Each entry is documented by the source and a web link to the law or regulation and each government has fact-checked the database. Needless to say this has been an enormous task and the OECD Secretariat would like to thank Member governments for reviewing and peer reviewing the databases. We will also like to thank Mariam Abdova, Beatriz Cano Buchholz, Ekaterina Burdina, Stellina Galitopoulou, Ahmet Gulsen, Dora Hajdu, Anthony Halley, Anna Jankowska, Gimin Kang, Fatma Kayhan, Yunhee Kim, Maria Kopyta, Hendric Richter, Humberto Lopez Rizzo, Baron Sacharidis, Katharina Sass, Jonathan Senft, Marie Sudreau, Lucie Vondrackova, Jozefien Willemen and Aviad Ben Yehuda who provided excellent research assistance in creating the database. Also thanks to the University of Adelaide and project managers Christopher Findlay and Uwe Kaufman for creating the database for Key Partners. Special thanks to Rainer Lanz and Alexander Ragoussis for their contribution to the design of the STRI methodology. A special thanks also to Kazuhiro Sugie for great help at the end of the process. The weighting scheme for the STRI indices is derived from an online survey. Thanks to everybody that took time to do the survey. Finally, the authors would like to thank Crawford Falconer and Raed Safadi for useful comments and inputs. The paper benefitted from discussions in the OECD Working Party of the Trade Committee, which has agreed to make the study more widely available through declassification on its responsibility.

Table of contents

Tables

Figures

Executive summary

This paper presents the Services Trade Restrictiveness Index (STRI) for distribution services. The distribution services sector accounts for between 8 and 15% of the gross domestic product (GDP) in OECD countries. Recent trends in distribution services are increasing market concentration, vertical integration of wholesale and retail trade, and increasing internationalisation of retailers. Trade in distribution services has mainly taken place through commercial presence, and the STRI results highlight the importance of impediments affecting trade via Mode 3.

The STRI indices take values between zero and one, one representing a totally closed and zero a fully open sector. The results show that the overall level of restrictiveness for distribution services is quite low, ranging from 0.02 to 0.40, with a sample average of 0.13. It is observed that the regulatory profile differs across countries. *Restrictions on foreign entry* significantly contribute to the results for almost half of the countries covered by the STRI. The most elevated levels of restriction can be attributed to investment impediments, such as foreign equity restrictions and in some cases a statutory monopoly on distribution of certain products or a reserved product for domestic distributors. Nevertheless, other measures in this policy category such as screening of investments, limitations on board members and managers, economic needs test for licensing and restrictions on acquisition of land also have significant impact for several countries. *Barriers to competition*, such as regulation on shop opening hours, seasonal sales period and price regulations, have also a substantive impact on many countries. These results indicate that the index values are somewhat sensitive to the weighting schemes due to a variety of the regulatory profile we have observed.

The STRI indices are also broken down according to the GATS framework and modes of supply. In general, both market access/national treatment measures and domestic regulatory/other measures are important. For the most restrictive countries, market access and national treatment measures have substantive impacts. Restrictions on commercial presence (mode 3) represent the most significant component of the STRI.

Furthermore, the STRI is decomposed into discriminatory and non-discriminatory measures. Non-discriminatory ones play a considerable role in the STRI; in fact, they are predominant for nearly half of the countries included in the STRI. Another classification of measures is whether they apply to the establishment or the operations of services suppliers. Here, impediments in the sector significantly affect both firms' establishment and ongoing operations.

The market structure of distribution services has been changing rapidly by the emergence of e-commerce and multi-channel retailers. The STRI for distribution services covers some of the issues in respect to these new types of services providers. However, restrictions that impede e-commerce and multi-channel retailers will be revisited at a later stage when it has become clearer what the best practice policy is in this area.

1. Introduction

As part of the OECD Services Trade Restrictiveness Index (STRI) project, this paper presents the STRI indices for all 34 OECD countries, Russia, Brazil, China, India, Indonesia and South Africa for distribution services. The STRI project was launched by the Trade Committee in June 2007 as a tool for quantifying barriers to trade in services at the sector level (OECD, 2007). The major outputs from the project are:

- A regulatory database, providing detailed information on current laws and regulations affecting international trade in services
- Trade restrictiveness indices which provide a snapshot of the trade policy stance at a particular point in time.

The STRI database contains information on market access, national treatment, relevant domestic regulation and administrative procedures in all 34 OECD member countries, Russia, Brazil, china, India, Indonesia and South Africa. The database records policy measures applied on a most-favoured nation (MFN) basis and does not consider preferential treatment entailed in regional trade agreements.[1] The sources of information for the database are laws and regulation in each country.[2] Each entry is documented by reference to the source. The countries included have verified their data and subsequently the database has been subject to peer review assessing their factual accuracy.

The STRI indices transform the qualitative information contained in the database to numerical values that can be used for quantitative policy analysis, including impact assessment of policy reforms. The methodology for calculating the indices is described in a separate document (OECD, 2011).

The index methodology to quantify services trade barriers was pioneered by the Australian Productivity Commission in the late 1990s and applied to a range of services sectors, including distribution services (Kalirajan, 2000). A number of institutions, including the OECD (Dihel and Shepherd, 2007) and the World Bank have developed services trade restrictiveness indices since then.[3] Within the OECD economy-wide indices of product market regulation (PMR), have been developed as well as indices for particular sectors, including distribution services (Boylaud and Nicoletti, 2001; Conway and Nicoletti, 2006).

1. Some countries have different degrees of liberalisation towards different trade partners, as a result of regional integration or of international agreements such as the OECD Codes of Liberalisation. In these cases, the STRI records the level of openness towards third countries and does not take into account preferential agreements. For instance, the database for European Union members records legal provisions applying to distribution services suppliers from outside the European Economic Area.

2. For federal states, where the sector may be regulated at the sub-federal level in addition to federal laws and regulations, a representative state or province was chosen based on output, population and/or the location of the largest city: New South Wales (Australia), Sao Paulo (Brazil), Ontario (Canada), Province of Beijing (China), Bavaria (Germany), National Capital Territory of Delhi (India), Special Capital Region of Jakarta (Indonesia), Federal District of Mexico (Mexico), Oblast of Moscow (Russian Federation), Canton of Zürich (Switzerland), State of New York (United States).

3. The World Bank has developed services trade restrictiveness indices for 103 countries. Throughout this project there have been consultations with the World Bank.

Finally, the OECD foreign direct investment (FDI) restrictiveness index[4] partly overlaps with the STRI for distribution services (Kalinova et al., 2010).

The STRI indices are presented in aggregate form as well as decomposed into several classifications: by policy area, the General Agreement on Trade in Services (GATS) classification and modes of supply, discriminatory versus non-discriminatory measures, and restrictions on firms' entry versus those on their on-going operations. These different classifications will facilitate the use of the indicators in policy analysis for multiple purposes at the national and multilateral levels.

The rest of the paper is organised as follows: Section 2 defines the sector and describes the key characteristics of distribution services. Section 3 identifies measures to be included in the STRI[5] and Section 4 presents the different classification schemes used in the analysis. Section 5 sets out a brief summary of the methodology for constructing the STRI and Section 6 presents the results. Finally, Section 7 gives sensitivity analysis, while Section 8 concludes.

2. Definition and characteristics of the distribution services sector

This section defines the sector to which the STRI applies and briefly discusses the characteristics of distribution services. Table 1 presents definitions of the distribution services sector according to the WTO Services Sectoral Classification List (MTN.GNS/W/120 and referred to as W/120 in this paper), which is based on the United Nations Provisional Central Product Classification (CPC Prov.). The W/120 classification is used by most countries for GATS scheduling purposes.

Table 1. Definition of the distribution services sector

W/120		CPC Prov.
4.A.	Commission agents' services	621
4.B.	Wholesale trade services	622
4.C.	Retailing services	631+632+6111+6113+6121
4.D.	Franchising	8929

Source: WTO, UN.

In production and foreign direct investment (FDI) statistics, distribution services at the ISIC Rev.4 2-digit level consist of "Wholesale and retail trade and repair of motor vehicles and motorcycles" (division 45), "Wholesale trade, except of motor vehicles and motorcycles" (division 46) and "Retail trade, except of motor vehicles and motorcycles" (division 47). Distribution services are captured in international trade statistics (EBOPS) under several headings including other business services (e.g. merchanting) and travel, but it is not straightforward to extract data on cross-border trade in this sector.

For the purpose of the STRI the sector is defined as covering ISIC Rev. 4. division 46 and 47. However, STRI for the distribution sector will cover general wholesale and retail sales of consumer goods and not record specific regulation of speciality distribution sectors for instance on pharmacies etc., as such speciality sectors would add complexity without necessarily improving the measurement of trade restrictiveness in the distribution sector.

The distribution sector is the crucial link between producers and consumers and plays a major role in price formation. According to the national accounts data, the distribution

4. FDI Regulatory Restrictiveness Index by country, 2012 is available at www.oecd.org/investment/fdiindex.htm

5. A "measure" within the context of this paper in not a term of art nor intended to have any legal significance.

services sector accounts for a significant part of economic activities. For most OECD members, this sector's share of gross value added represents between 8 and 15% of GDP in 2009.[6]

The retail sector is mostly a competitive sector where a large number of firms exist, and the entry and exit rates have been relatively high (Boylaud and Nicoletti, 2001). However, recent trends have seen increasing market concentration, vertical integration of the wholesale and retail trade growing sales of private labels,[7] and internationalisation of retailers (Nordås et al., 2008; WTO, 2010).

Various studies have found that market concentration has increased over time (Boylaud and Nicoletti, 2001; Clark et al., 2003; OECD, 2006; Konig 2009). Retailers have become "lean but large" to meet consumers' growing demand for product variety while keeping inventory costs down (Nordås et al., 2008). The introduction of information and communication technologies (ICT) enables both manufactures and retailers to control inventory. Greater sales are necessary in order to sustain this "lean but large" strategy, thus encourage market concentration (WTO, 2010).

Another important trend in the distribution sector is vertical integration. Manufacturers, wholesalers and retailers have become more integrated by the developments of ICTs and just-in-time delivery system. In particular for the grocery segment, vertical integration has been driven by the development of private labels. Retailers have expanded their private labels to compete with branded products. By introducing a private label, retailers take more responsibility for controlling the supply chain, including product innovation, product standards setting, information gathering about consumers' tastes and behaviour, and marketing (Nordås et al., 2008; WTO 2010).

Market concentration and vertical integration enable wholesalers and retailers to achieve economies of scale and scope, thus could improve efficiency in the sector, but it should be noted that it can also constitute a competition problem.

The retail sector has become increasingly international in recent years. The top 250 retailers operated in an average of 9.0 countries in 2011, and foreign operations accounted for 23.8% of total retail sales of these top retailers in 2011. The top 10 retailers have a much larger geographic footprint than the top 250 overall. These largest retailers operated in 16.7 countries on average in 2011. On the other hand, not all retailers expand their markets globally, 37.6%[8] of all these top retailers are single-country operators (Deloitte, 2013).

There are various ways to enter the foreign market. In addition to acquisition of existing firms or establishment of new facilities, franchising is a frequently used mode of entry. Direct selling is another important way to enter foreign markets for certain enterprises and types of products (WTO, 2010). In the future, it is likely that cross-border trade will become more prevalent as e-commerce takes hold.

Global online retail sales amounted to about $400 billion in 2011 and grew by about 13% annually the past five years, much faster than the growth of traditional sales from physical stores (AT Kerney, 2013). There still exist bricks and mortar only retailers, but according to Deloitte, a consultancy firm, the bricks and mortar store is no longer the dominant medium for purchasing goods (Deloitte, 2013). Instead, multi-channel retailers have become the norm.

6. Calculated from the STAN database for the 15 countries for which data on distribution services as defined here are available.

7. Private labels are defined as a brand that is sold exclusively by a specific retail chain.

8. Author's calculation based on Deloitte (2013) pp. G20-G26

E-retailing started with on-line sales of standardised products such as books, CD's and DVDs. Over time e-commerce has become common in the consumer electronics and apparel markets as well and is now picking up in most consumer goods markets. Global figures are difficult to come by, but in the United States e-retailing currently account for about 8% of total retail sales (Mashable, 2013). A dedicated website accessed via PCs used to be the most common technology for e-retailing, but mobile is gaining ground and currently account for about 5% of retail sales (Deloitte, 2013). Sales and marketing also increasingly take place through social media. E-commerce requires a well-connected customer base, good infrastructure that facilitates reliable delivery and returns, secure payment systems and laws and regulations that ensure the rights and obligations of consumers as well as retailers.

E-commerce is not as borderless as one might think. E-retailers need to build their services around local consumer tastes and habits, which tend to differ across countries. Furthermore, it appears that e-retailing and brick and mortar retailing complement each other in many markets. It has for instance been found that e-retailers' sales are higher in places where they also have bricks and mortar stores (Deloitte, 2012). State of the art retailing aims for providing consumers with a seamless customer experience where services are personalised using information collected from point of sales data, loyalty cards and customer surveys.

The emergence of multi-channel retailers raises a number of policy issues related to consumer protection, including the collection and use of data, cross-border payment systems and market segmentation both within and across borders. A demand for channel-neutral regulation may therefore become a more pressing issue in the future. The distribution sector STRI index captures some of these issues, such as consumer credit, the licensing of e-commerce, and commercial presence requirements, while other issues are still premature for inclusion in the index. These will be considered at a later stage when it has become clearer what kind of regulation, intentionally or unintentionally, restricts cross-border e-commerce. Finally, multichannel retailers rely on a number of services from other sectors, notably logistics, telecommunications, computer services and a host of business services. Having developed STRIs for most of these sectors, it will be possible to analyse regulatory spillovers along the distribution value chain.

3. Identifying measures to be included in the STRI

Although the distribution services sector is a relatively competitive sector, these services are subject to a wide range of sector-specific regulatory measures. As with the other pilot sectors, the index should include information that is sufficiently specific and detailed that it can inform trade negotiations and regulatory reform. But the index should not be so detailed that the primary barriers are overshadowed by lesser restrictions that add little to the essence of trade restrictiveness.

Annex B presents the list of measures included in the distribution services STRI. The selection of measures is based on the following criteria:

- Barriers and regulations that are mentioned explicitly in the GATS;
- Barriers and regulations that are mentioned explicitly in regional trade agreements; and
- Barriers and regulations that experts (during the November 2010 OECD Expert Meeting on Distribution Services) identified as relevant.

Governments apply a range of restrictions to distribution services. These can be specific to these services or can apply to all sectors in the economy. Regulations can explicitly discriminate against foreign providers or, although non-discriminatory, can still affect trade by favouring the local incumbent. Restrictions are also often designed to meet social objectives, such as ensuring quality and protecting consumers. Measuring their restrictiveness represents a useful input for policy evaluation, particularly with a view to explore the availability of more efficient ways to achieve the intended objectives.

The measures included in the STRI for distribution services have been divided into five categories. This typology of measures forms the basis for the creation of the STRI.

Restrictions on foreign entry

This category contains barriers to foreign ownership and other impediments to market entry for distribution services suppliers. Prominent examples of these measures include restrictions on foreign direct equity stakes, requirements for foreign investment only through joint ventures, limitations on mergers and acquisitions for foreign firms, and controlling the number of firms that may operate by economic needs tests or quotas. The imposition of residency requirements for board members represents another important regulation that restricts market entry for foreign firms, and thus impedes trade. Statutory monopolies of distributing certain products prevent market entry of any suppliers other than the monopolist.

As noted above, franchising, direct selling and e-commerce are the possible ways to enter the market in addition to establishing commercial presence in the host country. Restrictions on these types of distribution services can limit foreign firms' ability to make their decisions based on market conditions. Additionally, restrictions on land and real estate use or ownership and zoning regulation are generally applied to all sectors, but typically have direct bearing on the provision of distribution services. These measures may specifically target foreign providers.

Restrictions on the movement of people

Limitations on the temporary movement of people can hinder trade. For instance, restricting the number of foreign professionals permitted to practice by labour market needs test or quotas may delay establishment of commercial presence, impose costs on foreign services providers and discourage local services providers from using e.g. foreign consultants.

Other discriminatory measures and international standards

Discriminatory taxes and other forms of subsidies further apply as important measures to include in the STRI. In addition, discrimination in government procurement and trade mark protection is included. Other impediments included in the STRI are restrictions on pack sizes, labelling provisions beyond information requirements and lack of adoption of international standards. These measures may prevent retailers from efficient cross-border sourcing. Availability of consumer credit licences also plays an important role for providing consumer loans so that customers may finance the purchase at the point of sales. Additional requirements for local sourcing may also be applied.

Barriers to competition

Restrictions on competition lead to the distortion of the level playing field and thus discourage foreign participant in the market. Measures that allow publicly-controlled firms some type of exemption from the general competition law reduce competition in the sector. Further, the policy area captures to what extent foreign firms have access to dispute settlement mechanism and to subsequent appeal procedures.

In the distribution sector, the regulations on business practices may have considerable effects on competition between services providers. The main sector-specific measures captured under this category included regulations on prices, shop opening hours, seasonal sales periods, and the range of products a retailer/wholesalers may carry as well as limitations on advertising and contracts. In addition, specific taxes may be applied only to large format retailers, or small retailers are exempted from certain taxes in order to protect small local incumbents. Another issue relates to the recycling system. Laws or regulations that require distribution firms to contract solely with local recycling companies may restrict their strategy to seek the most cost effective way of recycling.

As noted above, recent trends in the distribution sector are increased concentration and vertical integration of wholesale and retail trade. In order to address any anti-competitive effects of such phenomena, existence of competition law on vertical agreements in particular for resale price maintenance and territorial or customer group sales is a necessary regulatory tool to ensure competition in the market.

Regulatory transparency

Measures concerning regulatory transparency and administrative procedures are also included in the STRI. These regulations involve publication and communication of the regulatory and licensing regimes as well as the administrative procedures of allocation and renewal of licences. The number and the complexity of procedures to obtain a construction permit can also have an impact on market entry. The time required for custom clearance is also included because lengthy custom clearance affects cross-border sourcing of retailers. Finally, excessive visa processing time represents an additional cost.

4. Classifying restrictions

Classifying barriers and regulations under different typologies can increase the usefulness of the STRI by highlighting different dimensions of the data specifically for negotiators, regulators and industry analysts. A detailed list of the measures included in the STRI by policy area is found in Annex B. The annex table also entails information on which category according to GATS classification the measure belongs to; to which mode of supply the restriction applies; whether the measure applies to the establishment of a services supplier or to ongoing operations; and finally whether or not the measure is discriminatory.

The GATS terminology should increase the relevance of the STRI for World Trade Organization (WTO) and regional trade agreement (RTA) negotiators. However, as with any classification, it is not always possible to clearly identify to which category certain restrictions belong and there are overlaps in the classification of some barriers. For example, quotas belong to both market access and national treatment when they are discriminatory against foreign providers. Therefore, *market access* and *national treatment* measures are classified together. This grouping also allows a distinction to be made between restrictions subject to scheduling under the GATS, and consequently to negotiations for their removal; and domestic regulatory measures that usually do not need to be scheduled.

Restrictions not captured by either market access or national treatment are classified under *domestic regulation and other*. Domestic regulatory measures are subject to both existing disciplines and further negotiations with a view to reinforcing them. Examples of domestic regulatory measures are those relating to lack of adoption of international standards, and licensing requirements and procedures.

Indices according to the GATS modes of supply can provide useful information for negotiators. These Modes include: Mode 1: Cross-border supply; Mode 2: Consumption abroad; Mode 3: Commercial presence; and Mode 4: Temporary movement of natural persons. Separate indices according to modes of service delivery have already been constructed for other services sectors (Nguyen-Hong and Wells, 2003; Dihel and Shepherd, 2007; and Marouani and Munro, 2008). It has proved difficult to distinguish between regulation that applies to Mode 1 and 2, or to find any policy measures that specifically apply to these. Regulations that do not explicitly affect Mode 3 or Mode 4 are mainly behind the border and potentially affect all modes of supply. They are therefore combined with mode 3 and 4 into one category *All modes*. For example, lack of transparency of regulations can have an impact across different modes of supply.

The STRI further classifies measures according to regulations that apply to the establishment of firms versus those affecting their on-going operations; and measures that are discriminatory versus non-discriminatory. Establishment restrictions can generally be regarded as impediments to the movement of factors of production, while those applying to firms' operations constrain service provision after establishment. Non-discriminatory measures may raise the cost for all services providers, resulting in higher prices and lower demand for services, whereas discriminatory ones shift demand towards local suppliers. These classifications could prove useful in helping regulators and industry analysts identify priority areas for reform given defined economic policy objectives.

5. Methodology for developing the STRI

The STRI is derived by aggregating regulations that are potentially trade restricting into a composite measure of restrictiveness. The construction of the index involves decisions concerning three main issues: scoring, weighting and aggregation. Scoring relates to how regulatory measures are transformed from qualitative to quantitative information. Weighting captures the relative importance of impediments in terms of trade restrictiveness (the higher the weight the more restrictive a category of measures is considered relative to other categories). The aggregation method determines how weights are applied to scores for calculating the index number. OECD (2011) explains the methodology in detail, while a technical paper explaining the alternative methodologies, their advantages and disadvantages and the robustness of the chosen methodology is available for interested readers (OECD, 2009). Here a brief non-technical summary is presented.

The approach taken to scoring in the STRI is to transform qualitative information on regulation into binary variables.[9] A majority of the questions included in the regulatory database are Yes/No questions. Regulatory information of a more complex nature (e.g. foreign equity limits) can easily be transformed to binary variables by introducing multiple thresholds. Therefore, for each type of impediment in a given country a score is assigned either 0 or 1, with the former representing the absence and 1 the presence of the restriction. This method ensures that all variables are measured on the same scale such that comparison across different countries and over time is possible.

It is important that the STRI captures as much of the variance in the underlying data as possible. The scoring of foreign equity limits, for instance, should reflect that an equity limit of, say 49% is more restrictive than a limit of 66%. This is obtained by introducing multiple thresholds. For foreign equity the thresholds are less than 33%, less than 50%, and less than 100%. A country with a limit of 49% will receive a score of one on the less than 50% threshold as well as less than 100% (i.e. two scores of one), while the country with a limit of 66% will receive one score of one (on the less than 100% threshold). The same approach is used for other variables for which more detailed information is available (e.g. duration of stay of inter-corporate transferees).

Scoring should account for the hierarchy of regulations. Foreign equity limits will be scored the same way as for other sectors, with the same implications for other measures linked to ownership and control of a firm. In particular, if the maximum foreign equity allowed is below 50%, two measures on foreign investment screening (approval unless contrary to national interest and notification), residency of members of the Board of Directors and restrictions on cross-border mergers and acquisitions are automatically scored one.

9. When compiling a composite indicator, it is not advisable to include both binary and continuous variables in the same dataset as the resulting indicator would not have a clear interpretation (see OECD, 2008).

In some sectors, including distribution, there is a statutory monopoly covering only parts of the markets covered by the index. A statutory monopoly per definition closes the market to foreign suppliers. If the monopoly covers the entire sector, the STRI index value is one, no matter what the scores on individual measures are. In the distribution sector, some countries have a statutory monopoly for distribution of certain products, such as alcohol beverages and tobacco, while distribution of other products is open to foreign as well as local firms. The methodology for dealing with this scenario is to score the market segment to which the monopoly applies unity, while distribution of all other products are scored according to the regulation that applies to the distribution sector in general. To take an example, some countries have reserved the distribution of alcoholic beverages or tobacco to a statutory monopoly. Alcoholic beverages and tobacco account for about 5% of retail sales[10] respectively on average in the OECD countries and South Africa. The STRI index for these countries are calculated as x + (1-x)*the index value for general distribution services, where x represents the market share of these products in question. If the monopoly applies to the retail level only, the index value is x/2+ (1-x/2)*the index value for general distribution services. When the distribution of certain products is reserved to domestic retailers and wholesalers, the same scoring methodology is applied since this measure has the same effect of closing the market for foreign retailers and wholesalers as is the case for a statutory monopoly.

Aggregating individual restrictions into the STRI consists of two steps. The first step involves assigning weights to the policy measures. The second step involves aggregation into the overall STRI. A number of weighting schemes have been explored to develop the STRI. These are equal weights, expert judgement and random weights. Equal weights are the most common weighting scheme applied for constructing composite indicators. It is a transparent way of creating an index in the absence of any clear alternative. Lack of clear alternatives could be due to insufficient knowledge of causal relationships, absence of an empirical basis for deciding which is more important, or lack of clarity of what the index is supposed to measure. Equal weights are, however, not as free of judgement as is often claimed. With equal weights, the relative importance of each measure depends on how many measures are included and how individual restrictions are organised into sub-indicators, leaving rather a lot to subjective judgement or arbitrariness.

As noted, equal weights are used when there is a lack of clear alternatives. For trade restrictiveness indices, however, it is clear that the measures should be weighted according to their contribution to trade costs, which in turn consist of entry costs and operational costs.[11] Services trade data are, however, not sufficiently detailed for estimating the trade cost equivalent of trade barriers and behind the border regulation that affects services trade. Nevertheless, there is a growing literature on measuring trade costs on the basis of observed trade patterns in services, but usually at a higher level of aggregation than what is required for the STRI (Miroudot et al., 2012). Furthermore, the different approaches to measuring trade costs on the basis of observed trade flows have strengths and weaknesses (Nordås, 2011) and as of yet a widely accepted methodology is not available.

Being constrained by lack of data, alternative ways of weighting the measures in a way that reflects contribution to trade costs have to be sought. Asking those directly and indirectly

10. This percentage is calculated based on the national CPI weights dataset at a level of the COICOP classification available at OECD.Stat. In the STRI for distribution services, only COICOP 01, 02, 03, 05.1-05.5, 09.1-09.3, 09.5, 12.1 and 12.3 are taken into account when considering the distribution market.

11. For trade in goods estimating the contribution of tariffs and non-tariff barriers is straight forward. The International Monetary Fund's Overall Trade Restrictiveness Index (OTRI), for instances makes such estimates by the tariff line (IMF, 2005).

involved in services trade is one option. Such expert judgement has the advantage that relative importance can be captured in a realistic and meaningful way. One objection to using expert judgement is subjectivity. As argued above this objection also applies to other methodologies and the problem can be reduced, for instance, by asking a large group of experts.

A third methodology for weighting measures is principal component analysis (PCA). This is a statistical methodology that assigns the highest weight to the variables that contribute the most to the variation in the dataset. The disadvantage of PCA is that the assigned weights do not reflect the relative trade restrictiveness of a measure, and the weights are based on the sample of countries for which they are estimated. Thus, when the index is extended to new countries, the scores of countries already included may change. We have therefore chosen not to use PCA.

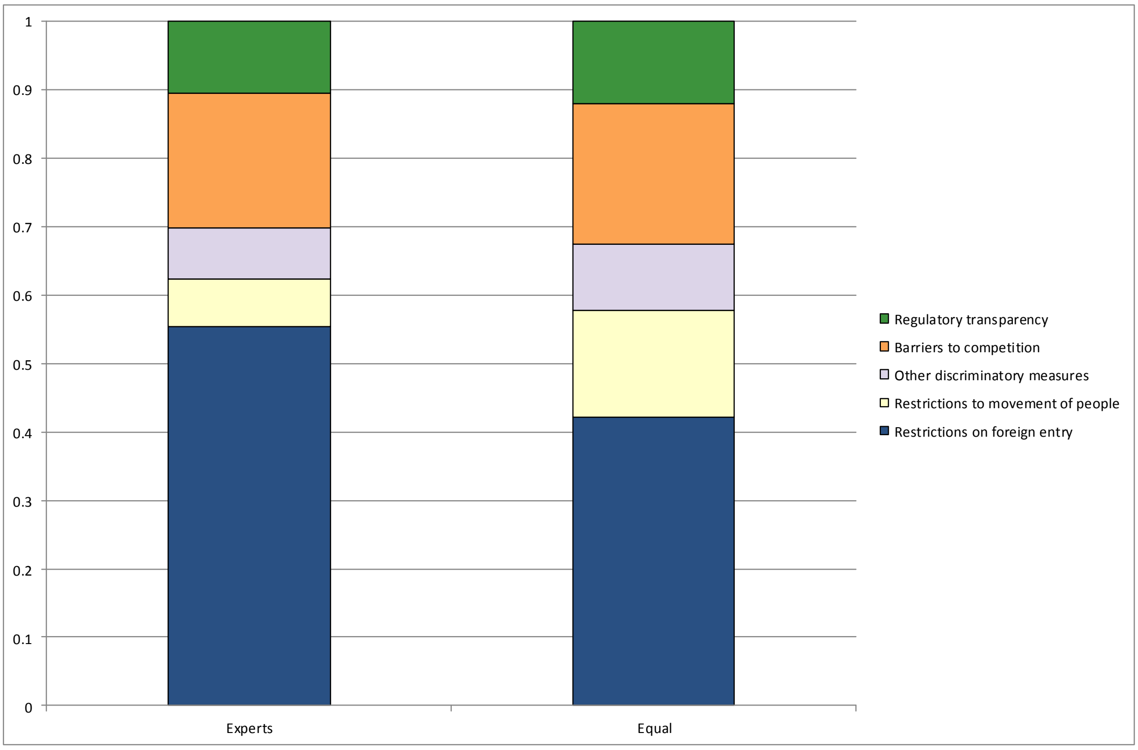
The weighting scheme used for the calculation of the STRI relies on expert judgment. A large number of experts were asked to allocate 100 points among the five policy areas presented above. These are translated into weights by assigning the weight experts allocated to the policy area to each measure that falls under it and correct for differences in the number of measures under the policy areas.[12] The sensitivity of the indices to the weighting scheme has been tested by experimenting with alternatives and by picking 3000 weighting schemes at random (i.e. Monte Carlo simulations).

Figure 1 illustrates how expert judgment weights differ from equal weights in the distribution services STRI.[13] It depicts the index for a hypothetical country in which all of the measures in the STRI take the most restrictive value. Experts assign higher weight to *Restrictions on foreign entry* than the equal weight scenario.

12. The formula for measure *j* under category *i* is the following: $w_{ji} = score_j w_i / \sum_i n_i w_i$ where n_i is the number of measures under category i and w_i is the share of the total number of points allocated to policy area *i* by the experts.

13. Equal weights are defined as $w_i = 0.20$ for all *i* in the formula above.

Figure 1. The composition of the STRI in a totally restrictive country



The method for aggregating the categories into one single index chosen is linear, taking the weighted average (using the expert judgement weights) of the scores. An advantage of assigning a unique weight to each measure is that measures can be aggregated in different ways into different classifications in a consistent manner as shown in the charts below. The disadvantage is a high degree of compensation such that a high score in one category can be compensated by a low score on another category, with the result that there is less variation among countries in the aggregate index than in the sub-indicators. It may, however, well be the case that restrictions are complementary rather than additive. This problem has been dealt with through the scoring system creating hierarchies and bundles of complementary measures when they are logically linked as explained in the methodology paper.

6. Results[14]

This section presents and analyses the results of the STRI calculations. Figure 2 presents the results for distribution services by policy sectors, together with a line indicating the average. It is observed that the overall level of restrictiveness is quite low, ranging from 0.02 to 0.40, with a sample average of 0.13 and standard deviation of 0.09. Spain, Germany and Czech Republic have the most liberal regimes, whereas Indonesia, China and India are the most restrictive markets for distribution services.

14. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Restrictions on foreign entry significantly contribute to the results for almost half of the countries covered by the STRI. Foreign equity restrictions are found in India and Indonesia. India imposes a FDI cap of 51% on multi brand retail trading while 100% FDI is allowed for single brand product retail trading. Indonesia requires 100% local capital for small scale retailers.

For the six countries (Canada, Switzerland, Finland, Iceland, Norway and Sweden) requiring that the distribution of certain products such as alcohol beverages at the retail level and/or wholesale level is reserved for statutory monopolies. In China, foreign invested retailers and wholesalers are not allowed to sell tobacco. This measure alone accounts for an index value of 0.025, and 0.05 if there is a monopoly or a reserved product for domestic distributors at both the wholesale and retail level. Nevertheless, the elevated level of restriction in the first policy area can be also attributed to other investment impediments, such as screening of investments, limitations on board members and managers, economic needs test for licensing, and restrictions on acquisition of land. Thus several countries (Australia, Brazil, Greece, Japan and Russia) have higher scores in the first policy area than some of the countries with a statutory monopoly on the distribution of certain products or a reserved product for domestic distributors. Note that five countries have no restrictions in this first policy area (Belgium, Czech Republic, Spain, Portugal and Slovenia).

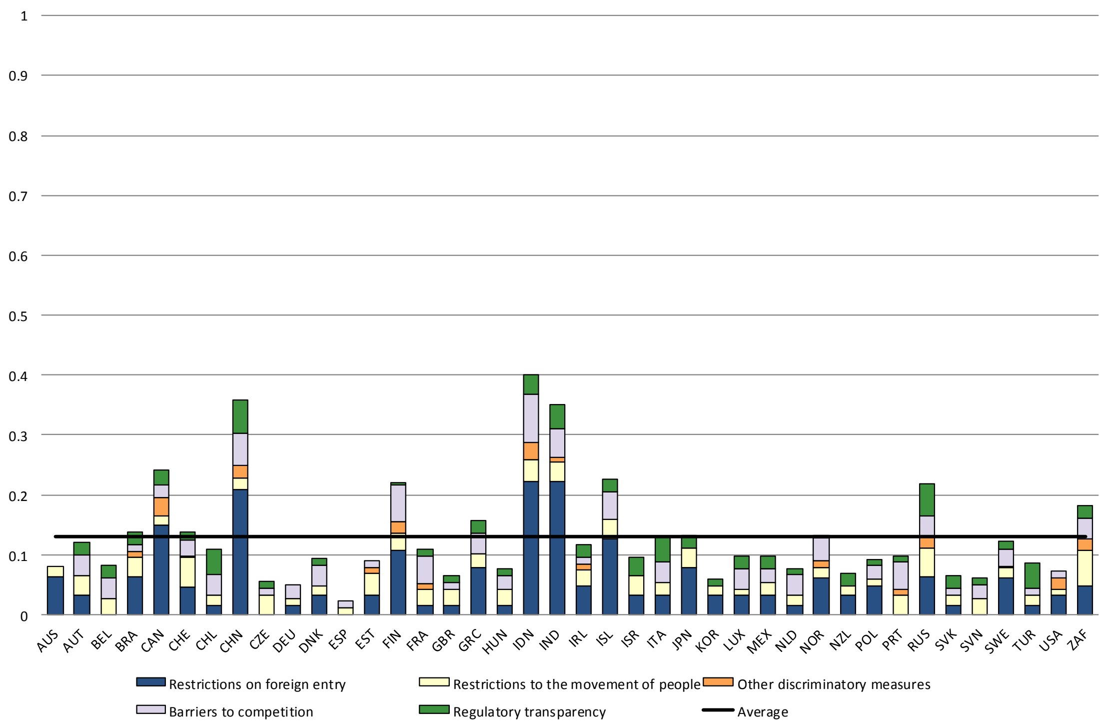
Barriers to competition have also a substantive impact on many countries. In fact, these restrictions represent the most significant component of the indices in the case of nine countries. Restrictions on business practices, such as regulations on shop opening hours, seasonal sales period and price regulations, are observed particularly in European countries. It should be worth mentioning that two-thirds of countries have minimum capital requirements.

Some restrictions under *Other discriminatory measures and international standards* are also reflected in the results. Local sourcing requirements for multi brand retail trading are found in India. Several countries have discriminatory measures in relation to consumer credit and public procurement. In addition, regulations on pack sizes of pre-packages and labelling provisions beyond information requirements are also observed in a few countries. On the other hand, almost half of the countries included in the STRI do not have any restriction in this policy area.

Regulatory transparency include sector-specific measures with regard to construction permits (time, cost, number of procedure) and custom procedures (time) based on the World Bank Doing Business 2013. The scores for construction permits are benchmarked against a global threshold which is set at the 25th percentile of all countries included in the World Bank survey. With regard to the scores for customs procedures, the value of one working day has been chosen as the reasonable limit beyond which the administrative process would impact negatively the activity of the distribution services provider when importing and exporting goods. About a third of the countries covered by the STRI score above the threshold on two or more of these indices that capture administrative burden on construction permits and custom procedures.

The category of *Restrictions on the movement of people* does not include sector-specific restrictions. Nevertheless, measures of a horizontal nature are shown to affect the trade restrictiveness of these services. In fact, these restrictions have the biggest contribution to the indices in the case of eight countries.

Figure 2. STRI for distribution services by category of restrictions



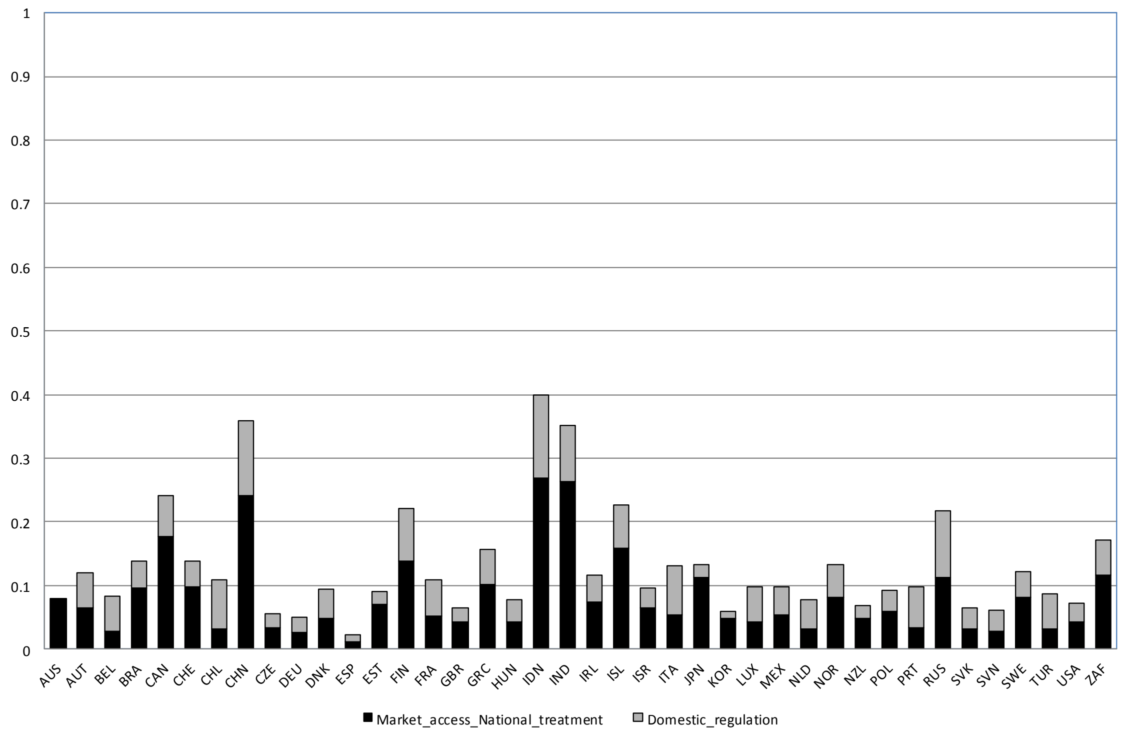
A breakdown of the STRI according to the GATS framework and modes of services supply for distribution services is presented in Figure 3. As noted, individual regulatory measures are classified in several ways in order to highlight different aspects of trade restrictiveness.

Panel A shows that, in general, both market access/national treatment measures and domestic regulatory/other measures are important. For the most restrictive countries, market access and national treatment measures have substantive impacts.

Panel B decomposes the STRI by modes of supply. With the exceptions of Chile, Czech Republic, Estonia, Luxemburg and Slovenia, restrictions on commercial presence (mode 3) represent the most significant component of the STRI. The restrictions classified under market access and national treatment in Panel A largely corresponds to the restrictions recorded under Mode 3 in Panel B, therefore this explains the importance of Mode 3 related measures in distribution services. Most restrictions under the policy area *Barriers to competition* are classified under *All modes*, which leads to a considerable impact of *All modes* related measures on many countries.

Figure 3. STRI for distribution services according to the GATS framework

Panel A: Market access/national treatment and domestic regulation/other



Panel B: GATS mode of supply

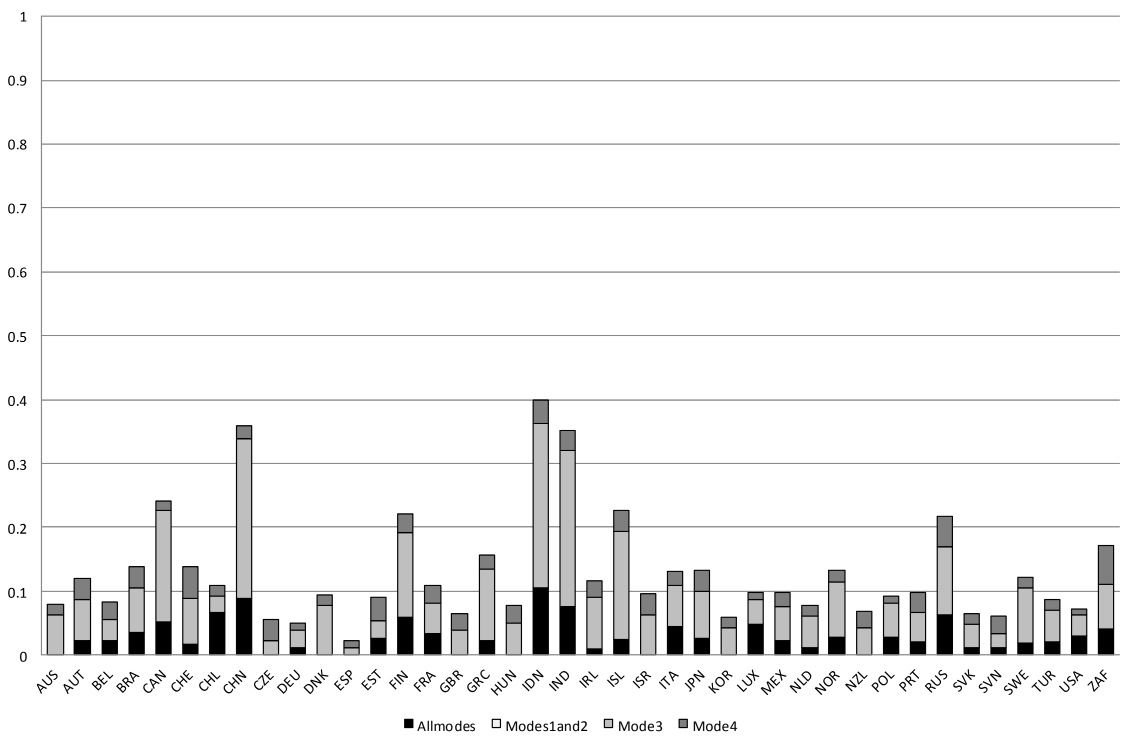
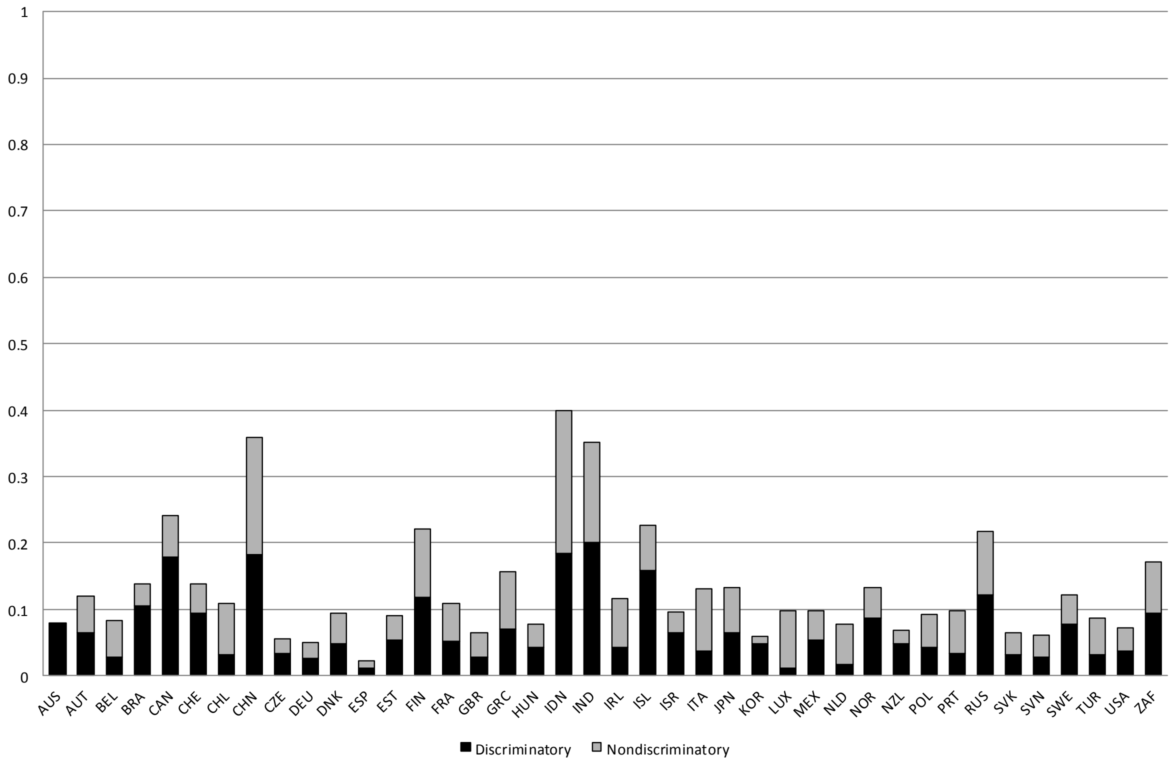


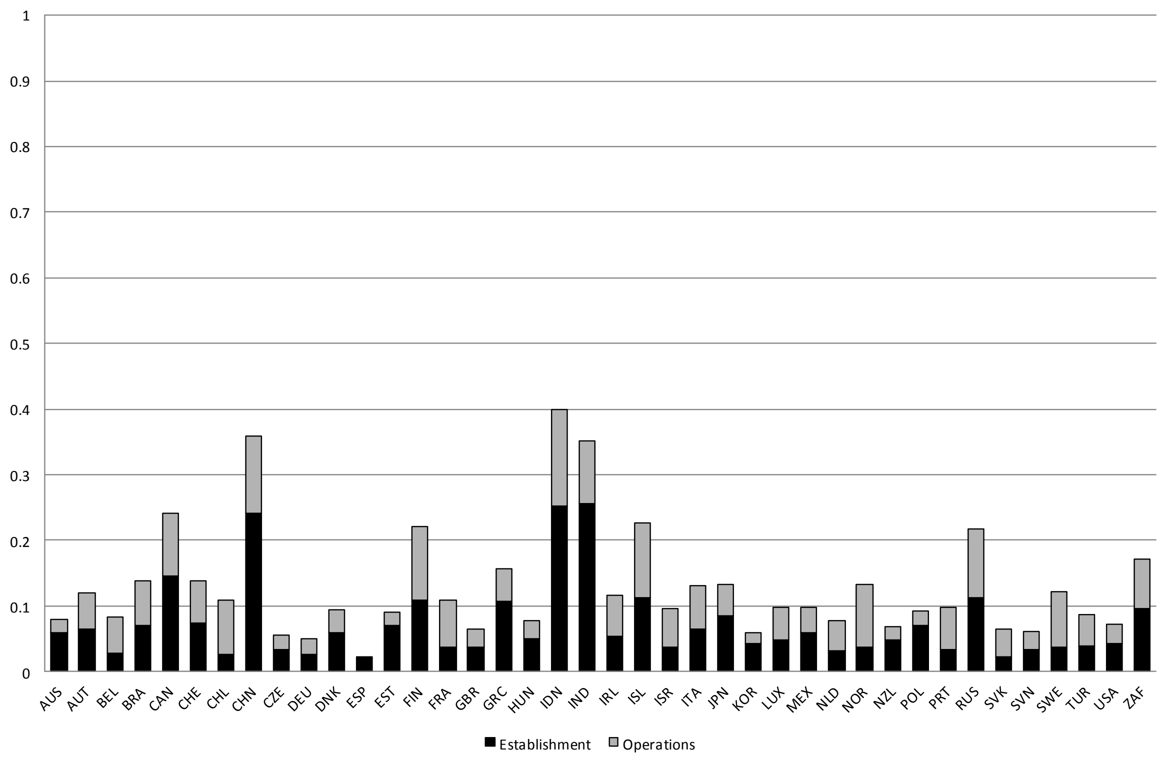
Figure 4 (Panel A) presents the STRI decomposed into discriminatory and non-discriminatory measures. Non-discriminatory ones also play a considerable role in the STRI; in fact, they are predominant for nearly half of the countries covered by the STRI. Panel B indicates that impediments in the sector significantly affect both firms' establishment and ongoing operations.

Figure 4. STRI by other classifications

Panel A: Discriminatory versus non-discriminatory measures



Panel B: Establishment versus on-going operations



7. Sensitivity analysis

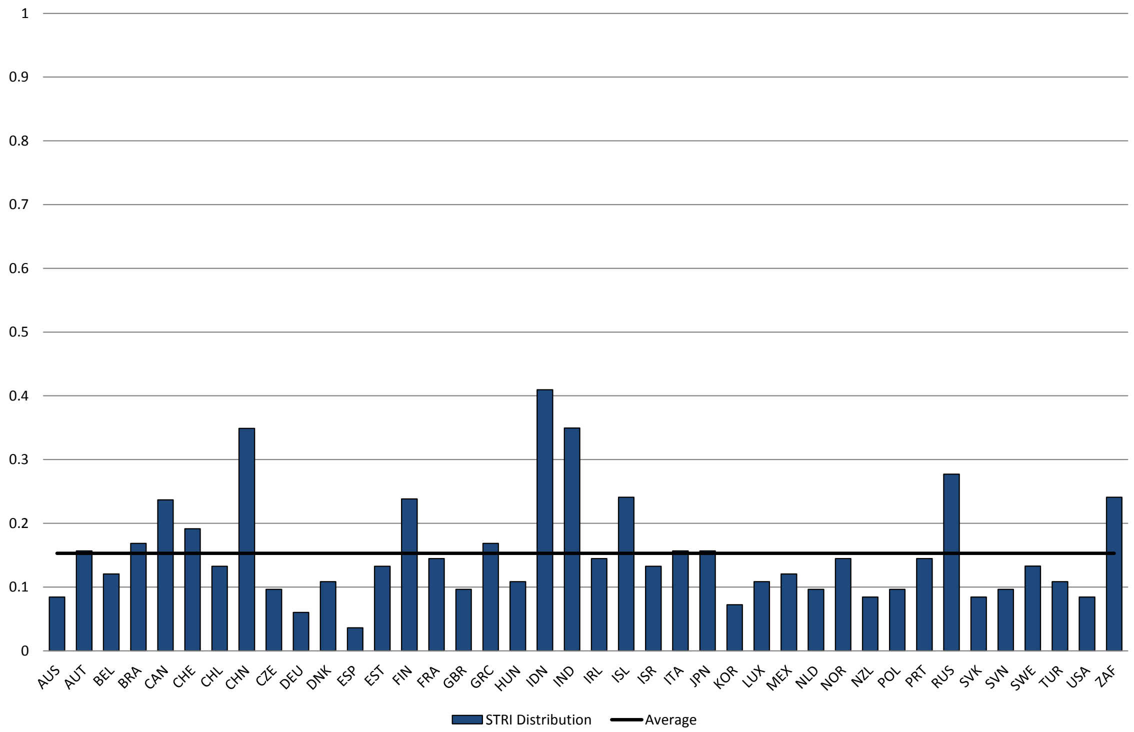
This section tests the sensitivity of results to the weighting scheme that has been chosen. Figure 5 shows how much the chosen weighting scheme drives the STRI results. Panel A depicts the overall index for distribution services when equal weights are used, Panel B presents the range of possible index values when calculated on the basis of 3 000 weighting schemes chosen at random (Monte Carlo simulations).The mean for all simulations and the lowest and the highest simulation result are shown and compared to the STRIs calculated on the basis of expert judgement weights.

Comparing the equal weights-based indices to the STRIs (Panel A), it is noticed that both have similar rankings of countries and indices with the exceptions of the countries having restrictions in movement of people. These changes are largely due to the decreased importance given to restrictions falling under movement of people in expert judgement. The average is slightly higher in the equal weights case. The Spearman rank correlation between the STRI calculated with expert judgement and equal weights is 0.96.

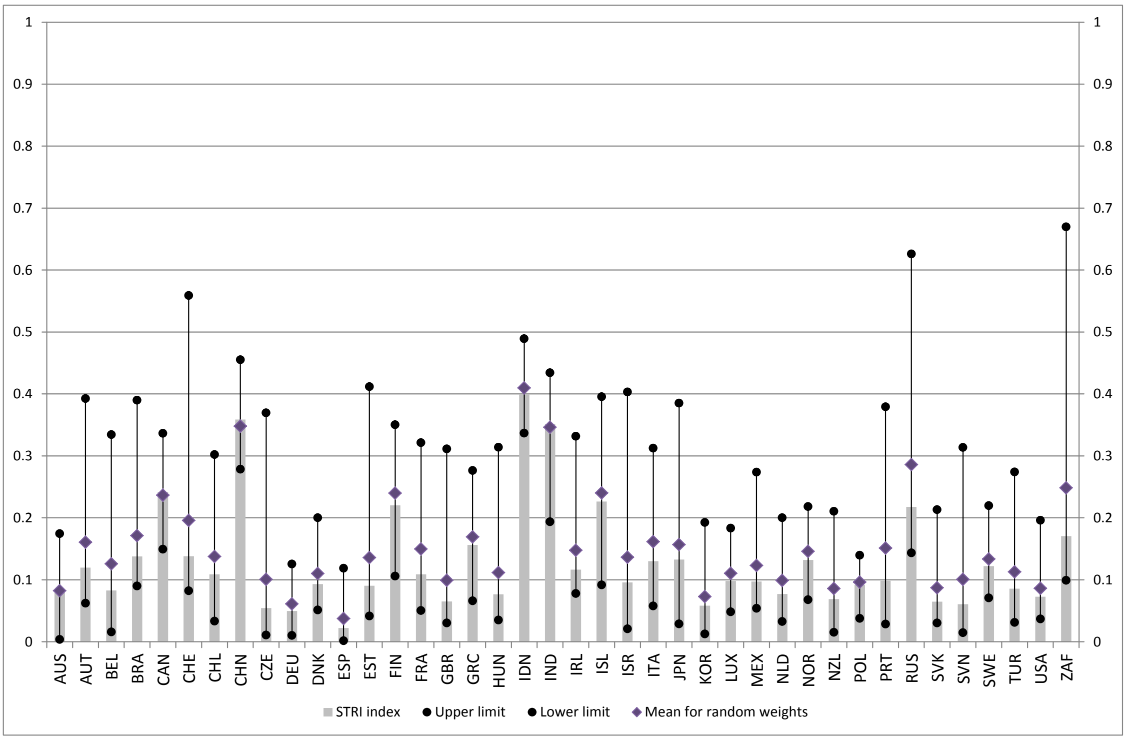
Panel B illustrates that the mean for the random weights simulation aligns closely with the STRI calculated using expert judgement. The STRI indices based on expert judgement weights are slightly lower than the mean for the random weights-based indices as expected from the results with equal weights. These results indicate that the index values are somewhat sensitive to the weighting schemes due to a variety of the regulatory profile we have observed.

Figure 5. STRI for distribution services using different weighting schemes

A: Equal weights



Panel B: Random weights



8. Summary and conclusions

This paper has presented the STRI for distribution services. The distribution services sector accounts for a significant part of economic activities. Recent trends in distribution services are increasing market concentration, vertical integration of wholesale and retail trade, and increasing internationalisation of retailers. Trade in distribution services has mainly taken place through commercial presence, and the STRI results highlight the importance of impediments affecting trade via Mode 3.

The results show that the overall level of restrictiveness for distribution services is quite low, ranging from 0.02 to 0.40, with a sample average of 0.13. It is observed that the regulatory profile differs across countries. *Restrictions on foreign ownership and other market entry conditions* significantly contribute to the results for a half of the countries covered by the STRI. The most elevated levels of restriction in these countries can be attributed to foreign equity restrictions, and in some cases a statutory monopoly on distribution of certain products or a reserved product for domestic distributors. Nevertheless, other measures in this policy category such as screening of investments, limitations on board members and managers, economic needs test for licensing and restrictions on acquisition of land also have significant impact for several countries. *Barriers to competition*, such as regulation on shop opening hours, seasonal sales period and price regulations, have also a substantive impact on many countries. These results indicate that the index values are somewhat sensitive to the weighting schemes due to a variety of the regulatory profile we have observed.

The market structure of distribution services has been changing rapidly by the emergence of e-commerce and multi-channel retailers. The STRI for distribution services covers some of the issues in respect to these new types of services providers. However, restrictions that impede e-commerce and multi-channel retailers will be revisited at a later stage when it has become clearer what the best practice policy is in this area.

These results provide useful policy insights, in particular for identifying in which policy areas reforms are most needed. This also provides a tool for identifying priorities at the international levels where the binding trade restrictions can be found.

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Annex A. Index values by policy area

Country	Restrictions on Foreign Ownership	Restrictions to movement of people	Other discriminatory measures	Barriers to competition and public ownership	Regulatory transparency	Overall indicator
AUS	0.06	0.02	0.00	0.00	0.00	0.08
AUT	0.03	0.03	0.00	0.03	0.02	0.12
BEL	0.00	0.03	0.00	0.03	0.02	0.08
BRA	0.06	0.03	0.01	0.01	0.02	0.14
CAN	0.15	0.01	0.03	0.02	0.03	0.24
CHE	0.05	0.05	0.00	0.03	0.01	0.14
CHL	0.02	0.02	0.00	0.03	0.04	0.11
CHN	0.21	0.02	0.02	0.05	0.06	0.36
CZE	0.00	0.03	0.00	0.01	0.01	0.05
DEU	0.02	0.01	0.00	0.02	0.00	0.05
DNK	0.03	0.02	0.00	0.03	0.01	0.09
ESP	0.00	0.01	0.00	0.01	0.00	0.02
EST	0.03	0.04	0.01	0.01	0.00	0.09
FIN	0.11	0.03	0.02	0.06	0.00	0.22
FRA	0.02	0.03	0.01	0.05	0.01	0.11
GBR	0.02	0.03	0.00	0.01	0.01	0.06
GRC	0.08	0.02	0.00	0.03	0.02	0.16
HUN	0.02	0.03	0.00	0.02	0.01	0.08
IDN	0.22	0.04	0.03	0.08	0.03	0.40
IND	0.22	0.03	0.01	0.05	0.04	0.35
IRL	0.05	0.03	0.01	0.01	0.02	0.12
ISL	0.13	0.03	0.00	0.05	0.02	0.23
ISR	0.03	0.03	0.00	0.00	0.03	0.10
ITA	0.03	0.02	0.00	0.03	0.04	0.13
JPN	0.08	0.03	0.00	0.00	0.02	0.13
KOR	0.03	0.02	0.00	0.00	0.01	0.06
LUX	0.03	0.01	0.00	0.03	0.02	0.10
MEX	0.03	0.02	0.00	0.02	0.02	0.10
NLD	0.02	0.02	0.00	0.03	0.01	0.08
NOR	0.06	0.02	0.01	0.04	0.00	0.13
NZL	0.03	0.02	0.00	0.00	0.02	0.07
POL	0.05	0.01	0.00	0.02	0.01	0.09
PRT	0.00	0.03	0.01	0.05	0.01	0.10
RUS	0.06	0.05	0.02	0.03	0.05	0.22
SVK	0.02	0.02	0.00	0.01	0.02	0.06
SVN	0.00	0.03	0.00	0.02	0.01	0.06
SWE	0.06	0.02	0.00	0.03	0.01	0.12
TUR	0.02	0.02	0.00	0.01	0.04	0.09
USA	0.03	0.01	0.02	0.01	0.00	0.07
ZAF	0.05	0.06	0.02	0.03	0.01	0.17

Annex B. List and classification of measures

Measures	MA&NT/ DR&Other	Mode	Establishment/ operations	Discr./ non-discr.
Restrictions on foreign entry				
Maximum foreign equity share allowed (%) for retailers	MA&NT	3	E	D
Maximum foreign equity share allowed (%) for wholesalers	MA&NT	3	E	D
There are statutory or other legal limits to the number or proportion of shares that can be acquired by foreign investors in firms that are controlled by national state or provincial governments	MA&NT	3	E	D
Legal form: only joint ventures are allowed	MA&NT	3	E	D
Legal form: other restrictions	MA&NT	3	E	D
Board of directors: majority must be nationals	MA&NT	3	O	D
Board of directors: majority must be residents	MA&NT	3	O	D
Board of directors: at least one must be national	MA&NT	3	O	D
Board of directors: at least one must be resident	MA&NT	3	O	D
Manager must be national	MA&NT	3	O	D
Manager must be resident	MA&NT	3	O	D
Screening: foreign investors must show net economic benefits	MA&NT	3	E	D
Screening: approval unless contrary to national interest	MA&NT	3	E	D
Screening: notification	MA&NT	3	E	D
Conditions on subsequent transfer of capital and investments	MA&NT	3	E	D
Restrictions on cross-border mergers and acquisitions	MA&NT	3	E	D
Acquisition of land and real estate by foreigners is prohibited or subject to restrictions	MA&NT	3	E	D
The distribution of certain products at the retail level is reserved for statutory monopolies	MA&NT	3	E	ND
The distribution of certain products at the wholesale level is reserved for statutory monopolies	MA&NT	3	E	ND
Wholesale licences for the distribution of certain products are subject to quotas or economic needs tests	MA&NT	3	E	ND
Retail licences for the distribution of certain products are subject to quotas or economic needs tests	MA&NT	3	E	ND
Licences for department stores or large-store formats are subject to quotas or economic needs tests	MA&NT	3	E	ND
Zoning regulation discriminates foreign suppliers against domestic competitors	MA&NT	3	E	D
The number of sales outlets per firm is limited	MA&NT	3	E	ND
Commercial presence is required in order to provide distribution services.	MA&NT	All	E	D
A licence is required for e-commerce	MA&NT	All	E	ND
Restrictions on franchising	MA&NT	3	E	ND
Restrictions on direct selling	MA&NT	All	E	ND
Other restrictions	MA&NT	3	E	D

Measures	MA&NT/ DR&Other	Mode	Establishment/ operations	Discr./ non-discr.
Restrictions on the movement of people				
Quotas: intra-corporate transferees	MA&NT	4	O	D
Quotas: contractual services suppliers	MA&NT	4	E	D
Quotas: independent services suppliers	MA&NT	4	E	D
Labour market tests: intra-corporate transferees	MA&NT	4	O	D
Labour market tests: contractual services suppliers	MA&NT	4	E	D
Labour market tests: independent services suppliers	MA&NT	4	E	D
Limitation on duration of stay for intra-corporate transferees (months)	MA&NT	4	O	D
Limitation on duration of stay for contractual services suppliers is limited to (months)	MA&NT	4	E	D
Limitation on duration of stay for independent services suppliers is limited to (months)	MA&NT	4	E	D
Other restrictions	MA&NT	4	E	D
Other discriminatory measures and international standards				
Foreign suppliers are treated less favourably regarding taxes and eligibility to subsidies	MA&NT	All	O	D
Foreign participation in public procurement: discrimination in the application of financial or technical criteria for project tender	DR&Other	All	O	D
Do national standards for distribution services deviate from international standards ?	DR&Other	All	O	D
Foreign firms are discriminated against on trademark protection	MA&NT	All	O	D
Local sourcing requirements	MA&NT	3	O	D
The prepackaging of products is subject to mandatory nominal quantities	DR&Other	All	O	ND
Labelling provisions go beyond information requirements	DR&Other	All	O	ND
Consumer credit licences are available to foreign retailers	MA&NT	All	O	D
Other restrictions	MA&NT	All	O	D
Barriers to competition				
When appeal procedures are available in domestic regulatory systems, they are open to affected or interested foreign parties as well.	MA&NT	3	O	D
Foreign firms have redress when business practices are perceived to restrict competition in a given market	MA&NT	3	O	D
National, state or provincial government control at least one major firm in the sector	DR&Other	3	E	ND
Publicly-controlled firms or undertakings are subject to an exclusion or exemption, either complete or partial, from the application of the general competition law.	DR&Other	3	E	ND
Minimum capital requirements	DR&Other	3	E	ND

Measures	MA&NT/ DR&Other	Mode	Establishment/ operations	Discr./ non-discr.
Vertical agreements: Resale price maintenance is subject to regulation	DR&Other	All	O	ND
Vertical agreements: Territorial or customer group sales restrictions are subject to regulation	DR&Other	All	O	ND
Laws or regulations impose restrictions on the nature or content of contracts	DR&Other	All	O	ND
Firms are required to disclose confidential information	DR&Other	All	O	ND
Price regulation: minimum prices	DR&Other	All	O	ND
Large retailers are subject to specific taxes	DR&Other	3	O	ND
Seasonal sales periods are regulated	DR&Other	All	O	ND
Regulation imposes an upper limit on shop opening hours	DR&Other	3	O	ND
Regulations limit the range of products a retailer may carry	DR&Other	All	O	ND
Retailers or wholesalers are subject to restrictions on advertising	DR&Other	All	O	ND
Retailers can set up their own recycling systems	DR&Other	3	O	ND
Memo: Minimum floor space to be considered large format retail outlet (m^2)				
Other restrictions	DR&Other	All	O	ND
Regulatory transparency				
Regulations are published or otherwise communicated to the public prior to entry into force	DR&Other	All	O	ND
There is a public comment procedure open to interested persons, including foreign suppliers	DR&Other	All	O	ND
Range of visa processing time (days)	DR&Other	4	O	ND
Construction permit: time to complete all the procedures necessary to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections (in calendar days)	DR&Other	3	O	ND
Construction permit: official costs associated with completing the procedures necessary to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections (in %)	DR&Other	3	O	ND
Construction permit: all procedures that are necessary to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections	DR&Other	3	O	ND
Time taken between the submission of an accepted customs declaration and customs clearance (days)	DR&Other	All	O	ND
Licences are allocated according to publicly available criteria	DR&Other	3	O	ND
Restrictions related to the duration and renewal of licences	DR&Other	3	O	ND
Other restrictions	DR&Other	All	O	ND