INTER-AMERICAN DEVELOPMENT BANK

INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT

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A Key to Hemispheric Integration

Herminio Blanco M.
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Sergio Gómez Lora

Special Initiative on Trade and Integration

INTAL - ITD
Occasional Paper -SITI- 03

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March, 2004
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The Institute for the Integration of Latin America and the Caribbean (INTAL), and the Integration, Trade and Hemispheric Issues Division (ITD) of the Integration and Regional Programs Department of the IDB have organized a joint publication series:

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Inter-American Development Bank
Integration and Regional Programs Department

Institute for the Integration of Latin America and the Caribbean IDB - INTAL
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Integration, Trade and Hemispheric Issues Division
1300 New York Avenue, NW. Washington, D.C. 20577 United States - http://www.iadb.org/int

Printed in Argentina

Institute for the Integration of Latin America and the Caribbean
A Key to Hemispheric Integration
1ª ed. - Buenos Aires: IDB-INTAL, 2004.
36 p.; 28 x 21 cm.

ISBN 950-738-176-7

1. Integración Económica I. Título
CDD 336.1

US$ 5.00

Editing:
Mariela Marchisio

Special Initiative on Trade and Integration

This Occasional Paper was prepared under the Inter-American Development Bank's Special Initiative on Trade and Integration approved by the IDB's Board of Executive Directors and managed by the Integration and Regional Programs Department. Begun in 2002, the purpose of the Special Initiative is to strengthen the Bank's capacity to: (i) contribute to the policy debate in trade and integration; (ii) provide technical support to governments; and (iii) support public outreach on trade and integration initiatives.

This document is part of the first component of the Initiative.

C O N T E N T S

A KEY TO HEMISPHERIC INTEGRATION

Herminio Blanco M. [*]
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Sergio Gómez Lora [*]

I. FROM MIAMI 1994 TO MIAMI 2003, VIA CANCUN

Contents

1.1. The road to the November 2003 ministerial meeting in Miami

It has been nearly ten years since the Heads of State and Government of 34 of the nations on the American continent met in Miami, where, in December of 1994, they agreed to create the Free Trade Area of the Americas (FTAA) by 2005. The summit created great expectations. Rhetoric finally appeared to have been left behind, and the long-standing desire for hemispheric integration seemed destined to finally become a reality.

To maintain the *momentum* after Miami, it was agreed that ministerial meetings would be held every 18 months. At the Santiago, Chile Summit in 1998, despite the fact that the president of the United States did not have trade promotion authority,[1] the continent's leaders announced the formal opening of FTAA negotiations.

During 1999 and 2000, the first draft of the agreement was prepared, and discussion began on negotiating modalities and procedures. The following year was one of the most important since the beginning of the FTAA process. President Bush, upon assuming office, decided to take a proactive role in trade policy. Not only did he invest political capital and finally obtain "negotiating authority", but he showed great commitment to reviving the World Trade Organization (WTO) negotiating process in Doha, and launched a broad range of trade negotiations at the regional, subregion, and bilateral levels. The United States government's doctrine of "competitive negotiations" made explicit its decision to use preferential access to the U.S. market as an incentive to move more reluctant countries forward in the free trade process. By initiating subregional negotiations, the United States signaled that the FTAA would no longer be the only way for the hemisphere's countries to obtain preferential trade relations with the world's largest economy.

Agreement on 2005 as the date by which to conclude the Multilateral Development Agenda opened up the possibility for synergies between the FTAA and the WTO negotiations. In a positive scenario, such synergies would help to overcome some of the major obstacles that had become evident on the hemispheric level.

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* Consultants of the IDB's Integration, Trade and Hemispheric Issues Division, of the Department of Integration and Regional Programs. The opinions expressed in this document are those of the authors and do not necessarily reflect the views of the Bank.

[1] Trade promotion authority, or TPA, was previously known as "fast track".

The fact that the date for concluding FTAA negotiations coincided with the date of the WTO round was particularly propitious, since it meant that domestic agricultural support, and measures to combat unfair trade practices, would be dealt with at the same time that the FTAA was dealing with market access for goods, services and investment, government procurement, and intellectual property rights. This provided a window of opportunity to find quid pro quos that would balance the different FTAA participants' demands.[2]

The WTO ministerial meeting in Cancún marked the closing of this window of opportunity. The objective of the September 2003 meeting was to move multilateral negotiations forward, so as to meet the proposed time frame and conclude prior to 2005. However, talks broke down in Cancún, and the negotiating process was interrupted.

Two months later, in November 2003, the hemisphere's trade ministers met for the eighth time since 1994. The venue was again Miami. According to the agreed timetable, this session would be the penultimate one before the target date for the conclusion of negotiations. It was a key session not only because of its proximity to the deadline, but because there was a high risk that a failure in Cancún would contaminate negotiations on the hemispheric level and create major difficulties for the FTAA process.

The trade ministers demonstrated pragmatism in Miami. They prevented anything resembling the WTO crisis from occurring and kept the initiative alive by providing flexibility to some of the elements agreed to in previous Ministerial meetings, which constituted a straitjacket for the negotiations.

1.2. Main results of Miami 2003

- (a) A "failure" was avoided -

After Cancún and with the deadline for the conclusion of negotiations rapidly approaching, it was essential to avoid another failure if the target date for FTAA negotiations was to be preserved and the necessary impetus maintained.

The ministerial meeting took place two months after Cancún. It was co-chaired by the United States and Brazil, which managed to put aside their differences and provide new momentum to the FTAA.

- (b) Flexibility regarding the "single undertaking" -

One of the principles that had governed FTAA negotiations, and that has been reaffirmed in the Ministerial Declaration of San José (March 19, 1998), was that the agreement was to consist of a

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[2] The interaction between the FTAA and the WTO is but one of the elements that make the hemispheric negotiation so extraordinarily complex. The authors of this document review the different challenges involved in the FTAA process in detail in "Free Trade Agreement of the Americas: The scope of the negotiations", Department of Integration and Regional Programs, Inter-American Development Bank, Buenos Aires, 2003, working document ICEI-01. Available in pdf format at *http://www.iadb.org/intal/ingles/publicaciones/i-P&S.htm*.

single undertaking: *"The initiation, conduct and outcome of the negotiations of the FTAA shall be treated as parts of a single undertaking which will embody the rights and obligations as mutually agreed upon (...) The rights and obligations of the FTAA will be shared by all countries..."*.[3]

In Miami, it was agreed that countries could undertake different levels of commitment. This variable geometry eliminated the veto power that each country had under the original scheme, in which the failure of any participant to undertake a particular commitment precluded any others from doing so. This was one of the main constraints on the negotiating process.

- (c) Subregional negotiations accepted as a part of the FTAA process -

Once the President of the United States obtained the "negotiating authority" in August 2002, the U.S. executive branch concluded bilateral agreements with Singapore and Chile, and announced the beginning of negotiations with Australia, the Southern Africa Customs Union, Central America, Morocco, Bahrain, and the Dominican Republic. At the FTAA's ministerial meeting in Miami, the U.S. announced that it was opening negotiations with Panama, Colombia, Bolivia, Ecuador, and Peru.

1.3. Main elements of the Ministerial Declaration of Miami

The central element of the Miami Declaration is that it allows countries to undertake different levels of commitment. Though it envisages the establishment of a "*common and balanced set of rights and obligations.... shared by all countries"*,[4] it opens the door to plurilateral negotiations in which some participants may undertake more ambitious agreements.

The Declaration provides that this *"common set of rights and obligations"* is to include provisions in the following areas:

- market access;
- agriculture;
- services;
- investment;
- government procurement;
- intellectual property;
- competition policy;
- subsidies, antidumping and countervailing duties; and
- dispute settlement.

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[3] Summit of the Americas, Fourth Trade Ministerial Meeting, Joint Declaration, San José, Costa Rica, March 19, 1998.

[4] Ministerial Declaration of the Free Trade Area of the Americas, Eight Trade Ministerial Meeting, Miami, USA, November 20, 2003.

The Miami Declaration reaffirms the original January 2005 target date for concluding FTAA negotiations.[5] To meet this goal, it was agreed that negotiations on market access would conclude on September 30, 2004.

The results of the Miami meeting in November 2003 were the best that could be hoped for in the circumstances prevailing at that time. Not only were confrontations avoided, but some of the constraints complicating the negotiations were relaxed, and the commitment to the original target date was reaffirmed.

However, the instructions that came down from Miami did not specify the route by which the *"common set of rights and obligations... shared by all countries"* was to be created. The basic challenge now is to make the Miami mandate a reality, in order to ensure that the FTAA process can indeed meet the target date.

As a contribution to this crucial effort, the present document attempts to answer the question: **Is there any formula, principle, or group of principles that could help implement the goals agreed in Miami?**

In the following section we present some proposals on what might constitute the *"common set of rights and obligations... shared by all countries"*. The goal of this exercise is to promote the success of the FTAA process, which is the continent's most ambitious foreign policy initiative.

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[5] At the Special Summit of the Americas in Monterrey, Mexico, the Heads of State and Government confirmed the agreements reached by their ministers regarding the structure and timetable to be followed for concluding the FTAA negotiations.

II. CONSOLIDATING HEMISPHERIC ACHIEVEMENTS IN LIBERALIZATION AND REFORM

Concluding the negotiations close to the originally agreed date requires implementing the Miami ministerial mandate in short order. This entails establishing a set of guiding principles applicable to the great majority of disciplines, thus obviating the need for long and complex discussions.

Therefore, we recommend the adoption of two general guiding principles for the overall negotiating process. These are simple but powerful, and represent the minimum conditions that countries would have to be willing to meet in order to make the FTAA a reality. One is the maintenance of the *status quo*, or "standstill" in the jargon of international trade negotiations, and the other is transparency (i.e., the codification of current levels of liberalization). These two principles could be the basis for determining what disciplines would constitute the *"common and balanced set of rights and obligations... shared by all countries"*, to which the ministers referred in the November declaration.

Given the significant unilateral liberalization undertaken in recent years by a number of the countries in the region, major progress toward hemispheric integration would be achieved by consolidating[6] current conditions of openness and by establishing transparency.

As will be explained below, the consolidation of existing liberalization could serve as a basic rule for the construction of the different FTAA disciplines. Since standstill would provide the standard for the set of rights and obligations applicable to the 34 participants, it would also serve as a logical starting point for those prepared to undertake additional rights and obligations. Carrying out this consolidation in the most transparent way possible would also provide a major contribution to hemispheric integration.

2.1. An FTAA proposal pursuant to the mandate of the 2003 Miami Declaration

The following is a proposal on the structure of the FTAA, based on the principles of standstill and transparency. It offers suggestions for the content of the disciplines that would be applicable to countries that decide to participate only in the set of common rights and obligations, as well as suggesting major elements that could be of interest to members that wish to assume additional obligations.

2.1.1. Market access

In regard to trade in goods, all 34 countries would consolidate their existing conditions of access.[7] Beyond consolidation, however, negotiation on timetables for the elimination of agricultural and

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[6] "Consolidation" refers to the obligation not to reverse liberalization that has already taken place.

[7] Clearly, consolidating current market access conditions would require negotiating the scope of application of the standstill clause to the general preferential system, preferential treatment provided in the ALADI framework, and other existing preferential tariff schemes in the region.

industrial tariffs would continue bilaterally and subregionally, as in the past. The rationale for this mechanism is not merely that it is the one currently in use, but that differences in tariff concessions will probably be **the central element** to differentiate countries assuming additional rights and obligations from the others.

2.1.1.1. Industrial and agricultural products

Those countries limiting their participation to the common set of rights and obligations (henceforth "CS" countries -for "common set"-) would receive -and grant- fewer market access concessions, both in regard to products covered, and in terms of the pace of tariff reduction. The negotiating balance between CS countries and those undertaking additional obligations (henceforth "AS", or "additional set", countries)[8] would probably take the form of exclusions or slow and/or partial liberalization for more sensitive products -perhaps, for example, by means of limited tariff quotas-.

The AS countries would grant each other greater market access, in terms of both products covered and the pace of tariff elimination. For this group of countries, one could conceive a timetable of rapid tariff reductions affecting the great majority of agricultural and industrial products.

This scheme would promote two major objectives necessary to fulfill the ministerial mandate of Miami 2003: (1) a negotiating balance between the two large groups of countries with their differing levels of preparedness to assume commitments; and (2) incentives to encourage CS countries in the future to negotiate and join the AS group.

2.1.1.2. Rules for trade in goods

We propose that the non-tariff disciplines governing trade in goods be the same for the 34 countries, independent of the level of commitment each country assumes. This would mean common disciplines in rules such as national treatment, restrictions on imports and exports, drawbacks, customs fees, rules of origin, etc.

Establishing common rules of origin for the 34 members of the FTAA is particularly important. These rules would constitute the communicating channels to facilitate the creation of a true continental free trade zone, through accumulation of origin.

Since different countries would have differing levels of commitment, the list of products covered would not be universal or uniform for all participants -at least initially-. One might, however, conceive the great majority of products being, in principle, a part of the common liberalization for the 34 countries. Other products would be part of the liberalization package only among countries

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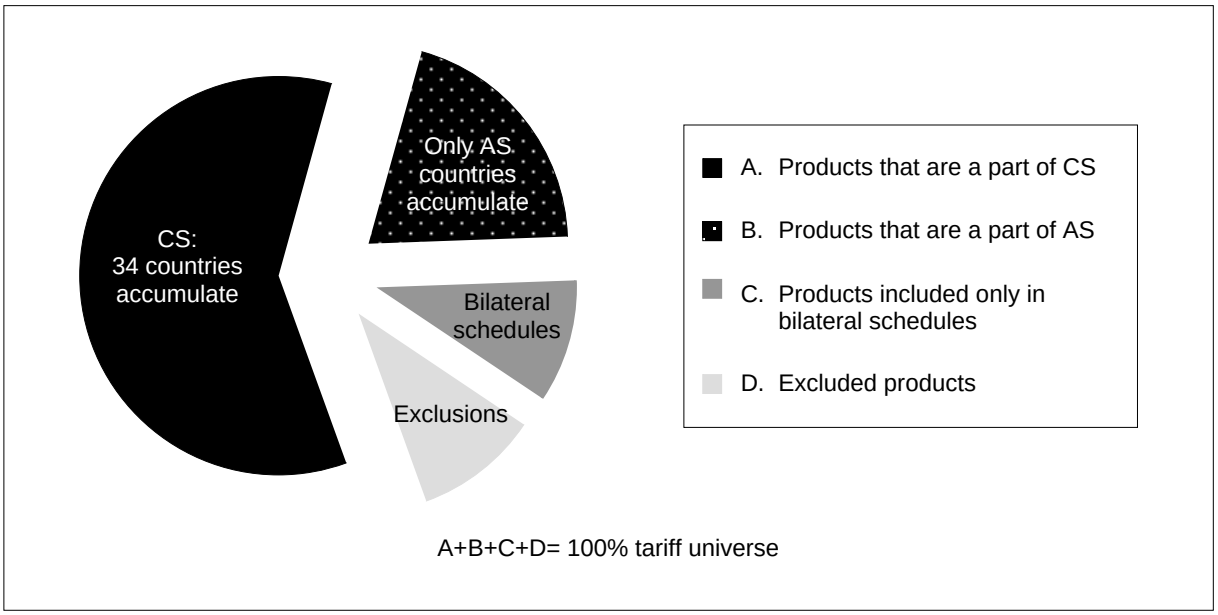
[8] The set of additional disciplines would not necessarily be the same for each of the members of this supplementary group. As we shall see below, the bilateral relationships of some members could continue to function pursuant to existing bilateral agreements. For instance, Chapter XIX of NAFTA would continue to apply for the United States, Canada and Mexico, while the relations of the United States with the other members of the FTAA would be governed by different antidumping and countervailing duties disciplines. By the same token, Peru and Mexico, or Canada and Bolivia, which do not have free trade agreements, could opt, for the purposes of their bilateral relations, to adopt disciplines different from those the United States might adopt *vis-à-vis* the other members of the FTAA.

opting for the more ambitious package. It is possible to contemplate a third group of products, as well: products that would only be included for liberalization on bilateral lists.

Under these conditions, accumulation would be gradual, making it possible to accumulate origin among the 34 participants only for those products included on the tariff reduction list for all of the countries. The AS countries would be able to accumulate, among themselves, in those products that they alone liberalized. As CS countries joined the AS group, the number of goods and countries able to participate in accumulation of origin would grow.[9]

Chart 1 illustrates this scheme for accumulation of origin.

CHART 1
ACCUMULATION OF ORIGIN IN THE FTAA,
PURSUANT TO THE MIAMI MANDATE



The rules of origin negotiated among the 34 FTAA countries would be applied in any of the cases described, though, obviously, access could differ, depending on the individual tariff coverage and on tariff elimination schedules bilaterally agreed.

The standstill or consolidation principle would be also applied to technical barriers to trade and to sanitary and phytosanitary measures. Thus, the rights and obligations of each country, under the

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[9] It might be necessary to consider establishing transitional rules of origin for products not included in the original tariff elimination timetable of all of the countries. This would allow countries that did not initially liberalize certain products to participate later in creating rules of origin while negotiating the incorporation of a product. Moreover, the use of transitional rules of origin would constitute a recognition that a rule conceived in terms of the 34 countries might be unacceptable to a subgroup of countries that found it impossible to comply with the rule as a result of the constraint of having to use only inputs from a subgroup of the 34 countries.

WTO's *Agreement on Technical Barriers to Trade (TBT)* and the *Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures*, would be incorporated. Though the great majority of FTAA participants are members of the WTO[10] and are hence obligated to comply with the provisions of these agreements, incorporating their obligations in the hemispheric relevant chapters would make it possible to remove tariff preferences in the framework of the FTAA in the event of noncompliance with the TBT or SPS agreements.[11]

One of the most controversial issues in negotiations on market access is that of agricultural subsidies, including both so-called domestic supports and export subsidies. Standstill in this area would imply a commitment by each participant not to increase the current amounts of such supports.

2.1.2. Services and investment

Defining the principles of standstill and transparency for the services and investment chapters would require an analysis of two issues. First, two sets of rules would need to be formulated -those applying to all members of the FTAA (CS) and those adopted by only a subset of the participants (AS). Second, the content and format used to codify sectoral liberalization would need to be specified.

Let us first examine the rules issue. The WTO General Agreement on Services, like several free trade agreements of the latest generation, establishes rules for the specific productive sectors included in such treaty. A review of the rules set forth in the services and investment chapters of one latest generation agreement, such as the U.S.-Chile FTA, will reveal two broad categories of rules.

One category focuses on the disciplines required to implement the agreed sectoral liberalization, e.g., the most favored nation principle, national treatment, minimum treatment, etc. The other specifies a set of disciplines to increase the level of certainty that investors and service providers enjoy. An example of the second category of rules in the investment area would be the mechanism to resolve disputes between investors and states; while in the services area, examples would be the commitments to transparency in the development and enforcement of regulations or the provisions for mutual recognition of education, licenses and certificates granted to service providers.

The existence of these two types of rules governing services and investment makes it possible to define the specific disciplines that could be part of the CS, while a substantial set of supplementary rules would remain to be dealt with as a part of the AS.

Below, we present a proposal with differentiated provisions for both the services and investment chapters, depending on the group of countries subscribing to them. The third draft of the FTAA

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[10] The Bahamas is the exception.

[11] This does not necessarily mean that an FTAA panel would issue judgments on WTO disciplines. To avoid this situation, the FTAA could adopt the scheme used in the sanitary and phytosanitary chapter of the U.S.-Chile free trade agreement, which makes it possible to remove preferences established on the basis of that agreement, were a WTO panel to determine that there has been a violation of the SPS agreement.

text and the recently concluded free trade agreement between the United States and Chile are starting points for a list of such disciplines.

The new United States-Australia agreement is also a useful precedent, particularly in the area of investment. The great *demandeur* in the FTAA, in this regard, is the United States, and the features of most of the trade and investment agreements that it has concluded in recent years indicate that the inclusion of an investor-State dispute settlement mechanism is very important to the U.S. However, the exclusion of this type of conflict resolution scheme in the agreement with Australia could indicate that United States negotiators are willing to forego this concession by their partners, if, in exchange, the partners refrain from liberalizing products particularly sensitive to the United States, such as sugar.

TABLE 1
CHAPTER ON INVESTMENT
POSSIBLE CS AND AS RULES

U.S.-Chile Free Trade Agreement	Third draft of FTAA text	Proposed FTAA rights and obligations
Scope and Coverage	Scope	CS
National Treatment	National Treatment	CS
Most-Favored-Nation Treatment	Most-Favored-Nation Treatment	CS
Minimum Standard of Treatment	Standard of Treatment /Fair and Equitable Treatment/Minimum Standard of Treatment	CS
Performance Requirements	Performance Requirements	CS
Non-conforming measures	Reservations/Non-Conforming Measures/ Exceptions to National Treatment and Most- Favored-Nation Treatment	CS
Expropriation and Compensation	Expropriation and Compensation/ Compensation for Losses	CS
Denial of Benefits	Denial of Benefits	CS
Definitions	Definitions	CS
	General Exceptions	CS
Investment and Environment	Commitment Not To Relax Domestic Environmental Laws To Attract Investment	CS
	Commitment Not To Relax Domestic Labor Laws To Attract Investment	CS
	Extraterritorial Application of Laws on Investment-Related Measures	CS
Transfers	Transfers	CS
Investor-State Dispute Settlement	Dispute Settlement between a Party and an Investor of Another Party	AS
Senior Management and Boards of Directors	Key Personnel/ Senior Management and Boards of Directors	AS
Special Formalities and Information Requirements	Special Formalities and Information Requirements	AS
	Transparency	AS
Implementation*		AS

Note: * This provision ensures annual consultation, by the parties, to review the implementation of the agreement, including consideration on developing procedures to provide greater transparency for amendments to non-conforming measures (reservations).

TABLE 2
CHAPTER ON SERVICES *
POSSIBLE CS AND AS RULES

U.S.-Chile Free Trade Agreement rules	Third draft of FTAA text	Proposed FTAA rights and obligations
Definitions	Definitions	CS
Scope and Coverage	Scope and Sectoral Coverage	CS
Most-Favored-Nation Treatment	Most-Favored-Nation Treatment	CS
National Treatment	National Treatment	CS
Market Access	Market Access	CS
Local Presence	No Local Presence	CS
Denial of Benefits	Denial of Benefits	CS
Non-conforming Measures	List of Specific Commitments/ Reservations/Non-conforming Measures	CS
	General Exceptions	CS
	Security Exceptions	CS
	Restrictions to Protect Balance of Payments	CS
	Treatment of Differences in Size and Levels of Development	CS
	Technical Cooperation	CS
	Committee on Cross-Border Trade in Services	CS
	Relationships with other International Organizations	CS
Special Safeguards	Special Safeguards	CS
Domestic Regulation	Domestic Regulation	AS
Transparency in Development and Application of Regulations	Transparency	AS
Mutual Recognition	Recognition	AS
	Future Liberalization	AS
	Transfers and Payments	AS
	Subsidies	AS
	Trade Practices	AS
	Competition	AS

Note: * Annex 1 includes a proposal for the Financial Services Chapter.

Once the disciplines governing hemispheric trade in services and investment are established, the specific sectors to which the rules are to apply must be determined. This, again, requires applying the principles of transparency and standstill.

In recent years, a number of the region's countries have unilaterally promoted the participation, in their economies, of foreign investors and service providers. However, this liberalization has not always been codified in international agreements, and hence could be unilaterally reversed in the future. The value added of consolidating current conditions of openness in a continent-wide trade agreement is precisely to prevent such a reversal, while establishing a platform for further progress.

Another valuable element that standstill would bring to the continental integration effort, is the fact that it would make the openness within the current regimes of FTAA members more transparent. The codification of existing levels of liberalization in an international agreement would serve to establish, in a single body of law, which sectors are open to investment and service providers from other countries in the region, obviating the complex and non-transparent process of monitoring the evolution of the different legislative instruments within the 34 FTAA members.

This raises the second issue involved in putting together the chapter on services and investment -namely, market access-. There are two approaches to listing sectoral commitments in services and investment. One features "positive lists" of specific sectors included in the liberalization, while the other is based on so-called "negative lists", describing the reservations or exceptions to the openness.

In our view, the "negative" approach is more transparent and encourages a coverage that is more ambitious. The greatest transparency is obtained because this is a self-contained text that includes, in principle, all sectors unless they appear on a list of explicit reservations or exceptions. A bias in favor of openness comes from the fact that the burden of negotiation falls on the party taking the defensive position. To obtain the exclusions, it has to offer other concessions.

Given that countries would have different levels of obligations, the proposal is to limit the FTAA's lists of common reservations (CS) to codifying sectors that, based on domestic legislation, are currently not liberalized, aiming strictly at consolidating existing openness. However, countries with additional obligations (AS), in addition to "freezing" current levels of liberalization, would negotiate opening some sectors that are of interest to other AS members.

The openness guaranteed through the additional obligations (AS) would only apply among the members of this group of countries. The relationship between CS countries and AS countries would be governed by the common liberalization lists. If this were not the case, CS countries would receive additional benefits from the AS countries, while offering nothing in return.

Most likely, the list of commitments for both groups of countries would include two types of reservations. On one hand, exceptions that would identify the sectors excluded from the agreement's rules, in particular from disciplines on national treatment, most favored nation treatment, and local presence provisions. For CS countries, according to the principles of standstill and transparency, the universe of this list would comprise those sectors not currently liberalized, while AS countries, instead of including all sectors not currently liberalized, would limit themselves to particularly sensitive sectors.

A second list of reservations would include economic activities for which the countries would have the right, in the future, to adopt more restrictive measures than those in force at the time of the agreement. This type of reservation is based on a concern for not losing regulatory autonomy in strategic sectors. Here, probable candidates would vary from country to country, depending on national political and economic realities. In some countries, the culture industry would be one such sector, while in others, social security, energy policy, or even maritime transportation, would be subjects of special concern. Some of the free trade agreements in force in the region, such as NAFTA, the Canada-Chile and U.S.-Chile free trade agreements, include this type of reservations.

The great majority of FTAA countries, whether CS or AS, can be expected to have some economic activities that fall within this category. Canada, Chile, Mexico and the United States would, no doubt, replicate the reservations that appear in their existing bilateral trade agreements, as well as, where appropriate, incorporating those related to sectors liberalized after the conclusion of the treaties cited.

Since the process of creating lists of reservations in these areas is a laborious one, particularly if negative lists are used, there would have to be a standstill clause, with a commitment to agree on lists within a reasonable period of time, perhaps one year from the conclusion of negotiations.

Tables 3 and 4 show a proposal for the FTAA chapters on services and investment, based on the concepts outlined above. This proposal does not make any claim to being exhaustive, but is merely illustrative. Some of the rules labeled "common" (CS) could, no doubt, be designated as "additional" (AS), and vice versa. The goal here is to present a general scheme, governed by the principles of transparency and standstill, that would make it possible to implement the Miami 2003 mandate of the continent's trade ministers.

TABLE 3
PROPOSAL FOR FTAA CHAPTER ON INVESTMENT

"Common and balanced set of rights and obligations" (CS)	**Disciplines for countries with "additional" rights and obligations (AS)**
Scope and Coverage	Scope and Coverage
National Treatment	National Treatment
Most-Favored-Nation Treatment	Most-Favored-Nation Treatment
Standard of Treatment /Fair and Equitable Treatment/Minimum Standard of Treatment	Standard of Treatment /Fair and Equitable Treatment/Minimum Standard of Treatment
Performance Requirements	Performance Requirements
Expropriation and Compensation/Compensation for Losses	Expropriation and Compensation/Compensation for Losses
Denial of Benefits	Denial of Benefits
Definitions	Definitions
General Exceptions	General Exceptions
Transfers	Transfers
Commitment Not To Relax Domestic Environmental Laws To Attract Investment	Commitment Not To Relax Domestic Environmental Laws To Attract Investment
Commitment Not To Relax Domestic Labor Laws To Attract Investment	Commitment Not To Relax Domestic Labor Laws To Attract Investment
Extraterritorial Application of Laws on Investment-Related Measures	Extraterritorial Application of Laws on Investment-Related Measures
Reservations **"Standstill"**	Reservations **"Standstill" plus additional sectors**
	Dispute Settlement between a Party and an Investor of Another Party
	Key Personnel / Senior Management and Boards of Directors
	Special Formalities and Information Requirements
	Transparency

TABLE 4
PROPOSAL FOR FTAA CHAPTER ON SERVICES

"Common and balanced set of rights and obligations"(CS)	Disciplines for countries with "additional" rights and obligations (AS)
Definitions	Definitions
Scope and Sectoral Coverage	Scope and Sectoral Coverage
Most-Favored-Nation Treatment	Most-Favored-Nation Treatment
National Treatment	National Treatment
Market Access	Market Access
Local Presence	Local Presence
Denial of Benefits	Denial of Benefits
General Exceptions	General Exceptions
Security Exceptions	Security Exceptions
Restrictions to Protect Balance of Payments	Restrictions to Protect Balance of Payments
Treatment of Differences in Size and Levels of Development	Treatment of Differences in Size and Levels of Development
Technical Cooperation	Technical Cooperation
Committee on Cross-Border Trade in Services	Committee on Cross-Border Trade in Services
Special Safeguards	Special Safeguards
Relationships with other International Organizations	Relationships with other International Organizations
Transfers and Payments	Transfers and Payments
Reservations **"Standstill"**	Reservations **"Standstill" plus additional sectors**
	Domestic Regulation
	Transparency
	Mutual Recognition
	Future Liberalization
	Subsidies
	Trade Practices
	Competition

2.1.3. Government procurement

The issue of government procurement is different from that of services and investment. Standstill on existing openness, does not appear to be sufficient to deal with the needs of the FTAA chapter on government procurement.

The United States and Canada are the only countries in the hemisphere that have signed the WTO's *Agreement on Government Procurement*. Mexico and Chile have adopted (and soon would be the case for Central America) international disciplines with broad reach in this area, through their respective free trade agreements with the United States. However, the rest of the hemisphere, except for those countries that included chapters on government procurement in their agreements with Mexico and Central America,[12] do not have internationally agreed disciplines in this area comparable to those that appear in the WTO's *Agreement on Government Procurement*.

Despite the fact that the region's governments generally carry out procurement through international bidding as a part of efforts toward financial discipline and structural change, the scope of their national government-procurement regimes varies widely. Hence, a commitment to consolidate the

[12] Bolivia, Costa Rica and Nicaragua in their treaty with Mexico, and the Dominican Republic in its agreement with Central America.

current level of openness reflected in national legislations does not guarantee minimum common disciplines that could form a negotiating balance.

Thus, in order to move forward in building a chapter on government procurement, and, more specifically, in defining the market access that each country is willing to grant through the FTAA, the government entities and the goods and services involved would have to be determined in accordance with the reality of each country's public-sector market, and the governing principle would have to be a balance of concessions. The thresholds would probably be common to all of the participating countries.

Countries wishing to undertake additional commitments could include broader coverage of government entities, goods and services, and even higher thresholds, than those agreed by the other participants. Negotiations regarding sub-federal entities would probably be left to form part of the set of additional rights and obligations.

In contrast to services and investment, it is difficult to identify provisions that could apply sloley to AS members in the area of government procurement. This is due to the fact that the objective of the great majority of rules in this type of text is to implement the agreed coverage, as is the case with government procurement obligations in the third draft text of the FTAA and in the U.S.-Chile free trade agreement (see Annex 2). Restricting some of these rules to AS countries would prevent the chapter from functioning adequately for CS countries. Hence, the differentiation between CS and AS in the FTAA chapter on government procurement is more likely to be reflected in the agreed coverage than in the rules for implementing such coverage, as is shown in Table 5.

TABLE 5
PROPOSAL FOR FTAA CHAPTER ON GOVERNMENT PROCUREMENT

"Common and balanced set of rights and obligations"	Disciplines for countries with "additional" rights and obligations
Scope and Coverage	Scope and Coverage
National Treatment and Most-Favored-Nation Treatment/Non-Discrimination	National Treatment and Most-Favored-Nation Treatment/Non-Discrimination
Rules of Origin	Rules of Origin
Dissemination of Laws and Regulations	Dissemination of Laws and Regulations
Publication of Notice of Solicitation/Submission, Receipt and Opening of Tenders	Publication of Notice of Solicitation/Submission, Receipt and Opening of Tenders
Time Periods	Time Periods
Content of Tender Documentation	Content of Tender Documentation
Application of Technical Specifications	Application of Technical Specifications
Selective/Limited Tendering	Selective/Limited Tendering
Registry/Qualification of Suppliers	Registry/Qualification of Suppliers
Government Procurement Procedures	Government Procurement Procedures
Evaluation of Tenders and Awards of Contracts	Evaluation of Tenders and Awards of Contracts
Dissemination and Publication of Information on Contract Awards	Dissemination and Publication of Information on Contract Awards
Ensuring Integrity in Procurement Practices	Ensuring Integrity in Procurement Practices
Review/Challenge Procedures	Review/Challenge Procedures
Amendments and Modifications/Privatization	Amendments and Modifications/Privatization

TABLE 5 (continued)

"Common and balanced set of rights and obligations"	Disciplines for countries with "additional" rights and obligations
Non-Disclosure of Confidential Information	Non-Disclosure of Confidential Information
Exceptions/Denial of Benefits	Exceptions/Denial of Benefits
Designation of Contact Points	Designation of Contact Points
Technical Cooperation and Assistance	Technical Cooperation and Assistance
Administration of the Chapter	Administration of the Chapter
Treatment of the Differences in the Level of Development and Size of Economies	Treatment of the Differences in the Level of Development and Size of Economies
Valuation of Procurement	Valuation of Procurement
Definitions	Definitions
Annexes on Market Access	
Thresholds	Thresholds, **possibly broader**
Central Level Government Entities	Central Level Government Entities, **additional entities**
	Sub-Federal or Sub-Central Level Government
Goods	Goods, **additional goods**
Services	Services, **additional services**
	Further negotiations

In the case of the annexes that detail the coverage for the chapter, as in the services and investment areas, there would be a "common" annex applicable to all countries excepting those that assume additional obligations, which would have a special annex applicable only among themselves. The relationships between CS and AS countries would be governed by the "common" coverage.

Another possibility to find a solution in this area would be to exclude the government procurement chapter from the CS and incorporate in the AS an agreement modeled on the WTO's government procurement code or on the relevant chapters of free trade agreements currently in force in the region.

2.1.4. Intellectual property

Standstill in the area of intellectual property rights would result in incorporating the *Trade-Related Aspects of Intellectual Property Rights* Agreement *(TRIPS)* into the FTAA.

Though intellectual property rights obligations under the FTAA would not go beyond current TRIPS provisions, incorporating the TRIPS agreement into the hemispheric treaty would mean that any violation of these disciplines could lead to the withdrawal of concessions within the FTAA framework. Thus, establishing common rights and obligations in the area of intellectual property rights would add value to the agreement without investing significant negotiating energy. Even more important, the guiding principle of the present proposal would be respected.

For those countries willing to assume additional obligations, the text of the U.S.-Chile free trade agreement would likely be a point of reference. Concluded last year, this agreement is probably the most ambitious trade instrument in terms of intellectual property rights.

The U.S.-Chile free trade agreement has rules that go beyond TRIPS in areas such as protection from Internet piracy of trademarks, protection and recognition of geographical indications, transparency rules (publication of regulations), terms for the protection of copyright, protection of related rights, and, in particular, the establishment of mechanisms to enforce international rules for the protection of intellectual property rights, including, as appropriate, both civil and criminal sanctions for violations.

The establishment of FTAA rules that would go further than TRIPS would have implications beyond the hemispheric negotiations. Intellectual property rights are different from trade in goods and services, which, by definition, is an essential part of any free trade zone (in accordance to Article XXIV of the GATT for goods and Article V of the GATT for services) and, as such, results in preferential treatment for partners to the agreement. Not only are intellectual property rights not subject to any minimum liberalization in order to be consistent with WTO, but there is nothing in multilateral provisions that requires them to be included, in any form, in arrangements for preferential liberalization. On the contrary, the TRIPS agreement does not provide for any exception to most-favored-nation treatment for any discipline that might be agreed upon as part of the FTAA. This means that intellectual property provisions that go beyond TRIPS, and that might be a part of the FTAA, would have to be extended unilaterally and automatically to the rest of the members of the WTO.[13]

2.1.5. Competition policy

A number of countries in the Americas have in place laws and authorities responsible for competition. Thus, the standstill could translate, in this case, into provisions for cooperation and exchange of information among the officials of different countries. The provisions of the relevant FTAA chapter could even recognize that there are countries that do not yet have authorities and legislation in this area. For these cases, the agreement could provide for cooperation activities to strengthen these countries' institutions in the area of competition policy.

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[13] The most favored nation provision, Article 4, of the Trade-Related Aspects of Intellectual Property Rights agreement, provides that:

With regard to the protection of intellectual property, any advantage, favor, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. Exempted from this obligation are any advantage, favor, privilege or immunity accorded by a Member:

(a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property;

(b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country;

(c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement;

(d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.

The group of countries assuming additional commitments (AS) could adopt provisions to refrain State Enterprises or state-owned monopolies from engaging in discriminatory practices. Nevertheless, without, minimizing the importance of this issue in relation to consumer protection and the protection of small-scale producers and traders; in practice, this is an uncontroversial discipline that is unlikely to hold back the negotiating process.

2.1.6. Antidumping and countervailing duties

To remain consistent with the adoption of guiding principles, the standstill rule would have to be extended to the controversial area of antidumping and countervailing duties.

The commitment in this area would consist on freezing legislative and procedural provisions currently in effect for the application of antidumping and countervailing duties. Thus, no FTAA member would be allowed to change its domestic legislation in order to broaden the scope of application of these mechanisms and to provide greater protection for their nationals than the one now available.

Obviously, legislative changes moving in the opposite direction would not be incompatible with the applicable FTAA chapter. A committee could be created to supervise the implementation of the chapter and deal with any controversial legislative changes.

Though this may not seem to constitute significant progress, the fact is that no substantial gains in this area are on the horizon for the FTAA -and even less so, under the framework of a limited set of common rights and obligations-. The challenge to reach further commitments in this area would certainly remain for countries assuming additional obligations under the agreement. However, political constraints in the United States are a discouraging element, even for this group of countries.

2.1.7. Dispute settlement

The dispute settlement mechanism promotes the proper implementation of the various common (CS) and additional (AS) disciplines established in the agreement. Hence, our proposal does not provide for two levels of commitments in this area.

2.1.8. Future negotiations

The agreement would provide a mechanism by which members that originally declined to participate in the AS could subsequently negotiate their incorporation.

Finally, Table 6 summarizes the main elements of our proposal to translate the Miami ministerial mandate into reality, by creating an FTAA built on two pillars: a "common and balanced set of rights and obligations" and a set of additional commitments.

TABLE 6
FTAA, PURSUANT TO THE OF MIAMI 2003 MANDATE

Discipline	"Common and balanced set of rights and obligations" (CS)	"Additional" rights and obligations (AS)
Industrial and Agricultural Tariffs	Partial coverage	***Coverage close to universal***
Rules of Origin	Common rules for the 34	
Technical Standards	Incorporation of TBT (WTO)	
Sanitary and Phytosanitary Standards	Incorporation of SPS (WTO)	
Agricultural Subsidies	Standstill	
Services and Investment	Basic rules	***Additional rules***
	Coverage: Standstill	Coverage: standstill, ***plus additional sectors***
Government Procurement	Common rules	
	Basic coverage	***Broader coverage***
Intellectual Property	Incorporation of TRIPS	***TRIPS-plus***
Competition Policy	Common rules	
Antidumping	Common rules	
Dispute Settlement	Common rules	

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III. CONCLUDING REMARKS

The FTAA negotiations are in a decisive stage, since less than a year remains before the target date agreed to bring the process to a conclusion. After nine years of discussion, the moment is approaching to make decisions that could finally bring to a reality the agreement that emerged from the 1994 Summit of the Americas.

The November 2003 ministerial meeting in Miami met the objective of giving the FTAA process new momentum in the difficult wake of the Cancún meeting. The ministers made the negotiating rules more flexible, and opened the possibility that different countries could assume different levels of obligation in the FTAA. The ministers thus removed a straitjacket that was one of the major constraints on negotiations. However, they neither defined the content of the common set of obligations to be shared by the 34 countries, nor indicated the nature of the additional commitments.

The great challenge at this point is to fill that vacuum: to translate the Miami agreement into a concrete mandate for the nine negotiating groups of the FTAA process. If the mandate is to be translated into practice, the major elements of the "common set" for all 34 countries, for each discipline under discussion, must be specified, as well as the elements of the additional set of commitments that would be undertaken by countries wishing to do so.

There are various possible responses to this challenge. The present document offers one. The main strength of this approach is that it takes advantage of the force and pragmatism of two general principles that are applicable to the nine negotiating tables:[14] the standstill and transparency. A common set of rights and obligations for the 34 countries could be based on these two principles. Standstill and transparency could also be the starting point for discussing additional commitments. One key element in determining the negotiating balance between CS and AS countries would be the level of tariff concessions. Countries making greater commitments would also receive greater market access.

As a minimum condition, FTAA participants should be willing to liberalize trade in goods and consolidate current levels of openness in services and investment, with clear rules and transparency, among the 34 countries.

To implement this scheme -or any other designed to make the 2003 Miami mandate a reality- political will on the part of the FTAA countries is essential. The success of a negotiation in which there are two groups of countries with two differing levels of obligations depends upon finding a self-contained balance within each of the two groups. Since the participants' priorities lie in different negotiating areas, the negotiating balance must reflect this dispersion of interests.

Should it not prove possible to reach a negotiating balance within the common 34-country set, as envisaged by the ministers, there is a risk of losing the progress achieved in Miami, and with it, the momentum of the FTAA initiative.

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[14] As mentioned above, government procurement is a special situation.

In such a case, a variety of results could occur, in terms of the hemispheric integration process. In a negative scenario, the process would be reduced to a simple proliferation of bilateral and subregional trade agreements.

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ANNEX I

FINANCIAL SERVICES
CS VERSUS AS RULES

U.S.-Chile free trade agreement	Third draft of FTAA text	Proposed FTAA rights and obligations
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Most-Favored-Nation Treatment	Most-Favored-Nation Treatment	CS
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Cross-Border Trade	Cross-Border Trade	CS
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ANNEX II

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CS VERSUS AS RULES

Rules of the U.S.-Chile Free Trade Agreement	Third draft of FTAA text	Proposed FTAA rights and obligations
Scope and Coverage	Scope of Application	CS
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Offsets	Offsets	CS
Publication of Procurement Measures	Dissemination of Laws and Regulations	CS
Publication of Notice of Intended Procurement	Publication of Notice of Solicitation/ Submission, Receipt and Opening of Tenders	CS
Time Limits for the Tendering Process	Time Periods	CS
Information on Intended Procurements	Content of the Tender Documentation	CS
Technical Specifications	Application of Technical Specifications	CS
Conditions for Participation	Selective Tendering/Limited Tendering	CS
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Exceptions	Exceptions/Denial of Benefits	CS
Committee on Procurement	Designation of Contact Points	CS
	Technical Cooperation and Assistance	CS
	Administration of the Chapter	CS
	Treatment of the Differences in the Level of Development and Size of Economies	CS
	Valuation of Procurement	CS
	Definitions	CS
	Registry/Qualification of Suppliers	CS
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Section D - Goods	Pending in FTAA	CS/AS*
Section E - Services	Pending in FTAA	CS/AS*
Section F - Construction Services	Pending in FTAA	CS/AS*
Further negotiations		AS

Note: * In these cases, there could be two annexes, a common one applicable to all countries and another, with additional coverage, exclusively applicable among those countries that assume additional obligations.

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