

TRADE HOT TOPICS

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Current Developments in the FTAA

*by Richard L Bernal**

Negotiating a Free Trade Area of the Americas (FTAA) continues to be a challenging undertaking because it anticipates integrating 34 countries, which differ substantially in size of population, gross domestic product (GDP) and land area and between which there is a significant difference in levels of development. For example, it contemplates a single hemispheric economic space including St. Kitts with a population of 40,000 and the United States with over 260 million and Haiti with a GDP per capita of less than US\$500 and Canada with over \$24,000. The creation of hemispheric free trade is also unprecedented because it will attempt to go beyond the World Trade Organization (WTO) Uruguay Round agreements in both scope and extent of liberalization. The goals of the FTAA are to go beyond the WTO and to include in its coverage, areas that are still under negotiation at the multilateral level e.g. agriculture, services, government procurement and competition policy. In addition, the FTAA negotiations seek to establish commitments, which go beyond existing WTO disciplines. This is a complex task both technically and politically and is taking place in a context where most participating countries are also engaged in a range of bilateral and regional trade arrangements and are actively engaged in a variety of negotiations ranging from the multilateral to the intra-regional.

The Ministers of Trade of the FTAA process met recently in Buenos Aires to review the state of the negotiations, to reiterate their commitment to completing the process and to mandate the negotiators to move from a draft text to a final agreement no later than January 2005. Their decisions and recommendations were later accepted and endorsed by the Heads of Government at the Third Summit of the Americas held in Quebec City in April 2001.

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DEADLINE FOR COMPLETION OF NEGOTIATIONS

The most important recent development in the FTAA process was the decision to designate a specific date for concluding the negotiations. The date decided on by the Ministers of Trade who met in Buenos Aires in March, 2001 was January 31, 2005 with one year to complete the ratification process. This in effect reduces the duration of the negotiations, which most countries assumed were scheduled for completion at the end of 2005. Certain countries had floated proposals for even earlier dates of completion, for example, Chile and Costa Rica proposed 2003. The majority of countries, however, regarded this date as unrealistic given the ambit and complexity of the negotiations. Venezuela has expressed its reservation about the feasibility of January 2005. Many small states are concerned about the practicability of meeting this deadline given their limited institutional capacity, and limited human and financial resources.

PARTICIPATION OF CIVIL SOCIETY AND INCREASED TRANSPARENCY

One of the new developments in the FTAA process, which may set a precedent for other negotiations, is the release to the public of the draft document. This represents an expansion of the participation of civil society in the FTAA process and complements the work of the Consultative Group on Civil Society.

It is not certain what impact this new departure will have on the negotiations, however, it was felt that greater involvement by civil society would serve to reduce misunderstanding and opposition to efforts at trade liberalization in the form of the FTAA. It was hoped that a more informed civil society might increase support for the FTAA and help to promote its acceptance.

LABOUR AND ENVIRONMENT ISSUES

The question is whether the issues of labour and environment in the FTAA have been contentious from the beginning of the process. The United States (US) (particularly during the Clinton Administration) repeatedly insisted that negotiations towards a final agreement must include these issues. The majority of countries felt that these issues should be dealt with in other more appropriate fora such as the International Labour Organization (ILO), and the WTO or other international bodies dealing with environmental matters. Several delegations expressed the view that labour and environment measures could be served to increase protectionist policies by high-income developed countries. The resolution of these contentious issues was only achieved in the final session of the Ministerial meeting in Buenos Aires. It was agreed that labour and environment should not be utilized as conditionalities nor made subject to disciplines. Furthermore, non-compliance with measures dealing with these topics would not be subject to trade restrictions or sanctions. This agreement reflects the new approach to these issues by the Bush Administration.

DIFFERENCES IN SIZE AND DEVELOPMENT

The majority of countries involved in the FTAA process are small, developing economies which are apprehensive about the implications of integrating into a hemispheric market with such large countries as Brazil, Argentina and Mexico and with such highly industrialized and developed economies like the US and Canada. The Ministers of Trade reiterated the mandates of the Trade Negotiations Committee (TNC) that this issue must be addressed in all negotiating groups and other bodies of the FTAA. The Ministerial Declaration instructs that the treatment of differences in the levels of development and the size of economies, including smaller economies should be kept under continuous consideration with a view to including measures which address these concerns in the context of an FTAA. The Ministers also instructed that guidelines and directives to address these issues must be formulated no later than November 1, 2001. The rationale for this instruction is to ensure that the principles developed will guide the discussions in all the negotiating groups. It should be borne in mind that the FTAA will be consistent with WTO rules, which allows for special and differential treatment for developing countries.

A dimension of the issue of size, which needs to be addressed, is how to take account of the huge differences in the size of corporate entities across the Hemisphere. This is a pressing issue because it is firms that trade and not countries and the existing differences entail competition between multinational corporations and firms and farms in small economies.

STATUS OF THE NEGOTIATIONS

The current phase of negotiations commenced in the first week of May 2001 with the task of transforming the draft agreement into a document closely approximating a final agreement over the next three and a half years. The draft is in reality a compendium of proposals by countries and the specificity of the measures and language varies widely across the different negotiating groups.

BUSINESS FACILITATION

On the specific issue of business facilitation measures, in view of the acceleration of the negotiation process it was agreed that no new measures would be developed and that the emphasis would be on implementing existing customs measures. Technical assistance will be provided through the Multilateral Investment Fund Technical Corporation (MIFTC) project, through the Inter-American Development Bank (IDB). It was felt that additional business facilitation measures would not be necessary to demonstrate tangible progress in the negotiations and to galvanize the interest of the business community.

The American Business Forum (ABF) was held in Buenos Aires concurrently with the FTAA Ministerial in March 2001. The ABF submitted recommendations to the Ministers on all aspects of the FTAA process. These inputs (while not constituting mandates) will be considered by the relevant negotiating groups and entities.

TIMETABLE FOR SPECIFIC NEGOTIATIONS

The Ministers agreed to launch negotiations on Market Access by May 15, 2002. To achieve this, they mandated the relevant negotiating groups to finalize recommendations on the methods and modalities for market access negotiations in agricultural products, manufactured goods, services, government procurement and investment by April 1, 2002. These negotiations will be based on decisions on the base rate from which tariffs will be reduced or eliminated, the timetable and pace of tariff reduction or elimination, the methodology for determining concessions, product classification and the reference period for trade data.

INSTITUTIONAL ISSUES

A new group was established to resolve institutional issues relating to the overall architecture of an FTAA agreement. It will define the purpose and objectives, principles, scope and coverage and relationship with the WTO and with other regional trade arrangements.

TECHNICAL ASSISTANCE

The tripartite committee consists of the IDB, the Organization of American States (OAS) and the United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC) will continue to provide technical support to the FTAA entities during the negotiating process. These multilateral institutions, as well as bilateral assistance programs, will provide technical assistance to countries requesting this type of support during the negotiations. This is an important means of ensuring that smaller economies and less developed countries can strengthen their institutional capacity, participate meaningfully and begin the process of adjustment which will be required when the FTAA enters into force.

The IDB in addition to providing technical support to the negotiating groups will provide financial and technical support to the FTAA administrative secretariat located in Panama City, Republic of Panama.

The IDB has established a Special Trade Facility, which will disburse loans of up to \$5 million on the basis of fast-track procedures. These loans can be utilized to carry out impact studies and the strengthening and modernization of national trade institutions.

TRADE PROMOTION AUTHORITY

Many participating countries are uncertain about whether the US will be in a position to consummate and ratify an FTAA agreement given the absence of Fast Track Authority or what the Bush Administration has retitled Trade Promotion Authority (TPA). Negotiators are keeping a close watch on whether and when the US will have TPA and what conditions will be stipulated by Congress particularly in regard to the treatment of labour and environment issues. Winning Congressional approval could be a long and difficult process for the Bush Administration given the lack of consensus and the balance between Democrats and Republicans in the House of Representatives.



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