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Convergence in the Rules of Origin Spaghetti Bowl: A Methodological Proposal

Rafael Cornejo
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Jeremy Harris[*]

I. INTRODUCTION

Many countries are concerned by the dense body of regulations governing their preferential foreign trade and are seeking to simplify the current diversity of rules. To do this they are starting to look at alternatives that allow a degree of convergence between their agreements. In Latin America, some Pacific countries and members of the Latin American Integration Association (*Asociación Latinoamericana de Integración* - ALADI) are doing this.

Today, Free Trade Agreements (FTAs) are a snarled tangle of trade liberalizations, superimposing different rates of tariff elimination, disparate rules of origin, and different treatment for other trade disciplines. This tangle also generates sealed compartments that do not allow the cumulation of inputs across various agreements signed by a single country. Separating FTAs limits the capacity to generate trade between members and, in some cases, may even bring higher costs and encourage distortions in applying the negotiated rules, or undesirable trade deviation.

Forging spaces of convergence in a given geographical area, or between similar agreements or groups of countries wishing to oil the wheels of their agreements is a step forward, and an improvement on the current situation. Coordinating rules of origin, chapters and annexes of product-level rules,[1] is one of the central and most pressing issues in these convergence processes.

One option for countries wanting to move ahead on convergence is to pursue negotiation solely on the issue of origin. It is proposed to reduce negotiations to a General Origin Regime (GOR), as it is an *indispensable minimum* to effectively interconnect existing agreements. Bilateral agreements have achieved much tariff elimination, but the lack of a common Origin Regime (OR) leaves many barriers in place. Negotiating the GOR would thus connect them and allow extended cumulation as defined below. A more limited negotiation is proposed, as more ambitious negotiations are not viable in the current context (Free Trade Area of the Americas - FTAA and Doha Round). Dispersed and differing positions somehow have to be brought closer together.

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[1] The origin chapter and its annex of product-level rules taken as a whole will be referred to as the "origin regime".

Establishing different levels of convergence that enable wider geographical areas to be defined under a single origin regime will facilitate the job of customs authorities, goods producers and, generally, any entity connected with trade processes. It would also be a step toward multilateral convergence.

Yet, to help achieve the necessary consensus, the negotiation should be distinct from the usual origin negotiations in trade agreements. This paper aims to develop a methodological proposal to facilitate negotiation and application of a convergent origin regime, thus enabling the simultaneous use of the tariff reductions agreed in various agreements and establishing a mechanism to cumulate imported inputs under different trade agreements.

This methodology does not replace existing agreements and avoids the need for consensus in areas known to be a source of broad conflict. It also contemplates special treatment for certain sensitive products that prevents the scope of cumulation negotiated in the bilateral agreement being extended for such products. The methodology proposed is general and can therefore be applied to various scenarios where interest in the convergence of agreements may arise.

Section II looks at the implications of the tangle of trade agreements, with their origin regimes and tariff elimination programs, for convergence processes. The subject of origin, in particular, is seen as a vital step toward convergence in that breakthroughs in this area alone would loosen some of the major constraints imposed by overlapping agreements.

Section III outlines a methodology for origin regime convergence in the Spaghetti Bowl (SB). It is characterized by the use of tariff concessions already negotiated in agreements and by the complementary use of agreements' origin regimes. It also sets out to establish a flexible negotiation mechanism to help achieve consensus.

Section IV lists the main impacts and advantages of a GOR both for countries and their economic operators. Section V sets out the main conclusions.

II. ORIGIN REGIMES, TARIFF REDUCTIONS AND CONVERGENCE PROCESSES

The difficulties arising in recent years in multilateral and hemispheric negotiations (the Doha Round and the FTAA respectively) have reduced the chances of reaching a single framework regulating trade relations over wide geographical areas. At the same time, the problems with both sets of negotiations have sparked greater interest in some countries to pursue and step up their trade liberalization via new bilateral agreements. Examples include Chile stepping up agreements in Latin America and reaching new agreements with Asian countries, Colombia's negotiations with Central America, and Peru liberalizing trade with various parts of the world. The United States (US) arrived in the region negotiating agreements with innovative architecture and content in certain regulatory aspects. And two traditional Latin American integration models -namely the Andean Community of Nations (*Comunidad Andina de Naciones* - CAN) and the Southern Common Market (*Mercado Común del Sur* - MERCOSUR)- are involved in a restructuring process.

Chile formalized its entry/return to the CAN as an associate member in 2006. In the opposite direction, apart from abandoning its agreement with Colombia and Mexico (G-3), Venezuela withdrew from the CAN and became a full member of MERCOSUR. Bolivia too made public its decision to become a full member of MERCOSUR in early 2007.

The restructuring of existing agreements and the signing of new ones expands the degree of overlap of FTAs with different origin regimes and non-coinciding tariff elimination schedules, further complicating preferential trade and raising the need to move toward convergence.

The crisscross of agreements, normally identified in the economic literature as the "Spaghetti Bowl", shows that the signing of successive trade agreements produces an overlap of the rules regulating countries' foreign trade with varying depth, scope and limitations. An unwanted consequence of this tangle is that it subdivides a country's trade under different tariff treatments, rules and requirements, flexibilities, exceptions, and so on. The more numerous the differences between agreements, the greater the threat to the goal of trade facilitation, as they inadvertently produce inefficiency, difficulties or chaos in their various areas of application and control.

There are in America at least 24 FTAs between the United States, Canada and Latin America, involving at least 19 countries.[2] Their ORs are a dense tangle of over 38 annexes of rules per product and 24 regulatory chapters operating simultaneously.

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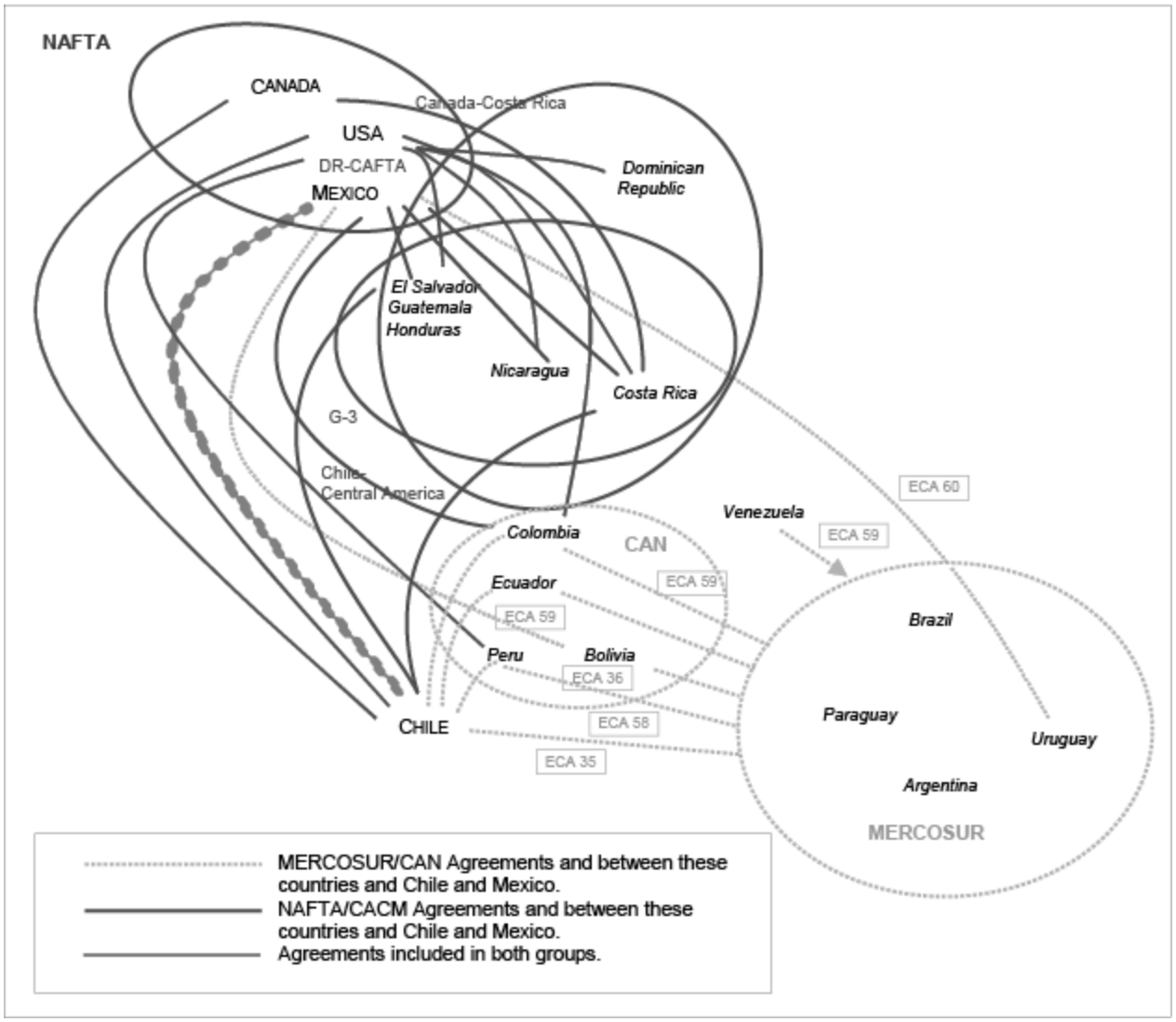
[2] CARICOM is not included, as the countries involved have virtually no additional agreements with countries from the Americas. The difference between the number of annexes and chapters is due to the fact that the rules of origin in the three FTAs in force between MERCOSUR and CAN countries have been negotiated bilaterally, but there is just a single chapter. Hence there are 17 annexes of rules regulating trade across the nine member countries. For trade between Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) countries there are three annexes of product-level rules and two regulatory chapters.

FIGURE 1
THE SPAGHETTI BOWL OF ORIGIN REGIMES GENERATED BY 24 FTAs(*)
(Covering 24 Chapters and 38 Annexes of Specific Rules)



Note: (*) The 24 agreements are detailed in Table 6 (Annex). CARICOM and Panama are not included, as they have almost no agreements with the other countries in the hemisphere and are therefore not part of the Spaghetti Bowl.

Source: Authors'.

These overlapping regimes generate three difficulties in terms origin. The first difficulty is administrative and involves the problems arising from the application of numerous overlapping ORs. The second is the limited or partial application of the benefits of cumulation due to the implicit regulatory division of the trade generated by each agreement. The third lies in possible triangulations due to different tariff and/or origin treatments. [3]

[3] See also OECD ([2003] p. 5). For a description of the differences in various different ORs in a variety of geographical areas, see Estevadeordal and Suominen [2004].

The overlapping of agreements in matters of origin impacts negatively on national authorities and economic operators, increasing operating costs for both. Managing non-preferential imports alone poses challenges for customs, such as reconciling contradictory goals in matters relating to trade facilitation, security and control, and the application of risk analysis criteria. All of these sometimes opposing objectives require an appropriate balance. These difficulties are compounded in the case of imports of products negotiated under various agreements with differing origin requirements, safeguard regimes, tariff rate quotas and so on.

In addition to such demanding requirements, there are requests for controls required by different preferential trade flows, each regulated by its own rules. The existence of hundreds of tariff elimination baskets with different speeds and product compositions, and the management and application of different origin requirements, and certification and verification systems increase the complexity of the task. Guaranteeing the appropriate application of the negotiated preferences to products that really do meet origin requirements is an arduous task that grows with the expansion of preferential trade. The job is hampered by the usual discrepancies between numerous trade agreements over origin-related customs procedures and demands higher levels of training, information and resources for the entities involved.

For producers, trying simultaneously to make the most of the tariff advantages of different FTAs demands a productive structure sufficiently flexible to meet each FTA's dissimilar origin requirements. For a country's manufacturers the overlap of a product's different origin requirements in different agreements generates an assortment of additional requirements. These include:

- Additional accounting requirements (different methods of calculating regional value content, requirements for inventory management of finished products and inputs, disparate obligations for exporters, allocation of origin responsibility to different operators, etc.)
- Different requirements in productive processes (not all productive processes are admitted in the different rules of origin and key manufacturing inputs in a product are often required to be originating from different countries), and
- The need to identify various reliable sources of supply in a larger number of countries.

Such versatility is not always technically feasible, and when it is, it sometimes encourages inefficient substitutions, generates higher costs or gets in the way quality standards (Mortimore [2006] pp. 12-13, and The National Association of Manufacturers [2001]).[4]

The second difficulty also impacts on producers and is perhaps the most influential. It involves producers only being able to apply the cumulation of origin in each isolated agreement. This means that inputs imported as originating under one FTA cannot be considered originating under another (Figure 2). Such partial application of cumulation considerably limits the potential overall impact of FTAs on countries' trade and can lead to trade deflection.

An example of such limitation is the case of a dairy producer from country A importing milk duty-free from C because it is originating under bilateral agreement "A-C". A has another

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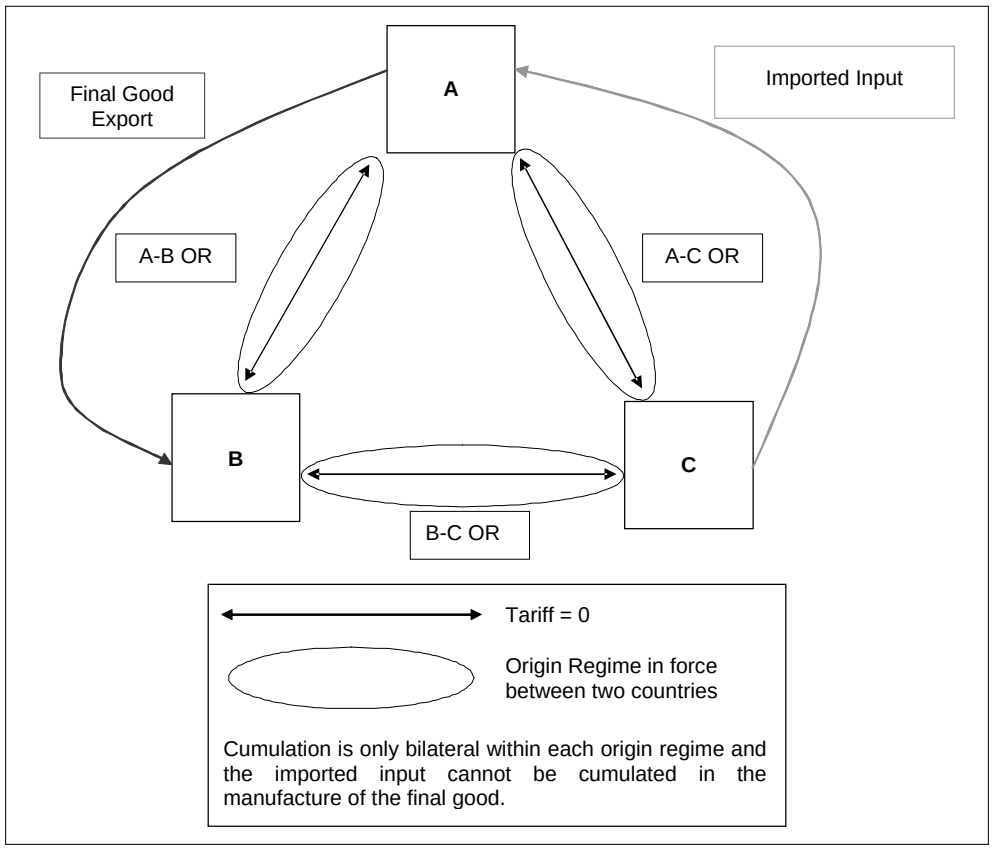
[4] This position was also put forward in the FTAA negotiations, long before the US negotiated bilateral agreements with Latin American countries and MERCOSUR negotiated ECAs 58 and 59 with the Andean countries.

agreement with B, whose rules of origin are different. When A wishes to use C's milk to make cheese to export to B, it is then considered non-originating on applying the rules of origin of the trade agreement between A and B. The impossibility of considering an input originating in different agreements brings higher costs by ruling out the tariff benefit in the operation with B.

FIGURE 2
CURRENT SCOPE OF CUMULATION IN TRADE



Source: Authors'.

In a context of unconnected FTAs, the correct application of cumulation strictly requires that it only be applied between the countries of each agreement. If this restriction did not exist and the triangulation and use as originating of products negotiated under different agreements is allowed, some of their scopes and origin requirements would be altered. And it is these triangulations that constitute the third difficulty, and indeed may sometimes be illegal or banned, may be used to perform operations not permitted under bilateral agreements.

A triangulation is illegal when a country sends its finished inputs or products to another country and this country then sells them to a third country with which it has a trade agreement as if they were originating. This usually can often happen when the second country acts as a distributing center for certain geographical areas. Many Asian exporters, for example, export to the United States as a stepping-stone to many Latin American countries, especially Central America. When US-Central American Free Trade Agreement (CAFTA) comes into force, there is a possibility that

exporters/importers triangulating these products in the US will declare them as originating in the US to be able to access the tariff benefits negotiated in CAFTA. This is one of the main challenges to Latin American countries when it comes to implementing and administrating CAFTA, and it requires them to develop and administer appropriate origin verification systems (Cornejo [2005]).

Differences between two agreements' rules of origin can also encourage certain triangulations in order to get around the conditions agreed in them. Some operators will seek access to a certain market not through the agreement relating their country with the destination country, but through a third country with whom both have negotiated agreements, but whose rules of origin are more convenient and easier for the operator to comply with. Such triangular operations -which are not banned- may involve an infringement of the origin requirements of one of the agreements, making some of them dead letters in certain circumstances.

Take the Economic Complementation Accord (ECA) 59 for example. Venezuela negotiated a Change of Chapter (CC) rule with Argentina for chocolate products. Under this rule, if Argentina wishes to export cocoa paste or powder to Venezuela, it cannot use non-originating, say Mexican, cocoa beans (Heading 1801). But it could use Mexican beans to manufacture cocoa paste (1803) to export to Paraguay under any preferential regime, or even as non-originating. From the paste, cocoa powder is manufactured in Paraguay (1805) and exported to Venezuela as originating, as the rule between Venezuela and Paraguay is a Change of Heading (CH) rule. As a result, the cocoa beans that Venezuela would not allow Argentina to use as an input for products of the chocolate industry enter Venezuela tariff-free anyway through triangulation via Paraguay.[5]

This inconsistency in ECAs 58 and 59 occurs again and again across different countries for several products. Table 1 shows the number of subheadings for each country in which similar origin requirements have been negotiated with all counterpart countries.

TABLE 1
COMBINED RESULTS OF ECA 58 AND 59 NEGOTIATIONS

		Argentina	Brazil	Paraguay	Uruguay	Colombia	Ecuador	Venezuela	Peru
Number of Products Negotiated		5,131	5,137	5,100	4,885	5,110	5,100	5,122	4,885
Products with the same Rule	Nº	3,665	3,307	4,205	4,448	3,207	2,709	2,724	3,422
	%	71.43%	64.38%	82.45%	91.05%	62.76%	53.12%	53.18%	70.05%
Potential Triangulation Products		28.57%	35.62%	17.55%	8.95%	37.24%	46.88%	46.82%	29.95%

Notes: - This analysis is based on the first rule of each tariff subheading.
- For MERCOSUR countries "Products with the Same Rule" means that the country negotiated the same rule with each of its Andean partners. For Andean countries, "Products with the Same Rule" means that they agreed the same rule with all MERCOSUR partners.
- Features of bilaterally negotiated rules can be found in more detail in Table 8.

Source: Authors' based on agreements texts.

[5] MERCOSUR's CMC Decision Nº 41/03 tries to limit certain other types of triangulations that may occur in the application of ECAs 58 and 59. It does not, however, tackle the entire problem.

This incentive to triangulate remains relevant while the agreements are effective, as goods must always meet their origin requirements regardless of their tariff situation. Hence moving toward requirement simplification and harmonization tends to lessen some of these incentives.

ORs display another spaghetti bowl feature contributing to unequal distribution of FTA benefits across countries. Bi or plurilateral FTAs are often characterized as being clustered around a country like *spokes* around a wheel. This is seen around the world and, in the Americas, applies to agreements involving the US, Mexico and MERCOSUR.

The goods manufactured by "hub" producers can be originating in several of their agreements. For example, all US FTAs set the same rule of origin for simple products like vegetable waxes (subheading 152110), canned fish (1604), more complex products such as hairdryers (851631), rubber rafts (890710) and scales sensitive to weights under 5 centigrams (901600), or high-tech products like large aircraft (880240). This similarity of rules is a potential "comparative advantage" for producers in hub countries, as a single productive structure allows them to benefit from all the agreements negotiated by their country.

But in "spoke" countries this does not occur, as there are often different rules in each agreement. In each of the six FTAs signed by Costa Rica, windshield wipers (851240), vacuum pumps (841410) and photo film (3702) have different rules. These differences mean that, to benefit from the FTAs' preferences, Costa Rican producers must adjust their production structures to six different origin requirements. This situation of disparate ROO sometimes even creates a disincentive for industries locating in "spoke" countries (Baldwin [2006] pp. 36-37).

Differences between agreements' *tariff elimination* schedules determine different tariffs for a product during its transition to free trade. Such diversity can, in certain circumstances, be a further incentive for illegal triangulation, with products being brought in through the country with the best tariff treatment. Such dissimilar treatments last only until the transition periods ends.

In a bilateral FTA, there are generally two tariff elimination schedules, which may or may not coincide (A with B, B with A). In any geographical area, the speed of advance of the FTAs' tariff elimination baskets is uneven. Finalization of the schedules thus differs from one agreement to another. This is not same in all countries. In the case of the Americas, Figure 3 compares tariff elimination processes for two groups of countries in the hemisphere between 2007 and 2018. The horizontal axis shows the evolution of their agreements toward tariff liberalization; the vertical axis shows various percentage bands of fully liberalized subheadings. Each circle contains the number of schedules coinciding in their degree of progress towards full tariff elimination.[6]

The vertical axis shows percentages of liberalized subheadings regardless of which subheadings they are. Accordingly, only the number of subheadings fully liberalized is important in calculating these percentages. As can be seen, the number of schedules contained in each circle shows

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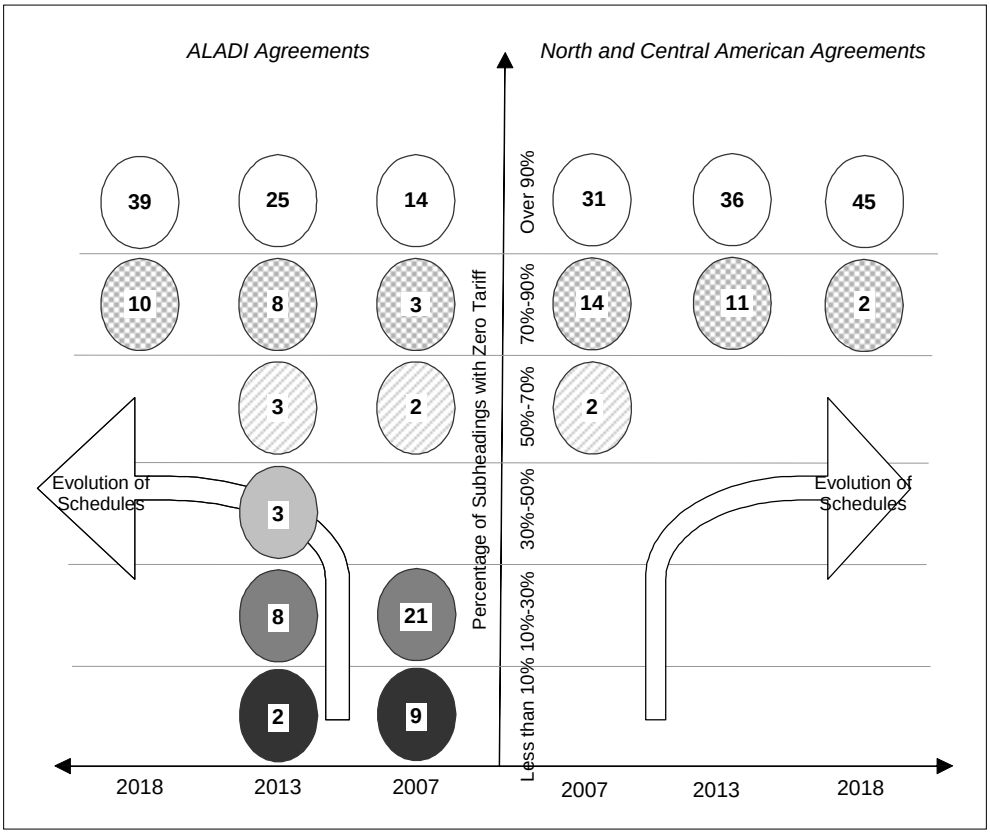
[6] The version of the Harmonized System (HS) under which the agreements are negotiated further entangles the SB and gets in the way of comparative analysis. However, even after three updates, a significant and representative number of subheadings (4,201) have remained unchanged across the three versions of the HS (80% of the nomenclature's total). It is this group of coincident subheadings that is used in this paper to compare tariff reductions in agreements.

considerable variation across the two groups. The figure shows that, in 2007, Agreements between the countries of the North American Free Trade Agreement (NAFTA) and the Central American Common Market (CACM), and between these countries and Colombia, Chile and Peru (North and Central American agreements) have 31 schedules in their FTAs that have eliminated tariffs for over 90% of subheadings. Similarly, the remaining schedules in force in the FTAs linking these countries have already eliminated tariffs on at least 60% of subheadings. The other group of MERCOSUR/CAN agreements and of these countries with Chile and Mexico (ALADI agreements) display different results.[7] While 30 timelines (21+9) have eliminated tariffs for less than 30% of subheadings, just 14 have fully liberalized over 90% of the subheadings considered. Though both groups will, by 2018, be less disparate, there are at present few schedules in the South American agreements with high percentages of liberalized subheadings.

FIGURE 3
NUMBER OF SCHEDULES BY PERCENT OF FULLY LIBERALIZED SUBHEADINGS



Notes: - 49 schedules were considered in South America, and 47 in North and Central America and they coincide with those listed in Tables 2 and 3.

- Percentages are out of a set of 4,201 (6-digit) subheadings that do not change in the three versions of the HS.

- Due to their age, the CAN, CACM and MERCOSUR integration models, and MERCOSUR's agreements have only a low number of exempted products. Tariff elimination is consequently assumed to cover all subheadings.

Source: Authors' based on agreements texts.

[7] Tables 3 and 4 (Annex) show each of the schedules in the circles and their evolution over the coming years, ordered by their percentage of fully liberalized subheadings in 2007.

Table 2 contains further information for these groups of countries, including the number of subheadings that can be exported tariff-free under all agreements in each group. To be included in this table a subheading must already have achieved full liberalization (zero tariff) across all the group's timelines. Similarly, the number of subheadings liberalized in the full set and in 31 schedules are included cumulatively for the three reference years. These "coinciding" subheadings form a potential core of rapid cumulation across all countries in the group. Tables 2.A and 2.B compare two numbers of schedules for each group.

TABLE 2
CUMULATIVE LIBERALIZATION OF COINCIDING SUBHEADINGS BETWEEN AGREEMENTS[1]

A) NAFTA/CACM Agreements and their Agreements with Colombia, Chile & Peru[2]

Number of Schedules (*)		Cumulative Number of Coinciding Subheadings Liberalized (Number and Percent)		
		Up to 2007	2013	2019
47 Schedules:	Number	1,294	1,636	2,763
	Percent	31%	39%	66%
31 Schedules	Number	4,022	4,104	4,132
	Percent	96%	98%	98%

B) MERCOSUR/CAN Agreements and their Agreements with Chile & Mexico[*]

Number of Schedules (*)		Cumulative Number of Coinciding Subheadings Liberalized (Number and Percent)		
		Up to 2007	2013	2019
49 Schedules:	Number	0	5,000	2,053
	Percent	0%	0%	49%
31 Schedules:	Number	371	3,184	4,155
	Percent	9%	76%	99%

Notes: ([1]) Calculations made on the set of 4,201 constant subheadings in the different versions of the HS. If the calculations were made on the total subheadings in the HS, the number of coinciding subheadings may rise, but never fall. These absolute values therefore constitute a preexisting floor for applying the extended cumulation.

([2]) The tables are calculated on the assumption that US-Colombia and US-Peru will come into force in 2007.

(*) Each bilateral agreement includes two phase-out schedules. Trade relations within integration schemes (CAN, MERCOSUR and CACM) and MERCOSUR's agreements with Bolivia and Chile are included on a single direction and rounded off to 100%, given the low number of positions exempted in these agreements.

A more detailed analysis of this information can be found In Table 7.

Source: Authors' based on agreements texts.

If the 47 existing timelines are compared between "NAFTA/CACM Agreements and their Agreements with Colombia, Chile and Peru" there are 1,294 subheadings in 2007 that are fully liberalized in all of them. If we only require full liberalization in any 31 schedules, the number of subheadings climbs to 4,022 (Table 2.A). If the comparison is made for "MERCOSUR/CAN Agreements and their Agreements with Chile and Mexico", coincidences in 2007 differ significantly. First, there are no subheadings fully liberalized in all 49 timelines between these members. If just 31 timelines are taken, there are still just 371. Once again, although the

liberalization levels reached by both groups in 2018 will be fairly similar, there are clearly in 2007 considerable differences in the number of subheadings whose tariffs are already phased out.[8]

Lastly, all of these calculations and percentages, we must remember, are based on the set of subheadings common to all versions of the HS (footnote 6). The subheadings' trade volumes are not taken into account, as this variable has no relationship with or bearing on the scope of the extended cumulation.[9]

In this context of numerous overlapping origin regimes and significant numbers of subheadings liberalized or to be liberalized, some countries are considering the advisability of setting up some kind of regulatory similarity and uniformity to channel and facilitate their preferential trade. Such simplification via "standardizing" or seeking similarity in the requirements of a group of agreements is called "*convergence processes*".[10] Convergence seeks to limit the diaspora of agreements with a new regulatory framework covering several agreements.

Varying in their depth, there are several attempts at the subregional level to move toward some kind of convergence or at least achieve some form of regulatory coordination. ALADI is moving forward in its aim to create a Free Trade Space. Chile, Colombia, Mexico and Peru, and certain CACM countries met in early 2007 to start talks to boost the results of a new grouping, called informally the "Pacific Basin Countries" (*Países de la Cuenca del Pacífico*). Among the new agreement's priorities is some joint insertion in talks in the framework of Asia-Pacific Economic Cooperation (APEC). For Central American countries and the Dominican Republic, DR-CAFTA implicitly involved a process of regulatory harmonization in a wider geographical framework (Granados and Cornejo [2006] pp. 857-891; Estevadeordal and Suominen [2005] pp. 63-103).

The dispersion in the hemisphere's origin regimes indicates the need for convergence over origin. This challenge, which would allow benefits from the agreements to be consolidated and maximized, would consist of countries interested in a process of convergence carrying out a flexible negotiation for a GOR. Limiting the negotiation to origin would avoid tackling other topics of Market Access, often a source of strong disagreement.

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[8] A statistical aspect to be kept in mind is that, in the case of integration schemes like the CAN, MERCOSUR and the CACM, and of MERCOSUR's agreements with Bolivia and Chile, liberalization is assumed to cover 100% of subheadings, as just a few products are exempted in each. The set of possible relationships between the countries in each scheme is for this reason counted as a single schedule.

[9] For calculations of the trade liberalized in the framework of these agreements, see Chapter IV of ECLAC [2006].

[10] For a discussion of convergence modalities, see ECLAC [2006], Rosales [2006] and Stephanou [2003].

III. METHODOLOGICAL OUTLINES FOR MOVING TOWARD CONVERGENCE VIA A GOR

A. Background and Justification

Hypothetical scenarios about the negotiation of a convergence GOR range from the extreme, where a country or group of countries impose a specific origin regime on all other convergence participants, to one where the convergence participants try to jointly define its content.

An example of the former is the European Union's (EU) "Pan-Euro" origin system, which, via diagonal cumulation, allows products of various countries' trade agreements with the EU to be cumulated. One feature of this regime is that, to guarantee such diagonal cumulation, the EU has a high degree of inflexibility in its OR and will not agree to its being significantly modified in negotiations with third parties. This means that a country negotiating an agreement with the EU has a very little room to maneuver, thus effectively making the OR negotiation process one of accession.[11] Ultimately, the possibility for EU partners to negotiate rules of origin is limited and, unless they accept these rules, the country is excluded from diagonal cumulation.

The trade policy reason why third parties allow such "implicit imposition" is that it is part of the trade-off giving them access to the European market with tariff advantages. At present, the tariff advantages in Spaghetti Bowls are already granted and negotiated in their bilateral agreements. It is therefore difficult for a country or group to gain enough negotiating power to impose their OR on all the other convergence participants and get them to line up behind them.

The two strongest, most distinct poles in the Americas are the US and MERCOSUR. The global and even hemispheric agreements negotiated by the US show that the product-level origin requirements differ from one agreement to another. These differences are more marked if the more recent hemispheric agreements are compared with NAFTA. MERCOSUR has also shown flexibility in its agreements, as ECAs 58 and 59 prove. Central American countries have recently negotiated a subregional convergence space for their own trade relations, and those with the Dominican Republic and the US. This is in no urgent need of change. Indeed, countries with plenty of experience and ability in negotiating origin, like Canada, Mexico and Chile, would be loath to accept a GOR designed without their participation. Thus, an "imposition scenario" in the hemisphere seems not to be feasible, as countries having to accept the regime imposed by another could choose not to participate in the negotiation to avoid the political and possibly economic cost of a change possibly not in their interests. However, a case of effective "accession" was the Dominican Republic's incorporation in DR-CAFTA, the US and Central American countries having already concluded origin regime negotiations. Save for a few transitional rules on certain petroleum, plastics, and steel products, there were no modifications to the existing terms. This meant that the Dominican Republic joined the agreement agreeing to everything negotiated by the Central American countries with the US.

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[11] This is very apparent in the negotiations of new EU members, in their negotiations with the European Free Trade Association (EFTA), Turkey and so on. Baldwin ([2006] p. 22).

In the event of an "imposition scenario" not being feasible, there is the alternative of a GOR negotiation, for which the methodology is as follows. In many origin negotiations, one party is frequently dominant. This dominance may, to varying degrees, be present in the second alternative, but it will always be more flexible than under the imposition scenario.

The existence in the Americas of an intricate Spaghetti Bowl indicates a ready environment for negotiations seeking convergence of some kind. It must also be remembered that the public documents of the FTAA regarding origin showed agreement on many points. Indeed, origin was clearly not one of the chapters holding up and bogging down negotiations, despite ominous comments on the issue. Though agreements were, back then, a long way off in several respects, analyzing the evolution of the most recent agreements of the participants, positions on some of these issues seem to be significantly closer.

Also, it is not vital to analyze this convergence solely across the hemisphere; it is perfectly viable by geographical subregion or type of agreement. Certain countries' actions seem to confirm this: ALADI's Free Trade Space, the South American Community and, recently, the Pacific Basin countries are more or less formal attempts to move ahead in terms of convergence.

The methodology proposed aims to facilitate the negotiation and implementation of a GOR that would make extended cumulation operational and establish the minimum connection necessary between existing trade agreements. The GOR would thus begin to dissolve the SB and act as the cement in its conversion to a more harmonized architecture.

The negotiation of a convergence GOR has connotations and features of its own that require a new negotiating methodology. This section outlines certain elements as an initial contribution to a new issue demanding the development of operative proposals.

The aim of convergence in origin is to enable one country, when exporting to another, to cumulate inputs from a third country, without an existing agreement covering all three. Convergence would establish a cross-link or connection between bilateral agreements that would allow the joint use of the results of their effective bilateral tariff negotiations. Extended cumulation is the mechanism that will make this link possible. By extended cumulation we mean the ability of the producer of a good to consider as *originating* the inputs of different supplier countries, despite their being imported under various different trade agreements.

Consequently, this mechanism breaks the isolation established by successive agreements and defines a wider scenario of application of origin requirements. To make extended cumulation effective a GOR is required to establish a uniform regulatory framework for application among countries interested in convergence. Its design, negotiation and implementation could be developed along the following methodological lines:

- The scope of extended cumulation.
- The methods and modalities of negotiation of the GOR.
- Implementation of the GOR and its coordination with the bilateral ORs.
- Flexibility for the treatment of sensitive products.

A restricted negotiation is proposed because more ambitious attempts at negotiation do not seem viable in the current context and it is advisable to seek options that bring different positions closer together. It is also proposed to reduce the negotiation to a GOR, as it forms the *indispensable minimum* to effectively interconnect existing agreements. Bilateral agreements have achieved much tariff elimination, but the various bilateral ORs isolate them. Negotiation of the GOR would thus connect them and allow extended cumulation as described below.

B. Extended Cumulation in the GOR

Extended cumulation requires three elements. (1) It requires agreement triangles covering the supplier country of the input, the exporting country of the final good and its importer. (2) The agreements need to have reduced tariffs on both the input and the final product containing it to zero. (3) It requires the members of any trade triangle to negotiate under the GOR the rules of origin of both the input to be cumulated and the end product containing it.

The variable geometry of the extended cumulation principle is defined on these three elements. Criteria will thus be developed for each product to identify from which convergence member countries there can be cumulation, which countries will be excluded and what the conditions for cumulation will be. These criteria set up connections that vary with final product, exporting country, importing country and input.

The following points are pertinent in this respect:

1) The countries participating in the last operation in the trade chain -the final good's exporting and importing country- will form the basis for defining the scope of extended cumulation. The scope or sphere of extended cumulation will comprise the subset of convergence member countries that have already *totally eliminated the final good of tariffs with both the exporting and importing countries*. The scope is therefore variable and differs by product, as convergence member countries that have not yet eliminated the product's tariffs with either of the two countries mentioned (exporting and importing) are not included. This scope will thus *vary* according to the countries participating in the final operation and to the product, as both variables together define countries authorized to cumulate in each operation.[12] In Figure 4, under its agreement, country A exports product XX to country B tariff-free. B has also eliminated tariffs on the product for five other countries (*C, D, F, G* and H). Likewise, A has negotiated it with *C, D, F, G*, M and L. All countries are participants in the convergence process. However, in product XX, A and B are only *interconnected* at any one time with *C, D, F and G*. This partial group of interconnected countries, for A -the good's final exporter- will be the country group from which it can cumulate inputs to produce the final good to export to B. In other words, A's scope of extended input cumulation for product XX in its exports to B will be *B, C, D, F and G*.

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[12] The identification of overlapping triangles of total tariff elimination for each product is not a difficult task for a computer, as the schedules are well-known and subject to little alteration. It is therefore feasible to set up a website to make this information available to economic operators.

2) As mentioned above, countries not having fully eliminated tariffs on the final product with the exporting and/or importing country will be excluded from extended cumulation. The number of countries authorized to participate in the scope of a product's extended cumulation may thus be lower than the number of convergence member countries. In Figure 4, countries H, L and M -also convergence members- are excluded from A/B's extended cumulation for product XX because they each only have agreements with one of them (B with H, and A with L and M). But this exclusion is only applied in an operation between A and B, for if there were other countries involved in it, the tangle of existing agreements would perhaps be different. Therefore, each exporting country will have *variable* scopes of cumulation for each product according to the good's country of destination.

3) Another reason why extended cumulation requires a variable geometry system is that "n" inputs are used in the manufacture of a product. Not necessarily all participants in the scope of extended cumulation of an end product will also have eliminated tariffs on all inputs used in its manufacture. Quite the opposite, the list of these duty-free inputs is very likely to differ from one agreement to another. Thus, in the above example, A can cumulate from the countries defined in the scope of extended cumulation (B, C, D, F and G) only *duty-free inputs in the triangular relationship*. The triangular relationship of each input will always cover the end product's exporting and importing countries, and the third country supplying the input. This may *vary* from one input to another. In other words, within this variable geometry model, the country the input to be cumulated comes from may or may not coincide from one input to another, but in the above triangular relationship, it must always be tariff-free.

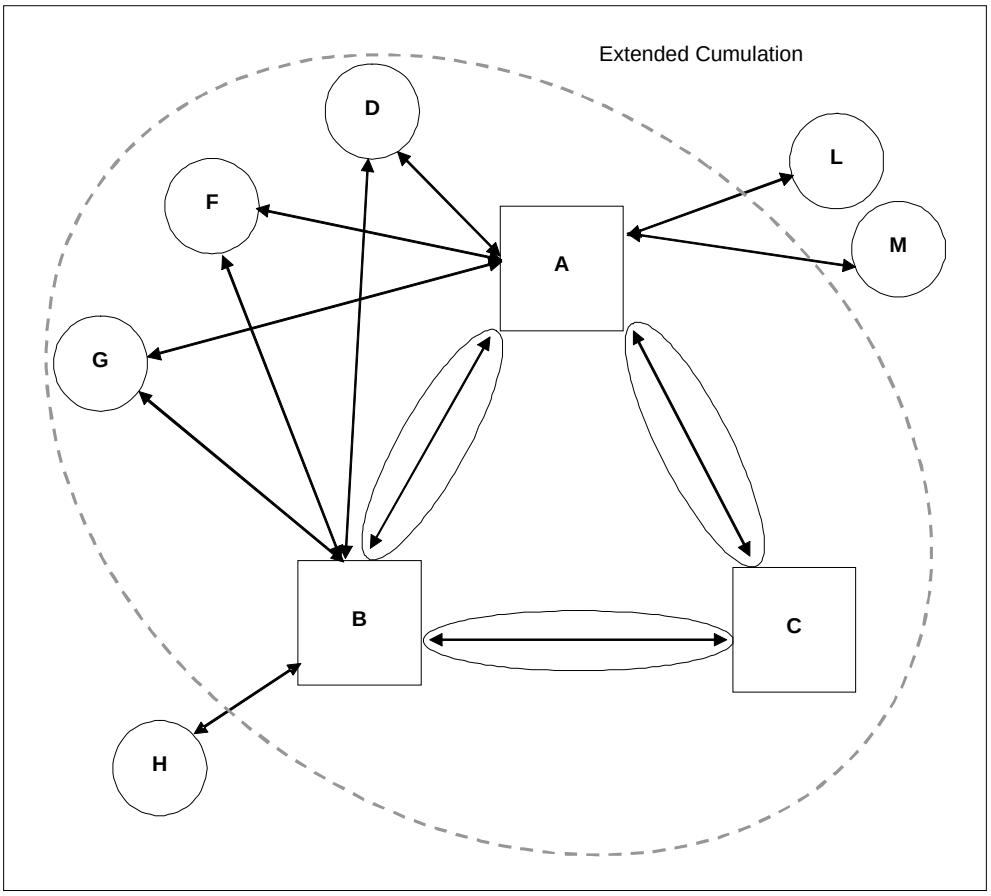
4) If the end product of the operation between A and B were different, the third countries comprising the extended cumulation scope may also be different. This is based on potential differences in the pace of tariff elimination of the agreements linking A and B with convergence members. These differences in pace can mean that the countries coinciding in the new product's full tariff elimination are the same as the previous product, or different. This discrepancy in the pace of elimination is another reason for the *variable* formation of each end product's triangles.

A concrete example: Chile could apply extended cumulation in MERCOSUR to export to Peru, as both have agreements with Peru and vice versa. Trade under the GOR could also flow in any direction in the triangle provided they have all negotiated the rule of origin of the product and of its inputs in the GOR, and their tariffs are zero. Also, if Chile negotiated the same products with Mexico and the United States, and all three participate in the GOR, Chile could cumulate from either in order to export to the other, as the two northern countries are part of NAFTA. What Chile can never do is cumulate from the US to export to MERCOSUR, or from MERCOSUR to export to the US, there being no FTA between MERCOSUR and the US. Despite there being no agreement, there is nothing to prevent MERCOSUR and the US participating in the convergence process.

It is worth explaining why the scope of extended cumulation is defined as the subset of countries having totally eliminated tariffs on the end product and is not defined solely on the basis of inputs. For various reasons -economic, political, lobbies and so on- tariff elimination schedules for a production chain do not necessarily embrace all products in it. Sometimes certain more elaborate goods may be expressly excluded, their tariffs partially reduced or eliminated in the most prolonged cases, whereas goods with lower added value are liberalized. It may thus happen that certain FTAs eliminate tariffs on the whole chain and others only part. In the latter scenario,

if the scope of cumulation is not defined under the criterion proposed, it would open up the possibility of an unwanted triangulation that gives preferential treatment to products with more added value in bilateral relationships that have not yet liberalized them.

FIGURE 4
THE SCOPE OF EXTENDED CUMULATION FOR PRODUCT XX



Note: Despite being members of the convergence process and having negotiated the GOR, L M and H do not meet the conditions for extended cumulation of product XX.

Source: Authors'.

An example will help to clarify this idea. Supposing countries A, B, and H have totally eliminated tariffs on the trade of unprocessed wheat, while tariffs on wheat flour are only eliminated between A and B. For whatever reason, B deemed it inadvisable to open up its wheat flour market to H. If the definition of extended cumulation were different from the one proposed and based only on the mere existence of the input tariff elimination triangle, A could import wheat grain from H, mill it into flour and export it to B. Via A, B would be receiving wheat from H processed as flour, precisely the product B expressly excluded from its bilateral negotiation with H. This triangulation modifies the scope of the B/H bilateral negotiation, and is not feasible in the scope of the extended cumulation proposed (a group of countries that have eliminated tariffs on the end product). Avoiding such triangulation guarantees that the convergence regime does not become a "window" for liberalizations not included in the bilateral negotiations.

BOX 1
SUBSTANTIVE ASPECTS OF THE METHODOLOGY

- **Application Mode:** The scope of extended cumulation is determined working back from the final operation (from end product to input).
- **Country Scope:** The subset of converging countries that have, simultaneous with the exporting and importing countries, eliminated tariffs on the end product being traded.
- **Cumulable Inputs:** The final good's exporting country can cumulate inputs from any member of the subset, provided the tariff on the input cumulated is totally eliminated between the exporting country, the importer and the potential third country in the subset.
- **Graduality:** Tariff openings undergoing tariff elimination but not yet at zero, there must wait until they are totally liberalized in at least three countries. As a result, depending on the pace of the various elimination processes included in the convergence process, different or identical triangles of countries may emerge for each cumulable input (see section D)
- **Variability:** The above conditions lend a highly *variable* character to extended cumulation depending on the countries involved, the product being traded and the pace of liberalization in the agreements in force between the convergence member countries.
- **Links to Existing FTAs:** The system is based on existing tariff reductions and requires no new negotiations or changes to the bilateral agreements in the other disciplines.
- **Advantages:** The main advantage of this proposal is that it extends and flexibilizes the sources of preferential supply. To do this, countries wishing to converge must exclusively negotiate a highly technical area, such as origin.
- **Sensitive Treatments:** To facilitate the negotiation of rules by product, the methodology allows for a certain restricted flexibility that would give convergence countries the option not to participate in a rule's negotiation and application (see section E).

C. GOR Negotiation Methods and Modalities

Though the structure of the GOR will be similar to the existing ones with a chapter containing the text of the regime and annexes with origin requirements for each subheading, individual parties' negotiating methods and modalities will differ.

The possible negotiating methods and modalities of the *origin chapter* -the regulatory text defining the application of the annex's origin requirements- would consist of the following:

1) The text should be agreed by all countries involved in the convergence process. This collective negotiation is indispensable to standardize the application of extended cumulation among these countries.

2) It would be advisable to try, where possible, to reflect the content of the chapters of existing bilateral agreements. New treatments of certain variables only included by a few countries in their agreements should be kept to a minimum. The text should thus be a "lowest common denominator" of existing texts and avoid highly conflicting or extreme positions.[13]

[13] New ORs generally already have a critical mass of concepts that are repeated in almost all of them. A decade ago, many of these concepts might have been considered innovations, but today they are broadly accepted. See Table 5 (Annex).

3) The origin chapters of bilateral agreements should supplement this new text, acting as a complement to it and specifying aspects not included in it.

4) Any sweeping definitions in areas of conflict that are well known for their difficulties in reaching consensus should be avoided. Wherever possible, these areas are to be governed by the provisions of individual bilateral agreements between the exporter and the importer. By way of example, an application of Proposals 3 and 4 is presented in box below.

5) The GOR could gradually replace the ORs of the bilateral agreements of the countries participating in the convergence.

6) Where feasible, the GOR should be considered in any new FTA among members of the convergence process.

It is extremely important to stress that the regulatory origin chapter should be negotiated and agreed by *all* of the countries wishing to participate in the convergence process in order to ensure uniform application across all the convergence member countries. Effectively, this means that, in the negotiation of the different articles making up the text of the chapter, there will be *no* facility to participate selectively as is proposed for the negotiation of product rules in the paragraphs below.

This also means that, if a country wants to join the convergence process subsequent to implementation of the GOR, it must abide by the text of the chapter as negotiated. Should it wish to introduce any modifications, it would need to obtain the consensus of all the convergence members.

By way of example, Table 5 (Annex) analyzes the behavior of 43 variables forming part of the different origin chapters of the 24 American FTAs. Each variable is classified according to the typology of origin regimes (First Generation, New Generation, or Intermediate). In addition, the table identifies the number of agreements and countries using the variable, the FTAs not including it and the difficulty of achieving consensus on its definition and scope. It should be pointed out that this difficulty depends directly on the makeup of the group of countries involved in the convergence process.

BOX 2
THE COEXISTENCE OF BILATERAL ORs AND THE GOR IN ORIGIN CERTIFICATION

The proposed combination of bilateral ORs and the GOR mentioned in points D and E can be explained using an example that comprises one of the most divisive areas in origin regimes, namely the certification system. Supposing the scope of convergence is set by the US, Chile and Peru, for example, the US might apply importer certification to an end product from Peru, but there would be nothing to prevent Peru importing from Chile under the system of certification by entities. Conversely, an American exporter might send an input to Peru with any of the certification modalities effective in the agreement (producer, exporter or importer). This input would be incorporated, in Peru, into the final good, which would be exported to Chile with a certificate issued by an authorized entity.

This flexibility will never give rise to a situation in which a country receives a preferential product certified by a method that it has not authorized in its respective bilateral agreements. In practice, under this flexible issuing of certificates, the US would never receive a product with a certificate from a certificating entity, and MERCOSUR would never receive a product covered by a certificate issued by a producer, exporter, or importer. This is due to the fact that it is the bilateral agreement effective between the importing country and the exporting country that determines which certification system is to be used. Thus each country operates exclusively under the system or systems it considers reliable for its bilateral agreements.

Another combination of certification methods occurs in CAFTA. Guatemalan exporters can import inputs from Nicaragua, which enter Guatemala with a producer's certificate. They can also receive another input from El Salvador with an exporter's certificate. The end product produced in Guatemala with these inputs could, when exported to the US, be certified by the US importer.

The negotiating methods and modalities of the GOR's *annex* of *product-specific rules* would again be based on a variable geometry system consisting of the following:

1) Establishing a general rule of origin for each subheading. This may coincide with the rule negotiated in any one constituent agreement or be totally different from existing rules.

2) The rule of origin negotiated in the GOR can be agreed by all countries interested in convergence or by only some members. As a result, extended cumulation will only apply to those that have negotiated the rule.

3) A country not having agreed one or more rules would not prevent it from participating in rules of origin negotiations for other products. In practice, this means that the set of countries negotiating and applying a rule of origin for a product can vary from one product to another. This flexibility is very important, as it allows certain sensitivities in each country to be upheld, as explained in E below. However, such flexibility should be used judiciously.

4) The GOR does not demand its members have an FTA with *all* the other participants. It may happen that one or more convergence member countries have no FTA with another country in the group or have an FTA that does not liberalize all products. These missing bilateral relationships and/or excluded products will not form part of the set of supply sources or products to which the GOR and extended cumulation can be applied. This absence can range from total non-existence (no agreement between two countries) to partial exclusion (an FTA linking two countries but not including certain products).

The establishment of the convergence process does not necessarily require it to cover all products; it can perfectly well be started by sector.[14]

D. Alternatives for Implementing the GOR

The new GOR will be applied to the trade of products negotiated in previous agreements and containing their own dissimilar ORs. The implementation process consists of defining *its relationship with existing ORs and its mode of application*, which are independent of the new regime's content.

Regarding the GOR's *relationship with bilateral ORs*, in theory at least, one of two alternatives must be chosen. The first is an extreme one, consisting of simultaneously replacing all the regimes negotiated between countries with a new one. The second is a less rigorous (see also Baldwin [2006]), but more feasible alternative, consisting of establishing the GOR and maintaining in force the ORs of bilateral agreements so that economic operators can choose which one they wish to use.

Total replacement has its administrative advantages. Fast alignment of origin regimes would immediately ease the burden for organizations involved in regulating trade operations, mainly customs, trade negotiation ministries and, if they exist, public or private certifying bodies.

The impact on economic operators, however, would be very different. The modification of rules of origin or method of application can alter market access conditions, which may lead to certain products losing their status as originating and being excluded from the tariff preferences.

This loss would have a political cost and meet opposition among economic operators cut out of preferential trade. In some countries, approval of the most recent FTAs in the region has been the result of difficult, long, and drawn-out negotiation processes in different areas of government, business and civil society as a whole. Consequently, proposing an abrupt modification to the agreements, whether exclusively restricted to their ORs or not, would trigger processes of resistance to their application and/or modification of other contents of the agreement. Such opposition will not necessarily be driven by protectionism, but by a desire to maintain certain stability in the rules of the game. Predictability brings investors judicial security and certainty.[15]

Being less rigorous, the second alternative weakens the impact of these difficulties, as it establishes a period of transition to facilitate the application of a new GOR. In this alternative, as in tariff negotiations, there is a period for the inevitable adjustments required by adaptation to new rules of the game. The coexistence of regimes makes it possible for operators to choose the regime to be used with the sole condition of determining the origin of the *whole* operation under a single origin regime (import of inputs and export of the final good). It would therefore not be viable to combine the application of different regimes in determining the origin of a product and the inputs used in its manufacture. Something similar already exists in CAFTA.[16] Figure 5 shows diagrammatically how this alternative would work for a three-country convergence. In the event of more countries, it would operate in a similar way.

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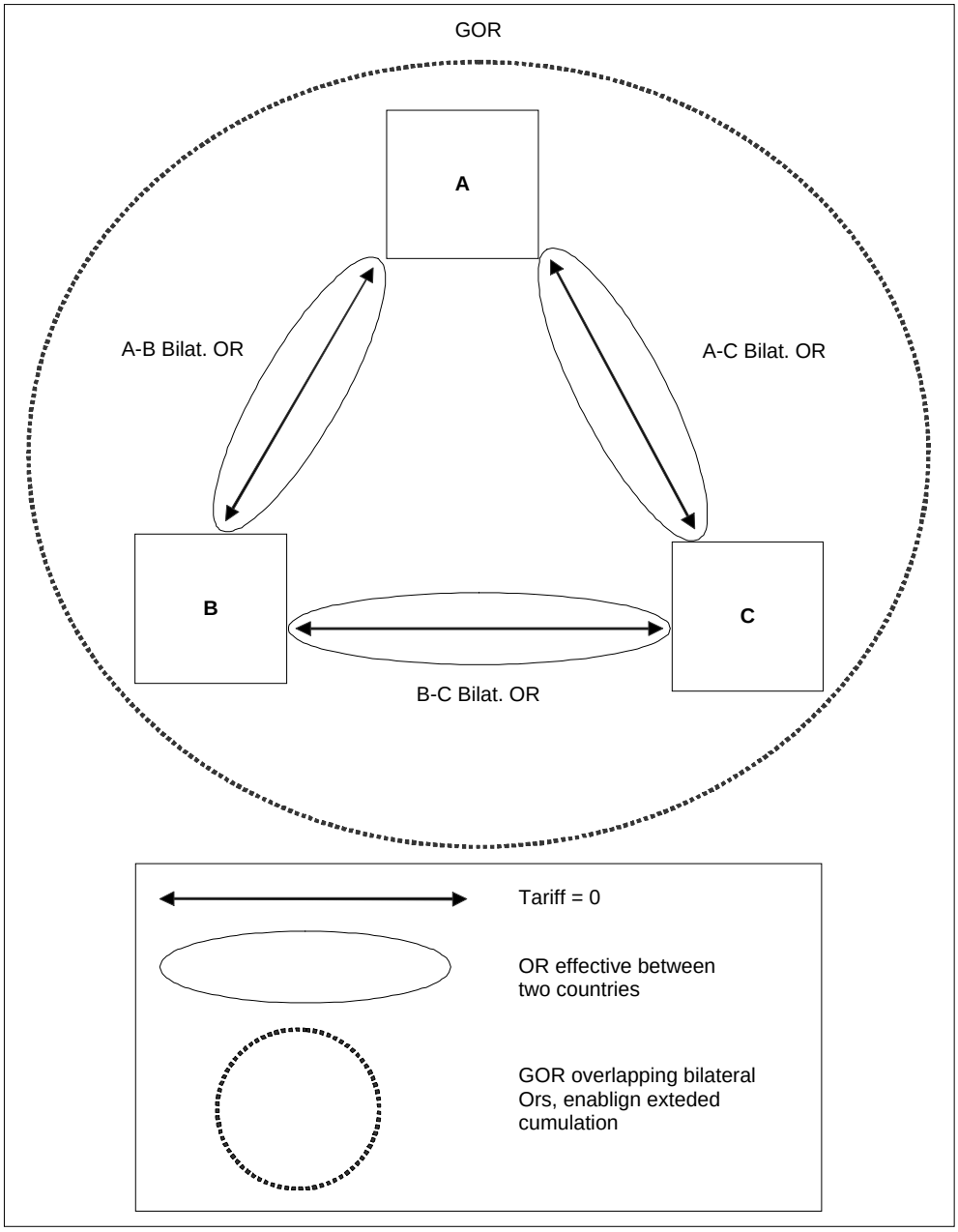
[14] In reality its scope will be defined by the convergence countries and any decision they take regarding this will not affect the application of this methodological proposal.

[15] The predictability of an OR lies in defining a stable regulatory body to enable economic operators to define long-term supply chains, productive processes and investments necessary to export to a given market.

[16] See Cornejo [2005] and Granados and Cornejo [2006]. Of these, one text and annex are generally applied in trade between the seven countries. This text, together with a second annex of specific rules by product, is applied between the CACM and the Dominican Republic. Lastly, a second regulatory text and third annex of rules apply solely between CACM members. In cases of overlap, operators are free to choose whichever regime they prefer.

FIGURE 5
THE GOR'S COEXISTENCE WITH BILATERAL REGIMES



Source: Authors'.

Once the group of countries interested in convergence has been defined, the next step is to establish how the GOR is to be applied. *The GOR's mode of application will be gradual and partial*, as it will progressively be applied to those products in which at least three convergence member countries have their tariffs at zero. As other participant countries in the convergence eliminate tariffs on this product, they are to be incorporated as well.

This means that the GOR would not have a single date of entry into force, but will instead involve continuous incorporation of new countries or products within the orbit of its application. These incorporations can occur under the following conditions:

- a new partner eliminates tariffs on trade with one or more members of the converging group for a product to which other members were already applying it; or

- a new product is incorporated into the convergence area when at least three countries in the respective effective bilateral agreements eliminate tariffs on their trade (zero tariff) and have also negotiated the rule for this product in the GOR.

Once the transition period is over, the elimination of tariffs for all convergence member countries would be complete and the GOR would be effective for all products negotiated under the various bilateral agreements. This process would, in the Americas, vary according to the agreements included, but taking the hemisphere's 24 FTAs, a period of around ten years would be expected (see Tables 3 and 4 - Annex).[17]

Similarly, the end of the transition period may be the right time to analyze the appropriateness of the continued application of the bilateral ORs in terms of their use and their operators' needs. Once this transition period is over, producers would have had enough time to adjust their productive structures and input supply sources. Nevertheless, countries wishing to previously dismantle their bilateral regime could do so, provided there is consensus between the members of the respective FTAs. The countries would thus bring the GOR into force ahead of schedule.

E. Treatment of Sensitive Products or Products Excluded from the Negotiation

Sensitive products are a reality in practically all trade negotiations and should be considered in the functioning of this variable geometry mechanism. In some cases, sensitivity is so great that it is decided to directly exclude such products from the negotiation, or partially eliminate tariffs through tariff quotas, and/or strict rules of origin are established. A country's sensitivities are not always the same, but vary according to its eventual partner. Consequently, in a negotiation like the GOR covering a large group of countries, we should expect sensitivities to be present. Although they must be low in number, it is advisable to anticipate some modality in the methodology to facilitate their negotiation and avoid bringing uncompromising stances into confrontation.

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[17] However remote and prolonged this may seem, we should not forget that, from the start of the FTAA negotiation until its suspension, 8 years elapsed, that the Uruguay Round lasted 8 years, and that Doha has taken over 5 years.

How could the proposed system enable countries to deal with sensitivities? It would first be necessary for this flexibility to be wisely used in a limited way in order to prevent converging countries abusing it and excluding major productive sectors from the scope of extended cumulation. This situation can easily be avoided if countries agree a ceiling on products to be protected by this flexibility. The convergence member countries will set the ceiling.

The functionality of the treatment of sensitivities can be explained via an example. Suppose country A is not a coffee bean producer, but does export different roasts and instant coffee. A has trade agreements with two different countries, B and C, both coffee bean producers. These two countries do not want products made with coffee beans from other countries to enter their market via their bilateral agreements. In addition, tariffs on trade of any kind of coffee have been totally removed from agreements A/B and A/C, and a similar rule of origin has been negotiated for both, stipulating that all products must be made with coffee beans from a member of the agreement. This ensures that, if A, which industrializes coffee, wants to export it to B, it can only use coffee beans from B. A similar scenario is repeated in A's agreement with C. B and C also have another agreement under which tariffs on these products were also removed. As a result, the triangular trade between the three countries in these products is tariff-free.

For the GOR negotiation, the countries wishing to converge agree that the rule will uphold the demand that coffee beans come from the region. If all three countries enter the GOR, it would mean that A is free to export to B and C coffee industrialized from either's beans.

It may happen that the product is considered sensitive for B or C -say B- and it does not want to agree to the inflow of products made from its competitor C's inputs. In that case, B can opt to not negotiate the general rule. This will mean that A will not be able to cumulate from C to export to B, but will be authorized to use C's input to export to the other countries that agreed the general regime's rule. For its part, B will continue marketing the product with A and C under its bilateral agreements but will not be able to cumulate from either one of them to export to the other one, nor to the other countries participating in the convergence.

B's self-exclusion from this rule will not prevent it participating, negotiating and operating with the other products in which it agrees with the GOR rule. Nor will it prevent access to a particular partner despite the limits that it implies, as explained in the example.

This optional entry facility enables each country to limit the scope of cumulation allowed for imports of goods produced from another converging member country's inputs. Albeit a way of limiting liberalization, the mechanism also avoids repeating fruitless negotiations on certain products.

IV. THE IMPACT AND ADVANTAGES OF THE GOR

Negotiation of the GOR's product-level rules will be more balanced than that of a bilateral agreement's OR. No country will be obliged to accept a rule, as negotiation is not obligatory for all products. If the country participates, it has the incentive of gaining access to an extended cumulation. If it does not participate, it will not gain access to extended cumulation, but this exclusion will not affect the benefits acquired in bilateral agreements with its converging trading partners. Consequently, the application of the benefit of extended cumulation is variable for each country and accessing it would, in certain cases, be voluntary.

Another very important feature of convergence is that, for a given product, for identical rules between of the bilateral and the convergence regimes, the latter implies a lower level of requirement. Indeed, one impact of extended cumulation is that it expands sources of input supply. A rule's level of restriction depends on its definition -change of chapter or heading, and so on- and on the input production capacity of the group of countries in which it is applied. This means that an expansion of the group means greater originating input production capacity and it is, therefore, likely to bring about lower levels of restriction in the rule of origin.

An example will help to demonstrate the scope of this impact. The rules that the US imposes in its agreements for textile products are extremely tight, generally demanding that all member countries' inputs be originating. In the case of CAFTA, if one wants to produce a cotton shirt in El Salvador, originating yarn from one or other of the member countries must be used. However, if a convergence agreement included the CAFTA countries and Peru, the Salvadoran producer would, under the same rule, have the option of using yarn from any CAFTA country or Peru, and would therefore diversify his sources of input supply. Something similar happens with the rules of MERCOSUR/Bolivia, which, in dairy products, require milk to be regional. For Bolivian producers, a hypothetical convergence of these countries with another milk-supplying country would facilitate compliance.

In practice, convergence in rules of origin weakens or erodes the potential defensive effect of very tight rules of origin. Simple convergence in rules thus helps facilitate trade by giving producers more supply options and the means to be more efficient in their production.

The definition of a wider scope of cumulation will be an incentive to increase trade between convergence member countries and to form multinational production chains to supply certain markets, enabling the better use of economies of scale. Extended cumulation will discourage triangulations.

The existence of a regional regulatory origin framework can facilitate administrative procedures for agents and, to a lesser extent, for the authorities involved in the operations. In this respect, it must be stressed that, for customs authorities, the GOR will in the short term add one more regime to existing ones, and that this will require extra effort. However, increased use of the GOR is hoped to lighten their workload in the medium term.

A period of coexistence of bilateral ORs and the GOR will guarantee a period of transition to facilitate the operators' gradual adoption of a single productive structure according to their capabilities and interests.

The existence of a GOR for less developed countries opens up the possibilities of taking greater advantage of bilateral agreements. In general, they act as "spokes" in agreements and find it difficult to cumulate across several agreements. The existence of the GOR cuts through the isolating effects of agreements and establishes links between them, facilitating the cumulation of inputs to and from less developed countries.

The adoption of a GOR can be an incentive for countries to expand their agreements bilaterally, irrespective of their negotiation. This expansion could include negotiation of the FTA between convergence members that have not yet signed one, expansion of the number of products negotiated in existing agreements, or consolidating preferences not achieving absolute tariff elimination because only a partial preference has been granted. Such expansions would mean countries could make greater use of extended cumulation.

On top of this, the GOR can also act as an accelerator of already negotiated schedules, as its installation can provide an opportunity for countries to analyze the coherence of the various elimination schedules they agreed over the years in successive FTAs.

Attaining levels of regulatory consistency that cover a greater number of countries constitutes a true facilitation of trade and a step forward in the process of multilateral convergence. Such agreements may or may not coincide with certain geographical regions and may even extend to countries on different continents. This kind of convergence system is already in place in Europe. In the Americas, the situation has been recognized and progress is being made, while the issue seems not to be mature enough yet in Asia, where they are still in the first stages of bilateral agreement expansion.[18]

[18] For the current state of play of the negotiations in East Asia, see Lee, Jeong, Kim & Bang [2006].

V. CONCLUSIONS

Latin America is involved in an intense process of trade realignment driven, among other things, by the presence of new actors in the region. Regardless of the liberalization processes' political orientation, the aim to improve regional trade linkages has always been widely recognized as important. But the proliferation of agreements is starting to be questioned, for it divides up trade under different rules and raises the need for processes of convergence. The aim is not a new one; it has always been there in traditional integration models, despite their relative lack of progress in this area.

Tariff reduction among some countries linked by different agreements in Latin America, and in the hemisphere is also well advanced.[19] Nevertheless, the isolation generated by the different origin regimes prevents the advantages of cumulation from being realized to the full. Agreeing origin requirements that transversely expand the possibility of cumulating across already negotiated agreements is an alternative that warrants these countries' consideration.

Based on the concept of variable geometry of varying country/product triangles, the architecture and operational methodology proposed makes it possible to link already negotiated tariff reductions without the need to negotiate a new, far-reaching trade agreement. It is based on the concept of extended cumulation and is applicable to any group of countries wishing to implement convergence for existing agreements.

To this end, countries interested in convergence are required to negotiate a text for the origin chapter they all agree on. To facilitate negotiation of this text and avoid getting embroiled in issues that are hard to reach consensus over, the texts of the existing agreements will be supplementary. Also, rules of origin must be agreed for products included in the convergence. This negotiation by product, it should be remembered, will be more flexible than that of the chapter, as each country can exclude a limited number of products. This aspect will facilitate the treatment of sensitive products.

Although this proposal does not eliminate the need for a complex negotiation, it would be an effective solution based only on the issue of origin. On the other hand, the notoriously technical nature of many aspects of origin negotiations may be more propitious for reaching agreement, as it would not require the negotiation of many of the issues that habitually block or wreck agreements.

Among the advantages of tackling this challenge is establishing a harmonized regulatory origin framework to facilitate administrative procedures. Also, by being able to use regional inputs across a higher number of FTAs, trade between the convergent countries will increase and even encourage multinational production chains to supply certain markets by exploiting economies of scale.

In practice, extended cumulation weakens or erodes the potential defensive effect of very tight rules. Simple convergence of a larger number of countries in rules of origin thus helps to

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[19] See Tables 1, 3 and 4 (Annex). In addition to these, it must be remembered that the deep integration schemes (the CAN, MERCOSUR and CACM) have already totally eliminated trade tariffs, save for a few specific exempted products.

facilitate trade by giving producers more supply options and reinforcing the means to be more efficient in their production.

The existence of a GOR opens up the possibilities of taking advantage of bilateral agreements for less developed countries. In general, they act as "spokes" in agreements and find it difficult to cumulate across several agreements. The existence of the GOR cuts through the isolating effects of agreements and establishes links between them, facilitating the cumulation of inputs to and from less developed countries.

Given the context, we must ask ourselves if the conditions are not now right to move ahead in the trade linkages in the hemisphere or among some of its countries by initiating, in operative terms, convergence processes such as the negotiation of a GOR.

VI. ANNEX

TABLE 3
TARIFF ELIMINATION IN NAFTA/CACM AGREEMENTS AND BETWEEN THEM AND THE CAN AND CHILE(*)

Tariff Elimination: (Grantor-Beneficiary)	To 2007		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total negotiated
	Nº	%													
CACM	4,201	100.0													4,201
Mexico-USA	4,189	99.7	12												4,201
Canada-Chile	4,168	99.2													4,168
Mexico-Nicaragua	4,168	99.2					17								4,185
Canada-US	4,166	99.2													4,166
Nicaragua-Mexico	4,165	99.1					20								4,185
Canada-Mexico	4,162	99.1													4,162
Mexico-Chile	4,144	98.6													4,144
US-Mexico	4,144	98.6	36												4,180
Chile-Mexico	4,141	98.6													4,141
US-Peru	4,140	98.5				3					8			36	4,187
US-Colombia	4,139	98.5									18	1		29	4,187
US-CACM-Dom.Rep.	4,136	98.5								13				38	4,187
Mexico-Costa Rica	4,128	98.3		8											4,136
Chile-Canada	4,105	97.7				6	4		2						4,117
US-Chile	4,057	96.6				43		25		76					4,201
Chile-Costa Rica	4,015	95.6				13				35					4,063
Chile-USA	3,995	95.1				111		16		79					4,201
Chile-El Salvador	3,977	94.7		1		19									3,997
Mexico-Colombia	3,954	94.1													3,954
Colombia-Mexico	3,881	92.4													3,881
Mexico-Guatemala	3,871	92.1	12	165	18										4,066
México-El Salvador	3,845	91.5	11	188	15										4,059
Guatemala-US	3,505	83.4			91					510		1		93	4,200
Costa Rica-Chile	3,484	82.9				546				35					4,065
El Salvador-Chile	3,401	81.0		58		519						18			3,996
El Salvador-USA	3,398	80.9			223					478		10		91	4,200
Guatemala-Mexico	3,362	80.0	45	1	472	169	24								4,073
El Salvador-Mexico	3,333	79.3	71		447	194	20								4,065
Canada-Costa Rica	3,323	79.1		630	3										3,956
Dominicana-US	3,235	77.0			227					619		14		103	4,198
Honduras-US	3,205	76.3			218					645		8		124	4,200
Peru-US	3,186	75.8	1	8		481		27	9	1	458		7	23	4,201
Nicaragua-US	3,121	74.3			312					642		14		111	4,200
Costa Rica-US	3,105	73.9			159					724		21		190	4,199
México-Honduras	3,098	73.7	16	166	17										3,297
Colombia-US	3,079	73.3		2		285		37	2	1	774	1	3	17	4,201
Costa Rica-Canada	2,635	62.7		866		2					607				4,110
Honduras-Mexico	2,633	62.7	45	1	452	172	21								3,324

Note: (*) In order for agreements to be consistent and comparable, the analysis is limited to the 4,201 subheadings undergoing no changes in the various revisions of the HS. The relationships in **bold** *italics* include both respective schedules, as they have virtually eliminated tariffs on all products. In the case of US-CACM-Dominican Republic, the six US eliminations have been consolidated into one single one, as the US established a single schedule for all DR-CAFTA members.

The fillings for each cell correspond with the agreements included in each circle, as depicted in Figure 3.

Source: Authors' based on agreements texts.

TABLE 4
TARIFF ELIMINATION IN MERCOSUR/CAN AGREEMENTS, AND BETWEEN THEM AND CHILE AND MEXICO

Tariff Elimination: (Grantor-Beneficiary)	To 2007		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total Negotiated
	Nº	%													
Chile-Bolivia	4,201	100.0													4,201
CAN	4,201	100.0													4,201
MERCOSUR	4,201	100.0													4,201
MERCOSUR-Bolivia	4,201	100.0													4,201
MERCOSUR-Chile	4,201	100.0													4,201
Mexico-Chile	4,144	98.6													4,144
Chile-Colombia	4,089	97.3													4,089
Mexico-Bolivia	4,069	96.9		37											4,106
Bolivia-Mexico	4,022	95.7		37											4,059
Mexico-Colombia	3,954	94.1													3,954
Colombia-Mexico	3,881	92.4													3,881
Mexico-Uruguay	3,878	92.3						11							3,889
Uruguay-Mexico	3,708	88.3						23							3,731
Chile-Peru	3,584	85.3	430					168			17				4,199
Peru-Chile	3,579	85.2	433				2	168			17				4,199
Uruguay-Peru	2,622	62.4		8		727						158			3,515
Peru-Uruguay	2,392	56.9		8		788						315			3,503
Brazil-Colombia	1,192	28.4	437	93	2	1,777					1	6	51		3,559
Brazil-Ecuador	973	23.2	279	226		2,434				75			56		4,043
Colombia-Brazil	956	22.8		578	33	26	179	253		1,226		3	196		3,450
Brazil-Venezuela	945	22.5	474	115	1	2,265					3	15	61		3,879
Colombia-Uruguay	929	22.1		566	37	33	222	364		1,674	1	7	243		4,076
Colombia-Paraguay	764	18.2		595				2,503					199		4,061
Ecuador-Uruguay	764	18.2	4	8				1,844		165			270		3,055
Brazil-Peru	683	16.3	176		562		2,772								4,193
Ecuador-Paraguay	659	15.7		3				2,494		64	26		31		3,277
Ecuador-Argentina	646	15.4		180		126	163	69		2,110			658		3,952
Ecuador-Brazil	620	14.8		173		161	181	99		2,031			567		3,832
Argentina-Ecuador	505	12.0	352		142	270		2,647		43			232		4,191
Uruguay-Colombia	497	11.8		459	38	30	181	334		2,365	2	6	165		4,077
Paraguay-Peru	479	11.4					3,413					301			4,193
Paraguay-Ecuador	476	11.3	2	3				2,795		234	3		196		3,709
Uruguay-Ecuador	473	11.3				2,359		1		402			74		3,309
Venezuela-Brazil	464	11.0		535	21	13	178	246		1,969		12	296		3,734
Paraguay-Venezuela	463	11.0		59	4	12	10			2,928		4	557		4,037
Paraguay-Colombia	462	11.0		19			5			2,955			584		4,025
Uruguay-Venezuela	456	10.9		35	2	1		4		3,293			253		4,044
Venezuela-Paraguay	427	10.2		570		3	18	2,622				2	333		3,975

TABLE 4 (Continued)

Tariff Elimination: (Grantor-Beneficiary)	To 2007		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total Negotiated
	Nº	%													
Venezuela-Uruguay	390	9.3		500		1	2			2,755			376		4,024
Argentina-Colombia	375	8.9	28	87	517	277		2,615		36			150		4,085
Argentina-Venezuela	375	8.9	32	64	439	249		2,714		43			210		4,126
Colombia-Argentina	364	8.7		139	21	22	229	263		2,607		3	350		3,998
Venezuela-Argentina	363	8.6		363	13	17	168	156		2,552	1	14	430		4,077
Peru-Argentina	329	7.8		24					3,179		480			177	4,189
Peru-Brazil	317	7.5		29					3,185		481			181	4,193
Peru-Paraguay	293	7.0					3,238					662			4,193
Argentina-Peru	164	3.9	59		760		3,210								4,193

Note: (*) In order for agreements to be consistent and comparable, the analysis is limited to the 4,201 subheadings undergoing no changes in the various revisions of the HS. Mexico's agreements with Argentina, Brazil, Ecuador, Paraguay and Peru are not included, as under 2000 subheadings have been negotiated all told. The relationships in **bold** *italics* include both respective schedules, as they have virtually eliminated tariffs on all products.

The fillings for each cell correspond with the agreements included in each circle, as depicted in Figure 3.

Source: Authors' based on agreements texts.

TABLE 5
43 VARIABLES IN 1ST AND NEW GENERATION AGREEMENTS' ORIGIN CHAPTERS: CONVERGENCE DIFFERENCES AND SIMILARITIES

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
1	Goods Obtained or Produced Entirely in the Territory of One or More Parties	A	24	19	N. a.	Fishing Products Treatment. Certain US agreements include remanufactured products in this variable. These are treated separately below.	Minor - High level of coincidence in the way most components of this variable are treated.
2	Goods Produced Exclusively from Materials Originating in the Parties' Territories	A	24	19	N. a.	Not identified.	Minor - Similar treatment in all agreements considered.
3	Goods Produced from Originating and non-Originating Materials	A	24	19	N. a.	There is coincidence in criteria for establishing origin, but not in intensity of use.	Minor - Differences in intensity of use do not affect negotiation of the chapter, but impact rules by product.
4	Change of Tariff Classification	A	24	19	All agreements consider this criterion a priority in defining origin requirements. NG and MERCOSUR-CAN agreements also include exceptions.	Admitting the use of exceptions to the change of classification (a feature of NG agreements).	*Uncertain - Most countries use the CC in a variety of ways in some of their agreements. Its use is therefore convergent, but not necessarily the use of exceptions.*
5	Regional Value Content (Share of imported inputs)	A	24	19	All agreements use this criterion to define origin requirements when they deem it is not sufficient or feasible to use the change of tariff classification.	Differences in % required. Single % vs. various %s depending on degree of development. The latter is difficult to agree and is discussed below under differential treatments.	Minor - Expansion of the number of countries in the agreement facilitates compliance with RVC requirements. The % differences required are consequently of less importance.
6	Regional Value Content (Share of originating materials)	NG	4	10	Only included in US agreements, except NAFTA. This means 10 countries in the hemisphere are already using it.	A little used calculation. Its incorporation would require acceptance by 9 countries not using it.	Major - Due to the degree of novelty. It removes the distortion caused by wage differentials in the calculation of RVC. Such distortions facilitate compliance for developed countries
7	Net Cost	NG	11	14	Variable included in some agreements of the US, Canada and Mexico.	US agreements, except NAFTA, concentrate its use in around 53 automotive subheadings.	Major - This market's evolution cannot be predicted given the disparity in treatments.

TABLE 5 (Continued)

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
8	Specific Requirements	PG	10	11	No NG agreement includes them due to different system for defining rules of origin by product.	An aspect linked to how FG agreements on origin requirements are defined. If agreed to negotiate without general rules, the variable would not be needed.	*Uncertain - In product-level negotiations, the non-existence of specific requirements does not prevent defining the same requirements*
9	De minimis	NG	16	15	A feature of NG agreements. But Brazil,* Bolivia, Colombia, and Uruguay include it in their agreements with Mexico, as do Colombia and Peru with the US.	If coincident in its application, the greatest difficulty would consist in agreeing permitted levels and exceptions.	*Uncertain – It is an element that flexibilizes the rigidity of the change of tariff classification criterion.*
10	De minimis for Textiles	NG	16	15	A feature of NG agreements. But Brazil,* Bolivia, Colombia, and Uruguay include it in their agreements with Mexico, as do Colombia and Peru with the US.	If coincident in its application, the greatest difficulty would consist in agreeing permitted levels and exceptions.	*Uncertain - It is an element that flexibilizes the rigidity of the change of tariff classification criterion.*
11	Flexibilities for Compliance with Origin Requirements	M	8	16	Flexibilities negotiated by the countries for circumstantial supply problems. (US Short Supply Lists, mechanisms of some Mexican agreements and the system effective in MERCOSUR).	Expansion of the country set feasible to cumulate could make this area less necessary.	*Uncertain - It is intimately bound up with the negotiation of specific rules and its scope consequently cannot be predicted*
12	Value and Adjustment of Materials	NG	14	15	Not included in FG agreements.	These are accounting details and adjustments to determine the impact of originating and non-originating materials more accurately.	Minor - Operative Aspect
13	Cumulation	A	24	19	N. a.	Cumulation of productive processes.	Minor - It is the priority aim of any convergence process.
14	Treatment of Inputs from Non-Member Countries of the Agreement as Originating	M	6	16	Included in CAFTA, MERCOSUR-CAN, US-Colombia and US-Peru.	Third countries are in the main hemispheric. Consequently, the GOR could render this variable meaningless.	Minor - Though it might seem difficult to agree over what third countries are and what inputs they should be applied to, depending on the convergence member countries, its inclusion could be avoided.
15	Fungible Materials & Goods	NG	18	19	Not treated in FG agreements, but included in MERCOSUR-CAN.	Agreements coincide on all substantive aspects of the variable.	Minor - All countries considered include this variable in their most recent agreements.

TABLE 5 (Continued)

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
16	Sets and Assortments	M	18	19	Not treated in agreements of MERCOSUR, MERCOSUR-Bolivia, MERCOSUR-Chile, Chile-Ecuador, Chile-CAN & NAFTA, but included in MERCOSUR-CAN and all other agreements of Canada, Chile, Mexico and the US.	There are similarities in its definition and requirements. But there are discrepancies in the % of non-originating goods admitted.	Minor - All the countries considered include this variable in their most recent agreements.
17	Accessories, Spare parts & Tools	M	18	19	Not treated in the FG agreements, but included in MERCOSUR-CAN.	Agreements coincide on all substantive aspects of the variable.	Minor - All the countries considered include this variable in their most recent agreements.
18	Packaging Materials for Retail Sale	M	20	19	Not treated in FG agreements of MERCOSUR and Chile-Ecuador, but included in MERCOSUR-CAN and all other Chilean agreements.	Agreements coincide on all substantive aspects of the variable.	Minor - All the countries considered include this variable in their most recent agreements.
19	Containers & Packing Materials for Shipping	M	18	19	Not treated in FG agreements of MERCOSUR-CAN, Chile-Peru or Chile-Ecuador, but included in MERCOSUR-CAN and the other Chilean agreements.	Agreements coincide on all substantive aspects of the variable.	Minor - All the countries considered include this variable in their most recent agreements
20	Indirect Materials Used in Production	M	18	19	Not treated in FG agreements of MERCOSUR-CAN, Chile-Peru or Chile-Ecuador, but included in MERCOSUR-CAN, all other Chilean agreements and Peru-US.	Agreements coincide on all substantive aspects of the variable.	Minor - All the countries considered include this variable in their most recent agreements
21	Intermediate materials used in production	NG	14	15	A feature of NG agreements. But Uruguay, Colombia, and Brazil* include it in their agreements with Mexico, as do Colombia and Peru with the US.	Not identified.	Minor - Given its characteristic of removing discriminatory treatments for businesses with integrated production, its incorporation is felt to be unproblematic.
22	Automotive Regime	M	15	19	Some FG and NG agreements do not include special treatments for this type of good.	Major differences in the level of detail and manner of defining origin requirements across agreements tackling the issue.	Major - Widely differing treatments in agreements comprising the same type of agreement (First and New Generation) and between the two types of agreement. In this sector, NG agreements use net cost.

TABLE 5 (Continued)

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
23	Goods Produced by Assembly	M	18	18	Not treated in the 4 US agreements subsequent to NAFTA, CAN-Costa Rica or Mexico-Uruguay.	Sharp differences over need for its use.	Major - Difficulties may arise over defining assembly. An alternative is to establish a second RVC-based rule.
24	Remanufactured or Repaired Goods	NG	4	10	Only included in US agreements, except NAFTA.	Type of good recently incorporated in WTO negotiations. There is little experience and few studies about its trade.	Major - Due to scant knowledge and experience in the area, how variable the sample of products susceptible to remanufacture has been and the way it has been defined, difficulties in its negotiation are envisaged.
25	Textiles and Apparel	NG	4	10	All agreements except CACM have rules for textiles. The US has incorporated a special detailed regime for verification.	The sensitive nature of various stages and inputs of their productive process may, for some countries, be non-coincident for convergence members.	*Uncertain - Subordinated to the negotiation of product rules. Opposing interests in the sector prevent a prediction of its evolution.*
26	Operations not Conferring Origin	M	21	18	Not treated in CAFTA, US-Peru or US-Colombia.	There is coincidence but the latest US agreements omit its use. This does not, however, imply that they are totally flexibilized.	*Uncertain - A new definition should be produced consolidating all countries' positions.*
27	Direct Shipment, Transit & Transfer; Reexport	A	24	19	N. a.	Agreements coincide on all substantive aspects of the variable.	Minor - High level of coincidence in the way most elements comprising this variable are treated
28	Invoicing by Third Parties	PG	10	16	Variable not included in NG agreements and consequently not prohibited.	Not identified.	Minor - Should its inclusion prove necessary, a new definition should be produced consolidating all countries' positions.
29	Differential Treatment between Countries	PG	5	14	CAN and MERCOSUR set different RVC percentages in their FTAs and in ECAs 58 and 59. The US sets special treatment quotas for some products for a period of years.	While in some agreements differential treatments are for a period of time, in others they are permanent depending on the countries' level of development.	*Uncertain - Depends on the countries participating in the convergence.*
30	Declaration & Certification	M	24	19	N. a.	Differences in the manner of issuing certificates and in the compulsory nature of their use.	*Uncertain - If the use of the certification system envisaged in bilateral agreements is admitted, there will be no major difficulty. Otherwise, it would be one of the most conflictive issues in a negotiation.*

TABLE 5 (Continued)

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
31	Issuance & Validity of Origin Certificates	M	24	19	See Box 1 in section III.C.	Differences in the manner of issuing certificates and in the compulsory nature of their use.	*Uncertain - If the use of the certification system envisaged in bilateral agreements is admitted, there will be no major difficulty. Otherwise, it would be one of the most conflictive issues in a negotiation.*
32	Origin Certificate Format	M	24	19	All, except US-Chile, include format or at least minimum content of the certificate.	Differences in the manner of issuing certificates and in the compulsory nature of their use.	*Uncertain - If the use of the certification system envisaged in bilateral agreements is admitted, there will be no major difficulty. Otherwise, it would be one of the most conflictive issues in a negotiation.*
33	Certifying Entities	PG	9	11	No NG agreement admits this form of certification	Not identified.	*Uncertain - If the use of the certification system envisaged in bilateral agreements is admitted, there will be no major difficulty. Otherwise, it would be one of the most conflictive issues in a negotiation.*
34	Export/Import Obligations	M	18	19	Not treated in FG agreements of MERCOSUR, CAN, Chile-Ecuador or Chile-Peru, but included in MERCOSUR-CAN, and in Chile and Peru's other agreements.	Differences in the manner of issuing certificates and in the compulsory nature of their use.	*Uncertain - Many of the obligations are related to the manner of issuing the certificate.*
35	Advance Rulings	NG	15	15	A feature of NG agreements. But Uruguay and Colombia include it in their agreements with Mexico, as do Colombia and Peru with the US.	The major difficulty stems from agreeing its use rather than the manner of its implementation.	*Uncertain - Operative aspect.*
36	General Records & Bookkeeping Requirements	M	23	19	Not included in the Chile-Ecuador agreement.	Not identified.	Minor - All countries have at least one agreement including this area and all define a period of conservation in one way or another, though this may vary.
37	Origin Verification Procedures	A	24	19	N. a.	Procedures already envisaged in different ways by agreements should be unified.	Minor - Due to the importance countries currently give to these procedures, it is more feasible to reach agreements on the issue.

TABLE 5 (Continued)

Number	Variable	Type of Agreement	Nº of Agreements	Nº of Countries	Agreements not Including the Variable	Potential Major Obstacles to Convergence	Justification of Difficulty (Minor/Major/*Uncertain*) for Convergence Negotiation in the Hemisphere
38	Confidentiality	M	20	19	Not treated in FG agreements of MERCOSUR, CAN, Chile-Ecuador and Chile-Peru, but included in MERCOSUR-CAN and the other agreements of Chile and Peru.	Not identified.	Minor - Due to the nature of the data required on origin, no difficulties over agreeing its incorporation in the GOR are thought to exist.
39	Cooperation	M	13	18	Not treated in FG agreements of MERCOSUR and Mexico, nor CAN, Chile-Ecuador and Chile-Peru.	Not identified.	Minor - The increase in agreements encourages cooperation. Its greatest difficulty lies in effective application.
40	Review and Appeal	NG	16	15	A feature of NG agreements. But Uruguay, Colombia and Brazil* include it in their agreements with Mexico, as do Colombia and Peru with the US.	The major difficulty stems from agreeing its use rather than the manner of its implementation.	Minor - Operative aspect.
41	Sanctions	M	23	19	Not treated in Chile-Ecuador, but included in MERCOSUR-CAN and the other agreements of Chile and Ecuador.	Any crimes and relevant punishments should be categorized.	*Uncertain - Due to the growing importance of origin verification, it would be feasible to include the issue. But there may be difficulties on identifying crimes and their sanctions.*
42	Competent Authorities		23	19	Not treated in Chile-Ecuador.	Agreements coincide on all substantive aspects of the variable.	Minor - No difficulties are foreseen in agreeing the GOR's application and follow-up authorities.
43	Incorporation of Modifications	NG	22	19	Not treated in Chile-Ecuador or Chile-Peru.	No difficulties foreseen agreeing a system to update and modify the GOR.	Minor - An essential operative aspect whose incorporation is thought feasible.

Notes: (*) Although the Brazil-Mexico agreement is not included in the analysis, as they have an agreement with under 700 tariff positions, it is mentioned because the text of the origin chapter includes certain variables new to Brazil.

In the column "Type of Agreement" FG implies that the variable is addressed by First Generation agreements, NG that the variable is addressed by New Generation agreement, A that it is addressed by All agreements, and M that it is addressed by Multiple agreements of both types.

Column 4 shows that 8 of the 43 variables are treated by all agreements, 4 correspond exclusively to FG agreements, 12 are part of NG agreements, and the remaining 19 are included in both types of agreements. In particular, most of these 19 variables belong to NG agreements and are also included in Mexico's agreements with Uruguay and Brazil, and in ECA 58 and 59 (MERCOSUR-CAN) classed as intermediate.

The classification of agreements by type is indicated in Table 6.

Source: Authors' based on agreements texts.

TABLE 6
EXPORTS OF THE 24 MOST REPRESENTATIVE FREE TRADE AGREEMENTS IN THE AMERICAS(*)

Agreement	2004 Exports (in US$)	% of Hemispheric Total	% of Hemispheric Total excluding NAFTA	% of Intra Latin American Total	Joint Population (Millions)	Entry into Force of the OR	Regime Type
DR-CAFTA	24,438,005	2.6	11.9	N. a.	341.9	2006	NG
MERCOSUR	17,078,234	1.8	8.3	23.7	234.8	1998	FG
US-Colombia	11,546,608	1.2	5.6	N. a.	342.1	2007(?)	NG
MERCOSUR-Chile	8,374,045	0.9	4.1	11.6	251.1	1996	FG
Chile-US	8,130,130	0.9	4.0	N. a.	312.8	2003	NG
CAN (inc. Venezuela)	7,528,964	0.8	3.7	10.4	122.6	1997	FG
US-PER	5,687,937	0.6	2.8	N. a.	324.5	2007(?)	NG
MERCOSUR-CAN-ECA 59	4,628,971	0.5	2.3	6.4	320.2	2004	Int.
CACM	3,622,662	0.4	1.8	5.0	36.5	2000	Int.
G3 (inc. Venezuela)	2,727,420	0.3	1.3	3.8	175.3	1995	NG
Chile-Mexico	1,727,226	0.2	0.8	2.4	119.4	1999	NG
MERCOSUR-Bolivia	1,711,457	0.2	0.8	2.4	244.0	1997	FG
MERCOSUR-Peru-ECA 58	1,574,288	0.2	0.8	2.2	262.7	2004	Int.
Mexico-NT	1,455,330	0.2	0.7	2.0	129.8	2001	NG
Chile-Peru-ECA 38	1,131,272	0.1	0.6	1.6	44.3	1998	FG
Chile-CAN	1,050,856	0.1	0.5	N. a.	48.6	1997	NG
Mexico-Costa Rica	563,846	0.1	0.3	0.8	107.4	1995	NG
Chile-Ecuador-ECA 32	434,965	0.0	0.2	0.6	29.5	1994	FG
Chile-CACM	406,576	0.0	0.2	0.6	52.8	2002	NG
Mexico-Nicaragua	190,490	0.0	0.1	0.3	108.6	1998	NG
Mexico-Uruguay	154,213	0.0	0.1	0.2	106.6	2003	NG
Dom. Rep.-CACM (CAFTA)	146,892	0.0	0.1	0.2	45.4	2006	NG
CAN-Costa Rica	91,908	0.0	0.0	N. a.	36.6	1995	NG
Mexico-Bolivia	59,747	0.0	0.0	0.1	112.3	1995	NG
NAFTA	738,582,572	78.2	N. a.	N. a.	431.9	1994	NG
Subtotal of Trade under Agreements	843,044,613	89.3	50.8	74.2			
Total Hemispheric Trade	*944,181,019*	*100.0*	*205,598,447 (100%)*	*72,101,004 (100%)*	*850.9*		

Notes: (*) US agreements with Colombia and Peru are not yet in force.

The trade amounts in the tables correspond to total exports between the agreement's member countries regardless of whether they have been liberalized under the agreement.

Table shows each agreement's share of intra-hemispheric trade (Column 3) and, where appropriate, intra-Latin American trade (Column 5). Column 4 shows each agreement's share of hemispheric trade, excluding NAFTA. These FTAs represent 89% and 74% of intra-hemispheric and Latin American trade, and cover 19 American countries participating in at least two agreements (The countries excluded are CARICOM members and Panama). The agreements comprise the most significant bilateral American relations.

Source: Authors' based on DATAINTAL and World Bank, for population.

TABLE 7
CUMULATIVE LIBERALIZATION OF COINCIDING SUBHEADINGS ACROSS AGREEMENTS[1]

A) NAFTA/CACM Agreements, and between them and Colombia, Chile and Peru[2]

Nº of Schedules (*)		Cumulative Coinciding Subheadings Liberalized												
		Up to 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	After 2018
47 Schedules	Nº	1,294	1,294	1,314	1,386	1,621	1,621	1,636	1,636	1,915	2,759	2,763	2,763	2,825
	%	31	31	31	33	39	39%	39	39	46	66	66	66	67
41 Schedules	Nº	3,155	3,161	3,161	3,463	3,672	3,672	3,678	3,679	4,005	4,027	4,033	4,033	4,059
	%	75	75	75	82	87	87	88	88	95	96	96	96	97
31 Schedules	Nº	4,022	4,024	4,050	4,061	4,100	4,103	4,104	4,104	4,125	4,131	4,132	4,132	4,168
	%	96	96	96	97	98	98	98	98	98	98	98	98	99

*B) MERCOSUR/CAN Agreements, and between them and Chile and Mexico**

Nº of Schedules (*)		Cumulative Coinciding Subheadings Liberalized												
		Up to 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
49 Schedules	Nº	0	0	0	0	0	4	5	10	1,753	1,754	1,774	2,045	2,053
	%	0	0	0	0	0	0	0	0	42	42	42	49	49
41 Schedules	Nº	59	59	86	98	134	266	1,051	1,521	3,186	3,257	3,324	3,643	3,661
	%	1	1	2	2	3	6	25	36	76	78	79	87	87
31 Schedules	Nº	371	408	674	779	1,170	1,899	3,184	3,412	3,927	3,961	4,018	4,150	4,155
	%	9	10	16	19	28	45	76	81	93	94	96	99	99

C) Both Groups of Agreements[2]

Nº of Schedules (*)		Cumulative Coinciding Subheadings Liberalized												
		Up to 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	After 2018
92 Schedules	Nº	0	0	0	0	0	4	5	8	1,240	1,655	1,672	1,918	1,939
	%	0	0	0	0	0	0	0	0	30	39	40	46	46
81 Schedules	Nº	94	96	154	184	265	572	1,586	1,961	3,268	3,362	3,420	3,633	3,669
	%	2	2	4	4	6	14	38	47	78	80	81	87	87
71 Schedules	Nº	584	640	935	1,052	1,525	2,197	3,064	3,273	3,910	3,973	4,008	4,088	4,138
	%	14	15	22	25	36	52	73	78	93	95	95	97	99

Notes: ([1]) If the calculations were made on the total subheadings in the HS, the number of coinciding subheadings may rise, but never fall. These values therefore constitute a preexisting floor for applying extended cumulation.

([2]) The tables are calculated on the assumption that USA-Colombia and USA-Peru will come into force in 2007.

(*) Each bilateral agreement includes two tariff elimination schedules. Trade relations within deep integration schemes (CAN, MERCOSUR and CACM) and MERCOSUR's agreements with Bolivia and Chile are included only once and rounded off to 100%, given the small number of products exempted in these agreements.

Source: Authors' based on agreements texts.

TABLE 8
ACCUMULATED RESULTS OF ECA 58 AND 59 NEGOTIATIONS
(Based on 1st rule)

Partner	Argentina			Brazil			Paraguay			Uruguay		
	CH	Spec.	Total	CH	Spec.	Total	CH	Spec.	Total	CH	Spec.	Total
Colombia	3,361	1,770	5,131	3,359	1,796	5,155	5,091	19	5,110	4,977	142	5,119
Ecuador	3,369	1,767	5,136	2,824	2,315	5,139	4,564	536	5,100	4,749	460	5,209
Venezuela	3,356	1,778	5,134	2,815	2,322	5,137	5,088	42	5,130	4,980	142	5,122
Peru	3,302	2,221	5,523	3,302	2,221	5,523	4,242	982	5,224	4,743	142	4,885
Equal ECA 59	3,350	1,237	4,587	2,805	1,006	3,811	4,545	9	4,554	4,653	110	4,763
%	99.8	70.0	89.4	99.6	56.0	74.2	99.6	47.4	89.3	98.0	77.5	93.0
Equal ECA 58 & 59	3,036	629	3,665	2,679	628	3,307	4,200	5	4,205	4,448	0	4,448
%			71.4			64.4			82.5			91.1

Partner	Colombia			Ecuador			Venezuela			Peru		
	CH	Spec.	Total	CH	Spec.	Total	CH	Spec.	Total	CH	Spec.	Total
Argentina	3,361	1,770	5,131	3,369	1,767	5,136	3,356	1,778	5,134	3,302	2,221	5,523
Brazil	3,359	1,796	5,155	2,824	2,315	5,139	2,815	2,322	5,137	3,302	2,221	5,523
Paraguay	5,091	19	5,110	4,564	536	5,100	5,088	42	5,130	4,242	982	5,524
Uruguay	4,977	142	5,119	4,505	631	5,136	4,980	142	5,122	4,743	142	4,885
Equal ECA 58 & 59	3,205	2	3,207	2,709	0	2,709	2,714	10	2,724	3,291	131	3,422
%			62.8			53.1			53.2			70.1

Note: Table 8 shows the difference in definitions of rules of origin requirements negotiated in the various annexes of specific bilateral rules of ECAs 58 and 59. It identifies for how many tariff openings the first rule has been defined as Change of Heading (CH), and how many with a specific requirement (Spec.). These requirements are *always* different to CH. Each column shows individual countries' negotiations with the partners of these agreements and, on the last lines, the number of products with identical rules in all partners. For the calculation of percentages, the minimum in the column is taken as the total (100%).

Source: Authors' based on agreements texts.

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