

The Mexico – EU Free Trade Agreement Points the Way

A template for British trade policy following EU withdrawal?

By Ian Milne

How global trade is organised

There are approximately two hundred nation-states in the world, of which, so far, only fifteen have entered the customs union that is the Single Market of the European Union ("the EU"). Trade between the other approximately one hundred and eighty-five nation-states, and those states' trade with the EU itself, is largely carried out within the framework of Free Trade Agreements (FTAs). Most custom unions and FTAs conform to the rules of, and are subject to oversight by, the World Trade Organisation.²

The UK is a full member of the EU and therefore a full member of the Single Market. Other countries (for example, Norway) are "associate" members of the Single Market by virtue of the European Economic Area (EEA) agreement, an FTA between the EU Single Market and individual, mainly Nordic, countries. Still other countries (for example, Mexico) obtain most of the benefits of the EU Single Market, through FTAs, with very few of the costs or regulations associated with Single Market membership.

Average tariff barriers between developed countries are now very low. (Tariffs are taxes charged on imports of some categories of goods; services and income flows are tariff-free).

In 2000, average EU External Tariff charged by the UK on goods imported from outside the EU was 1.6 per cent⁴, a percentage which is declining and will continue to decline as a result of the EU concluding more FTAs, and as global trade "rounds" reduce tariffs even further.

Alternatives to Single Market Membership

Alternatives to full membership of the EU and its Single Market exist. If the UK, contemplated complete withdrawal from the EU, and thereby the certainty of regaining control of her worldwide trade policy (which she gave up to the customs union in 1973), she could choose between a number of existing models as the framework for her trade with the EU itself and with the wider world beyond.

She might, for example, decide that there was no need for an FTA at all. Trade between the UK and her biggest single trading partner by far, the USA, is growing faster than her trade with the rest of the world (including with the UK's other 14 EU "partners")⁵, even though there is no EU-US FTA. A recent authoritative American study⁶ estimates that British jobs, trade and output would hardly be effected at all if the UK joined NAFTA, whether or not she stayed in the EU, so free is Anglo-American trade already.

Exporting to the EU

The Mexico-EU FTA and Single Market Membership Compared

Comparison of the costs and regulation to which the Mexican exporter is subject (under the

Mexico-EU Free Trade Agreement) and to which the British exporter is subject (by virtue of British membership of the EU Single Market) when exporting to the European Union.

Criterion	Mexican Exporter	British Exporter	Advantage
Subscription fee paid to the EU by Host government	Zero	£11.9 billion gross in 2000	Mexican
Dispute Settlement	Bilateral negotiation or WTO	Third-party involvement: Brussels and ECJ	Mexican
Duration of Dispute settlement procedure	Six months	Several Years	Mexican
Intellectual Property Rights	Protected under WTO TRIPS Agreement	Protected under WTO TRIPS Agreement	Deuce
Public Procedure Contracts	Free access with permitted exceptions	Free access; in theory, no restrictions; in practise, many	British - just
Movement of Persons	Passport; no visa. Residence permits required in EU countries	Passport; no visa. Residence permit required in some EU countries	British - just
Control over Trade Policy with Rest of World	Fully kept	Ceded to Brussels	Mexican
Foreign Direct Investment: Free Access to EU Markets	Yes, once existing hurdles are removed. In practise, access is restricted	In theory, no restrictions; Deuce in practise access is restricted.	
EU Regulatory Burden on Host Economy	No	Yes: estimated at > 3% of GDP	Mexican

Membership of NAFTA	Yes	No	Mexican
---------------------	-----	----	---------

Taxation

Host Government obliged to operate a VAT system with EU-set bands	No	Yes	Mexican
---	----	-----	---------

VAT: compliance with cumbersome administration: possible advance payment of importer-borne VAT	No	Yes	Mexican
--	----	-----	---------

Host Government obliged to harmonise taxes other than VAT within EU-set bands	No	Yes: fuel duties already, more in pipeline	Mexican
---	----	--	---------

Industrial Goods

Tarriffs	Zero in 2003	Zero	Deuce after 2003
----------	--------------	------	------------------

Quotas	None	None	Deuce
--------	------	------	-------

Compliance with rules of origin	Yes	No, once EU external tariff on imports has been paid	British
---------------------------------	-----	--	----------------

EU Technical standards	Only for exports to EU	For domestic sales as well as exports to EU	Mexican
------------------------	------------------------	---	---------

Services	Almost free access by 2010; some permitted exceptions	Almost free access in theory; some permitted exceptions*	Deuce
-----------------	---	--	-------

Agricultural Products

Tariffs	Zero on 62% by value withing 10 years	Zero; but common price support affects member states differently	British
Quotas	Some	Some, eg Milk	Deuce
National Control of Fisheries	Retained	Ceded to Brussels	Mexican
National Control of Farming	Retained	Ceded to Brussels	Mexican
Membership	Yes	No	Mexican

*Differential national implementation (or non-implementation) of EU regulations, and covert and overt national protectionism, create de facto intra-EU barriers to trade.

The Mexico-EU FTA as a template

But, pre-UE withdrawal, if the UK did decide that her trade with the remaining EU countries should be organised within a bilateral FTA, she could take the recent Mexico-EU FTA as a starting point.

The table above compares the positions of exporters to the EU Single Market: on the one hand of Mexican-based businesses operating wuthing the framework of the Mexico-UE FTA; and, on the other hand, of British-based businesses operating through the UK's full membership of the Single Market. The comparison shows that Mexican exporters are clearly better off than British exporters, with the British having a clear advantage in respect of only four of the tenty-two criteria listed.

References

1. "The fundamental point is that the EC is a customs union, as distinct from a free trade area. In principle, a country can belong at the same time to more than one free trade area. But, in

Pre-EU withdrawal, the UK would have enormous negotiating leverage vis-à-vis the remaining 14 EU countries. For them, the UK is their biggest single export market worldwide (worth ECU 252 billion in 1998) - bigger even than the USA (worth ECU 241 billion in 1998).⁶ Moreover, EU '14' has a large and growing surplus (£47 billion cumulatively 1993-2000) on its trade in goods and services with the UK,⁵ which it would be anxious to protect. For these reasons, and because EU '14' exports to the UK are at least twenty times greater than EU '14' exports to Mexico⁷, **the UK would undoubtedly be able to negotiate an FTA with the EU '14' on substantially better terms than those achieved by Mexico.**

By contrast a customs union does not need to apply rules of origin to goods which cross internal borders within the union. This is because goods from outside enter the union through a uniform external tariff and control

principle, it is not possible for a country to belong at the same time to two different customs unions. Nor can it belong to both a customs union and a free trade area, unless the customs union as a whole is within the free trade area.

2. The reason for this lies in the nature of a free trade area. A free trade area arrangement applies to trade between the countries who are members, but each member retains responsibility for its own external trade relations. It follows that the free trading rules apply only to goods which originate within the members of the free trade area. Otherwise, imports from third countries would pass into the member which had the lowest or zero external tariffs and would then be re-exported to other countries within the free trade area. The member countries would then no longer be able to control their own trade relations with third countries.
3. In order to avoid this happening, customs checks need to be maintained between the members of the free trade area and rules of origin are applied to discriminate between goods from outside the area and goods from within. Because of the need to combat avoidance devices, such as minor re-assembly operations on goods in substance manufactured outside the area, rules of origin tend to develop considerable complexity.

regime, which (at least in theory) will be consistently applied by customs posts whatever country the goods enter through. Thus, it is possible within a customs union to dispense with routine customs checks on goods moving between member states, and this has been done within the EC since 1993".

Extract from chapter by Martin Howe, QC, Could the United Kingdom Join a Global Free Trade Association?, in The World Turned Rightside Up, IEA Occasional Paper 114.

1. See Global Britain Briefing Note No 5, The World Trade Organisation, 19th November 1999.
2. Global Britain Briefing Note No 8, The Mexico-EU Free Trade Agreement, 2nd June 2000
3. See eurofacts 30th November 2001 EU Tariffs Dwindling towards Zero.
4. See Global Britain Briefing Note No 18, UK Trade in 2000 and Growth 1993-2000, 1st February 2002.
5. Carried out by the International Trade Commission for the US Congress. See eurofacts, 22nd September 2000, No benefit to UK from EU membership, says US government study. See also eurofacts, 17th March 2000, Nine British jobs in ten are not linked to exports to the EU.
6. Source: Eurostat: Geographical Breakdown of the EU Current Account, December 1999, ISBN 92-828-9831-8.