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The Mexico – EU Free Trade Agreement

The most ambitious free trade agreement in terms of coverage ever negotiated by the EU

Pascal Lamy, EU Trade Commissioner, 24th November 1999

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Mexico leads the world in free trade

Mexico is now the world's seventh trading power (counting the European Union as one country in trade terms). Total trade in goods in 1999 was US $279 billion (US $137 billion in exports and US $142 billion in imports). Mexico is also the Americas' fourth largest economy with a GDP of US $475 billion in 1999 and a population of 96.3 million. Between 1995 and 1999 Mexico's economy grew at 5.0% per annum (in real terms) and Mexico's trade grew at 16.4% per annum (in US $ terms), whilst foreign direct investment is running at over US $11 billion per annum.

Mexico's success has been founded on sound public finance, deregulation, privatisation, free trade and openness to foreign direct investment. Following Mexico's free trade agreement (FTA) with the EU, Mexico will have over 90% of its trade covered by FTAs, a higher proportion than any other major economy.

The North American Free Trade Agreement of 1993 was just the most prominent of a series of FTAs signed by Mexico in the 1990s. The only major Western Hemisphere countries with which Mexico has not at least started negotiating FTAs are Argentina and Brazil. A Free Trade Area of all the Americas is a possibility in the medium term.

The NAFTA, in particular, has brought great economic benefits to Mexico without any

Typically, for a product containing non-originating material to have originating status, either that non-originating material must have undergone a specified processing operation or its cost must not exceed a given percentage of the product's ex-works price. Simple operations such as the assembly of imported components are in general excluded.

A Special Committee will work to enhance co-operation in customs procedures and rules of origin. Officially approved exporters will benefit from simplified customs requirements.

Non-Tariff Barriers

Most restrictions on trade, including quotas and import and export licenses, will be removed immediately. EU car manufacturers will temporarily be restricted to a 15% share of Mexico's new car market (as compared to their current 2% market share) but as from 2007 they will have unrestricted access.

The agreement also brings into the bilateral framework the Parties' commitments under the WTO Agreements on national treatment (non-discrimination between imported and locally sourced products in national markets), dumping, subsidies, customs valuation, technical standards and sanitary and phytosanitary measures. Special Committees will work to prevent such standards and measures creating arbitrary or loss of sovereignty or independence. Sharing equal status with the USA and Canada in the NAFTA has enhanced Mexico's international standing, in particular as an active independent member of the World Trade Organisation (WTO). The idea of a customs union (of which the EU is the world's prime example) was never considered as Mexico's external trade interests are very different from those of the USA and Canada.

The EU and Mexico both expect that their FTA will result in a rapid increase in trade in goods between them from the modest level of US $18 billion in 1999. They also anticipate a big increase in investment in Mexico by European companies wanting to manufacture within the North American Free Trade Area.

The Mexico - European Union FTA

Legal Status

The FTA reached between Mexico and the EU on 24th November 1999 is as comprehensive in its coverage as the NAFTA and the most comprehensive ever entered into by the EU. Negotiations were conducted within the framework of a "Global Agreement" signed on 8th December 1997, which also provided for regular political dialogue and extended cooperation between the EU and Mexico.

The part of it covering goods, public procurement and competition will enter into force on 1st July 2000. The second part, which covers services, investment and intellectual property rights, still requires ratification by some EU member states but is also expected to enter into force on 1st July 2000. The agreement is expected to meet the WTO Agreements' requirements for a free trade area in goods (Article XXIV of GATT) and for an economic integration agreement in relation to services (Article V of GATS).

Organisation

unjustifiable barriers to trade.

Services

The Parties will within three years agree to eliminate within ten years substantially all remaining discrimination between them in almost all sectors of trade in services, primarily by removing limitations on their service suppliers' freedom to operate in each other's territory. The only important exceptions are air transport, audio-visual services and maritime coastal trade. The access accorded EU service suppliers to Mexican markets will be at least as favourable as that accorded USA and Canadian service suppliers under the NAFTA.

Intellectual Property Rights

The agreement brings into the bilateral framework the Parties' existing commitments under the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). A Special Committee on Intellectual Property Matters may be convened by either Party whenever difficulties arise in the protection of intellectual property.

Investment and related payments

The Parties undertake not to introduce any new restrictions on payments related to direct investment and will progressively eliminate existing restrictions. They also agree to promote an attractive and stable environment for reciprocal investment.

Public Procurement

The EU will have access to Mexico's public procurement markets on the same basis as the USA and Canada under the NAFTA. Mexico will have access to the EU's public procurement markets within the framework defined by the 1994 Agreement on Public Procurement (to which the EU and 23 other countries are party). In essence each Party will give the other Party's contractors access to its public procurement markets on the same terms as its own contractors, subject

A Joint Council of the European Commission, the Council of the EU and the Mexican Government will bear overall responsibility for implementing the Global Agreement. A Joint Committee of senior civil servants will be responsible for the operation of the agreement and will report annually to the Joint Council. Various Special Committees will in turn report to the Joint Committee. No secretariat is envisaged.

Goods

Industrial products

Industrial products account for 95% of total bilateral trade in goods between the EU and Mexico. Tariffs will be eliminated as follows:-

- *Mexican exports to EU*
- EU tariffs, which currently average around 3%, will be eliminated for 82% of imports by value immediately and phased out for the remaining 18% by 1st January 2003.
- *EU exports to Mexico*

Mexican tariffs will be eliminated for 47% of imports by value immediately and phased out for the remaining 53% over periods ending on 1st January 2003, 2005 or 2007. The weighted average tariff will be halved from 8.1% to 4.0% immediately and further reduced to 1.6% by 2003. From 2003 no tariff will exceed 5%. Tariffs on new cars will be cut from 20% to 3.3% immediately and eliminated by 2003.

Agricultural products

Agricultural products account for 5% of total bilateral trade in goods between the EU and Mexico. Tariffs will be phased out on 62% of that trade over periods of between three to ten years. Tariff negotiations on sensitive products such as meat, dairy products, cereals and bananas are being deferred.

Rules of Origin and Customs Co-operation

To qualify for reducing or zero tariffs to minimum threshold levels.

EU access to some Mexican public procurement contracts e.g. PEMEX (Petróleos Mexicanos) and CFE (Comisión Federal de Electricidad) will be phased in over 10 years, whilst other Mexican sectors such as public utility and transportation services will remain closed.

Competition

The competition authorities of the EU and Mexico will cooperate with regard to the application of their respective competition laws and present a joint annual report to the Joint Committee.

Dispute Settlement

The Parties agree to make every effort to settle potential disputes bilaterally, either on their own or through decisions of the Joint Committee. Either Party has the right to request arbitration by a specially established panel, which will normally present its final report within four to six months. A panel may authorise appropriate retaliatory measures if one Party refuses to comply with its final report. Either Party may, as an alternative, opt to use the WTO dispute settlement system. The European Court of Justice will of course have no role in Mexico-EU dispute settlement.

Implications for the UK and Europe

The Mexico-EU FTA should help Anglo-Mexican trade expand from its current modest level (£1.2 billion in 1998).

Under the FTA with the EU, Mexico obtains most of the benefits of the Single Market with none of the costs or regulations. It retains the right (unlike the UK) to negotiate whatever trade arrangements it wants with non-EU countries. For countries in the European Economic Area, like Norway, and the many Eastern European countries involved in the EU enlargement process, the Mexico-EU FTA is clear evidence that alternatives to full or partial membership of products must comply with detailed rules of origin conforming broadly to the EU's standard model for the "harmonisation process of preferential rules of origin applicable to third countries".

the Single Market exist. In the years ahead, as existing member states evaluate the costs and benefits of EU membership, they also may wish to explore such an alternative.