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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Recommendation for a Council Decision

authorising the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy to open negotiations and negotiate with Mexico a modernised Global Agreement

Executive Summary Sheet

Impact assessment on the opening of negotiations and the negotiation with Mexico of a modernised trade pillar of the EU-Mexico Global Agreement

A. Need for action

Why? What is the problem being addressed?

Fifteen years after its entry into force, the trade pillar of the EU-Mexico Global Agreement ('the EU-Mexico FTA'), even though it was implemented in a satisfactory way, does not address some of the important trade and investment issues relevant today (e.g. non-tariff barriers, intellectual property rights including geographical indications, contribution of trade and investment to sustainable development) in the way other comprehensive agreements concluded since then by the EU or Mexico (e.g. the Comprehensive Economic and Trade Agreement (CETA) concluded with Canada) do. As a consequence, there is an unfulfilled bilateral trade and investment potential on both sides which results in higher prices, less choice and innovation available for EU and Mexican consumers and lost opportunities to capture welfare, labour and wage benefits. On-going negotiations on both sides, such as those for the Transatlantic Trade and Investment Partnership (TTIP) or the Trans-Pacific Partnership (TPP) might intensify these problems. Finally, EU trade with Mexico faces increased competition from third countries, such as China and other Asian countries.

What is this initiative expected to achieve?

The objective of this initiative includes: enhancing mutual market access for goods, services and investment, promoting greater economic integration, strengthening competitiveness, ensuring a high level of protection of intellectual property rights, eliminating, preventing and reducing unnecessary barriers to trade, reinforcing bilateral cooperation and contributing to the EU and Mexico's shared objectives on sustainable development. This will help promote smart, sustainable and inclusive growth and contribute to the creation of job and labour opportunities and welfare gains, lower consumer prices, and other consumer benefits.

What is the value added of action at the EU level?

According to Article 5(3) TEU, the subsidiarity principle does not apply in areas of exclusive EU competence. The common commercial policy is listed among the areas of exclusive competence of the Union in Article 3(1)(3) TFEU. This policy includes the negotiation of trade agreements pursuant to Article 207 TFEU. Moreover, the Foreign Affairs Council conclusions on trade of 21 November 2014 underlined that trade in goods, services and investment can make a significant contribution to achieve the aims at the core of the '*Strategic Agenda for the Union in times of change*' and highlighted that, building on the tangible progress made in the EU's bilateral trade agenda, further efforts should be devoted to pursuing agreements with key partners.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

The impacts of three policy options were analysed and compared:

- a baseline scenario (option A) which does not include any substantial policy changes,
- a 'sectoral scenario' (option B) which would entail reviewing the existing EU-Mexico FTA on the basis of the three sectoral review clauses (foreseen in Decisions 2/2000 and 2/2001 of the EU-Mexico Joint Council) for further liberalisation in agriculture, services and investment, and
- a comprehensive scenario (option C) which would involve negotiations on a broad range of issues that both sides wish to address, as set out in the Joint Vision Report (outcome of the informal exploratory discussions 'scoping exercise'), including market access in agriculture, trade in services, investment, technical barriers to trade, sanitary and phytosanitary measures, intellectual property rights, public procurement, trade facilitation, competition, trade and sustainable development. It should be noted that, for this option, two sub-scenarios were considered - one conservative and one more ambitious - that differ on the extent to which NTBs could be removed.

Option C appears as the most preferable option. Either of the two sub-scenarios of option C would be preferable to both the baseline scenario and the sectoral scenario for all criteria (general objectives, specific objectives and overall effectiveness).

Who supports which option?

The preferred option for the EU would be a comprehensive and ambitious modernisation of the FTA (Option C). This is in line with both the EU-CELAC¹ Santiago Summit declaration of January 2013 and the EU-Mexico Summit on 12 June 2015, and consistent with the outcome of the scoping exercise with Mexico, which concluded that both sides share a strong interest in a comprehensive and ambitious modernisation of the FTA.

¹ Comunidad de Estados Latino-Americanos y Caribeños.

To note, only one respondent to the public consultation is against this option and almost all of the expressed opinions support it. Finally, this option is consistent with the stated policy of both the EU and Mexico to negotiate modern FTAs of a deep and comprehensive nature, such as CETA or TTIP or, in the case of Mexico, the TPP.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

According to the CGE modelling, the overall economic impacts of Option C are consistently positive for both partners. Reducing the costs of trade should allow both the EU and Mexico to achieve considerable benefits in the more ambitious sub-scenario. Such benefits include increases in GDP, welfare and exports, employment, wages (for both less skilled and more skilled employees), competitiveness and an improved position for both the EU and Mexico in respect of other global competitors. While the figures, relative to the size of the EU economy, might at first sight appear modest, they in fact represent significant gains in absolute terms. The inclusion of provisions on sustainable development would also have a positive impact on the promotion and respect of human rights as well as the effective implementation of International Labour Organisation (ILO) core labour standards and the progress towards ratification of the fundamental ILO Convention on the right to organise and collective bargaining not yet ratified by Mexico. As regards the environmental impacts, an ambitious reduction of NTBs is expected to have a positive effect on trade in environmental goods and services, resulting in a tangible improvement of the environment.

What are the costs of the preferred option (if any, otherwise main ones)?

Overall and especially over the longer term, the impact of a modernised agreement on living standards and the right to an adequate standard of living is expected to be positive. However, some sectors are estimated to experience falls in sectoral output.

Concluding an ambitious modernised EU-Mexico FTA could have potentially negative impacts on the environment arising from an increase in trade and production. However, this should be seen in light of the overall policy and regulatory framework in which trade and production take place, in which e.g. the overall impact on global CO2 emissions is effectively limited by existing emission ceilings commitments of both parties under the United Nations Framework Convention on Climate Change (UNFCCC).

How will businesses, SMEs and micro-enterprises be affected?

A modernised EU-Mexico FTA would create an opportunity to strengthen existing cooperation and find new ways and programmes to help SMEs increase exports. SMEs should gain from the modernisation of the EU-Mexico FTA on a number of levels: non-tariff barrier cost reduction, simpler rules of origin, increased regulatory cooperation between the EU and Mexico as well as convergence towards international standards.

The results of the public consultation carried out in the framework of this Impact Assessment clearly expressed the particular need of SMEs for greater advice and assistance on how to break into export markets, and into the Mexican market in particular.

Will there be significant impacts on national budgets and administrations?

Modernising the EU-Mexico FTA would have very limited effects on national budgets and the budget of the EU, notably through the loss of own resources in the form of customs duties, as most of the customs duties are already eliminated. The loss from tariff revenue could be around Euro 11.6 million in the ambitious (11.5 million € in the conservative) scenario, based on the projected value of duty income in 2028.

Will there be other significant impacts?

The potential impact on human rights, although difficult to clearly quantify at this stage, could be positive. Different provisions in the FTA could have a general positive impact on human rights related issues such as child labour. The inclusion of anti-corruption provisions could also be considered in order to increase cooperation and participation of government and civil society in the fight against corruption and thereby achieve a positive impact. More generally, a modernised FTA would be part of a modernised Global Agreement, in which provisions enjoining the parties to respect and cooperate on human rights play a prominent role.

D. Follow up

When will the policy be reviewed?

In line with the *Communication on Trade, Growth and World Affairs*, and the '*Trade for all - Towards an More Effective, Transparent and Responsible Trade and Investment Policy*' *Communication*, there will be a rigorous ex post evaluation of the effects of any modernised agreement concluded with Mexico when the agreement will have been in force for sufficient time to ensure availability of meaningful data.