Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report

Multiple Framework Contract TRADE 2014/01/01 • Request for services TRADE2017/C3/C08 • November 2017
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List of abbreviations

AVE  Ad Valorem Equivalents
APEC  Asia Pacific Economic Cooperation
ASEAN  Association of South East Asian Nations
BoP  Balance of Payments
CETA  EU-Canada Comprehensive and Economic Trade Agreement
CGE  Computable General Equilibrium
CH₄  Methane
CNDH  Comisión Nacional de Derechos Humanos (National Human Rights Commission)
COFEMER  Comisión Federal de Mejora Regulatoria
CO₂  Carbon Dioxide
CSD  Civil Society Dialogue
DG  Directorate General
EC  European Commission
EEN  Enterprise Europe Network
EPI  Environmental Performance Index
EPRS  European Parliamentary Research Service
EU  European Union
EV  Equivalent Variation
F_V  GTAP for fruits and vegetables
FAO  Food and Agriculture Organization
FDI  Foreign Direct Investment
FTA  Free Trade Agreement
FTAAP  Free Trade Area of the Asia Pacific
GA  Global Agreement
GATT  General Agreement on Trade and Tariffs
GDP  Gross Domestic Product
GHG  Green House Gas
GIs  Geographic Indications
GPA  Government Procurement Agreement
GRO  GTAP for Coarse Grains
GSP  Generalized System of Preferences
GTAP  Global Trade Analysis Project
IACHR  Inter-American Court on Human Rights
IEA  International Energy Agency
ILO  International Labour Organization
IPR  Intellectual Property Rights
LDC  Least Developed Country
LMDI  Log Mean Divisa Index
LSE  London School of Economics and Political Science
MEA  Multilateral Environmental Agreements
MFN  Most Favoured Nation
MPI  Market Performance Indicators
NAFTA  North American Free Trade Agreement
NGO  Non-Governmental Organization
NTB  Non-Tariff Barriers
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>NTM</td>
<td>Non-Tariff Measures</td>
</tr>
<tr>
<td>N₂O</td>
<td>Nitrous Oxide</td>
</tr>
<tr>
<td>OBS</td>
<td>GTAP for Other Business Services</td>
</tr>
<tr>
<td>OCR</td>
<td>GTAP for Other Crops</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OSG</td>
<td>GTAP for Public Administration</td>
</tr>
<tr>
<td>RCA</td>
<td>Revealed Comparative Advantage</td>
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<tr>
<td>RoW</td>
<td>Rest of World</td>
</tr>
<tr>
<td>RoO</td>
<td>Rules of Origin</td>
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<tr>
<td>RTA</td>
<td>Regional Trade Agreements</td>
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<tr>
<td>SIA</td>
<td>Sustainability Impact Assessment</td>
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<tr>
<td>SME</td>
<td>Small Medium Enterprise</td>
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<tr>
<td>SOE</td>
<td>State Owned Enterprises</td>
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<tr>
<td>SPS</td>
<td>Sanitary &amp; Phytosanitary</td>
</tr>
<tr>
<td>TBTs</td>
<td>Technical Barriers to Trade</td>
</tr>
<tr>
<td>TEC</td>
<td>Trade by Enterprise Characteristic</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>ToR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
<tr>
<td>TRD</td>
<td>GTAP for Trade</td>
</tr>
<tr>
<td>TRIPS</td>
<td>Trade Related Aspects of Intellectual Property Rights</td>
</tr>
<tr>
<td>TRQ</td>
<td>Tariff Rate Quotas</td>
</tr>
<tr>
<td>TTIP</td>
<td>Trans-Atlantic Trade and Investment Partnership</td>
</tr>
<tr>
<td>UEAPME</td>
<td>European Association of Craft, Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environmental Program</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<tr>
<td>UN UPR</td>
<td>UN Universal Periodic Review</td>
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<tr>
<td>US</td>
<td>United States</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Executive Summary

LSE Enterprise, the consulting arm of the London School of Economics and Political Science (LSE), is carrying out a Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement (GA) between the European Union (EU) and Mexico.

The SIA provides an assessment of the potential economic, social and environmental effects resulting from trade and trade-related provisions of the modernised GA in the EU and Mexico as well as third countries, including developing countries, and Turkey which is in a customs union with the EU. This inception report offers preliminary screening of key issues while reviewing the process and the methodology envisaged for the project. The interim report then extends upon the preliminary screening to offer a preliminary analysis of the key issues identified herein this report.

The final report will also include recommendations to maximise the benefits of the agreement while ensuring the competitiveness of enterprises and preventing or minimising potential negative impacts.

The SIA team complements the quantitative and qualitative analysis conducted for the SIA with input from stakeholders. The objective of the consultation process is not only to ensure greater understanding and awareness among stakeholders of the Trade SIA methodology but also to increase transparency and accountability.
1. Overview

LSE Enterprise, the consulting arm of the London School of Economics and Political Science (LSE), is carrying out a Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement (GA) between the European Union (EU) and Mexico.

1.1. Background

1.1.1. Recent negotiation rounds on the modernization of the GA

The EU is Mexico’s third-largest global trade partner after the United States (US) and China. In 2016, the EU represented 10.1% of Mexico’s international trade.¹ Mexico and EU trade relations have been framed by the GA, which entered into force in 1997.² The GA focuses on commercial liberalisation with a free trade area, political dialogue and co-operation. It covers trade in goods such as industrial products, government procurement, and competition³ and covers trade in services such as maritime transport, financial services, investment, intellectual property, dispute settlement.⁴ The European Commission and Mexico launched the modernisation of the Global Agreement in May 2016.

The EU-Mexico Agreement already has World Trade Organization (WTO)+ provisions for Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary (SPS) provisions, including regulatory cooperation frameworks (as well as provisions establishing cooperation to achieve mutual recognition). Since the GA addressed bilateral tariffs in non-agricultural good sectors, the modernisation is expected to go further vis-à-vis agricultural tariffs, non-tariff barriers and in the case of agriculture, particularly geographical indications (GIs).⁵ Thus the aim of the modernisation is to bring EU-Mexico trade pillar in line with more recent free trade agreements (FTAs), such as the EU-Canada Agreement (CETA), in particular non-tariff barriers, intellectual property rights including geographical indications, contribution of trade and investment to sustainable development.

At the beginning of May 2017, after the third round of negotiations between the EU and Mexico, Commissioner Malmström confirmed that both parties aim to conclude negotiations in 2017.⁶ Negotiations have proceeded at a fast pace with the fourth and fifth round of negotiations taking place in June and September 2017, respectively, and a sixth round set to take place between the 25 November to 1 December 2017.

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¹ DG Trade Statistics EU-Mexico.
² L 276/45; OJEC 2000
⁴ Decision No 2/2001 of the EU-Mexico joint Council of 27 February 2001 implementing Articles 6, 9, 12(2)(b) and 50 of the Economic Partnership, Political Coordination and Cooperation Agreement, OJEC L 70/7.
⁶ Speech by EU Trade Commissioner Cecilia Malmström, 2017.
1.1.2. **Mexico and Free Trade Agreements: An Overview**

Over the past two decades, Mexico has embraced the increasing openness of the global economy to become the 13th most open economy in the world (Villarreal, 2017). Between 1994—the year the North American Free Trade Agreement (NAFTA) came into effect—and 2016, Mexico has concluded a total of 11 FTAs with 46 countries, which jointly account for a market of 1.2 billion consumers (Secretaría de Economía; ProMéxico, 2016). The country’s exports during this time increased 515%, from US$60.8 billion to US$373.9 billion and its imports increased by 388%, from US$79.3 billion to US$387.1 billion (Ibid).

Mexico’s embracement of the global economy has continued manifesting itself in recent efforts. Notably, the country has been in pursuit of new and increasingly ambitious partnerships, such as the Trans-Pacific Partnership (TPP). In parallel to the pursuit of new agreements, Mexico has embarked on a series of internal structural reforms and strategic economic pacts to secure new opportunities for trade operators and investors. The reforms not only seek to loosen the restrictions on key sectors previously closed off to foreign investment, such as energy and telecommunications, but also to fundamentally transform rule of law, transparency, and anti-corruption mechanisms.

As the real and perceived protectionist sentiment from the United States (US) rises while the benefits of Mexico’s structural reforms materialize, Mexico sits upon a decisive opportunity to diversify export markets and import sources with the approval of new and ambitious FTAs, reduce its current dependence on the US, and capitalize on the benefits of the structural reforms. To achieve this, however, the country must adopt an assertive stance in seeking out and deepening partnerships.

Mexico’s short-term trade prospects lie subject to a series of factors. First, Mexico will strive to find a way to subsume its differences with the US administration’s protectionist agenda and modernize NAFTA to produce a result that proves beneficial across the board. The United States may seek only modest amendments to issues pertaining to public procurement and rules of origin, among others. Nevertheless, the current Mexican government’s low approval ratings, the weak currency, and low oil prices have created little room for any initiatives, even modest ones, that could appear like an imposition from the US government.

With the European Union, Mexico’s third largest trading partner, the country will continue ongoing efforts to renegotiate the Global Agreement in a manner that will be mutually beneficial. Discussions have so far revolved around government procurement, intellectual property rights (IPR) protection, and small and medium sized enterprises (SMEs), and include finding ways to ensure that the European Union benefits from Mexico’s structural reforms, among other topics (European Commission, 2017).

As for the Asia-Pacific region, Mexico will explore options on how to continue promoting the TPP, or economic integration with the Asia-Pacific region more broadly, in the absence of United States. Nevertheless, given that the TPP must be ratified by countries that account for 85% of the deal’s economic output, the prospects for the current deal, as is, without United States’ support, appear dubious at best. Still, negotiations between the remaining signatory countries would remain a possibility, as is a future iteration of the bill.

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7 These include: Chile, EFTA, Uruguay, Japan, Colombia, Israel, Peru, Central America, Panama, Pacific Alliance Trade Protocol, and framework agreement with Mercosur countries.
1.2. Research Aims and Objectives

The aim of the current assessment is to complement and develop the analysis of expected economic, social, human rights and environmental impacts conducted in the impact assessment completed by the Commission. The SIA will be conducted over the course of the negotiations and complement the analysis by engaging with multiple stakeholders in the EU and Mexico, both to raise awareness of the modernization of the Global Agreement and to collect additional insights specific to sectors of interest for the EU and Mexico and concrete social, human rights, and environmental issues.

The SIA will also take into account negotiations being conducted in parallel by either the EU or Mexico, and issues of multilateral cooperation. This fully reflects the overall aim of the modernization of the trade pillar of the Global Agreement, whose objective is to delineate a new framework for the EU-Mexico trade and investment relationship comparable with the latest generation of trade agreements in which Mexico and the EU are engaged.

The SIA is guided by six key principles found in the European Commission’s Handbook for Trade Sustainability Impact Assessment, which are presented in Figure 1.

**Figure 1: SIA Principles**

2. Methodology and Tools

2.1. General Remarks

2.1.1. List of Tasks

This section of the inception report provides an overview of the methodology adopted for the work presented in this report as well as a description of how the LSE Enterprise team will accomplish the general and specific objectives of the following project phases. An overview of analytical methods to address the tasks is outlined in Table 1, a list of preliminary indicators is provided in Table 2, and a detailed description of the methodology follows.

**Table 1: Research Tasks**

<table>
<thead>
<tr>
<th>Tasks</th>
<th>Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overall analysis of sustainability impacts and cross-cutting issues: Least Developed Countries (LDCs), Small and Medium Enterprises (SMEs), and consumers</td>
<td>Inception and implementation</td>
</tr>
<tr>
<td>1.1. Economic analysis: modelling, analysis of non-tariff measures NTMs (incl. TBTs, SPS, government procurement, IPR, GIs, investment barriers, competition, State Owned Enterprises, local content requirements, customs and internal regulations vis-à-vis import licensing, export restrictions, and services related to labour mobility and mutual recognition of qualifications and e-commerce.</td>
<td></td>
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<tr>
<td>1.2. Social analysis: direct and indirect social impacts and impacts on social policies, including education and public health;</td>
<td></td>
</tr>
<tr>
<td>1.3. Human rights analysis: direct and indirect impact on human rights; vulnerable groups ((low income, children with disabilities, ethnic minorities, indigenous peoples, unskilled workers, older and less educated consumers) and gender equality;</td>
<td></td>
</tr>
<tr>
<td>1.4. Environmental analysis: direct and indirect impact on the environment; energy-intensive and primary energy producing sectors; sustainable production and consumption.</td>
<td></td>
</tr>
<tr>
<td>2. Detailed analysis of specific sectors</td>
<td>Proposed sector selection in inception; Implementation phase</td>
</tr>
<tr>
<td>2.1. Industrial products</td>
<td></td>
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<tr>
<td>2.2. Agricultural products and fisheries</td>
<td></td>
</tr>
<tr>
<td>2.3. Business services</td>
<td></td>
</tr>
<tr>
<td>3. Consultation process</td>
<td>Inception and implementation phase</td>
</tr>
</tbody>
</table>
4. Recommendations to maximize the expected benefits of the modernization and prevent/minimise potential negative impacts

2.1.2. **List of preliminary indicators**

Table 2 provides an overview of the sustainability impact assessment indicators previewed for the SIA analysis. The indicators are based on important sustainability themes, as outlined in the Handbook for Trade Sustainability Impact Assessment. Building on this information, certain additional themes and indicators have been selected.

**Table 2: Selected indicators**

<table>
<thead>
<tr>
<th>Dimension / sectoral analysis</th>
<th>Themes</th>
<th>Indicators</th>
</tr>
</thead>
</table>
| Economic / sectoral analysis  | ▪ Economic performance  
▪ Trade / trade competitiveness  
▪ Income  
▪ Market attractiveness  
▪ Macro-economy  
▪ Labour market  
▪ Functioning of markets for businesses  
▪ Consumer welfare and detriment  
▪ Rest of World (RoW)  
▪ SMEs | Gross Domestic Product (GDP), exports (as a contribution to GDP), trade and investment flows, Revealed comparative advantage (RCA, Balassa index); Foreign Direct Investment (FDI) stock; FDI flow; business environment; localised production; household income, consumption, terms of trade, sectoral output; reallocation of jobs, wages, real GDP growth per capita; consumer prices (rents, imports), product quality; Consumer prices (rents, imports), product quality, consumer choice (import as proxy for increased product variety), consumer choice, consumer safety and protection issues |
| Social analysis               | ▪ Decent work (full and productive employment, rights at work, social protection and social dialogue)  
▪ Education  
▪ Health/public health  
▪ Equality (e.g. gender equality, discrimination, people with disabilities, consumer protection)  
▪ Security  
▪ Population | Reallocation of jobs, real wages, public expenditure; healthcare cost as share of GDP; Workforce participation rate; unemployment; Gini coefficient; wage gap (gender); level of compliance with International Labour Organization (ILO) conventions; gender equality; vulnerable groups proportion |
### 3. Economic analysis

#### 3.1. Methodology

The literature on potential effects of planned and realized FTAs is rich. Depending on the nature of the research question, different scientific methodologies are widely applied: ex-ante versus ex-post, partial versus general equilibrium, quantitative versus qualitative analysis, and positive versus normative analysis. The greatest part of past and most recent literature deploy CGE models. These models are applied to simulate the quantitative effects of potential or realised trade liberalization on trade flows, per capita income and others.

We focus in particular on previous studies that analyse the effects of the existing GA and on studies of potential or intended FTAs of Mexico with particular interest in NFTA and its effects on

<table>
<thead>
<tr>
<th>Human rights analysis</th>
<th>Environment analysis</th>
<th>Economic analysis</th>
</tr>
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</table>
| ▪ Adequate standard of living  
▪ Property  
▪ Fair trial  
▪ Freedom of expression and opinion  
▪ Privacy  
▪ Cultural life  
▪ Indigenous peoples  
▪ Right to water  
▪ Right to highest attainable standard of physical and mental health. | ▪ Air and climate  
▪ Biodiversity  
▪ Land use  
▪ Energy, resource efficiency  
▪ Environmental quality  
▪ Regulatory environment  
▪ Water, oceans, seas and coast  
▪ Waste  
▪ Transport  
▪ Chemicals | ▪ Human rights compliance record; Stakeholder consultation processes in place; Inclusion of human rights' clauses in trade agreements; Transparency  
▪ Energy intensity by sector; resource use and efficiency; CO$_2$ emissions; land use intensity; Greenhouse Gas (GHG) emissions (CH$_4$ and N$_2$O); Energy intensity by sector; Resource use and efficiency; level of deforestation; waste intensity/production; Level of protection of threatened species, use of fertilizers and pesticides in agriculture; ecosystems and biodiversity compliance with Multilateral Environmental Agreements |

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Human rights analysis

- Adequate standard of living
- Property
- Fair trial
- Freedom of expression and opinion
- Privacy
- Cultural life
- Indigenous peoples
- Right to water
- Right to highest attainable standard of physical and mental health.

Environmental analysis

- Air and climate
- Biodiversity
- Land use
- Energy, resource efficiency
- Environmental quality
- Regulatory environment
- Water, oceans, seas and coast
- Waste
- Transport
- Chemicals

Economic analysis

- Human rights compliance record; Stakeholder consultation processes in place; Inclusion of human rights' clauses in trade agreements; Transparency
- Energy intensity by sector; resource use and efficiency; CO$_2$ emissions; land use intensity; Greenhouse Gas (GHG) emissions (CH$_4$ and N$_2$O); Energy intensity by sector; Resource use and efficiency; level of deforestation; waste intensity/production; Level of protection of threatened species, use of fertilizers and pesticides in agriculture; ecosystems and biodiversity compliance with Multilateral Environmental Agreements
Mexico. Before we compare the results of DG Trade’s calculation with the existing literature, some caveats have to be made. Critics of CGE models, such as Taylor and von Arnim (2006), argue that the properties of the model, in particular the Armington trade specification might render them too optimistic, in particular regarding the effects on developing countries. It is argued that the fiscal effects are overstated, that the elasticities often are too high and that micro and macro aspects are mixed. Others, such as Zhai (2008), argue that to the contrary, the Armington framework causes welfare effects to be underestimated. In addition, the neo-classical closure, i.e., the full employment and market clearing assumption, is criticised. Another stated shortcoming is that although not true for CGE models in general including the dynamic GTAP model, the models used in this study are comparative static, i.e., they do not consider the transition process from the initial to the new equilibrium.

Modelling

The quantitative analysis of this study complements and develops the results from the CGE model (GTAPv9) run by the Commission for the first impact assessment (IA) of the EU-Mexico Global Agreement conducted in 2015. The role of the team is to provide a thorough analysis of the underlying variables and assumptions and put the results into the context two years after the initial analysis. The model and its underlying assumptions have already been presented in Annex 4 of the existing Impact Assessment (European Commission, 2015), which also clarifies certain limitations. For example, the model does not deliver employment effects as it works with fixed employment closure (i.e. the overall number of jobs does not change in the simulation of the agreement) and this study’s methodology for the social analysis reflects these assumptions. The geographical and sectoral disaggregation used by the CGE simulations (European Commission 2015, Annex 4) will be followed by the team.

The main indicators include changes in consumer welfare, GDP, the bilateral trade flows (total and by sector), sectoral output change, consumer prices, wages (for unskilled and skilled labour), reallocation of jobs, and changes in CO2 emissions, which feed into all other aspects of the analysis. The simulation is based on a neoclassical closure, which assumes perfect market clearing.

Accordingly, a certain level of employment is taken as given. Although this is a sensitive assumption, it is considered legitimate since the estimation is based on a long-run horizon (2028). The CGE modelling additionally allows the analysis to draw conclusions regarding the effects on short to medium term reallocation of jobs or scarcity of skilled or unskilled workers. Although not presented in the IAR, such effects can be assumed to be proportional to a first approximation of the effects on sectoral outputs previously presented in the IAR. While the study will take such assumptions into consideration in its analysis, the model is, however, only able to assess the impacts on a sectoral level analysis and not capable of making any statement on the impact of a trade policy scenario on the overall level of employment.

The CGE modelling results are carefully taken into consideration by the authors throughout the analyses conducted and where possible the limitations of the CGE are supported with further analysis e.g. agricultural NTBs and potential reductions, quantification of other NTBs, extensive study of investment provisions and public procurement, as well as IPR, referring to quantitative data where applicable. Upon discussion with the Commission, additional quantitative tools will be discussed for their appropriateness vis-à-vis issues (such as public procurement) and sectors (partial equilibrium analysis to identify specific product impacts).

To measure the effects of trade liberalization, several methodological approaches are recognised by academia and policymakers, depending on the objectives of the analyses policymakers or
researchers wish to conduct. Since the Consultant's SIA is based on the results of a Dynamic GTAP model, which is among the leading methods applied internationally, the review provided in this Section begins with a brief discussion about CGE modelling, drawing on the example of the European Commission (2015) model chosen for the ex-ante study at hand.

The model applied is the Dynamic GTAP model aggregating version 9 of the data into 13 countries/regions and 37 sectors respectively. The model is built on the Armington trade specification, which takes into account consumers’ preferences for variety in a perfect competition framework, and uses the neo-classical closure, implying a medium- to long-term focus and cleared markets while neglecting short-term (frictional) adjustments.

The results of the CGE model employed by DG Trade suggest that long-term (2028) change of GDP as compared with the status-quo development, the benefits of modernization of the trade pillar of the GA are comparatively small for the EU whereas Mexico is estimated to gain relatively strongly.

The GTAP model is comparing the status quo with a conservative and an ambitious scenario respectively. Within both scenarios, three sectors (agriculture, manufacturing, services, which are further disaggregated) are distinguished, for which different tariff rates and NTB-reductions are simulated. The ambitious scenario reduces all trade barriers stronger than the conservative scenario (European Commission 2015, Annex 4). The results are following: in the conservative scenario, GDP is estimated to increase by 0.003% in the EU and 0.108% in Mexico by 2028. The GDP figures are expected to be higher in the ambitious scenario, increasing by 0.01% for the EU, and by 0.390% for Mexico.

### 3.1.1. Quantitative analysis of NTBs and other aspects

Literature on Non-Tariff Measures (NTMs) is vast and still evolving. Their quantitative measurement has remained a challenge till date. A common strategy to deal with this challenge has been to employ gravity model that accounts for physical, economic and other distance between countries, to estimate trade costs in an ad valorem tariff equivalent (AVE) form.

More recent literature suggests two different approaches:

- Calculation of trade costs using data on bilateral trade, elasticities of substitution and domestic consumption, in a way consistent with the state-of-the-art trade theoretic literature.
- Extensive legal analysis and primary surveys to evaluate each type of NTM qualitatively and design strategies to quantify them using customized econometric and statistical approaches.
- The quantitative analysis of non-tariff barriers will stem from the estimates that were made for the previous Impact Assessment, carried out by the Commission, complemented with qualitative descriptions thereof. Baseline

### 3.1.2. EU-Mexico Trade Relations

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8 For a discussion of different methods see, e.g, Hosny (2013).
A report by the European Parliamentary Research Service (EPRS; 2016) provides a descriptive overview about the main aspects of bilateral trade between the EU and Latin American countries through several regional free trade agreements. In addition, it shows the different avenues EU-Latin American FTAs have taken. Similarly, Villarreal (2017) provides an overview about Mexico’s FTAs with different countries and regions. In line with this approach, most studies for EU-Mexican trade relations are informed by almost 20 years of tighter relations due to the GA between the EU and Mexico, entering into force in 2000. Thus, we first concentrate on ex-post analyses of the past 20 years.

In a qualitative and descriptive analysis, de Luna Barrios (2016) argues that the GA has not benefitted Mexico as it should have, referring to the obviously not fully utilized potential of bilateral investments as well as the growing bilateral Mexican trade deficit towards the EU. The same line of argument is put forward by Oberda Monkiewicz (2017) who argues that a European bilateral trade surplus shows an asymmetrical benefit for the EU.

Copenhagen Economics (2011), using a gravity approach, estimated that EU exports did not significantly increase due to the GA, whereas imports from Mexico did. This can be justified with the fact that the General Agreement was implemented gradually and slowly.

In a more comprehensive analysis, Ecorys (2017a) analysed the effects of the GA on economic indicators as well as on social and human rights and the environment. First, the authors show that the mutual importance of both partners for each other with respect to trade has slightly increased after the implementation of the GA. In a second step, they apply a CGE model to establish the economic developments because of the GA. For an ex-post analysis, it is necessary to determine a counterfactual scenario, which is done through a gravity model. Mexico gains more by the GA (0.34% of GDP = 2.876 bn €) than the EU (0.01% of GDP = 1.559 bn €). In both partners, real wages slightly increase. Aggregate trade also rises by about 1.5% – 1.7% in Mexico and 0.05% in the EU. The study analyses different sectors and takes into account the informal industry in Mexico.

3.1.3. Mexico’s Trade Situation

Mexico has been a founding member of NAFTA since 1994. A vast amount of literature exists regarding the economic effects of NAFTA, both ex-ante and ex-post, employing a variety of methods. This literature is of interest to assess whether the modernization of the GA could have a similar dimension for Mexico as NAFTA had more than 20 years ago. We concentrate on ex-post studies.

The overall impression is that Mexico could benefit from NAFTA in terms of investment inflows and exports (e.g. Ramirez 2003), as well as productivity. López-Cordóva (2013) uses a Cobb-Douglas function to measure how trade integration has influenced Mexican total factor productivity and concludes that Mexico’s membership in NAFTA has been instrumental. At the same time growth and

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10 One can also find a number of political studies which are interesting on themselves, but do not add value to our economic analysis.

11 However, the interpretation of bilateral trade imbalances is tricky since it is embedded in overall balance-of-payments (BoP) transactions. Trade balances regularly reflect developments in the capital account and, therefore, are reactions to intertemporal decisions (Obstfeld and Rogoff 1994). It is highly speculative to conclude either unfair practices abroad or a lack of domestic competitiveness on the basis of a bilateral trade deficit (Dluhosch, Freytag and Krüger 1996).

12 During this study, we will refer regularly to the results of this study.
job creation through NAFTA have been modest (Zepeda, Wise and Gallagher 2009; Toreel, Westermann and Martinez 2004).

One of the first quantitative studies (Krueger, 1999) examined trade creation and trade diversion under NAFTA with the help of a gravity model for the years 1989, 1991, 1993, 1995, and 1997. The model shows that there seem to be moderate trade creating and diverting effects\(^\ast\), but that other factors explain Mexican trade better. The author argues correctly that in 1997, liberalization was not completed and, therefore, the results have to be interpreted cautiously. Nevertheless, given that the modernized GA would also need time to reduce trade barriers further, the results are important.

Caliendo and Parro (2015) employ a general equilibrium Ricardian trade model based on input-output analysis to examine the results of tariff reductions within NAFTA (and in general) between 1995 and 2011. They show that as compared to the US and Canada, Mexico benefitted most from NAFTA in terms of welfare (+1.31%) and intra-NAFTA trade (+118%). This result is backed by McDaniel and Agama (2003), who use export and import demand functions to test the effects of NAFTA on US-Mexican trade.

Mexico does not only consider closer trade relations with the EU; the country is also active to integrate itself more deeply into the Pacific region. Asia has recently attracted much attention with respect to trade integration. Key studies, which are used as a starting point for this analysis, explore models where both the EU and Mexico are included along with the rest of the members of Asia-oriented agreements (e.g. TPP). Currently, there are several large-scale projects and a number of comprehensive studies looking into the impact of the liberalization under the TPP, which is why the report starts with an overview of these analyses.

In 2009, the Asia Pacific Economic Cooperation (APEC; 2009) conducted a study on the likely economic impact of a Free Trade Area of the Asia-Pacific (FTAAP). The FTAAP initiative aimed to create an FTA among all 16 APEC members. Several dimensions of the FTAAP relate to those areas covered by the TPP. Both treaties are deemed as WTO-Plus-agreements even though the four scenarios that are calculated using a GTAP model (in three versions: static, static + capital accumulation, dynamic) are less comprehensive than the agreed TPP:

- Scenario I: basic scenario for trade liberalization through tariff elimination,
- Scenario II: (I) + trade facilitation,
- Scenario III: (II) + liberalization of trade in services,
- Scenario IV: rules of origin (RoO) cumulation.

The results are encouraging for Mexico, particularly in the RoO-cumulation version and even more in the dynamic version of Scenario III respectively. As concerns the latter, Mexican real GDP is estimated to increase by 4.29%. Some smaller members gain most in relative terms, while the EU and the rest of the world lose by more than 1% of real GDP each in this scenario. One has to be cautious to compare these results with subsequent studies about the effects of the TPP, which is envisaged to be more comprehensive. Nevertheless, since the results are in the same order of magnitude as other studies (see below), the study provides some general indications about the direction of the gains and losses in economic activity that are resulting from trade liberalization in the Asia-Pacific region.

\(^\ast\) Fukao, Okubo and Stern (2003) confirm moderate trade diversion effects mainly for US imports of textiles and apparel.
The Peterson Institute for International Economics Series on the TPP explores several trade policy measures (tariff liberalization, RoO issues), labour market adjustments and income distribution effects. Petri and Plummer (2016) and Petri, Plummer, and Zhai (2012) estimate a real GDP increase of 1.0% for Mexico.

Cheong and Tongzon (2013) assess that the TPP would have little effect on the GDP of the member countries, when the accumulated impacts of other existing FTAs for the period 2013–27 are excluded. The results of the simulation preview economic losses resulting from trade diversions for those countries not participating in the TPP (Ibid, p.153). However, the authors model only tariff reductions and assume substantial tariff liberalization among members prior to entry into force of the agreement.

In contrast to this study, Kawasaki (2014) estimates average annual gains of 1.8% of real GDP for all TPP members vs. 1.1% estimated in the former study. Mexico could gain 7.3% of GDP. The estimates assume that 50% of TPP liberalization is non-preferential, compared to the 20% in Cheong and Tongzon (2013). The percentage of non-preferential liberalization reflects effects accrued to non-TPP members due to the fact that some provisions of the TPP agreement cannot be restricted to TPP members and improve market access for third trading partners as well\footnote{See Peter A. Petri and Michael G. Plummer, 2016, at p. 7 for a discussion on the effects.}. Lee and Itakura (2014) represent the TPP with a 20% cut in service NTBs and estimate income gains of 0.8% for Australia, Canada, Japan, Mexico, and the United States.

A World Bank study conducted by Lakatos et al. (2016) uses a methodology similar to Petri and Plummer (2016). They measure the potential macroeconomic implications of TPP for member and non-member countries, including the EU. Compared to other TPP members, Mexico’s benefit from the TPP is moderate. According to the results, non-TPP-members including the EU lose in GDP. This view is shared by Bauer et al. (2014). They discuss the general consequences of TPP for the EU without referring to several CGE estimations. Their argument is based on the dynamic development of Asia compared to Europe.

Finally, two qualitative studies should be taken into consideration. First, Deardorff (2013) conducts a qualitative analysis of the effects of the TPP on TPP signatories (and members of the Association of South East Asian Countries - ASEAN) against the background of each country’s engagement in different FTAs. For Mexico, the author predicts only small relative effects on trade flows. Second, Williams (2013), who does not calculate quantitative effects, assesses TPP qualitatively and backs the analysis with descriptive statistics. The analysis takes a US perspective. The author concludes that due to the high diversity of potential TPP members, it is difficult to arrive at a clear-cut assessment on the extent of the changes in goods, services, and investment flows between TPP members and the US.

### 3.2. Cross Cutting Issues

This section offers preliminary screening of the range of horizontal beyond the border issues such as: TBTs, SPS, government procurement, IPR, GIs, investment barriers, competition, State Owned Enterprises, local content requirements, customs and internal regulations vis-à-vis import licensing, export restrictions, and services related to labour mobility and mutual recognition of qualifications and e-commerce. Some preliminary considerations about key issues in Mexico are outlined below:
3.2.1. **Least Developed Countries**

The impact of changes in trade flows as well as trade-induced changes in production structures may impact on third countries, including LDCs. Following the approach established in the 2012 Communication on ‘Trade, Growth and Development’, the SIA will include analyses of the modernisation of the EU-Mexico trade pillar’s likely impact on the Rest of the World including developing and least developed countries.\(^\text{15}\)

Some sectors in some LDCs may experience higher levels of economic activity due to trade creation effects, while others may suffer from lower production and trade volumes as a result of trade diversion effects. We will start with a brief overview of the literature about trade creation and trade diversion and contextualise it for the modernisation of the FTA between the EU and Mexico. The subsequent analysis of the impact on LDCs will to a large extent be based on the results of the economic modelling conducted by the European Commission. Accordingly, we will present and discuss changes in trade volumes as well as indicators for economic activity (e.g. the GDP quantity index) and aggregate welfare (national income and terms of trade estimates). Based on these numbers as well as relevant literature, the SIA will outline potential flanking measures that would contribute to more sustainable growth and job creation, and minimise any negative impact on LDCs.

3.2.2. **Impacts on Consumers**

Consumer protection is a key priority to EU policy making. According to Article 38 of the EU’s Charter of Fundamental Rights, European ‘Union policies shall ensure a high level of consumer protection.’ Article 38 of the Lisbon Treaty requires EU policies to ensure a high level of consumer protection. The Lisbon Treaty also establishes that ‘consumer protection requirements shall be taken into account in defining and implementing other Union policies and activities’ (TFEU, Article 12 of General Principles Chapter), and that ‘... the Union shall contribute to protecting the health, safety and economic interests of consumers, as well as to promoting their right to information, education and to organise themselves in order to safeguard their interests.” (TFEU, Article 169 of the Consumer Protection Chapter).

The EU’s stance towards consumer protection is not only reflected in the Acquis communautaire’s principles; it is also reflected in the number and scope of its consumer protection regulations. Over the past 50 years, the EU implemented a great number of policies and rules to provide a high level of protection for EU consumers. The consumer protection acquis includes strong product safety policy and legislation that prevents unsafe products reaching EU consumers and, by promoting the high quality of European exports, foreign consumers.

In the past, several EU policies were implemented to combat unfair commercial practices, unfair contract terms and misleading advertising, both in domestic and cross-border commerce, whilst securing consumers’ right to withdraw from contracts and seek adequate redress. Other consumer protection measures will follow, as outlined by the European Consumer Agenda.\(^\text{16}\) In addition to modern online sales and data privacy rules, strong food, animal, plant, health and several product...

\(^{15}\) EU Commission (2012), Trade, growth and development - Tailoring trade and investment policy for those countries most in need, 27 January 2012.

\(^{16}\) European Commission (2012), A European Consumer Agenda - Boosting confidence and growth, 22 May 2012.
safety laws are implemented and effectively enforced by EU institutions and national EU Member States.

3.2.2.1. Literature on the impact of trade liberalization on consumer welfare

Free trade agreements are not only measured by their capacity to encourage private sector economic activities, competition, employment, innovation and technological change; the merits of trade agreements also come with their capacity to increase consumer welfare. Consumer welfare is a general concept primarily reflecting accessibility to a broad variety of goods and services, the level and development of consumer prices and purchasing power, and goods' and services' quality characteristics.

Standard economic theory predicts that trade liberalisation benefits consumers through lower prices, higher quality and greater product variety.\textsuperscript{17} It is important to note that the size of the impact arising from trade liberalisation and its evolution over time depend on various factors such as the speed and sequence of eliminating trade barriers, domestic consumer tastes and preferences as well as the degree of competitive dynamism and industry-specific characteristics. Accordingly, the analysis will be based on a brief overview of relevant literature to outline possible mechanisms through which a further liberalisation of trade between the EU and Mexico might impact on consumers, e.g. lower trading costs, cost reductions due to improved market access and further specialisation, lower costs and higher product varieties due to greater import-induced competition, and effects on consumers due to additional investment.

3.2.2.2. Methodology of the assessment of the impact on consumers

As illustrated by the literature, trade agreements can impact on various supply and demand features that are relevant to consumers. CGE models mainly focus on macro-economic factors, leaving aside the impact on consumers. The SIA will therefore address consumer issues such as consumer protection and safety, consumer choice and pricing practices and how the trade pillar may impact on the management of these issues from a government, consumer and stakeholder standpoint in the EU and Mexico.

For this ex-ante analysis, we will take into consideration GTAP modelling results for the impact on consumer prices and consumer welfare. In addition, following the relevant literature, our analysis will be enriched by qualitative assessments. The literature on consumer impact of FTAs focuses on decreasing product prices and increasing product choice through the elimination or reduction of tariffs. At the same time, consumer issues also concern non-tariff barriers that arise through food safety or animal welfare standards or online retail consumer protection regulation.

The WTO’s Practical Guide to Trade Policy Analysis shows that we can assume tariff eliminations lower domestic prices, although we would expect them to lower the domestic prices by the full amount of the tariff in the case of a small country and by slightly less in a large country. In most cases, this would lead to a ‘consumer surplus’. A consumer surplus is defined as a situation in which

consumers are able to buy at a price below the price they would be willing to pay. However, this effect is not automatic – something that stakeholders have highlighted in past IAs. Therefore, we will analyse the different channels through which the modernised GA can impact on consumers. The analysis will be structured as follows:

1. Provision of an overview of elements of existing consumer protection legislation in the EU and Mexico
2. Presentation of up-to-date numerical indicators for the quality of legal institutions that affect consumer welfare in the EU and Mexico, e.g. EU market performance indicators (MPI) and standards of living estimates.
3. Presentation and discussion of GTAP estimations for a) consumer prices by sectors and b) changes in aggregate consumer welfare that would arise from the modernization of the EU-Mexico FTA
4. Analysis of the impact of regulatory cooperation on consumer prices, product variety and consumer safety
5. Overview and discussion of existing NTBs and how the reduction or elimination of these NTBs would impact on consumers

We will also complement this quantitative analysis with the results from the social, environmental and human rights analysis. This will allow us to discuss additional issues such as safety, consumer trust and protection, and permit a more in-depth analysis of the impact on certain consumer subgroups (e.g. vulnerable consumers). In this respect, the Consumers Checklist from the Better Regulation Toolbox will act as a primary guide for the parameters of our analysis.

### 3.2.3. Issues of Competition

#### 3.2.3.1. Competition policy

In a modernized GA, aspects of competition policy may play a role, e.g. mergers and acquisitions or unfair behaviour of large oligopolists. This is particularly problematic if the origin of a distortion is in one partner country or region, whereas the consequences are felt in the other partner country or region. The chapter on competition policy in the existing FTA ensures that each Party shall have a competition law system, and includes items of guidance for cooperation between competition agencies. The SIA will take these aspects into account and will look at how the FTA helps competition issues being solved in a more efficient manner. There are many forms for competition agencies to cooperate and solve such problems, which will be briefly analysed.

#### 3.2.3.2. Public procurement

Mexico’s recent structural reforms and the ensued expanded access to government bids have rendered public procurement an issue of particular interest in FTA negotiations. Mexico’s trading partners have noted that access to government procurement in the country is hindered by a lack of information on procurement opportunities as well as a lack of clarity on the applicable rules, procedures, and technical specifications; and discriminatory practices, among other marked barriers (European Commission, 2016).
Despite the latter, Mexico has exhibited its willingness to negotiate better procurement practices in forthcoming partnerships. Notably, in signing the TPP, Mexico agreed to provide complete and timely information for all covered procurements, to adhere to fair and transparent procurement procedures, to guarantee that tenders be treated fairly and impartially, and to establish mechanisms to respond to any controversies pertaining to potential violations of the latter.

The 2015 IA identified public procurement as one of the aspects that need to be addressed in the modernization of the GA. In particular, the SIA will analyse the limits to market access to Mexico’s public procurement, including sub-central entities since these are not covered by the existing FTA and the disciplines are not in line with international standards (European Commission, 2015, p.9). This will also be addressed in the measurement of impact on SME’s since the current agreement does not include specific provisions on the facilitation of access to public procurement for SMEs. For this analysis, we will be looking at possible constraints to including disciplines equivalent to the government procurement agreement (GPA) in the modernised agreement.

3.2.3.3. Regulatory issues

A coherent regulatory framework should produce a climate for competitiveness and fair competition, while at the same time it should respect the right to implement legitimate policy objectives to a specific end. While Mexico has taken notable strides to uplift tariff-related barriers to trade, the country must still identify and offset laws, regulations, policies, and special requirements that are directly translating into NTBs.

Mexico’s Comisión Federal de Mejora Regulatoria (COFEMER) has launched efforts to improve the country’s regulatory framework in order to facilitate the attainment of political objectives, efforts to improve regulatory cooperation, and as a means to boost international commerce, investment, and job creation (Girard, 2016). To this effect, COFEMER has adopted an active role in trade negotiations by analyzing Mexico’s regulatory policy and assessing its compatibility with international standards.

Moreover, through its participation in FTAs, Mexico has showcased its commitment to growingly stringent regulatory coherence mechanisms, and thus, to potentially modernize trade agreements to this effect. The Pacific Alliance and TPP adopted full chapters on regulatory coherence—a direct reflection of the latter’s growing relevance in international trade. Notably, the former establishes systematic tools, such as transparency, public consultation, and regulation impact assessments. Similarly, the TPP aims to eliminate barriers through the inclusion of mechanisms to bridge the gap between regulations, forgo unnecessary obstacles, increase transparency mechanisms, and boost SME competitiveness in international trade, among others. The SIA will address the possible direct and indirect impact as well as possible constraints to strengthening regulatory coherence Intellectual property rights

The ambition of both partners is to include a comprehensive IPR chapter, which goes beyond the existing rules under the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement. A particularly important area, also subject to our agricultural analysis below, will be the impact of enhancing protection for GIs.

3.2.3.4. Subsidies

In critical situations for single enterprises, whole sectors or regions, governments regularly take recourse to subsidies. Such subsidies are economically justified only in cases of positive externalities
such as stemming from R&D activities, otherwise they are distorting measures. The European Commission is addressing subsidies within the EU; the existing FTA enhances the transparency of subsidies given by the Parties, and prohibits certain types of subsidies. These new rules on subsidies go beyond what the Parties are committed to under the WTO. The SIA explores the impact of this increased legal regime, of transparency as well as of the prohibition of certain types of subsidies especially in terms of good governance, level playing field and market access.

### 3.2.4. Investment

Inflows and outflows in both partners have been rather volatile, with Mexican inward and outward foreign direct investment (FDI) worldwide being much smaller than that of the EU. Interestingly, this may be partly explained by the average Doing Business Index in the EU of 30 that is far better than Mexico that stands at 48.

In regards to FDI flows between the EU and Mexico specifically, the EU invests much greater amounts in Mexico than it receives. According to DG Trade of the European Commission, outward FDI flows from the EU to Mexico stood at €18.3 billion in 2015 experiencing an annual average growth of 335.1. Meanwhile, Inward EU-Mexico FDI flows stood at €2.7 billion in 2015 experiencing a negative annual average growth of -17.8. Likewise, the outward FDI stock from the EU to Mexico is much greater than that which it receives from Mexico, growing at an annual average of 25.2 and standing at €161.6 billion in 2015. Although its positively the EU-Mexico inward FDI stock, growing at an annual average of 19.5, it remains below outward stock at €36.5 billion in 2015 (DG Trade, 2017).

According to Mexico’s Ministry of Economy, the bulk of Mexico’s FDI gains in 2015 went to manufacturing, massive social media, financial services, commerce, construction, and services (Secretaría de Economía, 2015). The success of Mexico’s structural reforms is—to a large extent—contingent upon the country’s ability to promote and protect FDI. To this effect, Mexico aims not only to increase its attractiveness for FDI, but also to strengthen its capacity to retain said investments.

In the last couple of years, Mexico has utilized FTAs as a means to assert to numerous protection mechanisms for foreign investment. For instance, by signing the TPP, Mexico agreed, among other measures, to provide the same treatment to national and foreign investors, establish a minimum standard of treatment for investments as per customary international law, raise the standards of investor-State dispute settlement, and remove specific performance requirements.

### 3.2.5. Outer Most Regions

In October 2017, the European Commission announced its new strategy on the outer most regions (OMRs) under its “Privileged, Renewed, and Strengthened Partnership”. The commission is working with the Member States in establishing a plan to assist the nine outer most regions build on their unique assets and create opportunities for their inhabitants. Assessment of the impacts—both positive and potentially harmful—of the modernization of the Global Agreement on the outer most regions will be key in order to prioritize the Commission’s commitment to their advancement. Table 3 outlines the nine outer most regions and the principle source of GDP in the economy.

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<tr>
<th>Table 3 Economic Structure of the Outer Most Regions</th>
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<tr>
<td>Territories</td>
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### Canary Islands
The economy is based primarily on tourism, which makes up 32% of the GDP. Construction makes up nearly 20% of the GDP and tropical agriculture, primarily bananas and tobacco, are grown for export to Europe and the Americas.

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<tr>
<th>Trade in Business Services</th>
<th>Trade in Manufacturing Goods</th>
<th>Trade in Agricultural Goods</th>
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</table>

### French Guiana
The most important economic activities are forestry and fishing. Largely dependent on imports for energy.

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<tr>
<th>Trade in Agricultural Goods</th>
<th>Trade in Energy Commodities</th>
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### Guadeloupe
Bananas supply about 50% of export earnings, followed by eggplants, and flowers. Other vegetables and root crops are cultivated for local consumption, although Guadeloupe is still dependent on imported food, mainly from France. Most manufactured goods and fuel are imported.

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<thead>
<tr>
<th>Trade in Agricultural Goods</th>
<th>Trade in Manufactured Goods</th>
<th>Trade in Energy Commodities</th>
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### Reunion
The economy of Réunion has traditionally been based on agriculture, where in some years it accounts for 85% of exports. While sugarcane has been the primary crop for more than a century, the government has taken steps to increase the tourism sector.

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<th>Trade in Agricultural Goods</th>
<th>Trade in Energy Commodities</th>
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### Mayotte
The economic activity of Mayotte is based primarily on the agricultural sector, including fishing and livestock raising.

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<tr>
<th>Trade in Agricultural Goods</th>
<th>Trade in Energy Commodities</th>
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### Martinique
Agriculture accounts for about 6% of GDP and the small industrial sector for 11%. Banana exports are increasing while the bulk of meat, vegetable, and grain requirements must be imported. Tourism has become more important than agricultural exports as a source of foreign exchange, and the majority of the work force is employed in the service sector.

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<thead>
<tr>
<th>Trade in Business Services</th>
<th>Trade in Agricultural Goods</th>
<th>Trade in Manufactured Goods</th>
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</table>

### Saint-Martin
The economy of Saint Martin centres on tourism with 85% of the labour force engaged in this sector. The financial sector is also important to Saint Martin’s economy as it acts as a financial mediator. No significant agricultural production and limited local fishing means that almost all food, energy resources and manufactured goods also imported, primarily from Mexico and the US.¹⁸

<table>
<thead>
<tr>
<th>Trade in Business and Financial Services</th>
<th>Trade in Agricultural Goods</th>
<th>Trade in Manufactured Goods</th>
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### Madeira
The setting-up of a free trade zone has led to the installation, under more favourable conditions, of infrastructure, production shops and essential services.

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<thead>
<tr>
<th>Trade in Business and Financial Services</th>
<th>Trade in Manufacturing Goods</th>
<th>Trade in Agricultural Goods</th>
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Through a preliminary look at the key economic activities in the outer most regions, it is already evident that this the impact assessment should assess impacts of the trade agreement in business services, specifically tourism. Not only does the service sector play a large role in GDP contributions, but it additionally is significant in regards to the social analysis this study employs. Furthermore, considering OMRs dependency on imports for agricultural and manufacturing goods, the study will assess trade creation and diversion, with a specific focus on the proximity between Mexico and several OMRs.

### 3.3. Analysis

A general conclusion that can be drawn from the review of analyses shows that a more comprehensive GA has a higher potential positive impact on Mexico. In this respect, comprehensiveness refers to GA coverage that goes beyond the elimination of tariffs and quotas, the rules of origin, and particularly involves harmonisation and mutual recognition of technical standards, testing procedures, investment, and guidelines for regulatory cooperation in general. Most studies arrive at rather modest results as they systematically underestimate the dynamic gains resulting from trade liberalization.

To summarize, the literature is in accordance with the CGE model run by DG Trade (European Commission 2015). The studies based on CGE models reviewed here suggest that regional integration is beneficial for the parties signing the agreement.

The CGE model results show a trade liberalization-induced rise in overall economic activity (GDP), which, however, is rather moderate. Similar to previous studies, this may primarily be due to the fact that CGE analyses generally do not take into account dynamic feedback processes, such as the effects on domestic and international competition, knowledge spill-overs, technological spill-overs, increased innovation, and changes in domestic governance structures that encourage entrepreneurial opportunities and innovative behaviour. In addition, the models only provide an inexact capture of NTBs. The estimated effects of TPP Mexico are larger than those of bilateral FTAs with the European Union, which does not come as a surprise.

For third countries, the economic impact of an FTA is mostly slightly negative. Again, however, CGE models do not take into account dynamic effects on and in third countries, such as the impact on

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third countries’ governments to pursue good governance frameworks create and/or maintain open markets and legal institutions that encourage entrepreneurial activity in these countries. A similar disclaimer is valid for second-round effects.

4. Social analysis

Amidst renewed debates on the costs and benefits of globalization, the social impact of trade liberalization has been a central concern for national governments and their constituencies. Our social analysis builds upon our team’s CGE and sectoral analysis as well as additional quantitative and qualitative tools to assess the potential effects of an EU-Mexico trade agreement in three main realms: employment (including in the informal economy), poverty and inequality; and international labour standards and decent work indicators.

EU trade policy has become one of the main pillars of the EU’s external action to promote sustainable development, decent work and core labour standards, whether at the unilateral, bilateral/regional or multilateral levels. At the unilateral (i.e. non-reciprocal) level, EU trade policy has designated the ratification and application of the International Labour Organisation’s (ILO) eight fundamental conventions on labour rights as a precondition for obtaining Generalized System of Preferences (GSP) + status. Most recently, in its 2015 Trade for All Strategy, the EU reasserted its ambition to “promote an ambitious and innovative sustainable development chapter in all trade and investment agreements”, vowing to achieve “far-reaching commitments on all core labour rights” and to ensure “high levels of occupational health and safety and decent working conditions in accordance with the ILO Decent Work Agenda” (European Commission 2015b). Combining economic analysis and policy research, this section will assess the prospects of the EU-Mexico trade agreement to fulfil these objectives.

4.1. Methodology

The social analysis takes into account the recent work done by Rueda-Cantuche and Sousa (2016) who, by using the information contained in the latest release of the World Input-Output Database, have put forward a comprehensive set of indicators that shed light on effects of exporting to employment and income. This links to a growing research on the impact of non-discriminatory international trade liberalization on unemployment, job rents and other aspects of the labour market, on which the team can build to analyse the effects of the EU-Mexico modernisation agreement on employment, wages and household income, while taking into account its preferential nature.

As outlined above, the social analysis baseline has three components:

- Quantitative data drawn from the CGE modelling and existing indicators on trade, employment, wages, income inequality in the EU and Mexico, where this would also link to the sectoral analysis;
- An overview of core labour standards, fundamental conventions, and decent work in the EU and Mexico through a Literature Review

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Stakeholder consultations, to further enrich the social analysis baseline by identifying vulnerable groups as well as sector-specific issues.

A common indicator of the social impact of FTAs consists of measuring welfare effects. In the GTAP model, the welfare effect represents a money metric equivalent of the utility change that arises, for example, from terms of trade changes and improvements in a country's resource allocation. In the model, welfare is calculated by measuring “equivalent variation” (EV) which summarizes regional welfare changes and is translated in money values (million €). This is then extended by looking into the impact of the potential changes of the Agreement on wages and employment, which is contingent upon workers' skill level and sector. This would also involve understanding and communicating the assumptions behind the CGE modelling and how this has been translated in the results and the extensions to the analysis made by our team (e.g. reallocation of workers).

In terms of income inequality, one of the measures that will be examined is the Gini index as a measure of the extent to which the richest and poorest households are distant from each other in terms of income at any given point of time. We use this concept in our context in a slightly different way. For skilled and unskilled labour in each country, we measure the Gini index for inequality in wages. We employ the initial data on wage bill (in €) and aggregate employment (in number of jobs) from the GTAP database. Using the wage rates before and after the scenarios, for skilled and unskilled labour, we measure the Gini index for wage inequality between skilled and unskilled labour for both the EU and Mexico. We will follow Deaton (1997) for the formula to measure the Gini index: the higher the value of this index, the higher the measure of inequality.

In addition to the quantitative analysis, the social analysis will benefit from a three part qualitative analysis. First, this analysis will primarily rely on desk research and numerous cited expert sources, academic literature, specific relevant studies on EU and Mexico trade relations respectively, and studies to shed light on Mexico's record within the context of NAFTA and the TPP as case studies. This includes ex-ante studies, committee reports and impact assessments conducted by US government agencies (e.g. International Trade Commission, Congressional Research Service) and authoritative think tanks.

Second, to further appraise the potential effects of trade liberalization on labour markets, the social analysis includes an assessment of each party's compliance with core ILO conventions, relying primarily on reports from the ILO. Additionally, the scope and potential evolution of the informal sector will be examined with a combination of statistic tools from intergovernmental organizations (e.g. ILO Department of Statistics, World Bank Enterprise Surveys).

Third, the team will analyse the likely/possible provisions in the prospective agreement having a major impact on the employment effects of the agreement, such as those dealing with non-tariff barriers. This will be reported further to the template presented in Table 4.

Last, but not least, this section will draw from the results of the stakeholder consultations in Mexico and EU countries, and more specifically from the insights from business associations, labour unions, non-governmental organizations (NGOs) and relevant experts from government and academia. Further details on the scope, number of interviews, and expected representativeness of consultations to be provided in Chapter 8.

Table 4: Likelihood/magnitude of impact
### Core labour standards | Trade measures likely to have an impact | Likelihood of direct vs. indirect impact | Likelihood of major vs. minor impact | Magnitude of expected impact | Positive, neutral or negative impact
---|---|---|---|---|---
**e.g.** Freedom of association and right to collective bargaining | Trade in goods and services | Indirect | Likely | Minor | Neutral on the EU

### 4.2. Baseline

#### 4.2.1. Trade liberalisation, structural change and social aspects

A major consequence of trade reforms is natural selection among firms: less efficient firms in a sector have to either downsize, improve efficiency or exit, whereas more productive firms expand their market shares. An implication is that total factor productivity tends to increase more in industries that liberalize more, especially in comparative advantage sectors (Berrnard, Redding and Schott, 2007). Since there is increasing evidence of rent sharing within firms, this also implies higher average wages in the economy, at least for those employed in exporting firms. The productivity-enhancing effect of selection increases the incentives of firms to hire workers, as their contribution to firms' output is now larger. Hence, the efficiency gains of trade can also translate in larger aggregate employment. Conversely, trade liberalization can also cause social dislocation or increase pressure on wages for less competitive firms. Trade reforms can also accelerate restructuring trends with a specific sector, either by directly impacting market competition or by forcing economic actors to adapt their strategies to anticipate change.

In agreement with the analyses of Davidson, those of Martin and Matusz (1999) and of Helpman and Itskhoki (2010) likewise stress that the impact of trade liberalization depends on the characteristics of the sectors that consequentially expand and contract. When a country enters into a trade agreement with another that has stronger comparative advantage in the high search frictions sectors, it tends to experience a lower unemployment rate as a result.

The baseline of the social analysis will first provide an overview of current socio-economic trends in both Mexico and EU countries, with a specific focus on the following factors: current trends in employment and wages, poverty and income inequality (Gini index) as well as the scope of the informal sector and its direct and indirect connections with international trade. Our discussion of economic trends will be contextualized with policy analysis of recent labour reforms in Mexico, including the November 2012 reform and its potential impact on core labour standards (e.g. its provisions regarding productivity, gender and inequality) and decent work indicators (number of hours worked, termination of employment, equal opportunity and treatment, social protection etc.).

This discussion will feed into an in-depth analysis of Mexico and EU countries’ adherence to international labour standards (with an emphasis on ILO Core Labour Standards) and the decent work agenda, and their respective approach to the trade-labour linkage.
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The scope granted to labour provisions in EU regional trade agreements has considerably expanded since the first generation of agreements, growing from a simple focus on migrant workers’ rights in the context of Euro-Mediterranean association agreements to the gradual development of a comprehensive framework aligned with ILO conventions, with broader and deeper content, governance and enforceability (ILO, 2016 and European Parliament, 2016). The current framework draws upon the design of the EU-Korea free trade agreement, which includes a chapter on trade and sustainable development. Building upon labour provisions in previous regional trade agreements (RTAs), (e.g. Central America, Colombia and Peru), the new approach has further raised the visibility of social and environmental issues in EU trade negotiations. This section will outline the core principles of the EU’s trade-labour model, as well as the institutional and policy tools used by Mexico to address employment and labour issues in trade negotiations (e.g. TPP negotiations).

4.2.2. Poverty and inequality in Mexico

The first decade of the twenty-first century was a period of significant economic development in Latin America and Caribbean countries, as witnessed by three notable regional trends: 1) A significant decline in both absolute and relative poverty; 2) A steady reduction of income inequality (Alvaredo & Gasparini, 2015); 3) Growing GDP per capita and an expanding middle-class that grew from 23% to 34% within a decade, overtaking for the first time, the number of people living in poverty (Vakis, Rigolini & Luchetti, 2016).

Yet, amid Latin America’s “Roaring 2000s”, the Mexican economy experienced more mixed results. On the one hand, international measures of poverty show a sharp decline since the late 1990s. The ratio of Mexicans living under the $1.90 line dropped from its 1998 peak of 14.3% to 3% in 2014 (see Figure 4). Similarly, the poverty headcount ratio at $3.20 fell from 31.1 to 11.8% over the same period. These trends are in sync with the rest of the continent.
Figure 2: Poverty trends in Mexico

People living on less than international poverty line ($1.90)

People living on less than lower middle class poverty line ($3.20)


Similarly, other indicators like food and patrimonial poverty\textsuperscript{21} show a significant decline between the mid-1990s and the mid-2000s, before resurgence in the next decade, particularly in the aftermath of the economic crisis of 2008-2009.

Figure 3: Trends in food and patrimonial poverty (1992-2016)

Source: Coneval.

The overall decline in poverty and the corollary emergence of a middle class society over the past two decades obscure the persistence of income inequality in Mexico. Thus, while the poorest quintile of the Mexican population has gradually increased its share of national income, Mexico’s income

\textsuperscript{21} Food poverty is defined as a lack of access to sufficient nutrition. Patrimonial Poverty includes sufficient income for food, education and health, but insufficient income for needed clothing and household goods.
structure has remained largely unchanged, with the richest quintile still capturing more than half of the country’s total income.

**Figure 4: Income distribution by quintile**

![Income Distribution by Quintile](image)

*Source: World Bank.*

Comparative analysis of income inequality trends (Gini index) in Latin America reveals that Mexico achieved more limited results than its Latin American counterparts, some of which (e.g. Peru and Argentina) reached a lower Gini index than Mexico in 2014, despite higher levels in 2000 (Figure 5).

**Figure 5: Mexico lags behind in reducing income inequality**

![Mexico Lags Behind in Reducing Income Inequality](image)

Additionally, as is the case in other large Latin American economies like Brazil, aggregate indicators at the national level mask sharp regional disparities. A 2016 study done by the Organization of Economic Cooperation and Development (OECD) on regional disparities ranked Mexico third in terms of variation of regional disposable income. In Mexico, these are often associated with the long-standing divide between a less developed rural South and a richer urban North. However, given population density, the regions with the highest poverty rates are not necessarily those where the majority of the chronically poor reside (Vakis, Rigolini & Luchetti, 2016). Thus, analysis of regional economic disparities needs to take into consideration both relative and absolute measures of poverty. Additionally, regional disparities are also strongly correlated with gender inequality. In 2014, Mexico had one of the highest regional variations in gender differences of employment rate among OECD countries (OECD, 2016, figure 1.11). Once the social analysis baseline has been established, the assessment of the potential impact of trade on regional development will, therefore, naturally feed into our analysis of labour standards and decent work indicators.

4.3. Analysis

4.3.1. Employment and income

Employment and income will be key to assess whether the agreement will reach the most vulnerable sectors of the respective societies. We expect to use a CGE model to calculate changes in the level of employment by country and sector. Moreover, by changing the way the labour market adjusts in the model, we can also assess whether wages will rise. This can be also assessed further by distinguishing between different types of employment (unskilled, skilled, urban, rural) and different types of households.

The previous dimensions can be analysed using primarily quantitative tools. However, there will be other elements where a qualitative approach may be more appropriate. In particular, we will make use of consultations with specialists and stakeholders to assess the capacity of the relevant implementation authorities to apply the agreements. This will be particularly important to assess the capacity of Mexican customs to apply the agreement with the EU and its related provisions (i.e. rules of origin). In particular, we will evaluate the experience of these administrations with similar agreements. This can be assessed also by looking into the dispute resolution mechanisms established in those agreements (such as the WTO) and assess their compliance.

Mexico is characterised by the presence of large poverty pockets and informal economic relationships. We propose to evaluate, through consultations and literature review, on how the agreement may affect the informal sectors in the respective economies. For example, reduced imports prices and greater market access may encourage the formalisation of certain transactions within the economies. We will assess this phenomenon by looking into previous relevant experiences.

Finally, we will assess the experiences that relevant agreements have had in reducing the levels of corruption and promoting good governance. In particular, we will assess whether any agreement negotiated by the EU with similar countries (i.e. South Africa) led to improvements in this area. This will be qualified by the consultation process and the review of existing literature.

Among other aspects, the CGE model results would provide insights on job creation and wage differentials across five labour categories and in different sectors; we shall develop a Gini Coefficient based on these results and analyse the change in inequality before and after the liberalization in the
EU, Mexico and other countries including LDCs. We shall also analyse the impact on poverty in different countries. As previously mentioned, the analysis will also rely on desk research and numerous cited expert sources, academic literature, specific relevant studies on EU and Mexico relations respectively, along with studies shedding light on Mexico’s with other trade negotiations.

4.3.2. **International labour standards**

To further appraise the potential effects of trade liberalization on labour markets, this section will analyse each party’s compliance with core ILO conventions, relying primarily on reports from the ILO and, where relevant, the UN Universal Periodic Review process. This section will briefly discuss the inclusion of provisions pertaining to labour standards in recent free trade agreements conducted by the European Union and Mexico.

This assessment will feed into the analysis of employment and labour issues linked to the scenarios we derive through the CGE modelling. The team will study the likely/possible compliance with provisions in the prospective agreement having a major impact on the employment effects of the agreement, such as those dealing with non-tariff barriers.

In the spirit of previous EU FTAs, this study will assess the impact of including a trade and sustainable development chapter and examine the different institutional mechanisms (governmental dialogue, civil society forum, technical cooperation with ILO etc.) designed to foster cooperation on adherence and implementation of international labour standards. Policy recommendations will encourage the diffusion of best practices in workers’ rights enforcement, including as the case may be in third countries, so as to avoid a race to the bottom where international labour standard infringements may distort trade and investment conditions in the EU and Mexico. Special attention will be devoted to trade adjustment programs and corrective measures in both Mexico and the EU, with an emphasis on social protection, education and retraining programs, and when relevant, health policies. In addition to government action, our team will also examine market-based and non-profit approaches to sustainability issues, among which corporate social responsibility measures and non-profit initiatives.

5. **Human rights**

This section outlines our methodology for analyzing the potential human rights effects of the proposed modernization of the EU-Mexico Free Trade Agreement. Herein we argue that an updated trade agreement with the EU could have both positive and negative effects on the Mexican government’s willingness to respect specific human rights (the supply side of human rights) and citizens’ ability to demand their rights under domestic and international law (the demand side). However, we note that there is no clear agreement whether or not human rights provisions in trade agreements improve specific human rights. Moreover, unless the FTA has language that requires a government to behave in a certain way, it is difficult to attribute an improvement or a decline in a

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22 Throughout this report, we use the terms ‘human rights language’ and ‘human rights provisions’ interchangeably to refer to any language in a trade agreement, which is designed to affect the respect, promotion, or protection of human rights. However, we note that certain language such as most favoured nation or language in exceptions can have direct human rights effects without explicitly promoting human rights.
particular human right to that agreement. Finally, Mexico has signed several trade agreements, such as NAFTA, with other countries that are important markets for Mexico, and scholars struggle to differentiate the effects of the EU-Mexico FTA from these other agreements.23

This section is divided into three parts:

- A brief outline of the methodology;
- An overview of human rights commitments, human rights performance, and trade obligations;
- A preliminary analysis of how the modernization of the EU-Mexico FTA might affect human rights in both the EU and Mexico.

5.1. Methodology

To understand the EU’s overall trade proposal, we examined three sources: the roadmap for the agreement, the EU textual proposals for the EU-Mexico Global Agreement (hereafter, referred to as GA), and the FTA template (the model for a 21st century trade agreement) outlined in the EU-Canada Economic and Trade Agreement (CETA), which is the agreement the EU last ratified.24 However, we also recognize that CETA is a FTA between industrialized economies with strong governance performance that can affect human rights outcomes.25 On the human rights side, we examined the EU and Mexico’s human rights commitments and records, according to the framework laid out in the EU guidelines on the analysis of human rights in impact assessments for trade-related policy initiatives.26

In particular, we build on the three-step process outlined in the Guidelines: screening, scoping and a detailed assessment. Furthermore, we focus only on those human rights that are directly affected by a trade agreement.

lists a wide range of human rights recognized in the International Labour Organisation (ILO) and the Universal Declaration of Human Rights (UDHR), in addition to other issues of concern for the EU. Table 5 describes which human rights may be directly, indirectly, or not affected by a trade agreement (including WTO agreements or a FTA). We define

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25 On the World Justice Project’s 2016 Rule of Law Index, Canada received a score of 81 and most European countries received scores ranging from 70 to 88. The rule of law index measures how a country’s general public experiences and perceives the rule of law. See https://worldjusticeproject.org/our-work/wjp-rule-law-index.

directly as references within a FTA with language that obligates a government to behave in a way that can directly affect how it respects, protects, or promotes a particular human right. We define indirectly as secondarily affecting that government’s practices regarding respecting, protecting, or remedying that human right. In discussing the exceptions, we use ‘yes’ when the language explicitly protects the right and ‘possible’ when it could be used to protect a specific right. While there is no language in a trade agreement affecting the right to political participation per se, governments must, as an example, allow both foreign and domestic market actors the right to information to review and challenge trade related regulation. These regulations can affect market actor behavior and spill into the polity as a whole.27

Table 5: Human Rights and Other Issues of Concern

<table>
<thead>
<tr>
<th>Human Right</th>
<th>Source Convention and/or Article</th>
<th>Does trade and/or a trade agreement directly, indirectly, or not affect enjoyment of the right?</th>
<th>Included in trade agreement language?</th>
<th>Included in exceptions in any trade agreement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILO CORE LABOR STANDARDS AND OTHER ILO CONVENTIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freedom of association</td>
<td>C087, C098</td>
<td>Directly</td>
<td>Yes</td>
<td>—</td>
</tr>
<tr>
<td>Right to organize and collectively bargain</td>
<td>C098</td>
<td>Directly</td>
<td>Yes</td>
<td>—</td>
</tr>
<tr>
<td>No forced labour (e.g. slavery)</td>
<td>C105</td>
<td>Directly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No child labour</td>
<td>C138, C182</td>
<td>Directly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-discrimination among workers</td>
<td>C100, C111</td>
<td>Directly</td>
<td>Yes</td>
<td>—</td>
</tr>
<tr>
<td>Rights of indigenous and tribal peoples</td>
<td>C107, C169</td>
<td>Directly</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Rights of migrant and contingent workers</td>
<td>C97, C143</td>
<td>Directly</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>UNIVERSAL DECLARATION OF HUMAN RIGHTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women's rights (equality between women and men)</td>
<td>Preamble, 16</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Right to life</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>Possible</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Right</th>
<th>#: Distribution</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right to liberty</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Right to security of person</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>Right to prevention of torture</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Right to prevention of arbitrary arrest, detention, or exile</td>
<td>9</td>
<td>—</td>
</tr>
<tr>
<td>Right to fair and public hearing</td>
<td>10</td>
<td>Directly (re. administrative proceedings)</td>
</tr>
<tr>
<td>Right to due process</td>
<td>6, 10, 11</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to presumption of innocence</td>
<td>11</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to non-retroactive penal code</td>
<td>11</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to privacy</td>
<td>12</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to freedom of movement</td>
<td>13 (1)</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to leave the country and return</td>
<td>13 (2)</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to seek and enjoy asylum</td>
<td>14</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to a nationality</td>
<td>15</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to protection of property rights</td>
<td>2, 17</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to freedom of thought, conscience, &amp; religion</td>
<td>18</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to access to information</td>
<td>19</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to freedom of assembly and association</td>
<td>20</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to political participation</td>
<td>21 (1) (3)</td>
<td>Directly (Implicit)</td>
</tr>
<tr>
<td>Right to equal access to public services</td>
<td>21 (2)</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to social security</td>
<td>22</td>
<td>—</td>
</tr>
<tr>
<td>Right to work</td>
<td>23 (3)</td>
<td>Indirectly</td>
</tr>
<tr>
<td>Right to equal pay for equal work</td>
<td>23 (2) (3)</td>
<td>Indirectly</td>
</tr>
<tr>
<td>Right to an adequate standard of living</td>
<td>25</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to special care, motherhood, and childhood</td>
<td>25</td>
<td>—</td>
</tr>
<tr>
<td>Right to health</td>
<td>25</td>
<td>Directly (if cannot afford to pay)</td>
</tr>
<tr>
<td>Integration of persons with disabilities</td>
<td>25</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to education</td>
<td>26</td>
<td>Indirectly</td>
</tr>
<tr>
<td>Right to just and favourable remuneration</td>
<td>26</td>
<td>Directly</td>
</tr>
<tr>
<td>Right to culture (cultural/religious/linguistic diversity)</td>
<td>27</td>
<td>Directly</td>
</tr>
</tbody>
</table>

### OTHER CONVENTIONS

| Rights of vulnerable groups+ | — |
| Rights of indigenous peoples | UN Declaration on the Rights of Indigenous Peoples (UNDRIP) | Yes | Yes |
| Rights of gypsies (EU only) | European Convention for Human Rights (ECHR) | — | — |
| Rights of migrants | International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families | — | — |
| Right to data protection and privacy online | Charter of Fundamental Rights of the European Union; the Treaty on the Functioning of the EU (TFEU) | Directly | Yes | Yes |
| Right to protection of intellectual property | UNHR Art. 27 (2), Agreement | Directly | Yes | — |
### Rule of law
Directly
Yes

### Corruption
Directly
Yes

### Impact on poverty and/or income inequality
Indirectly
—
—

## 5.2. Baseline

The baseline for the human rights analysis has four components:

1. *Description of the EU and Mexico’s domestic and international human rights commitments* and a review of Mexico’s FTAs to identify binding or aspirational human/labour rights commitments.

2. *Brief overview of human rights challenges in the EU and Mexico* as described by internationally respected human rights bodies, as well as an overview of the relationship between trade and human rights.

3. *Mapping of human rights performance over time* to better understand Mexico’s human rights and governance abilities for those human rights where there are internationally accepted and publicly available metrics.

4. *Receive input from stakeholders and utilize survey data* to better ensure that the rights of vulnerable citizens in Mexico are considered during the renegotiations. Specifically, we will derive our demand side perspective from two sources:
   
   a. We will rely on the stakeholder consultation to establish and clarify issues of concern regarding Mexico’s human rights practices, such as access to information, impunity, and corruption.
   
   b. In addition, to better understand how citizens (the demandeurs) perceive human rights conditions in Mexico and the EU, we will rely on survey data from three sources: World Values Survey, LAPOP, and Eurobarometer. These sources have asked consistent questions regarding public perceptions of labor rights and human rights.

## 5.2.1. Human Rights in the EU

### 5.2.1.1. Institutional Legal Framework
Article 21(1) of the Treaty on European Union (TEU) and Article 207(1) of the Treaty on Functioning of the European Union guide the treatment of human rights in the European Union.\(^{28}\) The EU Charter of Fundamental Rights (adopted in 2000) gives legal effects to all treaties adopted after the Lisbon Treaty.\(^{29}\) The Charter also expands individual fundamental rights in line with the EU’s core values, including freedom, equality, human dignity, and the rule of law. Lastly, although it is non-binding, the EU’s Strategic Framework on Human Rights and Democracy states that the European Union is “founded on a shared determination to promote peace and stability and to build a world founded on respect for human rights, democracy and the rule of law.” EU institutions are supposed to apply these principles as they make both internal and international policies.\(^{30}\) Not surprisingly, the EU attempts to adhere to these guidelines as it proposes language for its trade agreements.

### 5.2.1.2. Human Rights Commitments

The EU Member States are signatories of the following UN Human Rights Committee instruments:

1. International Bill of Human Rights
2. International Covenant on Civil and Political Rights (ICCPR)
3. Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW)
4. Convention on the Elimination of all Forms of Racial Discrimination (CERD)
5. International Covenant on Economic, Social, and Cultural Rights (ICESCR)
6. Declaration on the Rights of Indigenous Peoples (UNDRIP)
7. Convention on the Rights of the Child (CRC)

### 5.2.1.3. The EU’s Human Rights Record

While the EU has competency for human rights, Member States also retain explicit human rights responsibilities. In general, human rights observers applaud the EU and its Member States for respecting, protecting, and remediying human rights.\(^{31}\) Nonetheless, EU Member States vary in their ability, funding, and will to address their human rights responsibilities.\(^{32}\)

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Thus, we outline some of the EU’s human rights challenges. However, we also note that a modernized Global Agreement with Mexico is unlikely to have any direct effects on member states or the EU’s ability to protect, respect, and remedy these rights.

5.2.1.4. Rights of migrants, refugees, and asylum seekers

In recent years, some EU Member States have experienced a dramatic rise in migrants, refugees, and asylum seekers fleeing war, economic hardship, climate change, and/or seeking new opportunities. As a consequence, policymakers and citizens in some states feel overwhelmed (e.g. Greece), while others such as Austria have refused to take in further refugees. In 2015, the EU Agency for Fundamental Rights (FRA) criticized and gave directions to some Member States regarding the asylum/migrant crisis, focusing on states’ responses to unaccompanied minors, safety, and protection at reception facilities, impact on local communities, and violence and hate speech against migrants. In addition, the agency cautioned these states that they must make protection of these migrants a priority. FRA also warned Greece, Hungary, and Spain that they should not deport these refugees.

5.2.1.5. Rights of the child

Despite rising economic growth in the EU, the 2016 FRA report found that some 28% of EU children live in poverty and suffer from social exclusion (using 2014 data). It warned that EU Member States must do a better job at providing resources to these children at risk.

5.2.2. Human Rights in Mexico

5.2.2.1. Overview

Mexico is an upper middle-income country. As more Mexicans have joined the middle class, they have demanded that their leaders improve the Mexican citizens’ quality of life. Mexico has made mixed progress towards that goal. On the one hand, observers note that Mexico has improved its respect for labour rights, government accountability, due process, and respect for the rule of law.  

On the other hand, Mexico has significant human rights and governance problems, which are worsened by significant corruption and impunity. In 2015, the Inter-American Commission on Human Rights (IACHR) documented a wide range of human rights abuses in Mexico, concluding that it amounted to a “crisis of gross human rights violations.”

5.2.2.2. International and Regional Human Rights Commitments

As Table 6 reveals, Mexico has ratified numerous international conventions on human rights, including nine of the core treaties and many of their optional protocols through the UN Human Rights Committee (OHCHR). The UN Human Rights Council (HRC) conducted two Universal Periodic Reviews of Mexico in 2009 and 2013. Mexico accepted the majority of the HRC’s recommendations.

Table 6: Mexico’s Human Rights Commitments

<table>
<thead>
<tr>
<th>Treaty Description</th>
<th>Treaty Name</th>
<th>Signature Date</th>
<th>Ratification, Accession (a), or Succession (d) Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment</td>
<td>CAT</td>
<td>18 Mar 1985</td>
<td>23 Jan 1986</td>
</tr>
<tr>
<td>International Covenant on Civil and Political Rights</td>
<td>CCPR</td>
<td>—</td>
<td>23 Mar 1981 (a)</td>
</tr>
<tr>
<td>Second Optional Protocol to the International Covenant on Civil and Political Rights aiming to the abolition of the death penalty</td>
<td>CCPR-OP2-DP</td>
<td>—</td>
<td>26 Sep 2007 (a)</td>
</tr>
</tbody>
</table>


39 For a complete list of treaties México has signed, see http://www2.scjn.gob.mx/red/constitucion/TI.html.


Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report

Mexico has also ratified seven of the eight International Labour Organization (ILO)’s fundamental conventions on labour rights, as Table 7 shows. Mexico has not yet ratified the eighth ILO agreement on the rights of workers to organize and participate in collective bargaining (ILO No. 98), which in turn could influence the EU’s ability to use the trade agreement to advance labour rights.

Table 7: Mexico’s ILO Commitments

<table>
<thead>
<tr>
<th>Fundamental Convention</th>
<th>Ratification Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>C029 - Forced Labour Convention, 1930 (No. 29)</td>
<td>12 May 1934</td>
<td>In Force</td>
</tr>
<tr>
<td>C087 - Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)</td>
<td>01 Apr 1950</td>
<td>In Force</td>
</tr>
<tr>
<td>C100 - Equal Remuneration Convention, 1951 (No. 100)</td>
<td>23 Aug 1952</td>
<td>In Force</td>
</tr>
<tr>
<td>C105 - Abolition of Forced Labour Convention, 1957 (No. 105)</td>
<td>01 Jun 1959</td>
<td>In Force</td>
</tr>
<tr>
<td>C111 - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)</td>
<td>11 Sep 1961</td>
<td>In Force</td>
</tr>
<tr>
<td>C138 - Minimum Age Convention, 1973 (No. 138)</td>
<td>10 Jun 2015</td>
<td>In Force</td>
</tr>
<tr>
<td>C182 - Worst Forms of Child Labour Convention, 1999 (No. 182)</td>
<td>30 Jun 2000</td>
<td>In Force</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

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C098 - Right to Organise and Collective Bargaining Convention, 1949 (No. 98)  

<table>
<thead>
<tr>
<th>Protection Instrument</th>
<th>Signature Date</th>
<th>Ratification, Accession (a), or Succession (d) Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention on the Status of Aliens (A-22)</td>
<td>20 Feb 1928</td>
<td>20 Feb 1931</td>
</tr>
<tr>
<td>Charter of the Organization of American States (OAS)</td>
<td>30 Apr 1948</td>
<td>23 Nov 1948</td>
</tr>
<tr>
<td>American Declaration on the Rights and Duties of Man (Declaration of Bogotá, Colombia)</td>
<td>—</td>
<td>23 Nov 1948</td>
</tr>
<tr>
<td>American Convention on Human Rights “Pact of San José, Costa Rica” (B-32)</td>
<td>—</td>
<td>02 Mar 1981 (a)</td>
</tr>
<tr>
<td>Inter-American Convention to Prevent and Punish Torture (A-51)</td>
<td>10 Feb 1986</td>
<td>11 Feb 1987</td>
</tr>
<tr>
<td>Protocol to the American Convention on Human Rights to Abolish the Death Penalty (A-53)</td>
<td>—</td>
<td>28 Jun 2007 (a)</td>
</tr>
<tr>
<td>Inter-American Convention on the Elimination of all Forms of Discrimination Against Persons with Disabilities (A-65)</td>
<td>08 Jun 1999</td>
<td>06 Dec 2000</td>
</tr>
<tr>
<td>Inter-American Democratic Charter</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>


At the regional level, Mexico has ratified or acceded to several regional human rights protection instruments in the Inter-American system, as Table 8 indicates. Moreover, in its last annual country report released in December 2015, the Inter-American Court on Human Rights (IACHR) commended the Mexican government for withdrawing its reservations to three Inter-American regional human rights protection instruments.42

Table 8: Mexico’s Inter-American Human Rights Commitments

42 Mexico made these reservations, because it was deeply concerned about its sovereignty. Mexico often acted to defend its national interests against what its former leaders perceived as the harmful, protectionist, or interventionist policies of developed countries, especially the United States. However, recently Mexico has started to shift and open up this foreign policymaking orientation through its adoption of the aforementioned 2011 constitutional reform, which elevated international human rights instruments to the constitutional rank. See Inter-American Commission on Human Rights, 2015, Situation on Human Rights in México, (Washington, D.C.: Organization of American States, December 31), 52, http://www.oas.org/en/iachr/reports/pdfs/México2016-en.pdf.
Declaration of Principles on Freedom of Expression
Principles and Best Practices on the Protection of Persons Deprived of Liberty in the Americas

<table>
<thead>
<tr>
<th>Convention</th>
<th>Date</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Convention on the Granting of Civil Rights to Women (A-45)</td>
<td>02 May 1948</td>
<td>01 Apr 1954</td>
</tr>
<tr>
<td>Inter-American Convention on the Granting of Political Rights to Women (A-44)</td>
<td>—</td>
<td>02 Mar 1981</td>
</tr>
<tr>
<td>Inter-American Convention Against Racism, Racial Discrimination and Related Forms of Intolerance (A-68)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Inter-American Convention Against All Forms of Discrimination and Intolerance (A-69)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Inter-American Convention on Protecting the Human Rights of Older Persons (A-70)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>


5.2.2.3. **Legislative and Institutional Legal Framework**

Policymakers who seek to respect human rights must first draft laws that meet domestic and/or international standards, provide adequate funding, monitor national human rights institutions, and possess the will to protect the human rights of its citizens. In this section, we will show that Mexico has bolstered its human rights laws and institutions. Nonetheless, international observers assert that Mexican officials do not consistently protect, respect, and remedy human rights.

Before 2011, Mexico had limited protections for human and fundamental rights in its domestic laws. The Mexican state did not provide legal effects to international treaties at the domestic constitutional level. Instead, the Constitution of 1917 (still in effect) provided for individual protections domestically through a writ of amparo, a judicial control mechanism to ensure the Mexican state did not violate its citizens’ human rights.

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In 2000, Vicente Fox Quesada from the National Action Party (PAN) won the presidency, ending 71 years of one-party rule by the Institutional Revolutionary Party (PRI). Many analysts assert that the PRI governed the country through a deeply rooted web of repression, corruption, secrecy, patronage, and weak and oftentimes arbitrary application of rule of law. With this change, México gradually moved from a highly decentralized, defensive, and nationalist regime towards one that is more outward oriented and inwardly accountable.

The Fox government (2000—2006), as well as the successive administrations of Felipe Calderón (2006—2012) and Enrique Peña Nieto (2012—2018), enacted a series of structural reforms aimed at recognizing and addressing the persistence of grave human rights violations in Mexico, emphasizing citizen insecurity, access to justice, impunity, due process, and violence. They also strengthened the country’s ability to govern fairly and protect the fundamental rights of its citizens. México also gradually expanded the definition of fundamental rights to include economic, cultural, and social rights such as the right to health and decent housing (1983), the right to healthy environment (1999), indigenous rights (1992 and again in 2001), the right to access culture and to exercise cultural rights (2009), the right to physical exercise and sport (2011), the right to food (2011), and the right to water (2012).

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49 Dueñas, 41.
### Table 9: Mexico’s Domestic Human Rights Reforms (2000-2016)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constitutional</strong></td>
<td></td>
<td>Granted constitutional rank to the international human rights treaties ratified by México (2011)</td>
<td>Labour Reform (2012)</td>
</tr>
<tr>
<td><strong>Rule of law</strong></td>
<td>26 supplementary legal instruments for better protection of human rights, passed by the Senate (including the Law on the Reform of the Civil Service and the 2002 Law on Transparency)</td>
<td>México 2030</td>
<td>National Human Rights Program</td>
</tr>
<tr>
<td></td>
<td>Creation of the Special Prosecutor’s Office for Crimes of the Past</td>
<td>Vivir Mejor</td>
<td>Creation of a Missing or Disappeared Persons Registry (2012)</td>
</tr>
<tr>
<td></td>
<td>Creation of Inter-Secretarial Commission on Government Policies in the area of Human Rights</td>
<td></td>
<td>Adoption of the General Victims Act (2013)</td>
</tr>
<tr>
<td></td>
<td>Creation of Office for the Development of Indigenous Peoples and later the National Commission for the Development of Indigenous Peoples</td>
<td></td>
<td>Reformed the Code of Military Justice so that abuses committed by members of the military against civilians are handled by the ordinary criminal justice system</td>
</tr>
<tr>
<td></td>
<td>Signed an agreement that establishes guidelines for the participation of civil society organisations in foreign policy issues (Acuerdo por el que se establecen los lineamientos para la participación de las organizaciones de la)</td>
<td></td>
<td>Other concrete measures have been taken to strengthen security institutions, including fostering a model of police development, the gendarmerie, a unified police service for each state, and the new criminal justice system</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour, Employment, and Social Protection</td>
<td>Creation of the National Institute for Women (INMUJERES), a federal-level government agency that works to create a culture of equality free from violence and discrimination for all Mexican women and to allow them to fully exercise their rights (2001)</td>
<td>Creation of obligation for the federal state to prevent, investigate, sanction, and pay compensation for human rights violations as well as for all public authorities to promote, respect, protect, and guarantee human rights, including children’s rights (2011)</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>sociedad civil en temas de política exterior</td>
<td>Anti-corruption Reform established a national anti-corruption system with a special prosecutor to handle corruption cases and that gave more power to federal audit office and public administration ministry (2015)</td>
<td>Creation of the United Code of Criminal Procedure (CPC)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2005)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Since 2013, however, the Peña Nieto administration has not been able to make significant progress on human rights as it fights the drug war and tries to improve economic outcomes and reduce social and economic inequality. Some observers argue that the problem is embedded in Mexican democracy and inadequate governance, given that the government is focused only on short-term results.\textsuperscript{50}

But Mexico’s inability to consistently respect human rights also stems from a relatively weak institutional structure beyond the human rights institutions. In 1992, the Carlos Salinas government approved the first federal agency tasked with addressing human rights in the country—the National Human Rights Commission (in Spanish, Comisión Nacional de Derechos Humanos or CNDH). In 1993 and 1994, the CNDH also gave individual states the autonomy to set up local counterparts.\textsuperscript{51}

In 2011, as noted above, Mexico agreed to incorporate international human rights standards into its domestic legal system, and it also adopted respect for human rights as a guiding principle in the country’s international relations. However, the country continues to experience significant human rights violations including inadequate respect for the right to life. Many people in Mexico do not feel secure.\textsuperscript{52} Many members of police are corrupt, poorly trained and often under-resourced. Criminal investigators, prosecutors, and judges are also often corrupt and poorly trained. Impunity remains a major problem, and organized crime has infiltrated local and state government.\textsuperscript{53} Mexicans are responding to government corruption and inadequate governance with distrust and frustration.\textsuperscript{54}

Human rights NGOs such as Freedom House, Amnesty International and Human Rights Watch as well as international observers such as IACHR worry that Mexico may be regressing in its willingness


\textsuperscript{54} In 2017, México’s ruling party was embroiled in a string of scandals, including accusations of wild overspending in regional election campaigns, systematic malfeasance by state governors, and an attempt to gut a newly created national mechanism to fight corruption. David Agren, “Mexican anger over corruption deepens – but will politicians change their ways?” The Guardian, October 29, 2017, https://www.theguardian.com/world/2017/oct/29/México-corruption-pri-santiago-nieto.
to protect specific human rights. A renegotiated FTA could provide incentives for Mexico to improve governance and some human rights. As an example, we provide some evidence below that NAFTA has helped Mexicans to demand their rights and has shined a spotlight on Mexican governance.

5.2.2.4. A Graphical Representation of Mexico’s Governance and Human Rights Record

Figures 6-9 map out Mexico’s human rights performance to illuminate both the country’s current challenges and governance abilities. As noted above, scholars and international organizations have developed datasets for only some human rights. We rely on internationally accepted, replicable, and publicly available datasets. Unfortunately, many of these datasets do not provide consistent data over a ten-year-period, so that we cannot use these metrics to draw conclusions, but only to present a picture of the direction in which Mexico is going.

We first examine quality of governance. Error! Reference source not found. uses the World Bank’s Doing Business Database for the period 2003—2016. The data reveals that Mexico is gradually improving its performance on enforcing contracts, but at the same time its performance is relatively poor compared to other OECD countries. In contrast, it shows stronger performance on trading across borders, on a scale of 1-100.

Figure 6: Quality of Governance Related to Enforcing Contracts and Trading Across Borders

Error! Reference source not found. shows that Mexico also does not rank highly on the Bertelsmann Management Index (BTI), which evaluates the quality of governance according to a country’s decision-makers ability to guide political processes on a scale of 1 (lowest) to 10 (highest).

**Figure 7: México’s Quality of Governance in the 21st Century**


Note: A score of 1 is the lowest and 10 is the highest. The Bertelsmann Stiftung (BTI)’s Management Index is comprised of five criteria, which are based on a total of 20 indicators. A government’s management performance is weighted with the level of difficulty, which is derived from three qualitative and three quantitative indicators: value, steering capacity, resource efficiency, consensus-building, and international cooperation. Each country’s quality of transformation is influenced by structural constraints.

Mexico’s quality of governance affects its ability to protect, respect, and remedy its citizens’ human rights. To examine quality of governance, we rely on Factor 4 (“Fundamental Rights”) from the World Justice Project (WJP)’s Rule of Law Index\(^\text{56}\)—which assesses how a sample of a country’s experts and citizens perceive protection of specific human rights. Here we only have data for 2013-2015. Error! Reference source not found. and 9 provide snapshots of trends in México’s respect for human rights from different datasets.

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\(^{56}\) The World Justice Project Rule of Law Index is an annual public opinion survey based in the United States involving a representative sample of 1,000 respondents in the three largest cities per country and a set of in-country legal practitioners and academics.
Figure 8: Mexican Citizen Perception of State Respect for Select Human Rights


Note: Scores range from 0 to 1 (with 1 indicating strongest protection of human rights).
Figure 9: México's Respect for Social and Economic Rights, 2005 – 2015

Note: The SERF Index uses socio-economic statistics like school enrolment and infant mortality rates to gauge the extent to which rights-holding individuals enjoy economic and social rights.

5.2.2.5. Indigenous Peoples

We will pay special attention to Mexico’s indigenous population in our analysis. Approximately 15 percent of Mexicans are of indigenous descent. They number nearly 10 million.\(^{57}\) More than 80 percent of Mexico’s indigenous live in the southern region, including the states of Oaxaca, Chiapas, Campeche, Guerrero, Hidalgo, Puebla, Quintana Roo, Tabasco, Tlaxcala, Veracruz, and Yucatán.\(^{58}\) The principal indigenous groups include Náhuatl, Maya, Zapotec, Mixtec, Otomí, Tzeltal, Tzotzil, Totonaca, Mazateco, and Chol.\(^{59}\)

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Although Mexico’s constitution is quite modern and emphasizes social and economic rights as well as civil and political rights, its indigenous populations face higher poverty rates, joblessness, poorer health outcomes, and lower educational attainment levels. As an example, the UN reported that poverty rates of indigenous persons in Mexico are 3.3 times higher than non-indigenous citizens. It also found that the poverty gap between indigenous and non-indigenous peoples remains constant, despite a reduction in the overall poverty rate. Consequently because they are poorer, many indigenous Mexicans have less or no access to basic services such as education, potable water, and adequate shelter. In southern states such as Chiapas, Oaxaca, and Guerrero, child hunger is high. Furthermore, the lack of schools and/or quality instruction correlates with lower rates of attendance and educational achievement. In August 2017, a Brookings Institution scholar reported that in Mexico “rates of out-of-school students are considerably higher among indigenous peoples (16.3 percent) than non-indigenous populations (6 percent).” The UN found in 2009 that indigenous people in Mexico are less literate than their non-indigenous counterparts.

In 2017, the European Parliamentary Research Service evaluation of the EU-Mexico FTA, conducted for the European Parliament, asserts that, in addition to higher poverty rates, “indigenous communities also suffer social and economic discrimination, being excluded from health and education services, as well as discrimination in the criminal justice system.”

Furthermore, the U.S. Department of State reported in 2017 that indigenous women are “among the most vulnerable groups in society [and] they experienced racism, discrimination, and violence.”

The main problems individuals from these ethnic and linguistic groups face include:

- ineffective or insufficient protection of their rights to land, water, and housing;
- inadequate access to basic social welfare services such as health care and education;
- poor and/or unequal labour and housing conditions;
- poverty;
- social, economic, and penal discrimination; and
- human rights violations by Mexican security forces such as forced disappearances, extrajudicial killings, and torture, especially in the context of infrastructure projects, natural

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64 Ioannides, 85.
resources, and extractive industries.\textsuperscript{66}

Moreover, the Mexican government has not effectively implemented domestic or international legal commitments aimed at ensuring respect for indigenous rights. Human rights organizations such as Human Rights Watch and Amnesty International have repeatedly highlighted that Mexican officials for their lack of attention to these problems, especially in relation to the human rights abuses against and security of indigenous peoples.\textsuperscript{67}

Article 36 of the EU-Mexico Global Agreement (GA) addresses the rights of indigenous and other vulnerable groups. It states: “The Parties shall hold periodic consultations regarding cooperation activities involving civil society and destined to offer opportunities for the creation of jobs, vocational training and income growth.”\textsuperscript{68} However, this provision is limited to bilateral cooperation on social affairs and poverty and uses non-binding, aspirational language. Furthermore, other impact assessments of the EU-Mexico FTA have concluded that the GA has not had any effect on the human rights situation of indigenous groups in Mexico.\textsuperscript{69}

We will assess any potential impact the modernized GA might have on these issues of concern and Mexico’s indigenous peoples.

5.2.2.6. \textit{Mexico’s Trade Commitments}

Mexico is a member of the World Trade Organization (WTO) and joined its predecessor organization, the General Agreement on Trade and Tariffs (GATT), in 1986. It has also signed other free trade agreements, such as NAFTA, that contain both explicit and implied human rights provisions.\textsuperscript{70} However, Table 10 illustrates that most of these commitments are limited to aspirational language


\textsuperscript{69} Ioannides, 85.

and do not bind Mexico to specific obligations. But aspirational provisions can have effects on human rights over time. As an example, trade agreements with aspirational provisions can shine a light on government practices and empower NGOs and citizens to demand their rights. We will examine the human rights language of all 12 of Mexico’s free trade agreements.

Table 10: Human Rights Language of Mexico’s Free Trade Agreements

<table>
<thead>
<tr>
<th>FTA</th>
<th>Implementation Date</th>
<th>Specific Binding Language?</th>
<th>Specific Aspirational Language?</th>
<th>Human Rights Language in Exceptions?</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAFTA</td>
<td>01 Jan 1994</td>
<td>Non-discrimination (Ch.12, Art. 1208)</td>
<td>Improvement of labor and living conditions (Preamble)</td>
<td>When necessary to protect public morals, human, plant, or animal life/health, intellectual property, and in relation to the goods and services of handicapped persons, philanthropies, and prison labor (Ch. 10, Art. 1018)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency (Ch. 7, Art. 718)</td>
<td>Employment opportunities (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Protection of IPR (Ch. 13, Art. 1306)</td>
<td>Promotion of sustainable development (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Right to privacy (Ch. 17, Art. 1701)</td>
<td>Protection, enhancement, and enforcement of basic workers’ rights (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Due process (Ch. 8)</td>
<td>Freedom of association (Annex 803.3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Political participation</td>
<td>Employment opportunities (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Chapter 14)</td>
<td>Promotion of sustainable development (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Labor rights</td>
<td>Protection, enhancement, and enforcement of basic workers’ rights (Preamble)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Chapter 14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-Mexico Global Agreement</td>
<td>01 Oct 2000</td>
<td>—</td>
<td>Regarding the promotion of human rights as laid out in the Universal Declaration on Human Rights (Preamble)</td>
<td>When necessary to protect national security, public morals, human, plant, or animal life/health, and intellectual property (Art. 4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Right to health (Art. 1)</td>
<td>Intellectual property rights (Art. 12)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>intellectual property rights (Art. 12)</td>
<td>Rights of vulnerable populations (Art. 36)</td>
<td></td>
</tr>
<tr>
<td>Mexico-Chile FTA</td>
<td>01 Aug 1999</td>
<td>Transparency (Ch. 12, Art. 1207)</td>
<td>Improvement of labor and living conditions (Preamble)</td>
<td>Parties are not required to disclose</td>
</tr>
</tbody>
</table>

## Preliminary Analysis

In this section, we begin with an overview of the literature on human rights and trade. We show that research into the relationship between trade agreements and the advancement of human rights is in

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</thead>
<tbody>
<tr>
<td>Colombia-Mexico FTA</td>
<td>01 Jan 1995</td>
<td>Non-discrimination (Ch. 10, Art.1010) Due process (Ch. 9, Art. 916)</td>
<td>When necessary to protect public morals and safety, health, human, animal, and plant life, and intellectual property and in relation to the goods and services of the handicapped, of charitable institutions, and prison work</td>
</tr>
<tr>
<td>Mexico-Israel FTA</td>
<td>01 Jul 2001</td>
<td>Transparency (Ch. 11, Art. 1110) Due process (Ch. 12, Art. 1210)</td>
<td>When necessary to maintain national security (Ch. 6, Art. 618)</td>
</tr>
<tr>
<td>Mexico-European Free Trade</td>
<td>01 July 2001</td>
<td>Right to privacy (Art. 39) Transparency (Art. 79)</td>
<td>When necessary to protect public safety and morals, health, human, animal, or plant life, intellectual property, and in relation to the products of prison labor (Arts. 17, 44)</td>
</tr>
</tbody>
</table>
its infancy. Next, in Table 11 we focus on the language used in the Technical Proposals for the modernization of the GA and how the new EU-Mexico FTA might affect human rights in both the EU and Mexico. In Table 12 we discuss gaps in the draft language and try to illuminate how these gaps might affect human rights. In Table 13, we highlight the modernized GA’s human rights-enhancing provisions. Finally, we briefly discuss how the renegotiation of the GA might affect the issues pointed out in the Commission Staff Working Document: Executive Summary of the Impact Assessment.

5.3.1. **Overview of the Literature on Links between Human Rights, Trade, and the Mexico Case**

Although scholars have developed a considerable body of work on how governments attempt to influence the behaviour of their trade partners regarding human rights, researchers do not yet know if human rights provisions in trade agreements advance respect for human rights abroad. Scholars have yet to answer the big questions posed below, listed in Error! Reference source not found..

![Figure 10: The Big Questions in the Trade – Human Rights Relationship](image)

1. Does expanded trade stimulate or undermine government responsibility for respecting specific human rights?
2. Does expanded trade encourage or discourage public demand for specific human rights?
3. Does the protection of specific human rights make trade liberalization or specific trade agreements possible (e.g. property rights protection)?
4. Do governments use trade agreements to promote a particular human right and is that strategy effective (conditionality)?
5. Do governments use human rights conditions to justify trade agreements or relationships (or non-relationships)? Should they be linked?

Source: Aaronson (2007)

Scholars also do not know how best to advance human rights with trade agreements. The EU and United States have very different approaches. On the one hand, the United States prioritizes certain human rights and makes adherence binding in all its trade agreements. The US strategy undermines a central ethos of the international community—that human rights are universal and indivisible. On the other hand, the EU approach is supportive of human rights as universal and indivisible, but it appears less effective at achieving human rights improvements. Vellutti (2016) found that “EU human rights conditionality can be effective and sometimes the EU can be a credible global human rights actor depending on the existence (or absence) of concurring factors such as the legal or policy

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Labour rights are a good test case for several reasons. According to the ILO, about 80% of trade agreements include labour rights provisions, and most nations—including the United States, Canada, and the EU—adhere to a trade agreement with labour rights language. Thus, scholars have many test cases and more than 24 years of data since NAFTA, the first trade agreement to include labour rights language. However, while scholars have developed several measurements to assess respect for labour rights, they have difficulty disentangling the effects of one trade agreement with binding labour rights provisions versus another with aspirational language focused on the same core labour rights. In addition, scholars have not yet developed a consensus on how trade (as opposed to specific trade agreements) affects labour rights at home and abroad. In a review of the literature, Salem and Rozental (2012) found no clear evidence that countries can improve their trade through poor labour conditions. In 2016, the ILO assessed these provisions and concluded that labour rights provisions have some interesting spillover effects. The ILO found these provisions eliminate barriers to women’s entry into the workforce and these provisions do not divert or decrease trade flows. However, the ILO also found “the impact of labour provisions depends crucially on […] the extent to which they involve stakeholders, notably social partners such as unions and NGOs.” In addition, no scholar has examined whether FTAs with labour rights protections empower workers.

Mexico provides a good example of how trade agreements may encourage policymakers to respect human rights norms. Since joining NAFTA, Mexican trade policy officials have become more responsive to public concerns about labour rights. For example, the Mexican government began to work internationally to protect its citizens’ labour rights. In September 2009, Mexican consulates attempted to educate Mexican guest workers in the United States regarding their labour rights. In 2013, with help from US and Mexican civil society groups, guest workers came together to form the Sinaloa Temporary Workers Coalition to defend their rights in Mexico and internationally. In 2014, the same group complained to the Mexican Ministry of Labour about recruitment fees. This Ministry investigated the complaint, found 27 violations, and issued fines. In this case, Mexicans held their government to account for violating its own domestic law. Furthermore, the process educated Mexican policymakers about Mexican guest workers’ precarious situation in the United States. Aspinwall (2014) also found that NAFTA had positive impacts on Mexican labour practices, strengthened the capacities of trade unions, generated transnational networks of workers’ rights advocates, and raised worker awareness about their rights. More recently, after Canada called for

---

76 International Labour Organization, 7–8.
78 Aaronson (2007), 111.

Lastly, we note that the Terms of Reference for this impact assessment of the new EU-Mexico GA requested we examine gender, income inequality, and any human rights issues included in the new chapters—such as those on digital trade, IPR, and transparency, which can affect online privacy (TFEU, EU Charter), access to information (UDHR, Art. 19), and freedom of expression (UDHR, Art. 19). We have focused on some of these rights in the discussion. We note that as of November 2017, the GA modernization draft does not include anything that directly undermines women’s rights or the rights of other vulnerable groups, ensures government respect for these rights, or allows members of vulnerable populations to demand their rights.

5.3.2. \textit{Preliminary Assessment of the European Commission’s Modernization Proposals}

Table 11 maps out the current state of play of Directorate General of Trade for the European Commission (DG Trade)’s proposals for the modernization of the Mexico-EU Global Agreement. It focuses only on human rights language that could have direct human rights effects. It also identifies any language that is unclear, is incomplete, or could negatively affect human rights.

\textbf{Table 11: Human Rights Language in Modernization Proposals}

<table>
<thead>
<tr>
<th>Textual Proposal</th>
<th>Article(s)</th>
<th>Unclear, incomplete, or absent human rights language?</th>
<th>Which human right(s) affected?</th>
<th>Any positive or negative effects?</th>
<th>Who is most affected?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceptions</td>
<td>X3, X5</td>
<td>Disclosure of government information</td>
<td>Access to information (UDHR 19), online privacy (TFEU, EU Charter), freedom of expression (UDHR 19)</td>
<td>Governments could refuse to disclose monitoring of citizens, malware, etc. (MX problem)</td>
<td>Mexican citizens</td>
</tr>
<tr>
<td>Telecoms</td>
<td>13</td>
<td>Each Party has the right to define kind of</td>
<td>Universal access to</td>
<td>Citizens can be denied access</td>
<td>Mexican citizens</td>
</tr>
</tbody>
</table>
### Digital Trade

<table>
<thead>
<tr>
<th>Page</th>
<th>Description</th>
</tr>
</thead>
</table>
| 14   | No language on rights of netizens  
No language differentiating types of data flows and how it may be protected (e.g. personal data)  
Ban on spam but not malware  
No language on interoperability, or requirement for end to end encryption as in new EU legislation |
|      | Online privacy (TFEU, EU Charter), right to be forgotten (C-131/12), access to information (UDHR 19) |
|      | Government may not respect these rights. |
|      | In general, EU and Mexican citizens; Mexican citizens suffer more from malware |

### Trade and Sustainable Development

<table>
<thead>
<tr>
<th>Page</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Each Party shall &quot;ensure that it develops, enacts and implements regulations […] providing opportunities for non-state actors to submit views.&quot;</td>
</tr>
<tr>
<td></td>
<td>Due process (UDHR 6, 10, 11), political participation (UDHR 21 (1&amp;3))</td>
</tr>
<tr>
<td></td>
<td>Need more information on how and who of non-state actors (define) to highlight that civil society groups and individuals should be heard</td>
</tr>
<tr>
<td></td>
<td>EU and Mexican citizens</td>
</tr>
</tbody>
</table>

### Trade and Sustainable Development

<table>
<thead>
<tr>
<th>Page</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Nothing about contingent or vulnerable workers</td>
</tr>
<tr>
<td></td>
<td>Core labor standards (ILO Declaration on Fundamental Principles and Rights at Work)</td>
</tr>
<tr>
<td></td>
<td>Unclear if such workers are covered. Need specific language especially as %</td>
</tr>
<tr>
<td></td>
<td>EU and Mexican citizens</td>
</tr>
<tr>
<td><strong>Trade and Sustainable Development</strong></td>
<td>Says nothing about other human rights or relationships among human rights and other priorities</td>
</tr>
<tr>
<td><strong>Trade and Sustainable Development</strong></td>
<td>“Each Party shall ensure that administrative and judicial proceedings are …available… to permit effective action to be taken against infringements of labour rights.”</td>
</tr>
<tr>
<td><strong>Trade and Sustainable Development</strong></td>
<td>Article 9: “The Parties recognise the importance of responsible management of supply chains.” Article 3: clarify if non-derogation clause includes EPZ.</td>
</tr>
<tr>
<td><strong>Good Regulatory Practices</strong></td>
<td>Each Party shall make publicly available… including those regarding Good governance chapter Each Party shall make publicly</td>
</tr>
</tbody>
</table>
available… including those regarding opportunities for the public to provide input. But Article X.7b does not define “person,” who can comment, and Article X7c offers no means of determining if signatory “considered” comments. Article X8 calls on both governments to do impact assessments of regulations but does not specifically delineate examining the human rights impact.

| Transparency X3 | Signatories should “endeavor” to take into consideration the comments received; leaves governments free to ignore comments, making comments ineffective. | — | — | — |
### Intellectual Property Rights

<table>
<thead>
<tr>
<th>Language on IPR intermediaries</th>
<th>Access to information (UDHR 19)</th>
<th>Netizens may be denied access, no clear exceptions</th>
<th>EU and Mexican citizens who go online</th>
</tr>
</thead>
</table>


Under Article 207(1) of Treaty for the Functioning of the European Union (TFEU), the EU is supposed to ensure that its foreign and domestic policies do not undermine EU human rights obligations. Hence, this table analyses gaps in the EU negotiating textual proposals for Mexico that may affect human rights and in so doing could undermine TFEU Obligations, EU Regulations, or EU international commitments.

**Table 12: Human Rights Gaps in the Draft Modernization Language**

<table>
<thead>
<tr>
<th>Trade Measure/Textual Proposal</th>
<th>Article(s)</th>
<th>Which human rights affected?</th>
<th>EU Commitment in Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS and Technical Barriers to Trade</td>
<td>—</td>
<td>Workers’ Rights: failure to adequately protect workers from unsafe work conditions (ILO Declaration on Fundamental Principles and Rights at Work)</td>
<td>ILO Core Labour Standards (ILO Declaration on Fundamental Principles and Rights at Work)</td>
</tr>
<tr>
<td>Public Procurement</td>
<td>2, 6</td>
<td>No discrimination of suppliers that do not advance human rights&lt;sup&gt;83&lt;/sup&gt;</td>
<td>Universal Declaration Human Rights (UDHR) and its related conventions</td>
</tr>
<tr>
<td>ePrivacy</td>
<td>—</td>
<td>Access to Information (UDHR 19) Data protection: no language differentiating types of data flows nor how to protect data (TFEU, EU Charter)</td>
<td>Universal Declaration Human Rights (UDHR) and its related conventions ePrivacy Directive</td>
</tr>
</tbody>
</table>

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<sup>81</sup> An interlocutory injunction may also be issued under the same conditions, against an intermediary whose services are being used by a third party to infringe an intellectual property right. For the purposes of this study, intermediaries include internet service providers.

<sup>82</sup> Ioannides, 25.

<sup>83</sup> The language allows contracting authorities to take into account environmental and labour considerations throughout the procurement procedure, provided they are non-discriminatory (and they are linked to the subject matter of the contract).
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report

No ban on malware that can be used to undermine human rights
No language on interoperability
No requirement for end-to-end encryption as in new EU legislation

Data Protection Directive (Directive 95/46/EC)

Sustainable Development

—

Workers’ rights (ILO Declaration on Fundamental Principles and Rights at Work)
ILO Conventions


Table 13 describes draft provisions suggested by the EU that could advance human rights.

Table 13: Draft Modernization Provisions Related to Human Rights

<table>
<thead>
<tr>
<th>Textual Proposal</th>
<th>Article(s)</th>
<th>What language?</th>
<th>Which human right(s) affected?</th>
<th>Any Direct Effects?</th>
<th>Who is most affected?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment and Trade in Services Chapter⁶⁴</td>
<td>2.9</td>
<td>Affirms right to regulate to protect public health, data, etc. Non-derogation clause</td>
<td>Right to health (UDHR 25), right to water (UDHR 21 (2), right to privacy online (TFEU, EU Charter), core labor standards (ILO Declaration on Fundamental Principles and Rights at Work)</td>
<td>Incentive to regulate effectively</td>
<td>EU and Mexican citizens</td>
</tr>
<tr>
<td>Transparency</td>
<td>Entire chapter</td>
<td>Language describing how to</td>
<td>due process (UDHR 6, 10, 11), political</td>
<td>Incentive to encourage public</td>
<td>EU and Mexican citizens</td>
</tr>
</tbody>
</table>

⁶⁴ This proposal makes it very clear that human rights are a priority. “The Parties affirm the right to regulate within their territories through measures necessary to achieve legitimate policy objectives, such as the protection of public health, social services, public education, safety, environment or public morals, social or consumer protection, privacy and data protection, or the promotion and protection of cultural diversity.”
### Good Regulatory Practices

<table>
<thead>
<tr>
<th>Good Regulatory Practices</th>
<th>Entire chapter</th>
<th>Chapter aims to promote rule of law</th>
<th>Even-handedness (non-discrimination), due process (UDHR 6, 10, 11), access to information (UDHR 19)</th>
<th>Incentive to encourage public comments, due process, access to information</th>
<th>EU and Mexican citizens</th>
</tr>
</thead>
</table>


### 5.3.3. Additional Thoughts

We note that because of the size of its market, the EU has substantial leverage to encourage Mexico to improve its respect for human rights. In the wake of US President Donald J. Trump’s threat to withdraw from NAFTA, Mexican officials clearly want to expand trade with other countries. Firstly, Mexico is highly dependent on the United States as its top trade partner.85 Approximately 80% of Mexico’s exports go to the United States and 47% of Mexico’s imports come from the United States.86 Secondly, Mexico may be seeking to demonstrate good governance by locking in political and economic reforms through economic partnerships with key trading partners. In so doing, it can signal that the country is a good place to invest and produce.

### 5.3.4. Next Steps

- Gain a better understanding of public stakeholders about the human rights effects from the stakeholder meetings and public opinion surveys;
- Tighten the empirical analysis of potential direct effects on human rights;
- Update the qualitative analysis in light of changes to EU’s textual proposals for the EU-Mexico Free Trade Agreement; and
- Focus on other key issues of concern for the European Union, such as gender, poverty reduction, indigenous rights, migrant rights, and income inequality.

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6. Environmental analysis

The environmental analysis will lay a focus on the following environmental topics: climate change (Green House Gas (GHG) emissions); air pollution; energy use; land use; resource use and efficiency; waste production; ecosystems and biodiversity; and trade in environmental goods and services.

As with other sustainability issues, the environmental analysis will combine quantitative and qualitative elements. The topics of climate change (GHG emissions), energy use as well as resource use and efficiency will be analysed in greater depth in the quantitative analysis section, while the topics of sustainable trade will be studied mainly from a qualitative perspective.

6.1. Methodology

The quantitative analysis will be based, in part, on the CGE modelling performed by the European Commission. Using the emission intensity factors available in pre- and post-scenario input-output tables, we shall analyse the scale, structural, technique effects in terms of both welfare and GHG emissions in CO₂ equivalent.

The analysis will use the data provided in the model and expand on it. In addition, it will be based on the construction of relevant statistics and the gathering of complementary qualitative information from a variety of internationally recognized sources such as the OECD, the International Energy Agency (IEA), and the United Nations Environmental Program (UNEP). The analysis will also incorporate the results of the stakeholder consultation (e.g. environmental interest groups) and the data obtained from this consultation will be an important source for the overall analysis in this section.

The overall analysis will lay a focus on the following environmental topics: climate change (GHG emissions); energy use; land use intensity; resource use and efficiency; waste production; ecosystems and biodiversity; and trade in environmental goods and services and fisheries. Where sufficient information is available, a parallel analysis will be conducted for Mexico’s commitments under other trade negotiations.

The structure of the environmental analysis is divided into two parts:

- **The description of a baseline**: in a first step of the analysis, a baseline of the different areas of environmental analysis with its different indicators will be provided.

- **The analysis**: in a second step, the quantitative analysis base on the CGE model and the construction of statistics from different sources will be presented. This quantitative analysis will be complemented, where relevant, with a supporting qualitative analysis.

6.2. Baseline

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87 Internationally recognized sources are preferred over national sources both in terms of cross-country comparability of the indicators and criteria and because of the lack of direct partner stakeholder involvement in the issues under consideration.

88 Land use intensity is measures by total land used over output. An increase in land use intensity can result from an expansion of or a shift towards more land intensive sectors.
In its external trade policy, the European Union has long shown commitment to environmental protection: first, by deploying a broad range of trade policy tools incorporating sustainability objectives; and second, by showing consideration for trade-environment linkages at different stages of the policy process. Thus, over the past three decades, the EU has integrated environmental objectives in many of its trade policy instruments. At the unilateral (i.e. non-reciprocal) level, EU trade policy has designated sustainable policies – especially with regard to forest management – as one criterion for obtaining Generalized System of Preferences (GSP) status. At the multilateral level, it has been actively involved both in the work of the WTO Committee on Trade and Environment and the recent negotiations of the Environmental Goods Agreement. In bilateral and plurilateral trade negotiations, the EU has developed an approach to incorporate social and environmental objectives within each trade agreement under its trade and sustainable development chapter. Developed within the EU-Korea Free Trade Agreement, this new approach has considerably raised the visibility of social and environmental issues in EU FTAs and has served as a basis for subsequent negotiations (e.g. Colombia-Peru, CETA, Vietnam).

The environmental analysis baseline will provide an outline of the current state of play of the different environmental topics mentioned above in the EU and Mexico, considering the existing relationship between the two partners. Concerning climate change, the current emission levels of CO\textsubscript{2} and of the most important types of GHG will be outlined in both parties. The outline on energy, land and natural resources use will rely on the use of historical data.

We will benchmark the current environmental performance of Mexico against the EU and other countries using globally comparable indicators of environmental quality as well as look at trends in specific environmental outcomes over time. An overview of the current environmental, climate and energy regulations in Mexico, as well as their obligations in relevant multilateral environmental agreements (MEAs), will be provided. A review of the existing regulations and agreements, and of relevant academic literature, will be the basis for this overview. We will also use input from our local partner and the stakeholder consultation.

**Figure 11: EPI for Mexico and the EU (2016)**

Source: EPI. The plot on the left compares the average overall score for EU countries in 2016 with the EPI score for Mexico. The plot on the right compares the growth in the scores over time. It plots the overall score in each year divided by the 2007 score.
A first inspection of the Environmental Performance Index (EPI) shows that the overall EPI score of Mexico is below the European average (Figure 11). In 2016 Mexico ranked 67th worldwide significantly below the lowest ranked country in the European Union (47th place). When we consider overall perform over time, however, Mexico has experienced a steady improvement over time (a 0.6% annual growth on average), with the exception of 2015, when the EPI slightly decreased.

Figure 12: EPI for Mexico and the EU by category (2016)

Source: EPI 2016.

Figure 12 reports the scores in the nine EPI sub-categories for Mexico and the EU and provides a broad overview of the environmental performance of the two parties in different key aspects. Mexico performs better than the EU average only in terms of fisheries and forests, although the scores in these sub-indices are still low. On the other hand, Mexico performs poorly in the climate and energy index.

Mexico accounts for about 1.3% of global CO₂ emissions (the 13th-highest level in the world). According to IEA data, GHG emissions increased by about 8% in the last decade (2004 to 2014). Electricity generation is dominated by non-renewable sources. In 2014, 79% of electricity production was obtained from fossil fuels (coal 11%, natural gas 57% and oil 11%; World Bank World Development Indicators) as opposed to 45% for the European Union. The impact of the modernisation agreement on energy demand and GHG emissions, therefore, will be an important focus of the analysis.

In addition, we envisage a potential focus on agriculture in Mexico, which shows some excessive use of fertilizers and is the main driver of deforestation. Mexico is among the main consumers of nitrogen fertiliser in Latin America (FAO, 2011)²⁹, although, nitrogen and phosphorus surpluses from agriculture remained below OECD averages. We will also explore the impact of the modernisation agreement on air quality. Over the last decade, air quality has improved but it still remains a major environmental concern for the population. Particulates often exceed recommended standards and

respiratory diseases remain among the major causes of child mortality. The identification of additional potential risk factors, i.e. environmental aspects that are currently under pressure or might become so, will be expanded as the analysis is developed.

6.3. **Analysis**

The quantitative analysis is mainly based on the construction of statistics using data from different sources including the input-output tables used in the CGE model, the IEA and the OECD. The topics of climate change (GHG emissions), energy use as well as resource use and efficiency are analysed in greater depth in the quantitative analysis, while the topics of sustainable trade are studied in a more qualitative fashion.

As a first part of the quantitative analysis, impacts of trade liberalisation on the most important types of GHG emissions in the EU and Mexico will be analysed. The analysis will be based on the CGE modelling produced by DG Trade and will include the decomposition into scale, structural and technique (sector energy intensities, fuel mix and carbon factors effects). A Log Mean Divisia Index (LMDI) based on input-output tables will be used for separating these different effects.

An analysis of the impact of the modernisation of the agreement on energy, natural resource use, soil and water quality, waste production, and biodiversity will follow and will aim at identifying the environmental-sensitive sectors most affected by the agreement as well as the potential risk factors i.e. environmental aspects that are currently under pressure, and discuss how increased trade can impact them.

In the spirit of previous EU FTAs, this analysis will assess the impact of including a trade and sustainable development chapter and examine the different institutional mechanisms (governmental dialogue, civil society forum, etc.) designed to foster cooperation on environmental protection and climate action.

6.3.1. **Additional quantitative tools: Modelling environmental effects**

The impact of trade liberalization on CO₂ emissions in the EU and Mexico will be decomposed into scale, structural and technique effect (sector energy intensities, fuel mix and carbon factors) with the aim of understanding the underlying causes of the overall impact of the trade pillar of the Agreement on CO₂ emissions. The decomposition is obtained using a Log Mean Divisia Index (LMDI). This method is applied to the same environmentally extended input-output tables employed by DG Trade for CGE analysis and, therefore, ensures a perfect correspondence between the estimated environmental impact and the projected economic and structural effects of the modernization of the Global Agreement. We prefer this method among others because it gives a “perfect decomposition” of the change in emissions or energy use across each of the three different factors. The main disadvantage of using LMDI is that because it uses logarithms it cannot deal with zero or negative values in the source data. Nevertheless, there are no such problems in our data, as is the case with most emissions and production data.

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The team employs the additive version of the method that breaks down the change in CO₂ emissions into the following three effects:

1. **Scale effect:** the effect of overall changes in output due to increased trade.

2. **Structural (composition) effect:** the effect of changing shares of output of different, more or less energy intensive, sectors (activity mix).

3. **Technique effect:** is the overall effect due to changes in sector-specific energy intensities (energy intensity effect) fuel shares (fuel mix effect) and carbon factors (emissions factor effect).

The methodology is based on the following relationship:

\[
C = \sum_y C_y = \sum_y Q \frac{Q_i}{Q} \frac{E_y}{E} \frac{C_y}{C} = \sum_y Q S_i M_y U_y
\]  

(1)

Where \(C\) is total GHG emissions, \(C_y\) are emissions from fuel \(j\) in sector \(i\), \(Q\) is output and \(E\) is energy consumption. The above relationship can be rewritten in terms of shares in the following form:

\[
\sum_y Q \frac{Q_i}{Q} \frac{E_y}{E} \frac{C_y}{C} = \sum_y Q S_i I_i M_y U_y
\]  

(2)

Where \(S_j\) is the share of output from sector \(i\), \(I_i\) is the energy intensity (energy over output) of sector \(i\), \(M_j\) is the share of energy from fuel \(j\) in sector \(i\) (fuel mix effect) and \(U_i\) is the share of emissions factor for fuel \(j\) in sector \(i\). Given the above shares, a change in emission can be represented in the following additive form:

\[
\Delta C = C^1 - C^0 = \Delta C_{scale} + \Delta C_{struct} + \Delta C_{int} + \Delta C_{fuel} + \Delta C_{emisf}
\]  

(3)

Each additive component represents:

1. **Scale effect:**

\[
\Delta C_{scale} = \sum_y w_y \ln \left( \frac{Q_i^1}{Q_i^0} \right)
\]

2. **Structure effect:**

\[
\Delta C_{struct} = \sum_y w_y \ln \left( \frac{S_j^1}{S_j^0} \right)
\]

3. **Energy intensity effect:**

\[
\Delta C_{int} = \sum_y w_y \ln \left( \frac{I_i^1}{I_i^0} \right)
\]
4. the fuel mix effect:

\[ \Delta C_{\text{fuel}} = \sum_{y} w_{ij} \ln \left( \frac{M_{ij}}{M_{ij}^0} \right) \]

5. and the emissions factor effect:

\[ \Delta C_{\text{emisf}} = \sum_{y} w_{ij} \ln \left( \frac{U_{ij}}{U_{ij}^0} \right) \]

where \( w_{ij} \) is the logarithmic mean computed as follows:

\[
w_{ij} = \frac{C_{ij}^1 - C_{ij}^0}{\ln C_{ij}^1 - \ln C_{ij}^0}
\]

The decomposition is based on the environmentally extended input-output tables, which incorporates sector-specific CO2 emissions, used in the DG Trade’s CGE analysis and, therefore, is tight to information and the level of sectorial disaggregation provided by DG Trade. These input-output tables contain the necessary information to perform the above decomposition and no additional sources are required.

This quantitative analysis will be complemented with analysis of multilateral environmental agreements and existing commitments, performance across key indicators, outlined in 3.1.1.2, as well as stakeholder consultations. The questionnaires on sustainability issues will be distributed widely to Mexican and EU28 stakeholders to address any environmental concerns, arising from the modernized agreement.

7. Sectoral Analysis

7.1. Methodology

Based on the overall analysis, we will carry out a detailed analysis of nine to eleven sectors selected jointly with DG Trade according to pre-defined criteria.

Each sector analysis will include an overview of the current state of industry, an identification of challenges and untapped future opportunities as well as analyse the likely impact of the anticipated association agreement.

7.1.1. General Approach

Regardless the total economic, social or environmental impact of the Agreement, there might be some sectors where either the impact may be in the opposite direction than the overall analysis or that the impact may be of particular strength. Moreover, in some sectors, the impact of the modernisation of the GA may only materialise if other conditions are met. This study will conduct a comprehensive assessment of the effects in the selected sectors. The assessment will be based in the following elements:

1. Policy: We will identify the main specific or vertical policies affecting the sectors. They will include tariff, tax, subsidies and other specific incentives. Moreover, we will assess other
regulations (e.g. safety standards) that may affect their trade and restrictions or constraints on investments. This would also be reviewed in light of the negotiations in process or concluded by both sides such as the Pacific Alliance and TPP negotiations in the case of Mexico and the comprehensive agreements signed by the EU with Korea and Canada.

2. **Trade**: Based on the results obtained using the quantitative methods, we will present a detailed analysis of the likely effects of exports and imports on the sector. We will work at much disaggregated levels in order to characterise the impacts more precisely. This is key as the effects may differ substantially within products/services in a single sector. For example, using the partial equilibrium model, we will be able to assess the effects on the different dairy products traded in the case of agriculture. In addition, there are intra-industry trade between the EU and Mexico in specific industrial sectors that needs to be characterised in more detail. Currently the EU's exports to Mexico are dominated by sectors such as other machinery, transport equipment, chemicals, and fuel and mining products, while Mexico exports predominantly fuels and mining products, office and telecommunication equipment, transport equipment, and other machinery. Important services sectors currently, as percentage of total services trade, are transport, telecommunications, computer and information services for the EU and travel and transport services for Mexico.

3. **Production and employment**: From the trade results, we will assess how production (and consumption) and employment may be affected by the Agreement in each of the sectors analysed. In addition to the CGE results and the previous impact assessment, we will use sources from the Food and Agriculture Organization (FAO), OECD, United Nations Industrial Development Organization (UNIDO), International Labour Organization (ILO), EU and national sources to characterise the different sub-sectors and make an assessment of the likely effects of the agreement.

4. **Market configuration**: We will describe the main characteristics of the markets in the respective regions. This will include, based on the availability of data, a description of the number of economic actors, market shares, levels of concentration, etc. We will identify sectors with limited competition based on the operation of Government enterprises (i.e. air handling services) or through regulations (e.g. cabotage commercial services). Having a local partner in Mexico will substantially enhance our ability to identify key issues.

5. **Social, gender and environmental**: We will assess the importance of the sector in providing income to poor areas or sectors of the population. This will be performed by describing the number of workers in the sector and the average wage with respect to the rest of the economy. We will also consider whether the sector employs a large share of women. Moreover, we will assess the environmental record of the sector and whether the effects of the trade pillar of the Global Agreement (through its effects on production) can impact the in any of the environmental outcomes. In particular, it needs to be considered the products where production techniques in the EU and Mexico may bring environmental or health issues.

6. **Effects on LDCs**: The impact on LDCs will be assessed in each of the sectors analysed. This will be performed by looking into how much trade LDCs export to the EU and Mexico and the potential displacement effect.

7. **Consumer impacts**: We will assess, based on the quantitative analysis, whether consumption will be affected in the selected sectors. This may be important in the case of some agricultural products that are also exported by Mexico, leading them to potential situations of food insecurity. The effects on domestic prices in both the EU and Mexico will be assessed for the products described.
7.1.2. **Sectoral Impacts on SMEs**

Whilst only a fraction of domestic firms is engaged in trade, this share is characterised by the presence of SMEs. The trade pillar of the Global Agreement can also affect those firms that are not exporting directly. It can impact on firms indirectly through the effects on inputs, increased competition and changes in standards.

7.1.2.1. **Definition of SMEs**

In Article 2.1 of the European Commission’s Recommendation 2003/361/EC, SMEs are defined as follows: enterprises which employ fewer than 250 persons and have either an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.\(^{91}\) As recent analysis conducted by the European Commission considers three classes of enterprises: micro enterprises (1-9 occupied persons), small (10-49) and medium-sized enterprises (50-249).\(^ {92}\) In Mexico, the category ‘SME’ applies for companies with 250 or fewer employees.\(^ {93}\)

7.1.2.2. **Methodology of the assessment of the impact on SMEs**

According to the Terms of Reference, we identify all sectors where EU SMEs could be impacted by the modernization of the FTA with Mexico, taking into consideration potential opportunities and threats to EU SMEs that are integrated in international supply chains. We will also identify those sectors that may gain competitive advantages from increased trade liberalization under a modernized trade agreement. This analysis will be based on existing trade patterns including data from the OECD’s Trade in Enterprise Statistics. We will also take into consideration indirect effects that may arise from changes in standards.

The approach to assess the impact on SMEs is guided by the European Commission’s SME test including the better regulation toolbox and associated guidelines.\(^ {94}\) This task is closely linked to the descriptive account of this impact assessment. The work on the impact on SMEs will primarily involve the following tasks:

1. **Consultation of SME stakeholders:** We will question stakeholders in roundtables to assess their perception about the effects of the Agreement on the SMEs of the selected sectors. This will be complemented by questionnaires circulated among business associations and SMEs representatives in the countries involved (EU and Mexico). This will be done with the assistance of Fundación IDEA in Mexico; Enterprise Europe Network (EEN), European Association of Craft, Small and Medium-sized Enterprises (UEAPME) and SME Envoy Network in the EU.

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2. **Identification of the affected SMEs**: This stage involves the characterisation of the SMEs in each of the sectors analysed. This includes the calculation/estimation of the number of employment in each of them, the number and weight of SMEs in the sector, forward and backward linkages with other sectors affected. In addition, we will assess whether SMEs, given their weight or number, of a particular country could be potentially affected. Moreover, given the availability of data, we attempt to distinguish between micro, small and medium firms.

3. **Measurement of the impact**: The impact will be assessed, based on the availability of data, on different sizes of SMEs. This is because the effect may be heterogeneous within the group of SMEs. In addition, we will make a classification of the impact channels in order to facilitate the policy targeting. In this regard, we will distinguish between offensive and defensive costs.

   - Offensive costs relate to the effects associated with the capacity of SMEs to seize the opportunities that the agreement may generate. This may include the existence of high certification of rules of origin compliance, high compliance and certification of the partners’ standards, high trade costs (e.g. burdensome and costly customs procedures in the EU and Mexico) and other costs that prevents SMEs from benefitting from the trade pillar.

   - Defensive costs are associated to the effects on SMEs of the increased competition of that the modernised agreement may bring. They may include the need to re-adjust production to face the competition, costs associated to innovate-to-survive, etc.

We will consult the OECD’s Trade by Enterprise Characteristics (TEC) database to identify the number and trade volume of European and Mexican SMEs at sector level. We will also link CGE analysis results to this part of the analysis by employing the shares of SMEs in each of the sectors and other aspects of the qualitative analysis. We may split some of the GTAP sectors into SME-trade-intensive and others depending on the extent of information available/collected in this regard. The analysis will be preceded by a brief review of relevant literature about the impact of trade liberalization policies on SMEs.

With regards to the impact on SMEs, we will also highlight those measures that could strengthen the positive impact of the agreement and mitigate/prevent the negative impacts. One such tool is greater guidance and support, in terms of navigating the regulatory environment in the EU and Mexico, by clarifying the institutional framework of the agreement. The analysis will be structured as follows:

1. Presentation of SME enterprise characteristics in the EU and Mexico
2. Presentation of industries in which EU SMEs are strong producers
3. Presentation of EU SMEs that show high export elasticities (inclusion of Mexican SMEs depending on availability of relevant data)
4. Discussion of GTAP estimation results in the light of sectors in which SMEs are strong importers/exporters
5. Presentation and discussion of existing trade barriers (tariffs, NTBs, quotas) between the EU and Mexico for sectors in which SMEs import/export
6. Discussion of how changes in standards may impact on SMEs on both sides

**7.1.2.3. Preliminary Screening: Overview of the SME sector in the EU**
SMEs are the backbone of the EU economy, representing 99% of all companies. In contrast to their contribution to the intra-EU trade, however, the internationalisation of SMEs outside the EU is fairly limited. Most SMEs have not undertaken business activities outside the Internal Market. A recent study showed that only 19% of them purchase their supplies overseas and only 20% of them export regularly beyond the EU’s borders. Trade barriers may have a greater impact on SMEs than on larger companies because of their limited resources and lower capacity to absorb risks, especially when operating in intensely competitive markets. SMEs would likely benefit from preferential trade agreements as removing trade and investment barriers would provide further opportunities for SMEs’ internationalisation, including access to new market opportunities and international networking, as well as reducing administrative costs.

SMEs are also indirectly benefiting from trade and investment liberalisation as they are part of complex global supply chains. Due to their size and limited resources, SMEs are, however, potentially more affected by regulatory costs of trade and investment agreements than their larger competitors. Therefore, the European Commission made a commitment in the Small Business Act (2015) to implementing the ‘think small first’ principle in its policymaking; by assessing the impact of forthcoming legislation and administration on SMEs (the ‘SME test’), and by taking this into account when designing proposals.

When negotiating with third countries, special attention is now given by the European Commission to those areas that potentially have a greater impact on SMEs and their ability to access third markets (e.g. regulatory differences, rules of origin or customs procedures). The EU has therefore included a SME chapter in the Transatlantic Trade and Investment Partnership (TTIP) negotiations and plans to include such a chapter in all future trade agreements. Australia and New Zealand, for example, have also agreed to a standalone chapter on SMEs in the TPP.

7.1.2.4. Overview of the Mexican SME sector

SMEs are key contributors to economic activity in Mexico, as well as Mexican employment. 2014 OECD census data indicate that Mexico has approximately 5.6 million registered SMEs. Mexican SMEs make up 99.8% of all Mexican businesses, with 94.3% micro businesses (1-10 employees), 4.7% small sized businesses (11-50 employees) and 0.8% medium-sized businesses 51-250 employees). By comparison, about 10,000 large enterprises (251+ employees) account for only

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95 European Commission (2015), Flash Eurobarometer 421, Internationalisation of European SMEs, October 2015.
0.2% of all enterprises in Mexico. At the same time, many SMEs are traditional in the sense that they do not use modern business methods or tools and are still unable to invest in productivity-improving equipment and technology to overcome manual methods or restriction due to antiquated machinery. Accordingly, Mexico shows the widest labour productivity gap between SMEs and large firms across OECD countries. As documented by the OECD, the productivity gap between SMEs of up to 50 employees and large firms is particularly wide. OECD Trade in Enterprise Statistics indicate that those Mexican SMEs that export are primarily operating in the foods and beverages as well as manufacturing sectors.

7.2. Preliminary sector selection

The selection of sectors, agreed upon during this inception phase of the project, is guided by a set of criteria based on the suggestions in the ToR assessing sectors in three broad categories: industrial/manufactured products, agricultural products and business services. The selection will be guided by product significance in trade flows, importance in outer most regions, and by identification of the existing Impact Analysis.

7.2.1. Criteria

A first criterion is the expected trade/economic impact. This includes sectors where exports are expected to expand as well as those, which will faced increased foreign competition. Moreover, the possibility of increasing value chain activity between the EU and Mexico needs to be considered as well. However, it is important to not limit the analysis to the current sectors traded between the EU and Mexico. This entails looking into products with potential or being already exported to other third countries and for which there is scope for growth.

A second criterion includes the importance of the product for outer most regions and vulnerable populations. Despite sectors suggesting little impact on trade, it is important to consider any sector that employs a large number of people. Moreover, sectors with a large share of women workers and unskilled workers are further considered in line with the cross-cutting task to assess impact on women and vulnerable groups.

The third criteria involves an assessment of suggestions from the existing impact assessment. Thus we select the sectors based on the combination of quantitative and qualitative evidence gathered in Task 1:

- economic, and social variables indicating the general importance of each sector for the economies of the EU and Mexico; importance of the sectors in bilateral trade flows between the EU and the and Mexico; share of employment of women and vulnerable groups (including unskilled workers).
- most important NTBs in the sectors, based on the quantification in 3.1.1.3 as well as the qualitative analysis;
- expert opinion and suggestions from the existing impact assessment
- importance of the sectors, based on the negotiations' history

input from the stakeholder consultations.

During the process for the publication of the 2015 IA, the Commission collected a series of stakeholder responses, showing that a broad majority of stakeholders representing a sector support further trade liberalisation and expects a positive impact on the competitiveness of their sector, as a result of the modernisation. We combine the interpretation of the results in the existing IA with stakeholder consultations undertaken during the inception phase of this SIA and, in particular, with the gathered quantitative evidence in order to justify a preliminary selection of sectors.

7.2.2. Quantitative Evidence

We have collected some extensive data on EU and Mexico to screen the sectors that may be important to consider for the analysis. We discuss this dataset in this section. Mexico has grown about 16.1% in GDP in the last ten years, while the EU has grown about 6.8% in the same duration. On the other hand, even in 2016, Mexico’s GDP is only about 6.38% of EU’s GDP.

In both partners, the share of industry in total employment has come down; such reduction has been much swifter in EU (25 to 19% in the last ten years) than in Mexico (25 to 24% in the last ten years). Agricultural employment share has fallen much more swiftly again in the EU, from 6% to 4%, while in Mexico it has just come down from 14% to 13%. While throughout the last ten years, the services sector has increased its share of employment in both partners, the EU has seen a greater increase from 59 to 63%, and Mexico only a small increase from 58 to 59%. Mexican unemployment has slowly been growing in the past couple of years, registering a movement from 3% to 4% in a decade, while unemployment in the EU almost doubled from 6% to 12%.

Although Mexican FDI numbers are smaller than that of the EU’s, net inflows and outflows have been quite volatile in both partners. Interestingly, this may be partly explained by the average Doing Business Index in the EU of 30 that is far better than Mexico’s average at 47. The inward FDI stock from the EU to Mexico is much smaller (though it grew ten-fold form 2002 to 2012 from 1 to 10 billion Euros), than the outward FDI stock from Mexico to EU, which grew almost fourfold from 25 to 92 billion Euros from 2003 to 2012.

Consumer prices in Mexico have also been increasing far more sharply than in the EU: for example they were 20% higher in 2016 than prices in 2011, while in the EU they were only 6.7% higher in 2016 than in 2011. While government data for the EU and Mexico suggest that most of their procurement involves services, certain commodities likewise represent a substantial proportion of imports.

There are some similarities at GTAP sectoral level, between EU and Mexico, in terms of the order of importance of the sectors by wage bill. Public Administration (osg in GTAP), Trade (trd in GTAP), Other Business Services (obs in GTAP) and several other services and manufacturing sectors are key to both partners. Except for vegetables and fruits (v_f in GTAP), other crops (ocr in GTAP) and coarse grains (gro in GTAP), other agricultural sectors are not key sectors. Therefore, we may want to aggregate these sub-sectors as one overall ‘other agriculture’ sector. From an employment and wages perspective, it would also be reasonable to show manufacturing and services separately in our sectoral aggregation.

In terms of bilateral tariffs, the EU has far lower tariffs than Mexico, except in selected agricultural and food sectors such as sugar, where the EU has a tariff rate quota (TRQ) that results in a highly variable ad valorem tariff equivalent. Mexico has high tariffs mainly in the food manufacturing
sectors, and non-tariff barriers are likewise, on average, much higher in Mexico for most GTAP commodities, except selected agricultural sectors (e.g. sugar cane/beet, oilseeds, cotton and other fibers, wheat and wool) and some minerals (coal and other minerals).

7.2.3. Sector Selection & Justification

<table>
<thead>
<tr>
<th>Agriculture</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits &amp; Vegetables (including bananas)</td>
<td>Fruits and vegetables represent a key sector in agricultural trade between the EU and Mexico, with a specific emphasis on bananas for its high export value as well as its significance in OMRs. In agreement with DG Trade, this study will not conduct an in depth analysis of sugar recognizing that negotiations will not be considering an ambitious offer of trade in sugar. Additionally, Mexico is not a key international player in trade in sugar.</td>
</tr>
<tr>
<td>Other Meats</td>
<td>The EU holds a defensive position in respect to beef, where Mexican interest in the sector is not high enough for it to become a concern in negotiations. Meanwhile, other meats including pork, poultry and horse are key export products for the Mexican economy.</td>
</tr>
<tr>
<td>Other beverages</td>
<td>Beverages including coffee, orange juice, and spirits represent high value export goods for Mexico, where it is specifically interested in the protection of appellations of origin regarding spirits. Wine and beer will not be included in the analysis as trade in such goods is already liberalized.</td>
</tr>
<tr>
<td>Honey</td>
<td>Trade in honey produces a value over €60 million annually, representing 6% of all of Mexico’s agricultural exports.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Commodities</td>
<td>Energy commodities represent an important sector for trade flows between Mexico and the EU countries.</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Impacts on trade in chemicals, including pharmaceuticals, will be assessed in depth as stakeholders have voiced concerns over</td>
</tr>
</tbody>
</table>
the sector’s regulatory framework and issues surrounding intellectual property

| Machinery (Electrical + Other) | When taken combined, the motor vehicle and other machinery industries account for almost 30% of Mexican manufactured exports to the EU. |
| Motor Vehicles | In upcoming years, Mexico is expected to become an even bigger competitor within the automotive industry on a global scale. |
| Metal Parts | Metal parts represent an important sector in trade flows between the EU and Mexico, but in particular, an important sector in the employment of unskilled workers. |

**Services**

| Business Services | The study will conduct an in depth assessment of the agreement’s impacts on business services recognizing that trade in services between the EU and Mexico is dominated by travel and transport services as well as telecommunications. |
| Financial Services | Although trade in the services sectors is much smaller, bilateral trade flows in were shown to have increased significantly since the original FTA. |

**8. Sectoral Analysis: Manufacturing Sector**

In 1997, after years of negotiations, Mexico and the European Union (EU) signed the Economic Partnership, Political Coordination and Cooperation Agreement—also known as the Global Agreement—. The pact sought to establish an institutional framework for political and commercial cooperation between the two parties. Provisions relating to trade were later developed into a Free Trade Agreement (FTA), which came into force in 2000.

The EU-Mexico FTA represented the first transatlantic pact of this nature for the EU, and over fifteen years of its implementation have turned both Mexico and the EU into close trade partners (European Commission, 2017). In 2016, the EU represented the second biggest export market for Mexico after the US, with Mexican exports to the EU reaching 23,619 million dollars. In terms of imports, the EU was the third-largest source of imports in Mexico after the US and China. Mexican imports from the EU reached 36,021 million dollars in 2016 (European Commission, 2017).
8.1. Trade balance

As illustrated in Table 14, manufacturing has been the most prominent sector in the trade structure between the EU and Mexico since the FTA’s entry into force. EU manufactured exports to Mexico have marked more than 92% of total EU exports to Mexico, whereas Mexican manufactured exports to the EU have accounted for more than 89% of total Mexican exports to the EU.

The impact since the entry into force of the FTA in increasing the trade of manufactured goods is evident. Figure 13 shows that EU exports to Mexico have steadily grown since the EU-Mexican FTA entered into force, with an exception between 2008 and 2009, due to the global economic downturn. EU manufactured exports to Mexico marked 9,706 million dollars in 1999, a year prior to the entry into force of the treaty. By 2000, they reached 11,983 million dollars, and by 2016, they amounted to 33,722 million dollars, representing a 181% increase since the FTA’s entry into force. As illustrated by the graph, the EU has shown a commercial surplus in its trade relation with Mexico during the years analysed.

Mexican exports to the EU, on the other hand, increased by a similar rate to EU exports to Mexico, although their value was almost half of that of EU exports to Mexico. Mexican exports to the EU reached 4,067 million dollars in 1999, increasing to 5,987 by 2000 and continuing a growth rate until the financial crisis of 2008. After this, they increased steadily until 2012 and then decreased again until 2016. Overall, from 2000 until 2016, Mexican exports of manufactured products to the EU have grown from 5,987 million dollars to 20,950 million dollars, corresponding to a 250% increase.

Figure 13: EU-Mexico Manufactured exports

Due to a lack of data available, Austria and Slovenia were not included in the 2016 analysis of trade between the EU as a block and the rest of the world. Information from 1999 was taken from WITS and considers Chemicals, Electronic Machinery, Minerals, Metals, Fuels and Transportations as the manufacturing sector. The following countries are considered in the analysis: Austria, Denmark, Finland, Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK.
Table 14: Share of Manufactured Products from total EU-Mexico trade

<table>
<thead>
<tr>
<th>Year</th>
<th>EU Exports to Mexico</th>
<th>Mexican exports to the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (in millions of dollars) of manufactured exports</td>
<td>Share of total EU exports to Mexico (%)</td>
</tr>
<tr>
<td>2000</td>
<td>11,983</td>
<td>93%</td>
</tr>
<tr>
<td>2001</td>
<td>12,550</td>
<td>93%</td>
</tr>
<tr>
<td>2002</td>
<td>13,203</td>
<td>92%</td>
</tr>
<tr>
<td>2003</td>
<td>14,857</td>
<td>92%</td>
</tr>
<tr>
<td>2004</td>
<td>16,959</td>
<td>94%</td>
</tr>
<tr>
<td>2005</td>
<td>19,241</td>
<td>94%</td>
</tr>
<tr>
<td>2006</td>
<td>22,302</td>
<td>94%</td>
</tr>
<tr>
<td>2007</td>
<td>26,838</td>
<td>94%</td>
</tr>
<tr>
<td>2008</td>
<td>30,460</td>
<td>95%</td>
</tr>
<tr>
<td>2009</td>
<td>20,713</td>
<td>94%</td>
</tr>
<tr>
<td>2010</td>
<td>26,297</td>
<td>94%</td>
</tr>
<tr>
<td>2011</td>
<td>31,128</td>
<td>95%</td>
</tr>
<tr>
<td>2012</td>
<td>33,566</td>
<td>95%</td>
</tr>
<tr>
<td>2013</td>
<td>33,900</td>
<td>94%</td>
</tr>
<tr>
<td>2014</td>
<td>35,032</td>
<td>94%</td>
</tr>
<tr>
<td>2015</td>
<td>34,513</td>
<td>94%</td>
</tr>
<tr>
<td>2016</td>
<td>33,722</td>
<td>94%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade

When evaluating the prominence of Mexican manufacturing trade with the EU, it is clear EU products play a more significant role in the Mexican market than Mexican products do in the EU. As Figure 14 shows, the EU has represented between 6% and 12% of the total Mexican manufactured imports between the years 2000 to 2016. Instead, the EU has accounted for 3.8% to 6.8% of the total Mexican manufactured exports during the same period of time. It is important to consider, however, that given that NAFTA represents most of the trade for Mexico, the share of Mexican exports and imports in relation to the EU is still quite significant.

104 Due to a lack of data available, the analysis does not consider the year of 1999 and excludes Austria and Slovenia in the 2016 analysis of trade between the EU as a block and the rest of the world.
Figure 14: Participation of EU in Mexican manufactured exports and imports

![Participation of EU in Mexican manufactured exports and imports](chart.png)

Source: UN Comtrade

For the EU, Mexico represents a more important trade partner for exporting EU manufactured goods than importing Mexican ones. As Figure 15 illustrates, Mexico represented between 1.5% and 2.0% of total EU manufactured exports. In terms of imports, Mexico represented only between 0.6% to 1.1% of total EU manufactured imports.

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105 Due to a lack of data available, the analysis does not consider the year of 1999 and excludes Austria and Slovenia in the 2016 analysis of trade between the EU as a block and the rest of the world.
The commercial structure of manufactured goods between the EU and Mexico shows that the main trading products between the two parties are: chemicals, motor vehicles, metals, machinery, other machinery and energy commodities. From 2000 to 2016, these goods accounted for an average of 79% of the total EU manufactured exports to Mexico. Similarly, they represented 81% of Mexican manufactured exports to the EU during the same years.

106 Due to a lack of data available, the analysis does not consider the year of 1999 and excludes Austria and Slovenia in the 2016 analysis of trade between the EU as a block and the rest of the world.
Figure 16: EU exports to Mexico by manufactured product

As illustrated in Figure 16, the main EU exports to Mexico in terms of manufactures are: other machinery, chemicals, motor vehicles and electrical machinery. From 2000 to 2016, other machinery represented an average of 24% of total EU manufactured exports to Mexico; chemicals represented 16%; motor vehicles 13%, and electric machinery 11%. The top five commodities from each sector exported from the EU to Mexico are summarised in Table 15: Top EU exports to Mexico.

Table 15: Top EU exports to Mexico

<table>
<thead>
<tr>
<th>Top commodities</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other machinery</td>
<td>Engines; reciprocating piston engines, of a kind used for the propulsion of vehicles of chapter 87, of a cylinder capacity exceeding 1000cc.</td>
</tr>
<tr>
<td></td>
<td>Engines; compression-ignition internal combustion piston engines (diesel or semi-diesel engines), of a kind used for the propulsion of vehicles of chapter 87.</td>
</tr>
<tr>
<td></td>
<td>Engines; parts, suitable for use solely or principally with spark-ignition internal combustion piston engines (for other than aircraft).</td>
</tr>
<tr>
<td></td>
<td>Machines and mechanical appliances; n.e.s. in item no. 8479.8, having individual functions.</td>
</tr>
</tbody>
</table>

107 Due to a lack of data available, the analysis does not consider the year of 1999 and excludes Austria and Slovenia in the 2016 analysis of trade between the EU as a block and the rest of the world.
<table>
<thead>
<tr>
<th>Chemicals</th>
<th>Turbines; parts of turbo-jets and turbo-propellers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaments; consisting of mixed or unmixed products n.e.s. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale.</td>
<td></td>
</tr>
<tr>
<td>Odoriferous substances and mixtures; of a kind used in the food or drink industries.</td>
<td></td>
</tr>
<tr>
<td>Chemical products, preparations and residual products of the chemical or allied industries, n.e.s. or included in heading no. 3824.</td>
<td></td>
</tr>
<tr>
<td>Blood; human or animal, antisera and other blood fractions and modified immunological products, whether or not obtained by means of biotechnological processes.</td>
<td></td>
</tr>
<tr>
<td>Vaccines; for human medicine.</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td></td>
</tr>
<tr>
<td>Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc.</td>
<td></td>
</tr>
<tr>
<td>Vehicle parts and accessories; n.e.c. in heading no. 8708.</td>
<td></td>
</tr>
<tr>
<td>Vehicle parts; gear boxes and parts thereof.</td>
<td></td>
</tr>
<tr>
<td>Vehicles; parts and accessories, of bodies, other than safety seat belts.</td>
<td></td>
</tr>
<tr>
<td>Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1000cc but not exceeding 1500cc.</td>
<td></td>
</tr>
<tr>
<td>Electric machinery</td>
<td></td>
</tr>
<tr>
<td>Electric generating sets; wind-powered, (excluding those with spark-ignition or compression-ignition internal combustion piston engines).</td>
<td></td>
</tr>
<tr>
<td>Telephone sets and other apparatus for the transmission or reception of voice, images or other data, via a wired or wireless network; parts</td>
<td></td>
</tr>
<tr>
<td>Boards, panels, consoles, desks and other bases; for electric control or the distribution of electricity, (other than switching apparatus of heading no. 8517), for a voltage not exceeding 1000 volts.</td>
<td></td>
</tr>
<tr>
<td>Communication apparatus (excluding telephone sets or base stations); machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus.</td>
<td></td>
</tr>
<tr>
<td>Electric motors and generators; parts suitable for use solely or principally with the machines of heading no. 8501 or 8502.</td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Comtrade
Figure 17: Mexican exports to the EU by manufactured product

Figure 17 illustrates that the main Mexican manufactured exports to the EU are: energy commodities, electric machinery, motor vehicles and other machinery. From 2000 to 2016, energy commodities represented an average of 25% of total Mexican manufactured exports to the EU manufactured; electric machinery represented 18%; motor vehicles 15% and other machinery 14%. Table 16 summarises the top five Mexican commodities exported to the EU.

When taken combined, the motor vehicle and other machinery industries account for almost 30% of Mexican manufactured exports to the EU. This is the result of a thriving automotive industry in Mexico that has become a key in the country’s production structures. Nowadays, Mexico is the seventh largest car producer globally, and the automotive industry represents around 3.2% of GDP and 18.3% of manufacturing GDP. In particular, the main destinations of this type of Mexican exports are the United States and EU.

The strategic geographic location of the country, in addition to an access to 44 Free Trade Agreements worldwide, make Mexico a key place for foreign investment for the automotive industry. With more than ten of the world’s largest vehicle manufacturers operating in Mexico, and with an undergoing transformation into high-tech vehicle production, Mexico is expected to continue being a key stakeholder in the automotive industry globally (ProMexico, 2016).

In particular, for light weight vehicles, the main exporting companies with production sites in Mexico were Mazda and Volkswagen, with 44,185 and 42,400 sales, respectively, until September 2016. For the exports of heavy vehicles, the main companies producing in Mexico were Fiat Chrysler Automobiles (FCA), with 23,531 vehicles, Nissan with 187, and Volkswagen with 4,972 vehicles (AMIA, 2017).

Due to a lack of data available, the analysis does not consider the year of 1999 and excludes Austria and Slovenia in the 2016 analysis of trade between the EU as a block and the rest of the world.
In upcoming years, Mexico is expected to become an even bigger competitor within the automotive industry on a global scale. This can be attributed, in part, to a growing dynamism for luxury vehicle markets in the Mexican automotive industry. With companies like Nissan’s Infinity, Mercedes Benz, Audi and BMW establishing production plants in Mexico could potentially establish Mexico as the fourth-largest producer of luxury vehicles by 2020 (ProMexico, 2015). Given this potential for growth, EU exports of auto parts to Mexico, a sector that has seen an increase of 141% since 2000, will acquire especial importance in upcoming years. For countries like Germany and the United Kingdom, the main exporters for auto parts to Mexico, this will represent a significant area of opportunity.

Table 16: Mexican exports to the EU

<table>
<thead>
<tr>
<th>Top commodities</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy commodities</td>
<td></td>
</tr>
<tr>
<td>Oils; petroleum oils and oils obtained from bituminous minerals, crude.</td>
<td></td>
</tr>
<tr>
<td>Petroleum spirit for motor vehicles <strong>LEGACY NON-WCO CODE</strong>.</td>
<td></td>
</tr>
<tr>
<td>Petroleum gases and other gaseous hydrocarbons; liquefied, propane.</td>
<td></td>
</tr>
<tr>
<td>Petroleum gases and other gaseous hydrocarbons; liquefied, butanes.</td>
<td></td>
</tr>
<tr>
<td>Oils; petroleum oils and oils obtained from bituminous minerals, not crude; preparations n.e.c., containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals, (excluding waste oils), other than light oils and preparations.</td>
<td></td>
</tr>
<tr>
<td>Electric machinery</td>
<td></td>
</tr>
<tr>
<td>Communication apparatus (excluding telephone sets or base stations); machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus.</td>
<td></td>
</tr>
<tr>
<td>Telephones for cellular networks or for other wireless networks.</td>
<td></td>
</tr>
<tr>
<td>Telephone sets and other apparatus for the transmission or reception of voice, images or other data, via a wired or wireless network; parts.</td>
<td></td>
</tr>
<tr>
<td>Boards, panels, consoles, desks and other bases; for electric control or the distribution of electricity, (other than switching apparatus of heading no. 8517), for a voltage not exceeding 1000 volts.</td>
<td></td>
</tr>
<tr>
<td>Insulated electric conductors; ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships.</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td></td>
</tr>
<tr>
<td>Vehicles; compression-ignition internal combustion piston engine (diesel or semi-diesel), cylinder capacity exceeding 1500cc but not exceeding 2500cc.</td>
<td></td>
</tr>
<tr>
<td>Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1000cc but not exceeding 1500cc.</td>
<td></td>
</tr>
<tr>
<td>Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc.</td>
<td></td>
</tr>
<tr>
<td>Tractors; n.e.c. in heading no 8701 (other than tractors of heading no 8709).</td>
<td></td>
</tr>
<tr>
<td>Vehicle parts; gear boxes and parts thereof.</td>
<td></td>
</tr>
<tr>
<td>Other machinery</td>
<td></td>
</tr>
<tr>
<td>Units of automatic data processing machines; processing units other than those of item no. 8471.41 or 8471.49, whether or not containing in the same housing one or two of the following types of unit: storage units, input units or output units</td>
<td></td>
</tr>
<tr>
<td>Units of automatic data processing machines; storage units</td>
<td></td>
</tr>
<tr>
<td>Engines; parts, suitable for use solely or principally with spark-ignition internal combustion piston engines (for other than aircraft)</td>
<td></td>
</tr>
<tr>
<td>Turbines; parts of turbo-jets and turbo-propellers</td>
<td></td>
</tr>
</tbody>
</table>
For both Mexico and the EU, the electric machinery and other machinery products represent a main source of trade. Figure 18 illustrates the evolution of the electric machinery sector exports of the EU and Mexico. The yearly increase rate has not been constant; nevertheless, the value of this type of export from 2000 to 2016 increased considerably for both parties. In particular, EU electric machinery exports increased by 62% from 2000 to 2016, while Mexican exports increased by 305% during the same period.

**Figure 18: Electric machinery exports**

In terms of the commodities traded, the EU’s main exports of this sector include: electric generating sets, telephone sets and other communication apparatus, bases for electric control and electricity distribution and electric motor and generators. Tariffs for these products were eliminated gradually, and they currently have had a preferential tariff of 0% upon reaching Mexico. For further information on the rate at which the tariffs of these products were eliminated refer to Section 2.2 and the Annex of this report.

For Mexican exports, on the other hand, the main electronic products include: telephone sets, communication apparatus, bases for electric control or the distribution of electricity and insulated electric conductors for vehicles, aircrafts or ships. As for products above, the tariff preferential rate for these products has been 0% (European Commission, 2017). For further information on the rate at which the tariffs of these products were eliminated refer to Section 2.2 and the Annex of this report.

On the other hand, regarding other machinery trade, from 2000 to 2016, EU exports to Mexico increased by 162%, while Mexican exports in the same sector increased by 128% (See, Figure 7).
In terms of products, the main EU exports to Mexico, detailed in Table 15, include engines for the propulsion of vehicles, turbines (parts of turbo-jets and turbo-propellers) and machines and mechanical appliances. These products have a tariff preferential rate of 0% upon entry to Mexico. As to Mexican exports from the sector, the main products include units for automatic data processing, engines and turbines, all of which have a preferential rate of 0% when imported in the EU. For further information on the rate at which the tariffs of these products were eliminated refer to Section 2.2 and the Annex of this report.

Figure 19: Other machinery exports

Source: UN Comtrade

8.2. Tariff barriers

The tariff elimination schedule for industrial products is stipulated in Articles 4 through 6 of the Decision No. 2/2000 of the EC-Mexico Joint Council. The process of liberalisation contemplated the asymmetrical relation between Mexico and the EU, and thus established differentiated rates for the elimination of customs duties for both parties. Industrial products were assigned a category that had a particular reduction schedule that varied from an immediate elimination of all tariffs to a progressive reduction over different transition periods of up to three years for Mexican exports and seven years for EU exports (Decision No. 2/2000, 2000).  

\[\text{Refer to the Table 1 (Tariff elimination schedule for the EU) and 2 (Tariff elimination schedule for Mexico) in the annex of this report for further information on tariff liberalisation schedules for each particular category.}\]
In terms of Mexican exports to the EU, the process of liberalisation contemplated two date limits for a complete elimination of tariffs: one immediately after the FTA came into force in 2000 and another one in 2003. By the first phase, the EU eliminated customs for 82% of industrialised products, which means that most of Mexican exports to the EU were tariff free immediately after the FTA came into force. The tariffs for the remaining 18% of the products, were eliminated gradually until January 2003 (Ecorys, 2017).\(^\text{110}\)

On the other hand, the tariff elimination process for EU exports to Mexico contemplated a longer transition period of four phases over the course of seven years. During the first phase, immediately after the entry into force of the FTA in 2000, Mexico eliminated customs duties for 47.6% of the total industrial products. By the second phase, in 2003, tariffs of an additional 5.1% of the products were eliminated. The third phase, in 2005, contemplated tariff reduction for an additional 5.6% of products. Finally, by the fourth phase in 2007, tariffs were eliminated for the remaining 41.7% of the industrialised products (Ecorys, 2017).\(^\text{111}\)

The FTA eliminated all import and export restrictions to bilateral trade between Mexico and the EU and granted the same treatment to imported products in terms of taxation and regulation as similar domestic products. However, some exceptions to these provisions were made for Mexico in Annex IV of the FTA, provided that they did not contradict Mexico’s rights and obligations under WTO agreements. Annex IV stipulates that: Mexico could impose export and import licenses to some petroleum products, residues and gases; could maintain prohibitions or restrictions on the importation of some motor vehicle products until December of 2003, and could maintain prohibitions on some used vehicles (Decision No. 2/2000, 2000, Annex IV, 2000). Annex V, on the other hand, established that Mexico could maintain the Decree for development and Modernisation of the automotive industry until December of 2003 (Decision No. 2/2000, 2000, Annex V, 2000).

8.3. Non-tariff barriers

The EU-Mexico FTA stipulates regulations related to technical barriers to trade (TBTs) in Article 19 of the Joint Council Decision No. 2/2000. The TBT provisions this article covers are aligned to those defined by the WTO, which include substantive provisions and procedural provisions. Substantive provisions include agreements to uphold the parties’ rights and obligations to comply with regulations such as the Most Favoured Nation treatment, national treatment, transparency obligations, and to reaffirm their commitment to intensify bilateral cooperation in terms of information exchange and harmonising of standards. On the other hand, procedural provisions establish a Special Committee on Standards and Technical Regulations, which monitors the implementation of Article 19 (Ecorys, 2017).

Article 19 provides an important normative framework to mitigate TBTs. Nevertheless, the fact that commitments for substantive provisions are limited to those covered by the WTO and that the

\(^{110}\) Refer to Table 3 (Tariff elimination schedule for the EU) for further information on liberalisation dates for the six subsectors analysed in this report.

\(^{111}\) Refer to Table 4 (Tariff elimination schedule for Mexico) for further information on liberalisation dates for the six subsectors analysed in this report.
wording of procedural provisions appears somewhat vague and non-binding prove that there is still room for improvement on the subject (Ecorys, 2017).

In the case of TBTs in Mexico, Article 16 of the Foreign Trade Law (Ley de Comercio Exterior) attributes legal faculties to Mexico’s Executive Power to impose non-tariff barriers to trade. These measures—issued by the Ministry of Economy (Secretaría de Economía) or other competent authorities—must be evaluated and authorised by the Foreign Trade Commission (Comisión de Comercio Exterior) in order to be enforced. (European Commission, 2017).

One of the main non-tariff barriers identified by EU exporters is the lack of protection and enforcement standards of Intellectual Property Rights. With no effective system of rules and sanctions, the Mexican market remains a fertile ground for counterfeit and piracy goods. Although this lack of enforcement touches on a wide variety of goods, some of the most affected include pharmaceuticals, electronics, auto parts and tobacco (European Commission, 2017).

Furthermore, complex and discretionary procedures during registration, documentation and customs have proven to be key obstacles for trade. Regulation measures for importing goods to Mexico tend to require an excessive number of documents and are usually technically complex. In occasions, they are imposed arbitrarily and with no prior notification to the parties involved, leading to inconsistent interpretations of regulations amongst ports of entry and delays. Some of the products that are most affected by the arbitrary imposition of regulatory measures are health products and agro-chemicals. The process of market authorisations for such products involves several actors, three stages and can last an average of four years. Because of this, very few products are approved (European Commission, 2017).

Mexico has undertaken important efforts to address this situation. Reforms in 2008 and 2013 aimed at facilitating trade by creating an electronic system for customs procedures and by eliminating additional rounds of inspection that proved unnecessary and damaging to efficient trade. Despite these efforts, arbitrary and complex procedures remain a key obstacle for trade between the EU and Mexico.

In addition, EU exports have identified a barrier when trying to comply with product standards. Mexico often imposes complex and technical requirements that are deviated from international and even the FTA’s regulations. This is further aggravated by the fact that the inconsistencies are rarely explained or justified. In order to promote the harmonization of bilateral standards, the EU has sought to include in future FTA negotiations a more transparent regulatory process in which both parties are fully informed of the justifications behind any deviation on international or accorded standards (European Commission, 2017).

In terms of existing TBTs in the EU, there are ongoing efforts to reduce barriers to trade within the construction material industry and to approach the reduction and authorisation of the use of commodities of the chemical industry. These have direct implications on trade with Mexico, given that both of the sectors involved relate to the manufacturing industry (European Commission, 2017).

112 In the case of products of chemical origin, for example, Mexico currently denies imports of 22 products of the HS 2012 at eight-digit level based on environmental and health reasons.
Table 17: AVEs for NTMs in Selected Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>EU</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>0</td>
<td>100.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>31.8</td>
<td>72.0</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>30.9</td>
<td>24.7</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>29.3</td>
<td>55.1</td>
</tr>
<tr>
<td>Other Machinery</td>
<td>6.5</td>
<td>19.5</td>
</tr>
</tbody>
</table>

As can be seen from Table 17, the estimated Ad Valorem Equivalents (AVEs) are higher for imports to Mexico than for imports to the EU, with the most notable difference in the Energy sector, which is 0 for the EU and over 100% for Mexico.

In recent years, the Mexican government has initiated a number of policy changes aiming to increase investment and productivity. A significant part of these reforms is the Energy reform of 2014, which modified Mexico’s constitution to allow private investment in both the electric and petroleum sectors. In addition, it set out to change policies to harness its substantial resource potential, such as solar, wind and geothermal power, and deep-water oil, in addition to building a modern energy infrastructure, utilizing inexpensive natural-gas imports from the USA. These reforms have taken place since the data collected for the IA, which implies that the actual levels of NTMs in this sector can be expected to have decreased.

3.1. Areas to Explore

8.3.1. Labour

The Global Agreement, the broader pact upon which the EU-Mexico FTA was elaborated and signed, included a provision known as the “Democratic Clause”, which established the protection of human rights and democratic principles as pillars of the bilateral relationship. This clause seemed like a significant step towards a new type of relationship where the emphasis on social issues became the core—the precondition, even—to commercial integration. However, the lack of legal mechanisms to enforce compliance with the “Democratic Clause” reduced it to merely declaratory notion (Ecorys, 2017).

While human rights and social issues are a basic premise within the Global Agreement, the EU-Mexico FTA does not contain specific chapters on aspects like labour standards. Other than the exception clause that mentions that trade measures cannot affect state obligations on work conditions, the treaty lacks a comprehensive treatment of labour rights.

When analysed in practice, the FTA’s effects on labour standards and decent work have been very limited. However, some minor but positive effects can be seen in wage increase in Mexico; from
2000 to 2015, medium-skilled and low-skilled workers saw a wage increase of 0.45% and 0.24%, respectively. This can be attributed in part to the increased demand for labour of all skill level. For the EU, however, impact on wages has been insignificant, with changes of only a 0.02% increase for all three skill sets (Ecorys, 2017).

In terms of manufactures in particular, some slight increases in wages can also be seen within sectors for which Mexican exports to the EU have increased significantly. This has been the case for motor vehicles, for which employment has also risen. Other sectors like electrical machinery and other machinery have seen a reduction in employment, precisely because many workers have moved towards the better paying motor vehicles sector (Ecorys, 2017).

Although a significant increase of Mexican exports towards the EU—especially regarding the motor vehicle sector—could have pushed Mexico to comply with labour standards in order to enable entrance to the EU, there is no significant evidence that worker’s rights have improved significantly with the FTA. In fact, there have been instances where European companies have violated labour rights of Mexican workers (Aguirre, 2007).

Although manufacture production in Mexico has traditionally relied on low-skilled workers—and thus, low-cost labour—and high production volumes, a new industrial paradigm is likely to adjust Mexico’s labour, trade and production structures. The concept of Industry 4.0 (I 4.0), based on the impact of information and communication technologies in various industrial sectors, will certainly mark a new milestone in industrial production.

Mexico is already recognised as a highly competitive country for manufacture production; its proximity to the United States, an array of international trade agreements and years of experience with the electronic and automotive industries are some of the key factors that have creating a competitive advantage for Mexican manufactures. I 4.0 will give Mexico a window of opportunity to converge this with information and communication technologies, another key strategic sector for the country. This will yield to advanced manufacturing production structures based on high engineering, management, operations and logistics standards, transforming the currently precarious manufacture labour paradigm in Mexico (Ministry of Economy, 2016).

8.3.2. Gender

Traditional neoliberal theories have assumed trade to be a gender-neutral phenomenon, where the creation of jobs due to trade increase results in better opportunities for both men and women. However, more recent feminist economic studies suggest that the impacts of trade affect men and women, and women from different social and economic groups, differently (Villup, 2015).

In the specific case of Mexico, for instance, the country experienced a surge in manufacturing employment during the 90s after the signing of NAFTA. Because the maquiladora industry—which primordially hired women—made up an important portion of manufactures, more women were employed. Besides working under less than ideal labour conditions, the gender wage cap within the industrial sector was markedly higher than other industries where women were more qualified. As the maquiladora industry began to decline from 2000 onwards, so did formal job creation for women, affecting their communities and families greatly (Ecorys, 2015).

Mexico lacks a substantive legal framework to promote the participation of women in the industrial sector. While the development of this type of regulation is important, public policies should approach
women’s participation in employment from a broader perspective, focusing on instruments that guarantee their empowerment through education and skill-development (United Nations, 2011).

While literature on the implications of trade liberalisation on gender in Mexico are more extensive in the NAFTA framework, such examinations are lacking when analysing the EU-Mexico FTA. This not only stems from the fact that including gender as a variable in commerce analysis is a recent development, but it is also related to the vagueness by which gender and inequality is treated in the FTA. Like in many other treaties concerning the EU, gender implications are considered within the framework of broader human rights provisions. In order to have real implications, future negotiations of the treaty could include more assertive clauses to mitigate the differentiated effects of trade liberalisation between men and women, and women working in different sectors (Villup, 2015).

8.3.3. **Environmental impacts**

Environmental provisions—as human rights and social standards—are dealt within the Global Agreement, but there are no separate chapters on sustainable development or the environment in the FTA. The topic is considered rather broadly and there is no mention of legal mechanisms that could operationalise and create binding environmental commitments. Furthermore, with no suggested mechanisms to settle environmental disputes, the FTA is rendered much less ambitious than other treaties that do provide these instances (Ecorys, 2017).

Ex-post evaluations on the FTA’s environmental impacts suggest that these have not been particularly significant for Mexico or the EU. In terms of CO₂ reduction, for instance, Mexico has seen a slight decline in emissions. This decrease can be explained by the Mexican economy’s sectorial shift since 2000: sectors responsible for the most CO₂ emissions (such as electric machinery, agriculture, and petrochemicals) have shown a relative decline within the FTA, whereas motor vehicles, a sector that contaminates in a lesser extent, has expanded (European Parliament, 2016).

For current and future environmental impacts derived from trade, it is important to consider that both Mexico and the EU are signatories of the Paris Agreement. By November 2016, all participant countries submitted their Intended Nationally Determined Contributions (INDC), or domestically-established binding commitments to adhere to the objectives of the Paris Agreement. While these INDCs have not translated into specific policy regulations yet, they will undoubtedly have trade impacts once they are. Some trade instruments that will possibly be implemented in order to comply with INDCs include the use of trade tariffs based on CO₂ emissions or the energy efficiency of the product; the development of energy efficient appliances, and the use of technical standards to reduce greenhouse gas emissions from industrial processes. Keeping a close look at these instruments in the Mexico-EU bilateral relation will be central when analysing the FTA’s possible environmental effects in the future (Di Leva, 2016).

8.3.4. **Investment and service provision**

Alongside with commercial liberalisation, the EU-Mexico FTA also contains dispositions relative foreign direct investment. As with product liberalisation, the treaty establishes the progressive elimination of investment barriers and promotes an attractive atmosphere for investment both in

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113 Counterfactual scenarios suggest that the the EU-Mexico FTA has contributed to a reduction of 0.41 million tons of CO2 emissions, corresponding to a 0.1% decrease.
Mexico and in the EU. Neither the Global Agreement nor the FTA cover foreign investment exhaustively and in an individual chapter, mainly because those provisions are developed exhaustively in bilateral investment treaties between Mexico and individual EU states (Aguirre, 2007).

However, the FTA does emphasise that foreign investment and service provision are to be implemented according to the WTO principles of the most favoured nation—which establishes that treatment shown to service providers should not be less favourable than treatment provided to third parties—and national treatment—which states that each part will treat services and products of the other party similarly to those domestically.

It is important to emphasise that a significant part of what makes Mexico attractive for foreign investment in general is the amount of international free trade agreements the country has signed. NAFTA, in this case, becomes of paramount importance for European companies looking to invest in Mexico to expand their market throughout North America and the world (Serrano, 2015).

8.4. Conclusions

The entry into force of the EU-Mexico FTA propelled both parties to build a special relation not only based on trade liberalisation, but also on political dialogue and shared values regarding human rights and democracy. After more than fifteen years of implementing the treaty, new global trade and political patterns are making an FTA renegotiation a necessary effort. Recent negotiation rounds between the EU and Mexico have focused on addressing commercial issues such as deepening service liberalisation, the improvement of regulatory issues regarding investment, public procurement, state enterprises, intellectual property rights and non-tariff barriers (European Parliament, 2016). For all of these, implementing a process of regulatory coherence where both Mexico and the EU carry out a committed domestic effort to institute transparent, good and inclusive regulatory processes will be of paramount importance (U.S. Chamber of Commerce, undated).

While these are issues related to trade and commerce that the modernised FTA should address, a more pragmatic treaty would also anticipate how the political climate today could affect the overall relationship between the EU and Mexico. The changing political dynamics in Europe after Brexit, a very probable challenging renegotiation of NAFTA, and the opening of Mexico’s energetic sector to foreign investors are all some of the factors that will surely affect trade dynamics.

Finally, it is crucial for a modernised EU-Mexico FTA to address human rights and environmental issues in a more specific manner. While the Democratic Clause established an important normative precedent that placed the guarantee of social rights—namely, human rights and the environment—at the same level as commercial partnerships, this notion has not translated into a firm policy of intolerance of human and environmental abuses from both sides. A more rigorous application of the Democratic Clause would bring greater credibility and more prosperity in the long-run.

9. Sectoral Analysis: Agricultural Sector

This section presents a description of how trade in agricultural products between the EU and Mexico has evolved since the EU-Mexico FTA was signed. It presents a characterisation of the product structure, identifying the key products traded between both partners. Moreover, it discusses some
of the trade policy dimensions of the EU-FTA in terms of the tariff reduction schedules. In addition, it presents a series of Non-tariff barriers (NTBs) that have been identified in the trade between both partners. Finally, it presents a series of areas to explore during the following stages of the project.

9.1. Description of trade in agricultural goods between the EU and Mexico

Tariff reduction in agricultural products was not immediate in the EU-Mexico FTA. There were different implementation speeds with many products not being completely liberalised until 2010. Consequently, agricultural trade between the EU and Mexico remained constant. This dynamic started to change in the last 5 years when trade in these products more than doubled (Table 18). However, this evolution followed the general trend of total trade between the two partners as the shares of agricultural products in both exports and imports remained constant in 4% and 6% respectively. At least since the implementation of the EU-Mexico started, the EU maintained a trade surplus in these products.

It is important to highlight that Mexico had preferential access to the EU market under the GSP. Although the GSP presents no preferences in many agricultural products, EU tariffs applied to Mexico were reduced from already low values in many products. Consequently, the effect of the FTA on Mexico exports is expected to be low. However, the reduction of tariffs in the Mexican side have not generated an increase in the share of trade in agricultural products with Mexico. It remains a relatively minor trading partner for the EU representing around 1% of the EU total imports and exports (Figure 20).

Table 18: EU-Mexico bilateral trade in agricultural products 2011-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports Value (in millions of Euros)</th>
<th>Share out of total exports (%)</th>
<th>Imports Value (in millions of Euros)</th>
<th>Share out of total imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>699.73</td>
<td>4.9</td>
<td>455.72</td>
<td>6.2</td>
</tr>
<tr>
<td>2001</td>
<td>678.88</td>
<td>4.4</td>
<td>472.65</td>
<td>6.1</td>
</tr>
<tr>
<td>2002</td>
<td>770.25</td>
<td>5.0</td>
<td>441.68</td>
<td>6.7</td>
</tr>
<tr>
<td>2003</td>
<td>649.45</td>
<td>4.5</td>
<td>422.26</td>
<td>6.4</td>
</tr>
<tr>
<td>2004</td>
<td>611.07</td>
<td>4.1</td>
<td>410.56</td>
<td>5.9</td>
</tr>
<tr>
<td>2005</td>
<td>648.51</td>
<td>3.9</td>
<td>480.93</td>
<td>5.2</td>
</tr>
<tr>
<td>2006</td>
<td>674.37</td>
<td>3.5</td>
<td>542.85</td>
<td>5.1</td>
</tr>
<tr>
<td>2007</td>
<td>749.34</td>
<td>3.6</td>
<td>609.83</td>
<td>5.0</td>
</tr>
<tr>
<td>2008</td>
<td>708.99</td>
<td>3.2</td>
<td>722.86</td>
<td>5.2</td>
</tr>
<tr>
<td>2009</td>
<td>579.69</td>
<td>3.6</td>
<td>686.19</td>
<td>6.8</td>
</tr>
<tr>
<td>2010</td>
<td>769.40</td>
<td>3.6</td>
<td>793.82</td>
<td>5.8</td>
</tr>
<tr>
<td>2011</td>
<td>861.36</td>
<td>3.6</td>
<td>836.11</td>
<td>4.9</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico
Inception Report

<table>
<thead>
<tr>
<th>Year</th>
<th>EU Imports</th>
<th>EU Exports</th>
<th>Mexico Imports</th>
<th>Mexico Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>946.74</td>
<td>900.04</td>
<td>3.4</td>
<td>4.6</td>
</tr>
<tr>
<td>2013</td>
<td>1,053.55</td>
<td>921.27</td>
<td>3.8</td>
<td>5.3</td>
</tr>
<tr>
<td>2014</td>
<td>1,086.64</td>
<td>989.46</td>
<td>3.8</td>
<td>5.5</td>
</tr>
<tr>
<td>2015</td>
<td>1,345.67</td>
<td>1,135.51</td>
<td>4.0</td>
<td>5.8</td>
</tr>
<tr>
<td>2016</td>
<td>1,399.12</td>
<td>1,280.47</td>
<td>4.1</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on EU Comext
Note: Agricultural products as defined by Annex I of the WTO Agreement on Agriculture.

**Figure 20: Share of EU and Mexico in agriculture trade (2000-2016) (in %)**

Beverages constitute the most important product traded between the EU and Mexico (Figure 21). They represent 33% of exports and 23% of imports. This suggests an important intra-industry trade in this sector where similar but differentiated products are simultaneously exported and imported. However, rather than indicating value chain activity, this is more related to a love-for-variety in both EU and Mexican consumers.

In addition to this, EU imports concentrate in edible vegetables, fruits and infusions. EU exports, in addition to the beverages, present a more diversified pattern. However, exports of dairy products and preparation of cereals can be highlighted.

Despite some EU regions operating on a similar latitude with Mexico that will make them seasonal competitors, the different trade structure can be attributed to general trade policy as well as bilateral aspects. On one side, in the products where the agreement generated significant preferential margins, trade between Mexico and the EU may diverge with respect to the structure of the
agricultural trade of both partners. This suggests that Mexico/EU may be capable of exporting to the EU/Mexico products where in other markets may struggle to compete. This implies some form of trade diversion in the agreement.

On the other hand, the introduction of TRQs as part of the tariff reduction schedule may have distorted bilateral trade in these products. All this suggests that the existing bilateral trade structure may be diverging from the structure that would result from the respective comparative advantages in both partners.

Figure 21: Structure of EU-Mexico agricultural trade (average 2011-16)

A more disaggregated analysis of both exports and exports reveals details of the trade structure between both partners. The top 20 imported products from Mexico represent more than 77% of the agricultural imports from Mexico (Table 19). Alcoholic beverages (beer, rum and alcohol ethyl) appear as prominent products together with pulses and fruits.
The top 20 exports (Table 20), on the other hand, represent 61% of the agricultural exports to Mexico. Spirits and wine dominate this list. However, cheese and other food preparations appear prominently among the top exported products.

**Table 19. Top 20 agricultural products imported by the EU from Mexico (average 2011-16)**

<table>
<thead>
<tr>
<th>HS 6</th>
<th>Description</th>
<th>Value in million of Euros</th>
<th>Share out of total Agricultural Imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>220300</td>
<td>beer made from malt</td>
<td>134.06</td>
<td>13.3</td>
</tr>
<tr>
<td>090111</td>
<td>coffee (excl. roasted an//caffeinated)</td>
<td>82.56</td>
<td>8.2</td>
</tr>
<tr>
<td>220890</td>
<td>ethyl alcohol of an alcoholi//ordials)</td>
<td>62.58</td>
<td>6.2</td>
</tr>
<tr>
<td>040900</td>
<td>natural honey</td>
<td>61.88</td>
<td>6.1</td>
</tr>
<tr>
<td>080550</td>
<td>fresh or dried lemons &quot;citru//tifolia&quot;</td>
<td>57.02</td>
<td>5.6</td>
</tr>
<tr>
<td>071320</td>
<td>dried, shelled chickpeas 'garbanzos', whether or not skinned or split</td>
<td>45.12</td>
<td>4.5</td>
</tr>
<tr>
<td>080440</td>
<td>fresh or dried avocados</td>
<td>43.38</td>
<td>4.3</td>
</tr>
<tr>
<td>200911</td>
<td>frozen orange juice, unferme//spirit)</td>
<td>41.65</td>
<td>4.1</td>
</tr>
<tr>
<td>100119</td>
<td>durum wheat (excl. seed for sowing)</td>
<td>33.05</td>
<td>3.3</td>
</tr>
<tr>
<td>081020</td>
<td>fresh raspberries, blackberr//nberries</td>
<td>32.66</td>
<td>3.2</td>
</tr>
<tr>
<td>080390</td>
<td>fresh or dried bananas (excl//antains)</td>
<td>28.39</td>
<td>2.8</td>
</tr>
<tr>
<td>230700</td>
<td>acorns, horse-chestnuts, mar//n.e.s.</td>
<td>25.13</td>
<td>2.5</td>
</tr>
<tr>
<td>170260</td>
<td>fructose in solid form an//vert sugar)</td>
<td>21.22</td>
<td>2.1</td>
</tr>
<tr>
<td>170310</td>
<td>cane molasses resulting from//sugar</td>
<td>19.02</td>
<td>1.9</td>
</tr>
<tr>
<td>070310</td>
<td>fresh or chilled onions and shallots</td>
<td>17.93</td>
<td>1.8</td>
</tr>
<tr>
<td>200899</td>
<td>fruit and other edible parts//berries</td>
<td>17.78</td>
<td>1.8</td>
</tr>
<tr>
<td>220840</td>
<td>rum and other spirits obtain//products</td>
<td>17.12</td>
<td>1.7</td>
</tr>
<tr>
<td>070920</td>
<td>fresh or chilled asparagus</td>
<td>14.96</td>
<td>1.5</td>
</tr>
<tr>
<td>020500</td>
<td>meat of horses, asses, mules or hinnies, fresh, chilled or frozen</td>
<td>14.04</td>
<td>1.4</td>
</tr>
<tr>
<td>060420</td>
<td>foliage, branches and other parts of plants…</td>
<td>13.22</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**TOTAL SELECTION**  
782.77  
77.5

*Source: EU Comext.*
Table 20. Top 20 agricultural products exported by the EU to Mexico (average 2011-16)

<table>
<thead>
<tr>
<th>HS 6</th>
<th>Description</th>
<th>Value in million of Euros</th>
<th>Share out of total Agricultural Exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>220830</td>
<td>whiskies</td>
<td>117.94</td>
<td>10.6</td>
</tr>
<tr>
<td>220421</td>
<td>wine of fresh grapes, incl.//wine)</td>
<td>67.77</td>
<td>6.1</td>
</tr>
<tr>
<td>220820</td>
<td>spirits obtained by distilli//marc</td>
<td>46.70</td>
<td>4.2</td>
</tr>
<tr>
<td>120991</td>
<td>vegetable seeds, for sowing</td>
<td>42.24</td>
<td>3.8</td>
</tr>
<tr>
<td>210690</td>
<td>food preparations, n.e.s.</td>
<td>37.02</td>
<td>3.3</td>
</tr>
<tr>
<td>040690</td>
<td>cheese (excl. fresh cheese, incl. whey cheese, curd, processed cheese, blue-veined cheese and other cheese ..))</td>
<td>34.83</td>
<td>3.1</td>
</tr>
<tr>
<td>150910</td>
<td>virgin olive oil and its fra//oil</td>
<td>34.47</td>
<td>3.1</td>
</tr>
<tr>
<td>190110</td>
<td>food preparations for infant//n.e.s.</td>
<td>29.67</td>
<td>2.7</td>
</tr>
<tr>
<td>120510</td>
<td>low erucic acid rape or colz//moles/g&quot;</td>
<td>28.36</td>
<td>2.5</td>
</tr>
<tr>
<td>220840</td>
<td>rum and other spirits obtain//products</td>
<td>28.28</td>
<td>2.5</td>
</tr>
<tr>
<td>100199</td>
<td>wheat and meslin (excl. seed//wheat)</td>
<td>25.90</td>
<td>2.3</td>
</tr>
<tr>
<td>040210</td>
<td>milk and cream in solid forms, of a fat content by weight of &lt;= 1,5%</td>
<td>24.91</td>
<td>2.2</td>
</tr>
<tr>
<td>060110</td>
<td>bulbs, tubers, tuberous roots, corms, crowns and rhizomes, …</td>
<td>24.44</td>
<td>2.2</td>
</tr>
<tr>
<td>220410</td>
<td>sparkling wine of fresh grapes</td>
<td>23.32</td>
<td>2.1</td>
</tr>
<tr>
<td>230910</td>
<td>preparations of a kind used//sale)</td>
<td>22.44</td>
<td>2.0</td>
</tr>
<tr>
<td>230990</td>
<td>tobacco, unstemmed or unstripped</td>
<td>19.79</td>
<td>1.8</td>
</tr>
<tr>
<td>220429</td>
<td>wine of fresh grapes, incl.//wine)</td>
<td>19.79</td>
<td>1.8</td>
</tr>
<tr>
<td>220870</td>
<td>liqueurs and cordials</td>
<td>18.70</td>
<td>1.7</td>
</tr>
<tr>
<td>010129</td>
<td>live horses (excl. pure-bred for breeding)</td>
<td>18.38</td>
<td>1.6</td>
</tr>
<tr>
<td>21SSS 0</td>
<td>confidential trade of chapte//group 0</td>
<td>17.42</td>
<td>1.6</td>
</tr>
</tbody>
</table>

**TOTAL SELECTION** 682.35 61.2

*Source: EU Comext.*
9.1.1. Tariff barriers

The implementation of the EU-Mexico FTA started in 2000. Agricultural products presented a differentiated tariff liberalisation schedule. The schedule considered different treatment given to each case (tariff reduction, TRQ) and the speed of implementation. Some agricultural products experienced an immediate reduction whilst others observed a paced implementation.

Access to many products adopted an immediate TRQs. By this mean, a reduced tariff rate is applied to a certain quantity imported of the product. As usually happens with quotas, rents are generated and their allocation depend on the administration procedure. In the specific case of the EU-Mexico, the exporting party managed their quotas.

Finally, some customs duties were excluded of the liberalisation schedule. However, it was considered that a joint council will determine after the finalisation of the implementation of the original agreement on how these products will be liberalised.

All these carve outs in the liberalisation schedule generated that by 2010 just 62% of the agricultural trade between the EU and Mexico was effectively liberalised (Silvetii, undated). Other analysis puts this figure a bit higher in 75% (Copenhagen Economics, 2016). This includes a series of products whose exclusion of the liberalisation schedule is based on geographic indications such as wine and cheese.

9.2. Description of current NTMs influencing EU-Mexican trade in agricultural products

The EU-Mexico FTA presented substantial less ambition on addressing non-tariff barriers in general and specific in the case of agriculture. Basically, the FTA considered that quantitative and other restrictions could be maintained as long as they were WTO compatible and applied in a non-discriminatory way.

Beyond some general agreements about cooperation and exchange of information (Camara de Diputados, 2000), provisions to address SPS and TBT are particularly weak. Although tariff reduction has helped to increase trade between both partners, the prevalence of many of these measures have made that the actual trade remains below the potential between both partners.

EU exporters of agricultural products identified a series of issues when aiming to export to Mexico. These issues are associated with the procedures to comply with the Mexican standards. EU exporters, in general, are in position of meeting the Mexican quality standards which are generally based on international standards (WTO, 2016). Moreover, certain standard convergence with the US means that EU exporters meeting US standards meet also the Mexican. However, issues tend to be associated with the costs and complications related to certify the compliance.

1. Cumbersome procedures: Mexico applies automatic and non-automatic licenses to import certain products (WTO, 2016). In the case of the non-automatic licenses, exporters need to present documentation about the compliance with the Mexican SPS standards. These procedures seem to be particularly cumbersome and costly. Moreover, mitigation measures are applied to the imports from all the EU without distinguishing the relevant affected region (Copenhagen Economics, 2016). This is affecting fruits such as apples and citrus. There is also requirements for unnecessary cooling for certain products that increase trade costs.
2. **High compliance costs**: Moreover, Mexico requires pre-clearance of compliance of standards. This is performance by an on-spot inspection to be carried out by Mexican inspectors. The associated costs need to be paid by the interested party. For small exporters, this is prohibitive and it is extremely expensive even for medium and large-scale exporters.

3. **Arbitrary measures.** On the other hand, Mexico does not have a fixed list of quarantine pests for the affected products. This means that each product needs to be subject to a case by case study to allow their entry into Mexico. The list of pests is constantly changed without previous risk assessment that justify their inclusion in the list.

4. **Labelling:** In addition of general requirements about labelling, Mexico requires specific provisions on the labelling of alcoholic beverages, pre-packed fish and ready-mixed flours (WTO, 2016). Some of these requirements are considered hard to meet by many EU exporters.

Some previous barriers on the imports of pigment and pig products into Mexico (Copenhagen Economics, 2016) have been recently lifted. The same applies to the restrictions on the imports of beef related to the Bovine Spongiform Encephalopathy.

In the case of barriers affecting agricultural Mexican exports to the EU, it is necessary to make a revision of multiple sources as there is no a single database where this information can be obtained. Nevertheless, the barriers are generally associated with the compliance of the high quality and safety standards of the EU rather than problems associated with the process of compliance. Whilst certification procedures are generally facilitated, certain Mexican exporters struggle to comply with the high EU standards.

### 9.3. Analysis

The assessment presented in this section provides a limited overview of the performance of the agriculture trade between the EU and Mexico. More importantly, many related areas have not been covered at all. In particular, there is a need to evaluate the social, environmental, human rights and other issues of the EU-Mexico FTA.

In addition, it is necessary to evaluate the implications of the introduction of further disciplines on the EU-Mexico FTA and how they can affect the social, environmental, human rights and other issues. Although this will be performed at the general level as part of the general tasks of the project, it is necessary to identify the implications of these issues specifically in the agricultural sector.

The importance of this is related to the relevance of these issues in the agricultural sector in both the EU and Mexico. Agriculture production in the EU is characterised by small landholders whose activity constitute the main source household source of income. Moreover, in Mexico, there are a large number of agricultural workers, frequently low skilled, whose also depend on the income generated in the sector.

In addition, indigenous populations in Mexico are frequently affected by the development of commercial agriculture, affecting their traditional ways of life. This is exacerbated by the limited opportunities that these indigenous populations have to participate actively in the commercial agriculture. Therefore, the expansion of the commercial agriculture implies a threat to their traditional livelihoods, generating social and political conflicts.

At the same time, agriculture provides jobs to many women, many of whom are heads of their respective households. Participation of women is particularly high in agriculture sectors intensive in
the use of labour such as fruit and vegetable collection. This highlights the important gender implications of agriculture in the agriculture sector in Mexico and suggests important channels to explore in terms of the effects of the actualisation of the EU-Mexico FTA on this group of people.

In addition, agriculture work in Mexico is frequently associated with informality. Many agricultural workers are employed under informal arrangements. This is reflected in lower legal and institutional protection. Consequently, it remains key to identify what would be the effects of new provisions on these workers. Moreover, it should identify how these provisions can be improved to benefit these workers and what additional provisions may need to be considered.

In addition of the general assessment of these areas, a review of literature and consultation with stakeholders in both the EU and Mexico will help to gauge the effects on these issues.

9.3.1. Additional barriers

Moreover, focusing exclusively on the trade-related aspects, the review of NTBs presented here is based on the assessment of some literature review and official information. They provide a very limited overview of the barriers affecting trade in the region. On one side, the systems in place may fail to identify all the barriers affecting trade and their effects. On the other side, the assessment focuses on identified issues without looking into the ideal situation in terms of how the trade arrangements between the EU and Mexico should be.

Therefore, an effort will be put to assess the implications of the identified barriers and to provide solutions and recommendations. Moreover, based on the exchange with stakeholders in the EU and Mexico, the assessment will look into identify additional areas of improvement and highlight their effects on trade and in other dimensions. In addition, a review of the existing tariff schedules between Mexico and the EU will assess the effects of the removal of the remaining tariff barriers.

9.3.2. Importance of the sectors, based on the negotiations

Agricultural and fisheries products are not among the top products traded between the EU and Mexico, but the implications of any important change in policies on the trade flows on these products can have serious implications for both trading partners. On one side, agriculture and fishing remains a major employer, especially among the poor in Mexico. This makes the sector, in general, particularly sensitive. On the other side, in virtue of its geographical location, Mexican agriculture may compete with products produced in many regions in the EU.

On the other hand, the renegotiation of NAFTA constitutes opportunities and challenges for this trade. On one side, for European producers there are opportunities of replace products originated in, for example, the US. In this sense, dairy products, wine and other processed foods originated in the EU may benefit. On the other side, some products supplied from Mexico into the US, assuming a raise in barriers in this market, may be reoriented to the EU. This will be particularly relevant for fresh fruits, vegetables; fish products (e.g. tuna) and beverages (e.g. beer).

These challenges and opportunities will materialise depending on how the provisions of the existing EU-Mexico FTA are modified and improved. Whilst most of the tariffs in the trade between the EU and Mexico have been eliminated, NTBs still affect the trade between both partners. This is particularly important in the case of standards.
Mexican agricultural production has been oriented to supply primarily the American market. Consequently, Mexican products tend to be compliant of US standards. These standards, although lower than the European ones, have helped Mexico to achieve good international levels. This suggests that for Mexican producers would be easier to meet the EU standards. Nevertheless, there are still areas where cooperation between both partners can facilitate this trade by streamline mutual recognition of conformity assessment. Moreover, Mexico may be closer than any developing countries to harmonise their standards with the EU.

Another area of analysis, relevant to agricultural products, is the one referred to geographical indications and denomination of origin. This is of interest for European exporters (key in areas such as wines and cheeses) but also for Mexican exporters that have managed to develop recognition for certain products in the US market.

Finally, the increased trade between Mexico and the EU on agricultural products can have important implications in LDCs. Mexico may compete and displace products originated in LDCs. These include some fresh fruits and vegetables (e.g. avocados) and coffee. Therefore, it is necessary to identify the products that may compete with the products exported from LDCs with the objective to identify the countries affected.

The agricultural analysis will employ the following methodology:

1. **Description of trade in agricultural products between the EU and Mexico.** Using descriptive statistics, the project will identify key products in the trade between the EU and Mexico. It will also identify those products that may displace products from the LDCs as well as those products that may be affected because of the renegotiation of the NAFTA.

2. **Quantitative modelling using partial equilibrium (to be agreed with DG Trade).** Based on different scenarios to consider, the model will assess the effect on trade between both partners. The scenarios could include increase in tariffs in the trade between Mexico and the US to identify the trade reorientation to the EU and Mexico as well as reduction of remaining tariffs that still may apply in the trade between the EU and the Mexico.

3. **Qualitative assessment of NTBs.** A general assessment of the main certification and standards provisions will be complemented by a deeper analysis of the main NTBs affecting the trade of specific products. This will include a comparison of the standards and certification provisions in Mexico and the European Union. Moreover, an analysis of the specific geographic indications and denomination of origin and how they may affect similar products in the EU. This will be performed for the selected goods under the agricultural sector.

## 10. Sectoral Analysis: Services

Global trade and the international division of labour have long been a salient feature of markets for agricultural commodities and manufactured goods, but the structure of global trade gradually and increasingly rapidly changed over the past 50 years. The share of global services exports in total goods and services exports has doubled from 17% in 1970 to over 32% by 2014 and it is expected to rise even more in the future.\(^{114}\) A sharp decline in information and communication costs together

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with the diffusion of new technologies has contributed to the emergence of international value chains, which are characterized by complex production processes performed in proximity by multiple firms in multiple countries.\textsuperscript{115}

Inputs from services sectors, such as financial, telecommunication, communication and professional transport services, now play an increasingly important role in global manufacturing processes. Services are now important direct and indirect contributors to various value chains. Accordingly, an increasing number of manufacturing goods now constitutes a 'complex bundle' of commercial products and services interactions rather than commercial 'goods' only.\textsuperscript{116}

Services trade between the EU and Mexico has increased significantly since 2010. While EU-Mexico trade in goods increased by about 51% from 2010 to 2015, total EU-Mexico services trade increased by 122% over the same period. In 2015, EU services trade accounted for 21% of total EU-Mexico trade. EU exports of services to Mexico amounted to 9.4 billion EUR in 2015, while EU imports of services from Mexico amounted to about 5 billion EUR. Accordingly, the EU shows a trade surplus in services with Mexico of 4.43 billion EUR.

Overall, business services are an important trade category in EU-Mexico services trade. In 2015, the share of EU-Mexico business services trade in total EU-Mexico services trade amounted to 31%, which corresponds to about 6.5% of total EU-Mexico trade (goods and services, see Figure 22).

\textbf{Figure 22: Services and business services trade as share of total EU trade with Mexico}

![Figure 22](image)

Source: Eurostat.

The rising importance of business services trade is reflected by the development of trade volumes over time. Between 2010 and 2015 EU-Mexico trade in business services increased by 122%, i.e.


an annual average growth rate of almost 25%. The significant increase in EU-Mexico business services trade was largely driven by strong EU export growth in this sector. Between 2010 and 2015, EU exports of business services increased from 1.2 billion EUR to 3.4 billion EUR, i.e. 185% (see Figure 23). At the same time, Mexico’s exports of business services to the EU increased by only 30% from 800 million EUR to about 1.05 billion EUR (see Figure 24). While EU exports of business services significantly outperformed the development of total bilateral EU goods and services exports, Mexican business services exports have generally been lacking behind other export industries (see Figure 25). Overall, these numbers indicate that the EU has a comparative advantage in business services trade vis-à-vis Mexico.

Figure 23: Development of EU services exports to Mexico, 2010 - 2015

Source: Eurostat.
Figure 24: Development of EU services imports from Mexico, 2010 - 2015

Source: Eurostat.

Figure 25: Annual average growth rate of EU-Mexico services trade, total vs. business services, 2010 - 2015

<table>
<thead>
<tr>
<th>EU Exports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Business Services Exports to Mexico</td>
<td>37.0%</td>
</tr>
<tr>
<td>Total EU Services Exports to Mexico</td>
<td>10.8%</td>
</tr>
<tr>
<td>Total EU Goods Exports to Mexico</td>
<td>11.5%</td>
</tr>
<tr>
<td>Total EU Exports to Mexico</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EU Imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Business Services Imports from Mexico</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total EU Services Imports from Mexico</td>
<td>9.5%</td>
</tr>
<tr>
<td>Total EU Goods Imports from Mexico</td>
<td>8.3%</td>
</tr>
<tr>
<td>Total EU Imports from Mexico</td>
<td>8.6%</td>
</tr>
</tbody>
</table>
Source: Eurostat.

OECD data on services trade restrictiveness (STR) indicate that the government of Mexico applies a high number of regulations that impact on market access conditions for foreign services providers for all four modes of services supply. In addition to various sector-specific rules, Mexico applies many regulations that apply across all sectors of the economy. Regarding business services, Mexico has a relatively restrictive regime governing foreign entry in logistic and transport services (among other sectors). In courier and postal services, for example, Mexico maintains a monopoly on postal services. For some sectors, foreign equity restrictions apply while at the same time foreign investment is subject to screening and economic needs (economic benefits) tests. The government of Mexico also applies relatively strict labour market regulations that prevent foreigners from entering local markets, e.g. labour market tests for natural persons for temporary work. In public procurement processes, discrimination of foreigners is allowed on the basis of national “hire” and national resources rules. Moreover, the Mexican labour law requires that the employee base of any company shall be comprised of at least 90% Mexican nationals, with exceptions for directors, administrators, and other managerial positions.\footnote{OECD (2016). Country note on STRI measures for Mexico.}

World Bank data on professional services restrictiveness indicate that both the EU and Mexico still apply number of restrictive measures with various degrees of openness (0 = open without restrictions; 100 = completely closed) (Table 21).\footnote{World Bank (2012). Guide to the Services Trade Restrictions Database, The World Bank Development Research Group Trade and Integration Team June 2012.}

### Table 21: General overview of trade restrictiveness in professional services, EU vs. Mexico

<table>
<thead>
<tr>
<th>EU-20</th>
<th>Mode 1</th>
<th>Mode 3</th>
<th>Mode 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Auditing</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Accounting</td>
<td>25</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Auditing</td>
<td>75</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Legal</td>
<td>25</td>
<td>50</td>
<td>66.67</td>
</tr>
<tr>
<td>Law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Advice Foreign</td>
<td>25</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mexico</th>
<th>Mode 1</th>
<th>Mode 3</th>
<th>Mode 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Auditing</td>
<td>0</td>
<td>0</td>
<td>75</td>
</tr>
<tr>
<td>Accounting</td>
<td>0</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Auditing</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Legal</td>
<td>0</td>
<td>50</td>
<td>58.33</td>
</tr>
<tr>
<td>Law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Advice Foreign</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>
In the Section on services trade, we will study the importance of business and professional services trade between the EU and Mexico, with a focus on engineering, architectural, legal and accounting services. We will analyse the different channels through which the modern EU-Mexico FTA can impact on business services providers. We will take into consideration general trends in services trade as well as existing horizontal and sector-specific trade barriers preventing EU and Mexican services suppliers from accessing both parties’ markets. The analysis includes a

- provision of a descriptive account of EU-Mexico services trade with a focus on business services.
- provision of data (depending on the availability of trade in value added data) and a discussion of the role of business and professional services in manufacturing value chains,
- presentation and discussion existing sector-specific GATS commitment made by Mexico and existing regulations for preferential treatment in the GA,
- presentation of up-to-date indicators for services trade restrictiveness (World Bank and OECD data). Overview and discussion of existing NTBs and how the reduction or elimination of these NTBs would impact EU-Mexican services trade, and
- a discussion of the impact of trade liberalising measures and regulatory cooperation on EU-Mexican trade in business services

10.1.1. Description of existing current Non-Tariff Measures influencing EU-Mexican trade in Services

As a result of the existing agreement currently in place, most bilateral most favoured nation (MFN) tariffs have already been removed, thus the economic gains from the modernization, EU-Mexico trade will stem from the reduction of NTMs. NTBs and regulatory divergence are complex issues to deal with analytically. Even the measurement of the importance of these barriers for trade and investment is a difficult exercise. This section offers an overall description of current NTBs and the most important NTBs in the sectors, based on the quantification described in 3.1.1 as well as the qualitative analysis.

The term ‘Non-Tariff Measures’ includes numerous policies applying to trade. While some NTMs are actual trade instruments (e.g. quotas, subsidies, trade defence measures and export restrictions), others originate from non-trade policy objectives (e.g. technical measures). The latter often serve a legitimate purpose, since they are put in place for valid concerns, e.g. food safety and environmental protection. Although the underlying intent of NTMs are important for negotiations and policy response, they are not the only issue. Regardless of whether NTMs are imposed (or implemented) with protectionist intent or to address legitimate market failures, NTMs are thought to have important restrictive and distortionary effects on international trade.

As opposed to tariffs, there are no ready-made measure of NTMs available. The process used in the IA infers the quantification of these impediments, based on observations of current versus expected trade flows in combination with econometric analysis. The aim of the estimation of the AVE quantifications exercise is to assess the size of trade-hindering NTMs in place in a way that is comparable to tariffs. These estimates are summarized in Table 22 below. Note that, in order to find out more of the qualitative setting and nature of these NTMs, these estimates will be complemented with in description and analysis of the qualitative nature of the NTMs, based on further research and input from experts.
Table 22: AVE for NTMs

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>0</td>
<td>100.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>31.8</td>
<td>72.0</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>30.9</td>
<td>24.7</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>29.3</td>
<td>55.1</td>
</tr>
<tr>
<td>Other Machinery</td>
<td>6.5</td>
<td>19.5</td>
</tr>
<tr>
<td>Insurance</td>
<td>6.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Business</td>
<td>17.7</td>
<td>16.0</td>
</tr>
</tbody>
</table>


As can be seen from Table 22, the estimated Ad Valorem Equivalents (AVEs), for NTMs are generally higher for industrial goods than for services.

11. Consultation process

The LSE-led team gives substantial importance to the stakeholder consultation which lies at the heart of the SIA. This process will be carried out as widely as possible in Mexico in order to reach the highest participation rate and thus add a constructive and representative perspective as well as credibility and legitimacy to the GA modernisation. We will ensure that all stakeholder activities are consistent with the guiding principles and meet the minimum standards laid out by the Commission. A high degree of transparency, throughout a continuous, coherent and in-depth consultation process will give an opportunity to all stakeholders to participate and express themselves. The team is guided by a clear and effective consultation strategy that will be applied to all elements of the SIA.

In this task, the team will carry out a full consultation which aims at actively engaging a variety of relevant stakeholders and at providing them with a forum for interaction to relay their experience, priorities, concerns and other relevant information for the negotiations. The results of this consultation will allow us to ultimately identify key issues and priorities to feed into different parts of our reporting. To prepare for the consultation, the LSE team will be guided by previous evaluations conducted for DG Trade and will highlight the nature of the consultation as a two-way process which is made up of multiple steps. Our consultation strategy covers the following:

- Definition of clear objectives for stakeholder consultation;
- an outline of the stakeholder consultation process;
- the research questions to be answered by the stakeholder consultation process;

119 Better Regulation "Toolbox", European Commission
• identification of the principal stakeholders or stakeholder groups, with an explanation of the nature and intensity of their interests; and strategy to reach out to vulnerable groups;

• Elaboration of tailored consultation activities which will include a public online consultation as well as specific targeted stakeholder consultation.

This inception report presents the final step-by-step consultation plan with the identified target groups. The elements of the consultation plan are outlined below with details on how these tasks will be tailored to the needs of this project.

11.1. Objectives

The objectives of stakeholder consultation as defined by the EU Commission\textsuperscript{120} are three-fold: 1) engaging all interested parties; 2) contributing to the transparency of the SIA analysis; 3) helping to identify key issues in trade negotiations. Accordingly, LSE Consulting’s stakeholder consultation strategy has been tailored to be both process- and outcome-oriented so as to fulfill the EU’s objectives of inclusiveness, transparency and accountability.

This process will be carried out as widely as possible in EU countries and Mexico in order to reach the highest participation rate and thus add a constructive and representative perspective as well as credibility and legitimacy to the negotiations. We will ensure that all stakeholder activities are consistent with the guiding principles and meet the high standards laid out by the Commission.\textsuperscript{121} A high degree of transparency, throughout a continuous, coherent and in-depth consultation process will give an opportunity to all stakeholders to participate and express themselves. The team is guided by a clear and effective consultation strategy that will be applied to all elements of the SIA. In addition to the minimum requirements set in the ToR, the team has added additional outreach strategies in Mexico City and is cooperating with a number of local stakeholders to improve the implementation of the SIA.

The different channels of communication and activities aim at actively engaging a variety of relevant stakeholders and at providing them with a forum for interaction to relay their experience, priorities, concerns and other relevant information for the negotiations. The results of this consultation will allow us to ultimately identify key issues and priorities to feed into different parts of our reporting.

11.1.1. Consultation implementation and closure

The consultation process is an integrated and continuous process. We will ensure that the consultation process starts at the earliest stage of the project while remaining flexible and adaptable to the Commission’s needs. For that purpose, four or more meetings with DG Trade will take place throughout the process including with the inter-service steering group. Four meetings are already planned and appear in the timeline at month 1 - kick-off meeting two weeks after the signing of the contract; month 3, month 6 and at the end of the project at month 13.

Stakeholders will be notified with sufficient notice of the closure of the consultation. At the end of the consultation, stakeholders will receive acknowledgement of their contribution. If stakeholders communicated via other means, this will also be acknowledged and, if possible, they will be encouraged to respond to the public consultation as well. A short summary report on the findings of


\textsuperscript{121} Ibid; European Commission, “Better Regulation 'Toolbox', 2015.
the consultation will be published on the website 2 weeks after the closing deadline. An in-depth analysis of the effectiveness of the consultation process will be included in the SIA final report.

### 11.1.2. Dedicated website and electronic communications

The consultation is hosted on a dedicated website which supports the broad advertisement made by the Commission on the modernisation of the GA with Mexico. It provides concise and clear information and participatory access to the process for interested stakeholders. We have experience in reaching various audiences including the public, the media, policymakers, academics and businesses in order to create impact, interest and lasting practical effect from reports and studies.

The specific objectives of the website are as follows:

- Serve as a contribution to the Commission’s dialogue with stakeholders and trading partners;
- Dissemination of results from stakeholder consultations through questionnaires and interviews;
- Encourage backlinks from other websites through relevant content and track the number of clicks;
- Information on publications, upcoming and past events, including registration pages and recordings of past events (e.g. audio and film recordings, PowerPoints, social media records, or transcripts where appropriate);
- Clear contact details;
- Description of what the impact assessment entails;
- User-friendly list of links to other relevant web resources for policy makers and practitioners e.g. toolkits/guides, learning materials, searchable databases and other helpful links. Links will be checked on a monthly basis for accuracy.
- Links to social media channels – particularly through a Facebook and Twitter accounts since in Mexico one or the other could be more effective.
- Easy-to-use and prominent registration area to participate in the stakeholder consultation and to give feedback.

The target audience of the website are all stakeholders such as civil society representatives, businesses, national and regional civil servants, social partners including trade unions representatives, and international organisations representatives on the ground. As part of this, the website has specific mechanisms designed to facilitate their interaction with the process.

All relevant website pages are available in English and Spanish and follow EC rules on the provision of information\(^\text{122}\) to ensure quality, accuracy, accessibility and usability of the content.

### 11.1.3. Questionnaires

Interactions with stakeholders will ideally take place through a short set of questions, which will structure their feedback. In the early stages of the implementation of Task 3, the team will develop these questions, and present them to the Commission for review. The questionnaire will be made available in English and Spanish. Once the questionnaire is approved and translated, the team will provide the Commission with a link to the evaluation to be placed on the *Your Voice in Europe* web

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\(^\text{122}\) Information Provider’s Guide, Interinstitutional Style Guide
portal. The consultation will be announced via the dedicated website, press and social media, and via the Commission’s means.

However, to ensure we have as many available channels as possible we have also created the following channels:

- an email address hosted by the LSE in cases where they would like to pass on thoughts and comments via email (lsee.sia-mexico2018@lse.ac.uk);
- a twitter account which works with the existing social media networks of the LSE (@SIA_EUMexico);
- a Facebook page (https://www.facebook.com/SIA-EU-Mexico-168524053702349/).

11.1.4. Online public consultation

The team will run a 12 week online public consultation, aiming at:

1. Finding new ideas through engaging with the key stakeholders in the EU and Mexico in our case studies.
2. Collecting factual information on the shortcomings and impacts of the GA in its current state.
3. Identifying the groups and in particular vulnerable groups most likely to be impacted by the modernisation of the GA. Engaging proactively with employers’ and workers’ organisations.
4. Validating previous findings by providing the opportunity for the input of national, regional, and local authorities, NGOs, individual citizens, academia, and business.

The online questionnaire will be piloted by the team with a select group of individuals to ensure the questionnaire is easily navigated and accessed. There will also be clear instructions for help, in case respondents need individualised support.

The team will draw on native speakers in order to translate any responses in languages other than Spanish and English. The team will use appropriate translation mechanisms to ensure all responses to the consultation are accessible to the team and the Commission in English.

Additional resources, targeted to SMEs, consumers, as well as vulnerable groups (incl. low income, children with disabilities, ethnic minorities, indigenous peoples, unskilled workers, older and less educated consumers) will be also developed.

The Annex provides a preliminary list of national and regional administrations, social partners, including trade unions, civil society organisations, and international organisations, which will be consulted. Organizations are drawn from previous consultations of the Commission with civil society, position papers on the EU-Mexico Global Agreement, and a wide number of EU and international resources.

11.1.5. Roundtables, interviews, meetings and questionnaires

LSE Consulting will ensure that information and evidence is gathered from relevant stakeholders who are not targeted by the open online public consultation and/or the workshops. This will take the form of interviews and targeted questionnaires. Interviewers will be instructed by the team to prepare high quality notes on the interviewees to ensure all team members have access to the discussion held. The team will also be able to conduct interviews in English and Spanish. Particular attention
will be paid when reaching out to representatives of indigenous peoples and communities in Mexico, and particularly vulnerable groups.

The team has organized four roundtables in Brussels and is organizing one main event in Mexico City January 2018 covering the selected sectors and range of sustainability issues. The four roundtables covering issues concerning the manufacturing sector, agricultural sector, service sector, and issues surrounding sustainability issues are open to public registration, inviting representatives across all four sectors to each meeting. Each roundtable takes the following format:

**Box 1: Preliminary agenda for stakeholder meetings in Brussels**

<table>
<thead>
<tr>
<th>Stakeholder Roundtable on Potential Sectoral Impacts: Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction by Team Leader or relevant expert (approx. 15min).</td>
</tr>
<tr>
<td>2. Discussion of topics guided by individual questions outlined below. At the outset, before the detailed questions are addressed, stakeholders will be invited to introduce themselves and summarize their main interests and perspectives (approx. 2hours).</td>
</tr>
<tr>
<td>3. Short summary and concluding remarks by LSE Consulting team (approx. 15min).</td>
</tr>
</tbody>
</table>

**Preliminary list of topics for discussions:**

- Impact on production in Europe;
- Supply chains impacts;
- Priority non-tariff measures (NTMs);
- Impact on social, human rights and environmental issues;
- Impact on SMEs.
- Specific sectoral impacts: agriculture, manufacturing, and services.

In terms of the interviews/discussions, they will differ across sectors, where in some cases group discussions can yield more interesting results than individual meetings. For the industrial products and business services, due to the differences in types of barriers and issues faced, we plan to have individual face-to-face meetings or smaller group discussions. Discussions on issues specific to SMEs will be addressed in all the bilateral and group meeting.

In addition to bilateral/group meetings, as described in the ToR, the team will also develop a series of online questionnaires. Through questionnaires, the team will be able to reach a larger target group of respondents during the stakeholder consultation. Different types of questionnaires are designed according to the sequence described earlier and stakeholders will be asked questions on issues and processes combining open and close (pre-coded) ended questions. All questionnaires will closely follow guidelines on similar evaluations produced by DG Trade. All interview guides and questionnaires will be provided to the Commission for review. Depending on the stakeholders identified, the team will either gather data by phone or Skype interviews (face to face where possible), use other methods (email survey etc.) to target larger number of stakeholders, or combine both these methods. As with the public consultation, any survey or questionnaire will be piloted on a small scale to ensure the questions are clear. The survey questions will be made available in English and Spanish.

**11.1.6. Civil Society Dialogue Meetings**
All reports, including this one, are to be presented in meetings of DG Trade’s Civil Society Dialogue (CSD), in order to invite stakeholders to contribute during the implementation phase. The presentations will provide a comprehensive overview of all the progress made in the project to date, as well as allow the CSD to comment and address any concerns throughout the project.

Three presentations will be held for the CSD – one to prepare the submission of this inception report in Month 3, another previous to the submission of the interim report in Month 6 and the last one in Month 13 before the submission of the final report.

11.1.7. **Workshop in Mexico City**

The content of the workshop will be designed in light of the progress of the EU-Mexico negotiations, initial results from the existing Trade SIA, and submissions by stakeholders. The team will prepare documentation for the workshop and make it available to any participating stakeholders before the workshop, in order to facilitate informed discussions, while after the workshop all participant presentations will be made available. We will make provisions for the main working languages to be English and Spanish. The date will be set well in advance by the service steering group and targeted stakeholders will be invited by our team to keep the date free while a location is decided. The local EU Delegation will be approached at an early stage to ensure their involvement and feedback in every stage of the workshop. At the same time we have ensured a wide local network to ensure coordination and assist with logistical issues in-country, particularly with Fundación IDEA in Mexico City. Annex 4 outlines Fundación IDEA’s extensive experience in research, public policy and evaluations, which will be essential for conducting a comprehensive analysis. We hope that our careful and structured plan, together with the advanced preparation of materials and content, will serve to prevent any implementation issues.

Further to the ToR, LSE Consulting will organise a one-day workshop of up to 50 participants, basis of calculation in the financial part of the submission, in Mexico City, Mexico. This event will gather the views of, and other information from, stakeholders (in particular businesses, national and regional administrations, social partners including trade unions, international organizations present on the ground, and civil society). They will aim at raising awareness about the Global Agreement and strengthening the consultation of local stakeholders.

11.1.7.1. **Workshop design and content**

As part of the final inception report, the team will draft a detailed proposal for the organisation and content of the workshop, including the respective programme and a balanced list of participants and speakers, representative of the different categories of stakeholders including businesses, national and regional administrations, social partners including trade unions, and civil society. This programme will be finalised in coordination with the inter-service steering group and the local EU Delegation.

In terms of our initial planning, the team anticipates that due to the number of attendees, holding a single plenary throughout the day will not provide for in-depth discussion into key topics. We will discuss the option of a joint opening plenary with the EU Delegation and DG Trade, representatives from the Mexican Government, and the main Chambers of Commerce of participating countries. The day will continue with parallel events, where we will engage people to discuss sectoral specific and
thematic issues. In particular, we plan three parallel sessions between plenary and lunch time (agriculture, manufacturing and services) and thematic issues in the afternoon.

11.1.7.2. Target groups and attendees

Target groups for the local workshops will be selected from the stakeholder mapping done as part of the public consultation (see Annex 1). As space for the workshop will be limited, the team will set criteria to allow as many organizations as possible to attend the workshop and if possible livestream the event (e.g. only one representative per organisation, geographic scope, sector, interest etc.). Space for the 50 travel-funded spots will be allocated on a first come first serve basis. However, the chosen venue will have the capacity to hold 70-80 persons in order to allow for self-funding participants to attend as well.

11.1.7.3. Team member attendance

The workshop will be attended by at least three team members – the Team Leader and Project Manager, and depending on key issues, another member of the team. They will be in charge of running the event, collecting attendee data, and providing an overview of the discussion and issues raised to the rest of the team. They will also engage with the different stakeholders in order to gather further data about possible direct and indirect impacts and ways to address flanking measures.

11.1.7.4. Final activities

We will ensure that the workshop is publicised to relevant stakeholders on the dedicated website platform, social media, draft suitable press releases and liaise with local media in order to ensure the appropriate coverage of the event. After the workshop, we will publish a summary of the event, including a list of participating organisations and individuals, and the views expressed, and how these will be accounted for in the final report.

11.1.8. Risk mitigation for stakeholder consultation

The public consultation process may be subject to certain risks. However, the team will try to foresee many of these, and place preventative or mitigating actions in place in order to minimise the impact of these risks. In the table below, we outline some immediate risks and our mitigation strategies for the various components of the stakeholder consultation. The consultation strategy developed in over the course of Task 3 will include more detailed analysis of potential risks.

Table 23: Preliminary risk and mitigation strategy for stakeholder consultation

<table>
<thead>
<tr>
<th>Non-attendance by key stakeholders</th>
<th>Key stakeholders will be contacted well in advance of the relevant date, and may even be included in selection of the date, to ensure their attendance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion because of limited space</td>
<td>Criteria will be set to allow as many different organizations to attend. The team will run a clear RSVP policy, which will ensure that if an organization or individual cannot attend, the space is allocated to someone else.</td>
</tr>
</tbody>
</table>
Target groups that run the risk of being excluded

The project will commence with a stakeholder mapping which will be designed to be as inclusive as possible, demonstrated by a set of core criteria to include as many stakeholders as possible. Local partners will be key in identifying stakeholders that may otherwise be missed.

Low response rates to survey

The team will provide sufficient time for stakeholders to respond, with intermittent reminders to stakeholders. The team will closely monitor progress of the response rate, and in case it is lower than expected, will start necessary measures (reminders, identification of other stakeholders) immediately.

Interview unavailability

The team will contact stakeholders for interviewees well in advance. Where stakeholders do not respond or unavailable, the team will either identify another person within the organization, or identify an organization with a similar remit to obtain views on similar issues. As proposed above, group discussions will also be utilised.

11.1.9. Feedback mechanisms: from process to outcome

A common grievance among civil society participants in consultation pertains to “consultation fatigue,” the feeling that stakeholder consultation mechanisms might, in effect, have little tangible impact on decision-making. This issue is crucial to the accountability and legitimacy of trade negotiations. Building upon its previous experiences with DG Trade, LSE Consulting has designed a multi-pronged strategy to ensure that consultation is not a one-way discussion but a real dialogue whereby stakeholders’ questions, concerns or grievances are not ignored or left unanswered. This inclusive and accountable approach to consultation relies on:

- A clear and systematic presentation of the logic and modalities of stakeholder consultation in SIAs;
- The creation of a registry of interests, ideas and grievances with the names of stakeholders and the list of chapters/sections addressing their concerns;
- An integrated approach to the use of consultation results in the drafting of the SIA through close coordination with all experts by the team leader, project leader and consultation manager;
- Equal consideration to the integration of dissenting views within the SIA (especially in the social, environmental and human rights analyses) to reflect the plurality of trade policy stakeholders;
- The LSE-led team includes individuals with many years of experience in policy and academic research. Key members of the team are used to writing accessible, policy-related reports in English and Spanish to the highest level.

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12. Proposals for policy recommendations and accompanying measures

Policy recommendations, or flanking measures, will be developed to promote sustainability and to prevent or try to mitigate negative impacts. The recommendations will be derived from the analyses of the different economic, social, environmental, sectoral elements of the SIA and also draw on relevant recommendations put forward by stakeholders during the consultations.

Suitable and practical policy recommendations will be prepared jointly by the team, so that they cut across the different analysis and take all aspects into consideration. We will also take into consideration expert comments and feasibility of the suggestions.

13. Timeline for Finalising the Work

13.1. Deliverables

The LSEE-led team includes individuals with many years of experience in policy and academic research. Key members of the team are used to writing accessible, policy-related reports in English and Spanish to the highest level. Based on previous experience in working with DG Trade, LSE Enterprise will undertake the editorial work and final preparation of the materials to be published. Table 24 details the deliverables the team will submit over the duration of the project. Each deliverable will be preceded by a draft submission as an electronic document, and upon the Commission’s approval, be submitted as a final version.

Table 24: Deliverables

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inception Report</td>
<td>At the end of the 2-month inception phase, the team will deliver the inception report for approval by DG Trade. It shall contain an overview of the project features, proposed methodological approach, a literature review, background for the website, the stakeholder consultation strategy and a preliminary list of relevant stakeholders, screening for sustainability issues and the selection of sectors, overview of overall and sectoral analysis. It will summarise and outline potential content for the following reports.</td>
</tr>
<tr>
<td>Interim Report</td>
<td>Within 5 months, DG Trade will receive an interim report, which will cover the work undertaken and preliminary findings relating to the stakeholder consultation, the specific analyses and the case studies to be conducted during the implementation phase as well as a preliminary structure for the final report. It will summarise the progress made, account for any difficulties encountered and outline the solutions chosen or proposed to overcome them.</td>
</tr>
<tr>
<td>Report on workshop in the partner country</td>
<td>After the two workshops, the team will publish comprehensive summaries of the proceedings, list of attendees, and views expressed. The team will further follow-up on the comments and feedback gathered in the draft final report.</td>
</tr>
</tbody>
</table>
The draft final report, due after 10 months, will present a description of the methodology adopted for this SIA, results from the stakeholder consultation, the overall and sectoral analyses, as well as details about the activities performed. It will finally include recommendations and references. Along with the main report, a separate briefing document will be produced. It will be proofread by a native English speaker and the executive summary will be translated into French, Spanish and German. Key messages will be highlighted and, where relevant, summarised.
### 13.2. Timeline

<table>
<thead>
<tr>
<th>R = Report submission</th>
<th>M = Meeting</th>
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</thead>
<tbody>
<tr>
<td><strong>Inception phase</strong></td>
<td></td>
</tr>
<tr>
<td>Kick off meeting with DG Trade</td>
<td>M</td>
</tr>
<tr>
<td>Description of objectives and structure</td>
<td></td>
</tr>
<tr>
<td>Proposed methodological approach</td>
<td></td>
</tr>
<tr>
<td>Draft literature review</td>
<td></td>
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<tr>
<td>Draft consultation plan</td>
<td></td>
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<tr>
<td>Preliminary list of stakeholders</td>
<td></td>
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<tr>
<td>Preliminary screening of key sustainability issues (Task 1)</td>
<td></td>
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<tr>
<td>Preliminary overview of the overall and sectoral analysis (Task 2)</td>
<td></td>
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<tr>
<td>Selection of sectors</td>
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<tr>
<td><strong>Draft inception report</strong></td>
<td>R</td>
</tr>
<tr>
<td>Commission ISG meeting</td>
<td>M</td>
</tr>
<tr>
<td>CSD meeting</td>
<td>M</td>
</tr>
<tr>
<td><strong>Final inception report</strong></td>
<td>R</td>
</tr>
<tr>
<td><strong>Interim phase</strong></td>
<td></td>
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<tr>
<td>Quantitative analysis results</td>
<td></td>
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<tr>
<td>Preliminary findings of sustainability issues (Task 1)</td>
<td></td>
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<tr>
<td>Stage</td>
<td>Task</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Preliminary findings of sectoral analysis (Task 2)</td>
<td></td>
</tr>
<tr>
<td>Stakeholder consultation plan (Task 3)</td>
<td></td>
</tr>
<tr>
<td><strong>Draft interim report</strong></td>
<td></td>
</tr>
<tr>
<td>Commission ISG meeting</td>
<td>M</td>
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<tr>
<td>CSD meeting</td>
<td>M</td>
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<tr>
<td><strong>Final interim report</strong></td>
<td></td>
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<tr>
<td>Workshops in partner countries (Task 3)</td>
<td></td>
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<tr>
<td><strong>Final phase</strong></td>
<td></td>
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<tr>
<td>Workshop follow-up (Task 3)</td>
<td></td>
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<tr>
<td>Details of communication activities (Task 3)</td>
<td></td>
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<tr>
<td>Policy recommendations and accompanying measures (Task 4)</td>
<td></td>
</tr>
<tr>
<td><strong>Draft final report</strong></td>
<td></td>
</tr>
<tr>
<td>Review of draft final report by SG</td>
<td></td>
</tr>
<tr>
<td>Commission ISG meeting</td>
<td>M</td>
</tr>
<tr>
<td>CSD meeting</td>
<td>M</td>
</tr>
<tr>
<td><strong>Final report</strong></td>
<td></td>
</tr>
</tbody>
</table>
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Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report


Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report


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Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

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Sustainability Impact Assessment (SIA) in support of the negotiations for the modernization of the trade pillar of the Global Agreement with Mexico

Inception Report


UN Comtrade


Annex 1: Preliminary list of stakeholders

**European Union**
ACEA - European Automobile Manufacturers’ Association  
ACT Alliance Advocacy to the European Union  
Active Pharmaceutical Ingredients Committee  
AeroSpace and Defence Industries Association of Europe  
Agriculture and Horticulture Development Board (AHDB)  
Airports Council International Europe  
Alstrom Transport  
Antwerp World Diamond Centre  
Architects’ Council of Europe (ACE)  
Arianespace  
Asociación Española de Mayoristas, Transformadores, Importadores y Exportadores de Productos de la Pesca y la Acuicultura  
Assocalzaturifici - Italian Footwear Manufacturers’ Association  
Association de l'Aviculture, de l'Industrie et du Commerce de Volailles dans les Pays de l'Union Européenne asbl  
Association de producteurs de cinéma et de télévision (EUROCINEMA)  
Association Européenne Du Commerce De Fruits Et Légumes De L'UE - European Fruit and Vegetables Trade Association  
Association nationale interprofessionnelle du bétail et des viandes (Interbev)  
Association of European Airlines  
Association of European Chambers of Commerce and Industry (EUROCHAMBRES)  
Association of European Heating Industry  
Association of European manufacturers of sporting ammunition  
Association of Poultry Processors and Poultry Trade in the EU countries  
Association of the British Pharmaceutical Industry (ABPI)  
AstraZeneca  
Atlantic Strategy Group SPRL (ASG)  
Audi  
Austrian Federal Chamber of Labour (AK)  
Austrian Federal Economic Chamber (WKO)  
AVISA  
AXA Life  
BAE Systems  
Barclays  
BASF SE  
BDI - Federal Association of German Industries  
BDO  
Beltrade  
BNP Paribas Securities  
BREIZ EUROPE  
British Agriculture Bureau  
British Council  
British Telecommunications Group plc
Bundesarbeitskammer Österreich
Bundesarbeitskammer Österreich
Bureau de Recherches Géologiques et Minières (BRGM)
Bureau Européen de l'Agriculture Française
Bureau International des Producteurs d'Assurances & de Réassurances (BIPAR)
Business and Industry Advisory Committee (BIAC)(OECD)
BusinessEurope
Carbon Capture & Storage Association (CCSA)
Central Europe Energy Partners (CEEP)
CELCAA
CEFS – Comité Européen des Fabricants de Sucre
CEN-CENELEC
Central Europe Energy Partners
CEPS
CERFRANCE
CFE
Chambre de commerce et d'industrie de région Paris Ile-de-France
Chanel
Clarins
CLITRAVI
Cobalt Development Institute (CDI)
COLIPA
Coloplast
Comité des Constructeurs Français d' Automobiles (CCFA)
Comité du commerce des céréales, aliments du bétail, oléagineux, huile d'olive, huiles et graisses et agrofournitures de l’U.E.
Comité Européen des Entreprises Vins
Comité Européen des Fabricants de Sucre
Commerzbank
Committee for European Construction Equipment
Committee of the European Sugar Users
Confederação Nacional das Cooperativas Agrícolas e do Crédito Agrícola de Portugal
Confederatia Sindicala Nationala Meridian (CSN Meridian)
Confédération des Syndicats Chrétiens
Confederation Francaise Democratique du Travail (CFDT)
Confederation of British Industry (CBI)
Confederation Construction Belgian FPS Economy
Confederation of Danish Industry (DI)
Confederation of European Community Cigarette Manufacturers
Confederation of European Paper Industries
Confederation of Finnish Industries (EK)
Confederation of National Hotel and Restaurant Associations (HOTREC)
Confederation of Netherlands Industry and Employers (VNO-NCW)
Confederation of Paper Industries (CPI)
Confederation of the food and drink industries of the EU (CIAA)
Confederazione Cooperative Italiane
Confédération Cooperative Italiane
Confederazione Italiana Agricoltori
Conférence des Notariats de l’Union Européenne
Conseil des barreaux de la Communauté Européenne (CCBE)
Conservation International (CI)
Consorzio Remedia
Construction Products Europe
Cooperativas Agro-Alimentarias
Cooperativas Agro-alimentarias de España
COPA-COGECA
Cosmetic, Toiletry & Perfumery Association (CTPA) (UK)
Cosmetics Europe - The Personal Care Association.
Cosmetics Europe
Council of European Employers of the Metal, Engineering and Technology-Based Industries (CEEMET)
Credit Agricole Corporate & Investment Bank
Critical Raw Materials Alliance (CRM Alliance)
CSOEC
DAF Trucks NV
Daimler AG
Danish Agriculture and Food Council
Danish Construction Association
Danish Dairy Board Brussels s.a.
Danish Shipping
Dassault Aviation
DATEV eG
Debaillleul products sa
Deloitte
Dentsply IH
Department for Business, Innovation & Skills (UK)
Deutsche Bahn
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Deutscher Industrie- und Handelskammertag e.V.
DIGITALEUROPE
Direct Selling Europe AISBL
Eastspring Investments
Ebay
Ecommerce Europe
EFFAT - the European Federation of Food, Agriculture and Tourism Trade Unions
Electrical and Electronic Portuguese Enterprises Association (ANIMEE)
Elekta
ELGC
EPURE - the European Renewable Ethanol Association
Ernst & Young
Estonian Employers’ Confederation (ETTK)
Estonian Investment Agency
ETUC - European Trade Union Confederation
EU Executive training programme, London
EURISY
EUROALLIAGES
EUROCHAMBERS
EuroCommerce
EURODOM
Eurogroup for Animals
EuroGeoSurveys (EGS)
Eurometal
Eurometaux
EuropaBio - European Association for Bioindustries
European Accounting Association
European Aeronautic Defence and Space Company N.V.
European Aerosol Association
European Aggregates Association
European Agricultural Machinery (CEMA)
European Aluminium Association (AISBL)
European Apparel and Textile Coniferation EURATEX
European Association for Bioindustries
European Association of Automotive Suppliers (CLEPA)
European Association of Chemical Distributors
European Association of Cooperative Banks (EACB)
European Association of Dairy Trade (Euromilk)
European Association of Fashion retailers
European Association of Internet Services Providers (ISPA)
European Association of Metals (Eurometaux)
European Association of Mining Industries (Euromines)
European Association of Mutual Guarantee Societies
European Association of Sugar Traders (ASSUC)
European Association of the Machine Tool Industries;
European Automobile Manufacturers’ Association
European Aviation Clusters Partnership
European Banking Federation (EBF)
European Biodiesel Board
European Bioplastics E.V.
European Branded Clothing Alliance
European Brands Association
European Broadcasting Union - Union Européenne de Radio-Télévision AISBL
European Broadcasting Union (EBU)
European Builders Confederation
European Business Aviation Association (EBAA)
European Business Services Round Table
European Cement Association (CEMBUREAU)
European Centre for International Political Economy
European Centre for International Political Economy
European Ceramic Industry Association (Cerame – Unie)
European Chemical Industry Council (CEFIC)
European Cocoa Association
European Committee for Electrotechnical Standardization
European Committee of Domestic Equipment Manufacturers (CECED)
European Committee of Environmental Technology Suppliers Association
European Competitive Telecommunications Association
European Concrete Paving Association
European Confederation of Iron and Steel Industries
European Confederation of Junior Enterprises
European Confederation of Medical Devices Associations (EUCOMED)
European Confederation of Woodworking Industries (CEI-Bois)
European Construction Industry Federation
European Consumer Organisation (BEUC)
European Coordination Committee of the Radiological, Electromedical and Healthcare IT Industry (COCIR)
European Coordination of Independent Producers (CEPI)
European Council for Automotive R&D (EUCAR)
European Council for Motor Trades and Repairs (CECRA)
European Crop Protection Association
European Cultural and Creative Industries Alliance (ECCIA)
European Dairy Association aisbl
European Diagnostic Manufacturers Association (EDMA)
European Diisocyanate and Polyol Producers Association
European Disposables & Nonwovens Association (EDANA)
European DIY Retail Association
European Economic and Social Committee (EESC)
European Economic and Social Committee (EESC)
European Electronic Component Manufacturers Association
European Engineering Industries Association (EUnited)
European Environmental Bureau (EEB)
European Expanded Clay Association (EXCA)
European Express Association
European Family Businesses
European Federation for Construction Chemicals
European Federation for Cosmetic Ingredients
European Federation of Biotechnology Section of Applied Biocatalysis
European Federation of Building and Woodworkers
European Federation of Cleaning Industries
European Federation of Engineering Consultancy Associations
European Federation of Foundation Contractors
European Federation of Geologists (EFG)
European Federation of National Associations of Water and Waste Water Services
European Federation of Pharmaceutical Industries and Associations (EFPIA)
European Federation of Public Service Unions (EPSU)
European Federation of the Footwear industry
European Federation of National Engineering Associations
European Federation of woodworking industries
European Franchise Federation
European Furniture Industries Confederation
European Generic Medicines Association (EGA)
European Health Industry Business Communications Council (EHIBCC)
European Industrial Gases Association
European Industrial Minerals Association
European & International Federation of Natural Stone Industries (EUROROC)
European Lime Association (EULA)
European Man-made Fibres Association (CIRFS)
European Medical Device Technology (EMDT)
European Medical Technology Industry Associations (MedTech Europe)
European Newspaper Publishers’ Association (ENPA)
European Organisation for Security
European Organisation of Tomato Industries (OEIT)
European Panel Federation
European Patent Office
European Petroleum Industry
European Photonics Industry Consortium (EPIC)
European Plaster and Plasterboard Manufacturers Association (EUROGYPSUM)
European Policy Centre
European Power Tool Association
European Producers Union of Renewable Ethanol
European Property Federation
European Public and Real Estate Association (EPRA)
European Regions Airline Association (ERA)
European Retail Round Table
European Road Safety Federation (ERF)
European Robotics Association (EUnited Robotics)
European Round Table of Industrialists
European Satellite Operator’s Association
European Savings Banks Group (ESBG)
European Services Forum
European Services Strategy Unit
European Shippers’ Council
European Small Business Alliance
European Strategic Partnerships Observatory
European Steel Association (EUROFER)
European Steel Technology Platform (ESTEP)
European Steel Tube Association (ESTA)
European Sugar Refineries Association
European Technology Platform on Sustainable Mineral Resources (ETP SMR)
European Telecommunications Network Operators' Association (ETNO)
European Telecommunications Standards Institute (ETSI)
European Textile Collectivities Association
European Trade Union Committee for Education
European Travel Agents’ and Tour Operators’ Associations
European Travel Commission
European Tyre & Rubber Manufacturers' Association (ETRMA)
European Union of Wholesale with Eggs, Egg Products, Poultry and Game
European Whey Products Association
Eurospace - Trade association of the European space industry
Family Business Network International
Fédération des Experts Comptables Européens (FEE)
Fédération Française du Bâtiment
Fédération Internationale de l'Automobile (FIA)
Fédération Internationale du Recyclage
Federation of European Rice Millers
Federation of the European Sporting Goods Industry
Female Europeans of Medium and Small Enterprises (FEM)
Ferring Pharmaceuticals
Fertilizers Europe
Finpro of Finland
FoodDrinkEurope
FoodServiceEurope
Ford of Europe
Foreign Economic Relations Board of Turkey (DEIK)
Foreign Trade Association
Forest-based Sector Technology Platform (FTP)
Foundation for International Development/Relief (FIDR)
Fraunhofer-Gesellschaft (FhG)
French Federation of Public Works
Freshfel Europe - the forum for the European fresh fruits and vegetables chain
Friedrich-Ebert-Stiftung
Friends of Europe
Friends of the Earth Europe
FTI Consulting
FuelsEurope
Galderma
Gelatine Manufacturers of Europe (GME)
Geologikon Kai Metalleftikon Erevnon (IGME)
German Association of Consulting Engineers
German Confederation of Skilled Crafts and Small Businesses
German Federation of Liberal Professions (BFB)
German Institute of Public Auditors
German Marshall Fund of the United States
German Trade Union Confederation (DGB)
Germany Trade & Invest
Glass Alliance Europe
GlaxoSmithKline
Global Business and Management Consulting
Global Environmental Forum
Global Industrial and Social Progress Research Institute (GISPRI)
Global Village
Green Earth Center
Grindex
Health Action International (Europe)
Health First Europe
Heineken Kirin
Humane Society International/Europe
IBM Europe
ICMP
IFPI Representing recording industry worldwide
IMA Europe - Industrial Minerals Association
Independent Retail Europe
Industrial Ethanol Association
IndustriAll European Trade Union
Industrial Minerals Association (IMA-Europe)
ING Group/ING Mutual Funds Management
INSTITOUTO
Institute of Chartered Accountants of England and Wales
Insurance Europe
Insurers of Europe (CEA)
Intelligent Transport Systems - Europe (ERTICO)
International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk
International Confederation of European Beet Growers
International Confederation of Inspection and Certification Organizations
International Federation of Reproduction Rights
International Land Coalition
International Society for Mangrove Ecosystems (ISME)
International Society of Transport Aircraft Trading
International Trade Union Confederation (ITUC)
International Trademark Association
Intuitive Surgical
Irish Farmers' Association
ISAGRO ITALIA SRL and Sumitomo Chemical Agro Europe S.A.S. 84. Alstom
Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA)
Italian Trade Promotion Agency
ITRB Group
Panasonic
Philip Morris International Inc.
Pictet Asset Management
Plastics Recyclers Europe
PricewaterhouseCoopers
Primary Food Processors
PROFEL - European Association of Fruit and Vegetable Processors
Prudential Plc.
Radiometer
Renault SA
Representing the European Petroleum Industry
Robeco Institutional Asset Management
Roche
Roche Diagnostics
Sanofi
SCR-Sibelco NV
SEB
Secretariat of Foreign Affairs
Secretariat of Economy
Secretariat of Communications and Transportation
Secretariat of Labour and Social Welfare
Secretariat of Social Development
Secretariat of the Environment and Natural Resources
Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food
Smith & Nephew Wound Management
SNCF
Société des auteurs et compositeurs dramatiques
Solton
Sony
spiritsEUROPE
Standard Chartered Bank
STARCH EUROPE
Swedish Enterprise
Swiss Re
Thales
The Confederation of National Associations of Tanners and Dressers of the European Community (COTANCE)
The European Rail Industry (UNIFE)
The European region of the International Co-operative Alliance;
The European Steel Association
The International Federation of Inspection Agencies
The Law Society of England and Wales
TheCityUK
ThomsonReuters
Trade Council of the Ministry of Foreign Affairs of Denmark
Trade Union Advisory Committee (of the OECD) (TUAC)
Trade Union Congress (of the UK) (TUC)
Transport and Environment (European Federation for Transport and Environment)
Turkish Confederation of Employer Associations (TISK)
Turkish Industry & Business Association (TÜSIAD)
UEAPME European Association of Craft, Small and Medium-Sized Enterprises
UK Trade and Investment (UKTI)
Unicore
UNICE - Union des Confédérations de l'Industrie et des Employeurs d'Europe
UNIFE
Union Européenne du Commerce du Bétail et des Métiers de la Viande
Unite the Union
European Economic and Social Committee (EESC)
Vaisala
Verband der Chemischen Industrie e.V.
Verband Deutscher Maschinen- und Anlagenbau e.V.
VHV-Insurances
VZBV: Federation of German Consumer Organisations - Verbraucherzentrale Bundesverband
Wirtschaftskammer Österreich
Wirtschaftskammer Österreich
World Spirits Alliance
WWF European Policy Programme (WWF EPO)
Yanmar Italy S.p.A.
YKK ITALIA S.P.A.
Zentralverband Elektrotechnik- und Elektronikindustrie e.V.

Mexico

A3 Mexico (Mexican automation industry trade association)
Agroindustrias Unidas de Mexico
AIL \ KWL Implementation Agency for Development
Alimentos COLPAC
AMEPA (Mexican Association of Pet Food Manufacturers
Arca Continental
Asociacion de industriales del Estado de Mexico (AIEM)
Asociacion de Industriales del Estado de Michoacan (AIEMAC)
Asociacion Mexicana de Alimentos de Soya (AMAS)
Asociacion Mexicana de Investigacion en Productos Naturales (AMIPRONAT)
Asociacion Mexicana de la Industria Automotriz (AMIA)
Asociacion Mexicana de Ventas Directas (AMVD)
Asociacion Nacional de Empresarios Independientes (ANEI)
Asociacion Nacional de Fabricantes de Bicicletas (ANAFABI)
Asociacion Nacional de Fabricantes de Chocolates, Dulces y Similares (ASCHOCO)
Asociacion Nacional de la Industria de Productos Naturales (ANIPRON)
Asociacion Nacional de Productores de Autobuses
Asociacion Nacional de Proveedores de la Industria del Calzado (ANPIC)
Autonomous Metropolitan University – Xochimilco Unit
AVS (Alianza pr una vida saludable)
Camara de Aceites y Proteinas de Occidente (CAPRO)
Camara de Comercio de la Ciudad de Mexico
Camara de la Industria Alimenticia de Jalisco (CIAJ)
Camara de la Industria de Curtiduria del Estado de Guanajuato (CICUR)
Camara de la Industria De Transformacion de Nuevo Leon (CAINTRA)
Camara de la Industria del Calzado del Estado de Guanajuato (CICEG)
Camara de la Industria del Calzado del Estado de Jalisco (CICEJ)
Camara Mexicana de la Industria de la Construccion (CMIC)
Camara Nacional de Industriales de la Leche (CANILEC)
Camara Nacional de Aerotransportes (CANAERO)
Camara Nacional de Empresas de Consultoria (CNEC)
Camara Nacional de la Industria Cerillera (CNICER)
Camara Nacional de la Industria de Aceites y Grasas Comestibles (CANIAG)
Camara Nacional de la Industria de Aceites, Grasas, Jabones y Detergentes (CANAJAD)
Camara Nacional de la Industria de Conservas Alimenticias (CANAINCA)
Camara Nacional de la Industria de Curtidurdua (CANALCUR)
Camara Nacional de la Industria de la Cerveza y de la Malta (CANICERM)
Camara Nacional de la Industria de Produccion de Masa y Tortilla
Camara Nacional de la Industria de Restaurantes y Alimentos Conditimentados (CANIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria de Transformacion (CANAIRAC)
Camara Nacional de la Industria Electronica de Telecomunicaciones y Tecnologias de la Informacion (CANEI)
Camara Nacional de la Industria Maderera (CNIM)
Camara Nacional de la Industria Molinera de Trigo (CANIIMOLT)
Camara Nacional de la Industria Panificadora y Similares de Mexico (CANAINPA)
Camara Nacional de la Industria Tequilera
Camara Nacional de las Industrias de la Celulosa y del Papel (NCICP)
Camara Nacional de las Industrias Pesquiera y Acuicola (CANAINTCAR)
Camara Nacional del Autotransporte de Carga (CANAACAR)
Camara Nacional del Cemento (CANACEM)
Camara Nacional del Maiz Industrializado
Camara Regional de la Industria Arenera del Distrito Federal y del Estado de Mexico (CAMARENA)
Camara Regional de la Industria de Curtiduria en Jalisco
Camara Regional de la Industria de Transformacion del Estado de Jalisco (CARENTRA)
Camara Regional de Productores de Tortillas de Los Estados de Tlaxcala, Veracruz, y Puebla (CARIT)
Camiones y Tractocamiones (ANPACT)
Center of Analysis and Research – FUNDAR A.C.
Center of Economic Studies of the Private Sector
Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT)
Confederacion de Trabajadores de Mexico (CTM)
Confederacion Regional Obrera Mexicana (CROM)
ConMexico
Consejo Mexicano de la Carne (COMECA)
Consejo Nacional de la Industria Maquiladora y Manufacturera de Exportacion (INDEX)
Consultant Expert in Gender UNAM
CRECEN Global
EQUIPO PUEBLO
Federacion de Sindicatos de Trabajadores al Servicio del Estado
FinTech Mexico
GAF Distribuciones Industriales SA D
Grupo Bimbo
Grupo Herdez
INCIDENCIA – Mexican Commission for the Defense and Promotion of Human Rights, A.C. (CMDPDH)
Industria Nacional de Autopartes (INA)
industrial de Oleaginosas SA de CV
Industrial de Alimentos, S.A.
Instant Foods
Inter-American Commission of Women (CIM)
International Studies Mexican Association
Kichink Services
La Constena
Mexican Association of Machinery Distributors (AMDM)
Mexican Business Coordination Council (CCE)
Mexican Center for Environmental Law, AC (CEMDA)
Mexican Chamber of Commerce, Services and Tourism (CANACO)
Mexican Council on Foreign Relations (COMEXI)
National Agricultural Council (CNA)
National Autonomous University of Mexico (UNAM) – International Relations Review
National Chamber of the Pharmaceutical Industry
Nutricion Montalvo
Nutricion Montalvo
Oficina de la OIT para Mexico y Cuba (ILO in Mexico)
Ragasa
Sabormex
Sindicato Nacional de Trabajadores del Seguro Social (SNTSS)
Sindicato Nacional de Trabajadores Mineros, Metalurgicos, Siderurgicos y Similares de la Republica Mexicana (SNTMSSRM)
Sukarne
The Hunger Project Mexico
Via Campesina
Vitanui
Annex 2: Overview of Pharmaceutical Sector

Overview

Mexico offers a large market for pharmaceuticals on account of the size of the population. The extent of coverage in the public sector, both through long-standing insurance programs for formal sector workers and, more recently, an initiative to extend health insurance to uncovered groups, makes the government, national and state-level, an important purchaser of drugs. And, with public insurance co-existing with private insurance, Mexico has a large and important retail pharmacy sector too.

The most important policy areas are Mexico’s approach toward pharmaceutical patents, the interaction between patent policies and health regulations, the role of competition authorities, and government purchasing practices.

Mexico has granted patents on pharmaceutical products since 1991 (process patents became available in 1987). This change was part of the global shift of the early 1990s, as countries adopted pharmaceutical patents, but in Mexico it happened earlier than in most other developing countries. Across the globe, the prime factor leading countries to allow pharmaceutical patenting was the World Trade Organization’s (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which required this of all WTO members. Mexico, however, made this change earlier as a condition for negotiating the North American Free Trade Agreement (NAFTA) with the USA and Canada. The chronology, in short, is as such: (1) Mexico introduced a new patent law in 1991; (2) NAFTA negotiations, including a chapter on intellectual property (including patents) began in 1991 and were completed in 1993, coming into effect in 1994, with IP provisions that went beyond that required by TRIPS; (3) Mexico revised the patent law to comply with NAFTA obligations; (4) Mexico negotiated a trade agreement with the European Union that came into effect in 2000, but this did not add substantively to the IP obligations under NAFTA.

Now, more than two decades later, the key issue is not whether Mexico allows pharmaceuticals to be patented, but how the country’s patent system functions. In contrast to many other developing countries, Mexico’s patent office (Instituto Mexicano de Propiedad Industrial, IMPI) processes applications quickly, meaning that the country does not have a large backlog of unexamined applications. Mexico also has a high grant rate: pharmaceutical patent applications that are granted by the European Patent Office or the United States Patent and Trademark Office are likely to be granted in Mexico too.

The key issue regards Mexico’s approach toward “secondary patents.” Drugs are typically protected by multiple patents, a “primary” patent on the base molecule, and “secondary” patents on alternative forms of the molecule (e.g. isomers, polymorphs), compositions and formulations (e.g. tablets, syrups) and uses. Because secondary patents are filed later, if granted they can extend periods of protection.

Mexico has had a permissive approach to secondary patents. Unlike many other developing countries it does not treat them differently or try to make them more difficult to obtain, and because of the country’s “linkage” system that was introduced in 2003 and which restricts the ability of health authorities to grant market authorization to generic drugs, secondary patents can have substantial blocking power in Mexico.

The “linkage” system has been the source of considerable controversy, and it may currently be revised. To understand the points of conflict it is important to understand how it works. Every six
months the patent office publishes, in a “supplementary gazette” a list of all pharmaceutical patents that are in force. The health regulatory agency cannot grant authorization to a generic drug any patent, including secondary patents, are listed in the supplementary gazette. The question in Mexico has, for years, been whether or not the supplementary gazette should include all patents (including secondary patents) or only patents on molecules (i.e. primary patents). Through litigation and court rulings the policy has been the former (all patents) but this is resisted by the health agency and many health professionals, and may be revised.

Another patent-related health regulatory issue regards “data exclusivity,” a period where health authorities are not allowed to use clinical trial and other data provided by originator drug firms in making assessments of following firms’ “generic” products. Mexico’s patent law does not require data exclusivity (nor do NAFTA nor the EU-Mercosur Agreement) but this has been introduced through the courts. This too is resisted by the health community and may be revised.

Mexico has strict requirements for market entry of non-originator drugs. As of 2010, all drugs need to demonstrate that they are “bioequivalent” to originator products. This requirement, announced as a reform of the General Health Law in 2003 and phased in subsequently, has contributed to a growing market in “generic” medicines. For biologic drugs, however, no such thing as “bioequivalence” exists, so rather than “generics” the term is “biosimilar” (in Mexico these are referred to as “biocomparable”). This is an emerging issue as biologic drugs are more recent so only now are patents expiring, and thus do questions of post-patent market entry become relevant. The regulations and practices for the approval of “biocomparable” drugs in Mexico is an important and currently unresolved topic.

Another issue regards the attention given to pharmaceuticals by competition and antitrust authorities. The price of drugs in Mexico is recognized as being high. Concerns have arisen that one reason for this is the absence of vibrant competition in many areas of the pharmaceutical market, even in drugs where patents (including secondary patents) have expired, and this is perhaps attributable to anticompetitive practices by pharmaceutical firms. To that end, efforts to bolster the capabilities (legally de jure and resource-wise de facto) to monitor and combat such practices are on-going.

As indicated, the public sector remains an important purchaser of drugs in Mexico, so government purchasing practices remain of paramount importance. All of these issues link to social and human rights due to potential price of drugs, effects on health sector, and implications for access to essential medicines.
Annex 3: Overview of Pharmaceutical Sector

Table 1. Tariff elimination schedule of the EU

<table>
<thead>
<tr>
<th>Category</th>
<th>Tariff elimination process</th>
<th>Tariff elimination deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Tariffs for products under category A were eliminated on the date of entry into force of the Decision No 2/2000.</td>
<td>2000</td>
</tr>
<tr>
<td>B</td>
<td>Customs duties for products under category B were eliminated in for equal stages: the first one taking place on the date of entry into force of the Decision No 2/2000, and the other three on 1 January of each successive year until 2003.</td>
<td>2003</td>
</tr>
</tbody>
</table>

Source: Decision N° 2/2000 of the EC-Mexico Joint Council

Table 2. Tariff elimination schedule for Mexico

<table>
<thead>
<tr>
<th>Category</th>
<th>Tariff elimination process</th>
<th>Tariff elimination deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Tariffs for products under category A were eliminated on the date of entry into force of the Decision No 2/2000.</td>
<td>2000</td>
</tr>
<tr>
<td>B</td>
<td>Tariffs for products under category B were eliminated in for equal stages: the first one taking place on the date of entry into force of the Decision No 2/2000, and the other three on 1 January of each successive year until 2003.</td>
<td>2003</td>
</tr>
<tr>
<td>B+</td>
<td>Customs duties for products under category B+ were eliminated in six stages (corresponding to every year between 2000 and 2005). Each one followed a distinctive liberalisation process based on product base rate.</td>
<td>2005</td>
</tr>
<tr>
<td>C</td>
<td>Customs duties for products under category B+ were eliminated in eight stages (corresponding to every year between 2000 and 2007). Each one followed a distinctive liberalisation process based on product base rate.</td>
<td>2007</td>
</tr>
</tbody>
</table>

Source: Decision N° 2/2000 of the EC-Mexico Joint Council
Table 3. Tariff elimination schedule for the Community

<table>
<thead>
<tr>
<th>Sector</th>
<th>Code (H2)</th>
<th>Category</th>
<th>Tariff elimination deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy commodities</td>
<td>27</td>
<td>A</td>
<td>2000</td>
</tr>
<tr>
<td>Metal products</td>
<td>72-83</td>
<td>Mostly A, some B</td>
<td>2000, 2003</td>
</tr>
<tr>
<td>Other machinery</td>
<td>84</td>
<td>Mostly A, some B</td>
<td>2000, 2003</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>85</td>
<td>Mostly A, some B</td>
<td>2000, 2003</td>
</tr>
</tbody>
</table>

Source: Decision N° 2/2000 of the EC-Mexico Joint Council (Annex 1)

Table 4. Tariff elimination schedule for Mexico

<table>
<thead>
<tr>
<th>Sector</th>
<th>Code (H2)</th>
<th>Category</th>
<th>Tariff elimination deadline</th>
</tr>
</thead>
</table>

Source: Decision N° 2/2000 of the EC-Mexico Joint Council (Annex 2)