Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico
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<tr>
<td>AVE</td>
<td>Ad Valorem Equivalents</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>BoP</td>
<td>Balance of Payments</td>
</tr>
<tr>
<td>CCT</td>
<td>Conditional Cash Transfers</td>
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<tr>
<td>CETA</td>
<td>EU-Canada Comprehensive and Economic Trade Agreement</td>
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<tr>
<td>CGE</td>
<td>Computable General Equilibrium</td>
</tr>
<tr>
<td>CH₄</td>
<td>Methane</td>
</tr>
<tr>
<td>CNDH</td>
<td>Comisión Nacional de Derechos Humanos (National Human Rights Commission)</td>
</tr>
<tr>
<td>COFEMER</td>
<td>Comisión Federal de Mejora Regulatoria</td>
</tr>
<tr>
<td>CO₂</td>
<td>Carbon Dioxide</td>
</tr>
<tr>
<td>CPTPP</td>
<td>Comprehensive and Progressive Agreement for Trans-Pacific Partnership</td>
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<tr>
<td>CSD</td>
<td>Civil Society Dialogue</td>
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<tr>
<td>DG</td>
<td>Directorate General</td>
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<tr>
<td>EAP</td>
<td>Economically Active Population</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EEN</td>
<td>Enterprise Europe Network</td>
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<tr>
<td>EPI</td>
<td>Environmental Performance Index</td>
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<tr>
<td>EPRS</td>
<td>European Parliamentary Research Service</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EV</td>
<td>Equivalent Variation</td>
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<tr>
<td>FV</td>
<td>GTAP for fruits and vegetables</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
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<tr>
<td>FTAAP</td>
<td>Free Trade Area of the Asia Pacific</td>
</tr>
<tr>
<td>GA</td>
<td>Global Agreement</td>
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<td>GATT</td>
<td>General Agreement on Trade and Tariffs</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GHG</td>
<td>Green House Gas</td>
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<tr>
<td>GIs</td>
<td>Geographic Indications</td>
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<tr>
<td>GPA</td>
<td>Government Procurement Agreement</td>
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<tr>
<td>GRO</td>
<td>GTAP for Coarse Grains</td>
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<tr>
<td>GSC</td>
<td>Global Supply Chain</td>
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<tr>
<td>GSP</td>
<td>Generalized System of Preferences</td>
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<tr>
<td>GTAP</td>
<td>Global Trade Analysis Project</td>
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<tr>
<td>IA</td>
<td>Impact Assessment</td>
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<tr>
<td>IACHR</td>
<td>Inter-American Court on Human Rights</td>
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<td>ICS</td>
<td>Investment Court System</td>
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<tr>
<td>IEA</td>
<td>International Energy Agency</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>INDC</td>
<td>Intended Nationally Determined Contributions</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<tr>
<td>IPRI</td>
<td>Intellectual Property Rights Index</td>
</tr>
<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<tr>
<td>LMDI</td>
<td>Log Mean Divisa Index</td>
</tr>
<tr>
<td>LSE</td>
<td>London School of Economics and Political Science</td>
</tr>
<tr>
<td>MEA</td>
<td>Multilateral Environmental Agreements</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MPI</td>
<td>Market Performance Indicators</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NTB</td>
<td>Non-Tariff Barriers</td>
</tr>
<tr>
<td>NTM</td>
<td>Non-Tariff Measures</td>
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</tbody>
</table>
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<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>OR</td>
<td>Outermost Regions</td>
</tr>
<tr>
<td>OSG</td>
<td>GTAP for Public Administration</td>
</tr>
<tr>
<td>RCA</td>
<td>Revealed Comparative Advantage</td>
</tr>
<tr>
<td>RoW</td>
<td>Rest of World</td>
</tr>
<tr>
<td>RoO</td>
<td>Rules of Origin</td>
</tr>
<tr>
<td>RTA</td>
<td>Regional Trade Agreements</td>
</tr>
<tr>
<td>SIA</td>
<td>Sustainability Impact Assessment</td>
</tr>
<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>
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<tr>
<td>TFA</td>
<td>Trader Facilitation Agreement</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>TSD</td>
<td>Trade and Sustainable Development</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>
</tr>
<tr>
<td>UN UPR</td>
<td>UN Universal Periodic Review</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USMCA</td>
<td>US-Mexico-Canada FTA</td>
</tr>
<tr>
<td>WIPPT</td>
<td>World Intellectual Property Organisation Copyright Treaty</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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EXECUTIVE SUMMARY

LSE Consulting, the consulting arm of the London School of Economics and Political Science (LSE), has carried out a Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part 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 in third countries (including developing countries) and Turkey, which is in a customs union with the EU. This study offers a description of the quantitative and qualitative results of the economic analysis, sectoral analyses, environmental, social, and human rights analyses. For each analytical component, the study links the undertaken qualitative analysis with the results of the 2015 CGE modelling.

Background

Mexico and EU trade relations have been framed by the GA. In 1997 Mexico was the first country in Latin America to sign an Economic Partnership, Political Coordination and Cooperation Agreement (Global Agreement, GA) with the EU. This Agreement came into force in 2000 and covers political dialogue, trade relations and cooperation. The Global Agreement’s trade provisions were later developed into a comprehensive Free Trade Agreement covering trade in goods and trade in services, which came into force in October 2000 and 2001, respectively. The GA covers trade in goods such as industrial products, government procurement, and competition and covers trade in services (such as maritime transport, financial services, etc.), investment, intellectual property, and dispute settlement.

The EU and Mexico launched the negotiations for the modernisation of the Global Agreement in May 2016 with the objective to update the old framework for trade and investment relations between the Parties. The modernisation of the GA would liberalise agricultural tariffs beyond the tariff lines covered in the existing GA, as well as remove non-tariff barriers (NTBs) and protect geographical indications (GIs). The modernisation would also result in ambitious provisions on areas such as intellectual property rights, technical regulations and sanitary and phytosanitary measures, SMEs, sustainable development and the fight against corruption in both trade and investment. In addition, the modernisation would include provisions for the protection of investments.

Economic Analysis

The economic impact analysis was conducted using a Computable General Equilibrium (CGE) model. CGE models help answer what-if questions by simulating economic effects such as changes in price, income and substitution effects in equilibrium on markets under different assumptions. Here, the economic outcomes of the "baseline" scenario – which assumes the equilibrium with no policy effects – are compared to the different scenarios where changes in trade policy are assumed to take place. The economic impact of the policy change is quantified as the difference between the baseline and the stylised liberalisation scenarios.

The results of the CGE model employed by the European Commission when conducting its impact assessment before the beginning of these negotiations suggest that in a long-term (2028) comparison of GDP under the Modernised GA and the original GA, both Mexico and the EU will benefit from the modernisation exercise. While the modernisation is strategically advantageous for both negotiating parties, Mexico gains are significant, whereas the benefits for the EU are comparatively smaller in terms of GDP yearly increases. Three scenarios were incorporated in the model to simulate the likely outcome of the negotiations: (1) a sectoral update (where only a few sectors are updated), (2) a comprehensive conservative modernisation scenario, and (3) a comprehensive ambitious modernisation scenario, which assumes the highest degree of liberalisation amongst all scenarios across all sectors. As regards the present SIA, only the latter two scenarios are relevant, as they reflect the reality of the modernisation exercise that includes substantial reductions in tariffs and non-tariff-measures. The sectoral update would entail an update only in a few areas, which does not correspond to the expected outcome of this negotiation.

According to the estimates obtained by the CGE simulation, total bilateral trade in goods and services between the EU and Mexico increases by 17.0% in the conservative scenario and by 75.1% in the ambitious scenario. For EU imports from Mexico, total trade over all sectors increases by 9.3% in the conservative scenario, and by 32.5% in the ambitious scenario.


Other estimated gains

These negotiations were supported by a number of policy changes in the areas of competition policies, regulations, subsidies, investment protection and government procurement, which the Mexican government has initiated aiming to increase competition, investment and productivity. By locking in these policy changes, and due to its impact on legal certainty, and investor trust respectively, the Modernised GA is likely to have positive consequences for investment. In addition, greater protection of IPRs in Mexico, for example, will increase the incentive of research- and knowledge-intensive EU companies to invest in Mexico, e.g. the chemicals, pharmaceutical, manufacturing and automobile industry.

Both the EU and Mexico have already implemented a comprehensive package of consumer protection laws, guaranteeing relatively high levels of product safety. The modernised agreement could further that objective, as confirmed by the respondents of the stakeholder consultations, particularly for manufacturing and services sectors, which generally see potential gains for consumers ranging from lower prices and wider choice to better information available to consumer across sub-sectors.

Impact on EU Outermost regions

As regards in particular the EU outermost regions (ORs), agricultural production in the ORs (sugar cane, rum, bananas, etc.) is in direct competition with the agricultural sector in Mexico (especially because they have comparable climates). Moreover, Mexican economic actors have a competitive advantage over European producers as they benefit from relatively low production costs and are not required to produce under the same high European environmental, social and phytosanitary standards as producers in the ORs (even though it should be noted that products imported into the EU from Mexico should conform to the EU's high product standards – including sanitary and phytosanitary requirements – regardless of the EU-Mexico Agreement). Recognizing the leading role of agriculture in the ORs’ economies and their geographic proximity with Mexico, the EU should take the ORs into account when negotiating the modernisation of the trade part of the GA with Mexico.

Nevertheless, third countries are almost unaffected by the Modernised GA, with only very little trade diversion seen in the CGE model.

Social Analysis

Amidst renewed debates on the economic costs and benefits of globalisation, the social impact of trade liberalisation has likewise been a central concern for national governments and their constituencies. Acknowledging EU citizens’ mixed views on trade integration, the Commission stresses the need to address inequalities through “a better distribution of the benefits of globalisation, coupled with effective social protection.” EU trade policy has become one of the pillars of the EU’s external actions to promote sustainable development, decent work, and core labour standards, whether unilaterally or at bilateral or multilateral levels. Combining economic analysis and policy research, the social analysis and the human rights sections of this report assess the prospects of the Modernised EU-Mexico GA to fulfil these objectives.

The social analysis builds upon the LSE team’s sectoral analysis as well as the results of the CGE modelling undertaken in the 2015 IA. Additional quantitative and qualitative tools are employed to assess the potential effects of a Modernised EU-Mexico GA in four realms: 1) employment and trade adjustment mechanisms; 2) wages and inequality; 3) informal employment and poverty; 4) democratic governance and corruption. The analysis of the anticipated effects of the Modernised EU-Mexico GA reveals the following findings:

(1) As for employment, the EU is expected to create about 21,000 unskilled labour jobs and 12,000 skilled-labour jobs in the ambitious scenario, with most employment gains concentrated in milk and dairy, petrochemicals and chemicals, food products, motor vehicles and construction. Meanwhile, we anticipate potential job losses in sectors like other electrical machines, other machinery, and other manufacturing. Mexico is expected to reap greater employment benefits, adding 75,000 unskilled jobs and 15,000 skilled jobs concentrated in sectors such as motor vehicle, other services, and to a lesser extent, agriculture, beverages, transport and almost all services. Potential losses are expected to be concentrated in dairy, chemicals, other machinery, energy, electrical machine and metals. In the conservative scenario, employment effects are predictably smaller and more balanced between the EU and Mexico. EU employment is expected to gain about 5,000 unskilled and 2,800 skilled jobs, nearly offset by job losses

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estimated at 3,900 and 2,200 respectively. Mexican employment is expected to gain 22,000 unskilled and 5000 skilled jobs but lose 21,000 and 5,000 respectively.

(2) With respect to wage, inequality and poverty: our analysis predicts that the Modernised GA will have limited effects on wages, and therefore, on inequality and poverty. The analysis shows that domestic reforms play a much more significant role in poverty and inequality reduction than trade. The extent to which trade liberalisation might produce winners and losers will depend on the implementation of social policies aimed at mitigating labour adjustment costs and addressing regional disparities. These include conditional cash transfer (CCT) policies, as well as targeted adjustment assistance programs that must reach out the most vulnerable segments of the population.

(3) The effects of trade liberalisation on Mexican informal employment are harder to predict given the mixed evidence: while labour adjustment costs might lead to an increase in informal employment in certain sectors, Mexican states in the north that are more open to trade and investment are likely to fare better than more isolated states in the south. Here again trends driven by domestic reforms, and more specifically, the current process of labour formalisation, are likely to prime over the more limited effects of trade liberalisation under a Modernised GA.

While domestic reforms continue to be instrumental for Mexico to reduce inequality and poverty, bilateral cooperation with the EU could also contribute, provided that the Trade and Sustainable Development (TSD) mechanisms are strengthened. This is particularly relevant to the implementation and enforcement of labour standards and the protection of human rights.

(4) As regards corruption, the report concludes that the language to be included in the Modernised GA will strengthen the legal framework in the Parties to combat corruption and money-laundering. It will also provide a forum for bilateral discussion and cooperation on anticorruption related issues, including a mechanism to solve disputes between the parties.

**Human Rights**

To understand the EU’s overall trade proposal, we examined the roadmap for the agreement and the EU textual proposals for the trade part of the modernisation of the EU-Mexico GA. On the human rights side, the report examines 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 Impacts in Impact Assessments in Trade-Related Policy Initiatives (2012).

It builds on the three-step process outlined in the Guidelines: screening, scoping, and a detailed assessment. The analysis is limited to to those human rights directly affected by a trade agreement: the rights of indigenous people, gender inequality, the rights of migrants and refugees, labour standards, freedom of expression and the right to privacy. In these areas, different aspects were assessed including human rights commitments, corresponding legislative frameworks and governance capacity.

A Modernised GA with Mexico is unlikely to have direct effects on the already high ability to protect, respect, and remedy human rights in the EU. This is different in Mexico, where despite passing several governance-oriented structural reforms in the last 10 years, both the Human Rights Council’s Universal Periodic Review and the Inter-American Commission on Human Rights (IACHR) have documented a wide range of human rights abuses. The results of the analysis led the team to conclude that the Modernised GA could have positive effects on the Mexican government’s willingness to respect specific human rights and citizens’ ability to demand their rights under domestic and international law; this holds in particular for women and labour rights as well as data protection. Nevertheless, the EU could help further with assistance for capacity building.

**Environmental Analysis**

The environmental analysis focuses on the following environmental topics: climate change (GHG emissions); air pollution; energy use; land use; resource use and efficiency; waste production; ecosystems and biodiversity; and trade in environmental goods and services. The analysis is divided into two parts. The first part provides a baseline of the different areas of analysis using relevant indicators and a background on the EU-Mexico environmental relationship. The second part consists of the analysis of the environmental impacts of a Modernised GA.

The analysis of the environmental impact of the modernisation of the GA indicates only limited concerns about the potential impact on GHG emissions since the Modernised GA is likely to favour a relocation
towards less energy and carbon intensive sectors. The expansion of international transport is expected to be small. There do not seem to be grounds for major concerns either regarding other GHG emissions, stemming mostly from agriculture, since according to the Impact Assessment (IA) conducted by the European Commission in 2015, most agricultural sectors are expected to experience a contraction in both Mexico and the EU. This also puts into perspective any concerns in terms of intensification of agriculture, deforestation, and the preservation of water resources and aquatic ecosystems. Yet, the observed increased use of pesticides in Mexican agriculture remains a cause for moderate concern. The expected small increase in land transport is likely to have limited effect on air pollution in Mexico also given the commitment to introduce higher emission standards for new heavy-duty vehicles, including trucks, equivalent to those applied in the EU. Finally, the Modernised GA may contribute to increased trade in environmental goods and services with beneficial effects for the environment. Because the EU and Mexico have so far specialised in the development of green technology in distinct pollution and climate change-related areas, it is hoped both Parties will benefit from increased access to each other’s market and technology.

**Sectoral Analysis**

The sectoral analysis assesses relevant sub-sectors under the agricultural, manufacturing, and service sectors of both economies, while focusing on impacts on consumers and SMEs. Accordingly, 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 increase their market access (e.g. regulatory differences, rules of origin (RoOs) or customs procedures). This has also significant impact on the participation of SMEs in bilateral and global value chains and e-commerce. EU SMEs exporters in manufacturing would primarily benefit from more transparent and more aligned customs procedures and lower customs clearance charges. The same is true for SMEs in logistics and courier services. Similarly, EU SMEs operating in manufacturing sectors would benefit from more transparent rules of origin. A publicly available registry of technical product regulations in force including relevant conformity assessment procedures would also be beneficial to SMEs, particularly smaller SMEs with limited and less-specialised administrative capacities. The modernisation of the EU-Mexico GA would primarily increase the comparative advantage of EU SMEs operating in sectors that already show high export-intensity levels, i.e. SMEs operating in manufacturing and business services sectors. The elimination of NTBs and barriers to investment would positively contribute to SMEs’ value-added and jobs created by SMEs in the EU.

The selection of sectors for a closer analysis is based on three criteria: the expected trade/economic impact, the effects on the EU’s “outermost regions” (OR) and vulnerable populations, and an assessment of sectors proposed in the existing impact assessment. We thus assess the following sectors: in agriculture — fruits and vegetables, other meats, other beverages, honey; in manufacturing — energy commodities, chemicals, machinery, motor vehicles, metal parts; in services — business services, financial services.

**1 Agriculture**

The assessment provides an overview of trade in agricultural products between the EU and Mexico including an evaluation of possible social, environmental, and human rights issues in the agricultural sector. The analysis also includes an assessment of the implications of identified barriers with the aim of providing solutions and recommendations.

The modernised agreement may imply an overall reduction of the costs of production and trade in agricultural products for all EU exporters. It is likely that this will particularly benefit SMEs: whilst large exporters may find it costly, but possible to meet existing NTBs, for SMEs these often represent very high if not prohibitive barriers. The reduction of these barriers will enable SMEs to start exporting to Mexico. Similarly, the modernisation of the GA may also reinforce the competitive position of certain products protected by GIs and denomination of origin. EU exporters of dairy products, wine, and spirits struggle to differentiate their products on the Mexican market as they find local or third-market products using identical GIs.

With respect to the agricultural sector the agreement is not expected to have significant environmental impacts. The effects on consumers are expected to be minimal as a result of a low share of agricultural trade with Mexico and the small share that food represents in their total consumption.

**2 Manufacturing Sector**

The discussion on key challenges for the manufacturing sector touches on cross-sectional topics such as the regulatory framework, rule of law, and environmental impacts that apply to the many subsectors within manufacturing. Meanwhile, the untapped opportunities section emphasizes motor vehicles, the subsector
for which the greatest impact is expected, and for which there is most information available relative to other subsectors (energy commodities, chemicals, machinery, and metal parts).

Specifically, our analysis indicates that the modernisation of the GA should center on two strategic areas: reduction of NTBs and protection of intellectual property rights. Based on the challenges posed by NTBs, the GA modernisation should focus on fostering regulatory coherence between the EU and Mexico, improving domestic efforts to institute efficient, transparent, and inclusive regulatory measures. By improving the regulatory environment and granting governments and investors increased legal certainty, the Modernised GA will facilitate bilateral trade and investment, in particular by enhancing the implementation of IPRs in Mexico, but also establishing the necessary mechanisms for the country to comply with its IPR commitments as per international agreements.

(3) Trade in Services

Both the EU and Mexico have seen rising exports and imports of bilateral business services since 2010, and the EU shows a significant surplus in EU-Mexico business services trade. Business services often play an enabling and facilitating role for economic activity and trade. Like other services sectors such as financial services, business services provide direct inputs that are crucial for manufacturing when it comes to productivity growth and competitiveness in exporting manufactured commodities.

The liberalisation of business and professional services in the Modernised GA would present spill-over effects, benefitting corporations in a wider range of industries beyond those of the service sector. Overall, EU and Mexican SMEs, which often lack in-house services, would also benefit from a greater variety of available business services. In addition, it should be noted that many EU SMEs are strong exporters in transportation and storage services, wholesale and retail trade, as well as professional and scientific services. These EU businesses are most likely to benefit from greater trade and investment opportunities if sufficient liberalisation commitments are made for business and professional services under a modernised trade part.

Consultation Process

The objectives of the stakeholder consultation as defined by the European Commission are three-fold: 1) engaging all interested parties; 2) contributing to the transparency of the SIA analysis; and 3) helping to identify key issues in trade negotiations. Accordingly, our team has developed a dedicated website, and manages social media channels. In addition, a 12 week online public consultation requesting stakeholder feedback through tailored questionnaires took place from April 2018 to July 2018.

Beyond online channels of communication, the team has additionally hosted numerous in person events to collect stakeholder inputs from both the EU as well as Mexico. Four stakeholder roundtables discussing possible impacts to the manufacturing sector, agricultural sector, service sector, and sustainability issues were organized in November 2017 where results have been taken into consideration throughout the study’s analyses. A full day consultation was likewise organised in Mexico City in February 2018 to channel concerns of stakeholders in Mexico to guide our assessment as well as to inform the negotiating parties. Finally, two Civil Society Dialogues have taken place in partnership with the Directorate General for Trade of the European Commission in Brussels. These meetings are organised with the aim of requesting comments from stakeholders on the team’s draft reports to ensure their voices are taken into consideration in the SIA’s analysis.
1. INTRODUCTION

LSE Consulting, 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 modernisation of the trade part of the Global Agreement (GA) between the European Union (EU) and Mexico.

1.1. BACKGROUND

1.1.1. The “Agreement in Principle” and Negotiation Rounds on the Modernisation of the GA

In 2017, the EU represented Mexico’s second largest market for international trade after the United States. The Mexico and EU trade relations have been framed by the GA, which entered into force in 2000. 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 competition and covers trade in services such as maritime transport, financial services, investment, intellectual property, and dispute settlement. The European Commission and Mexico launched negotiations for the modernisation of the GA in May 2016.

The GA already included World Trade Organization (WTO) plus provisions for Technical Barriers to Trade (TBT) including provisions on regulatory cooperation as well as provisions establishing cooperation to achieve mutual recognition. The modernisation of the GA aims to address agricultural tariffs beyond the 62% covered in the existing GA, as well as non-tariff barriers and geographical indications (GIs). Thus the aim of the modernisation is to bring the EU-Mexico trade part in line with more recent free trade agreements (FTAs); in particular with regards to non-tariff barriers, intellectual property rights including geographical indications, and sustainable development.

After two years of negotiations, the EU and Mexico reached an “agreement in principle” on the 21st of April 2018 and the texts have been published. The Modernised GA will result in the eventual removal of 99% of tariffs. While sensitive agricultural sectors (sugar, dairy and meat) will not be fully liberalised, the modernisation will liberalise more than 85% of tariff lines in the area of agricultural goods. Regarding Geographical Indications (GIs), the updated agreement will protect an additional 340 European GIs in Mexico on top of spirit GIs protected in the Spirits Agreement between the EU and Mexico (1997), which is incorporated in this Agreement. The Modernised GA includes chapters on rules of origin, customs and trade facilitation, trade remedies, technical barriers to trade, and sanitary and phytosanitary measures. Both parties’ right to regulate will be protected by the agreement, which also includes the EU’s state of the art investment protection provisions, and the EU’s new Investment Court System (ICS).

Regarding public procurement procedures, Mexico has committed to offer EU bidders access to state procurement before the signature of the Modernised GA. Among other chapters, the Modernised GA includes chapters on sustainable development (TSD), transparency, small- and medium-sized enterprises, and provisions regarding cooperation on animal welfare, and antimicrobial resistance. The agreement also includes provisions on the fight against corruption in the field of trade and investment.

Throughout the negotiations, DG Trade of the European Commission put forward 35 negotiating text proposals. The toughest areas to reach an agreement in principle regarded agricultural market access, rules of origin, and GIs. Civil society expressed concerns on the inclusion of the ICS, and on the prioritisation of EU commerce over social and environmental issues in Mexico. Moreover, some civil society members were concerned that negotiations had been conducted, in their view, with insufficient transparency and were concerned that the agreement in principle may not include human rights conditionality. However, this conditionality does exist in the Modernised GA, it is included in the horizontal part of the agreement and it applies to the whole Agreement. Finally, the lack of provisions on gender issues has also been highlighted.

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2 DG Trade Statistics EU-Mexico.
3 L 276/45; OJEC 2000
5 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.
7 This theme was a common concern among stakeholders
as an area of concern amongst civil society, yet there are provisions on gender issues in the political and cooperation part of the Agreement.

### 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).

Not least due to the GA, Mexico has diversified its exports significantly. Mexico’s acceptance 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 increase transparency, and anti-corruption mechanisms.

As the real and perceived protectionist sentiment from the U.S. increases, 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. This will reduce its current dependence on the U.S., and allow it to capitalize on the benefits of its 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 are dependent on a series of factors. First, Mexico will strive to find a way to subsume its differences with the U.S. administration’s protectionist agenda and modernize NAFTA to produce a result that proves beneficial across the board. The US 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.

As for the Asia-Pacific region, Mexico is exploring economic integration with the Asia-Pacific region more broadly, through the ratification of the CPTPP. Although smaller in scope with the absence of the United States, the 11 remaining members of the TPP (renamed CPTPP) signed the final deal in March 2018 and hope to enter into force by 2019.

### 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 (IA) completed by the Commission. The SIA has been conducted over the course of the negotiations and complements the analysis by engaging with multiple stakeholders in the EU and Mexico, both to raise awareness of the modernisation 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 also takes into account negotiations being conducted in parallel by either the EU or Mexico. This fully reflects the overall aim of the modernisation of the trade part of the GA, 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.

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8 These include: Chile, EFTA, Uruguay, Japan, Colombia, Israel, Peru, Central America, Panama, Pacific Alliance Trade Protocol, and framework agreement with Mercosur countries.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Figure 1: SIA Principles

2. METHODOLOGY AND TOOLS

2.1. List of Tasks

This section of the final report provides an overview of the methodology adopted for the work presented in this report. An overview of analytical methods to address the tasks is with a list of preliminary indicators provided in Table 1.

Table 1: Research Tasks

<table>
<thead>
<tr>
<th>Task</th>
<th>Phase</th>
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<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>
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  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). |

  1.2. Social analysis: direct and indirect social impacts and impacts on social policies, including education and public health; |

  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; |

  1.4. Environmental analysis: direct and indirect impact on the environment; energy-intensive and primary energy producing sectors; sustainable production and consumption. |

  Proposed sector selection in the inception report; initial analysis in interim report; final analysis in this final report |

<table>
<thead>
<tr>
<th>2. Detailed analysis of specific sectors</th>
<th>Inception and interim phase</th>
</tr>
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<tbody>
<tr>
<td>2.1. Industrial / Manufacturing sector</td>
<td>Proposed sector selection in the inception report; initial analysis in interim report; final analysis in this final report</td>
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<tr>
<td>2.2. Agricultural products</td>
<td>Final phase</td>
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<tr>
<td>2.3. Financial / Business services</td>
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<tr>
<th>3. Consultation process</th>
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</table>

| 4. Recommendations to maximize the expected benefits of the modernisation and prevent/minimise potential negative impacts | Final phase                 |

2.2 List of Indicators

Table 2 provides an overview of the sustainability impact assessment indicators utilised in 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.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

**Table 2: Selected Indicators**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Themes</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>Economic / sectoral analysis</td>
<td>Economic performance</td>
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<tr>
<td></td>
<td>Trade / trade competitiveness</td>
<td>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 safety and protection issues. Welfare results from the existing IA CGE modelling will likewise be used as an indicator</td>
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<tr>
<td></td>
<td>Income</td>
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<td>Market attractiveness</td>
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<td>Macro-economy</td>
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<td>Labour market</td>
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<td></td>
<td>Functioning of markets for businesses</td>
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<td></td>
<td>Consumer welfare and detriment</td>
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<td></td>
<td>Rest of World (RoW)</td>
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<td></td>
<td>SMEs</td>
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<tr>
<td>Social analysis</td>
<td>Decent work (full and productive employment, rights at work, social protection and social dialogue)</td>
<td>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</td>
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<td>Education</td>
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<td>Health/public health</td>
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<td></td>
<td>Equality (e.g. gender equality, discrimination, people with disabilities, consumer protection)</td>
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<td></td>
<td>Security</td>
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<td></td>
<td>Population</td>
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</table>
**Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico**

<table>
<thead>
<tr>
<th>Human rights analysis</th>
<th>Adequate standard of living</th>
<th>Human rights compliance record; stakeholder consultation processes in place; inclusion of human rights’ clauses in trade agreements; transparency</th>
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<tr>
<td></td>
<td>Property</td>
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<td>Fair trial</td>
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<td>Freedom of expression and opinion</td>
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<td>Privacy</td>
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<td></td>
<td>Cultural life</td>
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<td>Indigenous peoples</td>
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<td>Right to water</td>
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<td></td>
<td>Right to highest attainable standard of physical and mental health</td>
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<tr>
<th>Environment analysis</th>
<th>Air and climate</th>
<th>Energy intensity by sector; resource use and efficiency; CO₂ emissions; land use intensity; greenhouse gas (GHG) emissions (CH₄ and N₂O); 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 (MEA)</th>
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<td></td>
<td>Biodiversity</td>
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<td>Land use</td>
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<td></td>
<td>Energy, resource efficiency</td>
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<td></td>
<td>Environmental quality</td>
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<td></td>
<td>Regulatory environment</td>
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<td></td>
<td>Water, oceans, seas and coast</td>
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<td></td>
<td>Waste</td>
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<td></td>
<td>Transport</td>
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<td></td>
<td>Chemicals</td>
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3. **ECONOMIC ANALYSIS**

In this section, we present and discuss the economic effects of an updated trade part of the EU-Mexico GA. This chapter is based on the quantitative analysis previously performed in the Impact Assessment report by the European Commission in seeking authorisation to open the negotiations in 2015.

3.1. **METHODOLOGY**

3.1.2. The Model and the Set-up of the Experiments

The economic impact analysis was conducted using a Computable General Equilibrium (CGE) model. CGE models help answer what-if questions by simulating economic effects such as changes in price, income and substitution effects in equilibrium on markets under different assumptions. Here, the economic outcomes of the "baseline" scenario – in which no policy effects are assumed – are compared to the different scenarios where changes in trade policy are assumed to take place. The baseline for the model is the equilibrium without the policy change, and the 'scenario' is the equilibrium with the policy change. The economic impact of the policy change is quantified as the difference between the baseline and the stylized liberalisation scenarios.  

3.1.3. The Literature

The Commission’s employment of a CGE analysis is in line with the rich literature on potential effects of planned and realized FTAs. Depending on the nature of the research question, different scientific methodologies are 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 liberalisation 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 NAFTA and its effects on 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.

3.1.4. 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 to date. A common strategy to deal with this challenge has been to employ a gravity model that accounts for physical, economic and other kinds of distance between countries, to estimate trade costs in an ad valorem tariff equivalent (AVE) form.

More recent literature suggests 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.

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9 Further details on the modelling set up can be found in the 2015 report. The economic analysis, which was carried out in the previous Impact Assessment (IA, European Commission, 2015), was set in a medium- to long-term setting, thereby allowing time for adjustment to the agreement. Hence the effects are estimated for the year 2028.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

- 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, and complemented with qualitative descriptions.

### 3.1.5. EU-Mexico Trade Relations

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 original GA has not benefitted Mexico as it should have, referring to the 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.10

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 GA 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 issues, human rights and environmental concerns. 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 identify the economic developments resulting from 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 the case of 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.12

**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 the impact of the modernisation of the GA for Mexico as compared to NAFTA more than 20 years ago and the US-Mexico-Canada FTA today. We concentrate on ex-post studies.

The overall impression is that Mexico benefitted 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. While it is concluded that Mexico’s membership in NAFTA has been instrumental for total factor productivity, results for growth and job creation have been modest (Zepeda, Wise and Gallagher 2009; Toreel, Westermann and Martinez 2004).

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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.
One of the first quantitative studies (Krueger, 1999) employed a gravity model to examine trade creation and trade diversion under NAFTA for the years 1989, 1991, 1993, 1995, and 1997. The model showed that over these years there seem to be moderate trade creating and diverting effects, but that other factors explain Mexican trade better. The author argues correctly that in 1997, liberalisation was not completed and, therefore, the results have to be interpreted cautiously. Nevertheless, given that the Modernised GA would also need time to reduce trade barriers further, the results can help understand the general thrust of FTAs Mexico concludes.

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 is considering increasing trade relations with more partners than only the EU; the country is also actively pursuing strategies to integrate itself more deeply in 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. CPTPP). Currently, there are several large-scale projects and a number of comprehensive studies looking into the impact of the liberalisation under the TPP/CPTPP.

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+-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 liberalisation through tariff elimination,
- Scenario II: (I) + trade facilitation,
- Scenario III: (II) + liberalisation 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/CPTPP, which is envisaged to be more comprehensive. Nevertheless, since the results of the APEC-study 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 liberalisation in the Asia-Pacific region.

The Peterson Institute for International Economics Series on the TPP explores several trade policy measures (tariff liberalisation, 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 liberalisation 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 where Mexico could gain 7.3% of GDP. The estimates assume that 50% of TPP liberalisation is non-preferential, compared to the 20% in Cheong and Tongzon (2013). The percentage of non-preferential

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liberalisation 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. 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 US.

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.

3.1.6. Modelling of the Modernised GA Trade Part Scenarios

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 of the EU-Mexico Global Agreement conducted in 2015. The study provides 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, 2015b), 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) have also been used in this study.

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 2015 impact assessment report (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).

14See Petri and Plummer (2016, p. 7) for a discussion of the effects.
To measure the effects of trade liberalisation, 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 (2015d) 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 (1969) 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 in a long-term (2028) comparison of GDP under the Modernised GA and the original GA, both Mexico and the EU benefit from the modernisation. While the modernisation is strategically advantageous for both negotiating parties, Mexico gains significantly, whereas EU benefits are comparatively smaller. The scenarios that were incorporated in the model were set up to simulate the likely outcome of the negotiations and are described below:

1. **Sectoral Update Scenario** entails reviewing the existing GA on the basis of the review clauses foreseen in Decisions 2/2000 and 2/2001 of the EU-Mexico Joint Council for further liberalisation in agriculture, services and investment.

2. **Comprehensive conservative modernisation scenario** implies the negotiation of a broad range of issues that both sides set out in the Joint Vision Report, including market access in agriculture, trade in services, investment, TBT, SPS measures, IPR, public procurement, trade facilitation, competition, trade, and sustainable development.

3. **Comprehensive ambitious modernisation scenario** is more ambitious with regards to the extent to which NTBs in manufacturing and services are expected to be lowered as a result of the Modernised GA.

The most realistic scenarios are the comprehensive conservative or ambitious modernisation scenarios. These scenarios assume substantial reductions in tariffs and non-tariff-measures. Within each of the scenarios, three different sets of tariff barriers reductions are introduced for the broader sectors of agriculture, manufactured goods and services. These are the scenarios that constitute the baseline of the present SIA.

### 3.2. BASELINE

#### 3.2.1. Comprehensive Modernisation Scenarios

Incorporating the underlying reasoning behind the theoretical set up of the liberalisation scenarios into the CGE model implies starting from the current levels of barriers to trade and making assumptions about the outcome of the negotiations, which are then fed into the model as new parameters for trade.

The chosen scenarios that were used are based on the outcome of newly negotiated DCFTAs. With regards to agriculture, the IA (2015) states that liberalisation scenarios have been based on what has been achieved in terms of liberalisation of agricultural subsectors by recent comparable FTAs. These have been incorporated in the model as tariff rate quota (TRQ) adjustments for some sectors, and full liberalisation for others.

#### 3.2.1.1. Non-Tariff Measures

Based on the liberalisation resulting from the original agreement which currently is in place, bilateral tariffs on manufactured goods have already been removed. This means that any economic gains from the modernisation of the bilateral EU-Mexico trade agreement will stem from the liberalisation in the agricultural sector, and the reduction of Non-Tariff Measures (NTMs). NTMs and regulatory divergence are complex issues to deal with analytically. The term NTMs includes numerous policies applying to trade. While some
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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). These measures often serve a legitimate purpose, since they are put in place for valid concerns, e.g. food safety and environmental protection. NTMs could have important restrictive and distortionary effects on international trade.\(^{16}\)

### 3.2.1.2. NTMs in Manufactured Goods

As opposed to tariffs, there is no ready-made measure of NTMs available. The process used in the IA (2015) to infer current levels of NTMs in manufactured goods 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 Ad Valorem Equivalent (AVE) quantifications exercise is to assess the size of trade-hindering NTMs in place in a way that is comparable to tariffs. These estimates, together with those assumed (also quantified by econometric analysis) with regards to the outcomes of the respective modernisations scenarios are presented in Table 3 below.

#### Table 3: Estimated AVEs of NTMs, Manufactured Goods

<table>
<thead>
<tr>
<th>Type of Goods</th>
<th>Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Baseline</td>
</tr>
<tr>
<td>EU28</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>0</td>
</tr>
<tr>
<td>Other primary, non-ag</td>
<td>91.9</td>
</tr>
<tr>
<td>Textiles</td>
<td>49</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>108.8</td>
</tr>
<tr>
<td>Leather products</td>
<td>17.2</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>31.8</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>30.9</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>29.3</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>67.1</td>
</tr>
<tr>
<td>Other machinery</td>
<td>6.5</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>58.1</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td>28.8</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>13.3</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>100.3</td>
</tr>
<tr>
<td>Other primary, non-ag</td>
<td>28.4</td>
</tr>
<tr>
<td>Textiles</td>
<td>64.2</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>236.3</td>
</tr>
<tr>
<td>Leather products</td>
<td>67.1</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>64.6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>72</td>
</tr>
</tbody>
</table>

---

\(^{16}\) Examples of actionable NTMs that were voiced in the Economic/Sectoral survey, conducted within the frame of this report, include an update of the current Rules of Origin, RoO and the removal of Mexican requirement of radiological certificate for dairy products from certain EU member states (which was put in place in the wake of the 1986 Chernobyl disaster).
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<table>
<thead>
<tr>
<th>Manufacturing Sector</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical machinery</td>
<td>24.7</td>
<td>23.1</td>
<td>19.8</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>55.1</td>
<td>48.2</td>
<td>33</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>60.8</td>
<td>56.8</td>
<td>36.5</td>
</tr>
<tr>
<td>Other machinery</td>
<td>19.5</td>
<td>17.1</td>
<td>11.7</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>55.2</td>
<td>49</td>
<td>36.2</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td>45.8</td>
<td>40.1</td>
<td>27.5</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>8.4</td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: European Commission, 2015. As can be seen from the table above, the estimated baseline levels of NTMs for manufactured goods are high, much higher than usual MFN tariff rates, for example.

In the EU, the estimated unweighted baseline average of NTMs is 38%, with highest levels reported for wearing apparel and other primary goods, where both are estimated at around 100%. In estimating the outcome of the liberalisation of trade in the ambitious scenario, the expected impact on NTBs is significant, lowering the unweighted average from the baseline level of 38 to 28 per cent (35% in the conservative scenario). This ten-percentage point lessening of current NTMs corresponds to an unweighted average removal of 28% (8%) of European NTMs. The estimated lowering of NTMs, which are heterogeneous across sectors, spans from a removal of 16% (5% in the conservative setting) of NTMs for electrical machinery to 42% (14% in the conservative setting) for motor vehicles.

In Mexico, the estimated baseline levels are even higher. Here, the unweighted average of baseline NTMs are estimated at 65%, with the highest levels in wearing apparel (240%) and energy (100%), followed by levels of NTMs in leather products, textiles and petro chemicals, where ad valorem equivalents are estimated to being the mid-60s. On the Mexican side, the agreement is also expected to have a bigger effect in tackling NTMs. This implies that in the ambitious scenario, NTBs are, on average, estimated to decrease by 37%. The most notable decrease is expected to take place in petrochemicals (64%) while the least in electrical machinery (20%).

3.2.1.3. NTMs in Services

For Services, the current/baseline levels of NTBs in the IA (2015) were taken from the World Bank Database and summarized in the first column of Table 4 below.

**Table 4: Estimated AVEs of NTBs, Services (in %)**

<table>
<thead>
<tr>
<th>Service</th>
<th>Baseline</th>
<th>Conservative (3% decrease)</th>
<th>Ambitious (combination of 3% and 10% decrease for a few selected sectors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU28</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>10.3</td>
<td>10.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Gas manufacture, distribution</td>
<td>10.3</td>
<td>10.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Water</td>
<td>10.3</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Water transport</td>
<td>1.7</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Air transport</td>
<td>25.0</td>
<td>24.2</td>
<td>24.2</td>
</tr>
<tr>
<td>Land, other transport</td>
<td>12.6</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>Finance</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Insurance</td>
<td>6.6</td>
<td>6.4</td>
<td>6.4</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Service Type</th>
<th>EU (%)</th>
<th>NAFTA (%)</th>
<th>Mexico (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
<td>17.7</td>
<td>17.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Communications</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Construction</td>
<td>10.3</td>
<td>10.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Other services</td>
<td>10.3</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>17.1</td>
<td>16.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Gas manufacture, distribution</td>
<td>17.1</td>
<td>16.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Water</td>
<td>17.1</td>
<td>16.4</td>
<td>16.4</td>
</tr>
<tr>
<td>Water transport</td>
<td>43.0</td>
<td>41.1</td>
<td>38.7</td>
</tr>
<tr>
<td>Air transport</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Land, other transport</td>
<td>30.0</td>
<td>28.7</td>
<td>28.7</td>
</tr>
<tr>
<td>Finance</td>
<td>9.0</td>
<td>8.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Insurance</td>
<td>17.0</td>
<td>16.3</td>
<td>16.3</td>
</tr>
<tr>
<td>Business services</td>
<td>16.0</td>
<td>15.3</td>
<td>15.3</td>
</tr>
<tr>
<td>Communications</td>
<td>10.5</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Construction</td>
<td>17.1</td>
<td>16.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Other services</td>
<td>17.1</td>
<td>16.4</td>
<td>16.4</td>
</tr>
</tbody>
</table>

Source: EU Commission, 2015

The World Bank estimates that current levels of AVEs for NTMs in services are lower than those estimated for manufacturing presented above. For the EU, the baseline scenario levels range from 1% in communications to 25% for air transport, with an unweighted average level of 10%. For EU exports headed to Mexico, the existing levels are higher, although still much less than the 65% average observed in manufactured goods. For NTMs in services, the unweighted average is 18%, ranging from 0% in air transport to 43% estimate for water transport.

Binding current NTM levels (i.e. a commitment by the negotiation partners not to raise the levels of existing NTMs) is a more plausible outcome than lowering the current levels. When incorporating this negotiation outcome, the IA (2015) used the practice previously established and adopted in studies by DG Trade, namely valuing the binding as being equivalent to a 3% reduction of these existing barriers in the comprehensive scenario. With regards to the outcome of the ambitious scenario, the IA appraised a more successful outcome; actually achieving a small reduction of existing NTB, corresponding to a 10% reduction in selected sectors. This outcome is assumed for the electricity, gas, water transport and construction sectors, implying that the unweighted average NTM in services is reduced to 9.3% in the EU and 16.4% in 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 US. 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.
3.3. ANALYSIS

3.3.1. Overview of Macroeconomic Effects

As previously discussed, all quantifications of the scenarios used to model negotiation outcomes are compared to the baseline scenario, i.e. the scenario in which no changes to the agreement take place. However, since the implementation of a new agreement takes time, the baseline has been projected to 2028 for compatibility. In addition, the baseline projection takes some recent structural changes into account, in particular the increasing role of Asian countries in the world economy. Note, however, that the baseline projection does not account for other recent adjacent trade policy changes, such as CETA (EU-Canada FTA which was applied in September 2017) and the ongoing TPP11 (for more details on the underlying assumptions and definitions, refer to European Commission 2015, Annex 4).

Table 5: Overview Estimated GDP effects

<table>
<thead>
<tr>
<th>Country/Scenario</th>
<th>Comprehensive Modernisation</th>
<th>Sectoral</th>
<th>Conservative</th>
<th>Ambitious</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, Millions of EUR</td>
<td>126</td>
<td>500</td>
<td>1800</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, Millions of EUR</td>
<td>295</td>
<td>1800</td>
<td>6400</td>
<td></td>
</tr>
</tbody>
</table>

Source: EU Commission, 2015

As depicted in the table above, the estimated gains from liberalising trade in the sectoral setting are marginal for both the EU and Mexican economies. In the EU, it is estimated to lead to an increase in GDP of €126M. For Mexico, the estimated increase in GDP is €295M. The majority of these gains were shown to be attributable to updating the review clause of the current agreement with respect to trade in agriculture.

As could be expected, the gains are shown to be higher in the more ambitious scenario than in the conservative one. The ambitious scenario assumes higher degrees of liberalisation across all sectors, but a closer look at the disaggregate effects reveals that most of the increase – both when comparing the sectoral to the conservative and the conservative to the ambitious scenarios – stems from the different levels of lowering NTMs in manufactured goods.

As can be seen from Table 6, which offers an overview of the estimated macroeconomic effects for the comprehensive modernisation scenarios, the estimated welfare effects are similar to the estimated effects on output (GDP). The modernisation of the agreement is shown to have significant effects on bilateral trade. This is particularly striking for the EU, where exports to Mexico are expected to increase by 17% in the conservative scenario and by 75% in the ambitious. The corresponding changes in Mexican exports to the EU are not expected to be as big in relative terms (9% and 32% in the conservative and comprehensive settings respectively), but since the EU is a more important trade partner, this generates an increase in total Mexican trade of 0.8% in the ambitious scenario.
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Table 6: Overview Estimated Macroeconomic Effects in 2028

<table>
<thead>
<tr>
<th>Country/Scenario</th>
<th>Comprehensive Modernisation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conservative</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td></td>
</tr>
<tr>
<td>GDP, Millions of EUR</td>
<td>500</td>
</tr>
<tr>
<td>Bilateral exports, percent</td>
<td>17</td>
</tr>
<tr>
<td>Wages, percent, unskilled Labour</td>
<td>0.02</td>
</tr>
<tr>
<td>Wages, percent, skilled Labour</td>
<td>0.02</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td></td>
</tr>
<tr>
<td>GDP, Millions of EUR</td>
<td>1800</td>
</tr>
<tr>
<td>Bilateral exports, percent</td>
<td>9.3</td>
</tr>
<tr>
<td>Wages, percent, unskilled Labour</td>
<td>0.15</td>
</tr>
<tr>
<td>Wages, percent, skilled Labour</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Source: EU Commission, 2015

In this particular set up of the CGE model, keeping the size of the labour force constant is a common assumption, simplifying the closure of the model. This assumption implies that the liberalisation scenarios will not have any effect on the size of the labour force, but rather – as more productive sectors increase and less productive sectors decrease – will cause labour to shift across sectors. As such, a higher demand for labour as the economy expands will be visible with increases in estimated wages and vice versa. As can be seen from Table 6, increased demand for workers is expected to increase wages across both skill groups and economies as a result of liberalizing bilateral trade for all modernisation scenarios. For the EU, the results are small while wages for unskilled and skilled labour in Mexico are estimated to increase by 0.5% and 0.7% respectively in the ambitious scenario.

3.3.2. Disaggregate Effects

In this section, we look at the more disaggregate, sector-specific effects of implementing the modernisation of the agreement. Since the set-up of the two modernisation agreements are similar, but differ with regards to the levels of liberalisation, we focus the discussion on the economic impacts of the ambitious scenario here, while the corresponding figures for the conservative scenario are available in Annex 3. The estimated changes to sector specific bilateral trade flows are summarized in Table 7 below, where the first two columns of the table depict current composition of EU-Mexico bilateral trade.

Around two thirds of current bilateral trade consists of trade in manufactured goods (72% of EU exports to Mexico and 64% of EU imports from Mexico), while 19% of bilateral trade is in services and the rest is agriculture (8% of EU exports and 17% of Mexican exports). As can be seen from the table, bilateral EU-Mexican trade is highly concentrated in chemicals, motor vehicles and other machinery, which account for more than half of the trade flows.

Incorporating the reductions of the stylized modernised liberalisation scenarios is expected to have significant effects on bilateral trade. According to the estimates obtained by the CGE simulation, total bilateral trade in goods and services between the EU and Mexico increases by 17.0% in the conservative scenario and by 75.1% in the ambitious scenario. For EU imports from Mexico, total trade over all sectors increases by 9.3% in the conservative scenario, and by 32.5% in the ambitious scenario.
**Table 7: Sector Specific Bilateral Trade, Baseline and Ambitious Modernisation Scenario**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Baseline (% share of total bilateral exports)</th>
<th>Ambitious Scenario (% change in bilateral exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU28 to Mexico</td>
<td>Mexico to EU28</td>
</tr>
<tr>
<td>Rice</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cereals &amp; oilseeds, oils</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Vegetables, fruits and nuts</td>
<td>0.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Sugar, cane &amp; beet</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Beef</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Other meat</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>0.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Food products</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Fisheries</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Energy</td>
<td>0.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Other primary, non-ag</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Leather products</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>3.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Chemicals</td>
<td>21.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>0.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>19.2</td>
<td>30.6</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>3.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Other machinery</td>
<td>13.3</td>
<td>12.9</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>5.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td>3.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>1.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Electricity</td>
<td>0.0</td>
<td>0.1</td>
</tr>
</tbody>
</table>

---

17 Due to the underlying assumptions of the model, the results are driven by the relative expansion of sectors. The sectors estimated to expand more will have an increased demand of production factors, such as labour for which the supply is assumed to be constant. Hence, some estimated outcomes may differ from those reached in the sectoral analysis, in section 7 below.
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| Gas manufacture, distribution | 0.0 | 0.0 | 7.7 | 4.4 |
| Water | 0.0 | 0.0 | 2.7 | 2.6 |
| Water transport | 0.1 | 0.2 | 10.3 | -0.4 |
| Air transport | 3.7 | 1.2 | 0.3 | 2.6 |
| Land, other transport | 1.9 | 2.0 | 3.6 | -0.1 |
| Finance | 1.5 | 3.0 | 2.0 | -1.9 |
| Insurance | 2.1 | 3.1 | 2.3 | -1.2 |
| Business services | 4.5 | 2.1 | 2.8 | -0.1 |
| Communications | 0.4 | 0.9 | 2.0 | -1.7 |
| Construction | 0.0 | 3.4 | 6.2 | 2.3 |
| Other services | 4.5 | 3.3 | 3.0 | -1.0 |

Source: EU Commission, 2015

Trade in manufacturing, where the majority of current bilateral trade takes place, will increase across all sectors for both economies, with significant increases in the sectors that are currently important. Looking at the changes in exports that have bigger absolute effects on the bilateral trade flows, the most significant sectoral increases in EU exports to Mexico are expected to occur in chemicals, motor vehicles, and other machinery. According to the IA report, the estimated increase in exports for these sectors contribute 22%, 17% and 9% to the overall 75% increase of EU exports to Mexico in the ambitious modernisation scenario.

As depicted by the third column of the table, the biggest relative increases are estimated for EU exports are all within the agricultural sector; most notably for sugar (+1245%), beef (660%) and milk and dairy products (460%). The same is true for Mexican exports where the biggest expansions are expected to occur in the exports of rice, other meat, and sugar to the EU. However, Mexican rice exports to the EU at their current level are extremely small (less than 0.0002%), and thus the projected increase does not mean that rice will become a major export for Mexico – it simply reflects a large percentage increase from a very low base. Additionally, the Modernised GA takes into consideration that beef and sugar are sensitive products and thus does not reflect these expected impacts.

With the exception for EU exports of milk and dairy products (4% of baseline shares), the baseline shares of bilateral trade are tiny, and thus overall effects on both bilateral trade and domestic production will be small.

For Mexico, bilateral exports across the service sector are expected to decrease somewhat, while the biggest absolute increases are expected to occur in the motor vehicles, chemicals and metal and metal products sectors. The increases in exports of these sectors to the EU translate to 18%, 5%, and 5%, respectively, of the 32% total increase in Mexican exports to the EU. We now turn to the corresponding changes in output across sectors that the estimated changes in bilateral trade is expected to generate.

For the EU, where over 80% of production is attributable to the service sector, and Mexico is not one of the biggest trading partners, the corresponding changes in sectoral output are expected to be small, even in the ambitious modernisation scenario. Here, the biggest relative increases are the 0.4% increase in production of milk and dairy, 0.3% in chemicals and 0.2% in petrochemicals. The biggest relative decreases (0.3%) are expected to take place in electrical machinery and leather products. For all other sectors, these estimated changes in output correspond to changes equal to or less than 0.1% of baseline output levels.

The corresponding figures for the Mexican economy are bigger, both in absolute and relative terms. Overall, the ambitious modernisation scenario implies a 0.4% increase in GDP, which corresponds to an increase in total production of EUR 1,800 million. As previously noted, the setup of the CGE modelling exercise assumes that the size of the labour force is constant. This assumption implies that the overall results are driven to a large extent by the sectors that expand as a result of the liberalisation of trade. Looking at the changes in underlying production patterns expected to occur across the Mexican economy, it is evident that the estimated changes in services production drive much of the changes. Here, the two largest sectors of the
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Economy, business services (21% of total value added in the economy) and the other services sector (34% of total VA), are expected to expand. Within the manufacturing sectors, motor vehicle (4.4% of total VA) production is estimated to increase by 1.2%, while other machinery decreases in the corresponding magnitude. The increase in imports of European milk and dairy is visible in Mexico’s output as a 3% contraction in this sector.

3.3.3. Estimated Effects on Third Countries

While above we looked at the changes in bilateral trade for the EU and Mexico, here we look at the corresponding effects on total trade. The first two rows of Table 8 depict estimated effects under the ambitious scenario for the EU and Mexico and are followed by estimated impacts on third countries.

**Table 8: Estimated Effects on Total Trade as % Change, Ambitious Scenario**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>% of total trade</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 28</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Canada</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>United States</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Andean</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Central American countries</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Chile</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>ACP Countries</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>China, Hong Kong, Macau</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Japan</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>


For the EU, the estimated effect on total trade is small and corresponds to minor effects on total output of the economy. For Mexico, for which the EU is an important trade partner and where existing levels of NTBs in manufacturing are high, the resulting effects are significant. The 32% increase in bilateral exports to the EU corresponds to an increase in total global trade by 0.8% and an increase in national output by 0.4%. Lowering trade costs with one partner may lead to changes in relative costs of trade vis-à-vis other trade partners, causing trade diversion (i.e. some bilateral trade being diverted from other countries). As can be seen from Table 8, some minor trade diversion is expected to occur with regards to Mexico’s NAFTA partners and Mercosur, but in absolute effects, these changes are so small that they imply no negative effect on growth elsewhere.

3.4. CROSS CUTTING ISSUES

This section offers an initial analysis of a range of horizontal issues that cut across all analytical components of the SIA such as: least developed countries (LDCs), impact on consumers, competition policies, government procurement, regulations, subsidies and investment barriers.

3.4.1. Least Developed Countries

Trade-induced changes in trade flows and production structures may impact on third countries, including LDCs. Following the approach established in the 2012 Communication on ‘Trade, Growth and Development’,
the SIA includes analyses of the modernisation of the EU-Mexico trade part’s likely impact on the Rest of the World including developing and least developed countries.\textsuperscript{18}

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 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 is to a large extent based on the results of the economic modelling conducted by the European Commission. Accordingly, we 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, this final report outlines potential flanking measures that would contribute to more sustainable growth and job creation, and minimise any negative impact on LDCs.

3.4.2. Impacts on Consumers

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 (Krugman 1979; 1980; Helpman and Krugman 1980). 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 competition and industry-specific characteristics.

Accordingly, the analysis of the impact on consumers is based on a brief overview of relevant literature to outline major mechanisms through which further liberalisation of trade between the EU and Mexico would 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, effects on consumers due to additional investment, and higher and more aligned consumer standards due to regulatory cooperation between the authorities of the EU and Mexico.

The following mechanisms, which are backed by the empirical literature about trade liberalisation, give an impression of how various aspects of consumer welfare are generally affected by trade liberalisation:

1. The elimination of tariffs and non-tariff trade barriers entails lower trading costs, which effectively reduces producers’ or exporters’ prices of goods and services on foreign markets. Lower import prices cause downward pressure on the domestic prices of intermediate goods and services, which tend to reduce final consumer prices. Lower nominal consumer prices in the domestic market generally lead to an increase in the purchasing power of domestic income, which constitutes an important source of consumer welfare gains (WTO 2012, p. 141).

2. Improved access to foreign markets allows firms to benefit more from specialisation-induced economies of scale, which drives down the unit cost of production. In addition to increased specialisation, increased competition due to the entry of new foreign companies that serve the domestic market through either exports or foreign direct investment (FDI) reduces prices on the domestic market (Breinlich et al. 2016; Edmond et al. 2015; Krugman 1979, pp. 469-79). Both effects potentially reduce domestic consumer prices.

3. Import-induced increases in competition for market shares encourages domestic suppliers to increase productivity and/or to lower sales prices and profit margins in order to remain competitive. These effects cause a reduction of average prices for domestic consumers, which are reflected in the development of aggregate consumer price indices (Edmontd et al 2015).

4. Open markets increase the variety of goods and services available for consumption. In addition, trade liberalisation stimulates firms’ investments in quality-upgrading activities. Greater exposure to foreign

\textsuperscript{18} EU Commission (2012), Trade, growth and development - Tailoring trade and investment policy for those countries most in need, 27 January 2012.
competition and the ability to export to third countries also incite innovation and diversification in goods and services (Breinlich, Dhingra, Ottaviano, 2016).

5. Trade liberalisation encourages domestic and international investment in research and development activities and building up knowledge-based capital (KBC), which is the major determinant of process innovation, product innovation and productivity growth. The liberalisation of barriers to international trade and investment raises the returns to innovation by expanding market size. In addition to benefits of increased market access, liberalisation likewise encourages more efficient resource allocation. Openness to trade and investment also increases the scope for knowledge and technology diffusion across borders and raises the incentives for firms to incorporate foreign technologies. These effects, which are related to and also drive structural economic change, strongly contribute to the adoption of new technologies, product-upgrades, increased product variety and lower consumer prices (OECD, 2015b).

6. For some sectors that show low (temporary or permanent) elasticities of supply, increases in foreign demand may cause upward pressure on domestic prices. If domestic wages do not rise at the same rate as domestic prices, this effect can entail a decrease in domestic purchasing power. Some agricultural (and commodity) markets show low elasticities of supply causing researchers to analyse primarily the link between food security and trade liberalisation. Most empirical studies on developing countries highlight that prices play a central role in effects on food security, but also state that there is no systematic pattern between adverse changes in food security as a result of trade liberalisation (McCorriston, Hemming, Lamontagne-Godwin, Osborn, Parr, Robets, 2013).

3.4.2.1 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. The SIA therefore addresses consumer issues such as consumer protection and safety, consumer choice and pricing practices and how the trade part may impact on the management of these issues from a government, consumer and stakeholder standpoint in the EU and Mexico.

As outlined above, the literature on consumer impact of FTAs focuses on decreasing product prices and increasing product choice through the elimination or reduction of tariffs. The WTO’s Practical Guide to Trade Policy Analysis indicates that tariff eliminations tend to lower domestic prices. In most cases, this would lead to a mere quantitative ‘consumer surplus’. However, overall consumer welfare is also affected by other factors as the impact on consumers is closely linked to non-tariff barriers (NTBs) that arise through food safety or animal welfare standards or online retail consumer protection regulation.

Therefore, we analyse a number of channels through which the Modernised GA between the EU and Mexico could impact on consumers:

1. 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. Discussion of the impact of regulatory cooperation on consumer prices, product variety and consumer safety;
4. Discussion of NTBs and how the reduction or elimination of NTBs would impact on EU consumers.

3.4.2.2. Elements of Existing Consumer Protection Legislation in the EU and Mexico

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

19 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.
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‘[...] 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 by 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 policies 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 EU consumers’ right to withdraw from contracts and seek adequate redress. Further consumer protection measures are likely to follow, as outlined by the European Consumer Agenda (European Commission, 2013c). In addition to modern online sales and data privacy rules, strong food, animal, plant, health and several product safety laws are implemented and effectively enforced by EU institutions and national EU Member States.

Consumer protection in Mexico is enforced by two institutions: the Ministry of Economy (SE), (formerly the Ministry of Trade and Industrial Development) and the Federal Consumer Attorney’s Office (PROFECO)(OECD, 2013c). Institutional tasks and responsibilities are set out in Federal Consumer Protection Law (LFPC). The LFPC aims to protect consumers’ interests when they purchase services or items from businesses.

The guiding objectives of Mexico’s consumer protection legislation include the protection of life, health and security of the consumer, but also education and divulgence on the adequate consumption of the products and services. Mexican authorities also aim to secure adequate and clear information regarding the labelling of products and services. The legislation also provides for the appropriate access to the administrative bodies for assistance and facilities for the defense of consumers rights, e.g. in case of misleading and abusive publicity, coercive and unfaithful commercial methods as well as abusive or imposed clauses for contracting of services and products by consumers.

3.4.2.3. Indicators of General Consumer Welfare in the EU and Mexico and the Impact of a Modernised Trade Part

The relatively high level of consumer protection in the EU and Mexico is reflected by national indicators of the quality of life taking into account eight sub-indices. Those sub-indices that are related to typical consumer welfare indicators such as product/services prices and product/services qualities indicate that Mexico lags somewhat behind in measures reflecting the overall quality of life, largely because of lower levels of purchasing power, even though the nominal cost of living are generally lower compared to other OECD countries like the US, Canada, South Korea and Japan, but also the EU. An increase in bilateral trade and investment could contribute to higher wages and salaries, which in turn could increase purchasing power of consumers in both jurisdictions.

As concerns the quality of public healthcare, Mexico shows levels similar to those of the EU. Increased trade in medicines and medical equipment, of which EU businesses are strong exporters, would positively impact on the consumers of pharmaceutical products, medical equipment and medical services. At the same time, greater exposure to innovative medicines and medicinal technologies would positively impact on the level of professional skills in the healthcare sector, which ultimately benefits patients. Due to high standards set by European regulators, e.g. the European Medicines Agency and national authorities, EU customers of medicines and medical services are unlikely to experience lower standards for healthcare products and services. At the same time, both EU and Mexican consumers could benefit from higher levels of mutual recognition or the harmonisation of standards where an equivalent level of protection is given. The ‘right to regulate’ on matters concerning the protection of public health ensures that consumers in both jurisdictions are unlikely to suffer from a race to the bottom regarding the safety standards of healthcare products and services.

Concerning matters of pollution, e.g. air, water quality and garbage disposal, Mexico is still lagging behind other OECD countries, indicating that Mexican citizens (consumers) would benefit from more trade in environmental goods and services of which EU businesses are strong exporters. As outlined by the Chapter on the environmental analysis, the EU’s trade and sustainable development chapter typically includes
provisions that reaffirm trading partners’ ‘right to regulate’ to protect the environment and outline the partners’ commitment to uphold their environmental laws and effectively implement the MEAs to which they signed up. At the same time, both EU and Mexican consumers could benefit from higher levels of mutual recognition or the harmonisation of standards where an equivalent level of environmental protection is given.

**Figure 2: NUMBEO Indicators of Standard of Living and Consumer Welfare**

![NUMBEO Indicators Chart](chart.png)

Source: NUMBEO 2018 indices. Notes: The quality of life index (higher is better) is an estimation of overall quality of life taking into account eight sub-indices, of which those related to consumer welfare are depicted in the chart. The sub-indices are: the purchasing power index (higher is better), pollution index (lower is better), house price to income ratio (lower is better), cost of living index (lower is better), safety index (higher is better), health care index (higher is better), traffic commute time index (lower is better) and climate index (higher is better).

### 3.4.2.4. General Impact of Regulatory Cooperation on Consumer Prices, Product variety and Consumer Safety

The EU continues to strive for deep and comprehensive trade and investment agreements and, according to the Commission’s “Trade for All” trade and investment strategy, it continues to regard “reinforced international regulatory cooperation” as a tool to facilitate trade and raise global standards. In general, in its trade agreements the EU focuses on transparency and cooperation to enhance both consumer protection standards and trade opportunities for member countries.

Typical concerns of consumer (and environmental) protection organisations are “regulatory chill” and a “race to the bottom” of consumer safety, health and environmental standards. However, the EU’s trade policy specifically commits to safeguard the EU’s high standards (e.g. on consumer protection or the environment), and work towards raising global standards, effectively preventing a race to the bottom. The European Commission points out clearly in its trade policy strategy communication “Trade for All – Towards a more responsible trade and investment policy” that it will “address regulatory issues as a priority in negotiations and steer greater cooperation in international regulatory fora, while maintaining high European standards” and “help to rise global standards”.

It is generally difficult to predict the precise effects of targeted regulatory policies on market outcomes. For EU trade agreements, empirical evidence does not suggest that regulatory cooperation resulted in regulatory chilling effects or greater risks for consumers. A recent study commissioned by the European Parliament (Ecorys, 2017b), which offers an in-depth ex-ante analysis of the potential arrangements for regulatory cooperation in the Transatlantic Trade and Investment Partnership Agreement (TTIP), states that “regulatory cooperation offers the opportunity of enhancing regulatory standards and that it is by no means axiomatic that regulatory cooperation will lead to lower standards”. The authors lay out several direct and indirect opportunities for both EU and non-EU consumers:

- reduced costs and more competitive markets contributing to lower consumer prices;
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- shaping of international trade rules and standards;
- increases in consumer welfare in terms of increased variety of goods and services for consumers, improved consumer protection;
- exchange of information and mutual learning from improved regulatory cooperation; and,
- more transparency on the use of both the precautionary principle and science-based risk assessment due to strengthened regulatory cooperation.

3.4.2.5. Consumer Impact Resulting from a Reduction or Elimination of NTBs due to Regulatory Cooperation

Despite lacking empirical evidence, the EU’s approaches for regulatory cooperation on sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) have been a focal point of critics from consumer organisations, claiming that EU trade policy might undermine legitimate consumer protection and environmental standards. These considerations need to be taken into account for this impact assessment since trade in industrial products with various technical characteristics constitutes a significant part of EU trade with Mexico, particularly EU exports to Mexico. Similarly, trade in food and agricultural products accounts for an important share of EU trade with Mexico.

As both the EU and Mexico are members of the WTO, regulatory cooperation in past FTAs builds on a number of existing international agreements, such as the WTO Agreements on SPS and TBT measures, which have a proven track record of more than 20 years.

Similarly, as summarised by Table 9 major provisions set out in previous EU trade and investment agreements (EU-Korea FTA and EU-Canada FTA) put in place legal arrangements for regulatory cooperation that aim to improve regulatory outcomes of standards setting procedures in TBT, SPS and other chapters, e.g. the regulation of services and digital trade, namely by the means of exchange of information (enhanced transparency in standard development and law making), notification obligations and the recognition and development of international standards. For investment protection, the EU’s CETA agreement explicitly assures sovereign governments’ “right to regulate within their territories to achieve legitimate policy objectives, such as the protection of public health, safety, the environment or public morals, social or consumer protection or the promotion and protection of cultural diversity”.

Table 9: Major provisions concerning regulatory cooperation in past EU FTAs

<table>
<thead>
<tr>
<th>FTA</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-Korea FTA</td>
<td>Chapter 4 on Technical Barriers to Trade (TBT) and joint regulatory cooperation</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Strengthening of cooperation in the field of standards, technical regulations and conformity assessment procedures with a view to increasing the mutual understanding of their respective systems</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Encourages use of existing international standards as basis for technical regulations</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Encourages cooperation between public and private standards and conformity assessment bodies</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Marking and labelling requirements that are relevant for consumers explicitly allowed (but should be least trade-restrictive)</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Chapter 5 on Sanitary and Phytosanitary Measures</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Reaffirmation of obligations under the existing SPS agreement and then adding detail provisions on how the SPS agreement should be applied</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Encourages transparency as regards sanitary and phytosanitary measures applicable to trade</td>
</tr>
<tr>
<td>EU-Korea FTA</td>
<td>Encourages mutual understanding of each Party’s sanitary and phytosanitary measures and their application</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>FTA</th>
<th>Provision</th>
</tr>
</thead>
</table>
| EU-Canada FTA              | Enhanced cooperation in the development of international standards, guidelines and recommendations

Chapter 4 on Technical Barriers to Trade (TBT)

Broadly in line with that in the EU-Korea agreement

Strengthening of cooperation in the areas of technical regulations, standards, metrology, conformity assessment procedures, market surveillance or monitoring and enforcement activities

Each Party shall ensure that transparency procedures regarding the development of technical regulations and conformity assessment procedures allow interested persons of the Parties to participate at an early appropriate stage


Chapter 5 on Sanitary and Phytosanitary Measures

Similar approach as in EU-Korea FTA

Reaffirmation of obligations under the existing SPS agreement and then adding detail provisions on how the SPS agreement should be applied

Chapter 24 on Trade and Environment

Recognition of the right of each Party to set its environmental priorities, to establish its levels of environmental protection

SECTION D, Investment protection, Article 8.9, Investment and regulatory measures – reaffirmation of consumer rights

Reaffirmation of parties’ right to regulate within their territories to achieve legitimate policy objectives, such as the protection of public health, safety, the environment or public morals, social or consumer protection or the promotion and protection of cultural diversity

Chapter 7 on Sanitary and Phytosanitary Measures (SPS)

Reaffirmation of obligations under the existing SPS agreement and then adding detail provisions on how the SPS agreement should be applied

Encourages cooperation (through a forum) to improve the Parties’ understanding of sanitary and phytosanitary issues

Encourages exchange of information and opinions concerning risk and risk-related factors between risk assessors, risk managers, consumers and other interested parties

Chapter 8 on Technical Barriers to Trade (TBT)

Encourages elimination of unnecessary technical barriers to trade, enhancing transparency, and promoting greater regulatory cooperation and good regulatory practice

Encourages recognition of the important role that international standards, guides and recommendations can play in supporting greater regulatory alignment, good regulatory practice and reducing unnecessary barriers to trade

Source: Texts of EU-KOR FTA, CETA, TPP.

Similar to the objectives of previous EU trade agreements, the “Guide to the new EU-Mexico Trade Agreement” (as of April 2018) clarifies that the agreement protects the Parties’ right to regulate and upholds the precautionary principle. All imports from Mexico will continue to have to meet existing EU rules on technical standards for products, consumer safety, environmental protection, animal and plant health, food safety and genetically modified organisms (GMOs).
The right to regulate within their territories to achieve legitimate policy objectives, including the protection of public health and safety is reflected and explicitly stated in various chapters of the Agreement in Principle, e.g. the chapter for cross-border trade in services, the chapter on sanitary and phytosanitary measures (regarding, for instance, risk assessment procedures) and the chapter on digital trade. In addition, the chapter on good regulatory practices stipulates that "[w]hen carrying out an impact assessment [for major regulatory measures], the regulatory authority of [the EU and Mexico] shall rely on the best reasonably obtainable evidence including scientific, technical, economic or other information." The latter provision (as well as the chapter on good regulatory practices in general) aims to ensure that the regulatory authorities in the EU and Mexico abstain from discretionary policies, which may discriminate against foreign suppliers, create new trade barriers, higher costs for businesses and less choice at higher prices for consumers respectively.

It can be concluded that previous EU FTAs as well as the recent agreement in principle for the modernisation of the GA between the EU and Mexico contain numerous provisions that would increase consumer welfare by maintaining high standards for goods and services, greater levels of transparency in regulatory procedures, and fora for regulatory cooperation that lower market access costs for EU and Mexican businesses, induce greater competition and lead to lower prices for consumers. Previous EU trade agreements suggest that mutual cooperation in regulatory matters should be regarded as an opportunity for both businesses and consumers to gain from more transparency, higher standards and less trade restrictive market regulations.

3.4.2.6. EU Consumer Checklist of the Better Regulation Toolbox

It should be noted that the Commission did not provide CGE estimates for the impact of liberalisation measures on consumer prices on a sectoral basis. Based on above considerations, however, the following conclusions can be drawn for the issues raised on the Consumer Checklist of the EU’s Better Regulation Toolbox.

Both the EU and Mexico have already implemented a comprehensive package of consumer protection laws, guaranteeing relatively high levels of product safety, purchasing power and, overall, a relatively high standard of living. The 'right to regulate' will secure that EU and national regulators can implement and enforce high product safety standards including high healthcare and environmental standards in a non-discriminatory fashion. EU negotiators already clarified that existing EU technical regulations on consumer safety, environmental protection, animal and plant health, food safety and genetically and modified organisms (GMOs) will continue to be a requirement for all Mexican imports, in order to assure compliance with rules.

A large part of the academic literature on the impact of FTAs on consumers outlines overall positive implications for consumers, suggesting that consumers would largely benefit from a modernisation of the trade part between the EU and Mexico. The issues addressed by the literature were largely confirmed by the respondents of the stakeholder consultations, particularly for manufacturing and services sectors, which generally see potential gains for consumers in various dimensions ranging from lower prices and wider choice to better information available to consumer across sub-sectors.

Due to the composition of Mexico’s exports to the EU, the largest (short- to medium-term) benefits for EU consumers are likely to materialise in sectors and sub-sectors related to chemicals, motor vehicles, metals, machinery, other machinery and energy commodities. Both EU and Mexican consumers could benefit from higher levels of mutual recognition or even the harmonisation of standards where an equivalent or higher level of consumer protection is given for products and services, e.g. environmental and healthcare goods and services.

3.4.2.7. Policy Conclusions

The modernisation of the trade part of the GA between the EU and Mexico would benefit consumers in the EU as well as Mexico, providing them access to a greater variety of products and services, better quality and lower prices in the EU’s internal market. The agreement in principle between the EU and Mexico contains numerous provisions on cooperation in regulatory matters that should be regarded as an

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opportunity for consumer welfare through more transparency, higher standards and less trade restrictions leading to greater competition and lower prices.

Consumer safety will not be negatively affected by a Modernised GA with Mexico, since products imported into the EU will still have to comply with all the EU's requirements, and the Agreement upholds the Parties' right to regulate.

3.4.3. Issues of Competition

3.4.3.1. Competition Policy

Aspects of competition policy, e.g. mergers and acquisitions or unfair behaviour of large oligopolists, may play a role in bilateral trade. 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.

It is also important to note that Mexico has made substantial efforts to enhance competition on its markets. It has reformed its competition policy in 2013 to prevent cartels and hindrance strategies more effectively. Although no concrete legal action could be observed so far, the number of investigations (dawn raids) has remarkably increased since 2013 (OECD, 2017e, p.14). Whereas in 2012 no unannounced site inspection has been reported, the number reached 4 in 2013, 5 in 2014, 15 in 2015 and 21 in 2016. Legal enforcement of the law has significantly improved.

In addition, the Mexican government has commissioned the OECD to conduct a study on Mexican policy performance with respect to barriers to competition on two exemplified markets, namely the markets for medicine and meat (OECD, 2018b). The OECD found virtually hundreds of laws regulating market activity and issued a list of over 100 recommendations. The complication of the regulatory framework can cautiously be interpreted as a hint to overregulation – at least in these markets.

3.4.3.2. Public Procurement

While the existing GA already covers public procurement, Mexico’s increasing willingness to further access to government bids, renders 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, technical specifications and discriminatory practices, among other marked barriers (European Commission, 2016).

However, Mexico has exhibited her willingness to negotiate better procurement practices in forthcoming partnerships. Notably, in signing the TPP, Mexico again 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 needs to be addressed in the modernisation of the GA. In particular, the SIA analyses the limits to market access to Mexico’s public procurement at sub-central level. Subcentral entities (states and municipalities) are not covered by the existing FTA and the disciplines are not in line with international standards (European Commission, 2015, p.9). For this analysis, we look at possible constraints to including disciplines equivalent to the government procurement agreement (GPA) in the Modernised GA.

3.4.3.3. Transparency and Good Regulatory Practice

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 reduce tariff-related barriers to trade, the country must still identify and offset laws, regulations, policies, and special requirements that are directly translating into NTBs.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

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.

First, the Regulatory Impact Assessment (IRA) is capturing the impact of regulations on different aspects, among them Human Rights. Second, COFEMER calculates a Regulatory Quality Indicator, building on the results of a survey among some 35,000 companies. In comparison to other Latin American countries, Mexico performs quite well, and its involvement of stakeholders is above OECD average (OECD, 2016). Nevertheless, as case studies on telecommunication and transportation show, there is still a lack of transparency in some regulations.

Moreover, through its participation in FTAs, Mexico has showcased its commitment to growingly stringent regulatory coherence mechanisms. 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 Pacific Alliance 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 addresses the possible direct and indirect impacts as well as possible constraints to strengthening regulatory coherence and intellectual property rights.

3.4.3.4. Subsidies

The Modernised GA enhances the transparency of subsidies given by the Parties, and prohibits certain types of subsidies. These rules on subsidies in the Modernised GA go beyond what the Parties are committed to under the WTO.

In Mexico, energy subsidies, in particular fossil fuel subsidies (International Energy Agency, 2016) are a problem. The latter corresponds with the observation that bid rigging still occurs in this market (OECD, 2018a), risking difficulties in ensuring that discrimination against European energy companies is prevented.

The problem of electricity subsidies has been acknowledged in Mexico; in 2016 the country paid the highest electricity subsidies in the OECD. In 2014, the country confirmed 21 component parts of a comprehensive energy reform after introducing constitutional amendments to transform Mexico’s hydrocarbon and electricity sectors. The country aims to quickly facilitate the creation of a new power-grid making the sector open for bidding by private and foreign companies (Brookings, 2014). Acknowledging this to be an attractive market for European SMEs, the subsidy chapter of the Modernised GA plays an important role in ensuring fair competition.

The chapter reflects that transparency will be ensured in regards to subsidies for both goods and services—extending beyond WTO rules. Specifically to the energy sector, both the EU and Mexico have agreed to make information public about subsidies in selected services sectors which are important from a market access point of view, including transport and energy. As such, companies and citizens in both regions will be properly informed on government expenditure and be in the position to advise their governments on any challenges or subsidies which may negatively impact their business. This will allow policy makers on both sides to efficiently engage in dialogue regarding the potential competition issues surrounding a particular subsidy and negotiate a solution. Perhaps most notably, the Modernised GA establishes conditions on two types of subsidies in order to prioritize competition and mitigate any risk of distortion via unlimited state support:

1. Guarantees are permissible so long as limits are established on duration and amount.
2. Additionally, failing companies must present a concrete restructuring plan to receive subsidies.

The chapter on subsidies in the Modernised GA presents a significant achievement in facilitating a competitive and fair business environment in comparison to the original GA which did not make any reference to subsidies.
3.4.4. Investment

Investment is one of the most complex issues within the Modernised GA. The EU and Mexico have already agreed on some basic principles with respect to investment and investment protection (European Commission 2018). The Modernised GA covers services and non-services sectors, and contains a number of ambitious substantive disciplines. So-called performance requirements as preconditions to invest, for example local content or transfer of technology requirements are prohibited. The further liberalisation of FDI is supported by other commitments regarding the free movement of capital and the transfer of payments. Fair, equitable and non-discriminatory treatment is guaranteed. There is also an investment protection section that is intended to replace the bilateral investment treaties of Mexico with 17 EU members respectively, and that also includes the Investment Court System (ICS), the dispute settlement mechanism similar to the one agreed upon in CETA.

Despite the new set of rules, the effects of the Modernised GA cannot be predicted easily, as investments are not only dependent on the bilateral relations between the EU and Mexico, but also on special national policies on either side respectively, as well as on the trade and investment rules between Mexico and the US, but also other FTAs.

To begin with the latter, in the last couple of years, Mexico has utilized FTAs as a means to assent 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. This is positive also for European investors, who might use their subsidiaries in other Mexican partner-countries to invest in Mexico.

The newly (September 30, 2018) negotiated US-Mexico-Canada FTA, called USMCA, might have consequences on companies’ investment decisions in Mexico. This holds particularly true with respect to the newly formulated rules of origin within USMCA, which might lead to deflected investment flows. To give an example, in the car industry, an intra-USMCA value-added share of 75 per cent in combination with minimum-wage requirements might deflect European FDI from Mexico into the USA. Here, one can see adverse effects for EU-Mexican investments looming, which may dampen the potential effects of the Modernised GA on EU companies’ investment in Mexico.

As for domestic policies, Mexico has undertaken a number of steps to make investments for European companies easier. These steps comprise measures related to procurement procedures, competition policy, regulation and subsidies (see 3.4.3). All these measures aim at a better investment climate within Mexico. Jointly with an improved investor-protection measures, they will improve the investment climate for SMEs particularly. Thus, due to its impact on legal certainty, and investor trust respectively, the Modernised GA is likely to have positive consequences for investment. Inflows and outflows in both partners have been rather volatile in the past, with Mexican inward and outward foreign direct investment (FDI) worldwide being much smaller than that of the EU. In addition to market size characteristics, this may be partly explained by the average Doing Business Index score in the EU of 30 that is far better than that of Mexico that stands at 48.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Table 10: EU FDI in Mexico, FDI stock, FDI flow and FDI income, in million €

<table>
<thead>
<tr>
<th>Year</th>
<th>Total EU FDI Stock in Mexico</th>
<th>FDI Flows from the EU to Mexico</th>
<th>FDI Income of EU Companies from FDI held in Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>110,180</td>
<td>22,885</td>
<td>-11,789</td>
</tr>
<tr>
<td>2014</td>
<td>135,203</td>
<td>24,528</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>153,106</td>
<td>17,076</td>
<td>8,442</td>
</tr>
<tr>
<td>2016</td>
<td>138,252</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: European Commission.

Table 11: Mexican FDI in the EU, FDI stock, FDI flow and FDI income, in million €

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Mexican FDI Stock in the EU</th>
<th>FDI Flows from Mexico to the EU</th>
<th>FDI Income of Mexican Companies from FDI held in the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>25,119</td>
<td>1,832</td>
<td>59</td>
</tr>
<tr>
<td>2014</td>
<td>31,392</td>
<td>7,560</td>
<td>516</td>
</tr>
<tr>
<td>2015</td>
<td>33,351</td>
<td>2,353</td>
<td>603</td>
</tr>
<tr>
<td>2016</td>
<td>41,202</td>
<td>5,780</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: European Commission.

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 €17 billion in 2015 and outflows of €11 billion in 2016, amounting to an FDI stock growth of 33 per cent from 2013 (€110 billion) to 2016 (138 billion). Meanwhile, inward EU-Mexico FDI flows stood at €5.8 billion in 2016, experiencing a growth rate of FDI stock held in the EU of 64 per cent for the period 2013 to 2016. At the same time, the outward FDI stock from the EU to Mexico is still much greater than that which EU economies receive from Mexican companies, standing at €41 billion in 2016.

According to Mexico’s Ministry of Economy, manufacturing, financial services, commerce, construction, and services were major areas of Mexico’s FDI gains in 2015 (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 investments from abroad.

To summarize, due to greater legal certainty, which positively impacts on EU investors’ trust in the Mexican government and Mexico’s legal system, one can generally expect EU investment in Mexico to rise. In addition, greater protection of IPRs in Mexico, for example, will increase the incentive of research- and knowledge-intensive EU companies to invest in Mexico, e.g. the chemicals, pharmaceutical, manufacturing and automobile industry, which are, to varying extents, already present in Mexico.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

As EU regulations already grant high levels of protection of foreign investors, the improvement of legal certainty might only have a moderate positive impact on investment decisions of Mexican corporations. At the same time, the liberalisation of trade in several sectors of the economy will have a positive impact on investment in both directions as companies can benefit from lower entry barriers, customer proximity, and a greater potential for exploiting economies of scale.

It should be noted though that it is impossible to make precise predictions both about the size of the increase and about the affected industries.

3.4.5. Outermost Regions

In October 2017, the European Commission announced its new strategy on the outermost regions (ORs) under its Privileged, Renewed, and Strengthened Partnership. The Commission is now working with the Member States in implementing this plan to assist the nine outermost regions to build on their unique assets and create opportunities for their inhabitants. Assessment of the impacts — both positive and potentially harmful — of the modernisation of the Global Agreement on the outermost regions is key in order to prioritize the Commission’s commitment to their advancement. Table 13 outlines the nine outermost regions and the principle source of GDP in the economy.

Table 12: Economic Structure of the Outermost Regions

<table>
<thead>
<tr>
<th>Territories</th>
<th>Key Economic Activities</th>
<th>Trade Measure of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canary Islands</td>
<td>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.</td>
<td>Trade in Business Services, Trade in Manufacturing Goods, Trade in Agricultural Goods</td>
</tr>
<tr>
<td>French Guiana</td>
<td>The most important economic activities are forestry and fishing. Largely dependent on imports for energy.</td>
<td>Trade in Agricultural Goods, Trade in Energy Commodities</td>
</tr>
<tr>
<td>Guadeloupe</td>
<td>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. Moreover, sugar cane is also considered as pillars of the local economy. Guadeloupe also produces rum. Most manufactured goods and fuel are imported.</td>
<td>Trade in Agricultural Goods, Trade in Manufactured Goods, Trade in Energy Commodities</td>
</tr>
<tr>
<td>Réunion</td>
<td>While La Réunion’s economy is largely built on the services sector, with declining relevance of the construction sector, there are few manufacturing activities, and an important agriculture and specially sugar cane. The sugar industry produces sugar and molasses dedicated to the rum fabrication. Sugar production accounts for 50% of the value of the island’s total exports and is considered as one pillar of the local economy, thus very sensitive. Rum production also plays a major role for the island. The government has taken steps to increase the tourism sector.</td>
<td>Trade in Agricultural Goods</td>
</tr>
<tr>
<td>Mayotte</td>
<td>The economic activity of Mayotte is based primarily on the agricultural sector, including fishing and livestock raising. As for services, there is a small but</td>
<td>Trade in Agricultural Goods</td>
</tr>
</tbody>
</table>
**Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Trade in Business Services</th>
<th>Trade in Agricultural Goods</th>
<th>Trade in Manufactured Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martinique</td>
<td>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. Martinique is also known as a consequent producer of rum and has a sugar cane production, which is less important than in Guadeloupe. 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.</td>
<td>Trade in Business Services</td>
<td>Trade in Agricultural Goods</td>
<td>Trade in Manufactured Goods</td>
</tr>
<tr>
<td>Saint-Martin</td>
<td>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 (CIA 2018).</td>
<td>Trade in Business and Financial Services</td>
<td>Trade in Agricultural Goods</td>
<td>Trade in Manufactured Goods</td>
</tr>
<tr>
<td>Madeira</td>
<td>The economy of Madeira is centred on the export of agricultural commodities (including tropical fruit, wine) and on tourism, which is the major island revenue source and contributes 20% to the region's GDP. The setting-up of a free trade zone (called “Centro Internacional de Negocios da Madeira-CINM”) has led to the installation, under more favourable conditions, of infrastructure, production shops and essential services for small and medium-sized industrial enterprises. The Madeira Free Trade Zone, being a tax-privileged economic area, provides an incentive for companies.</td>
<td>Trade in Business and Financial Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Azores</td>
<td>The tertiary sector leads the way in the economy of the archipelago, with an important role in terms of employment, followed by wholesale and retail trade, transport, accommodation and food-related service activities. Agro-food and forestry processing are the principal industrial sectors, combined with the islands’ primary sector products (milk, cheese, butter, fish conserves, tea, ananases and wine). These sectors of agriculture (with a strong focus on dairy farming) and fisheries are also relevant for the economy of the Azores (European Parliament 2017). Tourism has a specific niche sector (nature observation, pedestrian walks, ocean activities, tea plantation). Livestock farming and fishing are the main economic foundation for the smaller islands (Pico, Faial, São Jorge and Graciosa).</td>
<td>Trade in Services</td>
<td>Trade in Agricultural Goods</td>
<td></td>
</tr>
</tbody>
</table>
from the European continent and their climate are among the permanent handicaps that these regions must deal with. The European Union should take them into account when negotiating on the modernisation of the trade pillar of the Global Agreement with Mexico. Indeed, the OR’s productions (sugar cane, rum, bananas, etc.) are in direct competition with agricultural products from Mexico (especially because they have comparable climates). Moreover, Mexican economic actors have a competitive advantage over European producers as they benefit from relatively low production costs and do not have to produce under the same high European environmental, social and phytosanitary standards as producers in the ORs.

This study can only take a preliminary look at the key economic activities in the outermost regions. However, it is evident that business services play a large role. This study hints to some significant impacts of the trade agreement on these services alongside the agricultural sector, including trade in fruits and vegetables, and impacts on fisheries. Since there is a rather close proximity between Mexico and several ORs, the EU should consider the effects on the OR carefully.

3.5. **CONCLUSION**

The CGE model results show a trade liberalisation-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 for an inexact estimation of NTBs, and cannot account for the impact of a significant portion of the mutually agreed disciplines in the GA in a number of areas (e.g. non-tariff barriers, technical barriers to trade, SPS, intellectual property rights, etc.) - . In other words, the effects of the GA are greater than the estimated values.

For third countries, the economic impact of an FTA is mostly slightly negative. Again, CGE models do not take into account dynamic effects on and in third countries, such as the impact on third countries’ governments to pursue good governance frameworks 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 economic costs and benefits of globalisation, the social impact of trade liberalisation has been a central concern for national governments and their constituencies. In its Reflection Paper on Harnessing Globalisation, the EU underlined the risks that “globalisation would compound the effect of technological advances and the recent economic crisis and contribute to further widening inequalities and social polarisation”. Acknowledging EU citizens’ mixed views on trade integration, the Commission stressed the need to address inequalities through “a better distribution of the benefits of globalisation, coupled with effective social protection” (2017).

EU trade policy has become one of the main pillars of the EU’s external actions to promote sustainable development, decent work, and core labour standards, whether at the unilateral, bilateral or multilateral levels. It has reaffirmed 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, the social analysis and the human rights sections assess the prospects of the Modernised GA to fulfil these objectives.

The social analysis builds upon the results of the CGE modelling undertaken in the 2015 IA. Additional quantitative and qualitative tools are likewise employed to assess the potential effects of a Modernised GA in three main realms: 1) employment effects and labour adjustment costs; 2) wages and inequality; 3) informal employment. Labour rights are dealt with in the human rights analysis.

4.1. **METHODOLOGY**

The social analysis baseline has three components:

- Quantitative data drawn from the CGE results of the 2015 IA, and existing indicators on trade, employment, wages, income inequality in the EU and Mexico, where this would also link to the sectoral analysis;
- Qualitative analysis based on a review of the relevant literature on trade liberalisation and sustainable development, including on the North American Free Trade Agreement;
- Results from stakeholder consultations to further enrich the social analysis baseline by identifying vulnerable groups as well as sector-specific issues.

In terms of income inequality, one of the measures 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 a slightly different way in our context. 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. Our formula to measure the Gini Index follows Deaton (1997): the higher the value of the index, the higher the measure of inequality.

Beyond the CGE modelling, the assessment of the agreement’s socioeconomic effects rely on qualitative analysis. First, economic forecasts are contextualized with desk research of relevant studies on trade and labour markets in the EU and Mexico (ILO, UNCTAD, World Bank). Additionally, this section examines analyses of NAFTA’s socio-economic record in Mexico, using official reports and impact assessments conducted by US government agencies (e.g. International Trade Commission, Congressional Research Service) and authoritative think tanks.

Last, but not least, this section draws 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 organisations (NGOs) and relevant experts from government and academia. Further details on the scope, number of interviews, and expected representativeness of consultations are provided in Chapter 11.
4.2. BASELINE

A major consequence of trade reforms is natural selection among firms: less efficient firms in a sector have to 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 (Bernard, 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 into larger aggregate employment. Conversely, trade liberalisation can also cause social dislocation or increase pressure on wages for less competitive firms. Trade reforms can also accelerate restructuring trends within a specific sector, either by directly impacting market competition or by forcing economic actors to adapt strategies in the anticipation of 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 liberalisation 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 provides an overview of current socio-economic trends in both Mexico and EU countries, with a specific focus on poverty and income inequality (Gini index) as well as the scope of the informal sector and its direct and indirect connections with international trade.

4.2.1. Employment and Labour Force Participation

At 61.3%, the labour participation rate in Mexico is above the EU average of 57.3% and has gradually increased over the past three decades (1990 - 2017), overcoming a series of external shocks like the peso crisis of 1994, the dotcom crisis of 2000 - 2001 or the 2008 - 2009 financial crisis (Figure 3 and Figure 4). It is also comparable to other upper-middle income and upper-income countries in Latin America, with the exception of Peru, whose labour participation rate has dramatically improved since 1990 (Figure 5).
Figure 3: Labour participation rate in the EU and Mexico (%)

(% of total population ages 15-64, modelled ILO estimate)

These aggregate figures obscure significant disparities across age and gender. Figure 6 shows the dramatic gender employment gap on the Mexican labour market, where men between 15 and 64 are still almost twice as likely to be employed than women (79% vs. 45%), although female participation in the workforce has experienced a steady increase since 2005 in contrast with male workers. The human rights section discusses these issues in greater details through the prism of gender rights.
The participation of young Mexicans in the workforce has declined for both men and women. This reflects both the increasing number of young people entering the workforce as well as Mexico’s persistent poor performance on inclusiveness indicators, i.e. its difficulty promoting the inclusion of disadvantaged groups in the labour market.21

**Figure 6: Mexico’s labour participation by age and sex (%)**

![Graph showing Mexico’s labour participation by age and sex (%)]

Source: ILOSTAT.

With regard to sectoral composition, Figure 7 shows that Mexican labour market has experienced three main trends in employment distribution since the early nineties, a period during which Mexico accelerated the opening of its economy, most notably with the signature of NAFTA. The first trend lies in the increasing share of services employment, from 50% in 1991 to 61% in 2017. The second has to do with employment in the manufacturing sector. The latter experienced a temporary increase (from 23 to 27% of the Mexican labour force between 1994 and 2000) in the aftermath of NAFTA’s implementation and the peso crisis, which made Mexican industrial exports to the United States more competitive. Yet, after 2000, Mexican employment in industry proved resilient to the so-called “China shock” unlike other OECD countries including the United States, or the European Union as a whole, for which industrial employment continued its long-term decline (Figure 8). Finally, agricultural employment experienced a sustained decline, dropping from 27% in 1991 to 13% in 2008. This trend was due to both domestic and international factors and most notably NAFTA’s dislocating effects on Mexican subsistence farming (Polaski, 2006).

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21 For the first argument, see the European Commission’s 2017 "Ex-post evaluation of the implementation of the EU-Mexico Free Trade Agreement". For the second, see the OECD’s 2017 Employment Outlook 2017 for Mexico, available at [https://www.oecd.org/mexico/Employment-Outlook-Mexico-EN.pdf](https://www.oecd.org/mexico/Employment-Outlook-Mexico-EN.pdf)
This aggregate data provides useful information on the structural trends, strengths and weaknesses of the Mexican labour market but must be complemented with an analysis of two main features of the Mexican economy: the large role played by informal employment and the importance of regional disparities, both of which will be discussed in the next sections.
4.2.2. Poverty and Inequality

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. 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 9: 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)

![Figure 9: Poverty Trends in Mexico](image)


Similarly, other indicators like food and patrimonial poverty22 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.

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22 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.
The overall decline in poverty and the corollary emergence of a middle class society over the past two decades (Luis de la Calle, Luis Rubio, 2012) 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 structure has remained largely unchanged, with the richest quintile still capturing more than half of the country’s total income. This is the essence of Mexico’s paradox: the country is a modernised economy and a member of the OECD characterised by increased openness to trade and investment; yet, in many ways, it remains a developing country where almost half of the population (44%, World Bank) lives under the poverty line and where corruption and crime remain endemic.²³

A comparative analysis shows that Mexico performs poorly in measures of income inequality. According to the latest OECD figures, Mexico has the highest Gini coefficient among all OECD members. Figure 12 shows that Mexico and Chile are the only two outliers above the 0.45 mark (at 0.459 and 0.454 respectively) and the only three with Turkey above 0.4.

²³ See human rights analysis.
**Figure 12: Income Inequality in OECD Members**

(Gini coefficient 2015 or latest available)

Similarly, Figure 13 reveals that Mexico achieved more limited results than its Latin American counterparts, some of which (e.g. Peru and Argentina) reached a lower Gini coefficient than Mexico in 2014, despite higher levels in 2000.

Source: OECD
Commonly cited factors of inequality in Mexico include a dysfunctional tax system, underinvestment in education and a large share of informal employment (see next section). On the other hand, a number of factors have helped Mexico to reduce income inequality in the twenty-first century: these include redistributive policies like Oportunidades/Progresa/Prospera, rising education levels and the growing flow of remittances from Mexican migrants (Esquivel 2010).

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 OECD study 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. This divide was highlighted by several non-profit organisations coming from Southern states during the stakeholder consultation in Mexico. Figure 14 illustrates these geographic variations, the poverty rate in the Chiapas and Oaxaca (at 49.5% and 43.5% respectively) contrasting with that of Nuevo Leon and Mexico City (6.8% and 7.5%). These regional disparities were repeatedly emphasized during stakeholder consultations in Mexico, with regard to both social inequality and human rights’ violations.24

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, the analysis of regional economic disparities needs to take into consideration both relative and absolute measures of poverty.

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24 On human rights, see next chapter.
Other measures of poverty point to a recent decline that is tangible at both federal and state levels as illustrated in Figure 15. This trend has been partly attributed to the success of Conditional Cash Transfers (CCT) like Oportunidades/Progres/Prospera and more recent reforms under Prospera that have linked assistance to educational services, vocational training and formal employment.

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25 Mexico’s pioneering Conditional Cash Transfer (CCT) program Oportunidades was renamed several times and became Prospera in 2014.
opportunities as well as access to banking, thereby helping its beneficiaries to become more self-sufficient (OECD, 2017).

**Figure 15: Poverty rate in %, measured along eight dimensions of well-being**


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). This confirms that any social analysis of EU-Mexico trade must take into account regional variations across the Mexican territory.

The election of Andrés Manuel López Obrador (AMLO) on July 1st, whose electoral campaign targeted social inequality, both between classes and regions, has raised Mexicans’ hopes for a more inclusive model of development. However, given Mexico’s limited government spending capacity and AMLO’s promises to balance the budget, questions remain on how the President-elect’s promises of social reforms (e.g. increased spending for public pensions, infrastructure investments to overcome regional disparities) might be fulfilled, and the extent to which they might help to put a dent on Mexico’s longstanding record of inequality.

### 4.3. ANALYSIS

Employment and income are key to assess whether the agreement will reach the most vulnerable sectors of the respective societies. We use the results of the CGE modelling performed by the Commission to calculate changes in the level of employment by country and sector. Moreover, we can also assess whether wages will rise. This can be assessed further by distinguishing between different types of employment (unskilled, skilled).

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 make use of consultations with specialists and stakeholders to assess the capacity of the relevant implementation authorities to apply the agreements.

Mexico is characterised by the presence of large poverty pockets and informal economic relationships. We propose to evaluate, through consultations and literature review, how the agreement may affect the informal sectors in the respective economies. For example, reduced import prices and greater market access may encourage the formalisation of certain transactions within the economies, while labour market adjustments might result in short-term expansion of informal employment. We assess this phenomenon by looking into previous relevant experiences in the region.
4.3.1. Employment Effects

From the CGE model analysis done in the 2015 Impact Assessment report, we infer the employment effects. To estimate the 2011 employment figures, we use the wage bill shares from GTAP 9 Data Base and total employment in 2011 from GMig version of GTAP 9 Data Base, for EU and Mexico. Further, since relative changes in output and employment at sectoral level are the same in the GTAP model, in the absence of any productivity shock, we use the output results from the 2015 report to predict the unskilled and skilled employment changes in every sector corresponding to the modeling conducted for that report.

Figure 16: Sectoral effects on EU Employment in Conservative Scenario

Figure 17: Sectoral effects on Mexico Employment in Conservative Scenario

Source: CGE modelling in 2015 IA.
In the ambitious scenario, the EU is expected to gain about 21,000 unskilled-labour jobs and about 12,000 skilled-labour jobs in sectors such as milk and dairy, petrochemicals and chemicals, food products, motor vehicles and construction. Over 50% of the new jobs are generated in the chemicals sector. In all these sectors, unskilled labour gains are expected to be much higher than skilled labour in absolute numbers, though this is largely due to the larger pool of unskilled workers. At the aggregate level, the model predicts net losses of about 4000 job losses for unskilled workers and 2000 job losses for skilled workers, a minor impact for the EU employment market. The sectors most negatively affected include a few of the heavy manufacturing sectors like other electrical machines, other machinery, and other manufacturing, all of which are expected to lose a greater number of unskilled workers than skilled workers.

In the ambitious scenario, Mexico is expected to gain about 75,000 unskilled jobs and 15,000 skilled jobs in several sectors, with most gains concentrated in other services (over one-third) and motor vehicles.
Employment in agriculture, beverages, transport (especially land transport) and almost all services sectors is expected to increase. These results are consistent with the positive employment effects anticipated by a majority of participants in the consultant’s surveys. In all these sectors, CGE modelling predicts job creation to be greater among unskilled workers than skilled labor. Given that the model assumes aggregate full employment, other sectors lose jobs in the same proportion in both countries. In Mexico, the losses are concentrated in dairy, chemicals and other machinery, while energy, electrical machine and metals are also expected to lose jobs. Here again, the CGE modelling predicts greater losses for unskilled workers, although at the aggregate level, net effects are positive for both unskilled workers (with an additional 900 jobs) and skilled workers (200 jobs).

In the conservative scenario, employment effects are predictably smaller, although more balanced between the EU and Mexico at the aggregate level. Here again, both gains and losses are more significant for unskilled workers. EU employment is expected to gain about 5,000 unskilled and 2,800 skilled jobs with the largest gains expected in the milk and dairy, chemicals and construction industries. Job creation is expected to offset job losses for both unskilled and skilled workers, estimated at about 3,900 and 2,200 respectively, with greater losses occurring in the other manufacturing, other machinery, other transport equipment and electrical machine industries, as well as finance. In this scenario, Mexican employment is expected to increase by 22,000 unskilled and 5000 skilled jobs, with the greatest gains occurring in the services sector (business and other services accounting for more than 50% of the gains), motor vehicles (more than 20%), construction and land transport. Aggregate employment gains (27,000) are expected to offset job losses (estimated at a total of 26,000 including 21,000 unskilled jobs), the latter occurring primarily in the milk and dairy sector (concentrating a third of job losses), other machinery and chemical industries.

The marginal aggregate effects and labour market adjustments revealed by CGE modelling confirms the sectoral employment trends and dovetails with the limited employment gains experienced by Mexico since 2000. This is partly due to the fact that Mexico’s export-oriented firms remain predominantly integrated in regional value chains that are overly dependent on the US market. As a result, the maquiladora sector—referring to factories in Mexico run by foreign companies that then export to that country of origin—is often disconnected from local subcontractors that would generate greater employment through multiplier effects (Bizberg, 2004). In this sense, the diversification of global value chains through a closer EU-Mexico trade-partnership might provide greater independence from the American market and hypothetically greater leeway from Mexican small and medium enterprises, although cross-regional supply chains remain underdeveloped to this day (see sectoral analysis). The perspectives for developing new transatlantic trade channels will be contingent upon a host of other factors, among which the Modernised GA’s rules of origin, the competitiveness and the skills of workforce in each sector.

Additionally, these forecasts must be interpreted with caution to the extent that CGE modelling precludes any external shock. Yet, any analysis of the evolution of Mexican trade over the past two decades cannot ignore the significant impact that “big events” such as the peso crisis or the financial crisis of 2008-2009 had on Mexican trade and sectoral employment.

If external shocks can make long-term forecasts difficult, domestic reforms can go a long way in offsetting, mitigating or exacerbating the effects of trade liberalisation. In this regard, NAFTA’s record offers useful clues for EU and Mexican trade negotiators. The liberalisation of Mexican agriculture, especially in the corn sector, had devastating effects on Mexican agriculture employment, which declined from 8.1 to 5.8 million jobs between 1993 and 2008. NAFTA’s toll was particularly heavy among small subsistence farmers, even though Mexico’s agribusiness industry benefitted from new export opportunities. Beyond trade, the liberalisation of the Mexican agricultural sector under NAFTA was also part of a larger set of political reforms undertaken since the 1980s to reduce Mexico’s dependence on agriculture. NAFTA’s effects on Mexican agriculture were not only exacerbated by these reforms, but also by the Mexican government’s decision to dismantle corn tariffs at a faster pace than scheduled under NAFTA (Velut, 2011). These negative effects on Mexican agricultural employment overshadowed Mexico’s employment gains in the manufacturing sector, which were largely concentrated during the 1994 - 2000 period (Velut, 2011).

While the sectoral analysis does not anticipate large-scale displacements comparable to NAFTA, some sectors such as the milk and dairy sector as well as fruits and vegetables, cereals and oilseeds as well as food products, are more likely to be negatively impacted than others under the Modernised GA. This means that adequate social measures must be adopted to mitigate the negative effects of trade liberalisation. This is all the more important since the surveys conducted within the framework of this SIA revealed conflicting views among stakeholders about the potential impact of a Modernised GA on social protection and access to healthcare.
As mentioned in the sectoral analysis, this is particularly crucial for vulnerable segments of the population like indigenous communities living in rural regions, especially in Southern states, as well as food industry workers in urban regions living on subpar wages.26 Here again, NAFTA offers some lessons about labour adjustment costs. While the Mexican government sought to mitigate the effects of trade liberalisation through different assistance programs (Procampo, Alianza para el Campo), these programs disproportionately favored larger Mexican agribusinesses over poor subsistence farmers (Velut, 2011). This means that sectoral adjustment programs will have to be adjusted to better reach Mexico’s most vulnerable populations, in conjunction with other redistributive policies like Oportunidades/Progresa/Prospera that have proved crucial to reduce social inequality.

In the EU, labour adjustments resulting from a Modernised GA are expected to be marginal. Additionally, unemployment benefits are more generous than in Mexico, although European Net Replacement Rates (NRR)27 vary considerably among EU members as shown below. Additionally, the EU can provide additional support to dislocated workers through its European Global Adjustment Fund. Since its inception, the latter program has, however, only reached a limited share of workers displaced by trade liberalisation (Sapir, 2018)

Figure 20: Net Replacement Rates among EU members

Source: OECD. Cyprus: n/a

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26 See discussion on the agricultural sector in the sectoral analysis.
27 The OECD defines net replacement rates as the proportion of net income in work that is maintained after job loss.
4.3.2. Effects on Wages and Inequality

Figure 21 and Figure 22 show the anticipated change in wages for skilled and unskilled labour in both countries in the two scenarios, relative to the baseline. Overall, CGE modelling anticipates that the modernisation of the GA will have only marginal effects (less than 1%) on both EU and Mexican wages by 2028, despite the benefits anticipated by several survey participants with regard to wages and wage-setting mechanisms. EU wages are expected to rise more slowly than Mexican wages. For both unskilled and skilled workers, the ambitious scenario shows a greater wage increase. In Mexico, skilled wages are set to grow faster than unskilled wages. In the EU, the conservative scenario shows the same extent of wages change in both types of labour, while the ambitious scenario shows slightly faster growth in unskilled wages than in skilled wages.

Figure 21: Change in wages for unskilled labour (% by 2028)

![Graph showing the change in wages for unskilled labour on both conservative and ambitious scenarios.](source: CGE modelling in 2015 IA)

Figure 22: Change in wages for skilled labour (% by 2028)

![Graph showing the change in wages for skilled labour on both conservative and ambitious scenarios.](source: CGE modelling in 2015 IA)

The limited effects of a Modernised GA on EU and Mexican wages are unsurprising given the many forces shaping individual income at the aggregate level. Here again, NAFTA’s record offers insights into the potential effects of trade liberalisation and the complex causal relation between bilateral trade and wages. The 1994 peso crisis resulted in declining wages in Mexico and fueled a sharp increase in exports to the United States, thereby fostering job creation in export-oriented sectors until 2000. After 2000, Mexican employment in exporting industries fell while wages rose. Yet, this increase in wages was not enough to help American and Mexican wage levels converge. Before the financial crisis of 2008 - 2009, American manufacturing wages were still 5.8 times higher than those of Mexican workers, a very similar differential to the 1993 ratio – 5.6 – before NAFTA was implemented (INEGI, 2009). As evidenced in the baseline, Mexico’s resurgent Gini coefficient after 2004 confirms that wage gains in the manufacturing sector hardly contributed to reduce social inequality. In fact, given the strong concentration of factories in Northern states, aggregate wage gains for industrial workers may even exacerbate regional disparities between...
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Mexico’s Industrial North and its more rural South. This confirms that one of the main lessons from NAFTA when it comes to regional disparities: trade liberalisation cannot be a substitute for development policies. As stated above, the success of Mexican CCT policies show that investment in education and health policies can play a key role not only to cushion the potential labour adjustment costs of sectoral liberalisation, but more fundamentally, to reduce income inequality and poverty. As noted in a recent OECD study, Mexico’s recent education and training reforms have helped increase enrolment rates in secondary and tertiary education. Yet, to catch up with other OECD countries, Mexico needs to adapt the skills of its primarily low-skilled workforce to an evolving labour market. It also needs to invest more to fight against discrimination at work, whether it be against women, indigenous citizens or disabled workers.20

While Mexico’s trade opening under NAFTA failed to reduce inequality both domestically and internationally, the prospects that a Modernised GA might lead to income convergence may be similarly limited. We computed the Gini coefficient before and after the EU-Mexico GA simulation, based on the percent changes in real wages and employment of workers with different skill levels from the 2015 IA report on the EU-Mexico GA. We also employed data on a number of jobs and wage bill from the GTAP 9 GMIG dataset that includes initial information required to compute the Gini index. The table below shows the Gini index before and after the Global Agreement between the EU and Mexico. The changes are very limited, as shown in Table 14 where Mexico sees among the most visible change – an increase in wage inequality. The EU may witness a slight decline in inequality. All things being equal, Turkey, Chile, ACP countries, Andean Pact, China and Japan may experience no change in inequality. A very marginal decrease in inequality may occur in Canada, Mercosur and Central America. Other countries like the US and the rest of the world may see a similarly limited increase in inequality. In all these cases, inequality increases when the real wages of unskilled labour fall more or rise less than those of skilled labour.

Table 13: Gini Coefficient Inferred from the GTAP Model Results29

<table>
<thead>
<tr>
<th>Region</th>
<th>Before Modernised GA</th>
<th>After Modernised GA</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>0.2541646</td>
<td>0.2541645</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.5255624</td>
<td>0.5258235</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.3847175</td>
<td>0.3847175</td>
</tr>
<tr>
<td>Canada</td>
<td>0.2526682</td>
<td>0.2526410</td>
</tr>
<tr>
<td>USA</td>
<td>0.2759410</td>
<td>0.2759947</td>
</tr>
<tr>
<td>Mercosur</td>
<td>0.6064211</td>
<td>0.6064042</td>
</tr>
<tr>
<td>Andean Pact</td>
<td>0.5557329</td>
<td>0.5557329</td>
</tr>
<tr>
<td>Central America</td>
<td>0.5895341</td>
<td>0.5895534</td>
</tr>
<tr>
<td>Chile</td>
<td>0.3741294</td>
<td>0.3741294</td>
</tr>
<tr>
<td>ACP Countries</td>
<td>0.4294910</td>
<td>0.4294910</td>
</tr>
<tr>
<td>China</td>
<td>0.7501987</td>
<td>0.7501987</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1578065</td>
<td>0.1578065</td>
</tr>
<tr>
<td>Rest of World (ROW)</td>
<td>0.3822196</td>
<td>0.3822447</td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis, 2018

20 Workers’ rights are discussed in the human rights analysis.
29 The OECD GINI measure is estimated from a detailed household level data on incomes, while GTAP-based GINI measure is only based on skilled and unskilled wages data. Therefore, they are very different measures. Given that the real wages do not change considerably due to EU-Mexico FTA, the Gini coefficient also is pretty stagnant.
4.3.3. Impact on Informal Employment

Another dimension of the potential labour market effects of a Modernised EU-Mexico trade agreement lies in its impact on informal employment, which the World Bank defines as "workers who are not covered by social protection, such as social security, or who work without a wage contract (World Bank, 2013)." Informal employment was estimated at 56.5% in 2017 of the Mexican labour market, affecting all states and all sectors of the economy although the latest OECD data points to a decrease in informality.

Figure 23: Informal employment as a share of total employment

As is often the case regarding socio-economic indicators, there are large regional disparities within Mexico: the richest, most trade-connected Northern states (e.g. Baja California, Coahuila, Chihuahua, Nuevo León) have the lowest informality rates, while poorer Southern states (Collima, Chiapas, Guerrero, Oaxaca) have the highest levels of informal employment (Figure 24).
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Figure 24: Informal employment by state

Source: Dougherty and Escobar, 2013.

Wages in the informal economy pay on average 14% less than formal employment and can be as low as 62% of formal contracts in the primary sector (Figure 26). The absence of social protection and social dialogue inherent to informal employment goes against the EU's objectives of promoting decent work through external trade and investment policies.

Figure 25: Share of Informal Employment by Sector and Gender, Mexico

<table>
<thead>
<tr>
<th>Sector</th>
<th>All</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal</td>
<td>Informal</td>
<td>Formal</td>
</tr>
<tr>
<td>Agriculture/Mining/Constr.</td>
<td>1.79</td>
<td>11.74</td>
<td>3.32</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.67</td>
<td>4.24</td>
<td>8.16</td>
</tr>
<tr>
<td>Commerce</td>
<td>3.60</td>
<td>8.41</td>
<td>4.77</td>
</tr>
<tr>
<td>Restaurant/Hotels</td>
<td>1.10</td>
<td>2.58</td>
<td>1.26</td>
</tr>
<tr>
<td>Other Services</td>
<td>12.06</td>
<td>9.27</td>
<td>13.47</td>
</tr>
<tr>
<td>Total</td>
<td>24.22</td>
<td>36.24</td>
<td>30.98</td>
</tr>
<tr>
<td>Residual</td>
<td>39.55</td>
<td>19.99</td>
<td></td>
</tr>
<tr>
<td>Informal / (Formal + Informal)</td>
<td>59.94</td>
<td>61.28</td>
<td></td>
</tr>
</tbody>
</table>

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Figure 26: Mexican wages and Informal/Formal Wage Gap (pesos, 2010)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Formal</th>
<th>Informal</th>
<th>Informal/Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture/Mining/Constr.</td>
<td>34.78</td>
<td>21.69</td>
<td>0.62</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>28.56</td>
<td>23.14</td>
<td>0.81</td>
</tr>
<tr>
<td>Trade/Commerce</td>
<td>25.74</td>
<td>25.18</td>
<td>0.98</td>
</tr>
<tr>
<td>Restaurant/Hotels</td>
<td>21.97</td>
<td>25.54</td>
<td>1.16</td>
</tr>
<tr>
<td>Other Services</td>
<td>45.81</td>
<td>32.26</td>
<td>0.70</td>
</tr>
<tr>
<td>Mean</td>
<td>31.37</td>
<td>25.56</td>
<td>0.86</td>
</tr>
</tbody>
</table>


This means that any attempt to measure the impact of a trade agreement on the Mexican economy needs to take stock of the duality of Mexican employment and the potential effects that informal employment might have on labour mobility and wages. However, understanding the linkage that a Modernised GA might have on informal employment requires overcoming two main challenges.\(^\text{30}\) The first issue lies in the conventional exclusion of non-agricultural jobs from measures of informality, providing here again, only a partial picture of informal employment.\(^\text{31}\) The second is linked to the complex nexus between trade liberalisation and informal employment.

Since the notion of the informal economy emerged in the 1970s, many studies have attempted to understand whether increased trade leads to expansion or contraction of informal employment. An extensive literature review conducted by the OECD in 2011 concludes that this relationship is “complex and context-specific,” i.e. contingent upon the specificities of each economy. Common determinants shaping the trade-informality nexus include labour market rigidity, capital mobility, level of economic development, heterogeneity of the informal workforce, technological intensity and cultural norms. Adding to this complexity is the wide range of mechanisms structuring labour market outcomes, as well as the differentiation between short-term and long-term labour market adjustments – an expansion being more common in the short run but potentially followed by long-term contraction (OECD, 2013).

Likewise, the literature on trade liberalisation and informality in Latin American economies provides conflicting findings on the processes and outcomes of this relationship. Examining trade reforms in Colombia and Brazil in the 1980s and 1990s, Goldberg and Pavcnik (2003) find no evidence in the case of Brazil, and weak evidence in the case of Colombia, that trade liberalisation leads to increased informal employment. The conclusions of Menezes-Filho and Muendler (2011) on trade adjustment in Brazil are more ambivalent and contingent upon workers’ education levels and experience in the formal sector. By contrast, Dix-Carneiro & Kovak (2017) find that trade liberalisation does lead to prolonged decline in formal employment, and that these effects on Brazilian local labour markets tend to amplify in the long run.

If evidence on these regional trends is mixed, our analysis of sectoral dynamics, employment gains, and labour market adjustments, combined with context-specific data on trade liberalisation and informal employment in Mexico provide hints about the potential effects of a Modernised GA.

Results from the CGE modelling predict marginal labour market adjustments in the manufacturing sector, negatively affecting transport equipment, chemicals and petrochemicals, the textile industry (wearing apparel, leather products), and Mexico’s wood and paper products, as well as electrical and other machinery. However, the manufacturing sector is a segment of the labour market where informal


\(^{31}\) When the EU-Mexico Global Agreement went into force in 2000, agricultural employment still represented close to 18% of the workforce. This rate has since dropped to 13.4% in 2016 but may not reflect the extent of informality in agriculture (World Bank statistics).
employment is comparatively lower than it is in agriculture or the services industry (Figure 26). This means that the aggregate impact on informal employment is unlikely to be significant. Based on the findings of a recent World Bank study on trade and informal employment in Mexico, the share of informally employed workers may increase as a result of trade liberalisation, but this may also occur more as a result of the previously unemployed entering informal employment than as a direct consequence of workers’ displacement (Arias et al., 2013). A recent analysis of the regional dimensions of informality reveals that several factors associated with trade and financial liberalisation such as sectoral specialisation and FDI stocks are correlated with lower levels of informality. This would mean that the anticipated gains in trade under CGE modelling might lead to a marginal reduction in informal employment in the states benefitting from these trends.

Finally, diversifying Mexico’s trade relations can also contribute to a reduction of its dependence on US bilateral trade, thereby tempering the side-effects of US-Mexico business cycle synchronisation on the Mexican labour market. Indeed, the rise of Mexican informal employment in the aftermath of the financial crisis of 2009 - 2010 was directly linked to the decline of trade flows (Khanna, Newhouse, Paci, 2010).

4.4. CONCLUSIONS
This section has provided an overview of socio-economic trends in Mexico with regard to employment, poverty and inequality shedding light on the social progress accomplished by Mexico since the beginning of the century – e.g. the reduction of poverty with more mixed results in the fight against social inequality – while underlining the remaining challenges that Mexico still has to overcome, among which regional disparities, a large proportion of informal employment and a high level of income inequality, especially when compared to OECD countries.

The analysis of the anticipated effects of the Modernised EU-Mexico Global Agreement reveals the following findings:

- **Employment effects:**
  - The EU is expected to create about 20,000 unskilled labour jobs and 10,000 skilled-labour jobs, with most employment gains concentrated in milk and dairy, petrochemicals and chemicals, food products, motor vehicles and construction. Meanwhile, we anticipate potential job losses in sectors like other electrical machines, other machinery, and other manufacturing.
  - Mexico is expected to reap greater employment benefits, adding 75,000 unskilled jobs and 15,000 skilled jobs concentrated in sectors such as motor vehicle, other services, and to a lesser extent, agriculture, beverages, transport and almost all services. Potential losses are expected to be concentrated in dairy, chemicals, other machinery, energy, electrical machinery and metals.

- **Wage, inequality and poverty:** our analysis predicts that the Modernised GA will have limited effects on wages, and therefore, on inequality and poverty. Both the baseline and the analysis show that domestic reforms play a much more significant role in poverty and inequality reduction than trade. The extent to which trade liberalisation might produce winners and losers will depend on the implementation of social policies aimed at mitigating labour adjustment costs and addressing regional disparities. These include CCT policies, as well as targeted adjustment assistance programs that must reach out the most vulnerable segments of the population.

- **Informal employment:** The effects of trade liberalisation on Mexican informal employment are harder to predict given the mixed evidence: while labour adjustment costs might lead to an increase in informal employment in certain sectors, Mexican states in the North that are more open to trade and investment are likely to fare better than more isolated states in the South. Here again trends driven by domestic reforms, and more specifically, the current process of labour formalisation, are likely to prime over the more limited effects of trade liberalisation under a Modernised GA.

While domestic reforms continue to be instrumental for Mexico to reduce inequality and poverty, bilateral cooperation with the EU could also yield significant results, provided that the Trade and Sustainable Development (TSD) mechanisms are strengthened. This is particularly relevant to the enforcement of labour standards and the protection of human rights, which are discussed in greater details in the next section.
5. **HUMAN RIGHTS**

This chapter outlines the methodology for analyzing the potential human rights effects of the proposed modernisation of the Global Agreement (GA) and the associated analytical results. We argue that an updated EU-Mexico Global Agreement could have both positive and negative effects on the Mexican government’s willingness to respect specific human rights (the “supply side” of human rights\(^{32}\)) and citizens’ ability to demand their rights under domestic and international law (the “demand side”). Below, we provide the following table of contents demonstrating the analysis.

![Table of Contents](image)

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5.5.3.4 Right to Privacy (Offline and Online)
5.5.3.5 Access to Information and Freedom of Expression
5.5.3.6 Corruption

5.6 Conclusions

This chapter on human rights begins with a brief outline of the methodology followed to assess possible impacts of the Modernised GA on human rights (para. 5.1). This is followed by a baseline overview of human rights commitments, human rights performance, and trade obligations in the EU and Mexico in subsections 5.2 and 5.3. Thereafter, the team provides a summary of the screening results to build the scoping phase in subsection 5.4 of how the Modernised GA might affect government respect for human rights in both the EU and Mexico.

Finally, the chapter concludes with section 5.5 and 5.6 presenting an analysis of the potential impacts of the proposed trade measures on specific human rights identified during the screening process according to the Commission’s “Guidelines on the analysis of human rights impacts in impact assessments for trade-related policy initiatives” (hereafter referred to as “the Guidelines”). This section also includes a limited empirical analysis which compares the effects of NAFTA and the 2000 global agreement on various types of human rights (EU Commission DG Trade, 2015).

5.1 METHODOLOGY

To assess the potential human rights impacts of the updated trade agreement, we examined the roadmap for the agreement, the EU textual proposals for the Modernised GA, the agreement in principle, released on the EU website (European Commission, 2018). In line with the EU’s overall approach the “political” part of the Modernised GA recognises that human rights are an “essential element” of the partnership between the EU and Mexico (general “essential elements clause”). In addition, the trade part of the agreement contains an extensive “trade and sustainable development” chapter setting out, inter alia, commitments related to the ratification and implementation of core international labour standards.

Scholars are just beginning to understand how laws and policies not directly designed to advance specific human rights can have human rights spillovers. We note that in trying to assess the human rights effects of the agreement, readers and policymakers should be aware of several caveats related to any such analysis:

- Scholars, policymakers, and activists have yet not achieved consensus as to whether or not human rights provisions in trade agreements improve specific human rights or even affect a government’s willingness to protect, respect and remedy human rights.33
- Where a trade agreement has language that requires a government to behave in a certain specific way, it is may be easier for researchers to attribute an improvement or a decline in respect for a particular human right to that agreement (the “supply side” of human rights).
- It is difficult to assess if a particular law, regulation, or agreement has any effects on citizens’ sense of empowerment (the “demand side” of human rights because there are few surveys).
- Without clear empirical data it is difficult to see if changes in a government’s behaviour as a result of a trade agreement have empowered individuals to demand their rights.
- Finally, Mexico has ratified 12 free trade agreements with other countries that are important markets for Mexico. Several of these agreements are with Mexico’s neighbours and most important trade partners such as the US, and hence, these agreements are likely to have greater effects on the Mexican government’s willingness, ability, expertise, and funds to respect human rights. As a

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33 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.
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result, scholars struggle to differentiate the effects of the EU-Mexico GA from other agreements (Aaronson, 2011).

- A trade agreement can have ever changing direct and indirect effects on human rights. Moreover, these effects can change over time.

This chapter draws on the experiences made in terms of the human rights impacts of these agreements to assess the potential impacts of the Modernised GA. Appendix 4 includes a detailed empirical analysis of how the Modernised GA may affect specific human rights.

With these limitations in mind, the team built on the three-step process outlined in the Commission’s SIA Guidelines: screening, scoping, and a detailed assessment.

Our analysis can be best understood by reviewing Table 15 below where we list a wide range of human rights recognized in the International Labour Organization (ILO) conventions and the Universal Declaration of Human Rights (UDHR), in addition to other issues of concern. It also delineates which human rights may be directly, indirectly, or not affected by a trade agreement (whether a WTO agreement or FTA). We define directly affected as language in a trade agreement that obligates a government to respect, protect, or promote a particular human right. Such language can also directly empower citizens and make it easier for them to demand their rights under international law. This language may or may not be explicit or may or may not use human rights terminology (such as due process or political participation). We define indirectly affected as language in a trade agreement that alters a government’s practices which in turn can have secondary effects on a government’s willingness or ability to respect human rights or alter the environment in which people can more or less easily demand their rights. We note that such language is generally explicit, but it can also be implicit. In discussing exceptions chapters in trade agreements, we use ‘yes’ when the language explicitly protects the right and ‘possible’ when it could be used to protect a specific right. The screening phase of our analysis undertakes an overview of both possible direct and indirect human rights impacts in order to narrow down our selection in the scoping phase where only those with direct effects will be selected for prioritised analysis.

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 access to information to review and challenge trade-related regulations. These regulations can affect market-actor behaviour and spill over into the polity as a whole. We examine these relations in our empirical analysis later in the chapter.

Table 14: 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 any trade agreement language?</th>
<th>Included in Exceptions Chapter of any trade agreement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILO CORE LABOUR 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>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Rights of migrant and contingent workers</th>
<th>C97, C143</th>
<th>Directly</th>
<th>Yes</th>
</tr>
</thead>
</table>

| **UNIVERSAL DECLARATION OF HUMAN RIGHTS** | | | |

| Woman’s rights (equality between women and men) | Preamble, 16 | — | — |
| Right to life | 2 | — | — | Possible |
| Right to liberty | 2 | — | — | |
| Right to security of person | 3 | — | — | Possible |
| Right to prevention of torture | 5 | — | — | |
| Right to prevention of arbitrary arrest, detention, or exile | 9 | — | — | |
| Right to fair and public hearing | 10 | Directly (re: administrative proceedings) | Yes | — |
| Right to due process | 6, 10, 11 | Directly | Yes | — |
| Right to presumption of innocence | 11 | — | Yes | — |
| Right to non-retroactive penal code | 11 | — | — | — |
| Right to privacy | 12 | Directly | Yes | Yes |
| Right to freedom of movement | 13 (1) | — | — | — |
| Right to leave the country and return | 13 (2) | — | — | — |
| Right to seek and enjoy asylum | 14 | — | — | |
| Right to a nationality | 15 | — | — | — |
| Right to protection of property rights | 2, 17 | Directly | Yes | — |
| Right to freedom of thought, conscience, & religion | 18 | — | — | — |
| Right to access to information | 19 | Directly | Yes | Yes |
| Right to freedom of assembly and association | 20 | Directly | Yes | — |
| Right to political participation | 21 (1) (3) | Directly (implicit) | Yes | — |
| Right to equal access to public services | 21 (2) | Directly | Yes | Yes |
| Right to social security | 22 | — | — | — |
| Right to work | 23 (3) | Directly | — | — |
| Right to equal pay for equal work | 23 (2) (3) | Directly | — | — |
| Right to an adequate standard of living | 25 | Directly | — | — |
| Right to special care, motherhood, and childhood | 25 | — | — | — |
| Right to health | 25 | Directly (if cannot afford to pay) | — | Possible |
| Integration of persons with disabilities | 25 | Directly | — | Yes |
| Right to education | 26 | Indirectly | Yes | — |
| Right to just and favourable remuneration | 26 | Directly | — | — |
| Right to culture (cultural/religious/linguistic diversity) | 27 | Directly | Yes | Yes |

**OTHER CONVENTIONS**

| Rights of vulnerable groups+ | Indirectly | — |
| Rights of indigenous peoples | UN Declaration on the Rights of Indigenous Peoples (UNDRIP) | Indirectly | 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 on Trade-Related Aspects of Intellectual | Directly | Yes | — |
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<table>
<thead>
<tr>
<th>Property Rights (TRIPS)</th>
<th>NON-HUMAN RIGHTS (OTHER ISSUES OF CONCERN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule of law</td>
<td>Directly</td>
</tr>
<tr>
<td>Corruption</td>
<td>Directly</td>
</tr>
<tr>
<td>Impact on poverty and/or income inequality</td>
<td>Indirectly</td>
</tr>
</tbody>
</table>

5.2. HUMAN RIGHTS IN THE EUROPEAN UNION

5.2.1 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 (EUEA, 2016). The EU Charter of Fundamental Rights (adopted in 2000) gives binding legal effects to all treaties adopted after the Lisbon Treaty and expands individual fundamental rights in line with the EU’s core values, including freedom, equality, human dignity, and the rule of law (EU Commission, 2000). In addition, 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 external policies (EUEA, 2016). Not surprisingly, the EU attempts to adhere to these guidelines as it proposes language for its trade agreements.

5.2.2 International Human Rights Commitments

The EU has extended its human rights commitments to the international human rights normative framework, including but not limited to the following core international and regional human rights treaties:

1. International Covenant on Civil and Political Rights (ICCPR);
2. Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW);
3. International Convention on the Elimination of all Forms of Racial Discrimination (ICERD);
4. International Covenant on Economic, Social, and Cultural Rights (ICESCR);
5. Declaration on the Rights of Indigenous Peoples (UNDRIP);
6. Convention on the Rights of the Child (CRC);
7. Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT);
8. International Convention on the Rights of Persons with Disabilities (ICRPD); and

All EU Member States have also ratified all eight of the International Labour Organization (ILO)’s fundamental conventions on labour rights, as well as its “priority” governance convention on labour inspection—Labour Inspection Convention, 1947 (No. 81) (ILO, 2017).
<table>
<thead>
<tr>
<th>Commitment/Legislation</th>
<th>Effective Date</th>
<th>Summary of Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Declaration of Human Rights (UDHR)</td>
<td>1948</td>
<td>- Establishes privacy as a human right</td>
</tr>
<tr>
<td>EU Charter of Fundamental Rights</td>
<td>18 Dec 2000</td>
<td>- EU citizens have the right to protection of their personal data</td>
</tr>
</tbody>
</table>
- Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of data and on the free movement of such data  
- An essential step to strengthen citizens’ fundamental rights in the digital age and facilitate business by simplifying rules for companies in the digital single market  
- Is a single law that will do away with the current fragmentation and costly administrative burdens |
| The Police Directive                                             | 25 May 2018             | - Directive (EU) 2016/680 on the protection of natural persons regarding processing of personal data connected with criminal offences or the execution of criminal penalties, and on the free movement of such data  
- Protects citizens’ fundamental right to data protection whenever criminal law enforcement authorities use personal data  
- Will ensure that the personal data of victims, witnesses, and suspects of crime are duly protected and will facilitate cross-border cooperation in the fight against crime and terrorism |
| Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 | 1 Dec 2001 | - On the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data  
- On 10 January 2017, the Commission put forward a proposal to amend those rules to bring them in line with the General Data Protection Regulation (GDPR) |


5.2.3. The EU’s Human Rights Record

While the EU has competence 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 remedying human rights. Nonetheless, EU Member States vary in their ability, funding, and
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will to address their human rights responsibilities.\textsuperscript{34} We outline some of the EU's human rights challenges. However, we note that a Modernised GA with Mexico is unlikely to have any direct effects on EU Member States or the EU's ability to protect, respect, and remedy these rights.

5.2.3.1. 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.\textsuperscript{35} 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 (FRA, 2015). 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 (FRA, 2016).

5.2.3.2. Rights of the Child

Despite rising economic growth in the EU, the 2016 FRA report found that 28 percent 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 (FRA, 2016).

5.2.3.3. Right to Privacy (Offline and Online)

Annex 4 delineates EU commitments and domestic laws on the right to privacy and protecting privacy online (data protection). According to the European Agency for Fundamental Rights (FRA), these are two separate and yet interrelated rights.

The FRA notes that “the right to privacy concerns situations where a private interest, or the “private life” of an individual, has been compromised.” Courts have interpreted this right as covering intimate situations, sensitive or confidential information, information that could prejudice the perception of the public against an individual, and even aspects of one’s professional life and public behaviour (Ibid, 2016). The EU is in the process of revising its e-Privacy Directive to fit new technologies.

The EU requires that personal data must always be protected when processed. Data protection concerns all kinds of personal data and data processing, irrespective of the relationship and impact on privacy (FRA, 2018). The EU recently revised its rules on data protection (GDPR) and these rules went into effect in May 2018 (FRA, 2018).

The EU is still considering how to balance encryption which protects privacy with “challenges posed by the use of encryption by criminals” (Ibid, 2018). The EU is already rethinking how to ensure that the GDPR and related rules can meet the challenge of big data, especially related to artificial intelligence and robotics. The FRA notes that policymakers are just beginning to weigh the risks to individual rights (Ibid, 2018).

5.3. HUMAN RIGHTS IN MEXICO

Mexico is an upper middle-income country. As more Mexicans have joined the middle class, they have demanded that their leaders improve their quality of life and their access to important public goods such


as education and public health. Mexico has made mixed progress towards that goal. According to the most recent Universal Periodic Review (UPR) conducted by the UN's Human Rights Council as well as comments made to us during stakeholder consultations in Mexico, human rights violations in Mexico are widespread and carried out by the Mexican government in a systematic way (UPR, 2018; LSE Consulting Stakeholder Consultation Results, 2018). Despite passing several governance-oriented structural reforms in the last 10 years, in 2015, the Inter-American Commission on Human Rights (IACHR) also documented a wide range of human rights abuses in Mexico, concluding that it amounted to a “crisis of gross human rights violations” (HRW, 2017).

While specific human rights issues will be addressed in detail below, the most recent UPR concluded that despite some progress, the level of violence in Mexico remained alarmingly high and underlined the excessive use of force and extrajudicial killings by the army and the police. Additionally, armed violence, drug trafficking and the fight against organized crime had resulted in the killing of numerous children. The UPR also noted that Mexico has not adequately addressed discrimination against girls and women. UN-Women stated that 66 per cent of women had suffered at least one incident of emotional, economic, physical or sexual violence or discrimination during their lives (UPR, 2018).

The following sections will dive deeper into such human rights issues. We will begin by providing an overview and making a number of general remarks about the human rights situation in Mexico (sections 5.3.1 – 5.3.3). Thereafter, we will focus on more specific human rights issues (sections 5.3.3.1 – 5.3.3.6).

### 5.3.1 Institutional Legal Framework

Mexico’s laws now resemble those of other high and middle income OECD nations, but its respect for the rule of law is inadequate. Policymakers who seek to respect human rights must first draft and approve laws that meet domestic and/or international standards. But they must also provide adequate funding, monitor through national and local human rights institutions, and possess the will to protect the human rights of citizens. Thus, while Mexico has bolstered its human rights laws and institutions, international observers assert that Mexican officials do not consistently protect, respect, and remedy human rights. In our stakeholder meetings, attendees urged the EU to boost human rights capacity building and strengthen enforcement mechanisms.

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 (IACHR, 2015). 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 (Ibid, 2015).

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) (Ansolabehere, 2016). 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 (Ibid, 2016). With the regime change, Mexico 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

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36 LSE Consulting “Sustainability Impact Assessment (SIA) Mexico City Stakeholder Consultation, April 20, 2018, 3. (See p. 279—the summary says as follows, “A representative followed by highlighting the role of human rights defenders and activists, recognizing that violations against them in Mexico are widespread. It is important that in the trade agreement, human rights defenders have access to platforms to report violations. The representative expressed the need for a focus on regular dialogue of the situation on the freedom of activists, perhaps through the inclusion of specific cases in periodic reviews”).
37 Mexico City Stakeholder Consultation Workshop, April 20th, 2018, 3.
38 The Reform Act of 1847 included a list of fundamental individual rights, later added to the Constitution of 1857. Additionally, some social protections, including labour rights, were added to the Constitution of 1917 as a response to citizens’ demands.
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govern fairly and protect the fundamental rights of its citizens (IACHR, 2015). Mexico also gradually expanded the definition of fundamental rights to include more 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) (Dueñas, 2009).

However, some observers argue that the Mexican government has not sufficiently focused on solving the nation’s long term problems of sufficiently investing in its people and its governance. They note that most recent administrations have focused on achieving short-term results (Fisher; Taub, 2017). Participants in our one day Workshop underlined such observations.

Under Peña Nieto, the Mexican government struggled to reduce extrajudicial killings, enforced disappearances, and torture. His government was also criticized for corruption and for providing inadequate public services. The criminal justice system routinely fails to provide justice to victims of violent crimes and human rights violations (HRW, 2018).

Mexico’s problems with inadequate governance are generally linked to a relatively weak institutional structure and widespread corruption. 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 (Dueñas, 2009). 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 for the right. Many members of the police, criminal investigators, prosecutors, and judges are said to be corrupt, poorly trained, and often under-resourced. Impunity remains a major problem, and organized crime has infiltrated local and state governments (USDS, 2017). Mexicans are responding to government corruption and inadequate governance with distrust and frustration. Consequently, the Mexican government and judiciary to the Odebrecht corruption scandal. During the stakeholder meetings, several participants expressed concern about corruption and they wondered how the EU Mexico FTA could actually encourage change. (This is an example of how Mexico’s inadequate governance makes it harder to enforce human rights and address long term issues.)

However, the newly elected President, Andres Manuel Lopez Obrador (AMLO) has frequently mentioned that he is determined to improve Mexico’s human rights performance. In 2018, before his election, Lopez Obrador stated “We’re interested in the UN’s support to verify that our country will respect human rights, that no more violations of human rights will happen ever again, like the terrible, painful cases such as the disappearance of the young men from Ayotzinapa” (Telesur, 2018). The Guardian reports that he wants to deal with the causes from which insecurity and violence originate. “I am convinced that the most effective and humane way of fighting these ills involves combating inequality and poverty. Peace and tranquility are fruits of justice” (reported in The Guardian, 2018).

The AMLO Administration has taken some steps to improve human rights conditions. In a review of his first 100 days, the administration said it will allot some $20 million and seek help from international institutions such as the UN and Red Cross to battle disappearances and identify roughly 26,000 bodies. The government also welcomed migrants who want to move to the US, but must wait in Mexico until the USG reviews their applications.

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39 In 2017, Mexico’s governing 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.

40 Stakeholder meeting in Mexico, p. 4.

41 Carin Zissis, Counting Down the First 100 Days of AMLO’s Presidency March 10, 2019, https://www.as-coa.org/articles/counting-down-first-100-days-amlos-presidency
5.3.2. International Human Rights Commitments

Tables 16 - 21 below present the International Human Rights agreements Mexico has committed to.

**Table 16: Mexico’s International 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>
<tr>
<td>International Convention on the Elimination of All Forms of Racial Discrimination</td>
<td>CERD</td>
<td>1 Nov 1966</td>
<td>20 Feb 1975</td>
</tr>
<tr>
<td>International Covenant on Economic, Social and Cultural Rights</td>
<td>CESCIR</td>
<td>—</td>
<td>23 Mar 1981 (a)</td>
</tr>
<tr>
<td>International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families</td>
<td>CMW</td>
<td>22 May 1991</td>
<td>8 Mar 1999</td>
</tr>
</tbody>
</table>


---

42 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 modernisation of the trade part of the Global Agreement with Mexico

Table 17: Mexico’s ILO Commitments

<table>
<thead>
<tr>
<th>Fundamental ILO 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>1 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>1 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>
<tr>
<td>C098 - Right to Organise and Collective Bargaining Convention, 1949 (No. 98)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>


Table 18: Mexico’s Inter-American Human Rights Commitments

<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>2 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>8 Jun 1999</td>
<td>6 Dec 2000</td>
</tr>
<tr>
<td>Inter-American Democratic Charter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declaration of Principles on Freedom of Expression</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico**

<table>
<thead>
<tr>
<th>Principles and Best Practices on the Protection of Persons Deprived of Liberty in the Americas</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Convention on the Granting of Civil Rights to Women (A-45)</td>
<td>2 May 1948</td>
</tr>
<tr>
<td>Inter-American Convention on the Granting of Political Rights to Women (A-44)</td>
<td>—</td>
</tr>
<tr>
<td>Inter-American Convention Against Racism, Racial Discrimination and Related Forms of Intolerance (A-69)</td>
<td>—</td>
</tr>
<tr>
<td>Inter-American Convention Against All Forms of Discrimination and Intolerance (A-69)</td>
<td>—</td>
</tr>
<tr>
<td>Inter-American Convention on Protecting the Human Rights of Older Persons (A-70)</td>
<td>—</td>
</tr>
</tbody>
</table>

**Source:** Organization of American States, Department of International Law – Multilateral Treaties, 2017, [http://www.oas.org/dil/treaties_signatories_ratifications_subject.htm](http://www.oas.org/dil/treaties_signatories_ratifications_subject.htm).

**Table 19: Mexico’s International Commitments Related to Privacy**

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Article No.</th>
<th>Effective Year</th>
<th>Type</th>
<th>Summary of Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Declaration of Human Rights (UDHR)</td>
<td>12</td>
<td>1948</td>
<td>International</td>
<td>Establishes the right to privacy as a human right</td>
</tr>
<tr>
<td>UN International Covenant on Civil and Political Rights (ICCPR)</td>
<td>17</td>
<td>1981</td>
<td>International</td>
<td>Freedom from arbitrary or unlawful interference (Art. 17)</td>
</tr>
<tr>
<td>UN Convention on the Rights of the Child (CRC)</td>
<td>16</td>
<td>1990</td>
<td>International</td>
<td>Children have a right to privacy. The law should protect them from attacks against their way of life, their good name, their families and their homes. (Art. 16)</td>
</tr>
<tr>
<td>UN Guidelines for the Regulation of Computerized Personal Data Files</td>
<td>n/a</td>
<td>1990</td>
<td>International</td>
<td>The guidelines lay out 10 principles to provide minimum guarantees of privacy protection for personal data, including individual privacy, data security, and risk and human assessment and risk mitigation.</td>
</tr>
<tr>
<td>UN International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (CMW)</td>
<td>16</td>
<td>1999</td>
<td>International</td>
<td>Migrant workers have a right to privacy, which extends to one’s home, family and all communications. (Art. 14)</td>
</tr>
</tbody>
</table>

**Source:** Prepared by Kimberly R. Bullard with data from the Universal Periodic Review: Mexico (2013)
<table>
<thead>
<tr>
<th>Commitment</th>
<th>Article No.</th>
<th>Effective Year</th>
<th>Type</th>
<th>Summary of Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexican National Constitution</td>
<td>16</td>
<td>1917</td>
<td>Constitutional</td>
<td>Provides for right to privacy, including protection of the person, his/her family,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>documents or possessions, and the confidentiality of correspondence</td>
</tr>
<tr>
<td>Mexican National Constitution</td>
<td>6</td>
<td>1977</td>
<td>Constitutional amendment</td>
<td>Addresses the right to government information for the first time, stating “access to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>information will be guaranteed by the State”</td>
</tr>
<tr>
<td>Mexican National Constitution</td>
<td>6</td>
<td>2007</td>
<td>Constitutional amendment</td>
<td>Established principles of transparency and provides minimum standards for access to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>public information at the federal, state, and municipal level</td>
</tr>
<tr>
<td>State of Sinaloa Legislation</td>
<td>n/a</td>
<td>2002</td>
<td>State law</td>
<td>The first local to access to information law is approved by the Congress of the State</td>
</tr>
<tr>
<td>Federal Transparency and Access to Public</td>
<td>n/a</td>
<td>2003</td>
<td>Federal Law</td>
<td>- Regulates the right of everyone to access information held by government bodies,</td>
</tr>
<tr>
<td>Government Information Law (LFTAIPG),</td>
<td></td>
<td></td>
<td></td>
<td>and sets forth the criteria, procedures and principles by which the right of access</td>
</tr>
<tr>
<td>(Federal Transparency Law)</td>
<td></td>
<td></td>
<td></td>
<td>before federal authorities can be enforced</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Standardises principles under which the various organs of the State must process</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>citizens’ personal data, including consent and purpose specification principles, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>guarantees of rights of access and correction</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Provides that all government information is public and instructs government</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>authorities to uphold and promote the principle of maximum disclosure and availability</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>of information”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Citizens can file requests electronically through the Sistema de Solicitudes de</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Información (SISI)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Applies to and regulates federal government organisations and their public servants</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>in relation to how they should administer and treat information relating to the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>private life of individuals</td>
</tr>
<tr>
<td>Mexican National Constitution</td>
<td>16</td>
<td>2009</td>
<td>Constitutional amendment</td>
<td>Provides for protection of personal data, recognising the rights of citizens to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>access, correct, cancel, or oppose the management of their personal data</td>
</tr>
<tr>
<td><strong>Mexican National Constitution</strong></td>
<td>73 (XXIX-O)</td>
<td>2009</td>
<td>Constitutional amendment</td>
<td>Grants Congress the power to protect, and regulate the use of, personal data held by private entities</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------------</td>
<td>------</td>
<td>--------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Mexican Penal Code (Código Penal Federal)</strong></td>
<td>210, 211, 211 Bis</td>
<td>—</td>
<td>National Regulation</td>
<td>Permits sanctions ranging from 6 to 12 years of imprisonment and fines of 300 to 600 days of salary for those who reveal, disclose, or unduly use to the detriment of others, information or images obtained during the interception of a private communication</td>
</tr>
<tr>
<td><strong>Mexican Penal Code (Código Penal Federal)</strong></td>
<td>211 Bis (1 – 4)</td>
<td>—</td>
<td>National Regulation</td>
<td>Addresses the issue of cybercrime and provide substantial penalties for individuals who modify, copy, destroy, or cause loss of information contained in secure computer systems and equipment (including governmental and financial computer systems and equipment)</td>
</tr>
<tr>
<td><strong>Mexican Penal Code (Código Penal Federal)</strong></td>
<td>214</td>
<td>—</td>
<td>National Regulation</td>
<td>Protects the disclosure of personal information held by government agencies</td>
</tr>
</tbody>
</table>
| **Federal Law on the Protection of Personal Data held by Private Parties (LFPDPP), (Federal Personal Data Law)** | N/A | 2010 | Federal Law | - Establishes a general data protection framework  
  - Creates a new set of obligations for companies and private entities that collect, process, store or manage personal data, outlining rules, requirements and obligations to ensure proper treatment of personal data  
  - Creates a new set of obligations for companies and private entities that collect, process, store or manage personal data, outlining rules, requirements and obligations to ensure proper treatment of personal data  
  - Provides that companies handling personal data must furnish notice to the affected persons, and individuals have rights of access, correction and objection (on “legitimate grounds”) to processing or disclosure  
  - Gives additional protections to sensitive personal data  
  - Designates the Federal Institute for Access to Information and Data Protection (IFAI) as the guarantor authority which oversees the regulation, verification and adjudication processes, as well as administration of sanctions and penalties |
| **General Law of Transparency and Access to the** | N/A | 2015 | Federal Law | Provides general guidelines that will be adjusted to federal and local laws and which relate to: transparency and |
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Public Information (General Transparency Law)</th>
<th></th>
<th>access to public information, and data held by public individuals and organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guidelines of the Federal Institute for Information Access and Data Protection, regarding Personal Data gathered and treated by the Public Federal Administration and their employees (Data Protection Guidelines)</td>
<td>N/A</td>
<td>2017</td>
</tr>
<tr>
<td>Federal Law</td>
<td></td>
<td>- Specifically regulates the general politics and procedures the Federal Government and their public servants must observe to achieve the protections required by the Mexican Constitution and the Federal Transparency Law</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Requires amendments to other federal and state laws to align with this general law within 6 months (i.e. by Aug 2017)</td>
</tr>
</tbody>
</table>


Mexico has also ratified all eight International Labour Organization (ILO)’s fundamental conventions on labour rights. Finally, 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.43

5.3.3. Mexico’s Trade Commitments and Human Rights

Mexico is a member of the World Trade Organization (WTO) and joined its predecessor, the General Agreement on Trade and Tariffs (GATT), in 1986. It is a signatory of other key trade agreements including NAFTA and the CPTPP. Both of these agreements have explicit and implicit human rights provisions. NAFTA 2.0, and CPTPP were very much influenced by Canadian and US human rights priorities including language on anticorruption, good governance, indigenous rights,44 access to information, and labor rights (Aaronson, 2009 and Global Affairs Canada: 2019 (https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cpptpp-pptcpp/chapter_summaries-sommaires_chapitres.aspx?lang=eng)45.

Under trade agreement rules, member states must apply the same rules and privileges to both domestic and foreign actors. These provisions may prod policy makers to provide access to information and enforce rights to due process and public comment in countries where governance is not transparent and participatory. In repressive states, trade agreements may empower domestic market actors (consumers and taxpayers, as well as producers) who may not have been able to use existing domestic remedies to obtain information, influence policies, or challenge their leaders (Aaronson and Abouharb 2011). In countries without a strong democratic tradition, member states may make these changes because they want to signal investors that they can be trusted to enforce property rights; uphold the rule of law; and act in an evenhanded, impartial manner (Dobbin, Simmons, and Garrett 2007; Buthe and Milner 2008; Mansfield and Pevehouse 2008, 273). The indirect effects of these provisions can be to enhance trade and trust, but over time, these rules may also improve the governance environment—the context for human rights.

43 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, in 2011, Mexico agreed to these commitments. 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/Mexico2016-en.pdf.
# Table 21: Human Rights Language of Mexico’s Free Trade Agreements

<table>
<thead>
<tr>
<th>FTA/Partner(s)</th>
<th>Date</th>
<th>Source Article(s)</th>
<th>Explicit Human Right?</th>
<th>Included in Text?</th>
<th>Aspirational/Binding?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NAFTA (Canada, Mexico, United States)</strong></td>
<td>1 Jan 1994</td>
<td>Ch.12, Art. 1208</td>
<td>Non-discrimination</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 8</td>
<td>Due process</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 7, Art. 718</td>
<td>Transparency</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 13, Art. 1306</td>
<td>Right to Intellectual Property</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 17, Art. 1701</td>
<td>Right to privacy</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annex 803.3</td>
<td>Political participation</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chapter 14, NAALC</td>
<td>Labour rights</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Arts. 1414 and 1415</td>
<td>Freedom of association</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 10, Art. 1018</td>
<td>Right to Intellectual Property</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td>1 Jan 1995</td>
<td>Ch. 11, Art. 1110, Ch. 12, Art. 1210</td>
<td>Transparency</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 18</td>
<td>Right to Intellectual Property</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td><strong>Chile</strong></td>
<td>1 Aug 1999</td>
<td>Ch. 12, Art. 1207</td>
<td>Transparency</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 9, Art. 916</td>
<td>Due process</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ch. 19, Art. 1903</td>
<td>Parties are not required to disclose information that would violate their national privacy laws or impede law enforcement</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Israel</strong></td>
<td>1 Jul 2001</td>
<td>Art. 7-05</td>
<td>Right to Intellectual Property</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Arts. 6</td>
<td>Non-discrimination</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Art. 1-03</td>
<td>Transparency</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>European Union Global Agreement</strong></td>
<td>1 Oct 2000</td>
<td>Preamble</td>
<td>Labour rights</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>1 July 2001</td>
<td>Preamble</td>
<td>Right to work</td>
<td>Yes</td>
<td>Aspirational</td>
</tr>
</tbody>
</table>

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### European Free Trade Association (EFTA)

<table>
<thead>
<tr>
<th>Preamble</th>
<th>Right to adequate standard of living</th>
<th>Yes</th>
<th>Aspirational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts. 11 (2), 79</td>
<td>Transparency</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Art. 1 (2f)</td>
<td>Right to Protection of Intellectual Property</td>
<td>Yes</td>
<td>Aspirational</td>
</tr>
<tr>
<td>Arts. 17, 39 (1), 44</td>
<td>Non-discrimination</td>
<td>Yes</td>
<td>Binding</td>
</tr>
<tr>
<td>Art. 24 (2) (3)</td>
<td>Right to privacy (offline)</td>
<td>Yes</td>
<td>Binding</td>
</tr>
<tr>
<td>Art. 39 (1)</td>
<td>Right to data protection and privacy (offline)</td>
<td>Yes</td>
<td>Aspirational</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Transparency</th>
<th>Right to Intellectual Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uruguay</td>
<td>15 July 2004</td>
<td>Transparency</td>
<td>Right to Intellectual Property</td>
</tr>
<tr>
<td>Japan</td>
<td>1 Apr 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perú</td>
<td>1 Feb 2012</td>
<td></td>
<td>Right to Intellectual Property</td>
</tr>
<tr>
<td>Central America</td>
<td>1 Sep 2012 - 1 Sep 2013</td>
<td></td>
<td>Transparency</td>
</tr>
<tr>
<td>Pacific Alliance</td>
<td>1 May 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>1 Jul 2015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


### 5.3.4. Mexico’s Human Rights Record

Figures 27 - 31 depict both Mexico’s current human rights performance and governance abilities. While scholars and international organisations have developed a few datasets, they have only succeeded in developing data on a few human rights issues. We rely on internationally accepted, replicable, and publicly available datasets. 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 present a picture of the direction in which Mexico is going.

#### 5.3.4.1. Respect for Human rights

For the examination of the respect of human rights, we first use Factor 4 (“Fundamental Rights”) from the World Justice Project (WJP)’s Rule of Law Index - 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. Figures 30 and 31 provide snapshots of trends in Mexico’s respect for human rights from different datasets.

Figure 27: Mexican Citizens’ Perception of State Respect for Select Human Rights

Source: Prepared by Kimberly R. Bullard with data from the World Justice Project (2018). Note: Scores range from 0 to 1 (with 1 indicating strongest protection of human rights).

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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.
5.3.4.2. Quality of Governance

We next examine quality of governance as it affects a country’s ability to protect, respect and remedy its citizens’ human rights. To examine quality of governance, Figure 29 uses the World Bank’s Doing Business Database for the period 2003 - 2016. This dataset does not seek to examine trade per se, but instead focuses on known metrics of quality of governance. Nations with effective governance are more likely to enable their firms and individuals to participate in trade. The “enforcing contracts” indicator measures the time and cost to resolve a commercial dispute through a local first-instance court; the “quality of judicial processes” index evaluates whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. The World Bank argues that economic and social progress cannot be achieved without respect for the rule of law and effective protection of rights, both of which require a well-functioning judiciary that resolves cases in a reasonable time and is predictable and accessible to the public (World Bank, 2018). The Bank notes that unnecessary bureaucracy and redundant procedures add to the time and cost for border and documentary compliance, which can make it harder for people and firms in that country to trade (World Bank, 2018).

The data reveals that Mexico is gradually improving its performance on enforcing contracts: at the same time its performance is relatively poor compared to other OECD countries. Using 2017 data, among countries in the Latin America and Caribbean region, Mexico ranks higher. It ranks as 4th on enforcing contracts and 12 on trading across borders (World Bank, 2017).

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Figure 28: Mexico’s Respect for Social and Economic Rights, 2005 – 2015

![Graph showing SERF Index Value over years](image)

<table>
<thead>
<tr>
<th>Index Type</th>
<th>2005</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right to Health</td>
<td>88.60</td>
<td>88.07</td>
<td>88.21</td>
<td>88.35</td>
<td>88.55</td>
<td>88.74</td>
<td>88.79</td>
</tr>
<tr>
<td>Right to Work</td>
<td>82.16</td>
<td>83.41</td>
<td>83.41</td>
<td>96.20</td>
<td>85.22</td>
<td>84.28</td>
<td>84.28</td>
</tr>
<tr>
<td>Right to Education</td>
<td>84.03</td>
<td>79.85</td>
<td>79.92</td>
<td>86.94</td>
<td>88.56</td>
<td>89.02</td>
<td>89.02</td>
</tr>
</tbody>
</table>


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48 The World Bank ranks economies on their ease of doing business, from 1–190. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2017. www.doingbusiness.org/Rankings
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Figure 29: Quality of Governance Related to Enforcing Contracts and Trading Across Borders


Figure 30 shows that Mexico also does not rank high on the Bertelsmann Governance Index (BTI), which evaluates the quality of governance according to the ability of a country’s decision-makers to guide political processes on a scale of 1 (lowest) to 10 (highest). Mexico is in the middle, and its performance is static. Bertelsmann notes that from 2012-2014, the country reformed significantly but that reforms came to a halt after the Ayotzinapa massacre of 43 students in 2014 (BTWI, 2018). Bertelsmann argues that Mexico based its model of development on its location next to the US and became overly dependent on the US as its major export market. A low Bertelsmann Governance Index has indirect impacts on Mexico’s ability to meet the supply side of human rights commitments as the capacity to do so is heavily reliant on a high level of governance quality and effective/responsive institutions.

Figure 30: Mexico’s Quality of Governance in the 21st Century

Source: Prepared by Kimberly R. Bullard with data from the Bertelsmann Stiftung (2018), https://www.bti-project.org/en/reports/country-reports/detail/ltc/mex/. Note: A score of 1 is the lowest and 10 is the highest. The Bertelsmann Stiftung (BTI)’s Management/Governance 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.

While Mexico’s performance declined slightly, other countries in the region slipped further. Figure 31 below, prepared by Bertelsmann for the 2018 report, shows democracy and effective governance weakening in Latin America. Bertelsmann argues that like Brazil and Argentina, Mexico is too dependent on commodity exports, has low levels of productivity and competitiveness as well as persistently high levels of social inequality (BTWI, 2018).
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Figure 31: Latin America Comparative Scores

Source: Both figures from Bertelsmann Stiftung 2018. « Key Findings Latin America and the Caribbean»
5.3.4.3. Rights of Indigenous Peoples

Approximately 15 percent of Mexicans are of indigenous descent. They number nearly 10 million (ECLAC, 2018). 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 (Hall; Patrinos, 2006). The principal indigenous groups include Náhuatl, Maya, Zapoteco, Mixteco, Otomí, Tzeltal, Tzotzil, Totonaca, Mazateco, and Chol (Fox, 1999).

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 (UNESA, 2009). 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 (OECD, 2013). 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)” (Vasquez, 2017). The UN found in 2009 that indigenous people in Mexico are less literate than their non-indigenous counterparts (UNESA, 2009).

The European Parliamentary Research Service ex post evaluation of the EU-Mexico GA, conducted for the European Parliament, noted 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” (Ioannides, 2017). Furthermore, the US Department of State reported in 2017 that indigenous women are “among the most vulnerable groups in society [and] they experienced racism, discrimination, and violence” (USDS, 2017).

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 resources, and extractive industries (USDS, 2017).

Human rights organisations such as Human Rights Watch and Amnesty International have repeatedly highlighted that the Mexican government lacks attention to these problems (HRW; Amnesty International, 2017).

Article 36.1 of the existing GA addresses the rights of indigenous and other vulnerable groups. It states: “The Parties shall conduct a dialogue on all aspects of the social agenda of interest to one or other Party. This should include topics related to vulnerable groups and regions such as: indigenous population, the rural poor, women on low incomes and other population groups living in poverty. (EC, 2000). However, this provision is limited to cooperation on social affairs and poverty and uses non-binding, aspirational language. The above-mentioned European Parliamentary Research Service ex post evaluation of the EU-Mexico GA found that the GA has not had any effect on the human rights situation of indigenous groups in Mexico (Ioannides, 2017).

5.3.4.4. Women’s Rights and Gender Inequality

Just like indigenous peoples, women in Mexico also face higher rates of poverty, unemployment, informal jobs, poorer health outcomes (e.g. a higher rate of maternal mortality), social and economic discrimination, historic marginalization, and violence. For example, using ILO data the World Bank and the OECD reported female workforce participation still trails behind that of men, despite significant improvements in equality of education attainment levels among men and women (OECD, 2017). In 2017, less than 45 percent of
women in Mexico participated in the labour force (compared to about 80 percent of men) (ILOSTAT, 2017). The OECD also found that approximately 60 percent of Mexico’s women work in the informal sector without workplace protections (OECD, 2017, pg. 19). These workers have lower pay, few safeguards against poverty, and less and inadequate access to social protection (Ibid, 2017).

The European Parliamentary Research Service ex-post evaluation of the EU-Mexico GA, also found that the majority of women work in lower pay (and/or lower quality) jobs (Ioannides, 2017, pg. 86 - 87). As an example, most women typically work in the agriculture or manufacturing/assembly services sector, especially in rural areas and the country’s most violent states (i.e. northern Mexico). Despite the creation of jobs and a slight increase of women working, the gender gap has persisted in other areas, including wages.

Scholars have demonstrated that expanded trade can have positive and/or negotiate effects on women. As production may shift to meet new demand, women may move out of agricultural employment into industrial employment or be more vulnerable to forced or contingent employment. NAFTA provides a good example of how this has occurred. After NAFTA went into effect, Mexican farmers could not compete against their US and Canadian counterparts (some of whom were heavily subsidized). To feed their families, women often moved into the export maquiladora sector. But women are often exploited in these sectors. Women mainly toil in low-quality, assembly jobs. In July 2017, the US Department of State noted multiple, new complaints about the poor working conditions in some maquiladoras, including “low wages, contentious labour management, long work hours, unjustified dismissals, the lack of social security benefits, unsafe workplaces, and the lack of freedom of association” (USDS, 2017, pg 36). Furthermore, it also found that, despite national legislation banning all types of slavery and compulsory labour, women (as well as indigenous persons and migrants) are most vulnerable to forced labour in Mexico (USDS, 2017, pg 36).

Not surprisingly, the feminization of poverty has increased due to a lack of other employment opportunities and a substantial gender pay gap. As noted above, even though Mexico’s Constitution (notably, Article 123) and laws protect social and economic rights and provide “equal pay for equal work performed in equal jobs, hours of work, and conditions of efficiency”, in practice gender discrimination is still a big problem (USDS, 2017, pg 22). Both Mexico’s National Women’s Institute (INMUJERES), the World Economic Forum, and the ILO have reported that women earn anywhere from 5 and 43 percent less than men for the same type of work (USDS, 2017, pg 22). In another example, the OECD reported about three-quarters of the work women do is unpaid and domestic housework and childcare, whereas men are employed more equally across a range of sectors (OECD, 2017, pg 23-24). However, we simply do not know how expanded trade could affect these numbers.

In addition, UN Women reported that due to the persistent social and economic inequalities, women and girls, like indigenous peoples, continue to face chronic marginalization and societal violence (UN Women, 2017).

In Mexico, women have:

Higher rates of inactivity (i.e. not in employment, education, or training, NEET);

- Lower quality jobs;
- Lack other employment opportunities;
- Poor and/or unequal working conditions;
- Feminization of poverty due to low pay and lack of jobs
- Barriers to advance to leadership roles at work;
- High rates of public and domestic violence;
- Uneven access to justice;
- High rates of adolescent pregnancy; and
Furthermore, Mexican laws to advance the rights of women may provide insufficient protection (HRW, 2017). Despite institutional advances such as stronger national laws promoting gender equality and more public resources, Mexican officials have been unwilling or unable to implement and enforce effective policies aimed at improving the situation of women in their country (UN Women, n.d.).

As discussed above, Article 36 and Article 37 of the existing GA address the rights of women. Rather than actionable language, the text employs suggestions to encourage the government of Mexico to prioritize cooperation, civil society dialogue, low-income individuals, job creation, poverty, and social affairs (EC, 2000). It states that “special attention shall be given to developing the role of women, particularly in the production process” (EC, 2000).

### 5.3.4.5. Rights of Migrants, Refugees, and Asylum Seekers

Policymakers and scholars do not know exactly how many people have crossed the border into Mexico in recent years. But we do have figures on how many undocumented migrants remain in Mexico each year. According to the UN Refugee Agency (UNHCR), approximately 500,000 people irregularly cross Mexico’s southern border annually. In 2017, Amnesty International, calculated there were at least 400,000 undocumented migrants in Mexico. Hence, the number of asylum claims is surprisingly low compared to the levels of migration. In 2016, Mexico received its largest number of asylum claims (6,898), primarily from individuals fleeing violence in the Northern Triangle region (El Salvador, Guatemala, and Honduras), and 2,162 people received refugee status (Amnesty International, 2017).

On paper, Mexican law and international commitments provide protection to migrants, refugees, and asylum seekers. As discussed above, Mexico ratified relevant human rights agreements such as the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families and the Convention on the Rights of the Child in the 1990s. More recently in 2011, Mexico passed the Law on Refugees, Complementary Protections, and Political Asylum, recognizing the right to asylum (Mexico, Cámara de Diputados de la Unión, 2014). Nonetheless, in Mexico, migrants, refugees, and asylum seekers continue to experience serious human rights violations (Amnesty International, 2017).

In 2016, Human Rights Watch (HRW) conducted several field visits and documented a pattern of discrepancies between Mexican law and practice regarding the rights of migrants, refugees, and asylum seekers (HRW, 2016). It found that the most persistent and grave human rights violations against migrants were violence, extortions, kidnappings, mass deportations, poor living conditions in migrant detention centres, lack of access to information, and no access to the right to a fair hearing. HRW researchers reported numerous inconsistencies between Mexican laws and their implementation (HRW, 2016).

The Washington Office on Latin America (WOLA) arrived at similar findings, describing how Mexico, under pressure from the US Southern Border Program and Mérida Initiative, has prioritized enforcement, deportation, and security over protection measures (Meyer, 2016). Consequently, human rights violations have increased (Ibid, 2016). Furthermore, in 2017, the US Department of State reported the migrants in Mexico are especially susceptible to forced labour (USDS, 2017).

Based on our literature review and the results of previous impact assessments, we found that Mexico’s trade agreements have not directly impacted the rights of migrants, refugees, and asylum seekers in the country. But clearly growing numbers of Mexicans fear an increase in the labour pool in Mexico and hesitate to grant permanent residence. Moreover, because of the Trump Administration’s anti-immigrant views, the Mexican government is under pressure from the United States to prevent Central American migrants from reaching the United States. As it renegotiated NAFTA, the Trump Administration both demonized the government and sought Mexican help in bolstering the border and preventing gangs and other migrants and crime (including drugs) from entering the United States (Stargardter, 2017). Meanwhile, anti-immigrant sentiment is rising in Mexico. Migrants and asylum seekers have been detained. Many of the newest migrants are not just families seeking refuge from gangs, but individuals seeking protection from...
persecution for being gay, transgender, etc (Washington Post, 2018).\(^{50}\) In 2019, individuals seeking refuge from Central America continued to enter the US at record levels.\(^{51}\)

### 5.3.4.6. Respect for Core Labour Standards and Workers’ Rights

Further to Mexico’s ratification, in September 2018, of ILO Convention 98 on the Right to Organise and Collective Bargaining it has now ratified all eight ILO’s fundamental conventions on labour standards and incorporated these commitments into domestic law (with respect to ILO Convention 98 implementation legislation is still pending adoption). In 2012, the administration of President Felipe Calderón passed the most comprehensive constitutional labour reform law since the 1970 (Oehri, 2017). The law was designed to increase productivity and economic growth; it included new rules against discrimination and harassment, new forms of individual labour contracts, new outsourcing requirements, updated sanctions, additional rights for working women, enhanced union transparency, establishment of training and productivity committees (UNAM, 2018). Some of these provisions could enhance labour rights, but others could make it harder for workers to achieve their rights.

Today, Mexican law includes workers’ rights such as: the right of workers to form and join unions, to bargain collectively, and to strike in both the public and private sectors, the prohibition of forced or compulsory labour, the prohibition of child labour for minors under age 15 years, the establishment of a minimum working age, discrimination with respect to employment or occupation regarding “race, nationality age, religion, sex, political opinion, social status, handicap (or challenged capacity), economic status, health, pregnancy, language, sexual preference, or marital status.”

However, Mexican workers still experience significant restrictions of freedom of association, collective bargaining, and the right to strike (Ioannides; USDS, 2017). Moreover, international organizations and unions have repeatedly complained that successive Mexican governments have not implemented ILO core labour standards or sufficiently reformed laws to improve working conditions. In explaining Mexico’s labour rights problems, observers have found that at times the government has been unwilling to engage in and implement change. Moreover, workers, employers, and other stakeholders are unaware of their labour rights responsibilities under Mexico’s laws. Finally, because many officials are susceptible to bribery and/or act with impunity, labor rights enforcement is uneven (Maquila Solidarity Network, 2017). The US Department of State notes that although government officials were supposed to put in place penalties for violations of freedom of association and collective bargaining, “such penalties were rarely applied and were insufficient to deter violations. Administrative and/or judicial procedures were subject to lengthy delays and appeals” (USDS, 2017). Hence, the failure to protect labour rights in Mexico is an educational, corruption, and inadequate governance problem.

Mexico has recently ratified ILO Convention 98 on collective bargaining. It will now be be subject to the convention’s oversight and reporting procedures, which will make it easier for workers to hold the government and firms to account for labor rights practices. The US Government has long argued that such a policy step would help reassure workers in Mexico as well as foreign investors that the institutions that are established as a result of the labor justice reform are, in law and practice, independent, transparent, objective, and impartial, with workers having recourse to the ILO’s oversight bodies to complain of any failure (USDS, 2017).

Unfortunately, labour unions in Mexico do not always work on behalf of the workers they are supposed to protect. Mexico has two main types of unions: the official, pro-government unions and independent unions. Official unions have strong, historical ties to the PRI political party and are affiliated with the country’s largest labour organisation, Confederación de Trabajadores de México (CTM). They prioritize government, pro-industry, and corporate interests. They are state-controlled and operate with the primary goal of opening Mexico up to international trade and investment but with little regard for workers. These unions do not regulate working conditions or salaries. Union representatives and leaders are not elected in representative elections with free and secret voting (UCLA, 2017). According to a study by the Frederich Ebert Stiftung, although Mexico’s unionization rate looks good on paper (some 90% of full time workers belong to a union) many of these unions are established by the government or firms and hence are not as

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\(^{50}\) Migrants and refugees from Central America – primarily Guatemala, El Salvador, and Honduras – account for the bulk of non-Mexicans arrested at the border. Some important sub-groups have emerged since 2014, including women and children traveling alone or lesbian, gay, bisexual, or transgender migrants fleeing threats or persecution at home.

accountable as worker established unions (Ibid, 2016). Moreover, many workers are not protected by a union; they are contingent (temporary or part time workers who are not under contract). Thus, Mexican workers often do not have a voice or access to transparent and democratic unions to demand better working conditions and their rights.

After NAFTA, companies began to use “protection contracts,” a secret deal negotiated between the government, employers, and labour unions. Bouzas and Gaitán (2001) define “protection contract” as one “signed by an employer with a union, or more properly with a person who controls a union registration and who guarantees that the employer can run the business without union opposition or worker demands, in exchange for remunerating the ‘union’ that offers these services with unions dues, at the least” (UNAM, 2015). Both domestic and foreign firms use “protection contracts to keep wages low and to maximize profits” (Al Jazeera, 2017). As an example, companies in the auto industry such as Ford and BMW, have repeatedly relied on “protection contracts” (ITUC, 2017). In its 2016 Survey of violations of trade union rights in Mexico, ITUC reported that both foreign carmakers had concluded such contracts establishing CTM-affiliated unions prior to construction of new plants and before hiring any workers, thus rigging the workplace before work actually began (Ibid, 2016).

The ITUC and others have routinely estimated that 9 out of 10 union and labour contracts in Mexico are “protection contracts.” In 2016, the ITUC and the Mexico’s National Workers Union (UNT) denounced their continued use to the IACH” (Ibid, 2016). In sum, these “protection contracts” make it harder for workers to freely and independently organize, collectively bargain, and strike. For these reasons, some labor rights activists would like the EU to hold companies to account for their practices in Mexico. However, trade agreements regulate the behaviour of governments, not corporations, although they can include language incentivizing better behaviour.

Mexico has a growing contingent workforce that are not adequately protected under labor laws (EY, 2016). Article 14 of the FLL establishes responsibilities for companies that use intermediaries for hiring workers. Workers shall have the right to provide their services under the same conditions and have the same rights that apply to other workers who perform work in the company or similar establishment (Grabell and Grober, 2014). But it is unclear if workers actually receive those protections. We could find no studies.

Analysts do not see labour rights conditions improving in Mexico. The ERPS Ex-Post Impact Assessment of the EU Mexico GA conducted for the European Parliament as well as the US Department of State describe how NGOs continue to report instances where independent unions and workers have been discouraged and prevented from exercising collective-bargaining rights. Other workers, union leaders, and employers favouring a specific union, and violent persons hired by a company have intimidated workers (USDS, 2017).

Workers are challenging trade related labor conditions. On January 25, 2018, AFL-CIO and UNT filed a formal complaint to the US National Office of the North American Agreement on Labor Cooperation (NAALC, NAFTA’s side agreement on labour) asserting that Mexico’s weak labour standards and proposed labour law amendments (to implement the 2017 constitutional labour law reform) violate NAFTA rules (American Federation of Labour, 2018). The complaint underscores the US Department of State’s 2017 findings, stating:
The government, including the [Conciliation and Arbitration Boards] CABs, did not consistently protect worker rights. The government’s common failure to enforce labour and other laws left workers with little recourse regarding violations of freedom of association, poor working conditions, and other labour problems. The CABs’ frequent failure to impartially and transparently administer and oversee procedures related to union activity, such as union elections and strikes, undermined worker efforts to exercise freely their rights to freedom of association and collective bargaining (USDS, 2017).

The case shows that while binding labor rights language may help to produce change(s) in law, such language is likely insufficient to change practice. Without capacity building, such language can do little to effect Mexico’s will, expertise, and capacity to respect labor rights. The ERPS ex-post assessment also concluded that the GA has had minimal effect (direct or indirect) on Mexico’s respect, protection, and promotion of workers’ rights and its implementation of ILO core labour standards (Ioannides, 2017). It further argued that “it is provisions in other FTAs and initiatives undertaken by the Mexican government that have impacted on change” (Ioannides, 2017). Meanwhile at the Stakeholder Consultants Workhop in
Mexico City in February 2017, some stakeholders expressed concern that labor unions in Mexico are not really interested in labor rights.¹⁵²

### 5.3.4.7. Right to Privacy (Offline and Online)

Annex 4 illustrates that Mexico has ratified or passed several domestic laws and international agreements on the right to privacy and protecting privacy online (data protection). Although Mexico has extensive commitments in law, practice is uneven. However, Mexicans are increasingly aware that they need to monitor government and business to ensure that the public and private sectors respect their privacy rights both online and offline (Begoña Cancino, García-Cuéllar, Enriquez, 2016).

As in other instances, while the law on the books is strong, Mexico does not adequately protect privacy rights on or offline. In its second Universal Periodic Review of Mexico in 2013, the UN Human Rights Council (HRC) highlighted two areas of concern regarding Mexico’s protection and promotion of the right to privacy: (1) communications surveillance and (2) physical surveillance.³³ Moreover, it seriously questioned surveillance laws and practices the Mexican government had passed and was implementing in its war on crime, violence, drug trafficking, and criminal activity. In particular, the HRC noted a general lack of transparency and information about how data mining was being used by the Mexican government, “which endows government authorities with broad surveillance powers, compromises Mexican citizens’ right to privacy, and is in any event an inappropriate and disproportionate response to the intended purpose” (HRC, 2018). The HRC made several recommendations, including additional and better oversight and monitoring by judicial and independent authorities and the repeal of a 2012 surveillance legislation to require authorities to obtain warrant before accessing citizens’ data (Ibid, 2018).

Since 2013, the government has made progress in enacting laws to encourage respect for privacy. However, the government has not developed a standard form or precedent for data transfer, although Mexico does not require that data of Mexican citizens be stored locally. When online, companies and citizens must comply with the same principles outlined in Mexico’s privacy laws (Begoña Cancino, García-Cuéllar, Enriquez, 2016). Mexico’s laws effectively provide indirectly for the realization of the right to be forgotten. For instance, if a foreign company has an office in Mexico and uses resources located in Mexican territory to gather or process personal data, Mexican citizens can request the company cancel their data and exercise their right to oppose its processing (Begoña Cancino, García-Cuéllar, Enriquez, 2016).

Articles 20, 41, and 51 of the existing GA provide a floor for data protection and a means of cooperation, but it is unclear if this language has led to greater respect for privacy rights offline and online.

### 5.3.4.8. Access to Information and Freedom of Expression (Offline and Online)

Journalists are often faced with significant risks for reporting online and offline on developments in Mexico, and the government has done little to protect them or punish such attacks. According the the Committee to Protect Journalists (CPJ, 2019), since 1992, 45 journalists were murdered in Mexico.⁵⁴ In 40 cases, impunity occurred. Although impunity rates in Mexico are generally high, there is a federal protection mechanism for journalists and human rights defenders (Gob.Mx, 2019), which was in financial turmoil in Fall 2018.⁵⁵⁶

Mexico has a mixed performance on digital rights such as access to information, freedom of expression, and censorship online. On the one hand, the Mexican government does not directly censor the web and provides access to public information. According to the Worldwide Web Foundation in 2016, Mexico ranked 16 among OECD countries in making government data open. However, as access to data has become more important to both good governance and to new data driven sectors such as AI, the Mexico Government has

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¹⁵² Annex 7.
⁵⁴ https://cpj.org/americas/mexico/
⁵⁵ https://www.gob.mx/defensorasperiodistas
made more of its data sets public.\textsuperscript{57} Mexico is a member of the Open Government Partnership and has made key commitments to enabling access to the data the government holds on behalf of its people. \textsuperscript{58}

On the other hand, Mexicans appear to feel less secure online. Some civil society organizations allege that various state and federal agencies sought to monitor private online communications. Telecommunication companies are required to retain data for two years, providing real-time geolocation data to police and allowing security agents to obtain metadata from private communications companies without a court order. Furthermore, Mexican laws do not fully define who is the "appropriate authority" to carry out such actions. In 2017, Mexico finally announced a national cybersecurity strategy. But some assert it has not figured out how to balance personal data, political stability, and freedom of expression online.

### 5.4. TRADE AGREEMENTS AND HUMAN RIGHTS IMPLICATIONS

In this section, we present the results of the scoping phase of the study, which resulted in the selection of the following human rights for further analysis:

1. Rights of Indigenous Peoples
2. Women’s Rights and Gender Inequality
3. Rights of Migrants, Refugees, and Asylum Seekers
4. Respect for Core Labour Standards and Workers’ Rights
5. Right to Privacy (Offline and Online)
6. Access to Information and Freedom of Expression

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 its infancy. 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 Figure 32.

**Figure 32: The Big Questions in the Trade – Human Rights Relationship**

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure32.png}
\caption{The Big Questions in the Trade – Human Rights Relationship}
\end{figure}

Source: Aaronson (2007)

\textsuperscript{57} www.developmentseed.org/projects/mexico-con-datos/ and https://datos.gob.mx/

\textsuperscript{58} https://www.opengovpartnership.org/countries/mexico
Scholars also do not know how best to advance human rights with trade agreements. The EU and United States have very different approaches. The United States prioritizes certain human rights and makes adherence binding in all its trade agreements. The US strategy raises certain questions about 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 (Bartels, 2014). Vellutti (2016) found that "sometimes 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 instrument used, the degree to which the latter is binding, the third country concerned, the EU institutions and, more generally, the actors involved" (Vellutti, 2016).

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 (Aaronson, 2007).

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 (Aspinwall, 2013). More recently, after Canada called for the inclusion of indigenous rights and gender chapters during the NAFTA 2.0 negotiations, Mexico agreed to negotiate these issues during the NAFTA renegotiations (Porter, 2017). Thus, one can argue that NAFTA’s aspirational provisions have gradually helped convince the government of Mexico to do a better job respecting labour rights.

5.5. ANALYSIS

In this section, we assess the possible human rights impacts of a Modernised GA. We highlight how it might affect human rights in both the EU and Mexico. We again note that effects are not black and white and can change over time. The section discusses gaps in the agreement’s provisions and tries to illuminate how these gaps might affect human rights. We then briefly discuss the findings collected from the stakeholder consultation component of this study. The 12-week consultation consisted of three surveys where one specifically focused on collecting voices around human rights issues, environmental concerns, and social impacts. Finally, the section highlights the Modernised GA’s human rights-enhancing provisions.

5.5.1 Empirical Analysis

This section uses publicly available data to examine the human rights impacts of NAFTA and the original GA. We model the effects of the trade agreement before and during the time it is in effect as the signatories comply with its obligations. While we give a summary of the results here, the relevant figures can be found in Annex 4.

Governments can improve or worsen their performance on human rights metrics for many reasons (a change in administration with stronger commitments to human rights, capacity building expertise, etc.). We wanted this analysis to capture these trends over time and more specifically, any change in behavior stemming from the trade agreement. Hence our period of review is 1990-2015 (for some data 2013), noting that NAFTA went into effect 1994 and the first GA went into effect in 2000.

59 It should be noted though that EU Free Trade Agreements do contain binding commitments with respect to core labour rights enshrined in ILO Conventions.
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We utilized four groups of human rights:

**Group one** includes two labour rights - freedom of association and collective bargaining (FACB). The NAFTA and Modernised GA signatories clearly wanted to directly affect FACB rights (although not in the early GA). We distinguish between the effects of the agreement on Mexico’s labor laws, and then the effects in practice.

**Group two** focuses on an index of women’s economic rights. While the GA does not make specific mention to women’s rights, the General Principles (Part I) of the Modernised GA covers women’s rights and is thus applicable to the trade part. Any observed improvements in regards to women’s economic outcomes as an outcome of increased trade, will reflect important human rights spillovers.

**Group three** focuses on access to education and access to sanitation for the population as whole. In many countries including Mexico, governments provide these services to their citizens; they are both a human right and a public good. Governments can but do not always agree to open trade up to the provision of these services. If a government liberalizes, more citizens could obtain greater access to and possibly more efficient provision of services, but the opposite could also occur - these services could become more expensive because of liberalization. Mexico agreed to liberalize its education sector in NAFTA (a direct effect) but included a reservation allowing it to maintain existing restrictions and/or undertake new restrictions in relation to public education. It made no commitments regarding either sanitation or education in either EU/Mexico GA. Thus, focusing on these economic rights allows us to compare the trade agreements.

Finally, **group four** includes some democratic rights. Most trade agreements include language regarding some aspects of political participation. Governments must provide market actors with information and allow individuals to comment on and challenge trade related regulations before they are adopted (a form of due process). NAFTA and the Modernised GA require greater dialogue with citizens on trade related issues, so the agreement could well have important indirect effects on political participation.

To examine whether human rights improve, we employed interrupted time series regression (ITS) to conduct the analysis. ITS has several advantages over other simple regressional estimators. First, it allows the analyst to model different trends before and after the trade agreement goes into effect. Second, it does not assume the dependent variable (the variable we seek to measure) will change in the same way before and after the trade agreement. Third, it can capture effects that vary with time (McCleary, Hay, 1980). Due to these features, ITS has been widely used in research designed to analyze the effects of specific policies (Bernal, Lopez, Cummins, Gasparrini, 2017).

In each table (see Annex 4), we examine the relationship between one or more related human rights, such as freedom of association and collective bargaining and either NAFTA or the current EU-Mexico Global Agreement of 2000. We used a consistent set of controls for each table: the level of democracy, ideological leaning of the largest government party, GDP per capita, economic growth, FDI inflows (% of GDP), trade openness (% of GDP), population size and conflict.

Our overall conclusion is that, in general, neither of the two trade agreements has had a statistically significant effect upon Mexico’s human rights performance. We found that while NAFTA had a statistically significant positive effect on our metric of access to education in the shorter term, over time it was statistically insignificant. In contrast, NAFTA had a negative and statistically significant effect on access to sanitation from 1990 - 2015.

Even though it did not have major effects on Mexico’s human rights performance, NAFTA is likely to have had a greater effect than the EU-Mexico GA because it had explicit language relating to some human rights (FACB and political participation), because Mexico liberalised access to education, and because the 3 parties to the agreement are each other’s most important trade partners. Hence, they closely monitor each other’s performance related to their obligations.

### 5.5.2. Survey Results

In order to best incorporate stakeholder voices into the analysis, the assessment’s Terms of Reference required the consultants to undertake a 12 week online public consultation to channel voices into the analysis. This included hosting three surveys where one was specifically devoted to “Human Rights, Environmental Concerns and Social Impacts”. While we designed and tested the surveys well in advance
for ease of use team and hoped to gain a large enough sample to draw general conclusions about the results, only 25 individuals responded to the survey. Of those 25, their answers were quite diverse about human rights impacts. Given the small sample, responses are not generalizable. But it is interesting to note that some among those surveyed appeared to be more optimistic about the benefits of the trade agreement to some human rights in Mexico. For example, some thought the agreement would lead to more European companies in Mexico which would yield better jobs and better worker protections. This section will pay special attention to the results of the human rights questionnaire, but a further explanation of survey design and the consultation process is offered in Chapter 11.

5.5.3. Analysis of the EU-Mexico Agreement in Principle

In this section, we examine how the agreement in principle might affect human rights, repeating three key points: first to be effective, language must be directed at specific human rights as well as policymaker practices. The language must be binding upon the parties and if a party allegedly undermines the rights related to trade, and finally the language should be actionable and disputable. Secondly, if a government such as Mexico needs help advancing the rule of law and respect for human rights, the EU must provide incentives and constant monitoring of practices to ensure that human rights objectives are met. Thirdly, policymakers may need to think differently and creatively about how to incentivize the right practices (Aaronson: 2016, Aaronson and Zimmerman: 2007, Vellutti: 2016).

Rights of Indigenous Persons

The current EU Mexico agreement does not refer to specific indigenous rights. Indigenous regions have significant resources that could be tapped for trade and inclusive growth. Trade policymakers can enhance opportunities for indigenous populations by two means: with specific trade and investment incentives or protect them through the agreement’s reservations or exceptions. Policymakers have begun to take important steps: as an example, the 1994 NAFTA has a sectoral reservation for indigenous peoples for future cross-border services and investment. The United States and Mexico have also taken future cross-border services and investment reservations in NAFTA for "socially or economically disadvantaged minorities", but their carve-outs do not mention Indigenous peoples specifically (Schwartz, 2017).

NAFTA exceptions and reservations for preferences provided to indigenous peoples were enhanced under CETA, which was provisionally applied in both Europe and Canada on September 21, 2017. CETA includes the same reservations for investment and cross-border services as in NAFTA. CETA also has a complete carveout for indigenous peoples from the procurement chapter: Annex 19-7.2(a) states that the procurement chapter “does not apply to any measure adopted or maintained with respect to Aboriginal peoples, nor to set asides for aboriginal businesses; existing aboriginal or treaty rights of any of the Aboriginal peoples of Canada protected by section 35 of the Constitution Act, 1982 are not affected by this chapter.”

In 2017, Canadian negotiators saw the issue of indigenous rights as so important that they drafted a chapter on Trade and Indigenous Peoples for NAFTA that includes language referring to the UN Declaration on the Rights of Indigenous Peoples and the protection of traditional indigenous knowledge. The chapter appeared to have strong support among Canada’s indigenous peoples (Barreros, 2017). Some have even argued that obtaining the consent of indigenous peoples for NAFTA negotiations would provide increased economic certainty, which will help attract investment (Schwartz, 2017). Ultimately the agreement included aspirational language on indigenous rights. Some indian leaders saw this as a step forward.

The Modernised GA does not include similar language. In 2014, the European Parliament recommended that “all investment and trade agreements by the EU and by member states comply with international human rights standards, including those addressing the rights of indigenous Peoples”. They also proposed
that the EU “establish a regulatory framework to ensure that future investment and trade include mandatory human rights impact assessment and due diligence requirements” (European Parliament, 2014).

**Women’s Rights and Gender Inequality**

The Modernised GA is unlikely to alter how either government acts towards respecting women’s rights unless women’s rights become a priority and the EU provides capacity building and focuses public attention to women’s rights. However, as noted above as trade and the economy changes, women may lose access to opportunities and resources. Our empirical analysis found some effects but in general they were not statistically significant.

**Respect for Core Labour Standards and Workers’ Rights**

Labor rights like other human rights have two dimensions: government respect for protecting such rights and worker empowerment. We have used empirical research to examine if trade agreements improved government respect for labor rights, and while the team hoped to triangulate such results via the survey results, the small sample size impedes the drawing of any robust conclusion from this qualitative component. The team found that the existing EU-Mexico GA has had minimal effects (direct or indirect) on Mexico’s respect, protection, and promotion of labour rights and its implementation of ILO core labour standards. Our empirical analysis showed that neither the GA – nor NAFTA which contains disputable provisions – had such an effect.

The Modernised GA could affect the government’s behaviour regarding labour rights and could further empower workers, since the Trade and Sustainable Development (TSD) chapter of the new agreement contains stronger provisions in this area. While these provisions are subject to formal dispute settlement, the possibility to follow-up with trade sanctions is not foreseen. Commenting on the Modernised GA on the basis of the agreement in principle, the European Commission noted that “the TSD enforcement mechanism is geared towards creating ownership, when needed with the necessary pressure elements. This implies regular dialogues, involvement of civil society and close cooperation between the Parties as a mean of reaching common positions on any matter related to the TSD chapter. Disagreements or controversies on any matters arising under the TSD chapter are solved by using the governmental bodies (Trade and Sustainable Development or the Trade Committees), government-to-government consultations and a mechanism for impartial assessment of serious issues through an independent Panel of Experts and the publication of a public report with recommendations” (EC, 2018).

Some analysts and policymakers have noted that the EU does not include language that holds EU corporations to account for their labor rights practices (Castella, 2017). We note that trade agreements are designed to regulate the behaviour of governments not corporations, but the TSD Chapter (Chapter 9) does contain provisions on Trade and Responsible Management of Supply Chains.

**Right to Privacy (Offline and Online)**

In 2018, the EU announced its approach for reconciling strong data protection with the need to facilitate the free flow of data by means of appropriate language in future and current trade and investment agreements. The EU made it clear that personal data protection will be the core of all agreements. Furthermore, in its trade agreements, the EU will insist on three pillars:

1. a horizontal clause covering the free flow of both personal and non-personal data;
2. a ban on data and server localization requirements; and,
3. language that safeguards the EU’s right to regulate personal data, including language that the first two pillars cannot be subject to investor-state challenges or included in regulatory dialogues.

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In so doing, the EU made it clear that its vision of data protection cannot be challenged as a barrier to trade (European Commission, 2018). The chapter on digital trade conforms to these pillars. The digital trade chapter cannot go into effect until Mexico’s approach to data protection is adequate to protect the personal data of the citizens of the EU (EC, 2018).

Demonstrating that the approach to data protection is adequate is not easy. It involves:

- a proposal from the European Commission
- an opinion of the of the European Data Protection Board
- an approval from representatives of EU countries
- the adoption of the decision by the European Commission (European Commission, 2018).

In countries such as Mexico where data protection is not yet adequate, firms can use other means of transferring data (Carolina, 2017). Mexican data protection laws have some commonalities with the GDPR, but Mexico does not include legitimate interest as an acceptable condition for the processing of personal data. Hence, Mexico may have to change some of its laws (Recio, 2017). Moreover, while the EU does not require that other nations adhere to its approach, it is demanding that if its trade partners want to exchange such data, they must devote resources to data protection, a difficult choice for nations with limited governance expertise or funds (Aaronson, Leblond, 2018).

Mexico is a member of CPTPP which requires a data protection floor and the country is improving its protection of personal data online. Therefore, it is likely that the Mexican government will attempt to become adequate.64 65

Access to Information and Freedom of Expression

NAFTA, like many trade agreements, included provisions designed to encourage greater transparency. Over time, Mexicans learned how to use NAFTA’s provisions to gain greater voice in Mexican policies. They also benefited from the attention of Canadian and US policymakers, who were concerned about environmental and social issues. The agreement in principle has several chapters that frequently refer to transparency as a fundamental element of good governance and anticorruption. The transparency chapter additionally uses binding language that requires that both parties govern in a transparent manner based on prompt publication and public discussion. However, some of the language could be more exact. For example, we do not know what is reasonable in the phrase “endeavour to provide a person, that is directly affected by an administrative proceeding, with reasonable notice” (EC, 2018).

The enjoyment of freedom of expression and access to information are additionally tainted by issues around corruption in the country.

Corruption

Corruption can undermine both government respect for human rights and access to resources such as education, housing, and healthcare that directly impact the realization of human rights. For example, corrupt officials in the labour ministry may be incentivised to obstruct transparency around labour rights violations. In another example, patients may not be able to receive adequate sanitation or healthcare due to corruption.

Corruption also affects trade: businesses consistently cite corruption as one of the biggest problems they face at the border. Corruption impacts the level playing field when a company bribes its way to a government procurement contract, or consumer safety is affected when customs officials accept bribes for not controlling containers or when regulatory authorities enforce quality, safety rules in a discriminatory way. Corruption undermines both the economic objectives of opening markets as well as the goals of supporting development and human rights.

http://www.mondaq.com/mexico/x/698580/data+protection/Is+GDPR+Actually+Impacting+Outside+The+UE+The+Mexico+Case

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The modernised GA contains for the first time in an EU agreement a protocol to prevent and fight corruption in trade and investment matters, including detailed and stringent obligations on the Parties regarding anti-money laundering and anti-corruption measures. In this regard, the modernised Agreement will strengthen the legal framework in the Parties to combat corruption and money-laundering and it will also provide a forum for bilateral discussion and cooperation on anticorruption related issues, including a mechanism to solve disputes between the parties.

5.6. CONCLUSIONS

In the sections above, we examined how the agreement in principle might affect human rights, underlining three key points:

1. First, if the EU wants to highlight specific human rights, (as example labour rights) research has shown, it will be most effective if it is drafted to be binding, actionable and disputable.

2. Second, as the EU Charter makes it the EU's responsibility to help its partner countries advance the rule of law and respect for human rights, the EU should link trade agreement performance to incentives such as capacity building and closely monitor performance.

3. Finally, if the EU wants to empower individuals overseas to demand their rights, EU-based trade and human rights policymakers should consult with both EU and partner country stakeholders to think creatively and long term about how to mitigate negative impacts and enhance benefits.

Thus, recognising that trade rules are not a prescription for human rights improvements, the team concludes that, with the exception of core labour rights that are covered by specific and binding provisions in the TSD Chapter of the Agreement, the prospects for direct human rights improvements via the Modernised GA are unclear. However, there are possibilities for indirect benefits.

In regards to the Rights of Indigenous Peoples, Women’s Rights, and those of Migrants, Refugees and Asylum Seekers, our study did not find that the Modernised GA would be likely to improve the situation for these vulnerable groups. While the European Parliament has stated its support for EU trade agreements to comply with human rights standards that include those of indigenous persons, the Modernised GA does not make any mention. Similarly, there is no specific reference to the rights of migrants, refugees or asylum seekers. However while the literature highlights additional risks of gender inequality increasing in regards to resource access, the findings in this study’s empirical analysis were generally not statistically significant. In this light, it is reasonable to conclude that the language included in the Modernised GA regarding access to information, freedom of expression, transparency, and corruption will likely be insufficient to have direct effects on corruption in Mexico, however the specific provisions on corruption and money-laundering will strengthen its legal framework.

On the other hand, the team concludes that the Modernised Agreement’s Trade and Sustainable Development Chapter (TSD) could in fact have positive effects on labour rights and workforce empowerment as the provisions in this case are stronger than seen in the original agreement.

We also note that Mexico is increasingly open and transparent reflecting its understanding that good governance requires greater transparency, accountability and a feedback loop between the government and the governed. In addition, we believe that the agreement is a major incentive for Mexico to attempt to ensure that its data protection rules will be found adequate to transfer data. Finally, we note that the EU has a strong record of using dialogue, cooperation and capacity building. The EU can (and does) undertake effective capacity building through multiple strategies: training, meeting and cooperative dialogue, and by providing funding. For countries such as Mexico capacity building can be both a significant incentive and an important component of trade liberalization to achieve sustainable development.
6. ENVIRONMENTAL ANALYSIS

6.1. INTRODUCTION

The environmental analysis focuses on the following environmental topics: climate change (GHG emissions); air pollution; energy use; land use; resource use; waste production; ecosystems and biodiversity; and trade in environmental goods and services.

This section is divided into two parts. The first part provides a baseline of the different areas of analysis using relevant indicators and a background on the EU-Mexico environmental relationship. The second part consists of the analysis of the environmental impact of a EU-Mexico Modernised GA.

As with other sustainability issues, the environmental analysis combines quantitative and qualitative elements. The topics of climate change (GHG emissions), energy use, air pollution, resource use and waste are analysed in greater depth from a quantitative perspective, while the topics of sustainable trade, deforestation and illegal trade of wildlife is studied mainly from a qualitative perspective. The quantitative analysis is based, in part, on the CGE modelling in the 2015 Impact Assessment on the possible modernisation of the EU-Mexico Global Agreement. In addition, we construct relevant statistics and gather complementary qualitative information from a variety of internationally recognized sources. Moreover, the analysis incorporates the results of the stakeholder consultation (e.g. environmental interest groups) and the information obtained from this consultation is an important source for the overall analysis in this section.

6.2. BASELINE

6.2.1. The Trade & Environment Nexus

6.2.1.1. The EU’s Approach to Sustainability in Trade Policymaking

In its 7th Environment Action Program (2013) to 2020, the EU reasserted its determination to become “a low-carbon and resource-efficient economy” and vowed to “take further action to mainstream environmental and climate-related considerations in its trade and development policies” (European Parliament, 2013).

In the trade policy sphere, 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. 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 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 negotiations of the Environmental Goods Agreement. More recently, the EU has also been a leading advocate for banning harmful fisheries subsidies contributing to unsustainable fishing. In bilateral and plurilateral trade negotiations, the EU has developed a template 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 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-Ecuador-Peru, CETA, Vietnam). The last section of this chapter analyzes the scope of the Trade and Sustainable Development (TSD) chapter and its potential impact on environmental protection with a focus on Multilateral Environmental Agreements (MEAs).

If sustainability objectives are embedded in many aspects of EU trade policy, some trade policy tools are also built-in in several environmental measures, whether they be trade restrictions allowed under MEAs (pertaining to biodiversity, ozone layer depletion etc.), Timber Regulation or issues related to Illegal Unreported and Unregulated (IUU) fishing (EC, 2017).

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66 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 stakeholder involvement in the issues under consideration.
Additionally, environmental concerns are integrated in many phases of the policy process. In accordance with the "Better Regulation" agenda, all FTAs are subject to impact assessments (IAs) before negotiations are undertaken. Once the European Commission has obtained a negotiating mandate, sustainable impact assessments (SIAs) are conducted during trade negotiations, providing knowledge on the potential environmental consequences of trade agreements. The negotiation of the TSD chapter ensures that environmental protection is an integral part of trade negotiations.

Finally, the EU’s environmental concerns are not confined to the sustainable trade and development chapter of trade negotiating texts. In its "Trade for All" strategy, the EU expressed its will to incorporate sustainable development considerations "in all relevant areas of FTAs" such as energy, raw materials or public procurement provisions (DG Trade, 2015).

**Mexico’s Approach to the Trade-Environment Linkage**

Mexico was confronted to the challenges of trade-environment linkages soon after it began opening its market to international trade flows. Indeed, the negotiations of the North American Free Trade Agreement in the early 1990s both coincided with and contributed to the rising prominence of sustainable trade. In response to the mobilization of environmental groups (especially in the United States and Canada), the three NAFTA countries negotiated a side agreement on environmental issues, the North American Agreement on Environmental Cooperation (NAACE). Although the NAACE divided the environmental community over its scope and enforceability, it was a pioneering agreement for each of the three North American partners to the extent that it sought to institutionalize the linkage between trade and environmental protection. As such, NAFTA would serve as a template for many trade agreements (including all US FTAs).

On paper, the goals and scope of NAACE were ambitious. Vowing to foster environmental protection and promote sustainable development, Mexico and its North American partners gave precedence to a list of Multilateral Environmental Agreements over NAFTA’s provisions and established three regional institutions: the Commission on Economic Cooperation (CEC), the North American Development Bank (NADB) and the Border Environment Cooperation Commission (BECC). The CEC is in charge of enforcing NAFTA’s side agreement on environmental protection, while collecting data and facilitating cooperation between all NAFTA members.68 This trilateral collaboration through the CEC Secretariat has given birth to important databanks and interactive maps with a broad set of environmental indicators, ranging from transboundary pollution to renewable energy production, waste and migratory species (Vaughan, 2017). The NADB and BECC are bilateral agencies financing and managing border infrastructure projects along the US-Mexico border (which merged in 2016). Additionally, NAFTA created a citizen submission mechanism whereby the CEC can investigate citizens’ complaints about the enforcement of national environmental laws.

For the purpose of this report, the content of NAFTA is important insofar as it shows the willingness of both Mexican government and civil society69 to actively participate in trade-environment debates.

If NAFTA may have been the “greenest” trade agreement when it was ratified, most trade-environment experts agree that NAFTA has not fulfilled its environmental objectives. Often-cited faults include the ineffectiveness of the public submission process, the lack of resources devoted to NAFTA’s institutions, the exclusion of environmental provisions from dispute settlement, and the potential threats that chapter 11 presents to environmental and health regulation - a debate that long predated the recent controversies on investor-state dispute settlement (ISDS).70

Beyond NAFTA, the content of the Transpacific Partnership (TPP) – negotiated first with Washington before becoming TPP11 or the Comprehensive and Progressive Transpacific Partnership (CPTPP) after US withdrawal – sheds light on Mexico’s willingness to adopt stronger environmental provisions in trade agreements. TPP’s chapter on the environment both builds upon the NAFTA framework developed by Washington over the past two and a half decades of FTA negotiations, while innovating in several regards.

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67 The 1992 Rio Earth Summit and the controversies surrounding the GATT tuna-dolphin case raised the profile of “trade and the environment” amidst the NAFTA negotiations.
68 The CEC’s 5 main policy areas are 1) pollutants and health; 2) environment, trade and the economy; 3) environmental conservation; 4) enforcement; 5) information and public outreach.
69 Like their American and Canadian counterparts, Mexican NGOs made ample use of the citizen submission process to contest the lack of enforcement of Mexican environmental laws.
70 For an overview of NAFTA’s environmental debates, see Hufbauer et al. (2000).
This led the US Trade Representative to describe TPP’s environment chapter as “the most far-reaching ever achieved in a trade agreement” (USTR, n.d.)

Like NAFTA, TPP includes commitments by all parties to enforce their respective environmental laws and implement MEAs. TPP uses a combination of cooperative and consultative instruments, leaving dispute settlement mechanisms (chapter 28) as a last resort (art. 20.23). Critics from both academia and civil society have described these enforcement mechanisms as much less effective than the MEAs themselves, to the extent that they are dependent on a party’s ability to demonstrate that the alleged violations of an MEA have trade-distorting effects (Wold, 2016).

Beyond debates on enforceability, TPP’s environment chapter includes a number of innovative provisions regarding both its regulatory scope and its governance. As far as content is concerned, the agreement drew praise from the US Trade and Environment Policy Advisory Committee (TEPAC) for making new strides in protecting marine fisheries and eliminating certain fisheries subsidies (Wold, 2016).71 The chapter also includes, among others, provisions on ozone layer protection (art. 20.5), marine protection from ship pollution (art. 20.6) trade and biodiversity (art.20.13) and conservation (art. 20.17). It also features a section entitled “Transition to a Low Emissions and Resilient Economy” (art. 20.15) that according to TEPAC, falls short of addressing climate change in any substantive way. Finally, while the parties do establish an intergovernmental Environment Committee in charge of assessing the implementation of the agreement (art. 20.19), the promotional nature of most provisions in the text, and the lack of specific measures on capacity-building raise many questions on the TPP’s ability to fulfil its environmental promises. For the purpose of this study, TPP constitutes an interesting window into Mexico’s approach to trade-environment linkages that offers lessons for modernizing the mechanisms of the EU-Mexico GA.72

The latter has likewise prioritised cooperation and dialogue over enforceable mechanisms. Thus, the EU-Mexico High-Level Dialogue on Environment has fostered bilateral cooperation on a variety of environmental issues including conservation of natural resources, biodiversity, international environmental governance, sustainable production and consumption, urban environment and chemicals/pesticides (European Commission, 2016). The extent to which these institutional mechanisms might be reformed under a Modernised GA is discussed in the final section of this chapter.

**Trade and Multilateral Environmental Agreements**

Many environmental problems are inherently transnational or global and as such require international cooperation. To deal with the challenges of building a sustainable world economy, the European Union and Mexico have collaborated through the negotiations, conclusion and ratification of Multilateral Environmental Agreements (MEAs). By providing a transparent and authoritative regulatory framework for environmental protection, MEAs not only ensure that sustainability issues find global solutions, but they in turn help create a predictable environment that is essential to the development of international trade. This explains why references to MEAs have become increasingly common in FTAs as illustrated by the EU’s inclusion of sustainable trade and development chapters in recent FTAs (European Parliament, 2013). In its 7th Environment Action Programme to 2020, the EU re-emphasised its support for MEAs and drew a parallel between its environmental objectives and the principles of the United Nations Conference on Sustainable Development (‘Rio + 20’). As of November 2017, the EU was a contracting party or a signatory of nearly 50 MEAs73 negotiated either under the aegis of the United Nations, or at the regional level and sub-regional levels (e.g. concerning transboundary rivers like the 1999 New Rhine Convention). Likewise, Mexico has been a strong supporter of MEAs, having ratified 17 international treaties.

Out of a total of 250 MEAs dealing with various environmental issues in the world, the WTO’s Committee on Trade and the Environment has recorded nearly 20 agreements that are directly related to trade, as evidenced by the inclusion of provisions to control trade in order to prevent damage to the environment (WTO, 2018). As Figure 33 shows, these MEAs have largely been ratified by the EU and Mexico and fall into

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4 categories: 1) nature and biodiversity; 2) climate change and ozone depletion; 3) waste and 4) chemicals. Each of these categories is discussed either directly or indirectly throughout this section. Thus, our analysis of the potential synergies, frictions or conflicts between a Modernised EU-Mexico GA and MEAs relies on both quantitative and qualitative analysis in the present section as well as capitalize on the findings from other chapters. The last section summarizes and build on these findings with particular focus on nature and diversity as well as climate change. Combining this evidence with the WTO Matrix of trade-related MEAs, we analyse the extent to which the EU-Mexico Global Agreement might improve or undermine a trading partner’s ability to meet its MEA obligations as well as the incentives or disincentives certain trade effects might produce to ratify new MEAs.

The potential implications for the implementation of MEAs pertaining to nature and biodiversity draws from our discussion of natural resources (including forestry and fishing), agriculture and the environment (or more specifically pesticide and fertilizer use) as well as the sectoral analysis of agricultural goods, chemicals and pharmaceuticals. MEAs concerned with climate change, and more specifically the implementation of the Paris Agreement logically builds upon the analysis of environmental regulation, waste (for methane emissions), CO₂ and other GHG emissions and power generation.

**Figure 33: Trade-related MEAs Signed by the EU and Mexico**

<table>
<thead>
<tr>
<th>Category</th>
<th>Multilateral Environmental Agreements</th>
<th>EU</th>
<th>Mexico</th>
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<tbody>
<tr>
<td></td>
<td>International Convention for the Conservation of Atlantic Tunas (ICCAT)</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>United Nations Fish Stocks Agreement (UNFSA)</td>
<td>X</td>
<td></td>
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<tr>
<td></td>
<td>Agreement on Port State Measures to prevent, deter and eliminate illegal, unreported, and unregulated fishing (PSMA)</td>
<td>X</td>
<td></td>
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<tr>
<td></td>
<td>International Tropical Timber Agreement (ITTA)</td>
<td>X</td>
<td></td>
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<tr>
<td></td>
<td>International Plant Protection Convention (IPPC)</td>
<td>X</td>
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<tr>
<td></td>
<td>Convention on Biological Diversity (CBD)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>CBD : Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>CBD: Cartagena Protocol on Biosafety</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Climate Change &amp; Ozone Depletion</td>
<td>Vienna Convention for the Protection of the Ozone Layer</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Montreal Protocol on Substances that Deplete the Ozone Layer</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>UN Framework Convention on Climate Change (UNFCCC)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>UNFCCC: Kyoto Protocol</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Paris Agreement</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Stockholm Convention on Persistent Organic Pollutants</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Minamata Convention on Mercury</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: [https://www.informea.org](https://www.informea.org); WTO MEA Matrix 2017.

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*The term forestry in this report refers to the primary sector forestry and logging (in comparison to Chapter 8 of this report where the manufacturing sector analysis refers to it as wood and paper).*
6.2.1. Overall Environmental Performance

The 2013 OECD Environmental Performance Review on Mexico provides a thorough assessment of the progress made in achieving domestic objectives and international commitments. The review concludes that Mexico has made some progress in terms of environmental policies and institutions, although there is scope for improving their efficiency and effectiveness and scale-up successful initiative, e.g. the support to public transport. OECD’s main recommendations include the removal of energy and agricultural subsidies, the promotion of further transport-related environmental policies and the support for green technology adoption in small and medium firms.

In this section we benchmark the environmental performance of Mexico against the EU and countries of similar income levels using the Environmental Performance Index (EPI). The EPI index allows us to assess a country’s overall performance through 6 main aspects: water resources, fisheries, biodiversity, forest, climate and energy. In 2016 Mexico ranked 67th worldwide. The overall EPI score of Mexico is below the European average (Figure 34, left panel), yet it is in line with other countries of similar income levels. When we consider the overall performance over time (Figure 34, right panel), Mexico has experienced a more rapid improvement over time (a 0.66% annual improvement) than the EU average score.

Figure 34: EPI for Mexico and the EU (2016)

Source: EPI. The plot on the EPI scores against GDP in PPP (in logs). 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. GDP per capita is included since it allows comparing Mexico with both the EU and more similar countries given the disparity in income levels.

Figure 35 reports the scores in the nine EPI sub-categories for Mexico and the EU. The EU performs better than Mexico in all categories with the exception of fisheries and forestry. Since 2004, Mexico has maintained lower rates of forest cover loss than the EU average (Hansen et al., 2013). The relatively worst performance of Mexico is in the climate and energy sub-index where Mexico ranks 94th. This is due to a poor performance both in terms of trends in CO₂ emissions and carbon intensity of the economy. Mexico shows a low ranking also in terms of agriculture (101th) and air quality (96th). The above aspects are given greater emphasis in the analysis section.

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25 The index is provided by Yale Centre for Environmental Law & Policy (YCELP) and the Centre for International Earth Science Information Network (CIESIN) at Columbia University.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

**Figure 35: Scores in EPI sub-categories. EU and Mexico in 2016**

![Bar chart showing scores in different categories for EU and Mexico in 2016](chart.png)

Source: EPI 2016 (http://epi.yale.edu/). Note that for the EU these are simple averages of European countries' scores. In the case of forests, the average does not take account of the amount of forest in each country.

### 6.2.2. Environmental Regulation

This section provides an overview of the state of the environmental regulation in Mexico from a comparative perspective with the EU and countries of similar income levels. The first measure we provide is the Climate Laws, Institutions and Measures Index (CLIM) provided by the EBRD in 2011. The index refers to 2010 and its correlation with GDP per capita is shown in Figure 36. Mexico's score in the CLIM index (46th out of 95 countries) is lower than the EU average yet it performs better than the average of countries of similar income levels.

**Figure 36: Climate Laws, Institutions and Measures Index and GDP per capita**

![Graph showing CLIM index vs. log of GDP per capita](graph.png)

Source: CLIM 2011 by EBRD; GDP per capita is obtained from the World Development Indicators of the World Bank. The plot shows a quadratic fit of the relationship between GDP per capita (PPP) and the CLIM index together with the 95% confidence interval. EU score is given by the simple average of all EU countries.

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76 The index follows the framework earlier provided in Dasgupta et al. (1995). The index builds on the UN country reports, as well as on the National Communications to the United Nations Framework Convention on Climate Change (UNFCCC), which includes information of climate adaptation and mitigation measures adopted by national governments. It comprises four main areas: international cooperation; domestic climate framework; sectoral, fiscal or regulatory measures or targets; cross-sectoral fiscal or regulatory measures.
Another measure of environmental stringency is the OECD Stringency of environmental policies Index (Botta and Koźluk, 2014) where Mexico ranked 32nd out of 34 upper middle and high income countries, only above Russia and Brazil. Figure 37 reports the two components of the index and the overall index over time. It shows that while the overall performance of the EU has been improving over time, that of Mexico has first declined after 2000 and then stabilized since 2005. While no major changes can be noticed in terms of non-market based policy, the performance of Mexico in using market mechanisms to tackle climate change has been notably declining. According to the OECD (2013), Mexico is among the few OECD countries not to have yet decoupled total primary energy supply from economic growth over the past decade. Efforts to improve energy efficiency are weakened by the continued use of subsidies to energy. The poor performance in terms of market and non-market mechanisms to tackle climate change can also be seen in the large supply of inexpensive used vehicles and the lack of fuel pricing incentives (OECD, 2015).

![Figure 37: OECD Stringency of Environmental Policies Index over Time](image)

Source: OECD, Botta, and Koźluk (2014)

With regard to the countries’ commitment to reduce CO₂ emissions, Mexico has pledged to reduce its GHG emissions by 22% below baseline in 2030, which is equivalent to a 9% increase in emissions above 2010 levels. Mexico’s Nationally Determined Contribution (NDC), covers targets for both emissions of greenhouse gases (GHGs) and black carbon (BC). Mexico has proposed renewable energy targets that are a promising step in the right direction. After the COP21, Mexico has also introduced a new clean energy policy that aims at achieving 25% of electricity generation from renewables by 2018 and 35% by 2024.

### 6.2.3. Greenhouse Gas Emissions

In this section we describe the trends in levels of CO₂ emissions and of the most important types of GHG by the EU and Mexico. The EU’s GHG emissions are dominated by CO₂ emissions (80%), which are mainly produced through fuel combustion and industrial processing, but are also the results of land use changes, land clearing and soil degradation. This is the case also for Mexico although it shows a larger share of methane (CH₄) that is mainly related to agricultural activities, waste management and energy use.

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77 This index uses selected environmental policy instruments, primarily related to climate and air pollution in order to measure environmental policy stringency internationally over a relatively long time horizon.

78 The market-based component assesses taxes, trading schemes, subsidies and deposit-fund systems, while the non-market based component evaluates command and control regulation, technology support and voluntary approaches.
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**Figure 38: Total GHG Emissions by type of gas in Mexico and the EU**

Source: Author’s calculations based data from CAIT Climate Data Explorer. 2015. Washington, DC: World Resources Institute. Data show GHG emissions including Land-Use Change and Forestry.

In terms of CO\(_2\) emissions, the EU accounts for about 10% of global CO\(_2\) emissions (in 2015) while Mexico contributes to just above 1.3% of global CO\(_2\) emissions altogether (EDGAR database, 2018). Mexico is the 13\(^{th}\) largest emitter worldwide preceded closely by two other emerging economies: Brazil and Indonesia. In per capita terms, Mexico ranks 87\(^{th}\) worldwide.

Figure 39 plots emissions per capita in Mexico and the EU over time. EU emissions per capita have experienced a steady decline since the 1990s’. Despite the lower levels, CO\(_2\) emissions per capita in Mexico have been increasing over time. The growth in CO\(_2\) emissions per capita in the last decades, however, has been much slower than what was experienced before the 80s.

**Figure 39: Total CO2 Emissions per capita in Mexico and the EU**

Source: Author’s calculations from EDGAR dataset on emissions per capita.

The shares of CO\(_2\) emissions by sectors in 2010 are reported in Table 16, together with the growth in sectorial emissions since 2005. The power generation sector dominates emissions in the EU (37% of total emissions) and Mexico (39%). However, while in the EU emissions from power generation, as for most of the other sectors, have experienced a decline, Mexico’s CO\(_2\) emissions from energy production have increased by 10% from 2005 to 2010. This can be partly explained by the fact that the share of renewables in electricity production declined from 24% in 1995 to 18% in 2015 (see below). The only negative trends in CO\(_2\) emissions have been experienced by the agriculture and forestry sector (-32%) that, however, account for only a small share of total CO\(_2\) emissions in Mexico (7%). This negative trend has been mainly driven by a decrease in forest fires while direct soil emissions have been increasing.
Table 22: CO₂ Emissions by sector in Mexico and the EU

<table>
<thead>
<tr>
<th>Country</th>
<th>Measure</th>
<th>Agric/Forestry</th>
<th>Manuf/Constr.</th>
<th>Mining</th>
<th>Power Plant</th>
<th>Resident Comm.</th>
<th>Transport</th>
<th>Waste</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>Growth</td>
<td>-3.10</td>
<td>-12.02</td>
<td>3.5</td>
<td>-7</td>
<td>-6.31</td>
<td>-1.39</td>
<td>10.87</td>
</tr>
<tr>
<td></td>
<td>Share</td>
<td>0.04</td>
<td>0.17</td>
<td>0.01</td>
<td>0.37</td>
<td>0.17</td>
<td>0.23</td>
<td>0</td>
</tr>
<tr>
<td>Mexico</td>
<td>Growth</td>
<td>-32.12</td>
<td>1.29</td>
<td>123.49</td>
<td>10.12</td>
<td>0.5</td>
<td>11.84</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share</td>
<td>0.07</td>
<td>0.16</td>
<td>0.02</td>
<td>0.39</td>
<td>0.07</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s calculations from the EDGAR – CO₂ Emissions by countries and sector database. The sector share of CO₂ emissions refer to 2010, while the growth in CO₂ emissions by sector is computed between 2005 and 2010.

With regard to other GHG, Mexico shows similar levels of methane per capita to the EU. Mexico ranks 10th, in terms of total methane emissions, accounting for 1.4% of global emissions (this is based on data from EDGAR). The right panel shows that EU’s and Mexico’s per capita methane emissions have been declining over the last couple of decades.

Figure 40: Levels of Methane per capita (left) and Trends since 1970 (right)

Source: Author’s calculations from the EDGAR (emissions) and World Bank Development Indicators (population). The graph on the right shows per capita methane emissions with respect to 1971 levels so that a value of 1.2 indicates a 20% increase with respect to 1971 emissions.

Figure 41 displays similar statistics for Nitrous Oxide (N₂O), the third most important GHG gas, and shows higher levels of nitrous oxide per capita in Mexico than in the EU. Mexico ranked 11th worldwide in terms of total nitrous oxide, and accounted for 1.4% of global emissions in 2012. With the exclusion of a temporary increase during the 80s, emissions per capita have also been declining for the last three decades in both parties. Methane and nitrous oxide emissions are largely produced by the agricultural and animal sectors. Nitrous oxide emissions, in particular, are mainly derived from fertilized agricultural soils and livestock manure. Indeed, about 74% of Mexico’s nitrous oxide emissions and 47% of methane emissions are produced by the agricultural sector (World Development Indicators). Because the modernisation agreement is likely to produce some expansionary effects on some agricultural and animal sectors, potential concerns, in particular for Mexico, are discussed below.
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6.2.4. Energy

According to the OECD (2013), Mexico is among the few OECD countries not to have decoupled its energy production from economic growth. Figure 42 shows that GDP and total primary energy supply (TEPS) have been growing at a very similar pace.

A growing use of energy has been devoted to the extraction of oil and gas, along with oil refinery and gas leakage. The transport sector is the largest and fastest growing consumer of energy. Energy use remained fairly stable in the residential, commercial and industrial sectors. In terms of electricity generation, Mexico energy mix has changed considerably over the 1995 - 2015 period. In 1995, about 45% of electricity was generated by oil-fired power plants, the percentage had dropped to 10% in 2015. Oil has been progressively substituted by natural gas that had become the major source of electricity in 2015 (57%). In 2015 only less than 5% of energy is from renewable resources excluding hydroelectric power, as opposed to 17% in the EU.
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Table 23: Electricity sources in Mexico and the EU

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>Renewable sources</td>
<td>1.1</td>
<td>4.5</td>
<td>16.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hydroelectric</td>
<td>12.2</td>
<td>9.5</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nuclear</td>
<td>32.4</td>
<td>30.3</td>
<td>27.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Natural gas</td>
<td>9.9</td>
<td>20.3</td>
<td>14.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil</td>
<td>8.5</td>
<td>4.3</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coal</td>
<td>35.7</td>
<td>30.3</td>
<td>26.6</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Renewable sources</td>
<td>5.6</td>
<td>4.1</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hydroelectric</td>
<td>18.1</td>
<td>11.0</td>
<td>12.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nuclear</td>
<td>5.5</td>
<td>4.3</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Natural gas</td>
<td>16.1</td>
<td>40.1</td>
<td>57.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil</td>
<td>44.6</td>
<td>27.3</td>
<td>10.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coal</td>
<td>10.1</td>
<td>13.1</td>
<td>11.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s calculations from the World Development Indicators – World Bank. The table shows the percentage of energy from each source.

Mexico has set targets to generate a share of total electricity from clean energy technologies to 35% by 2024, 40% by 2035 and 50% by 2050. Mexico has set targets to generate a share of total electricity from clean energy technologies to 35% by 2024, 40% by 2035 and 50% by 2050. Table 17 shows that total renewable energy is on the rise, yet the path is not stable. Since 2000 Mexico has been introducing policies aimed at promoting renewable energy. In particular, four key measures have been introduced since 2013 to meet clean energy targets:

1. Mexico capacity and power auctions supported by clean energy certificates;
2. Guidelines establishing and issuing Clean Energy Certificates;
3. Special Program for the use of Renewable Energy;

The system of auctions for energy and capacity allows investments from new players on a competitive basis. The auctions offer long-term contracts (15 years) that provide a degree of stability for generation companies. The auction system is considered to be one of the most sophisticated procurement mechanisms for renewable energy (IEA, 2017). In particular, projects located in higher-price areas of the country, or capable of delivering power at times of day when it is particularly needed, would be able to receive higher revenues through the auctions. The two first tenders, held in 2016, have provided a substantial boost to solar and wind energy, tapping Mexico’s large wind and solar resources at internationally competitive prices. The third auction conducted in November 2017 has attracted 80 bidders showing an increasing interest in the tenders. Among the 16 pre-selected bids feature some from European companies (6 out of 16), which have also contributed to achieve the lowest price for green electricity (electrek, 2017).

Guidelines establishing and issuing Clean Energy Certificates introduced in 2015 aim at achieving Mexico’s goals for clean energy participation in power sector keeping costs of the policy to the possible minimum.

The Special Program for the use of Renewable Energy of 2014 aims at increasing installed capacity and generation from renewable sources, public and private investment in generation, construction and extension of the infrastructure and the participation of biofuels in the electricity matrix. The government determines the requirements for clean energy certificates on a yearly basis three years in advance of the compliance period. More recently, in 2016 the Mexico capacity and power auctions supported by clean energy certificates created a wholesale power market with a system of capacity and power auctions in which renewable energy technologies can take part and are additionally supported by Clean Energy Certificates (CLEs) (IEA/IRENA, n.d.).
Finally, the 2013 Constitutional Reform ended the state monopoly on generation and commercialization of electricity, as well as on fossil fuel exploration and extraction. Bidding rounds began in 2015 in the oil and gas sectors for private investment and technology. According to the IEA, production of both oil and gas is expected to grow again in the coming years, yet projections show that the shift from oil to gas is expected to continue and the share of oil is still expected to decrease further (IEA, 2016). Overall, Mexico has introduced important reforms, nevertheless according to IRENA, current plans are only expected to achieve a 10% share of renewables by 2030. Policy changes in the power market and additional investment, therefore, are needed to unleash Mexico’s renewable energy potential. Although Mexico has a large endowment of oil and gas resources, it has also been among the world leaders in integrating climate change objectives into policymaking. Indeed it was the second country in the world to pass a Climate Change Law (in 2012) proposing a cut greenhouse-gas emissions by 30% by 2020 (rising to 50% in 2050) compared with levels in 2000. Whether targets will be met depends on the success of the above reforms. These are showing promising results but it is likely that additional reforms and investment will be needed.

6.2.5. Natural Resources

In this section we discuss the current state of the parties’ endowment of natural resources with a focus on forests, wood, fisheries and minerals. About 27% of the territory of Mexico is covered by forest (ForestWatch, 2017). In 2015, Mexico ranked 22nd in terms of total forest cover loss. Deforestation rates have been slightly declining over the last decades and the major cause of deforestation remains the expansion of agriculture (FAO Global Forest Resources Assessments, 2016).

Figure 43: Wood-related production and export over time

![Figure 43: Wood-related production and export over time](image)

Source: The production of wood-related products is from FAOstat while data on exports are from UN COMTRADE.

The wood and paper sector accounts for about 1.1% of Mexican GDP (OECD) in 2016, while the primary forestry sector contributes to less than 0.10% of GDP. Wood production has slightly increased over the last years mainly due to an increase in the production of paper and recovered paper (Error! Reference source not found. left panel). The EU altogether accounts for 1.13% of total wood-related exports. Exports to the EU have been almost stable over time and have been driven mainly by forestry and paper products (Error! Reference source not found. right panel).

Mexico is not a major exporter or importer of fish as it accounts for about 0.9% and 0.6% of the world exports and imports, respectively (COMTRADE). Yet, it is one of the major fishing countries in the OECD. In the last decades Mexico experienced 20% growth in fishery production (OECD, 2013). The fishery industry receives support in the form of fuel subsidies and direct grants, which can encourage a harmful increase in fishing capacity. The EU accounts for about 4% of total fish exports in 2016 and is responsible for about 41% of world’s total imports. Top extra-EU suppliers include Norway, China, Iceland and Morocco (EUMOPA, 2016). Per capita fish consumption in the EU has been increasing over time.

Figure 44 plots the total revenues generated from the extraction of natural resources, minus the cost of extracting the resource, as a percentage of GDP. The EU and Mexico show a similar incidence of coal rents with two picks, still minor, in 2008 and 2011 (0.1% of GDP) followed by a rapid decline (0.01% in 2015).
On the other hand, Mexico shows higher level of gas, oil and minerals rents per GDP than the EU. Oil rents, in particular achieved 5.6% of GDP in 2008 but have declined to 1.3% in 2015. Rents from gas and minerals have fluctuated at much lower levels, around 0.2% and 0.5% of GDP respectively. Mexico ranks ninth in the world in terms of crude oil reserves, and fourth in natural gas reserves in America, just after the United States, Venezuela and Canada. The Mexican Petroleum Company (PEMEX) is the seventh largest petroleum company worldwide by its crude oil output (Alemán-Nava et al., 2014). In terms of mineral rents, Mexico is the world’s largest silver producer, providing 22% of the world’s supply, and is also abundant in zinc, lead, gold, mercury and copper (USGS, 2016).

**Figure 44: Natural Resources Rents as Percentage of GDP**

![Graphs showing coal, gas, oil, and mineral rents as percentage of GDP over the years 2000 to 2016.](image)

*Source: World Bank Development Indicators.*

### 6.2.6. **Air Pollution**

Air pollution in Mexico is of particular concern and pollution by ozone and particulate matter is a major challenge. Mexico ranks 96th out of 180 in the air quality sub-category of the Environmental Performance Index. Figure 45, left panel, displays two different measures of exposure to particulate matter (PM2.5), mean annual exposure and the percentage of population exposed to level above WHO guidelines. Mexico displays much higher levels of air pollution than average EU levels, yet in line with other countries of similar income levels (Figure 45, right panel). Mexico has experienced an improvement since 2005, as opposed to the EU. Various measures have been implemented to improve air quality in urban areas as part of the program ProAire that begun in 1990 in Mexico City and has subsequently spread to other major towns. Significant progress has been achieved although a significant part of the population is yet exposed to unsafe levels of air pollutants.
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Figure 45: Exposure to PM2.5 in Mexico and the EU and by income levels

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean annual exposure micrograms m$^3$</th>
<th>% exposed to levels above WHO guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>14.3</td>
<td>15.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>26.0</td>
<td>20.2</td>
</tr>
</tbody>
</table>

Source: World Bank World Development Indicators. The second column of the table indicate the percentage of the population exposed to levels of PM2.5 above WHO guidelines. The plot on the right shows a quadratic fit of the relationship between GDP per capita (PPP) and the PM2.5 together with the 95% confidence interval.

6.2.7. Waste

Solid waste is a large source of methane and, if not appropriately managed, can pollute air and water with significant health impacts on the local population. Mexico’s generation of waste per capita is lower than the EU levels but in line with that of countries of similar income levels (Figure 46, left panel). Collection rates are similar to those of the EU. As in other Latin American countries, waste collection is dominated by informality. Very few cities charge for waste services, hence limited resources can be invested in waste management (OECD, 2013).

Figure 46: Waste generation (left) and collection (right) by income levels

Source: What a waste. A Global review of solid waste managements (Hoornweg, Bhada-Tata, 2012). GDP per capita, PPP is from the World Bank World Development indicators (2010). The plot on the left shows the amount of solid waste generated per capita per day (in log). The plot on the right refers to collection rates that are available for fewer countries. For some countries, collection data refer only to urban areas. No data is available for Argentina. The plot show a quadratic fit of the relationship between GDP per capita (PPP) and the two variables together with the 95% confidence interval.

6.2.8. Agriculture and the Environment

According to the OECD (2008), agriculture’s use of inputs is a major driving force leading to pressure on the environment (OECD, 2010). The choice and quantity of farm inputs can affect the state of the environment with regard to rates of soil erosion, water quality and ultimately the aquatic ecosystems.
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(Parris, 2011). In this section we focus on fertilizers (nitrogen) and pesticides use in agriculture and compare the performance of Mexico with that of the EU and of other countries of similar income levels. Figure 48 shows that Mexico pesticide intensity (kg per hectare) is similar to that of the EU average and of countries of similar income levels. On the other hand, the use of fertilizers (nitrogen) is lower than EU levels, yet in line with the intensities of countries with similar income levels.

**Figure 47: Pesticide and Fertilizer use by Income Levels (2013-2014)**

![Graph showing pesticide and fertilizer use by income levels]

*Source: Data on Fertilizer (Nitrogen nutrients) and pesticides are from FAOStat. GDP per capita, PPP is from the World Bank World Development Indicators (2010). Figure on the left shows the amount of pesticides use per hectare of land (in log). The plot on the right refers to the amount of fertilizers use per hectare of land (in log). Data refers to 2013 or 2014 depending on availability.*

Both measures of input intensity have been on the rise in Mexico. The use of pesticides, in particular, has experienced a sharp increase at the beginning of 2000, overtaking EU levels in 2005. The use of fertilizer per hectare has also been increasing over time, but at a lower pace and, yet, remains well above average EU levels.

**Figure 48: Pesticide and fertilzer intensity over time**

![Graph showing pesticide and fertilizer intensity over time]

*Source: FAO stat. GDP per capita, PPP is from the World Bank World Development indicators (2010). Figure on the left shows the amount of pesticides use per hectare of land. The plot on the right refers to the amount of fertilizers use per hectare of land. Data are linearly interpolated when missing.*
6.2.9. Animal Welfare

According to the Animal protection Index developed by the organization World Animal protection, animal protection in Mexico is rated below European levels in particular with regard to the recognition of animal sentience and laws against causing animal suffering. European countries show better performance to protect animals used in farm (WAP, 2018). The Mexican government has not pledged in support for the Universal Declaration on Animal Welfare (UDAW) as have individual ministers of Agriculture in the EU. While animal sentience is not formally recognised in Mexican federal legislation, most states have legislation containing some partial or implied recognition of sentience and animal welfare legislation preventing cruelty to animals. Nevertheless, there is large heterogeneity in implementation and enforcement across states.

6.3. ANALYSIS

The first part of the analysis examines the impact of the modernisation of the Global Agreement on CO₂ emissions, land intensity and energy demand in the EU and Mexico. This analysis partly expands on the results from the CGE modelling in the IA (2015).

Table 24 below shows the sectors that are expected to benefit most from the Modernised GA according to both scenarios as shown in the impact assessment. Among these sectors are some environmentally sensitive sectors such as the milk and chemical sectors in the EU and the motor vehicle, transport sector, the largest consumer of energy in Mexico, and the animal sector in Mexico. The effects, however, are expected to be low, in particular for the EU. It is important to note that the changes reported below partly reflect between-sector reallocations. We therefore also consider possible offsetting impacts in relation to sectors that are expected to experience a contraction.

Table 24: Top 10 most positively affected sectors by country

<table>
<thead>
<tr>
<th>Sector</th>
<th>Conservative %</th>
<th>Ambitious %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU output</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk and dairy</td>
<td>0.23</td>
<td>0.44</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.02</td>
<td>0.26</td>
</tr>
<tr>
<td>Beef</td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>0.01</td>
<td>0.18</td>
</tr>
<tr>
<td>Motor</td>
<td>0.01</td>
<td>0.06</td>
</tr>
<tr>
<td>Construction</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>Other</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td><strong>Mexico output</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor</td>
<td>0.27</td>
<td>1.21</td>
</tr>
<tr>
<td>Air transport</td>
<td>0.23</td>
<td>0.49</td>
</tr>
<tr>
<td>Other services</td>
<td>0.11</td>
<td>0.22</td>
</tr>
<tr>
<td>Construction</td>
<td>0.09</td>
<td>0.4</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>0.05</td>
<td>0.18</td>
</tr>
<tr>
<td>Land and other transport</td>
<td>0.04</td>
<td>0.17</td>
</tr>
<tr>
<td>Sugar</td>
<td>0.04</td>
<td>0.42</td>
</tr>
<tr>
<td>Water transport</td>
<td>-0.01</td>
<td>-0.04</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Business services</th>
<th>0.03</th>
<th>0.09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td></td>
<td>0.15</td>
</tr>
</tbody>
</table>


6.3.1. Impact on GHG Emissions

We expect some moderate effects of the modernization agreement on GHG emissions in Mexico. Both parties are committed to reducing GHG emissions, although to different extents. Mexico has pledged to reduce its GHG emissions by 22% below baseline in 2030, which is equivalent to a 9% increase in emissions above 2010 levels. According to the OECD (2013), however, Mexico has not yet decoupled total primary energy supply from economic growth over the past decade. Hence, the expected output expansion could be accompanied by an increase in GHG emissions given the high emission intensity of Mexico energy mix.

The CGE modelling in the IA (2015) does not provide estimates of the impact on CO2 emissions. However, given the expected impact on GDP (0.01% for the EU and 0.39% for Mexico per annum) and considering that Mexico’s and the EU have similar levels of emission intensity (about 0.17 - 0.22 kg per PPP $ of GDP, World Development Indicators), the overall impact on GHG emissions is likely to be small. The impact on emissions is effectively limited by existing emission ceilings commitments of both parties as part of their Nationally Determined Contributions, although Mexico’s commitment still allows for GHG emissions to grow over the next decade. The ex-post evaluation of the previous GA agreement (ECORYS, 2015) provides an extended analysis of environmental impacts including GHG emissions. The analysis indicated that the GA produced a similar impact on Mexican GDP (0.34%) as that expected from the current modernization agreement. Yet, the report found that the GA induced a reduction in GHG emissions, in particular CO2 emissions. The decrease is largely explained by a shift towards less emission intensive sectors (known as a negative composition effect). This is also the case for the Modernised GA. According to the CGE results in the IA (2015), highly GHG emission intensive sectors, such as chemicals and energy for CO2, with the exception of the air transport sector discussed below, and agriculture, as far as other GHG emissions are concerned, are negatively affected by the Modernised GA. On the other hand, less emissions intensive sectors, such as the motor vehicles and some services sectors, are expected to expand. This is summarized in Figure 49 that shows that only few sectors are in the top right quadrant, i.e. are highly emission intensive and are expected to experience expansionary effects.
In the EU, potential concerns about the small expansion of two emission-intensive sectors, Chemicals and Petrochemicals, are moderated by the sectors being part of the EU ETS system that will most likely limit the potential effects on CO₂ emissions. Because the expected impact on third countries is generally negligible or negative we do not expect negative spillovers in terms of GHG emissions in third parties.

Stakeholders have indicated a concern about the potential emission impact of an increase in international transport. Given the geographical location of the EU in relation to Mexico, an increase in trade can lead to an increase in air and water transport. Air and water transport are among the most emission-intensive sectors in Mexico, based on emissions over the overall output of the sectors, preceded only by the energy sector. When emission intensity is measured by CO₂ emissions per km, air transport is the most emission-intensive method of transport, followed by road transport, trains, and finally modern ships (Freese, 2017). Both air and sea transports are not explicitly included in the Paris Agreement and over the last decade, the transport sector has been the fastest-growing consumer of energy (43%) in Mexico (OECD, 2013). The 2015 Impact Assessment (2015) estimated an expansion of 0.49% for the air transport sector in Mexico in the most ambitious scenario while the water transport sector was expected to experience a very small decline (−0.04%). The EU transport sector was expected to undergo a decline. In Mexico, the modest expected expansion of the air transport sector poses only moderate concerns about the possible impacts of the modernization agreement on CO₂ emissions.

Other GHG emissions such as methane (CH₄), nitrous oxide (N₂O) are mainly related to agricultural and animal production. The modernization agreement is expected to produce some expansionary effects on the sugar (0.42%) and beef (0.15%) sectors in Mexico in the ambitious scenario, while all other animal and agricultural sectors are expected to experience a small decline. Hence we do not envisage particular concerns in terms of other GHG emissions.

6.3.2. Energy Demand

Primary energy demand in Mexico has increased in parallel with the expansion of the economy in the last two decades, meaning that energy intensity has decreased only slightly over the period (IEA, 2016). This is of particular concern since energy production in Mexico is heavily dependent on fossil fuels. Yet, the
expansionary effects of the modernization agreement are expected to have limited impacts on energy demand. Energy intensive sectors such as metals, chemicals, cement, and paper and pulp industries are expected to experience a small contraction. The motor vehicle sector is expected to expand by 1.2% in the most ambitious scenario but this sector is not particularly energy intensive. The expansionary effects on transport and construction are also too small to constitute a concern in terms of energy demand.

6.3.3. Land Use

The IA (2015) does not provide an estimate of the direct impact on land use. Nevertheless, by comparing the ex-post effects of the GA agreement estimated by ECOSYFR with the expected impact of the modernisation agreement, from the EC impact assessment, we can deduce the possible impact on land use of the modernization agreement. According to the ex-post analysis of the GA, the FTA produced only a small increase in land use intensity (0.13% in Mexico and 0.01% in the EU). The ex-post impact in Mexico has been likely driven by an expansion of the construction (0.44%) and milk (0.1%) sectors. The modernization agreement is also expected to induce a moderate expansion of the construction sector, of similar magnitude (0.4%). The expected effect on the production of milk is instead negative but the beef and sugar sectors are expected to expand (by 0.15% and 0.42% respectively). Because all other agricultural and animal sectors are expected to experience a contraction, these expansionary effects are likely to induce a substitution from other agricultural activities rather than further conversion of forestland into agricultural land. This is also reinforced by the fact that agricultural land has remained constant in the past 15 years. Given the moderate expansionary effects on land intensive sectors, we expected the modernization agreement to have only a small impact on land use intensity.

6.3.4. Natural resources and Biodiversity

According to the IA (2015) some sectors directly related to natural resources are expected to experience a contraction. For Mexico, this is reflected in the reduction of petrochemicals (-0.96%), gas (extraction and distribution, -0.15%) and of other primary industries (-0.08%). The wood and paper sector in Mexico is also expected to experience a decline (-1.4%). In addition, the EU's illegal logging legislation (Regl. 995/2010) already guarantees that no illegal timber or timber products can be sold in the EU. Regarding water resources, most agricultural and animal sectors, which are the main users of water, are expected to experience a decrease in output, with the exclusion of the sugar and beef sectors. The impact on the water distribution sector in Mexico is estimated to be positive but small (0.12%). Besides agriculture and the water distribution sectors, other water intensive sectors are the textile and fabricated metal sectors (WIOD, 2018). Both sectors are expected to experience a decline according to the IA (2015). The modernization agreement is therefore not expected to increase pressure on water resources in Mexico. A similar argument can be applied to forestry. The estimated decline in agricultural activities, with the exception of the sugar and beef sectors, is likely to release pressure on land conversion activities.

Export-oriented agriculture in Mexico tends to make more intensive use of pesticide and fertilizers, while pesticide and fertilizer intensity (quantity per hectare) has also been increasing over time in both the EU and Mexico. These concerns emerged in the stakeholder consultation in Mexico, during which an environmental expert highlighted the health hazards associated with intense use of organochlorine pesticides. This regulatory issue affects not only natural resources but has also significant human rights implications (right to health, indigenous rights), as revealed by a series of studies documenting the contamination of water and the rise of cervical cancer among Mayan communities in the Yucatan region (Rodríguez et al., 2015).

Admittedly, given its moderate sectoral impact on Mexican agriculture, the Modernised GA may not fundamentally change agriculture practices. While overall sugar and beef production is expected to expand, all other agricultural and animal sectors are expected to experience a contraction, thereby mitigating the negative effects on terrestrial and aquatic ecosystems.

On the other hand, the increased use of pesticides in Mexican agriculture remains problematic in the light of the trading parties’ renewed commitment to Multilateral Environmental Agreements as stated in the TSD
6.3.5. Fisheries

Respondents to the online consultations have raised concerns about the potential negative effects of the agreement on the uncontrolled exploitation of fishing grounds. However, fisheries activities in the EU and Mexico are not expected to expand significantly as a result of the Global Agreement. Even in the most ambitious scenario the impact is close to zero. Hence, we do not envisage particular concern regarding fish stocks in both parties. On the other hand, fishery production in Mexico has rapidly increased over the past decade, as has fish per capital consumption in the EU, and will require continued monitoring efforts to ensure sustainability. This is all the more crucial since Mexico has not ratified two MEAs related to fishery production and trade: the United Nations Fish Stocks Agreement (UNFSA) and the Agreement on Port State Measures to prevent, deter and eliminate illegal, unreported and unregulated fishing (PSMA). It is, however, worth noting that the EU has been a leading advocate for banning harmful fisheries subsidies and promoter of sustainable fishing. Hence, increased cooperation through TSD provisions could improve tracking of sea food production and also encourage Mexico to ratify UNFSA and PSMA.

6.3.6. Air Pollution

There are two main potential concerns about the impact of the Modernised GA on air pollution: pollution from industrial processes and transportation.

While above we discussed the overall effects of an expansion of the transport sector on global GHG emissions, here we focus more closely on the potential impact on local air pollution. An increase in output is likely to be associated with an increase in within-border movement of goods from production sites to international shipment ports. The IA (2015) estimates a 0.17% growth for the land transport sector according to the most ambitious scenario. Transport sector consumption is completely dominated by oil products. According to the OECD (2013), the rate of motorisation nearly doubled over the last decade partly driven by a large supply of inexpensive used vehicles and the lack of fuel pricing incentives. This is compounded by the level of oil subsidies, estimated at $706 million in 2016 (IEA, 2018).

On the other hand, significant progress has been made in terms of improving air quality in urban areas in Mexico. This has been partly due to reforms affecting the transport sector such as the limitation of the sulphur content of fuels, vehicle verification programmes. Many programmes, however, remain contained to certain big cities and urban areas. Scaling up such programmes is highly desirable in order to contain the potential negative pollution effects. In addition, the Mexican government has recently introduced a new technical regulation, NOM-044-SEMARNAT-2017, to impose gradually higher emission standards, equivalent to those applied in the EU, for newly sold heavy-duty vehicles, including trucks.

The concerns about the impact of a small expansion of the chemicals and petrochemicals sectors on air quality in the EU are mitigated by the standards and constant monitoring introduced with the Industrial Emissions Directive of 2010 (2010/75/EU) and the continuous support for the development of pollutant abatement technology. Regarding this latter aspect, the modernization agreement is likely to facilitate the transfer of knowledge in the area of pollution abatement technology between the two parties, as further discussed below, with expected benefits in terms of adoption of pollution abatement technology.

6.3.7. Milk and Dairy Sector

The dairy products sector in Mexico would face increased competition from the EU under the Modernised GA as it is expected to experience a decline of 3.37% in the most ambitious scenario (European Commission, 2015). The environmental impact of a potential decline in milk production in Mexico is likely to be limited. As suggested in the EC report and confirmed in this report, the most likely outcome would be a shift to other forms of livestock production with no incremental effect on emissions and/or animal-related waste generation. The environmental impact in the EU is also expected to be small given the modest

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79 See annex. The linkages between the Global Agreement and MEA compliance are discussed in the last section of the environmental analysis.
expansion of dairy sector (0.44%) and considering the fact that potential negative effects would be mitigated by the environmental regulations in force in the EU.

6.3.8. Waste

The modernization agreement is expected to have limited effects on industrial waste production since most manufacturing sectors are projected to experience small negative effects. The only manufacturing sector that is projected to grow is the motor vehicle sector. This sector tends to be a relatively low waste intensive one, yet it is a relevant source of hazardous waste. Over the last decade, the capacity for hazardous waste treatment in Mexico has more than tripled, exceeding projected targets (OECD, 2013). This is particularly reassuring and suggests that a potential moderate increase in industrial waste can be handled by expanding facilities. In addition, given the EU advantage in waste management technology, the modernization agreement could facilitate the transfer of technology and best practices in this sector.

In the EU, there are potential concerns about the small expansion of two significant sources of hazardous waste: the chemical and petrochemical sector. Yet, given the projected small increases in output and the high standards in terms of waste disposal and treatment in the EU we do not envisage particular concerns.

Municipal solid waste production can be expected to increase in line with the expected impact on GDP or even at a higher rate. Although Mexico’s rate of waste per capita is below the EU average, municipal waste generation has increased faster than economic growth over the last decade. Moreover, despite recent improvements, compliance with environmental standards at landfills remains weak (OECD, 2013). Extending the waste charging system could help introduce improved waste management systems and help contain the potential limited negative effects on waste generation. In the EU, potential concerns about increased municipal waste are mitigated by a committed to circular material flow and the continuous improvements in recycling and waste management (EC, 2018). Regarding this latter aspect, the modernization agreement is likely to facilitate the transfer of knowledge between Mexico and the EU in the area of waste management and recycling technology as further discussed below.

6.3.9. Environmental Goods and Services and Green Technology

Environmental goods and services encompass environmental activities aimed at environmental protection (EP), e.g. protection of ambient air and climate, wastewater management, waste management, and resource management (RM), e.g. management of energy resources, minerals and other RM activities.

With a comprehensive modernisation agreement, lower NTBs to environmental goods and services can contribute to increased access to such goods with notably important consequences for the environment (OECD, 2005). In particular, increased access can yield positive environmental benefits in terms of improved resource-use efficiency and pollution prevention. Increased trade in these goods and services can increase competition and induce greater innovation.

*Figure 50: Output of the environmental goods and services sector, by environmental domain, EU-28, 2014 (%)*
There are important complementarities between the two parties in terms of green innovation and technology adoption. According to the Top Markets Series on Environmental Technology by the US Trade administration (ITA, 2016), Mexico's strongest environmental technology segment in 2016 was in air pollution monitoring and control while it lacks technology in the waste and recycling sector. Investment in research and development in the renewable energy sector is also limited (Alemán-Nava, 2014). The EU market output of the environmental goods and services sector, instead, is dominated by energy-related technology for the exploitation of renewable sources (e.g. wind and solar power and biofuels), followed by waste management and wastewater management technologies. On the other hand, the output in terms of ambient air and climate protection is limited. We observe interesting complementarities also in terms of climate change-related technology. While in both parties innovations have been mostly related to the energy sector, a large share of patents in Mexico have focused on industrial production processes while in the EU the second place is taken by the transport sector. These complementarities suggest great scope for the transfer of knowledge, trade and cooperation in green technologies between the two parties, as also suggested by one of the stakeholders.

Figure 51: Climate change-related patents applications by applicant’s country (accumulated 2005-2015)

Source: OECD Stat, environment-related patent

Mexico entered the green bond market in 2015 and has since then become the largest bond market in Latin America. Mexico has established the Green Bond Market Development Committee, which is led by the Mexican Stock Exchange. In Mexico, green bonds have been mainly used to finance projects within renewable energy and energy efficiency sector (EC, 2016). Since green bonds could play a key role in helping to finance the investment needed to achieve the EU's 2030 Climate and Energy objectives and the UN Sustainable Development Goals, collaborations could emerge also on this front as suggested by one of the respondents to the online consultation.

6.3.10. Animal Welfare

The Modernised GA is expected to have limited expansionary effects on animal production in both the EU and Mexico. Beef production in Mexico, including other ruminant and horsemeat, is expected to expand by a small increase of 0.15% in the ambitious scenario. Hence we do not envisage particular concerns regarding increased pressure on animal welfare.

Stakeholders have raised concerns about the potential impacts of the Modernised GA on animal welfare. As mentioned above animal protection standards in Mexico are below European level and regulatory compliance widely differs across Mexican states. This is partly due to the fact that these regulatory standards are not laws and therefore subject to sanctions (Hernandez, 2004).

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80 NOM033, for example, regulates the way animals should be desensitized. NOM051 regulates how animal for human consumption must be mobilized to reduce trauma and pain.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

The inclusion of a chapter on animal welfare and antimicrobial resistance, the first chapter of its kind in an EU trade agreement, marks a historic landmark in the linkage between trade and animal welfare. This decision is congruent with the international ambitions of the EU Strategy for the Protection and Welfare of Animals (2012 - 2015), in which the Commission committed to "continue to include animal welfare in bilateral trade agreements or cooperation forums to increase the strategic opportunities for developing more concrete cooperation with third countries" (European Commission, 2012). However, questions surrounding the welfare of animals were hitherto confined to the SPS chapter or discussed as part of good regulatory practices and regulatory cooperation (e.g. EU-Japan Economic Partnership Agreement). The Modernised EU-Mexico GA is groundbreaking insofar as it is the first to recognize that animals are sentient beings. The chapter provides a framework of dialogue and cooperation to "promote the development of good animal welfare practices" and "to reduce the use of anti-microbials in animal production" by committing the Parties to establish a Joint working group. The latter provision goes beyond the EU-JEPA provisions, where the establishment of a technical committee was left to the discretion of the Parties. On the other hand, issues related to animal welfare and anti-microbial resistance are excluded from the scope of dispute settlement mechanisms, thereby limiting the enforceability of the EU’s new commitments.

6.3.11. Analysis of the TSD chapter

As mentioned above, the TSD provisions of the Modernised GA build upon the institutional mechanisms established since the Korea-EU FTA and expanded in subsequent trade negotiations. The current TSD proposal agreed upon by the trading partners largely borrows from the latest EU trade agreements such as the EU-Vietnam FTA and CETA (despite the latter’s particularity of separating the environmental chapter from the labour chapter). Below is a summary of the key provisions. Under the proposed text of the TSD chapter, the trading partners:

- Reaffirm their "right to regulate" to protect the environment (art. 2)
- Reassert their commitment to the "precautionary principle" in the absence of scientific evidence (art. 11)
- Emphasize their commitment to uphold their environmental laws and effectively implement the multilateral environmental agreements (MEAs) to which they are party (art. 4);
- Target four specific environmental causes for which they commit to take action individually, bilaterally, regionally or internationally: 1) climate action; 2) biological diversity; 3) sustainable management of forests; 4) sustainable management of marine biological resources and aquaculture; 5) responsible management of supply chains (art. 5 to 9).
- Agree to share information and expertise on an even broader range of linkages between trade, investment and environmental protection including the promotion of inclusive growth and circular economy, the development of transparent private and public sustainability assurance schemes including eco-labelling, the sound management of chemicals and waste etc. (art. 13).
- Establish a Trade and Sustainable Development (TSD) Subcommittee in charge of reviewing the implementation of the chapter with the help of domestic advisory groups and a civil society forum (art. 14).

The EU-Mexico TSD chapter is, on the one hand, very ambitious for its wide-ranging scope, making the EU a driving force institutionalizing trade-environment linkages at the regional and global levels. On the other hand, the enforceability of the TSD chapter and its potential impact on MEAs is contingent upon each trading partner’s commitment to environmental causes.

81 Chapter 18, section B, article 18.17: “The Parties may adopt by mutual consent a working plan defining the priorities and categories of animals to be dealt with under this Article, and establish an Animal Welfare Technical Working Group to exchange information, expertise and experiences in the field of animal welfare and to explore the possibility of promoting further cooperation.”
As with previous FTAs, the EU favours a cooperative approach to dispute resolution in the environmental realm. In case of disagreement regarding the implementation of the TSD chapter, a party may request consultations, where they shall seek advice from relevant multilateral environmental organizations, domestic advisory groups or any expert they might deem appropriate (art. 16). If consultations fail to bring the two parties to an agreement, one of the parties may request the establishment of a Panel of Experts designated by the TSD subcommittee and composed of three sub-lists: one from each party and one list of individuals who are not from one of the two other parties. The Panel of Experts must issue a report laying out the facts, the applicability of the relevant provisions and the rationale behind it, as well as recommendations for the parties to resolve the dispute. The TSD Subcommittee is in charge of monitoring the follow-up of the report and its recommendations (art. 17).

Unlike NAFTA’s side agreement on environmental cooperation, the current dispute resolution mechanism under discussion is confined to governments and does not allow for submissions from citizens or civil society organizations. This may be problematic in Mexico where civil society organizations are more rarely consulted, as repeatedly emphasized by participants during the stakeholder consultation event organized by the contractor in Mexico.

Another potential concern about the dispute resolution mechanism lies in the lack of guarantee that the recommendations formulated by the Group of Experts will be acted upon, which may allow one of the trade partners to ignore its obligations with regard to either subnational, national, regional laws or MEAs, though the public nature of the recommendations will mean that the trade partner will be subject to societal pressure.

**Potential impact on MEA compliance**

**Figure 52: Impact of modernised EU-Mexico Global Agreement on MEA enforcement**

<table>
<thead>
<tr>
<th>Category of MEAs</th>
<th>Trade-related MEAs</th>
<th>Potential Impacts</th>
<th>Nature and magnitude of expected impact on MEA enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature and biodiversity</td>
<td>CITES, ICCAT, UNFSA, PSMA, ITTA, IPPC, CBD</td>
<td>Biodiversity and water: potential increase in fertilizers and (esp.) pesticides intensity contribute to soil erosion, declining water quality and affect the aquatic ecosystems</td>
<td>Neutral (CBD, IPPC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Forestry: expansion of beef and sugar industries compensated by anticipated decline in other agricultural subsectors including milk and dairy, limiting conversion of forest land</td>
<td>N/A: Mexico has not ratified UNFSA and PSMA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fisheries: limited to no increase in Mexican fish production and exports; very limited increase of EU fish exports to Mexico in ambitious scenario</td>
<td>Negative / minor (CBD, IPPC)</td>
</tr>
</tbody>
</table>

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82 This point is also raised in the human rights section.
<table>
<thead>
<tr>
<th>Climate change and ozone depletion</th>
<th>Vienna Convention and Montreal Protocol, UNFCCC, Paris Agreement</th>
<th>Increased cooperation through TSD provisions could improve tracking of sea food production</th>
<th>Sustained cooperation could encourage Mexico to ratify UNFSA and PSMA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sectoral effects: Shift towards less emission intensive sectors due to small decline in Mexican agriculture, chemicals and energy-intensive industries and positive impact on less emission intensive sectors (motor vehicles, services)</td>
<td>Positive / minor (Vienna/Montreal, UNFCCC, Paris Agreement)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Agriculture: Increase of sugar and beef sectors (ambitious scenario) leading to higher methane and nitrous oxide emissions compensated by small decline in all other animal and agricultural sectors</td>
<td>Negative/minor (UNFCC, Paris Agreement)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transport: Increase in air transport leading to higher emission levels</td>
<td>Negative/minor (UNFCC, Paris Agreement)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environmental goods and services: Complementarities in technology is likely to lead to increased trade in environmental goods as well as technology transfers leading to better protection of ambient air and climate, including in the EU</td>
<td>Positive/minor (Vienna/Montreal, UNFCCC, Paris Agreement)</td>
</tr>
<tr>
<td>Waste</td>
<td>Basel Convention</td>
<td>Small decline in certain manufacturing sectors could limit industrial waste, while small increase of motor vehicles sector can increase industrial waste</td>
<td>Neutral / minor (Basel)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expansion of chemical and petrochemical sectors can increase hazardous waste</td>
<td>Negative / minor (Basel)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased trade in environmental goods as well as technology transfers leading to waste management (including hazardous waste) in Mexico</td>
<td>Positive / minor (Basel)</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Chemicals</th>
<th>Rotterdam Convention, Stockholm Convention, Minamata</th>
<th>Anticipated increase of fertilizers and (esp.) pesticides from EU could increase Mexican use of these substances in agriculture, thereby undermining efforts to protect human health and the environment</th>
<th>Negative / minor (Rotterdam, Stockholm)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Limited contraction of mining sector (-0.08%) might reduce risks for human health and the environment</td>
<td>Positive / minor (Rotterdam, Stockholm, Minamata in case of decline in Mexican mercury exports)</td>
</tr>
</tbody>
</table>

This analysis builds upon the environmental analysis carried out to assess the impact of the Modernised GA on the enforcement of MEAs, categorized in four environmental realms. Given the diffuse effects of the Modernised GA on EU-Mexico trade, the two trading partners’ compliance with MEAs are unlikely to be radically disrupted.

The potential benefits of the TSD chapter are less likely to reside in its dispute resolution mechanisms than the collaborative efforts undertaken by both parties either regionally or multilaterally, i.e. with the support of international organizations such as FAO or UNEP. Given the very broad scope of the current environmental provisions in the TSD chapter, the main challenge lies in identifying key environmental risks that require particular attention and fund action programs where the trade-environment linkage can be a source of opportunity (see recommendations below).

6.4. CONCLUSIONS

The baseline analysis demonstrates that, overall, environmental policies in Mexico are less stringent than in the EU. Mexico’s GHG emissions per capita have been increasing over time and there are no signs yet of a decoupling of emissions from economic growth. Emissions from power generation, the dominant sector in emissions production, have been increasing. While natural gas has gradually replaced oil in energy production, the role of renewable sources remains limited and has been slightly decreasing over time. More recently, however, there have been some promising energy reforms but further interventions are necessary to boost renewable energy. Mexico is abundant in mineral resources and the mining sector increasingly contributes to GHG emissions. Air pollution is a major concern in Mexico with rates of exposure to particulate matters well above EU levels. Rates of deforestation in Mexico have been slightly decreasing over time. Finally, the Mexican agricultural sector shows moderate, though increasing use of pesticides and fertilizers in line with EU levels.

The analysis of the environmental impacts of the modernization agreement suggests it should not lead to a significant increase in GHG emissions since the agreement is likely to favour a relocation towards less energy and carbon intensive sectors in both Mexico and the EU. The effects of a potential expansion of international shipments due to increased trade are likely to be small due to the expected limited expansion of air transport, the most emissions intensive means of transportation. There do not seem to grounds either for major concerns regarding other GHG emissions, stemming mostly from agriculture, since most agricultural sectors, with the exception of a small expansion of the beef and sugar sector, are expected to experience a contraction. For the same reason, the modernization agreement is also likely to have limited effects on the intensification of agriculture, deforestation, and water resources and aquatic ecosystems. Yet, the observed increased use of pesticides in Mexican agriculture remains a cause for concern. Potential concerns about the impact on air pollution due to increased land transport are partly mitigated by the
recent progress made in some Mexican towns in terms of air pollution control. In terms of air pollution from industrial sources, the small expected expansion of the chemicals and petrochemicals sectors in the EU is likely to have limited effect on local air pollution given the high environmental standards and constant monitoring the sectors are subjected to, as per the Industrial Emissions Directive of 2010 (2010/75/EU). Finally, the Modernised GA is likely to contribute to increased trade in environmental goods and services given the observed complementarities in terms of air pollution monitoring and control, waste management and climate change-related technologies between the parties.
7. **SECTORAL ANALYSIS**

7.1. **METHODOLOGY**

Based on the overall analysis, we carried out a detailed analysis of the following 11 sectors, selected according to pre-defined criteria agreed upon during the inception phase of the project. The selection was guided by product significance in trade flows, importance in outermost regions, and by identification of the existing impact analysis, particularly the Ex-post evaluation of the implementation of the EU- Mexico Free Trade Agreement of 2017.

**Table 25: Selection of Sectors and Justification**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
</tr>
<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. The study does not conduct an in-depth analysis of sugar as Mexico is not a relevant international player in trade in sugar.</td>
</tr>
<tr>
<td>Other Meats</td>
<td>Even if Mexico is not a relevant player, beef is a sensitive product for the EU.</td>
</tr>
<tr>
<td>Other beverages</td>
<td>Beverages represent high value export goods for Mexico. It is specifically interested in the protection of appellations of origin regarding spirits. Wine and beer are not included in the analysis as trade 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>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
</tr>
<tr>
<td>Energy Commodities</td>
<td>Energy commodities represent an important sector for trade flows between Mexico and the EU.</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Impacts on trade in chemicals, including pharmaceuticals, are assessed in depth as stakeholders have voiced concerns over the sector’s regulatory framework and intellectual property issues.</td>
</tr>
<tr>
<td>Machinery (Electrical + Other)</td>
<td>Combined, the motor vehicle and other machinery industries account for almost 30% of Mexican manufactured exports to the EU.</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>In upcoming years, Mexico is expected to become an even bigger competitor within the automotive industry on a global scale.</td>
</tr>
<tr>
<td>Metal Parts</td>
<td>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.</td>
</tr>
</tbody>
</table>

**Services**

| Business Services       | The study conducts an in-depth assessment of the agreement’s impacts on business services recognizing that trade in services |

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between the EU and Mexico is dominated by travel and transport services as well as telecommunications. The business and professional services sector comprises a wide range of sub-services, including computer-related services, research and development, advertising, architectural services, engineering services legal services, accounting and business management services.

| Financial Services | Financial services include insurance and insurance-related services as well as banking and other financial services. Although trade in financial services sectors is relatively small compared to trade in goods, bilateral trade flows have increased significantly since the original FTA. |

Each sector analysis includes an overview of the current state of industry, and an identification of challenges and untapped future opportunities in addition to an analysis of the likely impact of the Modernised GA.

7.1.1. General Approach

Regardless of the Agreement’s overall economic, social or environmental impacts, some sectors deserve special attention, in particular because the impact of the modernisation of the GA may only materialise if other conditions are met. This study comprehensively assesses the effects in selected sectors, and our assessment comprises the following elements:

- Policy: The report identifies the main specific or vertical policies affecting the sectors, including tariff, tax, subsidies and other specific incentives. Moreover, we assess other regulations (e.g. safety standards) that may affect trade flows and restrictions or constraints on investments. This assessment takes into account the ongoing or concluded trade negotiations 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.

- Trade: Based on the results obtained using the quantitative methods, we present a detailed analysis of the likely effects of changes in trade flows on the sector. The analysis is made at 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 assess the effects on the different dairy products traded. In addition, there is intra-industry trade between the EU and Mexico in specific industrial sectors that needs to be analysed in more detail. The EU’s exports to Mexico are currently dominated by sectors such as machinery, transport equipment, chemicals, and fuel and mining products, while Mexico exports predominantly fuels and mining products, office and telecommunication equipment, transport equipment, and 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.

- Production and employment: From the trade results, we assess how production (and consumption) and employment may be affected by the Agreement in each of the sectors. In addition to the CGE results and the previous impact assessment, sources from the Food and Agriculture Organization (FAO), OECD, United Nations Industrial Development Organization (UNIDO), International Labour Organization (ILO), EU and national sources are used.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

- Market configuration: The report describes the main characteristics of the markets in the respective regions. This includes, based on the availability of data, a description of the number of economic actors, market shares, levels of concentration, etc. We identify sectors with limited competition based on the operation of government enterprises (i.e. air handling services) or through regulations.

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

- Effects on LDCs: The impact on LDCs is assessed in each of the sectors analysed. We do this by looking into how much trade LDCs export to the EU and Mexico and the potential displacement effect.

- Consumer impacts: Based on the quantitative analysis, we assess 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 are 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 usually characterised by the presence of a large number of diverse SMEs, which export directly and indirectly. Accordingly, the European Commission pays special attention to those areas that potentially have a greater impact on SMEs and their ability to access third markets when negotiating with third countries.63

Trade liberalisation can impact SMEs indirectly through increased competition in the home and global market and changes in standards. This section provides an analysis of the potential impact of a modernised trade part of the Global Agreement between the EU and Mexico on SMEs. The major aim of this analysis is to identify those sectors where SMEs are predominant and to analyse the impact of a modernised trade part on SMEs in the EU and Mexico. It sets out major characteristics of the SME landscape of the EU and Mexico and discusses how SMEs would mainly be affected by a further reduction of trade barriers and, in particular, advances in regulatory cooperation as regulatory barriers to trade rank high among key barriers to the internationalisation of EU SMEs (European Commission, 2015).

The Small Business Act (SBA) provides an overarching framework for EU policy on SMEs (European Commission, 2008). 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. Accordingly, SMEs would generally benefit from preferential trade agreements as removing trade and investment barriers would provide further opportunities for SMEs' internationalisation, including access to new markets, international production networks, economies of scale and a reduction of administrative costs.

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SMEs are also indirectly benefiting from trade and investment liberalisation as they are part of complex domestic and global supply chains. 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 (European Commission, 2015).

### 7.1.2.1. Methodology of the Assessment of the Impact on SMEs

The major aim of this analysis is to identify those sectors where SMEs are predominant and to analyse the impact on SMEs in the EU for different scenarios. It sets out major characteristics of the SME landscape of the EU and Mexico and discusses how SMEs are affected by existing trade barriers and a lack of regulatory alignment. The subsequent analysis is structured as follows:

1. Definition of SMEs in the EU and Mexico
2. Overview of the SME sector in the EU
3. Overview of the SME sector in Mexico
4. Presentation and discussion of major existing trade barriers between the EU and Mexico for sectors in which EU SMEs export
5. Discussion of how trade liberalising measures would impact on EU SMEs

### 7.1.2.2. Definition of SMEs in the EU and Mexico

Article 2.1 of the European Commission’s Recommendation 2003/361/EC defines SMEs as 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 (European Commission, 2003). A 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) (EC, 2016). In Mexico, the category ‘SME’ applies for companies with 250 or fewer employees (Kushnir et al., 2010).

#### Table 26: EU definition of types of SMEs

<table>
<thead>
<tr>
<th>Type</th>
<th>Employees</th>
<th>Turnover</th>
<th>Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro SME</td>
<td>&lt; 10</td>
<td>&lt; 2 million Euros</td>
<td>&lt; 2 million Euros</td>
</tr>
<tr>
<td>Small SME</td>
<td>&lt; 50</td>
<td>&lt; 10 million Euros</td>
<td>&lt; 10 million Euros</td>
</tr>
<tr>
<td>Medium-sized SME</td>
<td>&lt; 250</td>
<td>&lt; 50 million Euros</td>
<td>&lt; 43 million Euros</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small and Medium-sized Enterprise (SME)</td>
<td>&lt; 250</td>
<td>No threshold</td>
<td>No threshold</td>
</tr>
</tbody>
</table>

*Source: EU Commission, annual report on SMEs, 2016/2017.*

### Overview of the SME sector in the EU

According to the European Commission’s Annual Report on European SMEs (2015 / 2016), SMEs are the backbone of the EU economy, representing 99.8% of all companies, 67% of EU employment, and 57% of total EU value-added. In contrast to their contribution to the intra-EU trade, however, the internationalisation of SMEs outside the EU is fairly limited. Eurostat data indicate (see below) that most SMEs have not undertaken business activities outside the Internal Market.

For major sectors of the economy, industry data indicate that SMEs contribute to 80% of the value added (88% of sectoral employment) in the EU’s construction services sector, 75% of the value added (83% of sectoral employment) in accommodation and food services, 76% of the value added (82% of sectoral employment) in retail trade, and 84% of the value added (85% of sectoral employment) in wholesale trade.
employment) in business services and 66% of total value added (70% of sectoral employment) in wholesale and retail services. At the same time, 42% of value added in EU manufacturing is generated by SMEs, which account for about 60% of employment in the EU’s overall manufacturing sector (see Figure 53 below).

**Table 27: SMEs and large Enterprises in the EU28 2016/2017**

<table>
<thead>
<tr>
<th>Number of enterprises</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SME</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>In thousands</td>
<td>22,232</td>
<td>1,392</td>
<td>225</td>
<td>23,849</td>
<td>45</td>
<td>23,894</td>
</tr>
<tr>
<td>In % of total enterprise population</td>
<td>93.00%</td>
<td>5.80%</td>
<td>0.90%</td>
<td>99.80%</td>
<td>0.20%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of persons employed</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SME</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>In thousands</td>
<td>41,669</td>
<td>27,982</td>
<td>23,398</td>
<td>93,049</td>
<td>46,665</td>
<td>139,714.1</td>
</tr>
<tr>
<td>In % of total employment</td>
<td>29.80%</td>
<td>20.00%</td>
<td>16.70%</td>
<td>66.60%</td>
<td>33.40%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value added</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SME</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>In EUR Trillion</td>
<td>1,482</td>
<td>1,260</td>
<td>1,288</td>
<td>4,030</td>
<td>3,065</td>
<td>7,095</td>
</tr>
<tr>
<td>In % of total value added</td>
<td>20.90%</td>
<td>17.80%</td>
<td>18.20%</td>
<td>56.80%</td>
<td>43.20%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: EU Commission, annual report on SMEs, 2016/2017.

**Figure 53: Contribution of EU SMEs to Employment and Value Added, Major Sectors**

The importance of firm size and firm resources for export activity is reflected by the results of a (most recent) survey on European SMEs conducted by Eurobarometer in 2015 and reported in the European Commission’s "Annual Report on European SMEs 2017/2018. Special Background Document on the Internationalisation of SMEs". Accordingly, the larger the SME, the more likely it is to have engaged in cross-national-border business activities inside the EU’s internal market in the past three years. While only 29% of micro enterprises have exported to another EU country in the last three years, 43% and 59% of small and medium enterprises have exported to another EU country. The findings also apply for importing from abroad and subcontracting a company in another EU country. Eurobarometer data also indicate that 39% of all SME respondents have imported from another country, while 33% have exported. At the same time, 48% of all SME company respondents have not engaged in cross-border commercial activities inside the EU. In addition, most of EU SMEs international business takes place within the EU’s internal market.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Figure 54: EU SMEs Engagement in International Commerce inside the EU

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imported from another country</td>
<td>39%</td>
</tr>
<tr>
<td>Exported to another country</td>
<td>33%</td>
</tr>
<tr>
<td>Used a subcontractor based abroad</td>
<td>16%</td>
</tr>
<tr>
<td>Worked as a subcontractor for a company abroad</td>
<td>13%</td>
</tr>
<tr>
<td>Worked with a partner based abroad (R&amp;D)</td>
<td>8%</td>
</tr>
<tr>
<td>Invested in a company based abroad</td>
<td>4%</td>
</tr>
<tr>
<td>None of the above</td>
<td>48%</td>
</tr>
<tr>
<td>Do not know</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Eurobarometer 2015. Question: In the last three years, has your company done any of the following inside the EU? (Multiple answers possible).

According to the European Commission’s "Annual Report on European SMEs 2017/2018”, EU-SMEs exported good worth €1,757 billion or 12% of EU-28 GDP (in current prices) to members and non-members. The value of these exports has increased by almost 20% since 2012, slightly faster than overall SME value added (Figure 54).

Also noteworthy is the fact that, from 2012 to 2016, the value of SME exports grew more than twice as fast as the number of exporting SMEs (19.3% versus 9%) (Figure 55). Concerning European SMEs engagement in extra-EU commerce, Eurobarometer data indicate that only 20% of all SME respondents have yet imported from a non-EU country, while only 19% have exported to a non-EU country (see Table 29). At the same time, 69% of all SME company respondents so far did not engage in cross-border commercial activities incl. partnerships and the use of sub-contractors, outside the EU. The data also suggest that engagement in non-EU markets is positively correlated with firm size. Importantly, only 2% of all EU SMEs invested in a company based abroad, indicating that those SMEs that engage in international commercial activities are to the largest extent depending on direct exports and direct imports, and therefore are particularly vulnerable to tariffs and non-tariff trade barriers.

Table 28: Characteristics of EU SMEs’ Commerce outside the EU28

<table>
<thead>
<tr>
<th></th>
<th>Exported to another country</th>
<th>Imported from another country</th>
<th>Uses a subcontractor based abroad</th>
<th>Worked for a subcontractor company based abroad</th>
<th>Worked with a partner based abroad in R&amp;D</th>
<th>Invested in a company based abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU28 Total</td>
<td>20%</td>
<td>19%</td>
<td>7%</td>
<td>5%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Firm Size</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-9 employees</td>
<td>19%</td>
<td>18%</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>10-49 employees</td>
<td>30%</td>
<td>28%</td>
<td>9%</td>
<td>6%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>45%</td>
<td>40%</td>
<td>18%</td>
<td>16%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>NACE Sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>36%</td>
<td>30%</td>
<td>9%</td>
<td>10%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Retail</td>
<td>26%</td>
<td>28%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Services</td>
<td>15%</td>
<td>12%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Type of Market</th>
<th>16%</th>
<th>18%</th>
<th>4%</th>
<th>3%</th>
<th>2%</th>
<th>1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods to consumer</td>
<td>33%</td>
<td>31%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Goods to companies</td>
<td>9%</td>
<td>10%</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Services to consumer</td>
<td>20%</td>
<td>17%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>


As concerns sector-specific export intensities, they are on average highest for manufacturing sectors, e.g. motor and transport equipment, motor vehicles, machinery and electrical equipment, and a number of services sectors, e.g. transport services and business services (EC, 2016). At the same time, some of the EU’s most important SME services sectors show rather low export intensities. “Retail trade”, in general, shows a low export intensity over total sales between 0 and 5%. Similarly, “construction” as well as “accommodation and food services” sectors show, overall, comparatively low export intensities, indicating exports over total sales between 0% and 5%. Some services sectors such as wholesale trade, advertising, legal and business consulting services show somewhat higher, but still low export intensities when compared to manufacturing (a rather high export intensity sector), ranging from 5% and 10% in exports over total sales.

At the same time, even though aggregate export intensities are low for many sectors, some SME’s direct contribution to total sectoral exports turns out to be significant. Detailed data for SME trade volumes are not available for bilateral trade between the EU and Mexico. Therefore, total extra-EU trade volumes and data on the number of EU SMEs trading with partners in non-EU countries (both being provided by Eurostat) are taken into consideration to determine specific industries’ exposure to non-EU exports and imports.

According to Eurostat statistics of 2015, more than 657,000 SMEs exported beyond the EU’s external borders, accounting for 531bn EUR in total extra-EU exports (30% of total extra-EU exports). At the same time, more than 847,000 EU SMEs imported goods and services from non-EU countries, accounting for a total extra-EU import volume of 648bn EUR (37% of total extra-EU imports). Accordingly, the EU’s the trade balance of SMEs that import and/or export from/to non-EU countries is fairly balanced, showing only a slight trade deficit (2015 data are depicted in the Appendix).

2015 data show that all industries show relatively high shares of SMEs that export beyond the EU’s borders:

- agriculture (SME exports accounting for 69% of total agricultural exports, which are, however, negligible compared to manufacturing and services sectors; 2.5bn EUR in 2015),
- manufacturing (SME exports accounting for 22% of total manufacturing exports; 256bn EUR) and
- services sectors (SME exports accounting for 5% (financial services; 2bn EUR) to 75% (wholesale and retail trade) of total services exports; 201bn EUR).

Accordingly, the overall manufacturing sector accounts for almost 50% of the EU’s total extra-EU SME exports, followed by wholesale and retail trade (37%). In the services sectors, SMEs are strong exporters in transportation and storage services (17.5bn EUR), retail trade (15.5bn) and professional and scientific services (14.6bn EUR).

As indicated above, a great number of EU SMEs also import from countries outside the EU. 2015 data show that all EU industries show relatively high shares of SMEs that import from partners in non-EU countries:
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

- agriculture (SME imports accounting for 75% of total agricultural imports, which are, however, negligible compared to manufacturing and services sectors; 1.3bn EUR in 2015),
- manufacturing (SME imports accounting for 22% of total manufacturing imports; 147bn EUR) and
- services sectors (SME imports accounting for 10% (financial services; 2.6bn EUR) to 66% (wholesale and retail trade) of total services imports; 381bn EUR).

Accordingly, the overall wholesale and retail trade sector accounts for almost 58% of the EU's total extra-EU SME imports, followed by manufacturing (22%). In the services sectors, SMEs are strong importers from non-EU countries in transportation and storage services (18bn EUR), retail trade (18bn), administrative and support services (23bn EUR), and professional and scientific services (8.7bn EUR).

Overview of the SME sector in Mexico

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) (OECD, 2016). By comparison, about 10.000 large enterprises (251+ employees) account for only 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-enhancing equipment and technology to overcome manual methods or restrictions due to antiquated machinery (MGI, 2014). 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, 2017). 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. At the same time, as outlined by Ecorys (2014), the export capacity of Mexican SMEs still is far below potential. Of all the companies, incl. SMEs currently registered at the Ministry of Economy, only 0.82% are exporting and only 2.03% are importing (Ecorys, 2017).

Trade Barriers Affecting SMEs in EU-Mexico Trade

For businesses to expand, the main barrier is not the level of regulatory restrictiveness in the country of the trading partner, but regulatory heterogeneity. This reasoning holds for goods and services trade. Regulatory heterogeneity, as argued by Pelkmans and De Brito (2012), is not only costly to businesses; it is also to the detriment of consumers that are confronted with higher prices and less product variety (Pelkmans, Brito, 2012).

Regulatory heterogeneity increases a company’s fixed cost of market entry as companies need to set up resources and processes to comply with diverse country-specific provisions. Accordingly, the cost of market entry adversely affects firms’ total average costs per unit of output, increasing it with every new non-domestic export market. These considerations are largely reflected in EU survey data, which shows that EU SMEs exporting globally (and also within the EU) primarily complain about complicated administrative barriers, complicated tax regulations, difficulties in dispute management and problems related to the access to legal information (Flash Eurobarometer 421, 2015).

These findings are reflected by a large body of literature indicating that regulatory trade barriers incl. regulatory heterogeneity generally have a greater adverse impact on SMEs than on larger companies: SMEs have generally more limited financial resources and lower human resource capacities than larger enterprises and are thus less well-equipped to handle heterogeneous administration, deal with diverse national regulatory bodies and to absorb risks, especially when operating in diversely regulated, intensely competitive markets, and markets dominated by large and long-established enterprises.

Wang (2016) and Cernat et al. (2014) note, for example, that SMEs often face different market entry constraints compared to large firms. Cernat et al. (2014) present several dimensions of impediments that hinder SMEs from engaging in international commerce. More precisely, these are:

- internal SME-specific impediments for internationalization, e.g., human resource constraints, financial restraints, and constraints related to lacking information regarding commercial regulations
and foreign countries, lack of SME-friendly domestic policies, e.g., domestic policy directed at promoting the internationalisation process of SMEs, and

- more specific trade and investment barriers, such as non-tariff trade barriers that disproportionately affect SMEs due to fixed compliance costs that do not vary with the amount traded and the inability of SMEs to spread these costs over large export values (e.g., compliance with certain foreign technical standards, difficult licensing procedures and certifications).

Similarly, the International Trade Centre (2015) provides a list of measures that impose high trade-related fixed costs on SMEs, implicitly accounting for SME underrepresentation in direct export activities. Trade-related fixed costs are:

- accessing information about export opportunities,
- overcoming non-tariff measures (health, safety, and technical standards),
- coping with cumbersome border procedures,
- establishing transportation systems for delivery to foreign customers, and
- contracting for network infrastructure (information and communication technology, electricity, and water).

**The Impact of Trade Liberalising Measures on EU SMEs**

As shown by Table 23 for the EU’s five largest industries, the EU’s manufacturing and business services sectors are characterised by relatively high export intensities (between 5 and 40% of export sales compared to total sectoral sales) and at the same time significant export and investment barriers to trade (of up to 236% in AVEs). Due to lacking resources, trade of EU SMEs in manufacturing is currently hampered by significant non-tariff barriers, such as technical regulations and tight rules of origin.\(^8^4\) Similarly, SMEs operating in business services sectors currently face a number of regulations that put them at a disadvantage compared to large companies (e.g. in legal, accounting, tax advisory, architectural, engineering, medical, computer and IT services, R&D services, real estate, rental and leasing services, postal, courier and distribution services, and communication services). We assess business sector activity specifically because we already see significant trade levels compared to the rest of the services sectors that are largely non-tradable. It is the business sectors, which are usually regulated in many different ways at national level, in legal, accounting, tax advisory, architectural, engineering, medical, computer and IT services, R&D services, real estate, rental and leasing services, postal, courier and distribution services, and communication services. The elimination of NTBs, the harmonisation of rules and industry standards as well as greater degrees of mutual recognition in these areas would particularly allow EU SMEs in manufacturing and services to increase their export and investment exposure to Mexico, which would promote jobs and value-added in the EU. This has also an impact on SME participation in bilateral and global value chains and ecommerce business to business (b2b) and business to consumers (b2c).

In addition, although the export intensities in construction services as well as wholesale and retail trade services are relatively low (up to 10% of export sales compared to total sectoral sales), SMEs’ contribution to EU value-added and employment in these sectors is relatively high (80% and 66% respectively). As the number and impact of NTBs imposed by Mexico is relatively high in these sectors, e.g. in public procurement and restrictions on EU business’ investment in these sectors in Mexico, the elimination of NTBs and barriers to investment would positively contribute to value-added and job creation in the EU as it would be easier for European SMEs in these sectors to set-up shop in or export to Mexico.

\(^8^4\) For the adverse impact of RoOs, see also Hoekman and Inama (2017).
### Table 29: Value added, export-intensities and existing NTBs for EU SMEs in EU-Mexico Trade

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of SMEs in total value added of sector</th>
<th>Sector specific export intensity levels</th>
<th>Existence of NTBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>42%</td>
<td>Low to very high (exports over total sales between 5 and above 40%).</td>
<td>Yes. Estimated AVEs for NTMs between 8% for &quot;other manufactures&quot; and 236% for &quot;wearing apparel&quot;. Machinery products, transport equipment, electrical machinery and metals and metal products show AVEs between 20 and 60%. Different rules of origin in manufacturing, e.g. cars and other vehicles, textiles and clothing and chemicals, are difficult to comply with for SMEs.</td>
</tr>
<tr>
<td>Construction services</td>
<td>80%</td>
<td>Very low (exports over total sales between 0 and 5%).</td>
<td>Yes. Only limited access to public procurement in Mexico (incl. construction related services, such as architecture and engineering services, urban planning services).</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>75%</td>
<td>Very low (exports over total sales between 0 and 5%).</td>
<td>Some restrictions in hotel, lodging and food services apply. Non-residential real estate for hotels and restaurants needs to be acquired by a Mexican entity.</td>
</tr>
<tr>
<td>Business services</td>
<td>76%</td>
<td>Very low, medium and high (exports over total sales between 0 and 40%).</td>
<td>Yes. Significant restrictions apply for trade and investment in a great number of services. The European Services Forum, for example, lists a number of restrictions for legal, accounting, tax advisory, architectural, engineering and medical services. It also outlines specific trade and investment barriers for computer and IT services, R&amp;D services, real estate related services, rental and leasing services, postal, courier and distribution services, and communication services.</td>
</tr>
<tr>
<td>Wholesale and retail services</td>
<td>66%</td>
<td>Very low to low (exports over total sales between 0 and 10%).</td>
<td>Yes. Several restrictions still apply, e.g. foreign equity caps and trade intermediary services. Specialised outlets are only open for limited number of products.</td>
</tr>
</tbody>
</table>

Source: Annual reports on EU SMEs 2015/2016 and 2016/2017. Information received during stakeholder consultations.

### Analytical Conclusions of how an Update of the Trade Pillar May Impact on EU SMEs

Data for general commercial activities and trade flows show that EU SMEs contribute significantly to value added and employment in the EU. SMEs that export and/or import to and from non-EU countries operate in all EU industry sectors. The contribution of SMEs to extra-EU trade is largest for a wide range of
manufacturing and services sectors and less significant for trade in agricultural commodities. A large share of EU SMEs does not directly export to foreign markets, but supplies goods and services to companies that show higher export or import intensities (e.g. many construction services and business services suppliers, which constitute a large group of EU SMEs). Standing at a mere 2%, EU SMEs investment activity in countries outside the EU is fairly low compared to investments made by the EU’s larger corporations (e.g. those with more than 250 employees and more than 50mn EUR in annual revenues). As a consequence, since most EU SMEs’ international commercial activities are largely based on exports and imports, they significantly depend on transparent and non-discriminatory market access conditions.

EU SMEs that provide upstream services and intermediate inputs to EU-based companies that export, import or invest abroad would also benefit from better bilateral market access conditions for trade and investment. Finally, EU SMEs that import from abroad would generally benefit from better market access conditions for Mexican exporters and, in turn, greater levels of domestic and international competitiveness. Intensified trade would also increase the demand for transport as well as wholesale and retail services for which SMEs are strong providers.

The SME Chapter of the agreement in principle includes a number of measures that would benefit EU SMEs by either lowering the cost of access to the Mexican market or by the elimination of barriers that currently impede or even prevent EU SMEs from exporting to (potential) customers in Mexico. These measures include greater levels of information sharing regarding: tariff and non-tariff measures, including sanitary and phytosanitary (SPS) requirements, technical regulations, and information regarding conformity assessment requirements, intellectual property rights, amongst other.

The EU and Mexico agree on the creation of websites and SME contact points for SMEs interested in trading and doing business in both jurisdictions. These measures are likely to result in better information and improved market access conditions for EU SMEs in Mexico. Given that these measures are based on reciprocity, they would also be to the benefit of Mexican SMEs. At the same time, regulatory cooperation and cooperation in standardisation activities could lead to greater levels of regulatory alignment, simplifying bilateral trade and investment, in particular for SMEs.

EU SME exporters in manufacturing would primarily benefit from more transparent and more aligned customs procedures and lower customs clearance charges. The same is true for SMEs in logistics and courier services. Similarly, EU SMEs operating in manufacturing sectors would benefit from a simplification and stronger harmonisation of rules of origin (ROOs). They would, to a lesser extent, also benefit from an alignment prevailing ROOs with ROOs established by other EU FTAs or ROOs that are currently being updated (e.g. the in the Pan-European-Mediterranean Agreement; PEM). A publicly available registry of technical product regulations in force including relevant conformity assessment procedures would also be beneficial to SMEs, particularly smaller SMEs with limited and less-specialised administrative capacities.

In sum, all of these measures would primarily increase the comparative advantages of EU SMEs operating in the manufacturing sectors, with positive spill overs to upstream suppliers including companies operating in the EU’s services sectors. The greatest effects on EU value-added and EU employment would arise from the elimination on NTBs in manufacturing and services sectors.

7.2. POLICY CONCLUSIONS

The analysis has shown the high relevance of SMEs in EU Member States’ economies. The modernisation of the trade part of the EU-Mexico GA would primarily increase the comparative advantage of EU SMEs operating in sectors that already show high export-intensity levels, i.e. SMEs operating in manufacturing and business services sectors. In the negotiation of the modernised trade part of the GA, special attention has been given to those legal areas that potentially have a greater impact on industries that show high export-intensity levels and face high NTBs, i.e. SMEs operating in manufacturing, business services, construction and wholesale trade and retail services’ sectors, to improve the ability of SMEs to access Mexican markets through lower administrative and technical barriers and at lower costs respectively. The elimination of NTBs and barriers to investment would positively contribute to SMEs’ value-added and jobs created by SMEs in the EU.

85 According to the European Commission’s “Annual Report on European SMEs 2017/2018”, Chapter 8, lack of information about foreign markets and ways to initiate exports were drivers of SMEs absence from foreign markets.
8. SECTORAL ANALYSIS: MANUFACTURING SECTOR

8.1. INTRODUCTION

Trade relations between the European Union and Mexico have been framed by the Global Agreement, and since its entry into force, manufacturing has been the most prominent sector in the trade relation between the two parties. EU manufactured exports to Mexico have marked more than 92% of total EU exports to Mexico, while Mexican manufactured exports to the EU have accounted for more than 89% of total Mexican exports to the EU. 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.

This section presents the key challenges and untapped opportunities in the manufacturing sector for the modernisation of the trade part. The discussion on key challenges for the manufacturing sector touches on cross-sectional topics like regulatory framework, rule of law, and environment impacts that apply to the many subsectors within manufacturing. Meanwhile, the untapped opportunities section emphasizes motor vehicles, the subsector for which there is most information available relative to other subsectors (energy commodities, chemicals, machinery, and metal parts), and discusses the introduction of Industry 4.0.

The analysis of the challenges and opportunities of the manufacturing sector aims to promote greater understanding and awareness of the modernisation of the trade part of the EU-Mexico GA. Specifically, the results of this report provide an overview of the likely impacts of the modernisation of the trade part in the manufacturing sector.

8.2. TRADE BARRIERS

8.2.1. Tariff Elimination

EU and Mexico have successfully eliminated tariffs applicable to manufacturing products according to the agreed schedules on tariffs and custom duties. A review of the sector thus demonstrates that there are no challenges on this matter.

**Table 30: 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 No 2/2000 of the EC-Mexico Joint Council

**Table 31: 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.</td>
<td>2003</td>
</tr>
</tbody>
</table>
entry into force of the Decision No 2/2000, and the other three on 1 January of each successive year until 2003.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Code (H2)</th>
<th>Category</th>
<th>Tariff elimination deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>B+ Customs</td>
<td></td>
<td>Customs duties for products under</td>
<td></td>
</tr>
<tr>
<td>duties for</td>
<td>27</td>
<td>category B+ were eliminated in</td>
<td></td>
</tr>
<tr>
<td>products</td>
<td></td>
<td>six stages (corresponding to every</td>
<td>2005</td>
</tr>
<tr>
<td>under category B+</td>
<td>28-38</td>
<td>year between 2000 and 2005). Each</td>
<td></td>
</tr>
<tr>
<td>category B+</td>
<td>72-83</td>
<td>one followed a distinctive</td>
<td></td>
</tr>
<tr>
<td>categories</td>
<td>84</td>
<td>liberalisation process based on</td>
<td></td>
</tr>
<tr>
<td>category B+</td>
<td>85</td>
<td>product base rate.</td>
<td></td>
</tr>
<tr>
<td>Motor</td>
<td>86-87</td>
<td>Customs duties for products under</td>
<td></td>
</tr>
<tr>
<td>vehicles</td>
<td></td>
<td>category B+ were eliminated in</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>eight stages (corresponding to every</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>year between 2000 and 2007). Each</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>one followed a distinctive</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>liberalisation process based on</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>product base rate.</td>
<td></td>
</tr>
</tbody>
</table>

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

Table 32: Tariff elimination schedule for the Community

Table 33: Tariff elimination schedule for Mexico

8.2.2. Reduction of Non-tariff Barriers

Non-tariff barriers (NTBs) are one of the primary obstacles that hamper the activities of traders and investors (European Commission, 2017). In some cases, NTBs could restrict trade among parties more than tariffs and, generally, are the most difficult barriers to reduce since they are related to specific domestic regulations and rules. This is particularly the case for technical barriers to trade (TBT).

The existing EU-Mexico FTA includes provisions to mitigate technical barriers to trade, referring to the World Trade Organisation (WTO) TBT Agreement and including additional provisions. Those provisions, however, do not contemplate the harmonisation of standards or the implementation of mutual recognition agreements; this in turn limits the impact of the provisions set forth in the article. Therefore, the primary trade policy challenge does not lay in cutting tariffs for goods, but in overcoming regulatory barriers to increase the effectiveness and enforceability of competition-enhancing access regulations.
8.2.3. Rules of Origin

Less restrictive rules of origin could be beneficial, given the increasing complexity of the global economy, the increasing importance of global value chains, and the possible benefits for subsidiaries of European firms established in Mexico (and vice versa). EU manufacturing producers find rules of origin not only difficult to comply with, but also generate distortions, as the ensuing products may only be exported to specific locations (Manufacturing Sector Roundtable, 2017). Moreover, some EU enterprises consider that outdated rules of origin are one of the main reasons for the existing trade restrictions (The Economic and Sectoral Survey, 2018). For example, for companies from the textile industry, the reform of rules of origin needs to take into consideration the current characteristics of the industry, such as market fragmentation, the production of niche market technical textiles, the specialisation in fibre development and finishing operations, among others. In this sense, the upgrading and updating of the rules of origin should be central to the modernisation.

8.3. INTELLECTUAL PROPERTY RIGHTS PROTECTION

The success of manufacturers in the global economy is to an extent dependent on their ability to develop and use new technologies. In establishing their approaches to intellectual property rights (IPRs), countries try to offer protections that may serve to generate investor confidence and thereby attract foreign investment and encourage licensing and technology transfer, but without placing restrictions on access to knowledge and technology that raise costs throughout the economy. Despite Mexico and the EU’s commitment to IPRs – as evidenced by multilateral agreements and conventions – EU exporters have identified the level of protection and enforcement of IPRs in Mexico as an obstacle that holds back investment.

The EU-Mexico FTA includes IPRs provisions in Article 36 of the Joint Council Decision N° 2/2001; these are likewise established in the Global Agreement Article 12, where the parties commit to develop appropriate measures to guarantee adequate and effective intellectual protection. Besides the FTA, both countries have proven to be active members of the international community committed to intellectual and property rights: the two parties are signatories of multilateral conventions related to intellectual property rights, including Treaties administered by the World Intellectual Property Organisation such as the Madrid Protocol (trademarks), PCT (patents), WCT and WPPT (copyright and related rights) and the Lisbon Agreement (appellations of origin).

The EU specifically recognizes IPRs’ importance in the 2017 EU Single Market Strategy. Notably, the Commission adopted a package of measures to tackle forgery and piracy, understanding the relevance of an efficient and efficiently enforced intellectual property regime to avoid violations that result in economic harm. Meanwhile, the importance given to IPRs in Mexico has increased since the early 1990s. A new patent law was passed in 1991, amended in 1994 after NAFTA went into effect, and then a new Copyright Law was introduced later in the decade. Responsibility for the protection of IPRs is spread across several government authorities, though the most important are the intellectual property office (the Mexican Institute for Intellectual Property, IMPI) and, for pharmaceuticals, the health regulatory agency (Federal Commission for the Protection against Sanitary Risk, COFEPRIS). The commitment to IPRs is also evidenced through Mexico’s numerous free trade agreements - aside from the Mexico-EU FTA - that likewise include chapters related to IPRs.

EURATEX, the European Apparel and Textile Confederation, representing the interests of the European textile and clothing industry at the level of the EU institutions, stated the following:

"Rules of origin have to be updated to be adapted to the structure of the EU industry and thus allow textile & clothing companies to benefit from the preference. The EU-Mexico FTA entered into force in 2000. It was an ‘old generation’ agreement. Rules of origin are the ‘standard’ double transformation rules with no printing rule but quotas. EU exports to Mexico in m€ 2002 2016 Textile 308 392 Clothing 213 462 T&C 522 854 EU exports of textiles remained sluggish in the last 15 years despite the implementation of the FTA. Concerning clothing, a steady increase allowed our exports to reach €462million in 2016, which still does not represent a lot if we consider our exports to the US that amounted to €3billion and the potential untapped opportunities in Mexico.” (The Economic and Sectoral Survey, 2018)
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Table 34: Mexican Free Trade Agreements with IPR chapter

<table>
<thead>
<tr>
<th></th>
<th>NAFTA (USA and Canada)</th>
</tr>
</thead>
<tbody>
<tr>
<td>America</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Costa Rica</td>
</tr>
<tr>
<td></td>
<td>Chile</td>
</tr>
<tr>
<td></td>
<td>Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Bolivia</td>
</tr>
<tr>
<td></td>
<td>Northern Triangle (El Salvador, Guatemala and Honduras)</td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
</tr>
<tr>
<td></td>
<td>Group of Three (Colombia)</td>
</tr>
<tr>
<td>Europe</td>
<td>European Union</td>
</tr>
<tr>
<td></td>
<td>EFTA (Switzerland, Norway, Island and Liechtenstein)</td>
</tr>
<tr>
<td>Middle East</td>
<td>Israel</td>
</tr>
</tbody>
</table>

Source: Mexican Institute of Intellectual Property

Notwithstanding the country’s commitments to IPRs, many investors raise concerns about enforcement of those IPRs, including the efficiency of implementing IPR regulations. These concerns will become even more prominent in light of the rise of the Industry 4.0, when the ensuing upsurge of data exchange will render IPRs an increasingly pressing topic. This may encourage the EU and Mexico to develop deeper regulatory collaboration mechanisms that transcend soft commitments to information exchanges. In so doing, the two parties would seek to not only enhance the implementation of IPRs in Mexico, but also to establish the mechanisms necessary for the country to comply with its IPR commitments as per international agreements. Said collaboration would entail, inter alia, promoting coordination among federal and sub-federal officials, increasing resources and knowledge for prosecutors, and tackling the general cultural acceptance of counterfeiting and piracy.

8.4. ENERGY COMMODITIES

While energy commodity trade between Mexico and the EU has remained relatively modest for years, the energy commodities landscape that underpins the two parties’ relationship has evolved considerably over the past decade. EU exports of energy commodities in 2000 represented only 0.5% of all exports to Mexico; by 2006, the sector represented 3% of EU exports. Although this accounts for an increase during this period, EU exports of energy commodities have seen a notable decrease since 2008. Mexican energy commodities, on the other hand, have represented an average of 25% of total exports to the EU, and increased by 110% from 2000 to 2016.

Notably, although the recent drop in global oil prices has stifled Mexico’s energy production, the latter is expected to soon reap the benefits of the country’s 2013 energy reform, which has allowed for the participation of EU firms and placed greater emphasis on renewable energies.

Plunging global oil prices over the past few years have posed significant challenges for Mexico’s energy production, and with its position in global energy commodity trading more broadly. While in 2005, oil production in Mexico stood at 3.3 million barrels per day (mbpd), production dropped as low as 1.9 mbpd in 2017 (Comisión Nacional de Hidrocarburos, 2019). The aforementioned drop in production, coupled with the domestic market’s steady increase in demand, has exacerbated Mexico’s dependence on importing refined products: net imports of gasoline and diesel have nearly tripled since 2000 (International Energy Agency, 2016).

In 2013, the Mexican government launched a series of far-reaching structural reforms, notable among which was the energy reform. This reform put an end to Petróleos Mexicanos’ (PEMEX) - Mexico’s state-owned company - longstanding monopoly over the energy sector and in turn opened new opportunities for national and international energy firms. As per the terms of the reform, national and international firms may operate in Mexico and compete for production sharing contracts and licenses. Additionally, the Energy Transition Law, approved in 2015, established as objectives to increase the country’s renewable energy
production: Mexico committed to obtaining 35% of power generation from clean energies by the year 2024 (Secretaría de Energía, 2016).

The fluctuations in the global energy market and Mexico’s energy reform have brought about ample opportunities for the EU and Mexico that must be taken into account for the modernisation of the EU-Mexico GA. As an example, Mexico has an estimated 17 trillion cubic feet (Tcf) of proven natural gas reserves and 545 Tcf of technically recoverable shale gas - the sixth largest in the world - however, exploration has stalled due to the lack of required expertise and technology (International Trade Administration, 2017). Due to the reform, EU companies are facing new opportunities to participate as investors, contractors, subcontractors, and suppliers of equipment and technology; Mexico, in turn, has the opportunity to receive the resources and partnerships required to further develop its market and ultimately offset the consequences of its recent drop in production.

Mexico’s renewable energies industry is also poised to offer important opportunities for EU companies and investors. The country’s wealth of potential in terms of diverse renewable energy resources - primarily solar and wind - and its growing demand for renewable energies will render it one of the most attractive destinations for renewable power generation and investment. Notably, some projections estimate that wind power generation will attract investments of up to $2 billion USD a year for the next 25 years; meanwhile, the country’s solar photovoltaics market is expected to become Latin America’s strongest by the end of 2020 (Chávez, 2015).

It is important to mention that, in potentially obtaining the investment previously discussed, the Modernised GA will need to pay careful consideration to numerous cross-cutting issues that could have an important impact on Mexico’s burgeoning energy sector. Notably, human rights groups and civil society organizations have repeatedly pointed to a range of latent risks related to human rights violations and environmental protections that could be brought about as the result of the plunge in oil prices and the opening of Mexico’s energy (Olivet and Pérez Rocha, 2016). Organizations in this sense stress that the EU-Mexico FTA include protections to ensure that EU companies adhere to high human rights, labour, and environmental protection standards in working with Mexico’s natural resources. For a larger discussion on human rights and environment, please refer to Section 2.8.

Finally, the two parties have a significant opportunity to leverage the Modernised GA as a means to consolidate a partnership in matters dealing with bilateral cooperation in renewable energy and joint initiatives on energy efficiency. This includes establishing commitments to: fostering an exchange of data in the area of energy and raw materials; promoting the efficient use of resources; reducing or eliminating trade and investment distorting measures in third countries affecting energy and raw materials; and promoting internationally high standards of safety and environmental protection for offshore oil, gas and mining operations, among others (European Commission, 2016).

8.5. CHEMICALS

8.5.1. General Aspects

The share of chemicals in trade between the EU and Mexico has remained relatively constant over the years, representing an average of 16% of EU exports and 6% of Mexican exports from 2000 to 2016. Over the same period, EU exports in this sector increased by 281%, while Mexican exports did so by 96%. Although this represents an important growth overall and companies think they do not face any relevant trade restriction (The Economic and Sectoral Survey, 2018), trade flows of the sector have stalled over the past five years.

Mexico can be seen as a relevant host market for EU investment in the chemical industry. In 2015, Mexico’s chemical industry was responsible for approximately 4.2% of employment in the manufacturing sector and accounted for 6.6% of foreign direct investment (Secretaría de Economía, 2015). Moreover, in 2016, chemicals and related products accounted for 5.9% of Mexican exports to the EU, and 16.8% percent of EU exports to Mexico (European Commission, 2016).

As previously mentioned, notwithstanding the prominent role of the chemical industry in the trade relationship between the two parts, trade flows in chemicals and related products have remained relatively stagnated over the past five years. In this sense, trade in chemicals between Mexico and the EU could benefit from new opportunities potentially granted by the modernisation of the Mexico-EU FTA. For example, some enterprises of the subsector already preview potential positive impacts of the agreement’
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

modernisation in terms of the increase of their trade flows and improvement of their business operations (The Economic and Sectoral Survey, 2018).

8.5.2. Pharmaceuticals

Given the size of the population Mexico’s market for pharmaceuticals is large. 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.

From the perspective of EU pharmaceutical firms the most important concerns relate to 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. 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 NAFTA. The existing EU – Mexico FTA did not add substantively to Mexico’s pharmaceutical-related intellectual property rules (Shadlen, 2009).

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 (Shadlen, 2009).

One 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 until the patent has expired, 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. As a key issue to access to affordable medicines, the health regulatory agency cannot grant authorization for the production and selling of a generic drug for any medicine listed in the gazette with an active patent, regardless of whether the patent is a primary or secondary patent. 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 (Shadlen, 2009).

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, but this was introduced through the courts, and the requirement to provide periods of data exclusivity are also included in the modernised EU-Mexico Global Agreement and the USMCA. 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 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 (Shadlen, 2009).

The attention given to pharmaceuticals by competition and antitrust authorities is increasingly important. The price of drugs in Mexico is recognized as being high (Mexico spends a higher share of GDP on health than nearly any other OECD country, and this is largely because of the high price of drugs). Patents may contribute to this. Concerns have arisen that a further reason for the high price of drugs is the absence of vibrant competition in many areas of the pharmaceutical market, even in drugs where patents (at least primary patents) have expired, and this is perhaps attributable to anticompetitive practices by pharmaceutical firms.

8.6. MACHINERY

The commercial exchange in machinery, electrical and otherwise, between Mexico and the EU has risen steadily over the past years. EU electric machinery exports increased by 62% from 2000 to 2006, while Mexican exports increased by 305% during the same period. Similarly, EU exports of other machinery to Mexico increased by 162%, while Mexican exports in the same sector increased by 128%. With the growing diversification of market competitors and the projected expansion of Mexico’s automotive industry in coming years, the trend of increased exchange between Mexico and the EU in terms of machinery is expected to be sustained, in turn offering vast opportunities for both parties.

Machinery and equipment are among the key products that underpin the trade relationship between Mexico and the EU. In 2016, a total of 44.6% of Mexican exports to the EU were labeled as machinery and transport equipment, while 52.6% of EU exports to Mexico were labeled under this same category. Between 2013 and 2016, the percent growth for the value of these was 32% and 36%, respectively. For electrical machinery, specifically, EU exports to Mexico grew by 35% in value, whereas Mexican exports to the EU grew by 34% in value (European Commission, 2016). Overall, trade in machinery experienced among the highest growth of all other subsectors during this period.

According to statistics from the European Commission, machinery and transport equipment continued to represent a significant subsector for manufacture trade between the EU and Mexico in 2017, accounting for 48.9% of total Mexican exports and 52.7% of total EU exports. In particular, transport equipment commodities represented 25% of all Mexican exports to the EU and 20.7% of all EU exports to Mexico; office and telecommunication equipment represented 12% of all EU imports from Mexico and 3.4% of all EU exports to Mexico, and other machinery commodities represented 11.8% of all EU imports from Mexico and 28.5% of all EU exports to Mexico.

In terms of Mexican exports, it is worth emphasising the prominence that transport equipment commodities had in 2017. Within this subsector, the role of automotive products is particularly significant, accounting for almost one fourth of all Mexican exports to the EU in that year. The positive projection for Mexico’s automotive sector - discussed in the following section (Section 2.6) - likewise poses a favourable outlook for the continued demand for machinery in Mexico, and with it, its demand of EU machinery products.

As for office and telecommunications equipment and other machinery, electrical and electronic goods have become key commodities. A significant part of Mexican exports to the EU (12%) include telecommunications equipment, electronic data processing and office equipment and integrated circuits and electronic components. Another 7% of such exports are accounted for by electrical machinery. In terms of EU exports to Mexico, electronic goods represent 3.4%, while electrical machinery goods represent 6% of total exports.

The prominence of electrical and electronic commodities in the trade relationship between the EU and Mexico can be explained by the rising market for such goods in Mexico. Over the past 10 years, the production value of the electronic subsector has increased at an annual rate of 9.4%, which has positioned Mexico as the second largest producer in Latin America after Brazil (ProMexico, 2012). In terms of consumption, the growing demand for such products has been propelled by the development of the
construction and energetic industries. With the latter expected to grow at a 3.5% rate by 2030, the electric sector has a similarly optimistic prospect.

As for electronic commodities, Mexico ranks as the main producer in Latin America and the 8th on a global scale. Between 2007 and 2017, production of electronic goods in Mexico showed a steady increase, with an average growth rate of 6.3%. On the other hand, the consumption of electronic goods in Mexico increased at a rate of 4.5% in 2016, and it is expected to continue this trend by 2020 (ProMexico, 2012).

In light of this context, it is also important to note that the Mexican market for machinery imports overall has become growingly competitive in recent years. Whereas in 2009 Mexico imported close to 39.3% of machinery and technology from the United States, by 2014 the US market share dropped to 29.2% (International Trade Administration, 2017), with new players like Japan and Germany stepping up to service Mexico’s growing demand for high-technology machinery.

Taking into account the scenarios previously described, Mexico and the EU face a key opportunity to become closer trading partners in machinery goods over the next few years. However, to fully exploit this opportunity and grow more competitive in the Mexican market, EU firms will need to adopt mechanisms to overcome the United States' advantage in regard to geographic proximity by adopting services that appeal to Mexico’s needs for customization, flexible financing, and after-sales services, among others.

### 8.7. MOTOR VEHICLES

#### 8.7.1. General Aspects

Motor vehicle represents one of the most dynamic sectors in trade between the EU and Mexico. While EU exports in said sector increased by 141% from 2000 to 2016, Mexican exports increased by 531%, representing the greatest growth of any sector of Mexican exports to the EU over the same period.

Having said this, a particularly promising area for the EU-Mexico FTA modernisation is the Mexican automotive sector, which currently represents around 3% of GDP and 18% of manufacturing GDP (ProMexico, 2016). With the Mexican automotive sector poised to become one of the most dynamic and globally competitive, the sector offers notable opportunities. Specifically, it boasts convenient trade liberalization policies, competitive logistics infrastructure, an advantageous geographical location, and untapped investment opportunities.

Mexico’s wealth of agreements worldwide makes the country a key place for foreign investment for the automotive industry. As the second country with the highest number of free trade agreements in the world, exports from Mexico to 44 countries are exempt from tariffs. Meanwhile, the Mexican government offers a package of benefits for the automakers as a means to strengthen their production and exports (LSE, 2018).

In parallel to its attractive agreements, Mexico has developed competitive logistics infrastructure and installed production capacity. The latter continue to grow as a result of annual investment programmes by the existing and future large manufacturers operating in Mexico (LSE, 2018). Said infrastructure is expected to continue developing with the advent of the international companies that recently announced plans to open assembly plants in Mexico, including Nissan-Infinity, Mercedes Benz, Audi and BMW (ProMexico, 2016).

Furthermore, Mexico’s geographical position presents a unique opportunity to export manufactured goods to the United States and other regions of the world, like Latin America, Europe, and Asia. The Latin American market more broadly is positioning itself as an untapped opportunity; this is particularly the case in Colombia and Peru, where there are export opportunities to be exploited in the area of heavy vehicles with a capacity of five to twenty tons (ProMexico, 2016).

Finally, the Mexican automotive supply chain currently offers attractive investment opportunities for foreign companies - particularly in the processing of specialised quality materials that add value to the final product. Notably, only 6% of foreign direct investment is currently targeted to the automotive and transportation sector, while 71% of total demand is for imported processes (LSE, 2018). The latter evidences a significant opportunity for investment.
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 consolidate its position as a key stakeholder in the automotive industry globally (ProMexico, 2016).

Experts expect that during the coming decades, EU exporters will find the existing and growing competitive advantages that Mexico offers, including the generous benefit packages, competitive infrastructure, convenient geographical position, and attractive investment opportunities. This market expectation is shared by some already positioned EU and Mexican companies of this subsector (The Economic and Sectoral Survey, 2018).

8.7.2. **Fourth Industrial Revolution and the Car Industry**

Industrial production in Mexico has traditionally relied on low-skilled workers and high production volumes. A new industrial paradigm is likely to adjust Mexico’s labour, trade, and production structures. The fourth industrial revolution, sometimes also labelled Industry 4.0 (I 4.0), describes the technological and organisational changes due to the digitalization of the economy. It is based on the impact of information and communication technologies. It will probably become a new milestone in industrial production and change industrial cooperation, e.g. the cooperation within transnational value chains. Some of the expected effects on the automotive sector are: increased investment, cost reduction, and the availability of better data for decision making.

It is a priori unclear how I 4.0 will change the value chains in the car industry. Its implementation is projected to generate higher annual revenues and, consequently, increase investment. In the case of the automotive industry, the increase in investment attributed to the introduction of I 4.0 would be 5% higher than the current annual perception; the latter would imply a substantial increase of 65 billion dollars per year. The companies investing in I 4.0 activities would expect a return on investment payback within two years (LSE, 2018).

A major focus of the investments will be to reduce costs using digital technologies such as sensors and connectivity devices. These technologies measure levels of inventories and software or applications like integrated planning and programming for manufacturing. In addition, companies will invest in training for employees and driving organizational change (LSE, 2018). In an advanced stage, investments will be concentrated on the automatization and digitalization of production with the use of efficient and reliable industrial robots to ensure the quality and consistency of operations (Smith, 2016).

Data analysis capacity will play a crucial role for the process of decision making. In the case of the automotive industry, the relevance of the analysis of information in decision making will increase 35% (LSE, 2018). This capacity will allow manufacturers to respond quickly to changing customer demands and market conditions.

For many companies, I 4.0 is now at the heart of their strategic and research agenda (LSE, 2018); the next decades will be crucial not only for research but for implementing digitalization in manufacturing processes. The integration of digital factories, as well as their supply chains, will allow greater flexibility in production needs, efficient use of resources, and process integration.

8.8. **METAL PARTS**

Metal parts are an important sector in trade flows between the EU and Mexico, representing an average of 8% and 4% of all exports of the EU and Mexico, respectively. From 2000 to 2016, EU exports of metal increased by 159%, whereas Mexican metal exports did so by 162% over the same period.

While the metal parts industry in Mexico is expected to grow, particularly in regards to auto parts, in order to achieve the projected potential it will be important for the Modernised GA to reduce existing NTBs, and for Mexico to simultaneously mitigate challenges in its internal markets.

As discussed in an earlier section, Mexico is experiencing sustained growth in the production of metal parts - particularly auto parts. Between 2011 and 2016, the auto parts industry reached record high figures in both production and exports: the former reached 82 billion dollars per year, whereas the latter grew to 6.2 billion dollars per year (ProMexico, 2016). Projections estimate that auto parts production in Mexico will reach a value of 100 billion dollars by 2020 to become the fourth largest global producer of auto parts (ProMexico, 2016).
The EU’s metal parts exports to Mexico were close to 6.6% of the total commercial exchange between the two parties in 2016; meanwhile, Mexico’s metal parts exports to the EU represented 2.3% of this exchange (European Commission, 2016). According to the European Commission Impact Assessment (2015), under a conservative scenario, Mexican exports of metal products to the EU is poised to experience one of the strongest absolute increase in bilateral trade, along with motor vehicles and chemicals.

To fully exploit the new opportunities offered by the burgeoning metal parts industry, the modernisation of the EU-Mexico FTA should focus on removing existing barriers that currently hinder the trade relationship. It is important to note that, as per the current FTA, there are no bilateral tariffs on non-agricultural goods like metal parts; for this reason, the modernisation’s greatest impact is on the reduction of NTBs.

While the reduction of said NTBs could indeed boost the commercial relationship between the two parts, other internal challenges may still stand in the way. Beyond the reduction of NTBs, Mexico will need to be attentive to current obstacles like human talent development, customs infrastructure, and the strengthening of the internal market. Indeed, the degree to which the industry can achieve its growth projections will be contingent upon the successful subdual of the aforementioned challenges.

8.9. REGULATORY FRAMEWORK

Over the past 17 years, the EU and Mexico have consolidated their relationship as key partners in the manufacturing sector - a sector that represents a large percentage of the bilateral commercial relation. Despite the consequential political, economic and technological transformations that have occurred during this time period, the EU-Mexico regulatory framework has remained relatively static.

The modernisation of the EU-Mexico Global Agreement, has the purpose of updating the regulatory framework to reflect changes of the past two decades. Therefore, to boost the bilateral trade of manufacturing products, the modernisation of the GA should address two strategic topics: reduction of non-tariff barriers to trade (NTBs) and protection of Intellectual Property Rights. Besides improving the regulatory framework, the modernisation of the GA could have a positive impact on specific bilateral issues concerning rule of law, specifically, the protection of human rights, improvement of labour standards, and gender equality.

8.9.1 Labour Standards

Labour standards are crucial to ensure work conditions as an element of sustainable development and, in the context of trade agreements, labour standards are essential to avoiding the burden of heightened competition (Ioannides, 2017). The collaboration between Mexico and the EU on labour standards will be essential to underpinning the strategic objectives of the ILO Decent Work Agenda. To ensure success to this effect, the Modernised GA considers provisions on this matter that will be included in the Trade and Sustainable Development (TSD) Chapter. In this Chapter, the EU and Mexico will establish common objectives regarding the relation of sustainable development and trade. These commitments include obligations to implement International Labour Organisation (ILO) standards and at the same time create new jobs, boost the formal sector, enhance work conditions, and improve worker skills.

In order to ensure decent working conditions, the adoption of the objectives of the ILO Decent Work Agenda could be a relevant framework to coordinate actions between EU and Mexico. According to different definitions, decent work has to include labour opportunities that enhance productivity, generation of decent incomes, social protection and security for workers, better labour expectation, freedom to express your opinions, organisation and participation in the decisions, equality of opportunities and equal treatment independently of gender.

Additionally, the expected provisions in the TSD Chapter will cover subjects such as freedom of association, collective bargaining, elimination of all forms of forced and compulsory labour, the abolition of children labour and equal opportunities for women and men to obtain decent work.

The modernisation of EU-Mexico GA is also expected to have an effect on employment creation. During 2016, Mexico’s active population was of 61.0%, 60.4% of whom participate in the provision of services and 25% of whom participate in industrial activities such as manufacturing (ENOE, 2017). It is important to note that the automotive industry has acquired particular relevance across the last decade in this regard; notably, this industry has generated currencies of 52 billion dollars per year and has been responsible for
around 900,000 jobs nationwide. With the EU-Mexico FTA’s boost of manufacturing, the latter number could grow considerably (ProMexico, 2017).

In terms of job formality, estimates indicate that nearly 60% of Mexican workers have informal jobs - with southern states like Oaxaca and Guerrero inching closer to the 80% mark (ILO, 2014). Estimating the effect of the Modernised GA on the informal sector poses a challenge given that the link between trade liberalisation and the informal economy remains inconclusive: whereas some studies find that trade liberalisation shrinks the informal sector, others note that, by pushing firms to cut production costs, trade liberalisation unwittingly encourages firms to outsource production costs to the informal economy (Araias et al., 2013; Goldberg et al., 2013; OECD, 2013C). These inconsistencies indicate that trade liberalisation alone is not sufficient to enact a positive impact on the formal economy; for the latter to occur, the Modernised GA must consider explicit, context-specific measures to align incentives such that the informal economy serves as a stepping stone for transitioning to formal employment.

Besides Mexico’s high rate of informal employment, Mexico also ranks the third country with the longest workweek of OECD countries, totalling an average of 45.2 hours - second only to Turkey 47.9 and Colombia 47.9 (OECD, 2017b). Moreover, in regard to wages, Mexico is the only country in America where the minimum wage is lower than the poverty threshold (Ioannides, 2017). While the current GA has not enacted a significant impact on the workweek, the agreement has had a positive, albeit modest, effect on wages. A study conducted for the European Commission indicates that the EU-Mexico FTA has led to a 0.24% to 0.45% increase in wages, depending on the skill group. High skilled workers’ wages inch closer to the higher end of the spectrum, whereas low skilled works have been subject to more modest increases (Ecorys, 2017).

Attracting more high-level specialised professionals to the automotive industry will require collaboration among countries and international companies. With the growth of digitalization, the next generation of manufacturing workers are poised to demand better opportunities to improve their skills to participate in the global supply chains (GSC), estimated to account for between 60 and 80% of world trade (Gereffi, Bamber & Fernandez-Stark, 2016). The modernisation of the GA, and specifically provisions within the Trade and Sustainable Development chapter, should support the transition of manufacturing workers into the Decent Work Agenda and Industry 4.0—the latter of which includes advanced manufacturing as a required transformation.

Aside from the elements included in the modernisation of the GA, it is important to note that true progress on labour topics will be intimately tied to the domestic government’s willingness to develop and implement the aforementioned reforms. In this sense, the Mexican government should seek to ensure the implementation of international labour rights and recognize the role of human capital as a priority to competitiveness in all industries.

8.9.2 Gender Equality Approach

Over the last years, gender issues have become inseparable from global trade debates. Understanding the gender impacts of trade reforms is necessary to develop better policy making and to ensure that both sexes can take advantages of the benefits of trade liberalisation. The EU-Mexico FTA should in that sense provide a substantive legal framework to ensure that the effects of trade liberalisation on gender issues are inclusive.

Since the 1990s, the ILOs Committee of Experts have made observations regarding to the application of International Labour standards, especially related to forced labour, equal remuneration for women, discrimination, and forms of child labour. As a member of the International Labour Organisation, Mexico has ratified all 8 fundamental ILO conventions. The EU actively supports the ILO conventions, ratification, and better application. Since 2007 all Member States have ratified the eight core labour standards and also the strategic objectives of the Decent Work Agenda.

Despite the aforementioned initiatives, Mexico’s workforce continues to suffer from vast gender disparities. According to the National Survey of Occupation and Employment, throughout the third trimester of 2017, 42.9 out of every 100 women aged 15 and over are part of the economically active population (EAP) in the country. While said rate has grown at a higher rate than the male participation rate over the last two decades, the former continues to be shrouded by the latter: 77 out of every 100 men aged 15 and over belong to the population economically active (ENOIE, 2017).
Meanwhile, although the European Commission has attained considerable progress in mainstreaming gender equality in numerous EU policy areas, trade policy has been very much side-lined from this transformative process. Information and statistics on the impact of trade on gender issues is seldom available, which hinders the possibility of dealing with the issue in a systemic and evidence-based manner.

Experts claim that the extent to which men and women obtain equal benefits from trade depends on the implementation or reinforcement of public policies and social protection. The negotiations should approach women’s participation in employment from a broader perspective by focusing on instruments that guarantee their empowerment through education and skills development. In parallel, to promote and effectively monitor progress in this regard, Mexico needs to consolidate its collection of the relevant data (OECD, 2017a; UN, 2011;).

8.9.3 Environmental Impacts

In a general global trading context, when manufacturing production increases, CO₂ emissions increase in turn. Industrial processes render permanent changes on the environment through the depletion of natural resources, modification of natural habitats, and the alteration of biodiversity (LSE, 2018). In this sense, provisions of the EU-Mexico FTA modernisation should make note of and formalize multilateral cooperation agreements both parties are already committed to and, include binding mechanisms to prevent further environmental degradation.

The TSD Chapter of the Modernised GA will cover environmental issues such as the fight against climate change and the transition to a sustainable low-carbon economy. However, these provisions could be improved with an implementation of legal mechanisms that allow the creation of binding ecological commitments.

The modernisation should aim to improve transparency as cooperation activities on environmental issues between the EU and Mexico are largely unknown by local civil society organisations and academia. While evidence exists of EU financed research and business projects on topics such as climate change, water, biodiversity, waste disposal, resource efficiency and renewable energy resources (see e.g. https://www.lowcarbon.mx/), bilateral cooperation remains political.

Considering that the EU and Mexico are both signatories of the Paris Agreement, both regions must submit their Intended Nationally Determined Contributions (INDC); that is, their commitments to develop domestic regulations aligned to the objectives of the agreement. Although the INDCs have yet to translate into specific policy regulations, they will undoubtedly have trade impacts once they enter into force. These may include developing energy performance appliances, and implementing technical standards to reduce greenhouse gas emissions from industrial processes.

Legal instruments related to environmental issues in EU-Mexico trade relations, including the Trade and Sustainable Development chapter alongside domestic regulations, are central in analysing the FTA’s environmental effects on the future. The modernisation of the EU-Mexico agreement may include concrete environmental cooperation activities to prevent degradation of the environment; promote the conservation and sustainable management of natural resources; improve resource efficiency, develop and exchange information and experience on environmental legislation; stimulate the use of the economic incentives to promote compliance; strengthen environmental management at all levels of government, promote the training of human resources, education on environmental topics and the execution of joint research projects; and develop channels of social participation (Torrent, 2016).

It also can include provisions in areas where trade and climate change agendas can reinforce such as the conservation of the biological resources, forests and fisheries, the promotion of sustainable production and the adoption of low carbon technologies. These initiatives can be promoted referencing international instruments including the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Convention on Biological Diversity (CBD) and fisheries instruments at global (FAO) and regional level (RFMOs).

8.10 CONCLUSIONS

The entry into force of the current EU-Mexico GA 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
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

are making a renegotiation a necessary effort. The modernisation of the Global Agreement focuses 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).

Specifically, our analysis indicates that the modernisation of the GA should center on two strategic areas: reduction of NTBs and protection of intellectual property rights. Based on the challenges posed by NTBs, the GA modernisation should focus on fostering regulatory coherence between the EU and Mexico, improving domestic efforts to institute efficient, transparent, and inclusive regulatory measures. By improving the regulatory environment and granting governments and investors increased legal certainty, the Modernised GA will facilitate bilateral trade and investment, in particular by enhancing the implementation of IPRs in Mexico, but also establishing the necessary mechanisms for the country to comply with its IPR commitments as per international agreements.

Finally, it is also important that the Modernised GA addresses human rights and environmental issues in a more specific manner. While it is expected that the provisions on these matters are improved, a more rigorous domestic enforcement from both parties will be key for bringing greater credibility and more prosperity in the long-run.
9. **SECTORAL ANALYSIS: AGRICULTURAL SECTOR**

This section presents the main results of the modernisation of the EU-Mexico GA in the agricultural sector. In this sense, it aims to characterise the baseline situation and discuss how the new agreement could impact the existing situation. In this regards, it aims to elaborate on the discussion of the results of the general economic analysis employing the CGE model.

9.1. **SUMMARY OF IMPACTS**

Based on the number and importance of the existing bilateral barriers to trade, the effects on the agricultural sector could be important in case of full liberalisation (which is the basic assumption of the model). Mexican exports of rice, sugar and other meats could expand considerably in relative terms if they obtain free access to the EU market. The agreement could in that case generate as much as 442 millions of Euros of Mexican agricultural exports to the EU.

EU exports of sugar, dairy and food products could expand considerably in relative terms. For the EU, the agreement may generate 661 millions Euros in terms of exports to Mexico. Dairy products account for more than 75% of the total agricultural impact.

Despite the impact in terms of bilateral trade, the agreement may have substantially smaller impact in terms of output. For the EU, output of dairy products would expand by 0.4%.

At the same time, output of dairy products in Mexico could fall by 3.4%. Sugar output in Mexico could expand by just 0.4%.

Consequently, with the above assumptions, value added generated in the agricultural sector would fall by 3.15% in Mexico and would expand by 0.1% in the EU.

In environmental terms, the agreement could have minimum effects. The additional use of land generated by the expansion of sugar production would be small.

The effects on current EBA beneficiaries such as Mozambique, Sudan, Malawi and Laos are very modest.

Based on the current structure of the food and beverage sector in the EU, it is expected that the agreement would benefit particularly the small and medium size enterprise and farms.

The effects on consumers are expected to be minimal as a result of a low share of agricultural trade with Mexico and the small share that food represents in their total consumption.

9.2. **ECONOMIC BASELINE**

Tariff reduction in agricultural products was not immediate in the EU-Mexico FTA. There were different tariff dismantling periods with many products not being completely liberalised until 2010 and many others not being liberalised at all. 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. 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 at 4% and 6% respectively. Since the implementation of the EU-Mexico FTA 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 Generalised System of Preference (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 was 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. Moreover, exports and imports of agricultural products account for a small share of total bilateral trade. In terms of

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88 The GTAP model of the European Commission suggests that the potential, but very unlikely, expansion of the EU imports of sugar from Mexico could have some negative effects on these countries.
exports, agricultural products represented 3.8% of the total EU exports to Mexico and 5.5% of the total imports from Mexico in 2017. Except some variation, these shares have remained stable during the period.

**Table 35: EU-Mexico bilateral trade in agricultural products 2011 - 2017**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports Value (in millions of Euros)</th>
<th>Exports Share out of total exports (%)</th>
<th>Imports Value (in millions of Euros)</th>
<th>Imports Share out of total imports (%)</th>
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</tr>
<tr>
<td>2017</td>
<td>1,420.30</td>
<td>3.8</td>
<td>1,315.55</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis based on EU Comext Note: Agricultural products as defined by Annex I of the WTO Agreement on Agriculture
Figure 55: Share of EU and Mexico in agriculture trade (2000-2017) (in %)

Source: EU Comext and EU Comtrade

Beverages constitute the most important product in value terms. They represent 33% of the bilateral EU-exports and 23% of the bilateral EU-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 (e.g. developing forward and backward linkages between the EU and Mexico), 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 presenting similar latitude with Mexico, that could 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 tariff rate quotas (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. However, this distortion may be reduced by the low utilisation of the TRQs.
A more disaggregated analysis of both exports and imports 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. Alcoholic beverages (beer, rum and ethyl alcohol) appear as prominent products together with pulses and fruits.

The top 20 exports, 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 36: Top 20 agricultural products imported by the EU from Mexico (avg. 2011-16)

<table>
<thead>
<tr>
<th>Hs 6</th>
<th>Description</th>
<th>Value in millions 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 alcoholic (...)</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;citrus//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, (...)</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, (...)</td>
<td>32.66</td>
<td>3.2</td>
</tr>
<tr>
<td>080390</td>
<td>Fresh or dried bananas (...)</td>
<td>28.39</td>
<td>2.8</td>
</tr>
<tr>
<td>230700</td>
<td>Acorns, horse-chestnuts, (...)</td>
<td>25.13</td>
<td>2.5</td>
</tr>
<tr>
<td>170260</td>
<td>Fructose in solid form (...)</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>
<tr>
<td>Total selection</td>
<td></td>
<td>782.77</td>
<td>77.5</td>
</tr>
</tbody>
</table>

*Source: EU Comext*

### Table 37: Top 20 agricultural products exported by the EU to Mexico (avg. 2011-16)

<table>
<thead>
<tr>
<th>Hs 6</th>
<th>Description</th>
<th>Value in millions 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 distillation (...)</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-velined cheese and other cheese)</td>
<td>34.83</td>
<td>3.1</td>
</tr>
</tbody>
</table>
9.3. Economic Impact

The implementation of the EU-Mexico FTA started in 2000. The tariff liberalisation schedule for agricultural products established different treatments (tariff reduction, TRQ) and liberalisation speeds for different types of products. Some agricultural products were immediately liberalised whilst others observed a paced reduction of tariffs.

Under TRQs, a reduced tariff rate is applied to a certain quantity imported of the product. As usually happens with quotas, rents are generated (e.g. the beneficiaries of the quota obtain a rent with respect to the marginal suppliers) and their allocation depend on the administration procedure. In the specific case of the EU-Mexico, the exporting party manages its quotas; and, consequently, the rents are accrued to them. Finally, some products affected by customs duties were excluded of the liberalisation schedule.

All these carveouts in the liberalisation schedule generated that by 2010 just 62% of the agricultural trade between the EU and Mexico was effectively liberalised (Silvestri, undated). Other analysis puts this figure a bit higher at 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. This suggests that although tariffs in some products may be effectively removed, the possibility of expanding trade is limited.

Based on this, it is expected that the Modernised GA may impact primarily on those products which the previous agreement did not liberalise or that were protected by TRQs. The CGE sectoral results indicate how the effects are expected to be distributed among the main agricultural products. Table 32 below applies the % change of the most ambitious scenario modelled in the CGE analysis to the value of trade in 2017. It is important to note that these scenarios may depart from what may be effectively negotiated. In this sense, they should be interpreted as maximum potential effects and not as the actual effect of the agreement.

Sugar (cane and beet) would present the largests effects in terms of percentage changes, in a scenario of total elimination of tariffs, quotas and NTBs. However, such a scenario remains extremely unlikely.

In the case of milk and dairy products, the agreement could generate a significant increase in the EU exports to Mexico from already high exports. Considering the EU exports of, on average, Euros 88 millions
to Mexico, full liberalisation would generate exports for an additional Euros 408 millions, with no expected increase in the imports from Mexico. In fact, the increase in the exports of dairy products from the EU explains most of the increase in the agricultural exports.

Beef would be another product where exports to Mexico could expand considerably (660%), with a more modest expansion of the imports from Mexico (75%). However, existing average values of beef exported are marginal, and this is unlikely to change significantly in the near future as liberalisation would probably be limited and sanitary regulations are not fully compatible. In the case of rice, Mexican exports are expected to expand by almost 1000% in case of full liberalisation, implying a potential increase of nearly 76 million Euros in the imports of rice.

The analysis allows to suggest a maximum potential expansion of EU exports of agricultural products to Mexico by nearly 660 million Euros, whilst imports could expand by approximately 443 million Euros, considering the average values of trade between the two countries. This implies an increase of 54% and 42% in the value of agricultural exports and imports respectively.

Table 38: Impact of CGE simulations in agricultural products

<table>
<thead>
<tr>
<th></th>
<th>EU exports to Mexico</th>
<th>EU imports from Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value 2017</td>
<td>% change</td>
</tr>
<tr>
<td>Rice</td>
<td>0.4</td>
<td>0.01</td>
</tr>
<tr>
<td>Cereals &amp; oilseeds, oils</td>
<td>139.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Vegetables, fruits and nuts</td>
<td>32.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Sugar, cane &amp; beet</td>
<td>1.74</td>
<td>1245</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>88.2</td>
<td>462.4</td>
</tr>
<tr>
<td>Beef</td>
<td>0.1</td>
<td>659.9</td>
</tr>
<tr>
<td>Other meat</td>
<td>16.2</td>
<td>129.9</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>120</td>
<td>-0.3</td>
</tr>
<tr>
<td>Food products</td>
<td>430</td>
<td>43.6</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>406</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1234.54</strong></td>
<td><strong>661.5</strong></td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis

These results are a combination of the elimination of tariffs and TRQs, on one side; and the elimination or reduction of NTBs on the other. In the case of the EU it is possible to attribute most of the change to the elimination of tariffs and TRQs. Existing NTBs are minimal and are expected to have minor effects in the modernisation agreement. Therefore, the potential increases in the imports of rice, beef, sugar and other meat result from the full liberalisation assumed.

In the case of Mexico, whilst the elimination of tariffs and TRQs would play a significant role in expanding EU exports, a significant component of the effect would be driven by the elimination or reduction in NTBs currently applied by Mexico. In this sense, addressing cumbersome procedures, high compliance costs and arbitrary measures is expected to have a significant impact across all products.

The effects of the agreement are expected to be deeper than an increase in the value of trade. The significant increases in certain products indicate that the structure of the bilateral trade would change. In the case of the EU exports, dairy products and food products are expected to gain weight in the basket of products, displacing beverages, the main products currently exported to Mexico. In terms of imports, sugar would
become the most important product imported from Mexico if it gained access to the EU market, followed by other meats.

Mexico has recently re-negotiated the NAFTA with the US and Canada. The US being Mexico’s main trade partner, any change in the conditions of this agreement is expected to have important effects on trade with the EU. First, products currently being exported to the US may be reoriented to the EU if existing duty-free conditions in the US are modified. Second, EU products may displace some American exports into Mexico.

The negotiation may be affected by the reciprocal application of safeguards duties between the US and Mexico. In fact, Mexico has targeted imports of pork, spirits, cheese, potatoes, and apples by applying additional duties to the products imported from the US (Reuters, 2018).

The renegotiation of the NAFTA, nevertheless, may affect other products. However, the effect on the trade with the EU will depend on how similar is the Mexican trade structure with the EU and the US. If these structures are similar, it is expected a larger effect in the EU as Mexico may reorient its exports and imports easily to and from the EU. This is because the similarity of trade structures will reveal demand in Mexico to absorb additional imports from the EU. Similarly with the case of Mexican exports to the EU.

Nevertheless, a large impact with dissimilar structures is possible. In this case, the effect will depend on whether the EU can absorb an additional supply from Mexico; which in turn will depend on Mexican exporters meeting EU public and private standards. This case, however, is hard to assess as it requires making challenging assumptions about whether EU consumers may opt for the Mexican product.

9.4 CROSS CUTTING ISSUES

9.4.1. Baseline on Social Issues

Although Mexico has experienced a major development of the manufacturing sector, the increase of the industrial population and, consequently, the urban population, 20% of the Mexican population is still rural (WBDI, 2018). This is, comparing with similar Latin American countries such as Argentina (8%) and Brazil (14%), notably high.

At the same time, poverty levels in the rural areas are substantially higher than in the urban areas. Poverty, measured by the headcount ratio at the national poverty line, affects 62.4% of the rural population (WBDI, 2018). Moreover, rural poverty has been particularly difficult to reduce, experiencing a marginal reduction in the last 10 years.

These high levels of poverty are also accompanied by extremely high levels of informality. First, agricultural workers tend to be unregistered and, consequently, they are not legally protected against arbitrariness and they do not have any pension benefits. Second, informal tenancy agreements and/or lack of land titles make farmers income subject to a great risk. This has two effects. On one side, they cannot use their lands as collaterals for loans that can increase their productivity and income. On the other side, when prices of agricultural goods go up, land owners seeking to maximise rent demand higher rents or farmers, whose tenancy is uncertain, are directly evicted. Moreover, the lack of ownership titles and any other tenancy documentation complicates the possibility of accessing to credit, which limits productivity and income growth.

This tends to be particularly exacerbated in those regions with larger share of indigenous population. In virtue of their lower levels of education (even with respect to other non-indigenous poor people) they struggle to seize opportunities and they may be subject to arbitrary treatment by landowners and authorities. Within the poor rural population, indigenous populations are the most vulnerable. Many indigenous groups tend to practice subsistence economies based on traditional livelihoods. Changes in market conditions can introduce pressures on these populations as the expansion of the agriculture frontier (e.g. the commercially exploitable areas) can affect these activities, with important social and cultural implications.

All these social dimensions, plus others to be described later (e.g. environment) have determinant implications on the household and people’s wellbeing. Low and unstable household incomes frequently lead to child employment and school dropout. Children may be required to work in the farm or even perform paid working activities to supplement the household income. This leads them to curtail education which feeds into the poverty cycle of the household.
The social effects are not limited to the rural areas. Although the rural population is frequently predominantly employed in agricultural activities, some of these activities are performed in cities. Some of the most important food and agricultural products exported by Mexico to the EU, such as meat, beer and spirits are manufactured in cities. Therefore, the social aspects of the agriculture and food sectors need to be analysed including these areas.

Most of the manufacturing of agricultural products and the production of food tend to be made by large companies. Many of them are part of large multinational conglomerates, some of them European. This puts many of these companies in the international spotlight with respect to labour conditions and welfare. Moreover, given that they tend to produce consumer goods products, they tend to be subject to stringent quality controls which brings additional visibility to these firms. Therefore, labour conditions in the exporting firms tend to be good and respect the national regulations. Moreover, they tend to secure that inputs provided along the value chain are also in compliance with many of these regulations.

Nevertheless, poverty in urban areas and among the workers in the manufacturing sector and specially in the food sector needs to be considered. Although unemployment in urban areas is low (3.9% in 2016), urban poverty remains very high (50% in 2014) (WBDI, 2018).

Whilst the beverages and tobacco sector remunerates labour at the average level of the Mexican manufacturing sector, the food production remunerations are around 30% lower than those paid in the rest of the manufacturing sector. The incidence in terms of poverty is hard to assess. It depends on the consumer prices that these workers face, which in turn depend on the geographical location.

This analysis intends to present the main social issues in the agricultural sector. The effects of the upgrading of the EU-Mexico FTA will depend, eventually, on how the specific sectors are affected. This will indicate how the income of workers, farmers and landowners can change. Moreover, it is necessary to discuss also the importance of the trade with the EU of the sector in particular. On average, only 5% of the Mexican exports of agricultural products are exported to the EU, suggesting a minimal effect. However, the situation may be different in specific sectors and products where the incidence of the existing and potential trade with the EU may be higher.

9.4.2. Impact on Social Issues

The expansion of Mexican exports to the EU is expected to benefit producers and workers involved directly in the activities as well as those that provide goods and services to these industries. Employment and income among the people employed in these sectors depend primarily on how output and value addition will evolve after the agreement.

Whilst bilateral exports to the EU are expected to expand, expansion of output is more modest. The agricultural sectors would observe minimum increases or slight decreases. The exception is dairy products, where output would fall by 3.4% in response to the increased competition from the EU, in case of full liberalisation.

Taking into consideration the changes in output and the share of value added and assuming no changes in wage rates, value added generated in the agricultural sector in Mexico would fall in this ambitious scenario by 3.15%. This suggests a sizable effect for the sector, where the milk and dairy products sector is expected to sustain the largest impact. The way that the effect is distributed within each sector in terms of labour and capital is unclear. However, in the case of the milk and dairy sector, the effect is likely to affect both factors alike. Consequently, significant reductions in employment and generated income are expected in this sector.

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89 Corona Beer is produced by the Grupo Modelo, owned by Anheuser-Busch InBev; a transnational beverage company with headquarters in Belgium.
Table 39: Agriculture, baseline set up and estimated changes under Ambitious Modernisation Scenario

<table>
<thead>
<tr>
<th>Sectors</th>
<th>% Share of VA in Baseline</th>
<th>Sectoral output change</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU28</td>
<td>Mexico</td>
<td>EU28</td>
</tr>
<tr>
<td>Rice</td>
<td>0.0</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Cereals &amp; oilseeds, oils</td>
<td>0.4</td>
<td>0.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Vegetables, fruits and nuts</td>
<td>0.3</td>
<td>1.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Sugar, cane &amp; beet</td>
<td>0.1</td>
<td>0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>0.7</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Beef</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Other meat</td>
<td>0.4</td>
<td>0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>0.6</td>
<td>0.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Food prod nec</td>
<td>1.4</td>
<td>3.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>0.9</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Fisheries</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis, 2018

In the EU the effect is in general lower, value added in the agricultural sector would expand by 0.1%. This implies that there are conditions for the agreement to generate a modest improvement in the workers and farmers incomes in the sector. Milk and dairy is expected to be the sector that would capture most of the benefits, expanding output by 0.4%.

9.4.3. Baseline Environmental Issues

Mexico has experienced notable growth in the production, measured in volumes, of its key agricultural products in the last 15 years. Although some of these products are not directly exported to the EU, many of them are used as inputs to the production of some food and beverages that are eventually exported to the EU.

Depending on the product, it is possible to identify different patterns of growth. In some cases, production growth is explained primarily by a growth in yield (e.g. maize). In other cases, production tends to be explained primarily by a growth in the area planted (e.g. sugar cane). Each of these extreme cases have different implications with respect to the effect on the environment. In the first case, the more intensive use of resources (although positive from the efficiency point of view) has its counterpart on the more intensive use of fertilizers and chemicals, more use of water for irrigation purposes and of an increase in the extraction of nutrients from the soil. Each of these has environmental implications on its own.

In the case of an increase of production explained primarily by an increase in number of hectares planted or the number of hectares dedicated to animal production; the effects will depend primarily on the existing use of the new lands. If the existing lands are already use for agriculture, the effects are expected to be more limited as the land is already subject to agricultural exploitation. If, however, the new production is in lands that previously were not used for agricultural activity, there is a environmental scale effects as new lands are brought into production and, consequently, the areas subject to land erosion, water stress and greenhouse gases emissions. These effects include those related to the use of land (e.g. fertilisers) and water but also those related to the generation of greenhouse gases, especially in animal production.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Figure 57: Performance of key agricultural products between 2000/02 and 2014/16 in Mexico (% growth change)

The analysis of the agricultural sustainability indicators allows to indicate the relevance of some of the adjustment processes observed in the Mexican agriculture. In terms of the agricultural land, this has remained constant in the last 15 years. Therefore, it suggests that the growth in planted area that explains the rise in production in some products (e.g. sugar cane) is explained by a reallocation of land rather than the use of previous non-agricultural land. This indicates that a process of reduction of native forests in favour of agricultural land may have stopped (FAO, 2009).

At the same time, the abstraction of freshwater for agriculture use has increased by nearly 13%. This implies a higher demand for irrigation in a resource already under stress in Mexico. This helps to explain the increase in yields observed in roots and tubers, for example. However, it is worth mention that the abstraction of freshwater in the agriculture sector has been lower than in total, suggesting a more efficient use of the water. Notably, the area under irrigation has grown substantially more than the use of water, backing the idea of a more efficient use of water for irrigation.

Higher yields are explained also by a higher use of agricultural pesticides. This constitutes the element that has grown the most during the period. This higher use of these chemicals may have important effects on the quality of the soil and, eventually, on the quality of water.

At the same time, the higher agricultural productivity can be also explained by a higher use of energy. This can be explained by the increase in the use of mechanised force and, as mentioned, the rise in the irrigation.

Finally, whilst the greenhouse gases (GHG) has grown in Mexico by 4% during the period, those generated from the agricultural sector have experienced a fall of almost 8%. This may be explained by a higher increase in the area and the intensity of the agricultural activities in contrast with the livestock farming. Although agriculture tends to require more fuel and emits more GHGs than livestock farming, livestock farming tends to generate methane and other GHGs. Although production of beef may have risen, this may be explained by an increase in efficiency rather than in the number of animals.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Table 40: Agricultural Sustainability Indicators in Mexico. % change 2000 - 2014

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of agricultural pesticides</td>
<td>54.3%</td>
</tr>
<tr>
<td>Total freshwater abstraction</td>
<td>20.6%</td>
</tr>
<tr>
<td>Agriculture freshwater abstraction</td>
<td>12.8%</td>
</tr>
<tr>
<td>Irrigation area</td>
<td>22.2%</td>
</tr>
<tr>
<td>Total agricultural land</td>
<td>0.4%</td>
</tr>
<tr>
<td>Direct on-farm energy consumption</td>
<td>32.6%</td>
</tr>
<tr>
<td>Total final energy consumption</td>
<td>24.1%</td>
</tr>
<tr>
<td>Total GHG from agriculture</td>
<td>7.9%</td>
</tr>
<tr>
<td>Total National GHG</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis based on OECD

This analysis suggests a an optimistic outlook to the environmental prospects of the Mexican agriculture. It seems that, in general, Mexican agriculture seems to become more economically efficient and, at the same time, it is addressing some of the most pressing environmental issues. However, this analysis fails to identify specific issues that may arise as a result of a significant change in the marketing conditions that the revision of the EU-Mexico agreement may bring. For example, a rise in the exports of Mexican beef may impact on the generation of GHGs. An expansion in the trade of roots and tubers, in virtue of the heavier use of water for irrigation, may increase the water stress.

Moreover, as it was mentioned, it is unclear whether the higher use of pesticides and other chemicals has affected the quality of soil and water. This is key as it may introduce social and human pressures as a result of the impact that this has in the populations in terms of their livelihoods but also in terms of their health.

9.4.4. Impact on Environmental Issues

Based on the expansion of output that the agreement will generate, a mild environmental pressure is expected. While the modernisation does not include a full liberalisation of sugar, it can still be expected that land use for areas dedicated to the production of sugar may expand to a certain degree. Assuming that the agreement does not lead to increases in the yields, land dedicated to sugar production will expand in line with output. This means that the area will expand by 0.4% (around 2100 hectares).\footnote{Own calculation based on USDA (2017)} This is consistent with the evolution of production since 2000 which has been explained primarily by growth in the area rather than in productivity. In this sense, the agreement is expected to maintain the existing trend in terms of land use.

This increase in the use of land is expected to be more than offset by reductions in the area allocated to other crops or animal husbandry. In this sense, although an important fall, the contribution of the milk and dairy production is expected to be low as a consequence of the higher intensity in the use of land of the sector.

As it is expected that agricultural production will decrease slightly, a minor reduction in the use of pesticides and on the emissions of GHGs is expected. Moreover, as it is expected that the fall in output will be primarily located among the least efficient producers, an improvement in the indicators that measures GHGs and use of agrochemicals by unit of production is expected as well.

In the case of the EU, a significant expansion in the use of land is not expected, but rather a marginal reallocation of uses, with a small increase in the use of land for milk cattle in virtue of the expansion of output. Area allocated to other crops (cereals, rice) and to meat cattle will fall slightly to offset the increase
in the area allocated to dairy. The agreement will not generate changes in the production technologies that may alter the emission of GHGs and the use of pesticides and other agrochemicals.

**9.4.5. Baseline on Human rights Issues**

There are certain violations to the human rights in Mexico. There are regular reports of torture, extrajudicial killings, summary executions, police oppression, murder and the assassination of journalists (UNOHCHR, 2016). In addition, Mexico presents certain issues associated to the treatment of women in different areas, including in the workplace. Moreover, the situation of indigenous and original populations is particularly problematic.

Some of these issues appear as crosscutting the reality of the agriculture sector and not related directly to it. Gender issues, for example, tend to be more associated with the level of education rather than with specific issues related to the agricultural sector. These issues are exacerbated in the agricultural sector primarily because of the low levels of education of the farmers and agriculture workers. But they are far from being exclusive to it.

Nevertheless, there are certain human rights issues that are closely related to the agricultural sector. In the case of the indigenous populations, modern and marketed agriculture affect traditional ways of living of these people. The expansion of the agricultural frontier leads to the displacement of families and other traditional people from their lands. They find it impossible to continue with their traditional practices, leading to cultural and political conflicts. These, in turn, lead to additional violations of the human rights by the police and military authorities.

In addition to this, Mexico is an important producer of drugs. It is currently the second world producer of poppies and marijuana. This puts many of the Mexican farmers in conflict with the law and potentially subject to the arbitrariness of the police and the military. Farmers find that planting these illicit drugs is a way to make a living in the context of poor profitability of legal crops. Therefore, there is potential scope for the improvement of human rights as a result of better profitability in alternative crops. Considering the modernisation of the EU-Mexico FTA aims to remove 99% of trade barriers in the agricultural sector, it could decrease the cost of agricultural exports from Mexico to the EU and thus make alternative crops more profitable. This can arguably contribute to the process of reducing dependence on illicit crops.

**9.4.6. Impact on Human Rights Issues**

In virtue of the small reduction in the use of land that the agreement will generate, the agreement will not present a major change in the current land access for the indigenous populations. The small expansion in the area allocated to sugar may exert some pressure to existing users of land in the affected areas. However, this pressure is expected to be minimal in virtue of the limited and localised expansion of the areas.

**9.4.7. Effect on Least Developed Countries**

Based on the results of the CGE, the expansion of the exports of sugar to the EU in case of full liberalisation would affect exporters of sugar in LDCs and/or beneficiaries of the Economic Partnership Agreements (EPAs). The individual situation will depend on the share of sugar in the total exports to the EU, as shown in Table 35. Whilst for Mozambique, the country with the largest values of exports to the EU, the share of sugar would be of 4%; for Sudan, this share is as high as 27.6%. It is also high for Malawi and Laos (9% in both). This suggests significant potential effects for these countries, which would, however, critically depend on the extent of liberalisation of the sugar sector between the EU and Mexico. This scenario remains unlikely in virtue on how negotiations between the EU and Mexico have evolved on this point.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Table 41: EU imports from LDCs under chapter 17 (comment: chapters may have different numbers after scrubbing, better refer to the title of the chapter) (in millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>Average</th>
<th>Average total imports</th>
<th>Share of chapter 17 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>30.3</td>
<td>61.4</td>
<td>91.0</td>
<td>60.9</td>
<td>1,475.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Sudan</td>
<td>19.6</td>
<td>55.5</td>
<td>82.8</td>
<td>52.6</td>
<td>190.5</td>
<td>27.6</td>
</tr>
<tr>
<td>Malawi</td>
<td>22.1</td>
<td>29.8</td>
<td>39.7</td>
<td>30.5</td>
<td>323.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Laos</td>
<td>28.9</td>
<td>26.7</td>
<td>11.7</td>
<td>22.4</td>
<td>249.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Zambia</td>
<td>3.3</td>
<td>15.8</td>
<td>24.3</td>
<td>14.5</td>
<td>409.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>14.7</td>
<td>2.1</td>
<td>1.8</td>
<td>6.2</td>
<td>4,587.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5.7</td>
<td>4.9</td>
<td></td>
<td>5.3</td>
<td>709.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Yemen</td>
<td>0.8</td>
<td>0.1</td>
<td>1.0</td>
<td>0.6</td>
<td>23.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Rest of LDCs</td>
<td>0.7</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>28,218.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: LSE Consulting Analysis based on EU Context

9.4.8. Small and Medium Enterprises

99% of the EU firms involved in the food and beverages manufacturing are small and medium enterprises (SMEs). They employ 3.6 million of workers, representing 62% of the total employees in the industry. These enterprises and, consequently, their workers tend to be more vulnerable to structural changes and trade competition. They can also be the ones that benefit more in relative terms from the improved market access. Therefore, it is key to understand what implications the agreements may have on these firms. Although it will be impossible to identify which firms will win or lose, it is possible at least to highlight the number of firms and workers that might be affected by the agreement.

Table 42: Distribution of EU firms by size class in the food and beverage sector (2015) (in % of sector firms)

<table>
<thead>
<tr>
<th></th>
<th>From 0 to 9 persons employed</th>
<th>From 10 to 19 persons employed</th>
<th>From 20 to 49 persons employed</th>
<th>From 50 to 249 persons employed</th>
<th>250 persons employed or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture of bakery and farinaceous products</td>
<td>85.7</td>
<td>8.3</td>
<td>4.0</td>
<td>2.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Manufacture of dairy products</td>
<td>76.4</td>
<td>10.3</td>
<td>6.8</td>
<td>6.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Manufacture of grain mill products, starches and starch products</td>
<td>79.2</td>
<td>9.3</td>
<td>6.1</td>
<td>5.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Manufacture of other food products</td>
<td>78.8</td>
<td>9.0</td>
<td>6.7</td>
<td>5.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Manufacture of prepared animal feeds</td>
<td>64.9</td>
<td>13.2</td>
<td>12.6</td>
<td>9.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Manufacture of vegetable and animal oils and fats</td>
<td>92.3</td>
<td>4.0</td>
<td>2.2</td>
<td>1.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Processing and preserving of fish, crustaceans and molluscs</td>
<td>60.4</td>
<td>14.4</td>
<td>13.4</td>
<td>11.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Processing and preserving of fruit and vegetables</td>
<td>75.3</td>
<td>9.5</td>
<td>8.0</td>
<td>7.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

91 These are firms with less than 250 employees.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Activity</th>
<th>69.8</th>
<th>14.6</th>
<th>9.1</th>
<th>6.5</th>
<th>1.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processing and preserving of meat and production of meat products</td>
<td>81.1</td>
<td>9.4</td>
<td>5.7</td>
<td>3.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Total Manufacture of food products</td>
<td>82.5</td>
<td>7.8</td>
<td>6.0</td>
<td>3.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Total Manufacture of beverages</td>
<td>58.3</td>
<td>7.5</td>
<td>11.9</td>
<td>22.2</td>
<td>17.9</td>
</tr>
<tr>
<td>Total Manufacture of tobacco products</td>
<td>83.5</td>
<td>8.0</td>
<td>5.1</td>
<td>3.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>93.6</td>
<td>3.6</td>
<td>1.9</td>
<td>1.0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Eurostat

The food and beverage sector is not structurally different in terms of the relevance of the SMEs than the rest of the manufacturing or business economy. However, there are important differences within the sector explained primarily by the scale required by the different technologies of production. In this sense, the dairy sector and the processing of meats and fruits tend to present relatively larger firms, on average, than the rest of the manufacturing and or the food production. Table 37 presents the distribution of employment and agricultural output in the EU. The left panel refers to total agricultural sector and the right panel focuses on the horticulture sector. This distinction is critical because of the importance of the imports of horticultural products from Mexico. The size of farms tends to be explained by regulatory, technological and market factors. It is unclear whether smaller farms tend to be less affected by trade liberalisation than the large ones as they will depend on whether they are efficient and productive in the product they produce.

More than half of the agricultural employment but less than a quarter of the output tends to be in farms of less than 10 hectares. In the case of horticulture, the situation is different. These farms tend to account for almost 75% of the employment and almost 60% of the agricultural output. Therefore, in a scenario of substantial competition from Mexico imports, these farmers are likely to be at the spotlight. First, because competition from Mexico could be important and, second, because they are small and could thus be more vulnerable to them. Nevertheless, in the case of horticulture, smaller farms tend to present higher levels of productivity. For example, whilst for the whole agriculture sector 13.7% of the workers employed in farms between 5 and 10 hectares produce just 7.1% of the agricultural output, this output rises to 15.2% in the case of horticulture. This suggests that the small farms may be better equipped to deal with the additional competition in virtue of their higher productivity.

### Table 43: Distribution of employment & agricultural output in the EU in 2013 by farm size (in %)

<table>
<thead>
<tr>
<th>Farm Size</th>
<th>Total Agricultural sector</th>
<th>Horticulture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment</td>
<td>Agricultural output</td>
</tr>
<tr>
<td>Zero ha</td>
<td>1.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Less than 2 ha</td>
<td>22.1</td>
<td>4.8</td>
</tr>
<tr>
<td>From 2 to 4.9 ha</td>
<td>18.7</td>
<td>6.7</td>
</tr>
<tr>
<td>From 5 to 9.9 ha</td>
<td>13.7</td>
<td>7.1</td>
</tr>
<tr>
<td>From 10 to 19.9 ha</td>
<td>11.9</td>
<td>9.4</td>
</tr>
<tr>
<td>From 20 to 29.9 ha</td>
<td>5.6</td>
<td>6.6</td>
</tr>
<tr>
<td>From 30 to 49.9 ha</td>
<td>6.4</td>
<td>10.4</td>
</tr>
<tr>
<td>From 50 to 99.9 ha</td>
<td>7.5</td>
<td>17.0</td>
</tr>
<tr>
<td>100 ha or over</td>
<td>12.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Totals for reference</td>
<td>9,506,410</td>
<td>331,105</td>
</tr>
</tbody>
</table>

Note: Totals expressed in units for employment and in millions of Euros for agricultural output; Source: Own elaboration based on Eurostat.
The CGE analysis highlights a series of sectors where EU exports will expand as a result of the agreement. Bilateral exports of milk and dairy products will expand considerably. But more importantly, output of this sector will also experience an increase.

Given the fact that more than 93% of the firms in the dairy sector has less than 50 employees, it is logical to assume that the majority of the firms that will benefit from the agreement will be SMEs. The other sectors that will benefit from the agreement are also characterised by a large share of SMEs. The benefits also transpire to the small and medium sized farmers.

9.4.9. Consumers

The effect on consumers of the modernisation of the EU-Mexico GA depends mainly on whether they will be able to access more varieties of products and at a lower price. The final effect depends on how efficient the partner in supplying that product. If the partner is an expensive supplier, trade will be diverted away from cheap and efficient suppliers. Therefore, consumers will not benefit from the agreement as the prices they pay for their products will not fall. Moreover, it is expected that the exporter will have a rent that will diminish their consumer surplus.

However, assuming that the modernisation of the agreement does create trade, the magnitude of the effect will depend on how large is the share of the products imported from Mexico in the total household consumption basket. Food and beverages account for slightly more than 17% of the average household consumption in the EU. Beverages, fruits and vegetables are among the most imported agricultural products from Mexico. Together, they represent 5.2% of the total household budget.

The effect will depend, eventually, on how much the price of the products in question will fall as a result of the agreement. This, in turn, will depend on how much the Mexican supply represents of the total (both domestic and imported) supply. In those products where Mexico presents a large supply, the effect on prices is expected to be large. However, based on the existing agreement, the agreements that the EU has with other partners and the share of Mexico in the total EU demand of food products, the price effect even assuming a very elastic demand is expected to be modest. The effect may be larger for some specific products though.

Based on the modelling results conducted in the 2015 Impact Assessment, we can assume that as a result of the modernised agreement with Mexico, the consumer price of beverages, fruits and vegetables may fall by 1% and the expenditure in these products will fall by 0.052%. Considering the average adult equivalent expenditure in the EU was 15,361 Euros, the saving will be of an 8.3 Euro per year per adult equivalent. This surplus could be eventually reallocated to other imported and domestic goods and services.

Table 44: Average structure of consumption in the EU per household (2010)

<table>
<thead>
<tr>
<th></th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread and cereals</td>
<td>2.4</td>
</tr>
<tr>
<td>Meat</td>
<td>3.5</td>
</tr>
<tr>
<td>Fish and seafood</td>
<td>0.9</td>
</tr>
<tr>
<td>Milk, cheese and eggs</td>
<td>2.1</td>
</tr>
<tr>
<td>Oils and fats</td>
<td>0.5</td>
</tr>
<tr>
<td>Fruit</td>
<td>1.1</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1.7</td>
</tr>
<tr>
<td>Sugar, jam, honey, chocolate and confectionery</td>
<td>0.8</td>
</tr>
<tr>
<td>Food products n.e.c.</td>
<td>0.4</td>
</tr>
<tr>
<td>Non-alcoholic beverages</td>
<td>1.3</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>1.1</td>
</tr>
<tr>
<td>Tobacco</td>
<td>1.3</td>
</tr>
</tbody>
</table>
### Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Food and beverages</td>
<td>17.1</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>5.0</td>
</tr>
<tr>
<td>Housing, water, electricity, gas and other fuels</td>
<td>28.7</td>
</tr>
<tr>
<td>Furnishings, household equipment and routine household maintenance</td>
<td>5.2</td>
</tr>
<tr>
<td>Health</td>
<td>3.1</td>
</tr>
<tr>
<td>Transport</td>
<td>12.3</td>
</tr>
<tr>
<td>Communications</td>
<td>3.1</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>8.5</td>
</tr>
<tr>
<td>Education</td>
<td>1.1</td>
</tr>
<tr>
<td>Restaurants and hotels</td>
<td>5.7</td>
</tr>
<tr>
<td>Miscellaneous goods and services</td>
<td>8.7</td>
</tr>
</tbody>
</table>

*Source: Own elaboration based on Eurostat*

The effects on varieties is more complicated to assess. This will depend on whether new products will be imported from Mexico after the agreement. It is expected that some broader set of options for consumers may arise as a result of the agreement. The CGE results allow to anticipate and quantify the effect of the modernisation of the EU-Mexico FTA agreement on consumers. This is associated with the effect that the agreement will have on prices, quality and choice.

In terms of prices, the agreement will generate a series of changes in the relative prices associated with the reduction on tariffs and NTBs. For the European consumers, the removal of existing tariffs and other measures applied on products such as rice, sugar and other meats may be translated into lower prices for their consumed products. However, the effect is expected to be certainly limited. On one side, Mexico would not be in the short run a very important supplier of these products in the EU market. This suggests that any reduction in the price of the products imported from Mexico is expected to have a very limited effect on the EU domestic prices. On the other side, these products represent a small share of the EU consumer’s consumption basket. Excluding beverages, food represents nearly 13% of the total expenditure. Consequently, it is expected that the agreement will have marginal effects on the prices paid by consumers.

In terms of variety, the removal of tariffs is expected to increase the offer of products to EU consumers. Given its subjective nature, it remains difficult to quantify the improvement. However, the possibility of having more choice, even when the valuation assigned by consumers is minimal, constitutes a welfare improvement for consumers.

The elimination of tariffs and reduction of NTBs on the products exported by the EU to Mexico may have some price effects for EU consumers. The increase in the price received by EU exports in Mexico may conduct them, in the short run, to reduce the supply oriented to the EU with the aim to increase the supply to Mexico. This will be particularly acute in the case of dairy products and other food products. This is potentially important as the EU exports to Mexico may increase by more than 400 million Euros, which constitutes a sizable effect for a single sector. However, this adjustment effect may not be totally translated to the EU consumer. EU exporters may reduce supply into other markets with the aim of increasing their supply into Mexico. Moreover, the effect will be limited to no more than 2.1% of the total EU consumer’s basket, implying that EU consumers may be able to reallocate consumption from other products to maintain their current level of consumption of dairy products. Finally, it is necessary to consider these adjustments together with the adjustments in other sectors and products.
**10. SECTORAL ANALYSIS: BUSINESS AND PROFESSIONAL SERVICES**

The business and professional services sector comprises a wide range of sub-services, including computer-related services, research and development, advertising, architectural services, engineering services legal services, accounting and business management services. Modern business and professional services sectors are highly important for structural economic change, economic development, building infrastructure and the gradual establishment of a business-friendly environment. The importance of business services trade is even higher if the trends of growing “servicification” of manufacturing and the trend of a growing digitalisation of services are taken into consideration.

In this section, we further study the importance of business and professional services trade between the EU and Mexico by analysing the different channels through which the modern EU-Mexico FTA can impact on business services providers. We 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 of existing sector-specific GATS commitment made by Mexico and existing regulations for preferential treatment existing in the GA;
- presentation of up-to-date indicators for services trade restrictiveness (World Bank and OECD data);
- an overview and discussion of existing NTBs and how the reduction or elimination of these NTBs would impact EU-Mexican services trade;
- a discussion of the impact of trade liberalising measures and regulatory cooperation on EU-Mexican trade in business services.

**10.1. EU-MEXICO SERVICES TRADE**

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 (Loungani et al., 2017). A sharp decline in information and communication costs together 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 (Baldwin, 2014).

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 (European Commission, 2017).

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 54% 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.
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 17%. 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%. 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. 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. Overall, these numbers indicate that the EU has a comparative advantage in business services trade vis-à-vis Mexico.
SERVICES TRADE RESTRICTIVENESS IN MEXICO

Concerning both market access and national treatment regulations, Mexico’s current commitments under the WTO GATS schedule do not state any legal limitations for mode 1 and mode 2 services supply for most services, excluding, e.g., telecommunications services, rental and leasing services, market research and polling services, placement and supply services of personnel, and construction services. In other words, for most sectors, no limitations apply to foreign services providers for modes 1 and 2. At the same time, the Mexican government is still free to impose legal restrictions on mode 3 and mode 4 supply for a great number of business and professional services including, e.g. accounting, architectural and engineering services and most other business services like telecommunication and building completion (construction) services.
Table 45: Mexico’s WTO GATS Commitments in Business Services

<table>
<thead>
<tr>
<th>Professional services</th>
<th>Market access</th>
<th>National treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M1</td>
<td>M2</td>
</tr>
<tr>
<td>Legal services</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Accounting, auditing and book-keeping services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Architectural services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Engineering services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Computer and related services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>P</td>
<td>F</td>
</tr>
<tr>
<td>Consultancy services related to the installation of computer hardware</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Data processing services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Research and development services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Other business services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Medical and dental services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Rental and leasing services</td>
<td>U</td>
<td>F</td>
</tr>
<tr>
<td>Market research and public opinion polling services</td>
<td>U</td>
<td>F</td>
</tr>
<tr>
<td>Management consulting services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Services incidental to agriculture, hunting, forestry, animal husbandry</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Placement and supply services of personnel</td>
<td>U</td>
<td>F</td>
</tr>
<tr>
<td>Protection and guard services</td>
<td>U</td>
<td>F</td>
</tr>
<tr>
<td>Maintenance and repair of equipment except maritime vessels, aircraft and other transport equipment</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Photographic services</td>
<td>F</td>
<td>U</td>
</tr>
<tr>
<td>Civil engineering services</td>
<td>U</td>
<td>U</td>
</tr>
<tr>
<td>Building completion and finishing work</td>
<td>U</td>
<td>U</td>
</tr>
<tr>
<td>Wholesale trade services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Retail services</td>
<td>F</td>
<td>F</td>
</tr>
<tr>
<td>Primary, secondary and higher education services</td>
<td>F</td>
<td>F</td>
</tr>
</tbody>
</table>

Source: WTO.

---

Mexico’s GATS commitment is reflected by World Bank data on professional services restrictiveness, which indicate that both the EU and Mexico still apply a number of restrictive measures with various degrees of openness (0 = open without restrictions; 100 = completely closed (World Bank, 2012). The data demonstrate that providers of business and professional services face on average high restrictions in both the EU and Mexico. EU services markets for accounting, auditing and legal services are highly restricted for cross-border services supply (mode 1), setting up of a commercial presence (mode 3) and the presence of natural persons providing professional services (mode 4). At the same time, Mexican markets for accounting and audit services are generally relatively open for mode 1 and mode 3 supply, but relatively restricted for the provision of legal services by foreign suppliers. Foreign suppliers wishing to provide professional services within Mexico (mode 4) face high restrictions for all types of professional services.

**Table 46: Trade Restrictiveness in Professional services**

<table>
<thead>
<tr>
<th>EU-20</th>
<th>Mode 1</th>
<th>Mode 3</th>
<th>Mode 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting and Auditing</strong></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><strong>Legal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Advice Foreign Law</td>
<td>25</td>
<td>50</td>
<td>66.67</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accounting and Auditing</strong></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><strong>Legal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Advice Foreign Law</td>
<td>0</td>
<td>50</td>
<td>58.33</td>
</tr>
</tbody>
</table>

*Source: World Bank.*

OECD data on services trade restrictiveness (STR) also 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 and restricts access to express delivery services.
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Table 47: Trade Restrictiveness of Business and Professional Services in Mexico

<table>
<thead>
<tr>
<th>Service</th>
<th>Restrictiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>0.27</td>
</tr>
<tr>
<td>Computer</td>
<td>0.25</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.25</td>
</tr>
<tr>
<td>Commercial banking</td>
<td>0.37</td>
</tr>
<tr>
<td>Distribution</td>
<td>0.19</td>
</tr>
<tr>
<td>Courier</td>
<td>0.07</td>
</tr>
<tr>
<td>Rail freight transport</td>
<td>0.32</td>
</tr>
<tr>
<td>Road freight transport</td>
<td>0.35</td>
</tr>
<tr>
<td>Maritime transport</td>
<td>0.37</td>
</tr>
<tr>
<td>Air transport</td>
<td>0.25</td>
</tr>
<tr>
<td>Telecom</td>
<td>0.23</td>
</tr>
<tr>
<td>Sound recording</td>
<td>0.25</td>
</tr>
<tr>
<td>Broadcasting</td>
<td>0.27</td>
</tr>
<tr>
<td>Motion pictures</td>
<td>0.20</td>
</tr>
<tr>
<td>Legal</td>
<td>0.23</td>
</tr>
<tr>
<td>Engineering</td>
<td>0.23</td>
</tr>
<tr>
<td>Architecture</td>
<td>0.23</td>
</tr>
<tr>
<td>Accounting</td>
<td>0.19</td>
</tr>
<tr>
<td>Logistics customs brokerage</td>
<td>0.26</td>
</tr>
<tr>
<td>Logistics freight forwarding</td>
<td>0.27</td>
</tr>
<tr>
<td>Logistics storage and warehouse</td>
<td>0.33</td>
</tr>
<tr>
<td>Logistics cargo-handling</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: OECD

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 (OECD, 2016).

10.3. CONCLUSIONS: IMPACT ON EU-MEXICO TRADE IN SERVICES

Both the EU and Mexico have seen rising exports and imports of bilateral business services since 2010, and the EU shows a significant surplus in EU-Mexico business services trade.

Both World Bank and OECD data demonstrate that there are a number of barriers which hinder EU exports of business and professional services to Mexico. Prevailing trade and investment barriers in Mexico include the enforcement of national technical standards; the requirement of licenses from professional bodies to practice in a given professional field; difficulties arising from specific legal, administrative and bureaucratic issues, and a lack in general of transparency in regulations and their implementation. The existence of these barriers has been confirmed by industry stakeholders.

Stakeholders so far consulted by the authors confirmed a number of sectorial priorities in relation to the modernisation of the trade part in the EU-Mexico GA (ESF, 2017). For transportation and logistics services discriminatory trade facilitation and customs rules have been reported. These include, for example, preclearance procedures, license requirements and rules for the engagement of customs brokers, which add to the shipment costs of goods imports to Mexico and hamper physical trade respectively. Regarding the movement of natural persons, businesses call on negotiators to achieve faster business visa and work permits delivery procedures. They note that Mexico’s commitments on the movement of natural persons in the Trans-Pacific Partnership Agreement are much wider than Mexico’s current GATS scheduling for business visitors, intra-corporate transferees, investors, professionals and technician professionals and contractual service suppliers. For construction and construction related services, such as architecture, engineering services and urban planning, but also other services such as IT and financial services, businesses call for greater accesses to Mexico’s public procurement markets. Businesses also call for free cross-border data flows, which should not be limited by requirements for local establishment of a local presence and be
free from obligations to use local infrastructure. In addition, businesses demand that access to local infrastructure used for the provision of electronic communications networks in Mexico should not discriminate against EU suppliers. Regarding regulatory cooperation and coherence, businesses call for transparent legislative procedures, consultations, evidence-based impact assessments, and a general commitment to achieve more regulatory coherence in the future.93

Enabling market access for services is an important factor for promoting the transfer of knowledge (OECD, 2004). Many business services are also closely linked to activities related to R&D, which in turn play an important role for productivity and the overall competitiveness of EU and Mexican exporters.

Business services often play an enabling and facilitating role for economic activity and trade. Like other services sectors such as financial services, business services provide direct inputs that are crucial for manufacturing when it comes to productivity growth and competitiveness in exporting manufactured commodities. The opening of business and professional services in EU-Mexico trade and investment would therefore benefit corporations in a much wider range of industries other than services sectors.

Overall, EU and Mexican SMEs, which often lack in-house services, would also benefit from a greater variety of available business services (EC, 2016). In addition, it should be noted that many EU SMEs are strong exporters in transportation and storage services, wholesale and retail trade as well as professional and scientific services. As SMEs generally lack the administrative and financial capacities to overcome regulatory trade and investment barriers, EU SMEs are most likely to benefit from greater trade and investment opportunities, given that appropriate liberalisation commitments are made for business and professional services under a modernised trade part.

93 In its position paper on “European Services Industries Priorities for the EU-Mexico Free Trade Agreement” of 19 April 2017, the European Services Forum lists a number of restrictions in more detail for legal, accounting, tax advisory, architectural, engineering and medical services. It also outlines specific trade and investment barriers for computer and IT services, R&D services, real estate related services, rental and leasing services, postal, courier and distribution services, communication services, construction services, education services, environmental services and financial services.
11. CONSULTATION PROCESS

The LSE-led team has given substantial importance to the stakeholder consultation which lies at the heart of the SIA. This process has been carried out as widely as possible in Mexico and the EU 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 have ensured that all stakeholder activities are consistent with the guiding principles and meet the minimum standards laid out by the Commission (European Commission, 2015). A high degree of transparency, throughout a continuous, coherent and in-depth consultation process has given an opportunity to all stakeholders to participate and express themselves.

In this task, the team has carried out a full consultation which aimed at actively engaging a variety of relevant stakeholders and at providing them with a forum for interaction to relay their experiences, priorities, concerns and other relevant information for the negotiations. The results of this consultation have allowed us to ultimately identify key issues and priorities to feed into different parts of our reporting. This section outlines the consultation process and presents how the results have been incorporated into the analysis of this Draft Final Report.

The objectives of stakeholder consultation as defined by the European Commission (2016) 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 fulfil the EU’s objectives of inclusiveness, transparency and accountability.

In addition to the minimum requirements set in the ToR, the team added additional outreach strategies in Mexico City and cooperated with a number of local stakeholders to improve the implementation of the SIA. Throughout the project, the consultation process has been an integrated and continuous process. We ensured that the consultation process started at the earliest stage of the project while remaining flexible and adaptable to the Commission’s needs. For that purpose, three meetings with DG Trade have taken place throughout the process along with the inter-service steering group, and a fourth is planned for July 2018.

11.1. DEDICATED WEBSITE AND ELECTRONIC COMMUNICATIONS

A 12 week online consultation is hosted on a dedicated website which supports the broad advertisement made by the Commission on the modernisation of the GA with Mexico (http://www.siaeumexico.com/). It provides concise and clear information and participatory access to the process for interested stakeholders.

The specific objectives of the website have been:

- To serve as a contribution to the Commission’s dialogue with stakeholders and trading partners;
- To disseminate results from stakeholder consultations through questionnaires and interviews;
- To encourage backlinks from other websites through relevant content;
- To provide 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);
- To provide clear contact details;
- To provide a description of what the impact assessment entails;
- To provide user-friendly links to other relevant web resources for policy makers and practitioners e.g. toolkits/guides, learning materials, searchable databases and other helpful links. Links have been checked on a monthly basis for accuracy;
- To provide links to social media channels – particularly through a Facebook and Twitter accounts since in Mexico one or the other could be more effective;
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- To provide user-friendly registration to participate in the stakeholder consultations and 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.

Relevant website pages are available in English and Spanish and follow EC rules on the provision of Information\(^1\) to ensure quality, accuracy, accessibility and usability of the content. Below we provide the total reach via the project’s official website, Facebook page, and Twitter handle.

**October 2017 – October 2019 Total Reach via the Official Website**

**October 2017 – August 2019 Total Reach via Twitter**

**October 2017 – August 2019 Total Reach via Facebook**

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\(^1\) Information Provider’s Guide, InterInstitutional Style Guide
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The three channels above were primarily used to receive questions and concerns from stakeholders in order to integrate them into our analyses. The channels were likewise used to inform stakeholders of roundtables, focus groups, contact details, and workshop details. The above statistics reflect across all three channels that interest in the project rose most between March 2018 and October 2018. This is unsurprising considering both the stakeholder workshop in Mexico City took place in March and the Agreement in Principle was reached in April 2018 with website page views peaking at 30 per day in May 2018. In regards to the Twitter handle, the data demonstrates “twitter impressions”, which are the number of times a tweet shows up in somebody’s timeline. The results above demonstrate that while the handle only had 43 followers, it managed to have a reach of between 400 and 17,400 impressions between February and October 2018. Finally, while the EU-Mexico SIA Facebook page only collected a total of 18 likes and 19 follows, it managed to reach audiences of much larger numbers to inform of the roundtable events, focus groups, and workshops across Belgium and Mexico. The number of people who had any content from the SIA Page or about the Page enter their screen. This includes posts, check-ins, ads, and social information from people who interact with the Page.

11.2. ROUNDTABLES, INTERVIEWS, MEETINGS AND QUESTIONNAIRES

LSE Consulting has ensured to gather information and evidence from relevant stakeholders who are not captured by the open online public consultation and/or the workshops through targeted interviews. The team was able to conduct interviews in English and Spanish, with a particular focus to representatives of indigenous peoples and vulnerable groups in Mexico.

The team organised four roundtables in Brussels in November 2017 and one main event in Mexico City February 2018 covering the selected sectors and range of sustainability issues. The events covering issues concerning the manufacturing sector, agricultural sector, service sector, and issues surrounding sustainability issues were open to public registration, inviting representatives across all four sectors to each meeting. The findings of each roundtable discussion that took place in Brussels have been utilized as components of each of this report’s aspects of analysis. A summary of the findings are provided in Table 48 below, while the minutes of each minute can be found in Annex 5.

Table 48: Stakeholder Consultation Brussels Roundtables - Findings

<table>
<thead>
<tr>
<th>Thematic Area</th>
<th>Findings</th>
</tr>
</thead>
</table>
| Human Rights; Environmental Concerns; Social Issues | ▪ Timing of the consultation and using results for negotiations  
▪ Quick organisation shortened registration period  
▪ Continued ability to contribute throughout SIA after roundtables  
▪ Importance of recognising human rights across all chapters not just sustainability chapters  
▪ Concerns that most SIA only reference ILO conventions, but there is a need for human rights conventions  
▪ Desire for a human rights clause in the text  
▪ Concern over treatment of human rights defenders in Mexico  
▪ Importance of recognising both direct and indirect impacts along with intended and unintended consequences  
▪ Concerns with indigenous populations being displaced as a result of infrastructure development  
▪ The role of business should be monitored to uphold ILO standards and other social/human rights commitments  
▪ Concerns over the development of megaprojects which under ILO 169 must undergo public consultations but commonly do not in Mexico  
▪ Call for inclusion of animal welfare in negotiations                                                                                                                                                                                                                     |
| Agricultural Sector                        | ▪ Concerns about the EU’s demands surrounding IPRs specifically concerning corn and seed exchanges                                                                                                                                                                                                                                            |
| Manufacturing Sector                       | ▪ Greater focus is necessary for SMEs  
▪ Concerns regarding the need for simplification of rules of origin  
▪ Concerns regarding certification procedures as NTBs                                                                                                                                                                                                                       |
11.3. CIVIL SOCIETY DIALOGUE MEETINGS

The inception, interim and final reports have been presented at DG Trade’s Civil Society Dialogue meetings (CSD) at their draft stages in order to invite stakeholders to contribute to the finals. The presentations provided a comprehensive overview of all the progress made in the project, and provided a space for civil society to comment and address any concerns throughout the project. The results of the three presentations that have already taken place for the draft inception, interim, and final reports can be found in Table 49 below, while the minutes are presented in Annex 6.

Table 49: Civil Society Dialogue Meetings - Findings

<table>
<thead>
<tr>
<th>CSD</th>
<th>Main Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft Inception Report CSD</td>
<td>- Concerns over human rights violations in Mexico call for institutional mechanisms that are not yet included in the proposed modernised agreement</td>
</tr>
<tr>
<td></td>
<td>- The timing of the SIA is a main concern as its relevance in the negotiations was questioned</td>
</tr>
<tr>
<td></td>
<td>- Intellectual property rights are of interest where high standards and strong enforcements have been promised</td>
</tr>
<tr>
<td></td>
<td>- Investment protection is likewise of interest where a tribunal structure with independent judges and an appeal mechanism has been promised</td>
</tr>
<tr>
<td></td>
<td>- Concerns were raised regarding producers and SPS where the commission expressed confidence reaching stronger provisions</td>
</tr>
<tr>
<td></td>
<td>- Concerns about the lack of analysis of the sugar sector were raised. The consultants noted to include this in the next version, and the commission explained that Mexico has a conservative approach on sugar</td>
</tr>
<tr>
<td></td>
<td>- Opposition was expressed to any opening of the EU market to Mexican beef and its fear for an accumulative effect due to Mercosur and CETA negotiations</td>
</tr>
<tr>
<td>Draft Interim Report CSD</td>
<td>- Stakeholders requested an analysis of the impact on animal welfare to be included in one of the negotiating chapters</td>
</tr>
<tr>
<td></td>
<td>- Concern was raised over the existing NTBs in European beef exports</td>
</tr>
<tr>
<td></td>
<td>- A comment was made that there should be no concession on sugar</td>
</tr>
</tbody>
</table>
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- Concern was expressed over the Commission’s statement that the Mexican government is improving labour rights while trade unions have recently been expelled.
- Concern was also raised about the exclusion of trade unions in the social analysis in the SIA which the consultants noted to focus on in the next version.
- Question was raised regarding the 2014 suspension of horse meat and if that will be impacted by the modernisation.

Draft Final Report CSD
- The importance of institutional mechanisms for civil society was emphasized, and concern was expressed over under-representation of umbrella organisations in Domestic Advisory Groups (DAGs) with past FTAs. It was noted that there is an opportunity for the European Commission to play an educational role and that good cooperative dialogue should be established with Mexico from the start.
- It was underlined that SMEs spend a disproportionate amount of time to participate in external trade, and questioned what institutional mechanisms will be put in place by the European Commission to ensure communication of regulatory data.

1.1. QUESTIONNAIRES

In addition to bilateral/group meetings, as described in the ToR, the team also developed a public online consultation through three online questionnaires.

1. Economic and Sectoral Survey
2. SME Survey

The consultation took place for 12 weeks from April 2018 – July 2018. While the response rate was too low to make any robust conclusions, the individual observations made by respondents provide interesting insights which have been incorporated into the different sections of this final report.

Different types of questionnaires were designed where stakeholders were asked questions on issues and processes combining open and close (pre-coded) ended questions. All questionnaires have been developed along with DG Trade and closely follow guidelines on similar evaluations.

Thus, the online public consultation incorporates these three survey questionnaires which structure feedback on possible impacts to SMEs, different sectors, and social, environmental, and human rights concerns. This 12 week online public consultation, aimed 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 original 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 was piloted with a select group of individuals to ensure the questionnaire is easily navigated and accessed. The team drew on native speakers in order to provide the survey in English, Spanish, French and German. Native speakers will also be drawn on to translate any responses in other languages using appropriate translation mechanisms to ensure all responses to the consultation are accessible to the team and the Commission in English.

While the consultation has been continuously communicated via the dedicated website, press, and social media, we also created the following to ensure as many available channels of communication as possible:
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- An email address hosted by the LSE in cases where stakeholders continuously 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/).

Annex 1 provides a list of national and regional administrations, social partners, including trade unions, civil society organisations, and international organisations, that have been consulted throughout implementation of the SIA. Organisations have been 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.

11.5.1 Economic and Sectoral Survey Results

The Economic and Sectoral Survey gathered contributions on three aspects: the impact of the modernisation of the global agreement between the EU and Mexico, specific sectoral issues and potential mitigation measures. The survey was started 35 times with 30 surveys completed, resulting in 85.717% overall completion rate. Among the respondents taking the survey, 10 respondents expressed preference for their responses to be associated with their affiliation and the team has anonymised the rest of the responses. Due to the large coverage of the survey and different response pathways (e.g. producer vs consumer), the number of respondents per question show high deviation. A low number of respondents have provided detailed comments on the survey but this was compensated by other channels of engagement. Below we briefly outline some of the key features and responses.

Figure 62: Publication of identification data

![Publication of identification data](source: LSE Consulting analysis)

Across the respondents to the questionnaire, 69.23% (9) were based in an EU Member State and 30.77% (4) in Mexico, where the majority of EU respondents with 80% (12) responding as producer/service provider and the rest (3) as a consumer/beneficiary.

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1 Two responses included offensive remarks and they were not included in the final count.
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**Figure 63: Type of respondents**

![Type of respondents diagram](image)

Source: LSE Consulting analysis

Respondents had also the option to clarify the sector covered by selecting all relevant categories with the majority of respondents engaged in manufacturing activities. Organisations indicating ‘other’ as their choice were exporter of primary goods (minerals) and supplier of minerals and extractive materials.

**Figure 64: Sectors**

![Sectors diagram](image)

Source: LSE Consulting analysis

The profile of respondents indicated that manufacturers operate in the following sub-sectors (car & car parts, chemicals (including pharmaceuticals), and textiles; service provider respondents predominantly work in business and professional services, and agricultural producers in the dairy sector. Finally, among the respondents, 30% self-identified as SMEs and 50% as larger companies (total of 10 responses). Across the responses 83.33% (10 out of 12) already traded internationally with 8 respondents planning to engage in international trade in the future.

Some of the specific issues identified by respondents are set out below.

Eurolait, the European Association of Dairy Trade, previews positive impact of the modernisation of the agreement, resulting from the dismantling of tariff and non-tariff barriers to trade and increasing market

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access for EU dairy exports. In terms of measures which could enhance the positive impacts of modernisation, the Association reports that:

“From a tariff perspective, duties of 20%-45% generally apply to imports of EU dairy products (depending on the particular tariff line) but we have heard of duties up to 80% being applied to cheese. We are very pleased with the news that duty free TRQs have been agreed for various categories of product, however ultimately the elimination of tariffs would create a level playing field for EU exporters’ vis-à-vis their biggest rival on the Mexican market (the US).”

They also added that various outstanding SPS matters should also be addressed. In terms of the current restrictions, the Association points to the ‘cupo’ system of import licences applies to milk powder (0402) and fat filled milk powders (1901). In particular:

"Regarding the 80 000 tonne quota of SMP, half of the quota is allocated to the government social programme (Liconsa) and 45% to historical importers. There is also a special allocation to border zones, meaning that only a minimal quantity of 1-2% is in fact accessible to newcomers, while the historical licences are held by a small number of actors. Both Liconsa and the historical importers usually prefer to source product from the US which is also duty free by virtue of NAFTA and is not subject to any (cupo) licencing requirement. While the dominance of the US on the Mexican market is of course also linked to geographical proximity and price competitiveness, the EU will have to benefit from the same duty and barrier-free access to the Mexican market in order to be able to compete on a level playing field. Should the negotiations result in tariff rate quotas for certain products, it will be crucial that these are not subject to the cupo system but a more trade conducive administration method. The Mexican authorities also require a radiological certificate for dairy products, at least from certain Member States, and consignments must be certified by the Office of Radiological Protection at the EPA (Environmental Protection Agency). This requirement creating additional costs and administrative burden is linked to the Chernobyl disaster of 1986 but seems quite outdated today in relation to EU dairy products."

EURATEX, the European Apparel and Textile Confederation, representing the interests of the European textile and clothing industry at the level of the EU institutions, focused on the existing rules of origin restrictions, due to the outdated rules. In particular, they stated that:

"Rules of origin have to be updated to be adapted to the structure of the EU industry and thus allow textile & clothing companies to benefit from the preference. The EU-Mexico FTA entered into force in 2000. It was an ‘old generation’ agreement. Rules of origin are the “standard” double transformation rules with no printing rule but quotas. EU exports to Mexico in m€ 2002 2016 Textile 308 392 Clothing 213 462 T&C 522 854 EU exports of textiles remained sluggish in the last 15 years despite the implementation of the FTA. Concerning clothing, a steady increase allowed our exports to reach €462million in 2016, which still does not represent a lot if we consider our exports to the US that amounted to €3billion and the potential untapped opportunities in Mexico."

With regards to the trends in the industry, EURATEX explained that production patterns in the EU Textile & clothing sector have shifted from commodities to high value added, innovative and sustainable production processes and products. The reform of rules of origins, according to them, needs to take consideration of the fragmentation of the industry as well as production of niche market technical textiles, nonwovens and smart specialization in fibres development and finishing operations.

One of the Mexican-based respondents, MIRKA MEXICANA SA DE CV, Mexico city, which currently purchases 90% of its imports from the EU (and in particular Finland), also previews a positive impact of the modernisation of the agreement in terms of the increase in exports and imports. In the sectors where they operate manufacturing and services (in particular car, car parts, and chemicals), the company does not face any restrictions in the EU currently and sees a lot of potential for improvement of business operations on the Mexican side. In particular, the company points out that reducing corruption in Mexico can enhance the positive impacts of the agreement as well as increased confidence in the country. Finally, the company highlighted that the modernisation of the agreement can help Mexico and the EU increase bilateral trade, reduce Mexico’s dependence on the EU and allow better access of EU companies to Mexico.
11.5.2. SME Survey Results

The Small and Medium-Sized Enterprises (SME) survey gathered contributions on aspects of the EU-Mexico Global Agreement related to its impact on SMEs. The survey was started 24 times and with 24 responses submitted it had a completion rate of 100%. Among the respondents taking the survey, 8 respondents expressed preference for their responses to be associated with their affiliation, while 4 respondents preferred anonymous publication of their responses. All remaining respondents have also been anonymized. A low number of respondents have provided detailed comments on the survey but this was compensated by other channels of engagement. Below we briefly outline some of the key features and responses.

11.5.2.1. Potential Benefits of the Modernised GA for SMEs

Respondents operate in as various sectors as food & retail, textiles, legal services, brewing and commerce at large. Most respondents either have more than 250 employees (3) or less than 10 employees (3), while a minority have less than 250 (1) or 50 employees (1). In terms of turnover in 2016, respondents are split between those having a turnover of less than or equal to € 2 million (4) and those having more than € 50 million (3), and a single respondent with less than or equal to € 10 million. Similarly, the total balance sheet of most respondents were less than or equal to € 2 million (4) or more than € 43 million (3), with a single respondent less than or equal to € 10 million.

Geographically, most respondents belong to Mexico (4), while remaining respondents have indicated Austria, Belgium, and Malta (3) (although the Austrian respondent is headquartered in the US and the Maltese respondent has headquarters in Mexico). The majority are independent companies (5), while a single respondent belongs to a group (subsidiary/affiliate) and a single respondent control another group.

11.5.2.2. International Trade

Currently most of respondents (5) are involved in international trade, while a minority are not (3). Of those not trading, a single respondent plan to do so in the future, while remaining respondents (2) have indicated that they will not. Most respondents (3) do business in the EU, while slightly fewer respondents (2) do business (buy/sell) in Mexico, out of which a single respondent has replied that their main activity relate to technological cooperation with a partner in Mexico.

Figure 65: Involvement in international trade

A single respondent has indicated that they expect the modernization of EU-Mexico Global Agreement to have positive impact on SMEs in the EU. More specifically it is expected that this will come from an increased exchange of ideas and technology. Moreover, a respondent expressed that decreased import and export requirements in Europe from Mexico, could be taken to enhance positive impacts of the modernisation of the Global Agreement on European SMEs. Similarly, the negative impact on European SMEs is expected to stem from “greater competition for all”. In this regard a single respondent advised for “training of the sectors involved is conducted and that collaboration agreements [between SMEs], to mix ideas and improve them, are carried out”.

The main business activity in the EU of most respondents is purchasing products and parts from the EU (2), while a single respondent specified that they supply products and parts to firms in the EU. Respondents have expressed that the type of business restrictions they face include: “Paperwork. Sometimes have had to pay taxes twice due to errors when a single shipment arrives in two boxes.” and “the creation of EU monopolies with a sole preferred supplier in Mexico” (translated interpretation from Spanish).

Most respondents (3) expect a positive impact on SMEs in Mexico due to the modernization of the EU-Mexico Global Agreement, while a single respondent did not know. More specifically, respondents expect the positive impact to stem from: “Freer trade” at large, “faster exchanges, fewer economic barriers to import, social commitment of companies in the EU to motivate / demand fair treatment of Mexican employers”, “the total elimination of tariffs and non-tariff restrictions (permits, etc.)” and from “facilitating operations in general”. Respondents express that measures such as “simplifying paperwork”, “harmonization of criteria in customs”, “free movement of goods and people” and ensuring “greater diffusion, reduction of tariffs and making improvements in Mexican customs to facilitate product access and free competition” could be taken to enhance the positive impact of the modernisation of the Global Agreement.

11.5.3. Environmental, Human Rights, and Social Issues Survey

The Human Rights, Social and Environmental Impact Survey gathered contributions on several aspects of the EU-Mexico Global Agreement. The survey was started 25 times and with 25 responses submitted it had a completion rate of 100%. Among the respondents taking the survey, 6 respondents expressed preference for their responses to be associated with their affiliation, while 10 respondents preferred anonymous publication of their responses. A low number of respondents have provided detailed comments on the survey but this was compensated by other channels of engagement. Below we briefly outline some of the key features and responses.

Figure 66: Percentage confirming sharing of respondent identity

11.5.3.1. Profile of Respondents

Across the respondents to the question, 45.45% (4) were based in an EU Member State and 55.55 % (5) in Mexico. Out of the respondents 3 were independent respondents, 1 academic, 2 from civil society and 3 from private companies. Of the respondents who were organizations (either civil society, academic or private companies), 2 had more than 500 employees and 2 had less than 50 employees. Similarly, 2 respondents came from organizations with a total annual turnover of more than 50 million euros, while 3 respondents were from organisations with less than 10 million in total annual turnover.
11.5.3.2. Respondent’s Expectations of the Global Agreement’s Impact

When probed on which socio-economic areas respondents expect to face an impact (positive or negative) from the Modernised EU-Mexico Global Agreement, the following areas were highlighted: A large majority expect employment improve (6), while only a minority (1) expect employment to deteriorate. A similar picture can be seen with regards to poverty, where most respondents (5) expect a positive effect, and only a minority (1) believe an agreement would have a negative impact.

With regards to income distribution, social inclusion, and access to basic goods and services, a small majority (3) expect a positive effect as compared to slightly smaller number of respondents (2) expecting a negative impact. Working conditions are also expected to see a positive impact (4), with a minority of respondents anticipating negative effects. Put together, most respondents generally seem to believe the EU-Mexico Global Agreement will have a positive effect on economic and commercial issues. On the issues of access to social protection as well as access to healthcare a small majority of respondents (3) anticipate negative effects against a minority (2) expecting a positive impact. These responses are visualised in the figure below:
Specifically, Telefonica Mexico highlighted that they expected positive impact on income distribution:

"because through this agreement, the parties undertake to promote fair trade, in accordance with the values they share.". Similarly, Telefonica expects positive improvement on social protection and poverty "because the agreement implies favoring fair trade and favouring the trade of some products (such as some meat, agave syrup ...), in which the most vulnerable sectors of the population are sometimes involved" and on access to basic goods and services "the agreement would guarantee access to fundamental rights, in addition to facilitating investments in both directions."

11.5.3.3. Human Rights

A large majority of respondents (4) believe that respect for human rights in Mexico has not improved since 2000. When probed on the impact of the EU-Mexico Global Agreement on the role of human rights, respondents are split between some believing it has had a positive effect (2), some thinking it has not had any effect (2) and some who do not know (2).

When asked specifically about the expected positive impact on a number of different human rights and governance issues, the respondents anticipate that most positive effects will take place with regards to the protection of property rights (2), the right to access to information (2), and the right of intellectual property. Conversely, other respondents expect there to be no positive effect on the right to fair and public hearing (3), the right to due process (3), the right to an adequate standard of living (3) or the rights of migrants (3).
However, respondents have observed positive changes on the areas of women's rights (2), the right to privacy (2) and the right to access of information, which are considered attributable to the EU-Mexico trade agreement.

With regards to protection of privacy laws, few respondents (2) believe their government has effectively enforced such rights and only a single respondent believe that they have. A majority of respondents (3) desires greater control over their data, with only a single respondent not wanting this. All responses supported inclusion of clear language protecting online privacy in trade agreements.

11.5.3.4. Labour Rights

With regards to labour rights, respondents (3) are unclear about the current direction of the respect and enforcement of such rights in Mexico. However, a majority (3) of respondents believe that labour rights violations occur very frequently or somewhat frequently, while few respondents did not know or had no opinion on the issue.

Since 2000, most respondents have seen no improvement in the freedom of association and collective bargaining rights (2), no stronger culture of compliance and understanding of labour rights (3) and no more education of workers about their rights (2). Specifically it was mentioned that “Although there was a reform to the Federal Labour Law there are still many pending tasks and the implementation of the reform has not been very good.” Only a single respondent believed Mexico to have improved on these issues since 2000.

Moreover, most respondents (3) do not know of any positive impact on respect of labour and human rights stemming from EU trade capacity building. A single respondent believes it has had a positive effect, while another believes it has had no effect. Telefonica Mexico argues that “having to meet certain international standards, Mexico is forced to improve in these aspects”.

Looking forward, most respondents expect to see positive improvement (either a little, somewhat, or a lot) on the areas of freedom of association (3). Other areas, such as forced and compulsory labour (2), child labour (2), non-discrimination of workers (2), and the rights of migrants and contingent workers (2) are also expected to improve. A single respondent anticipated the agreement to deteriorate all types of labour rights, while few (2) respondents believed that the right to organize and collectively bargain would be particularly harmed.

Few respondents (2) have seen evidence that the Modernised EU-Mexico Global Agreement will allow workers to participate more in improving their working conditions and even fewer (3) have seen evidence that trade agreements have helped Mexican citizens know what their human rights are. Nonetheless, a number of respondents (3) believe that Mexican workers are empowered by the trade agreement and indeed some of the respondents (2) themselves do feel more empowered by trade agreements. Examples mentioned were “having access to more commercial options” and “Having a framework of comparative rights helps us review our pending assignments and work to improve our legal frameworks”.

**Expected impact on employment**

A majority of respondents (6) expect the impact on employment to be positive and anticipate this translating into an overall job creation (5), direct job creation in specific sectors (5) and increased skills development (4).

Specifically, the non-governmental organization, Appleseed Mexico mentions that “the expectation is that more European companies will arrive in Mexico and generate new jobs with good training and remuneration”. Similarly, the association, Telefonica Mexico, points to the fact that “the agreement includes "Protection of Labour rights, based on the conventions of the International Labour Organization (ILO)."", which should be reflected directly in the generation and maintenance of quality jobs and safety.” and that “By complying with the provisions of the ILO, there may be greater incentives to increase the skills of workers in areas such as technology”.

Other, anonymous respondents concurred saying that “based on macroeconomic evidence, increased bilateral trade will create employment opportunities.”
Expected impact on working conditions

A majority of respondents (4) expect a positive impact on working conditions, which is expected more specifically as positively affecting wages, wage-setting mechanisms, or labour costs (6), labour standards and their effective implementation (4) and gender equality (4). Quality of work contracts, work organisation, health and safety as well as social dialogue is expected to improve by a smaller group of respondents (3).

Specifically, Ciudad de Mexico mentions that “the regulations of most parts of the European companies are very advanced compared to the Mexican ones, so the staff will know more and better conditions”. Telefonica Mexico responded that “by complying with the provisions of the ILO, there could be greater incentives to increase the application of effective conditions for improving working conditions, especially in sectors with a greater tendency to informality.” Other respondents highlight that “the impact will be limited given that the increased trade flow will only count for a very low percentage of the total GDP for both entities”
Conversely, the quality of work contracts are expected by some respondents (3) to deteriorate following the EU-Mexico Global Agreement – see Figure 83. Specifically, Telefonica Mexico expects that “in the fight for competitiveness, one of the aspects that could have been affected is the salary”.

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Figure 71: Expected negative impacts on working conditions

Regarding issues of inclusivity and discrimination in working conditions, some respondents (2) believe that the agreement will provide for greater female participation in the formal workforce, while one (1) believe it to have a lot of positive effect on closing the gender wage gap and ensuring non-discrimination in the workplace. Other respondents believe it will have somewhat of a positive effect or little effect (2) on closing the gender wage gap, non-discrimination in the workplace and formalisation of informal workforces.
Appleseed Mexico mentions specifically that the positive effect on female participation in the formal workplace “will depend on the companies that arrive in Mexico and that really impose a hiring system that privileges gender equity”. Moreover, they believe “that the analysis of female competences is more developed in the EU than in Mexico, which will help close the wage gap”.

With regards to non-discrimination in the workplace, Telefonica Mexico mentions that since, “this is one of the points of the ILO and the signatory countries could make compliance with these standards subject to the rest of the points established in the agreement.” Similarly, Appleseed writes that “they hope that they [EU companies] have their policies very clear on these issues and that they are developed by companies that come to Mexico or share them in specialized cooperation forums”. Finally, regarding informal work, Telefonica Mexico anticipates that “by encouraging trade, more incentives for formality will be provided”.

**11.5.3.5. Environmental Concerns**

On environmental issues, few respondents (2) expect a positive impact of the agreement and only a single respondent anticipates a negative effect. Specifically, Telefonica Mexico expects improvements on “legislative compliance, greater control, greater commitment to green energies”, and Appleseed Mexico expects the country to “know better environmental practices”. Other respondents warn that the agreement would cause an “acceleration of all current negative trends”.

The specific sustainable development indicators expected to be positively impacted (either a little, somewhat or a lot) are those regarding the atmosphere (climate change, ozone layer, depletion and air quality) and biodiversity (ecosystem, protected areas, and species). Conversely a few respondents (2) expect the trade agreement to have a negative impact on oceans (seas, coastal zones, and fisheries).

In terms of environmental policies, respondents are split with few (2) expecting to see policies improve either a little, somewhat or a lot, and others (2) anticipating a little, somewhat or a lot of negative impact. This includes policies on sustainable agriculture, fisheries, forestry, on implementation of the MEA, on environmental goods and services, on modes of production and consumption, on protection of biodiversity, and on commitment to nationally determined contributions. Respondents expect negative effects from the agreement to fall particularly on fish exports from the EU(3).

Within their own organizations, most respondents (2) expect to see no change stemming from the modernised trade agreement, while a single respondent expects positive change and another single respondent expects negative impacts.

**Fisheries**

On issues concerning fisheries, some respondents expected the agreement to have a positive impact by causing “greater fish exports” and “increased competition in EU”. Negative changes expected are “increased imports that limit local fishing trade”, a “decrease in market for local products” and in the EU specifically, an “increased exploitation without control of fishing grounds for export at competitive prices”.

**Water, Forestry and Biodiversity**

A single respondent expected the modernization of the agreement to improve “water modernization”. In the primary forestry sector and logging, a respondent expected “employment improvement and training” to cause a positive impact. Finally, a respondent points to “greater exploitation without control of the country's biodiversity zones” as a potential negative impact stemming from the agreement.

**Climate**

A respondent expressed expectations of the modernisation to increase the “exchange of green bonds”. However, some respondents (3) believe that trade of potentially illegal, unreported, and unregulated sources affecting commitments to the Paris Agreement will increase as a result of the agreement.

**11.5. MEXICO CITY WORKSHOP & CONSULTATION ACTIVITIES**

Further to the ToR, LSE Consulting organised a one-day workshop of 50 participants in Mexico City, Mexico. This event gathered 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).
The content of the workshop was informed by the progress of the EU-Mexico negotiations, initial results from the existing Trade SIA, and submissions by stakeholders. The team prepared documentation for the workshop and made it available to participating stakeholders in order to facilitate informed discussions. All participant presentations are available on the project website. We made provisions for the main working language to be Spanish as all presentations were delivered in Spanish, including that of the local EU Delegation. At the same time we ensured a wide local network who assisted with logistical issues in-country - particularly with Fundación IDEA in Mexico City.

11.5.1. **Workshop Design and Content**

Due to the number of attendees, holding a single plenary throughout the day would not have provided for in-depth discussion into key topics. The conference thus commenced with a joint opening plenary, and then broke out into separate discussion groups for a constructive dialogue on the various selected sectors. These parallel events engaged people to discuss sectoral specific and thematic issues. In particular, we held two parallel sessions after the plenary and lunch time - one focusing on the sectoral analyses and another on thematic sustainability issues. Thereafter the workshop closed with a joint plenary session where all participants regrouped and discussed concerns across sectors.

11.5.2. **Target Groups and Attendees**

Target groups for the local workshop were selected from the stakeholder mapping done at the inception phase. The team set criteria to allow as many organizations as possible to attend the workshop. While the 50 travel-funded spots were allocated on a first come first serve basis, space was reserved for 70 persons to register on a first come first serve basis as well.

11.5.3. **Team Member Attendance**

The workshop was attended by three team members – the Project Officer, Team Senior Sustainability Expert and the team in-country partner, IDEA Fundacion. They organized the event, collected attendee data, and provided an overview of the discussion and issues raised in a consultation report (Annex 7). They also engaged with the different stakeholders in order to gather further data about possible direct and indirect impacts and ways to address flanking measures.

11.5.4. **Additional Activities**

Seeing as some civil society actors may have felt uncomfortable voicing their opinions in the same physical space as government officials or company representatives whom they may have concerns with, the team stayed in Mexico City for an entire week to give stakeholders the chance to meet independently. In response to a request for continued dialogue after the one day workshop, the team, along with its Mexico based partner, Fundacion IDEA, hosted a second day informal gathering of human rights organisations that expressed a desire to further present their concerns. Substantial information was collected at this meeting which is presented in the Conference Report and utilized in the results of the analysis undertaken in this report.

11.5.5. **Results**

The results of the Mexico City Workshop and partner country consultation activities have been incorporated into the analytical components of the SIA. Table 44 below presents the main findings of the activities in Mexico, while the entire Conference Report is provided in Annex 7.
Table 50: Mexico City Workshop - Main Findings

- The negotiations of the EU-Mexico FTA do not exist in a social or political vacuum. Therefore, the negotiators of the treaty must take into account its impact on both Mexico and the EU.
- The consultation procedures and mechanisms have various areas for improvement if they are to take civil society concerns effectively into account.
- The EU-Mexico FTA can provide an opportunity to improve labour conditions for Mexican employees, particularly those working in European companies or in companies that export to the European market.
- Mexico’s incapacity to meet the demand of supply chains limits productivity and can deter foreign investments.
- The lack of information and training on regulation compliance represents one of the main obstacles MSMEs face when exporting to other markets.
- Environmental issues must be treated as a cross-sectional concern throughout the negotiations of the EU-Mexico FTA.
- Human rights violations must not be downsize or overlooked by the negotiating parties of the EU-Mexico FTA. Furthermore, more effective accountability mechanisms, beyond the Democratic Clause, should be discussed in order to address the problem.

11.6. 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 (Orbie et al., 2014). This issue is crucial to the accountability and legitimacy of trade negotiations. In this light, LSE Consulting sought to build upon its previous experiences with DG Trade, to design a multi-pronged strategy to ensure that the 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 the consultation relied 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 communicated by stakeholders, and the 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;
12. PROPOSALS FOR POLICY RECOMMENDATIONS AND ACCOMPANYING MEASURES

12.1. INTRODUCTION

Following the analysis undertaken in this report, policy recommendations, or flanking measures, have been developed to promote sustainability and to prevent or try to mitigate negative impacts. The recommendations derive from the analyses of the different economic, social, environmental as well as sectoral elements of the SIA and also draw on relevant recommendations put forward by stakeholders during the consultations. Suitable and practical policy recommendations have been prepared jointly by the team, so that they cut across the different analysis and take all aspects into consideration.

12.2. ECONOMIC ANALYSIS

In light of the findings of the economic analysis, the final report identifies two major policy conclusions and recommendations.

1. There are important economic gains to be made from an updated agreement, and dealing with Non-Tariff Measures (NTMs) is key:

The economic modelling in this report reveals that there are important economic gains to be made from an updated agreement, focusing on lowering Non-Tariff Measures currently impeding EU-Mexico bilateral trade. Non-Tariff-Barriers is a broad term, capturing all non-price and non-quantity restrictions on trade; covering everything from border measures (customs procedures etc) to national laws, regulations and practices. While some of the included issues may be either elusive or hard to deal with within the parameters of a trade agreement (e.g. stemming from cultural or preferential differences), there is still plenty to be gained by working on issues that are actionable within the agreement. Accordingly, in terms of specific policy recommendations, the EU and Mexican government should:

- work together to support the further development of the Mexican National Quality Infrastructure (i.e. the institutions for standardization, regulation, and accreditation/certification);
- increase EU-Mexican regulatory cooperation regarding Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). Since the estimated current NTBs in Mexico’s manufactured good sectors are especially high, their reduction is an effective tool to provide tangible results;
- ensure transparency and strict limitations to state subsidies to enterprises in both the EU and Mexico;
- invest in measures to simplify customs procedures (cutting red tape and promoting efficiency and transparency). As recent research and initiatives by the WTO with regards to the implementation of the Trade Facilitation Agreement (TFA) has shown, this can be instrumental in unlocking trade opportunities and growth.

2. Governments do not trade. Firms do and the key to unlocking growth lies in increased participation by small and medium sized firms, SMEs.

The purpose of trade agreements is to increase trade, growth and welfare by lowering current impediments for firms to take part in international trade. It is important to realize that while governments are hard at work with delivering the new agreements, the potentials cannot be realized until firms take advantage of the new opportunities available to them. Governments do not trade, firms do. As pointed out in the European Commission’s 2015 communication Trade for All, the key to unlocking trade induced growth lies in the participation of SMEs. Hence, the EU and Mexican government should:

- further develop the necessary infrastructure and lower existing barriers in order to unlock the trade potential of SMEs;
- make it easier for European SMEs to trade with or invest in Mexico via easy access to export promotion tools and investment guarantee;
• improve and expand existing tools (such as information services or websites) in the EU and Mexico to make information on rules, opportunities and regulatory requirements more available, but – even more importantly – more easily accessible for SMEs.

12.3. SOCIAL ANALYSIS

Mexico and the European Union can maximize the potential benefits and minimize the negative externalities of the modernisation of the EU-Mexico trade agreement by combining both domestic reforms and bilateral cooperation. In order to enhance social welfare, the Mexican government could for instance:

• Continue to pursue Conditional Cash Transfers (CCT) policies as well as provide targeted labour adjustment assistance that must reach the most vulnerable segments of the population, including in the rural parts of the region;

• invest strongly in education and training programs. Mexico’s commitment has recently helped improve its school enrolment rates but this progress must be consolidated to upgrade the skill levels of Mexico’s workforce. Special attention must be dedicated to encourage women, indigenous citizens and disabled workers, all of whom have faced greater obstacles to enter Mexico’s labour market.

While domestic reforms continue to be instrumental for Mexico to reduce inequality and poverty, cooperation with the EU could also yield significant results for instance by: Accordingly, both parties should increase cooperation to:

• Implementing systematic monitoring processes allowing for greater input from civil society actors. This could for example help advance the labour right commitments in the Trade and Sustainable Development (TSD) and support the EU-Mexico dialogue under the Democracy Clause feeding into policymaking (Ecorys, 2017a, p. 142);

12.4. HUMAN RIGHTS ANALYSIS

Compared to Mexico, the human rights situation in the EU is by and large good. The EU could support Mexico in addressing its human rights challenges, including by encouraging Mexico to improve its performance regarding trade-related human rights issues. To encourage public authorities and private actors operating in Mexico to comply with human rights, the instruments available both under the Trade Agreement (in particular in the TSD Chapter) and the wider Global Agreement should be used pro-actively. In this context, the EU should focus on specific human rights such as the right to privacy and help the Mexican government do a better job ensuring data protection online. Here, the EU could provide capacity building assistance, training for data protection officials, and support outreach to the public (websites/primers that clearly explain rights and responsibilities).

12.5. ENVIRONMENTAL ANALYSIS

The environmental analysis suggests that potential negative effects on GHG emissions, air pollution and waste resulting from the EU-Mexico modernization agreement could be mitigated. To do so, both the EU and the Mexican government should:

• further promote cooperation in the development and transfer of green technology and by increasing trade in environmental goods and services;

• work towards increasing trade liberalisation to improve energy management and boost the renewable energy sector. The analysis shows that these are the largest sectors among EU’s environmental goods and services. Trade liberalization within these areas is likely to promote their development and favour the exchange of green technology
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between the EU and Mexico, favour a transition towards green energy, and accelerate the decoupling of energy supply from economic growth which for Mexico remains a challenge.

The analysis of potential linkages and frictions between the Global Agreement and MEAs suggests that a modernised trade agreement is by and large neutral with respect to trading partners’ abilities to meet their international environmental obligations. In terms of the potential contribution the new trade agreement can make to strengthen Mexico’s ability to improve enforcement of environmental protection measures – whether under international conventions, national or state laws – the EU and Mexican government should:

- define more specific objectives for bilateral cooperation on trade-environmental linkages taking account of the relevant cooperation provisions in the TSD chapter;
- find ways to capitalize on local knowledge networks by strengthening civil society participation and input under monitoring mechanisms.

12.6. ANALYSIS OF MANUFACTURING SECTOR

In assessing possible impacts on the manufacturing sector, findings demonstrate that there are relevant policy conclusions that can be derived from the evolution of the EU-Mexico FTA, both in terms of commercial and social issues.

Regarding the commercial dimension both the EU and Mexican government should:

- Increase cooperation to anticipate changes in investment and production structures, for example in the most promising area in years to come that will be the development of Industry 4.0;
- increase cooperation to promote the development of a competitive infrastructure and continue to develop a niche of production for quality, specialised materials in the automotive industry.

As commercial and production structures evolve, the EU and Mexico should be mindful of the impact that trade has on social issues. The EU and Mexican government should:

- make their trade relationship more transparent and more open to external parties to become involved. This is particularly important for social issues, for which information on trade impact is seldom readily available. When going forward, both parties should provide sufficient and timely information for civil society to become involved in monitoring the agreement’s evolution. They should also broaden consultation processes and integrate the opinions of local stakeholders when making decisions.

12.7. ANALYSIS OF AGRICULTURAL SECTOR

Benefits in this sector are expected to be larger for the EU in virtue of the elimination of the existing higher barriers to the Mexican agriculture market. The trade that the modernised agreement will create needs to be protected from the introduction of new trade barriers. Consequently, the EU and Mexican government should:

- establish and effectively operate consultation mechanisms between the EU and Mexico that detect and address these issues. This dialogue can contribute to improving the agreement further in the future.
12.8. **ANALYSIS OF SERVICE SECTOR**

Regarding the service sector, results demonstrate that transportation and logistics services have particularly faced discriminatory trade facilitation and customs rules, regarding the movement of natural persons, restrictions on business visa and work permits apply.

- For construction and construction related services, such as architecture, engineering services and urban planning, but also other services such as IT and financial services, **greater accesses to Mexico’s public procurement markets should be granted**;
- free cross-border data flows should likewise not be limited by requirements for local establishment of a local presence.

Generally, the Modernised GA should ensure

- transparent legislative procedures;
- meaningful consultations;
- continuation of evidence-based impact assessments; and a
- concrete commitment to achieving more regulatory coherence in the future.

The opening of business and professional services in EU-Mexico trade and investment would benefit corporations in a much wider range of industries other than services sectors.
13. BIBLIOGRAPHY


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


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


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ANNEX 1: 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
Alstom 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 Europeenneasbl
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
BundesarbeitskammerÖsterreich
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

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)
CECAA
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 Chrétien
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)
Confederazionco Cooperative Italiane
Confederazione 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
Debailleul 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
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

EURISY
EUROALLIAGES
EUROCHAMBERS
EuroCommerce
EURODOM
Eurogroup for Animals
EuroGeoSurveys (EGS)
Eurometal
Eurometaux
Euromilk
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 (Eucolait)
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
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

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 (EUROMED)
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 (ECRRA)
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)
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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 (EUUnited 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)
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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 MetalleftikonErevnon (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
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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.
Alstom
Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA)
Italian Trade Promotion Agency
ITRB Group
ITRI Ltd (ITRI)
Iveco S.p.A.
Janssen Pharmaceutical
Johnson & Johnson Family of Companies
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JP Morgan Chase
Koepel van de Vlaamse Noord-Zuidbeweging - 11.11.11
KPMG
Law Society of England & Wales
LEO Pharma
Lewiatan Business Angels (LBA)
Lighting Europe
LIMA: LIMA Corporate Orthopaedic
Local Authority Building Control
LVMH Cosmetics
Maa- jametsäataloustuottajainKeskusliitto – Central Union of Agricultural Producers and Forest Owners
Manulife Life
Marubeni
Mazda Motor Corporation
Médecins Sans Frontières International
Medicines for Europe
Medis medical imaging systems
Merck Serono
Mercosur-EU Business Forum (MEBF)
MHD Moet Hennessy Diageo
Microsoft
Ministry of Economics of the Republic of Latvia in cooperation with the Ministry of Agriculture
Molnlycke Health Care
MontanuniversitaetLeoben (MUL)
Mouvement des Entreprises de France (Medef)
Movistar
Nanofutures
NanoMEGAS
National Commission for the Development of Indigenous Peoples
NBA
NEC
Netherlands Council for Trade Promotion
Nokia
NorskBergindustri/Norwegian Mineral Industry
Norwegian Seafood Export Council
Novartis Pharma
Novo Nordisk Pharma Ltd.
NTT
Opel Group
ORGALIME (European Engineering Industries Association)
Organisation pour un réseau international d’indications géographiques
Panasonic
Philip Morris International Inc.
Pictet Asset Management
Plastics Recylers Europe
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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
Telefonica
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)
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Turkish Industry & Business Association (TÜSIAD)
UEAPME European Association of Craft, Small and Medium-Sized Enterprises
UK Trade and Investment (UKTI)
Umicore
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
WirtschaftskammerÖsterreich
WirtschaftskammerÖsterreich
World Spirits Alliance
WWF European Policy Programme (WWF EPO)
YanmarItalyS.p.A.
YKK ITALIA S.P.A.
Zentralverband Elektrotechnik- und Elektronikindustrie e.V.

Mexico
A3 Mexico (Mexican automation industry trade association)
AgroindustriasUnidas de Mexico
AID \ 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

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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 deNuevo 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 Empreses 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 Alimenticas (CANAINCA)
Camara Nacional de la Industria de Curtidurias (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 Condimentados (CANIRAC)
Camara Nacional de la Industria de Transformacion (CANACINTRA)
Camara Nacional de la Industria de Transformacion (CANACINTRA)
Camara Nacional de la Industria de Transformacion (CANACINTRA)
Camara Nacional de la Industria de Transformacion (CANACINTRA)
Camara Nacional de la Industria Electronica de Telecomunicaciones y Tecnologias de la Informacion (CANIETI)
Camara Nacional de la Industria Maderera (CNIM)
Camara Nacional de la Industria Molinera de Trigo (CANIMOLT)
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 (CANAINPESCA)
Camara Nacional del Autotransporte de Carga (CANACAR)
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 Curtidurias en Jalisco
Camara Regional de la Industria de Transformacion del Estado de Jalisco (CAREINTRA)
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 (COMECARNE)
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

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 México
Via Campesina
Vitanui
ANNEX 2: SECTORAL IMPACTS ON SMES

Figure 72: SME Export Intensity Levels, by Sector, 2015

Source: EU Commission, annual report on SMEs, 2015.96 The following sector identifiers apply: 1 = Very low (exports over total sales between 0 and 5%), 2 = Low (exports over total sales between 5 and 10%), 3 = Medium (exports over total sales between 10 and 20%), 4 = High (exports over total sales between 20 and 40%), 5 = Very high (exports over total sales above 40%).
Figure 73: Extra-EU Exports of SMEs in 2015, in Thousand EUR

<table>
<thead>
<tr>
<th>Activity</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other HACE activities</td>
<td>16,633,633</td>
</tr>
<tr>
<td>Not allocated</td>
<td>0</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>8,213,719</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>14,624,452</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>539,966</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>2,013,402</td>
</tr>
<tr>
<td>Information and communication</td>
<td>2,823,379</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>17,529,798</td>
</tr>
<tr>
<td>Retail trade, except of motor vehicles and motorcycles</td>
<td>15,528,417</td>
</tr>
<tr>
<td>Wholesale trade, except of motor vehicles and motorcycles</td>
<td>163,556,467</td>
</tr>
<tr>
<td>Wholesale and retail trade and repair of motor vehicles and..</td>
<td>16,342,057</td>
</tr>
<tr>
<td>Wholesale and retail trade: repair of motor vehicles and...</td>
<td>201,028,604</td>
</tr>
<tr>
<td>Construction</td>
<td>2,736,555</td>
</tr>
<tr>
<td>Water supply; sewerage; waste management and...</td>
<td>2,541,702</td>
</tr>
<tr>
<td>Electricity, gas, steam and air conditioning supply</td>
<td>632,081</td>
</tr>
<tr>
<td>Repair and installation of machinery and equipment</td>
<td>5,071,862</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>11,136,246</td>
</tr>
<tr>
<td>Manufacture of furniture</td>
<td>4,556,988</td>
</tr>
<tr>
<td>Manufacture of other transport equipment</td>
<td>6,547,285</td>
</tr>
<tr>
<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
<td>5,402,754</td>
</tr>
<tr>
<td>Manufacture of machinery and equipment n.e.c.</td>
<td>54,771,682</td>
</tr>
<tr>
<td>Manufacture of electrical equipment</td>
<td>11,733,941</td>
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<tr>
<td>Manufacture of computer, electronic and optical products</td>
<td>17,286,884</td>
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<td>Manufacture of basic metals</td>
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<tr>
<td>Manufacture of other non-metallic mineral products</td>
<td>6,441,549</td>
</tr>
<tr>
<td>Manufacture of rubber and plastic products</td>
<td>10,981,548</td>
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<tr>
<td>Manufacture of basic pharmaceutical products and...</td>
<td>9,929,604</td>
</tr>
<tr>
<td>Manufacture of chemicals and chemical products</td>
<td>21,607,332</td>
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<tr>
<td>Manufacture of coke and refined petroleum products</td>
<td>676,062</td>
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<tr>
<td>Printing and reproduction of recorded media</td>
<td>1,287,926</td>
</tr>
<tr>
<td>Manufacture of paper and paper products</td>
<td>5,159,807</td>
</tr>
<tr>
<td>Manufacture of wood and of products of wood and...</td>
<td>4,843,065</td>
</tr>
<tr>
<td>Manufacture of leather and related products</td>
<td>5,523,284</td>
</tr>
<tr>
<td>Manufacture of wearing apparel</td>
<td>4,899,980</td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>6,130,992</td>
</tr>
<tr>
<td>Manufacture of tobacco products</td>
<td>157,213</td>
</tr>
<tr>
<td>Manufacture of beverages</td>
<td>3,356,500</td>
</tr>
<tr>
<td>Manufacture of food products</td>
<td>13,144,639</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1,079,666</td>
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<tr>
<td>Industry (except construction)</td>
<td>256,474,106</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>2,460,169</td>
</tr>
</tbody>
</table>

Source: Eurostat trade in enterprise characteristics (TEC) database.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

**Figure 74: Extra-EU Exports of SMEs in 2015, Number of Enterprises**

<table>
<thead>
<tr>
<th>Other NACE activities</th>
<th>21,050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not allocated</td>
<td>0</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>13,182</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>32,785</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>2,879</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>1,849</td>
</tr>
<tr>
<td>Information and communication</td>
<td>16,154</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>22,396</td>
</tr>
<tr>
<td>Retail trade, except of motor vehicles and motorcycles</td>
<td>58,171</td>
</tr>
<tr>
<td>Wholesale trade, except of motor vehicles and motorcycles</td>
<td>195,773</td>
</tr>
<tr>
<td>Wholesale and retail trade repair of motor vehicles and...</td>
<td>35,855</td>
</tr>
<tr>
<td>Wholesale and retail trade repair of motor vehicles and...</td>
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</tr>
<tr>
<td>Construction</td>
<td>18,196</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management and...</td>
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<td>Electricity, gas, steam and air conditioning supply</td>
<td>389</td>
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<tr>
<td>Repair and installation of machinery and equipment</td>
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<td>Other manufacturing</td>
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<td>Manufacture of furniture</td>
<td>9,619</td>
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<td>Manufacture of other transport equipment</td>
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</tr>
<tr>
<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
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</tr>
<tr>
<td>Manufacture of machinery and equipment n.e.c.</td>
<td>38,075</td>
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<tr>
<td>Manufacture of electrical equipment</td>
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<tr>
<td>Manufacture of computer, electronic and optical products</td>
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<td>Manufacture of basic metals</td>
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<td>Manufacture of other non-metallic mineral products</td>
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<td>Manufacture of rubber and plastic products</td>
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</tr>
<tr>
<td>Manufacture of basic pharmaceutical products and...</td>
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<tr>
<td>Manufacture of chemicals and chemical products</td>
<td>9,412</td>
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<tr>
<td>Manufacture of coke and refined petroleum products</td>
<td>191</td>
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<td>Printing and reproduction of recorded media</td>
<td>6,755</td>
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<td>Manufacture of paper and paper products</td>
<td>4,040</td>
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<tr>
<td>Manufacture of wood and of products of wood and...</td>
<td>7,935</td>
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<tr>
<td>Manufacture of leather and related products</td>
<td>5,811</td>
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<tr>
<td>Manufacture of wearing apparel</td>
<td>9,971</td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>7,945</td>
</tr>
<tr>
<td>Manufacture of tobacco products</td>
<td>99</td>
</tr>
<tr>
<td>Manufacture of beverages</td>
<td>5,345</td>
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<tr>
<td>Manufacture of food products</td>
<td>13,983</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1,390</td>
</tr>
<tr>
<td>Industry (except construction)</td>
<td>228,202</td>
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<tr>
<td>Agriculture, forestry and fishing</td>
<td>6,339</td>
</tr>
</tbody>
</table>

*Source: Eurostat trade in enterprise characteristics (TEC) database.*
Figure 75: Extra-EU Imports of SMEs in 2015, in Thousand EUR

<table>
<thead>
<tr>
<th>Activity</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Other NACE activities</td>
<td>17,222,688</td>
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<tr>
<td>Administrative and support service activities</td>
<td>23,035,345</td>
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<td>406,076</td>
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<td>Financial and insurance activities</td>
<td>2,560,676</td>
</tr>
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<td>Information and communication</td>
<td>4,428,556</td>
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<tr>
<td>Transportation and storage</td>
<td>18,037,996</td>
</tr>
<tr>
<td>Retail trade, except of motor vehicles and motorcycles</td>
<td>18,883,271</td>
</tr>
<tr>
<td>Wholesale trade, except of motor vehicles and motorcycles</td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade and repair of motor vehicles and</td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade: repair of motor vehicles and...</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>2,968,201</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management and...</td>
<td>709,629</td>
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<td>Electricity, gas, steam and air conditioning supply</td>
<td>7,244,618</td>
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<td>Repair and installation of machinery and equipment</td>
<td>4,313,638</td>
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<td>Other manufacturing</td>
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<tr>
<td>Manufacture of furniture</td>
<td>1,327,828</td>
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<tr>
<td>Manufacture of other transport equipment</td>
<td>4,836,551</td>
</tr>
<tr>
<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
<td>4,282,230</td>
</tr>
<tr>
<td>Manufacture of machinery and equipment n.e.c</td>
<td>9,159,708</td>
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<tr>
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<td>9,175,875</td>
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<tr>
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<tr>
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<td>3,782,320</td>
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<td>Manufacture of wearing apparel</td>
<td>5,746,684</td>
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<tr>
<td>Manufacture of textiles</td>
<td>5,196,472</td>
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<tr>
<td>Manufacture of tobacco products</td>
<td>130,521</td>
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<tr>
<td>Manufacture of beverages</td>
<td>747,403</td>
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<tr>
<td>Manufacture of food products</td>
<td>14,530,973</td>
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<tr>
<td>Mining and quarrying</td>
<td>994,723</td>
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<td>Agriculture, forestry and fishing</td>
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</table>

Source: Eurostat trade in enterprise characteristics (TEC) database.
### Figure 76: Extra-EU Imports of SMEs in 2015, Number of Enterprises

<table>
<thead>
<tr>
<th>Sector Description</th>
<th>Enterprises</th>
</tr>
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<tbody>
<tr>
<td>Other NACE activities</td>
<td>59,801</td>
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<td>Not allocated</td>
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<tr>
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<td>22,716</td>
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<tr>
<td>Professional, scientific and technical activities</td>
<td>64,763</td>
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<tr>
<td>Real estate activities</td>
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</tr>
<tr>
<td>Financial and insurance activities</td>
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<tr>
<td>Information and communication</td>
<td>39,479</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>16,927</td>
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<td>Retail trade, except of motor vehicles and motorcycles</td>
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<tr>
<td>Wholesale trade, except of motor vehicles and motorcycles</td>
<td>241,801</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of motor vehicles and...</td>
<td>29,697</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of motor vehicles and...</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Water supply; sewerage, waste management and...</td>
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<td>Repair and installation of machinery and equipment</td>
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<td>Other manufacturing</td>
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<td>Manufacture of furniture</td>
<td>5,601</td>
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<tr>
<td>Manufacture of other transport equipment</td>
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<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
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<td>Manufacture of electrical equipment</td>
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</tr>
<tr>
<td>Manufacture of computer, electronic and optical products</td>
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<tr>
<td>Manufacture of fabricated metal products, except machinery...</td>
<td>25,285</td>
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<td>Manufacture of basic metals</td>
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<td>Manufacture of other non-metallic mineral products</td>
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<tr>
<td>Manufacture of rubber and plastic products</td>
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</tr>
<tr>
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<tr>
<td>Manufacture of chemicals and chemical products</td>
<td>8,096</td>
</tr>
<tr>
<td>Manufacture of coke and refined petroleum products</td>
<td>146</td>
</tr>
<tr>
<td>Printing and reproduction of recorded media</td>
<td>6,153</td>
</tr>
<tr>
<td>Manufacture of paper and paper products</td>
<td>3,628</td>
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<tr>
<td>Manufacture of wood and of products of wood and...</td>
<td>5,771</td>
</tr>
<tr>
<td>Manufacture of leather and related products</td>
<td>3,941</td>
</tr>
<tr>
<td>Manufacture of wearing apparel</td>
<td>9,468</td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>8,206</td>
</tr>
<tr>
<td>Manufacture of tobacco products</td>
<td>95</td>
</tr>
<tr>
<td>Manufacture of beverages</td>
<td>1,593</td>
</tr>
<tr>
<td>Manufacture of food products</td>
<td>10,523</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>928</td>
</tr>
<tr>
<td>Industry (except construction)</td>
<td>197,081</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>6,533</td>
</tr>
</tbody>
</table>

*Source: Eurostat trade in enterprise characteristics (TEC) database.*
**Figure 77: Major Export Barriers for SMEs**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Not Exporting</th>
<th>Major Exporting - Global Market</th>
<th>Major Exporting - EU Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products/services specific to domestic market only</td>
<td>24%</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>Lack of language skills</td>
<td>7%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>No specialised staff to deal with exports</td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Problems with finding information of legal rules of market</td>
<td>19%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Problems with finding market information</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Payments to other countries not secure enough</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Resolving complaints and disputes too expensive</td>
<td>17%</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>Dealing with foreign taxation too complicated/costly</td>
<td>28%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Financial investment too large</td>
<td>34%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Identifying business partners too difficult</td>
<td>23%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Delivery costs too high</td>
<td>22%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Administrative barriers too complicated</td>
<td>32%</td>
<td>32%</td>
<td>32%</td>
</tr>
</tbody>
</table>

- Barriers anticipated by SMEs that do NOT export, N= 7,599
- A major problem for SMEs that ONLY export to the Global Market, N= 351
- A major problem for SMEs that ONLY export to the EU’s Single (Internal) Market, N=1,700

*Source: Eurobarometer 2015.*
### Table A1: Sector specific bilateral trade, baseline set up and estimated changes under conservative modernisation scenario

<table>
<thead>
<tr>
<th>Sectors</th>
<th>% share of total bilateral exports</th>
<th>% change in bilateral exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU28 to Mexico</td>
<td>Mexico to EU28</td>
</tr>
<tr>
<td>Rice</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cereals &amp; oilseeds, oils</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Vegetables, fruits and nuts</td>
<td>0.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Sugar, cane &amp; beet</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Beef</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Other meat</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>0.3</td>
<td>1.4</td>
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<tr>
<td>Food prod nec</td>
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<td>2.0</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Fisheries</td>
<td>0.0</td>
<td>0.0</td>
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<td>Energy</td>
<td>0.0</td>
<td>8.9</td>
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<td>Other primary, non-ag</td>
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<td>0.8</td>
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<tr>
<td>Textiles</td>
<td>0.9</td>
<td>0.3</td>
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<tr>
<td>Wearing apparel</td>
<td>0.5</td>
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<td>Leather products</td>
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<td>0.2</td>
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<td>Petrochemicals</td>
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<tr>
<td>Other machinery</td>
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<tr>
<td>Metals and metal products</td>
<td>5.0</td>
<td>5.8</td>
</tr>
<tr>
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<td>0.5</td>
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<tr>
<td>Other manufactures</td>
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<tr>
<td>Electricity</td>
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<td>1.2</td>
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<tr>
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<td>1.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

<table>
<thead>
<tr>
<th>Sector</th>
<th>EU28</th>
<th>Mexico</th>
<th>EU28</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>1.5</td>
<td>3.0</td>
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<td>0.01</td>
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<tr>
<td>Insurance</td>
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<td>3.1</td>
<td>-0.01</td>
<td>-0.10</td>
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<tr>
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<td>0.4</td>
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<tr>
<td>Construction</td>
<td>0.0</td>
<td>3.4</td>
<td>0.01</td>
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<tr>
<td>Other services</td>
<td>4.5</td>
<td>3.3</td>
<td>0.00</td>
<td>0.07</td>
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</tbody>
</table>

Source: EU Commission 2015.

**Table A2: Sector specific analysis production, baseline set up and estimated changes under Ambitious Modernisation Scenario**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>% Share of VA in Baseline</th>
<th>Sectoral output change</th>
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<tbody>
<tr>
<td></td>
<td>EU28</td>
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</tr>
<tr>
<td>Rice</td>
<td>0.0</td>
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<tr>
<td>Cereals &amp; oilseeds, oils</td>
<td>0.4</td>
<td>0.5</td>
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<tr>
<td>Vegetables, fruits and nuts</td>
<td>0.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Sugar, cane &amp; beet</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Milk and dairy products</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Beef</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Other meat</td>
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<td>0.3</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Food prod nec</td>
<td>1.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>0.9</td>
<td>1.0</td>
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<tr>
<td>Fisheries</td>
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<tr>
<td>Energy</td>
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<tr>
<td>Other primary, non-ag</td>
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<td>Other machinery</td>
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<td>2.9</td>
</tr>
<tr>
<td>Metals and metal products</td>
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<td>Wood and paper products</td>
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<td>Gas manufacture, distribution</td>
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</table>
## Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

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</table>

*Source: EU Commission 2015.*
How NAFTA Affects FACB Rights in Mexico: 1994-2013

Note: The figure above plots the impact of NAFTA on FACB rights law. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). FACB laws have not improved since 2005. ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Because there is no data on FACB rights law before 1994 when NAFTA entered into force (i.e., no control group), we omitted NAFTA from the regression and cannot attribute any changes directly to NAFTA. The FACB rights data is taken from Barry et al. (2015) (https://dataverse.harvard.edu/dataset.xhtml?id=3005975). FACB rights (ranging from 0 to 4) have two components: freedom of association and collective bargaining rights. Law refers to the legislation that protects these rights, while Practice refers to the actual governmental respect for these two rights.

How NAFTA Affects FACB Rights Practice in Mexico: 1994-2013

Note: The figure above plots the impact of NAFTA on FACB rights. The agreement included aspirational and disputable labour rights language. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). Here again we had no data before 1995 and can attribute no effects per se to NAFTA. ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention.

Because there is no data on FACB rights before 1994 when NAFTA entered into force (i.e. no control group), it is impossible to make a pre- and post-NAFTA comparison. In other words, we cannot assess the effects of NAFTA on FACB. The data comes from here: https://dataverse.harvard.edu/dataset.xhtml?id=3005975. FACB rights (ranging from 0 to 4) have two components: freedom of association and collective bargaining rights. Law refers to the legislation that protects these rights, while practice refers to the actual governmental respect for these two rights.

How the Trade Agreement with the EU Affects FACB Rights Law in Mexico: 1994-2013
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Note: Table 20 plots the impact of the EU trade agreement on FACB rights law. The agreement included aspirational labour rights language, and it provides no means to challenge labour rights practices. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. As the graph shows, in 2000 when the EU trade agreement entered into force, there is a slight increase in FACB rights law (.015), however, this effect is not statistically significant at the conventional confidence levels (P>|t|=0.95). The long-term effect is negative (-.09) but statistically insignificant at the conventional confidence levels (P>|t|=0.60). The FACB rights data is taken from Barry et al. (2015) (https://dataverse.harvard.edu/dataset.xhtml?id=3005975).

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97P-values is a number used in hypothesis testing, ranging from 0 to 1. It indicates the probability or confidence that a proposed hypothesis is borne out by data. Conventionally, three levels of confidence are employed, 90%, 95%, and 99%. Confidence level tells us with that level of confidence we can say that a proposed hypothesis is supported. Correspondingly, three critical p-values are used: 0.1, 0.05, and 0.01, which shows the likelihood that a proposed hypothesis is untenable. Taken together, A smaller p-value suggests a higher level of confidence that a proposed hypothesis is correct. When a calculated p-value from a statistical analysis is smaller than or equal to a critical value such as 0.1 (but larger than 0.05), we say the proposed hypothesis holds at the 90% confidence level, or the coefficient of an explanatory variable of interest in the proposed hypothesis is statistically significant at the 90% confidence level. The opposite is true otherwise. When p-value is smaller than or equal to 0.05 but larger than 0.01, it holds or is statistically significant at the 95% confidence level. When p-value is smaller than or equal to 0.01, it holds or is statistically significant at the 99% confidence level. We follow this convention here too.
**How the Trade Agreement with the EU Affects FACB Rights Practice in Mexico: 1994-2013**

The figure above examines how the EU/Mexico agreement may have affected FACB rights in practice. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). Labour rights practices seem to have improved in 2006 but declined thereafter. ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. As the graph shows, in 2000 when the EU trade agreement entered into force, there was a slight increase in FACB rights practice (.067). However, this effect is not statistically significant at the conventional confidence levels because \(P>|t|=0.78\). The long-term effect is negative (-.05) but statistically insignificant at the conventional confidence levels (\(P>|t|=0.69\)). The FACB rights data is taken from Barry et al. (2015) ([https://dataverse.harvard.edu/dataset.xhtml?id=3005975](https://dataverse.harvard.edu/dataset.xhtml?id=3005975)). FACB rights (ranging from 0 to 4) have two components: freedom of association and collective bargaining rights. Law refers to the legislation that protects these rights, while practice refers to the actual governmental respect for these two rights.

NAFTA does not mention women’s economic rights, but we hypothesized that these rights could improve as the economy grows and Mexico improves the rule of law. The figure above plots the potential impact of NAFTA on women’s economic rights. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). Mexico’s performance was quite uneven.

ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Although the graph does not reveal a clear-cut decrease, in 1994 when NAFTA entered into force, the immediate treatment effect is negative (-.64), and it is statistically insignificant at the conventional confidence levels ($P>|t|=0.26$). In contrast, the long-term effect is positive (0.12) and statistically significant at the conventional confidence levels ($P>|t|=0.12$). The data is taken from CIRI Human Rights Dataset (Cingranelli and Richards 2010) (http://www.humanrightsdata.com/p/data-documentation.html).
EU Mexico does not mention women’s economic rights, but we hypothesized that these rights could improve as Mexico improves the rule of law and the economy grows. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. As it shows, in 2000 when EU trade agreement entered into force, the immediate treatment effect is negative (-0.83), and it is statistically insignificant at conventional confidence levels ($P>|t|=0.19$). In contrast, the long-term effect is positive (0.01) but statistically insignificant at the conventional confidence levels ($P>|t|=0.89$). The data is taken from CIRI Human Rights Dataset (Cingranelli and Richards 2010) (http://www.humanrightsdata.com/p/data-documentation.html).
Mexico agreed to liberalize its education sector in NAFTA but included a reservation allowing it to maintain existing restrictions and/or undertake new restrictions in relation to public education.\(^98\) The figure above plots impact on secondary school enrolment of NAFTA. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. As it shows, in 1994 when NAFTA entered into force, the immediate treatment effect is positive (2.42), and it is statistically significant at the 90% confidence level (P>|t|=0.099). However, the long-term effect is positive (0.20) but statistically insignificant at the conventional confidence levels (P>|t|=0.24). The data is taken from UNDP human development index (http://uis.unesco.org/).

Neither the 2000 EU-Mexico agreement nor the new agreement includes provisions regarding education services liberalization. The figure above plots impact on secondary school enrollment of the EU trade agreement. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. As it shows, in 2000 when EU trade agreement entered into force, the immediate treatment effect is positive (0.80), and it is statistically insignificant at the conventional confidence levels (P>|t|=0.44). However, the long-term effect is negative (-0.005) and statistically insignificant at the conventional confidence levels (P>|t|=0.97). The data is taken from UNDP human development index (http://uis.unesco.org/).


Note: The figure above plots the impact of NAFTA on access to sanitation in Mexico. NAFTA did not liberalize markets for sanitation. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS).

ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Contrary to the graph, in 1994 when NAFTA entered into force, the immediate treatment effect is negative (-0.05), but statistically insignificant at the conventional confidence levels ($P>|t|=0.31$). The long-term effect is also negative (-0.09), and statistically significant at the 95% confidence level ($P>|t|=0.04$). The data is taken from UNDP human development index (http://uis.unesco.org/).


Mexico did not make commitments to liberalize sanitation in EU Mexico. The figure above plots impact on access to sanitation of the EU trade agreement. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS).

ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Contrary to the graph, in 2000 when the EU trade agreement entered into force, the immediate treatment effect is positive (0.01), but it is statistically insignificant at the conventional confidence levels ($P>|t|=0.26$). The long-term effect is, however, negative (-0.02) but statistically insignificant at the 95% confidence level ($P>|t|=0.52$). The data is taken from UNDP Human Development Index (http://uis.unesco.org/).
Some scholars have argued that the public participation provisions of trade agreements can have spillover effects and alter public policymaking in the polity as a whole.¹⁰⁰ The figure above plots how NAFTA affected political participation rights. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS). ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Although the predicted line reveals a clear increase, in 1994 when NAFTA entered into force, the immediate treatment effect is -0.08, but it is statistically insignificant at the conventional confidence levels (P>|t|=0.56). Additionally, the long-term effect is negative (-0.01) but statistically insignificant at the conventional confident levels (P>|t|=0.39).

This indicator measures the extent to which a state protects political participation rights in law and practice. Please see in the Online Appendix to Welzel (2013) (www.cambridge.com/welzel (p. 72)).

How the EU Trade Agreement Affects Political Participation Rights in Mexico: 1981-2010

EU Mexico contains no direct language on political participation but the trade agreement might indirectly improve government respect for such rights. This figure plots the impact of the EU trade agreement on political participation rights. The solid black dots are actual observations and the solid black line is the predicted values based on the results from interrupted time-series analysis (ITS).

ITS generates both immediate effect of a treatment and long-term time-varying effects after the intervention. Although the predicted line reveals a clear increase, in 2000 when the EU trade agreement entered into force, the immediate treatment effect is merely 0.05, and it is statistically insignificant at the conventional confidence levels ($P>|t|=0.56$). However, the long-term effect is negative (-0.03) but statistically insignificant at the 99% confidence level ($P>|t|=0.003$).

This indicator measures the extent to which a state protects political participation rights in law and practice. Please see in the Online Appendix to Welzel (2013) (www.cambridge.com/welzel (p. 72).
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

ANNEX 5: STAKEHOLDER CONSULTATION ROUNDTABLE MINUTES

Sustainability Impact Assessment on the Negotiations for the Modernization of the Trade Pillar of the EU – Mexico Global Agreement
Stakeholder Consultation

Manufacturing Sector Roundtable
When: Thursday November 23 // 14h -15h30
Where: Place du Luxembourg 2, 1050 Brussels, Belgium
Partnering Host Venue: EPPA

The services sector roundtable started with an introduction by the team lead, Andreas Freytag. After a brief overview of the outreach process of the EU-Mexico SIA and a brief introduction to the SIA itself, Dr. Freytag provided a short overview of the state of play of EU Mexico negotiations, and short introduction to the manufacturing sector.

A discussion with stakeholders followed the introduction.

A representative from the Mechanical Engineering Industry Association (VDMA) started off by making a number of remarks. He pointed out that there are two conditions for success in exporting to industrial good focused countries, the economic situation and the regulatory framework. He stated that for a long time the United States was Mexico’s greatest trade partner due to proximity. However, in more recent years, trade between the EU and Mexico has increased. The VDMA representative stated that the original Global Agreement between the EU and Mexico should have a greater focus on Small and Medium Sized Enterprises (SMEs) and should simplify rules of origins. The representative explained that even where trade is liberalized between the EU and Mexico, rules of origin behave as non-tariff barriers (NTBs). The representative likewise stated that regulations as NTBs should be better considered, giving the example of third certification procedures placing a very big burden for SME exporters. This is aggravated by demanding regulations that differ regionally as SMEs must produce economies of scale and do not have the capacity to adjust global value chains for specific markets.

The discussion was then continued by a representative from MEDTECH who echoed the concerns of the VDMA representative regarding rules of origin and the administrative burden on SMEs. This is of specific concern for the medical field, as it is very highly regulated. The Mexican regulatory system tends to echo the U.S. system, and although it is not such a grave concern at the moment, MEDTECH is following the negotiations, along with NAFTA negotiations closely, as future regulatory changes would have an impact on the sector. The representative likewise explained that production chains have become much more complex in the last decade as various manufacturing companies located worldwide under different regulatory frameworks are typically involved in the production of one single product. Rules of origin exhibiting a 30% minimum make it difficult for producers to comply, creating a distortion because the result is a product that can only be exported to certain locations.

A representative then jointly spoke for CAOBISCO, CIUS European Sugar Users, and ESRA to reiterate the concerns voiced by VDMA and MEDTECH on rules of origin citing the issue has significant impacts on the manufacturing of cakes and biscuits. The representative explained that developing one set of preferential rules and using them bilaterally in only certain free trade agreements acts as a trade barrier and protectionist measure, which the representative finds to be unacceptable. The position was outlined that the European chocolate industry would like to have duty free trade in both directions. The representative explained that sugar must no longer be perceived as a sensitive sector and that the sugar tariffs on top of the existing trade tariffs create complications for trade in manufactured foods. The representative explained that sugar tariffs from the side of the EU have become politicized rather than productive. Mexico is a key sugar producer from who upstream points of the supply chain such as sugar refiners would benefit from importing. The representative outlined that it was understood that complete liberalization was not an option with the existing sugar quota, but that a duty free tariff rate quote should be negotiated in the modernization of the Global Agreement with Mexico.

A representative from Assocalzaturifici, the Italian Footwear Association, followed with an overview of the importance of the Mexican market to the footwear industry. Mexico is the 9th largest producer of footwear in the world, yet it is not export oriented. It is a net importer accounting for 1% of production. In contrast to previous concerns, Assocalzaturifici did not express any concern with current rules of origin but rather with present non-tariff barriers such as Mexico’s compulsory requirement to label or the EU’s tariffs on intermediate inputs from producers outside of the EU. Additionally, the representative
expressed concern that footwear can only enter Mexico through nine borders, naming the barrier to trade to be inconsistent with WTO provisions.

The conversation continued with a representative from COTANCE, the European Leather Industry Association outlining Mexico’s significant role in the leather market for high quality products. The representative explained that Mexico is not exporting intermediate products to the EU because there existing measures block Mexico from exporting raw materials at this stage or production. The representative cited HS codes 4101 through 4107 to be of specific interest to the impact of trade agreement negotiations. The representative announced that there was a reference in the Global Agreement where Mexico would work with the EU to lobby the removal of export restrictions, such as high export taxes, regarding this sector. The representative lamented that this has yet to be evidenced. The representative suggested that this clause on lobbying should be implemented into the modernised agreement including a mechanism which allows for the implementation of the clause without the need for dispute for its enforcement. The removal of export restrictions was argued to not only have importance for bilateral trade between the EU and Mexico but also for supporting the competitiveness of the local Mexican industry and to avoid distortions of competition at regional levels. The representative stated that export restrictions must be recognized by both negotiating parties as a critical systemic issue as such distortions affect international prices and the capacity of trading within the region where they are produced. The representative additionally explained that Mexico and Mercosur member states would benefit if they would be able to access raw and intermediate goods, and that the lack of accessibility on one aggravates the situation on its neighbours.

The European Biodiesel Board (EBB) did not have serious concerns stating that biodiesel production in Mexico is not a big issue for the European market at the moment. The EBD is rather more interested in the EU – Mercosur trade negotiations and the way that the EU handles stakeholder consultations. The representative did however explain that issues have recently begun developing with the U.S. market, thus sparking the board’s interest in how trade with Mexico will develop. The representative concluded by echoing those concerns regarding tariff escalation and the overcomplicated rules of origin.

A representative from EUROMINES followed by explaining that raw materials are an important import product for the EU from Mexico. Critical raw materials are very important economically, yet difficult to access because they are concentrated in one specific part of the world. Thus any further difficulties in accessing them created by trade barriers is of interest to the sector. The representative added that while Europe imports raw materials from Mexico, it simultaneously exports considerable technology and services related to its extraction back to the exporting country. The European Commission’s Raw Materials Diplomacy Initiative has recently been reviewed by DG Trade and DG Grow in an attempt to solve any trade related issues. The representative went on to explain that the initiative including one project entailing a communication platform between six Latin American countries and EU states to discuss raw materials including tech services related to mining. The project seeks to build a common hub cooperating to eliminate any barriers for mining. The representative clarified that no sectoral agreement has been put together and signed yet but discussions for this kind of project are being discussed as part of a greater chapter of the initiative. She continued to explain that within the entire value chain of EU production, the first component essential to insure is the importation of European raw materials from external sources. She continued that this is done by taking into consideration the extractive product along the whole value chain beginning with the exploration and extraction of raw materials to then go downstream on the value chain. The representative recognized the importance of environmental concerns and recycling in this sector but emphasized that without mining every product and service sector would suffer. It is for this reason that the representative commended the commission’s recent commitment to include a chapter on raw materials and mining products in any of its trade negotiations. The dialogue continued with a representative from the European Geological Survey who offered its contributions to the assessment in the form of written text as they have often adopted an advisory role in such negotiations if raw materials are to be included.

Sustainability Impact Assessment on the Negotiations for the Modernization of the Trade Pillar of the EU – Mexico Global Agreement Stakeholder Consultation

Services Sector Roundtable
When: Tuesday November 28 // 11h -12h30
Where: Avenue de Cortenbergh 168, B-1000 Brussels, Belgium
Partnering Host Venue: European Services Forum (ESF)
The services sector roundtable started with an introduction by the sector lead researcher for services, Matthias Bauer. After a brief overview of the outreach process of the EU-Mexico SIA and a brief introduction to the SIA itself, Dr. Bauer provided a short overview of the state of play of EU Mexico negotiations. He stated that CETA could be used as a benchmark for the future update of the EU-Mexico agreement.

A discussion with stakeholders followed the introduction. A representative started off by making a number of remarks. He pointed out that his association is actively following and very interested in the ongoing negotiations between the EU and Mexico. He mentioned that TPP should be used as a benchmark for the negotiations. Also, NAFTA is of crucial importance for the negotiations between the EU and Mexico.

Regarding horizontal issues, the representative expressed disappointment about the hybrid approach chosen for the negotiations, instead of a negative list approach which would have been preferred. The participant is especially interested in pushing for more liberalization in the area of public procurement, on the federal, but also sub-federal and local level. Furthermore, it would be important to arrive at a definite language on the issue of data flow. Also a chapter on SOEs, including Micro SMEs, should be included. Here, it would be important to conceive a tailored set of tools addressing issues of SMEs regarding services, rather than focusing on trade in goods. A SME portal or website for SMEs should be established and it should focus in detail on services. Finally, regulatory cooperation is a crucial issue. On the sectoral side, postal and courier, telecommunication, financial, maritime transport and energy services are important sectors for the representative.

The discussion was then continued by a second participant where he mentioned that de minimis as well as regulatory cooperation are two important issues for their work. Furthermore, EU companies should be granted national treatment in Mexico. Customs clearance procedures, especially physical inspection of packages, as well as license applications are important topics. Overall, an equal level playing field should be established between European companies and others.

The roundtable focusing on human rights, environmental, and social issues started with an introduction and announcement of Chatham House Rules by the meeting chair where he explained that the main objective of this meeting is to gather information from stakeholders working on sustainability issues in order to share these views with DG Trade for incorporation into the negotiations.

After a brief description of the outreach process of the EU-Mexico SIA and a brief introduction to the SIA itself, provided an overview of the reasoning behind the need for a modernization of the Global Agreement.

The original FTA between the EU and Mexico is a broader political agreement of cooperation. Both the EU and Mexico were under different circumstances and there is currently a new international context under which the trade agreement must be updated. The EU trade model has changed considerably since 1997. The original agreement was focused on eliminating tariffs and shallow measures as opposed to deep integration. The measures addressing deep integration including NTBs were covered much less intensively than the current generation of trade agreements. Additionally, the EU has increased in size from 15 to 24 countries since the original agreement was implemented. Simultaneously, Mexico has become an emerging and dynamic economy, seeing a growth of its middle class. There have been new opportunities in terms of market access. Global value chains have additionally become much more prominent and central to the conversation about trade integration. NTBs, intellectual property issues, and rules of origin additionally are of growing significance in trade issues.

Finally, along with the growing technicality of trade, the last decade has additionally seen increased attention to non-trade issues, such as human rights, social issues, and environmental concerns. The rise of non-trade issues has been central to the implementation of EU policy and frameworks in the last decade. The first landmark of this inclusive approach was the EU-Korea FTA which has served as a basis
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

for future negotiations, particularly the new chapter on sustainable trade and development with provisions on labour, environmental issues, and human rights. The second key document that has structured the actions of DG Trade in these fields is the EU’s Trade for All Strategy which defines a number of rules and prioritizes SIAs. The third landmark regards the new commitments on transparency and trade negotiations. And the fourth has to do with climate action and how the EU has tried to make EU trade policy more sustainable from an environmental perspective.

There is thus a clear willingness to promote a model that is more socially and environmentally responsible. The meeting chair explained that through SIAs we can improve this model. EU-Mexico trade trends have increased in the last decade, and have done so in the favour of the EU. Industrial goods and agricultural trade have doubled in the last few years. This SIA aims to complement DG Trade’s analysis by combining quantitative and qualitative analysis to assess the impact on trade figures in different sectors which will have an impact on those involved.

A discussion with stakeholders followed the introduction.

The representatives expressed concern over the timing of the stakeholder consultations stating that it seems quite late to be initiating this considering that the negotiations are to be finalized by the end of 2017. The representatives inquired as to why they were being consulted so close to the conclusion of the negotiations, and why participant numbers are lower than what they would have expected.

In response, the meeting chair underlined that the commission requested LSE Consulting to organize the stakeholder consultation on a sped up timeframe in order to receive inputs prior to the conclusion of the negotiations. This has its advantageous being that inputs could then be taken into consideration prior to the conclusion of the negotiations, but also has its downfalls as the quick organization of the meetings did not allow a long enough registration period for a larger participant group. It was also suggested that perhaps relevant stakeholders are occupied with the WTO Ministerial taking place in Buenos Aires shortly. Alternatively, the increased attention on renegotiations of NAFTA are perhaps overshadowing EU – Mexico negotiations.

In response to the question of why the negotiations are to be concluded in 2017, it was suggested that the negotiations are perhaps rushed because of the international context of the world’s current realities.

A representative explained that this may be more problematic for those stakeholders in Mexico than in the EU considering that the consultation workshop on the Mexican side will not be held until early January which is after the supposed conclusion of the negotiations.

The conversation then continued with a discussion on the monitoring of the effectiveness of this process. Frequent updates on the SIA website were suggested as well as measures to ensure that the information is conveyed well. A database of contacts is regularly reached out to allowing for an assessment of the response rate. A representative explained that some NGOs and stakeholders don’t have time or resources to devote to SIAs, and thus this becomes a matter of priorities.

The chair explained that there may be issues in the process that it does not yet take into consideration. This was suggested, is the reasoning behind this conversation as the stakeholders were invited to contribute their views on any outstanding issues. The chair emphasized that the team prioritizes connecting stakeholder inputs to the negotiations by coordinating with all team members to ensure each analysis incorporates the inputs from the consultations.

Another representative echoed the need for channels to contribute throughout the process beyond the roundtable. The representative underlined the importance of knowing the ability to contribute throughout the entire process was available.

A participant followed by explaining that they undertake considerable work regarding mechanisms to ensure civil society participation and monitoring of human rights throughout the implementation of trade agreements. Regarding this civil society mechanism – the representative mentioned that they have discussed with DG Trade the importance of not limiting the components of issues to certain chapters or pillars. The representative emphasized the importance of recognizing human rights across all chapters rather than only in the sustainability chapter. It was mentioned that in recent trade agreements there is quite a diverse representation from the EU, but the same is needed on the Mexican side. Another concern addresses the fact that most SIAs only reference ILO conventions, where the community would like to see links to human rights conventions as well. The representative stated that specific mechanisms and committees to tackle human rights are particularly desired in the agreement text in the form of an effective human rights clause. A human rights clause that includes a mechanism to suspend the trade
agreement when there is a violation against a human rights commitment was suggested along with a mechanism to bring complaints to the participating parties.

It was mentioned that regarding environmental protection, having a good level of meaningful public participation is crucial.

A representative followed by highlighting the role of human rights defenders and activists, recognizing that violations against them in Mexico are widespread. It is important that in the trade agreement, human rights defenders have access to platforms to report violations. The representative expressed the need for a focus on regular dialogue of the situation on the freedom of activists, perhaps through the inclusion of specific cases in periodic reviews.

The conversation then continued with a participant outlining the difference between general human rights violations that are not directly impacted by the trade agreement, and those that are directly impacted. The example was given of energy reform measures within the agreement negotiations. As windmill farms in Oaxaca, Mexico were installed, there was a large presence of indigenous communities living on the territory, and as a consequence, there have been environmental and human rights concerns. The representative underlined the importance of carefully considering the clashes of unintended consequences such as local human rights violations derived from the promoting of clean energy.

The discussion then turned to the EU's new model of trade agreements which was argued to no longer discuss values. A representative expressed her confusion as the sustainable development chapter of the trade negotiations focuses on ensuring basic implementation of environmental agreements, but that it is not necessary to be engaged in trade of environmental products to recognize that another party is failing to live up to its commitments. The participant inquired why a sustainability issue must be directly affected by trade to be considered in the negotiations. A similar concern was echoed by a second participant who questioned why the Global Agreement is called global if it doesn't allow components not specific to trade to be included. The representative did however recognize that this opens the topic of business and human rights. It was suggested that the role of businesses should be monitored to assess if they are upholding ILO standards and other social/human rights commitments to include in the reporting mechanisms. The participant underlined that this should encourage both the EU and Mexico to move towards the implementation of binding mechanisms.

In response, the chair assured the participants that all inputs are welcome for discussion, whether they are directly or indirectly affected by trade. The meeting chair continued that it is indeed this an aspiration to develop a model that is not defined as trade specific. On the other hand, the question arises as to why the framework of a trade agreement should be used if there are international conventions to approach state failures to uphold commitments.

The conversation then turned to a report published by Brot fur die Welt concerned with the issues surrounding the EU's requirement that Mexico sign the intellectual property agreement. The participant explained that there this produces issues for Mexican corn farmers as this provision effects seed exchange between farmers that rely on this production. The representative emphasized the cultural and economic, as well as nutritional, importance of this crop. The participant added that the report additionally speaks to the concerns human rights violations as a consequence of megaprojects which under ILO 169 are required to conduct public consultations, but commonly do not.

On a similar note, the meeting concluded with the call for the inclusion of animal welfare in the negotiations' sustainable development chapter. A representative explained that the link between trade, large scale industrial agricultural and animal farming and animal welfare often fails to be made. The participant explained that animal welfare belongs in not only the sustainable development chapter, but also in the SPS chapter for different reasons. The concern stems from the fact that Mexico has one of the richest areas of biodiversity and the EU is one of the biggest consumers of wildlife products.

The meeting came to a conclusion with the chair's response that the inception report does mention wildlife protection but that further input would be appreciated for a case study. The chair thanked the participants.
Annex 6: Civil Society Dialogue Minutes

Civil Society Dialogue

Meeting on
EU-Mexico Sustainability Impact Assessment – Draft Inception Report

Date: 18/12/2017
Time: 09:30 – 11:30
Location: Albert Borschette Conference Centre, Room 0C, Rue Froissart 36, Brussels

Lead speakers
, DG Trade, European Commission
, Sorbonne Nouvelle University of Paris

Moderator
, DG Trade, European Commission

Agenda
1. Presentation of the Draft Inception Report for the SIA in support of the EU's negotiations with Mexico by LSE.
2. Open discussion with stakeholders.

Panel Presentation
After welcomed all participants and shortly introduced the speakers, provided the participants with a brief overview of the context of the SIA Draft Inception Report and the purpose of the meeting. He emphasized the need to modernise the current Global Agreement with Mexico as the world has changed since the agreement was reached in 2000. The Agreement is now somewhat outdated, especially compared to other EU agreements in Latin America or elsewhere. The Global Agreement has limited provisions on SPS, services, intellectual property or competition, and government procurement is only covered at the central level. The modernised agreement will include new chapters on TSD, anti-corruption and SMEs. The Commission conducted an Impact Assessment in 2015, and last year in June the Council authorized the Commission to start the negotiations for the modernisation of the Global Agreement. These have progressed very quickly. This week, the Mexican Minister of Economy is in Brussels to verify if a political agreement can be reached on the conclusion of the negotiations. also underscored the importance of having this civil society meeting and receiving their feedback.

is in charge of the social and environmental analysis of the SIA and is involved in the stakeholder consultations. Today, he also spoke on behalf of LSE Consulting since the coordinator of the project was hindered to join the meeting. He provided the participants with a presentation about the draft inception report. He referred to the objectives of the report, its structure, the used methodology, and the content included so far.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

Discussion Highlights / Questions and Replies

Copenhagen Initiative for Central America and Mexico referred to the gross human rights (HR) violations taking place in Mexico, not mentioned in the presentation. The FTA could be used by the EU to provide an incentive for Mexico to take these issues more seriously. The EU recognizes the problem but institutional mechanisms such as a specific HR Committee or periodic HR evaluations are not included in the proposed modernised Agreement so far. They also inquired about the timing of the SIA, mentioning it was late in relation to the negotiation process.

The COM highlighted that HR violation is something Mexican authorities are aware of, and an issue that the Commission regularly checks, particularly regarding femicides and killing of journalists. He mentioned that the Commission is trying to strengthen the dialogue on HR within the general political pillar. He highlighted the possibility to build on the experience of implemented agreements to strengthen labour and TSD provisions. He further highlighted that the first ever trade and anti-corruption chapter can be a measure to help improving the HR situation in Mexico. He also replied that CSD should stay broad and should cover multiple areas and trade issues, in order to be balanced and flexible. He finally highlighted that the agreement is not meant to replace the general international agreements on HR or create new standards, but to support the implementation of existing agreements in this area.

ICMP, the global voice for music publishing inquired about the rights being negotiated in the IPR chapter. The COM stated to expect good results, high standards, and strong enforcement mechanisms, built on the best practices from other agreements.

Greenpeace European Unit questioned the real value of the SIA if a deal would be concluded before the SIA would be conducted. They also inquired about investment protection in the modernised agreement.

The COM emphasized that the SIA has already provided some input, even preliminary. Also the SIA process is very valuable, as the questions and analyses raised in one SIA are useful for other negotiations. On investment protection, COM confirmed that it would be included, pursuing the court-based approach developed in the agreement with Canada, including a tribunal structure with independent judges and an appeal mechanism.

Association des Constructeurs Européens d'Automobiles inquired about the impact on the negotiations of the US pushing for strong local content rules within the NAFTA context. The COM clarified that the negotiation is still open on this issue, where lessons from negotiations with Korea and Japan have been useful. There are divergences but also common areas, and it is in the interest of Mexico to modernise the agreement, so this is a good moment for both parties to show the world that we are building bridges, not walls.

European Fruit and Vegetables Trade Association expressed the concerns of producers, especially related to SPS. The COM is confident that it will reach stronger provisions, for example, including pre-clearance that would help solving important SPS problems that we have in the context of the existing agreement.

European Sugar Refineries Association addressed the lack of inclusion of sugar in the sector analysis of the SIA. They also referred to the TRQ and inquired about the difficulty of reaching an agreement in this sector and on agri market access. The COM clarified that Mexico has a very conservative approach on sugar due to their agreements and ongoing negotiations.
with the US. This can be problematic when trying to open trade on reciprocal basis. The negotiation is still not concluded.

**Friedrich-Ebert-Stiftung** asked for clarifications about the broader civil society monitoring mechanisms the COM had referred to and also to the COM’s expectations related to the timeline for signing the agreement. The COM clarified that the civil society consultation will cover the whole agreement, including the whole trade part and not just the TSD chapter as has been the case in some other recent agreements. As for the timeline, an agreement is not likely to be signed next year due to the lengthy administrative and institutional process after the negotiations are concluded.

**Association Nationale Interprofessionnelle du Bétail et des Viandes** expressed its opposition to any opening of the EU market to Mexican beef and its fear for an accumulative effect (due to Mercosur and CETA). They also asked for an update on the tariffs of Mexico for agricultural products, especially beef. The COM clarified that it is still negotiating the agricultural offer. It aims for a very high level of liberalization, especially for dairy and pork. The COM takes the beef sensitivities into account but also stated that these negotiations with Mexico should not be seen as a zero sum game, referring to the advantages for the beef sector coming from the EU trade negotiations with Japan.

**GMB Trade Union** further elaborated on the labour rights problems in Mexico and the high amount of violence and impunity in the country. They asked the COM at what point of violence and HR violations it would stop negotiating with Mexico. The COM confirmed its awareness on the difficult situation of human rights and labour rights in Mexico. But rather than stepping back and waiting passively on the side-line for Mexico to become a perfect country, the COM prefers to design better mechanisms for civil society, increase the level of consultation and push Mexico for an increased commitment to ratify and implement the ILO conventions. The trade agreement can be an additional instrument to improve the situation, as we have been doing with other countries in Latin America.

**CIUS** mentioned the importance of dealing with protectionism, also within the EU. In relation to sugar this implied not changing the Rules of Origin for protectionist reasons, as it would impact both exports and imports. They insisted on the importance of taking into account the views of sugar users as well as producers in Europe, and mentioned the need for attention to the outermost regions. The COM confirmed that the overall approach on the rules of origin is to look for more liberalization, and not to go back on what has been achieved. The COM expects to be quite successful on that. The interests of all EU sectors are of course taken into account, including outermost regions.

**Comité Européen des Entreprises Vins** inquired about the GIs and the level of protection brought, being as important as the list of protected GIs in Mexico. The COM confirmed that it expects a high level of protection for GIs, although the negotiation is not closed on this.

**Greenpeace European Unit** asked for various clarifications in relation to the SIA, referring to forestry in Mexico, the inclusion of case studies, and the impact of the renegotiation of the TPP and NAFTA. confirmed the importance of forestry issues in Mexico, but stated that there has been progress in Mexico measured by EPI. He also confirmed that there will be case studies in the environmental analysis, although, at the moment, they are still under consideration. He also confirmed that the TPP and NAFTA negotiations matter and will be
considered in the SIA for their direct impact on the modernisation of the EU-Mexico agreement and also because they give a sense of the Mexican position on many issues, e.g. greater commitment of the Mexican government on labour in TPP than NAFTA.

**Copenhagen Initiative for Central America and Mexico** shed light on the fact that there was only one workshop planned to take place in Mexico and wondered how LSE would secure this to be successful (in terms of a good and balanced presence of civil society representation). They noted that HR would be addressed mainly in the political part of the Agreement, and insisted on the relevance of impunity issues and on the importance of impacts of the Agreement on indigenous peoples. [LSE] is aware of the importance of having a diverse group for the workshop and LSE is coordinating with their Mexican partners to ensure this. He also acknowledged the importance of considering indigenous peoples, as it had already been requested by COM.

**International Confederation of European Beet Growers** asked LSE to keep a closer eye on the environmental impact of sugar cane production, and on the possible changes of land use in Mexico. They expressed the importance of ensuring equal environmental standards, not only for EU consumers, but also for producers and the global environment. [LSE] will follow up on the possibility of adding information on land use and fertilizers in the environmental analysis.

**GMB Trade Union** referred once more to Mexico's recent reforms, negatively affecting its labour rights.

**European Public Health Alliance** expressed its disappointment for not seeing nutrition health being included in the Draft Inception Report, particularly in relation to consumption of sugar drinks. [LSE] will take the point into account and reach out to the two experts dealing with trade and health issues.

**Copenhagen Initiative for Central America and Mexico** investigated the possibility for including a case study on the liberalization of the energy sector and renewable energy, with an impact on indigenous rights (Oaxaca). [LSE] mentioned that the energy sector is already a case study and underscored the importance of including cross-cutting issues like social and human rights analysis in the report and to keep time for internal review.

**Sustainability Impact Assessment of the Negotiations for the Modernization of the Trade Pillar of the EU-Mexico Global Agreement**

**Draft Interim Report Meeting, CSD**

*13 March 2018, 15:00*

Charlemagne Building, Room Sicco Mansholt, 170 Rue de la Loi, Brussels

**Lead Speakers:**

Helena König, Director, Asia and Latin America, DG Trade, European Commission

[DG Trade, European Commission] LSE Consulting

[DG Trade, European Commission] LSE Consulting
**Introduction of presenters by commission**
- Brief presentation of presenters in the meeting.

**Summary by Helena König, Chief Negotiator on negotiation updates**
Ms König opened by stating that negotiations with Mexico continue, as concluding by 2017 was not feasible. While, the last phase of negotiations was characterized as always most difficult, the speaker assured that progress has been made as a number of chapters have already been concluded. However, ten chapters remain open for negotiation where four are rather contentious including rules of origin, market access, sub-central local agreements, and GI’s due to proximity with the U.S. The commission likewise aims for procurement at the state funding level but Mexico has never implemented such a commitment. The negotiation calendar was described as intense with another session taking place the weeks of March 13th and March 19th 2018. The next round of negotiations is to take place on the 16th of April in Brussels. The negotiations may close at any time as long as outstanding chapters are closed.

Ms König explained the rationale behind the modernization being the changes seen in both EU member states as well as in Mexico since the implementation of the original in 2000. Namely, developments in trade policy, new agreements in trade liberalization, the expansion of the EU, and Mexico’s economic growth in the past decade. It was mentioned that while the commission held a CSD meeting Mexico, such meetings there typically focus on business, hence the efforts of the EU to establish a sustainability framework with the civil society in Mexico.

Ms König finished by explaining that the ongoing trade negotiations look at every chapter to determine which aspects are in need of modernization to be equal to the standard of other recent FTAs such as the CETA.

**Question on textiles and rules of origin**
Ms König responded to an inquiry from civil society regarding the status of negotiations on textiles and rules of origin. The chief negotiator explained that while efforts have pressed on the economic rationale for transformation, Mexican negotiators have been defensive in the textile sector.

**Comment by Europe for Animals on animal sentience**
Europe for Animals questioned whether the recognition of animals as sentient beings would be incorporated in the animal welfare chapter, and if better enforcement of IE commitments are considered. Ms König responded that while this was not a controversial issue with the Mexico delegation, it is included in the SPS chapter with provisions on animal welfare.

**Comment by Associations for Independent Certification on the TBT chapter**
The Association for Independent Certification inquired whether the TBT chapter has reached an agreement, and if so, when it would be able to read this text and the report. The Chief Negotiator responded that as it is confirmed that all aspects of the chapter are closed, the commission will publish the text. The text is first screened for errors, and thereafter published.

**Comment by the Irish Farmers Association**
The representative quoted the commission in stating that the negotiation process is not willing to consider text if there is no substance, and questioned the commission’s definition of substance. The representative gave the example of parallel negotiations between the EU and
Mercosur where there is no substance in beef for farmers in Europe. The delegate added that there has been no increase in exports from Ireland into Mexico since the last agreement because of the numerous non-tariff barriers that hold up the progress.

Ms Königs responded that substance is defined by text with the necessary improvements where needed. Text lacking substance refers to those not broad enough in scope where politically it is unfeasible to conclude. The negotiator warned that in trade negotiations, some groups will always be happier with the results than others, but the aim is to ensure stakeholders are not worse off than the existing agreement. The existing agreement has particular difficulties in access into Mexico which is hampered by difficult procedures related to SPS. The commission has parallel dialogues with the ministry in charge of SPS issues and is working to clear the backlog of complications in order to move quicker on market access related issues. In regards to tariffs, the current agreement does not cover the agricultural sector, hence the motivation for the modernization to increase advantages in agricultural trade.

The negotiator added that the commission is well aware of sensitives in the beef sector, adding that the position is quite offensive in agricultural exports, namely regarding cheeses as well as pork and poultry. The EU is relatively more offensive in negotiations with Mexico than with other partner countries. Ms Königs emphasized that getting the ambition or balance right means to adopt an agreement which provides benefits across the board – whether it is in trade and sustainable development or in procurement. The main objective is to make sure that market access will not be overcome by SPS procedures.

Comment by Freshville on tariff rate quotas

Ms Königs responded that the discussion on TRQs is still open where the EU aim is to be as ambitious as possible with the realistic understanding that there will probably be some TRQs in the end. The EU has an interest in keeping a few packages open to counter balance packages that includes apples, fruits and vegetables, and that the EU is aware of the economic interest in access for those fruits.

Comment by EUCOFEL on the SPS chapter

EUCOFEL requested the audit report of the closing of the SPS chapter. The chief negotiator responded that it is available on the web. She added that it is a strong chapter where the EU sees various improvements added by Mexico with the aim of simplifying market access.

Comment on the sugar sector

A concern was raised regarding the suspension agreement in the NAFTA region. The representative inquired as to how this is being taken into consideration arguing that this is regulating trade in sugar which is free between Mexico and the U.S. because Mexican sugar is subsidized. Thus, there should be no concession.

Director Königs responded that the EU is seeking duty free access, but the negotiations are not concluded on sugar. The suspension agreement is complicated because Mexico cannot do certain things under their agreement with the US. When the EU attempts to negotiate a number of issues, it is rare for a one to one negotiation to take place, but rather go into a kind of package negotiation. The only chance to reach a balanced package is to look at all possibilities within it. On the issue regarding NAFTA, Ms Königs responded it is not possible for 10% of EU trade to replace 80% of NAFTA trade. Regardless, it will be beneficial for the EU to conclude this agreement as EU trade benefits from this existing agreement more than the Mexican side.
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

LSE Consulting presentation on the Draft Interim Report of the SIA

Introduction by the consultants and delivered a presentation on the preliminary findings of the draft interim report.

GM UK Trade Union comment on exclusion of trade unions in SIA report

The representative of the GM UK Trade Union expressed concern over the statement by the commission that the Mexican government is keen to improving labour rights while trade unions have recently been expelled. Additionally, the representative inquired whether the exclusion of trade unions in the social analysis was done deliberately by the consultants.

Responded that the consultants have no interest in neglecting trade unions and that the senior expert on social issues will be consulted regarding this oversight.

Europe Group for Animals comment on horse meat consumption

A representative from Europe Group for Animals inquired whether the 2014 suspension of horse meat is being considered as a given that will not change in the assessment of the modernization. The group additionally questioned what the impact on animal welfare will be at the farm level in Mexico.

Responded that the consultants are not focusing on horse meat as was agreed with the ISG. He added that judging productivity gains with other fronts, changes in production are small for Mexican farms. While the problem of animal welfare was not the most prominent, the senior expert on environmental issues will be consulted on this issue.

GM UK Trade Union comment on rules of origin

The delegate posed a question relating to NAFTA. American producers have large plants of pig farming which are located in Mexico. The representative inquired whether these are to be identified as Mexican or American?

Lead negotiator, responded that this question pertains to the rules of origin, and when this refers to animals, the defining factor is where the animal is born and raised. If a pig or a cow is born and raised in Mexico it is Mexican even if it is owned by a European or American firm.

Question on sectoral modelling of TRQs

A representative questioned whether certain sectors being excluded from the report? Bearing in mind the timeline, the delegate inquired whether there was interest or possibility in modelling the effects of TRQs?

Responded that as agreed with the commission, the consulting team will not be conducting any further modelling but rather using the existing results from the 2015 Impact Assessment to avoid discrepancies.
Civil Society Dialogue

Meeting on
Sustainability Impact Assessment of the Negotiations for the Modernization of
the Trade Pillar of the EU-Mexico Global Agreement - Draft Final Report

Date: 04/07/2019
Time: 15:00 – 17:00
Location: Conference Center Albert Borschette, Room 4.C, Rue Froissart 36, Brussels

Lead Speakers:

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Agenda
1. Presentation of the Draft Final Report for the SIA in support of the EU’s negotiations with Mexico by LSE Consulting.
2. Open discussion with stakeholders.

Panel Presentation

After briefly introduced the presenters, she opened the meeting by emphasizing it will focus on the LSE Consulting report rather than the actual agreement as the stakeholder meeting on the actual agreement already took place in May 2019. Then provided participants with a brief overview of the context of the SIA Draft Final Report and the purpose of the meeting. She highlighted that Mexico is the EU’s second most important partner in the region after Brazil, and that the first association agreement with the country was established back in 1997. The main objectives of the agreement are to remove NTBs and protect GIs and while it was reached in April 2018, the unit has been focused in integrating results of this SIA analysis into the agreement and keeps this established mechanism for communication. announced that the modernised Agreement with Mexico is the first to have specific provisions on anti-corruption in trade and investment, and a broad civil society mechanism to include environmental and labour impacts beyond those of the TSD. It was noted that one element is still missing from the agreement as Mexico committed to submit which entities would be covered by the public procurement chapter across its states. then opened the floor to to present the contents of the draft final report.

Discussion Highlights / Questions and Responses

Food Drink Europe commented that companies take a great amount of time to deal with external trade. The group feels that with the modernization of the agreement, new
opportunities may arise from not only preferential market access but also from the reduction of NTBs. In regards to the opportunities for SMEs, the group noted that the publication of data on regulation has been recommended by the study, which is extremely important for companies to have. As such, it was questioned what institutional mechanisms have been put in place by the European Commission? Would this reflect a similar structure to the CETA agreement where an institutional set up for government to government dialogue within respective sectors has been established?

Deputy Head of Unit, DG Trade responded that DG Trade has published all text and offers for the trade part of the agreement. While the unit did publish them progressively, the institutional part of the trade section can now be found online and each of the chapters refer to the subcommittees. DG Trade has established an association committee level as well as an association committee council which is higher at the ministerial level. Below that structure, like in CETA, there are a number of sub-committees.

Business Europe reiterated the importance for mechanisms for civil society. The group noted that given the experience with other FTAs, it is now the moment to set up good cooperation with Mexico and recognize the educational role that the EC can perform. There have been challenges with under-represented umbrella organisations in the past, as is demonstrated with the FTAs with Korea and Canada. For the spread of environmental goods and support, businesses need to be involved via monitoring and other forms of involvement. Finally, turning its attention towards LSE Consulting, the group questioned out of the two analysed scenarios - conservative and ambitious, what should stakeholders be focusing their attention on?

LSE Consulting responded that the agreement more aligned with the ambitious scenario than the conservative scenario.

DG Trade responded that while it is difficult to negotiate with Mexico, the positive news is that they agreed to have text in the provision that mentions a broad represented of sectors, and not exclusively prioritizing environmental groups. The Domestic Advisory Groups (DAGs) act as instruments to provide advice to the government, but at the same time, the agreement foresees possibilities to meet with Civil Society forums. emphasized that the EC is working hard on policy with different countries which are not concerned about allowing civil society participate. However, this has to be done carefully because how countries manage their own civil society is an internal affair.

Asia and Latin America Unit, DG Trade, noted that the deadline for further comments will be the 19th of July 2019. DG Trade added that comments are important even if the agreement has already concluded.

EURODOM requested details for the French Outermost Regions.

LSE Consulting responded to please review the report and contact LSE Consulting with a specific question.
ANNEX 7: MEXICO CITY WORKSHOP - CONFERENCE REPORT

Report
Stakeholder Consultation Workshop

On February 27th, 2018, LSE Consulting (LSE) held a Stakeholder Consultation Workshop, a component of the Sustainability Impact Assessment in support of the negotiations for the modernisation of the Trade Pillar of the Global Agreement. The event was held at the Hilton Mexico City Reforma. The workshop programme may be found in Annex 1.

This report gathers the comments, questions, and suggestions discussed during the course of the day. The report is divided into three sections: 1) Plenary session Q&A; 2) Parallel discussion session on human rights, Environmental Concerns & Social Issues; and 3) Parallel discussion session on the Agricultural, Manufacturing and Service Industries. Each section is divided into topics containing the comments, questions, and suggestions posed by the participants in the corresponding session. The report concludes with a summary of the main takeaways from the workshop.

For a complete list of the participant organizations, please refer to Annex 2.

Section 1: Plenary Session

Contextual differences between Mexico and the EU

Several participants expressed concern about Mexico and the EU being subject to widely different circumstances and standards, both commercially and politically. They stated that these differences may shape the way that both parties are affected by the EU-Mexico Free Trade Agreement (EU-Mexico FTA). A participant commented that investors face greater risk on their investments in Mexico than they do in the EU. Participants underlined that corruption levels are substantially higher in Mexico than in the EU.

They further commented that Mexico is a profoundly unequal society—much more so than European countries.

Civil society engagement

Participants remarked that whereas information on the commercial aspects of the EU-Mexico FTA negotiation is readily available, they often find that information on the political aspects of the treaty lacks transparency and is not readily accessible. Several stakeholders stated their discontent with the timeline of the consultation processes of the EU-Mexico FTA inquiring how their inputs were expected to be taken into account as the European Commission (EC) has aimed at closing negotiations as early as December 2017. They expressed their concerns over being used only as a symbol for civil participation.

Participants remarked the need for more effective and timely spaces for citizen engagement. There is a general perception that the substance of the negotiations has ended without proper civil society consultation. A dialogue took place thereafter between participants and the EU delegation to Mexico where the delegate assured participants that the negotiations have in fact not closed.

Human rights

Some participants stressed that human rights violations in Mexico are widespread and carried out by the Mexican government in a systematic way. In addition, the participants called into question the real worth of the Democratic Clause in the EU-Mexico FTA. A participant pointed out that the use of child labour in the agricultural industry is prevalent in Mexico. The participant suggested that the EU-Mexico FTA should establish strict provisions to end the use of child labour by private companies. Fearing that the perception of the current realities regarding human rights in Mexico were too optimistic by the presenters, participants inquired about which sources of information had been used by the LSE and the EC in the modernisation negotiations.

Environmental issues

A participant referred to several studies that have shown that the use of pesticides has caused high levels of contamination in the Yucatán state water supply. He noted that these pesticides are used predominantly by companies that engage in commerce with the EU and expressed concern about...
Sustainability Impact Assessment (SIA) in support of the negotiations for the modernisation of the trade part of the Global Agreement with Mexico

increases in such activities as a result of the modernisation. On the other hand, another participant celebrated the fact that proposals for environmental protection are being widely discussed. However, she inquired where clauses for animal rights protection would be incorporated in the EU-Mexico FTA and suggested that these be included in the environmental issues chapter.

Other
Attendees expressed interest in learning precisely how LSE’s study would be considered in the EU-Mexico negotiations after its conclusion.

Section 2: Parallel discussion session on Human Rights, Environmental Concerns & Social Issues

Human rights
Several participants expressed concern over what they observe as a complete disregard of the Democratic Clause by the Mexican government. In this sense, they suggest that enforcement mechanisms should be adjusted by the EU to be clearer and more effective in the modernised agreement. One participant mentioned that the recently approved Internal Security Law is a threat to human rights in Mexico and requested information on the EU’s stance on this matter. Various participants lamented over the prevalence of human rights violations in several industries that engage in commercial activities with the European Union and other international actors, fearing that the modernisation will increase such activities.

On the other hand, one attendee noted that Mexico could benefit greatly from more technical assistance from the EU on human rights issues. Participants agreed that the EU-Mexico FTA should set provisions in order to encourage companies and authorities to comply with and respect human rights in Mexico.

Environmental issues
Numerous participants expressed concern over Mexico’s lack of compliance with national and international standards and regulatory dispositions for animal rights. Specifically, it was pointed out that Mexican regulations, NOMs 051 and 033, on the treatment of animals for human consumption are being widely overlooked.

A group of attendees suggested that the EU-Mexico FTA should implement public policies that encourage the responsible and sustainable acquisition of certified timber. On this matter, participants also pointed out that a large part of illegally logged timber enters the European market. One participant inquired whether a responsible consumption clause will be included in the EU-Mexico FTA, expressing their support for it. Participants raised alarms over their view that EU companies take advantage of the weak regulatory system in Mexico to exploit and pollute the natural resources of the country.

One participant pointed out that many EU countries carry out product life cycle analyses to assess the environmental impact of their commercial activities, noting that it is not a common practice in Mexico. Another attendee emphasized that there is a lack of transparent information on environmental certifications for companies. She stated her concern that these companies do not actually comply with the certification requirement.

Labour rights and fair trade
One participant commented that labour unions in Mexico are not sufficiently interested in workers’ rights and make surreptitious agreements with national and international companies who may not reflect suitable labour standards.

Participants pointed out that there are numerous challenges of the cheap labour market in Mexico. They argued that this often allows European companies to exploit Mexican workers and national resources in order to produce at very low costs, only to then sell their merchandise at disproportionately high prices in Mexico. Another noted that in recent years there has been a setback in labour matters with the imminent approval of regressive labour reforms and policies. She further asked what the EU stance was on this issue.

Corruption
Participants expressed their concern over the corruption problems that involve government officials, national and foreign companies, and criminal organisations. One participant stated that government
officials often collude with companies in acts of corruption, infringing norms and regulations referred to in trade agreements like the EU-Mexico FTA. Participants inquired as to how the EU-Mexico FTA is planning to face corruption challenges in the EU and in Mexico.

Civil society engagement

Several participants expressed scepticism about the actual impact of civil society consultations, particularly in trade agreements negotiations questioning whether inputs will realistically be taken into consideration by the negotiating parties. The stakeholders agreed that, even though a trade agreement like the EU-Mexico FTA cannot, and is not meant to, solve every social problem, these treaties have a considerable impact on various social matters. Thus, the negotiating parties must act accordingly and provide sufficient and timely information on the progress of the talks.

One participant stated that, as a public servant, he acknowledged the importance of civil society engagement and praised the attendees for sharing their public opinion. Another participant celebrated that, although consultation processes can still be improved, civil society participation is more prominent than ever.

Section 3: Parallel discussion session on Agricultural, Manufacturing and Services Sectors

Civil society engagement

Participants expressed their concern over the lack of adequate participation mechanisms to involve NGOs in the actual negotiation processes. Various participants also expressed scepticism regarding the impact of their contributions and pointed out that in Mexico there is a lack of transparency in the broader negotiation and consultation processes.

Labour rights

Numerous attendees highlighted the challenges that exist in Mexico regarding job quality, including decent salaries, adequate retirement conditions, formal employment and employee representation. They stressed the opportunities that the EU-Mexico FTA could represent to improve these conditions in companies with presence in the EU.

One participant also underlined the particular challenges faced by women, who are most affected by the unbalance by having to singlehandedly carry out both professional and domestic unremunerated work. Another participant also mentioned that the Ministry of Labour does not have enough inspectors according to ILO recommendations, which limits its ability to identify and address working rights violations.

Trade

Most participants agreed that Mexico’s dependency on imported goods, and the inability of its national market to cover most steps of main manufacturing supply chains (including the automobile and electronic industries), limits productivity and can deter foreign investments. One attendee outlined the difficulties that companies face in obtaining information relevant to government support programmes. The stakeholders agreed that an effort must be done to improve communication and information flow regarding government programmes and institutional alliances to support local enterprises and allow them to insert themselves in international supply chains.

One participant stressed the challenge that finding local partners represents for foreign companies investing in Mexico. While the regulation expects them to involve local enterprises in their supply chains, Mexican businesses lack the capacity to satisfy that supply. Participants also mentioned the enormous challenge that acquiring industrial technology represents for SMEs in Mexico. According to participants, this is largely due to the cost of imported equipment, the inexistence of Mexican equipment, and the unreliability of the Mexican post service and customs, the latter of which cannot guarantee that foreign equipment will arrive on time and thereby hinders production processes.

Regulation

A group of participants identified domestic regulation, and the lack of information surrounding it, as the main obstacle for the creation, growth and international expansion of SMEs. While European regulation may be stricter, the lack of clear and accessible information on Mexican regulation makes compliance substantially more difficult in Mexico.

Numerous attendees also mentioned the difficulty that obtaining Certificates of origin represents for small companies, which can strongly deter their expansion to other markets. Another participant
suggested that orientation and assistance to comply with regulation is a greater need for Mexican organisations than financial aid is.

**Mexico City Workshop Programme**

**09:45 a.m. – 10:15 a.m.** Registration & Coffee (Don Diego 2 Foyer)

**10:15 a.m. – 10:20 a.m.** Welcoming Remarks (Don Diego 2 Theater)  
LSE Consulting

**10:20 a.m. – 10:40 a.m.** Framing the Discussion: The Modernisation of the EU-Mexico FTA  
Presentation by Fundacion IDEA

**10:40 a.m. – 11:00 a.m.** What do we know: Current SIA Findings  
Presentation by North American Studies, Université Sorbonne Nouvelle

**11:00 a.m. – 11:30 a.m.** Where are we now? Current State of Negotiations  
Presentation by EU Delegation to Mexico

**11:30 a.m. – 12:30 p.m.** Q & A Session / Discussion

**12:30 p.m. – 02:00 p.m.** Lunch Break (Los Dones Restaurant)

**02:00 p.m. – 03:30 p.m.** Parallel Breakout Discussion Sessions

- Human Rights, Environmental Concerns, & Social Issues (Don Emiliano)  
- Manufacturing, Agricultural & Services Sectors (Sala 3 B Center)

**03:30 p.m. – 04:00 p.m.** Coffee Break (Don Diego 2 Foyer)

**04:00 p.m. – 04:20 p.m.** Panel Summaries (Don Diego 2)

**04:20 p.m. – 04:40 p.m.** Q & A Session / Discussion

**04:40 p.m. – 05:00 p.m.** Closing Remarks