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EU-Mexico Trade Agreement Update

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KEY POINTS:

- Last week, the **EU and Mexico reached an agreement in principle** on their planned update of the EU-Mexico FTA.
- The **technical details of many of the chapters still need to be negotiated**, and both sides hope to have the **final legal text by the end of the year**.
- With uncertainty surrounding the future of US-Mexico trade relations, Mexico is seeking to boost trade ties outside the Americas, leading to the **update of the EU-Mexico FTA from 2000**.

AGREEMENT IN PRINCIPLE

On April 21, the European Union (EU) and Mexico [announced](#) they had reached an [agreement in principle](#) to modernize the 2000 EU-Mexico free trade agreement (FTA).

The EU and Mexico had been negotiating an update to the FTA for two years. However, talks accelerated amid President Trump's push to renegotiate the North American Free Trade Agreement (NAFTA) and Mexico's subsequent efforts to diversify its export markets. The modernized EU-Mexico deal covers nearly all of agriculture (excluding the sugar sector), additional services, investment protections, and government procurement, as well as labor, environmental, and anti-corruption provisions.

According to the European [Commission](#), the new agreement means that eventually 99% of products would be traded between the two sides duty free, and for 98% of goods, there will be no duties once the agreement goes into effect. **For remaining items, including dairy and meat exports from both sides, customs duties will be eliminated over time or for a limited amount to be defined as a quota.** Specifically:

Mexico obtained the following Tariff Rate Quotas (TRQs):

- Beef - 10,000 t carcass weight equivalent with 7.5% duty phased-in in 5 years
- Beef offals - 10,000 t carcass weight equivalent with 7.5% duty phased-in in 5 years
- Poultry - fully liberalized, except for chicken breast (TRQ with preferential duty of 10,000 t) and egg products (5,000 t egg equivalent for egg yolks)

- Pork - fully liberalized, with the exception of frozen ham (TRQ of 10,000 t carcass weight equivalent)
- Honey - fully liberalized in 7 years. During the dismantling period, the existing TRQ for honey granted under the existing agreement will be replaced at entry into force by a TRQ of 35,000 duty free
- Bananas - export of Mexican bananas will be aligned with preferential tariff as for the other preferential bananas exporter (75€/t) at the moment of the entry into force of the agreement.

The EU side obtained significant market access improvements as well:

- Mature cheeses - TRQ of 20,000 t in 5 years
- Fresh cheeses - TRQ of 5,000 t in 5 years
- Skimmed milk powder - 50,000 t phased in 5 years
- Infant formula - tariff will be reduced to 50% of the Most Favored Nation rate in 5 years.
- Pork - fully liberalized except a TRQ of 10,000 t of loins
- Poultry - fully liberalized at entry into force for mechanically deboned chicken meat and 20,000 t of leg quarters
- All TRQ obtained by the EU are duty free
- For fruits not yet liberalized, exports of apples will reach full liberalization in 10 years and canned peaches will be liberalized in 7 years

Furthermore, for food and processed agricultural products (PAPs), the agreement achieves rapid or immediate tariff removal for key products such as pasta, chocolate and confectionary, and lactose.

The agreement in principle follows the eighth and ninth rounds of negotiations earlier this year during which a number of areas were finalized, including **competition policy, small and medium companies, transparency, SPS (sanitary/phytosanitary) issues, regulatory practices, environment, technical barriers to trade, state-owned enterprises, subsidies, anti-corruption, and trade in services.**

KEY ISSUES

The EU and Mexico conquered several challenging sticking points to reach an agreement. The Mexican side demanded **better market access for beef**, while the EU finally achieved its goal regarding **geographical indications** – ensuring the protection of 340 distinctive European foods and drink products from imitation. The latter point may limit market access for US wine and cheeses in the context of the NAFTA talks.

Automotive rules of origin were another particularly thorny issue, with the EU insisting 55% of vehicles be made of parts and materials from Europe or Mexico, and Mexico demanding flexibility due to concurrent NAFTA negotiations in which Washington is demanding a higher percentage of automotive parts be produced in the United States. The resolution of the issue reflected compromise, with a 45% maximum set for Non-Originating Material and temporary arrangements granted by the EU for Mexican imports.

The Spin: The EU side emphasized that “**practically all trade in goods**” **between the two sides would be duty free once the agreement comes into effect, including in the agricultural sector**, while Mexican President Enrique Peña Nieto said the agreement “confirms [Mexico] as priority partners of one of the most important economic blocs in the world,” reflecting that simply by achieving an agreement in principle Mexico succeeded in showing the US that it has other trading options.

The agreement **implements the EU proposal for a CETA-style investment court**, as foreseen in the EU/Canada FTA. Consistent with Europe’s recent push to replace investor-state arbitration in its trade negotiations with the CETA “model,” the agreement with Mexico establishes a standing international investment court system composed of a Tribunal of First Instance and an Appeal Tribunal.

NEXT STEPS

While the agreement in principle includes some of the most important elements of the deal, negotiators **still need to finalize technical details** for some chapters.

Mexico and the EU plan to continue technical talks on the remaining issues to finalize the full legal text **by the end of 2018**. Both parties must then ratify the agreement. For the European Commission, the ratification process includes a legal verification and translation of the agreement into all official EU languages and approval by the European Parliament and EU Council.

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