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EU-Mexico Trade Negotiations Update

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KEY POINTS:

1. The ninth round of negotiations to update the EU-Mexico free trade agreement (FTA) concluded February 20. Negotiators **completed talks on five chapters, including technical barriers to trade, state-owned enterprises, subsidies, anti-corruption, and trade in services.**
2. Despite efforts to finalize the deal, talks hit an impasse over **automotive rules of origin (RoO), trade in goods, and intellectual property (IP).** Geopolitical indications (GIs) remain contentious as well.
3. With **Mexico now turning its attention to NAFTA talks, it is unclear when the next round of EU-Mexico talks will take place.**

OVERVIEW

With uncertainty surrounding the future of US-Mexico trade relations, the European Union (EU) has sought to take advantage of Mexico's desire to boost trade ties outside the Americas by **updating the EU-Mexico FTA that came into force in 2000.** Since then, bilateral trade has nearly tripled to US\$61.7 billion, making the EU Mexico's second largest export market by 2016, and its third largest source of imports.

The parties began talks to modernize the deal in May 2016. Trump's threats of NAFTA withdrawal increased negotiators' speed, and rapid progress was made in 2017 on issues including market access, intellectual property, and energy. Despite hopes that an updated deal would be completed late last year, **disagreements on issues such as investment protection mechanisms and GIs for products such as cheese and tequila pushed negotiations into 2018.** During the eighth round in mid-January, a number of areas were finalized, including **competition policy, small and medium companies, transparency, SPS (sanitary/phytosanitary) issues, regulatory practices, and environment.**

The most recent (ninth) round of negotiations began with technical meetings the week of February 5 and **concluded on February 20.** Both sides had hoped to wrap up a deal before Mexico switches its focus to renegotiating NAFTA, but talks **reportedly hit an impasse over automotive RoO, trade in goods, and IP.** According to an

EU [spokesperson](#), "there are also some differences when it comes to negotiating market access for some EU agri-food products." Expectations of successful completion of the agreement were high, with EU commissioners for trade, Cecilia Malmström, and agriculture, Phil Hogan, set to travel to Mexico to close the most challenging topics. With persistent yawning gaps at the technical level, they remained in Brussels.

Despite the disappointing end to the recent round, the Mexican Economy Ministry stated that the two sides were able to **conclude talks on five chapters, including technical barriers to trade, state-owned enterprises, subsidies, anti-corruption, and trade in services**. At this point, it is unclear when the EU and Mexico will resume talks.

KEY PENDING AREAS

Geographical Indications

EU-Mexico discussions on GIs have advanced but **remain contentious**. **The EU has sought exclusive rights to [over 300](#) product names for high-quality foodstuffs**, including "Manchego cheese" – a unique kind of cheese made in the La Mancha region of Spain from sheep's milk. Meanwhile, the Mexican dairy industry wants to keep producing Mexican Manchego, about 15% of total cheese sales in the country.

A group of 130 domestic cheesemakers have launched legal action to prevent the Mexican Government from agreeing to text that would stop them from using European names for their cheeses. Among the GIs for food/drink products that the EU tabled in 2017, 60 were **contested by the Mexican business sector**, including US producers active in the Mexican market.

GIs are always a strategic issue for the EU, but Europe is particularly emboldened after Canada agreed to EU GIs in the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which entered into force in September 2017. **While unlikely** given Mexico's trademark-based system of origin denomination, **any alteration of Mexican treatment of GIs could impact international procurement chains**.

Investment Court

The EU's investment proposal represents another area of concern for Mexico. The EU wants Mexico to agree to a **CETA-style investment court, consistent with Europe's recent push to replace investor-state arbitration in its trade negotiations with a CETA model**. Mexico has agreed to the idea in principle, but it is unclear where this debate will land. Discussions will be impacted by the ongoing debate over investment-state dispute settlement in the NAFTA talks.

Rules of Origin

RoO for goods subject to duty elimination continues to be contentious. In **textiles and autos**, Mexico would like to preserve NAFTA-inspired rules, which are distinct from the European approach. For autos, Brussels reportedly proposed a 60% local content

threshold for Mexican cars shipped to the EU; Mexico was unable to agree to due ongoing RoO negotiations in the NAFTA context.

The two sides have [reached consensus](#) on **several-product specific rules**, although differences remain in sensitive sectors. Proof of origin and verification are not yet closed. Further, the EU's [proposed language](#) on **cumulation** would widen the definition of origination products, expanding the number of goods likely to be covered by the FTA. If successful, this proposal **could increase market access for international importers**.

Labor/Environment

Labor has **advanced on the basis of a [EU text proposal](#)**. Negotiations have [focused](#) on efforts around the ILO Right to Organize and Collective Bargaining Convention (No. 98). The parties [reached agreement on the text of the Trade and Sustainable Development chapter](#), which covers labor standards and wages, during the seventh round of negotiations in December.

Trade in Goods

The EU and Mexico have agreed to provisions on **remanufactured/repaired goods. High-end jewelry and personalized items, as well as IT and health care products** could benefit. In addition, the EU and Mexico are expected to agree upon **sectorial annexes on pharmaceuticals, automotives, chemicals, and wines**.

Agriculture

Mexico seeks agricultural market access and sourcing from outside of NAFTA, but the EU has resisted opening its market to Mexican sugar, beef, and fruit, including avocados. The **current FTA excludes many agricultural products** from preferential access, such as meats, dairy, and cereals. For example, Mexican tariffs for EU dairy products range from 20% to 45%, and Mexico imports about 18% of its domestic dairy consumption. Any **potential tariff reduction could make import of EU dairy products more cost-effective**.

BREXIT IMPLICATIONS FOR DUTY-FREE ACCESS

The **UK will remain in the EU until March 2019, and thus be a party to any deals struck between the bloc and third countries** during that time. After March 2019, the situation becomes much more cloudy. The EU and UK are negotiating a **nearly two-year-long transition period** to last until the end of December 2020, during which Britain will abide by all EU rules, including treaty obligations with third parties. But because the UK will no longer be an EU member, third parties may not be obligated to include the UK in arrangements negotiated with the EU.

Specifically, the **UK may have to accept reduced barriers on goods from Mexico**, for example, but Mexico may not have any obligations toward UK goods except WTO rules. This lack of reciprocity is causing tension in the Brexit negotiations, and the UK is reaching out to third parties to seek treatment as an EU member during the transition.

Also, **during the transition, the UK should attempt to negotiate new trade arrangements** both with the EU and with third parties. While the British government has indicated its willingness simply to adopt provisions of an EU agreement with a third party into a UK agreement with the same third party, not all third parties may be agreeable. Some may see this as an opportunity to gain more advantage over a UK that is not part of the giant EU market. In any event, it appears the UK will not be free to finalize such agreements during the transition unless the EU gives permission.

The shape of the future EU-UK trade agreement is also still very unclear, except that the UK plans to leave both the Single Market and the Customs Union. Whether the EU-UK trade agreement – or any UK agreements with third parties – will be finalized by the end of the transition period (December 2020) is far from certain.

As of January 2021, the **UK could be in a situation of all trade being governed by WTO rules**, with no FTAs in effect.

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