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New Tariff a Concern for European Union in Trade Talks with Mexico

by LADB Staff

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Negotiators from the European Union (EU) and Mexico reported some progress in the latest round of negotiations on a new free-trade agreement, but the talks were tense because of the EU's protests regarding Mexico's recent increase of import taxes on European products. The most recent negotiations were held in Brussels the third week of January. The two sides initiated full negotiations in mid-November 1998 by designating working groups to examine differences in 10 areas of trade (see SourceMex, 12/09/98).

While the recent negotiations focused on the details of a future Mexico-EU accord, representatives for the European bloc expressed strong reservations about Mexico's new tariff, which went into effect Jan. 1, 1999. Under the measure, Mexico raised import taxes by between 3% and 10% on products imported from countries that have no free-trade agreement with Mexico. "The decision intervenes in negotiations already under way that have as their objective the elimination of trade barriers," the European Commission said in a sharply worded statement released to coincide with the talks.

Mexico's Chamber of Deputies approved the increase as part of the 1999 budget agreement negotiated with the Secretaria de Hacienda y Credito Publico (SHCP) in late December (see SourceMex, 01/06/99). The increase is expected to raise an additional US\$500 million in revenues for the Mexican treasury in 1999, partly compensating for a sharp decline in oil-export revenues. The weekly business newspaper El Financiero Internacional said members of President Ernesto Zedillo's Cabinet disagreed on whether to pursue the increase.

The measure was supported strongly by Finance Secretary Jose Angel Gurria Trevino. But Trade Secretary Herminio Blanco had strong reservations about the increase because of its potential negative impact on EU- Mexico negotiations. Sources close to the EU-Mexico negotiations said tensions were eased somewhat when Mexican negotiators reassured their EU counterparts that this import tax was only a temporary fiscal measure and not a protectionist maneuver.

Some progress reported in market access

Meanwhile, the two sides agreed on negotiating terms in such areas as protection of intellectual property, dispute resolutions, public contracts, and competition. "Negotiators made significant progress in developing mechanisms to boost market access," EU sources told the Spanish news service EFE. But the EU and Mexico remained apart on key issues such as agriculture subsidies, trade in services, rules of origin, and movement of capital.

The daily business newspaper El Economista said Mexico is insisting on maintaining restrictions on agricultural imports from the EU that receive some sort of government subsidy. The two sides

plan to exchange lists in the next several weeks on proposed tariff reductions for industrial and agricultural products. These lists will be discussed during the next round of negotiations in Brussels the second week of March. The two sides are scheduled to meet every six weeks between January and June 1999.

EU vice president Manuel Marin said the two sides hope to have an accord in place by the EU-Latin America summit in Rio de Janeiro in June, although this is not an official target. "We prefer not to set a specific date to avoid any talk of failure if we are not able to complete negotiations by then," said Marin. Jaime Zabudovsky, Mexico's ambassador to the EU, said the two sides must still resolve many complex issues, which could prolong negotiations. "There are still many topics to discuss and differences to bridge," said Zabudovsky. (Sources: El Universal, 01/07/99; El Financiero International, 01/11/99; La Jornada, 01/13/99; Reuters, 01/18/99; Notimex, 01/21/99; Spanish news service EFE, 01/15/99, 01/18/99, 01/19/99, 01/22/99; El Economista, 01/07/99, 01/18/99, 01/19/99, 01/21/99, 01/25/99)

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