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## **Mexico, Brazil to Begin Negotiations on New Tariff Agreement in July**

by LADB Staff

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The Mexican and Brazilian governments have committed to begin negotiations on a limited free-trade agreement by July of this year. The two countries agreed to the trade talks during Mexican President Ernesto Zedillo's two-day visit to Brazil in late April. The Brazilian-Mexican negotiations will focus primarily on eliminating tariff barriers for products traded between the two countries.

The new agreement would restore some tariff preferences that were negotiated in 1995 and suspended two years later. The previous tariff agreement was scrapped in 1997 because of a dispute between Mexico and Brazil regarding access to the US market. Many Brazilian industrial groups had complained that Mexican products had gained an unfair advantage under the North American Free Trade Agreement (NAFTA) and displaced Brazilian exports to the US market.

To compensate for the loss of sales to the US market, Brazil demanded that Mexico offer similar tariff concessions to MERCOSUR countries as it did to the US and Canada. Mexico refused, which resulted in the cancellation of the tariff- preference accord. The tensions over NAFTA went beyond bilateral Brazilian- Mexican trade.

The Brazilian government, one of the major players in the Southern Cone Common Market (MERCOSUR), has blocked Mexican efforts to negotiate access to the South American trade bloc. Mexico has separate agreements on tariff preferences with MERCOSUR members Argentina, Paraguay, and Uruguay, but Brazil has managed to block Mexican efforts to unify those accords into a single agreement.

### ***Zedillo seeks full trade accord with Brazil***

Speaking to Brazilian and Mexican business representatives in Sao Paulo, Zedillo said the tariff negotiations could be the first step toward a bilateral trade agreement. "As trade is opened up, as investment flows are liberalized in the medium and long term, there will be more opportunities for all and there will be no losers," Zedillo told the business representatives. The elimination of trade barriers will almost certainly expand Mexican-Brazilian trade, which totaled US\$1.35 billion in January-October 1998.

Jose Alfredo Graza Lima, a Mexican trade officer in Brazil, said the Brazilian business community has been a major catalyst in convincing President Fernando Henrique Cardoso's administration to seek the tariff accord with Mexico. "Businesses from the electronics, automotive, steel, and chemical sectors are interested in expanding their exports to Mexico," Graza told the daily business newspaper El Economista.

Unlike Zedillo, Cardoso stopped short of endorsing a full free-trade accord during a speech to the business leaders in Sao Paulo. But observers say the thawing of relations between Mexico and

Brazil could provide other benefits for the two countries. In an interview with the Mexican news service Notimex, Brazilian political scientist Luis Pedone said the two countries will now be on common ground when drafting a regional strategy to expand trade relations with the European Union (EU), particularly ahead of an EU-Latin American trade summit scheduled for Rio de Janeiro at the end of June. Mexico is in the midst of free-trade negotiations with the EU, and some officials have predicted that the two sides could conclude an agreement by the end of 1999 (see SourceMex, 1999-04-14).

The easing of trade tensions between Mexico and Brazil could also expand investment opportunities, which have remained minimal given the size of the two economies. Some Mexican companies, like juice manufacturer Jugos del Valle and steel producer IMSA, have invested in the Brazilian market in recent months.

Jugos del Valle opened a processing plant in Sao Paulo state in April, while IMSA entered into a joint venture with Brazil's Cia Siderurgica Nacional (CSN) in mid- 1998. The IMSA-CSN venture has started construction of a steel plant in Brazil. Pedone said the Brazil-Mexico accord provides an opportunity for the two countries to consult more closely on matters related to key sectors such as agriculture and energy.

Some Mexican and Brazilian business leaders have also asked the Cardoso and Zedillo administrations to negotiate an agreement that would eliminate double taxation and ease travel restrictions for business travelers. (Sources: El Financiero International, 04/26/99; Notimex, Spanish news service EFE, 04/27/99; Novedades, 04/26/99, 04/27/99, 04/29/99; El Economista, 04/26-29/99; El Universal, 04/29/99; Reuters, 04/28/99, 05/04/99)

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