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Differences Over Tariff Reductions, Rules of Origin Snag Mexico-E.U. Accord

by LADB Staff

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Negotiations between the European Union (EU) and Mexico on a free-trade agreement have hit a snag because of major disagreements regarding a timetable for tariff reductions and the criteria to be used for rules of origin. The differences are wide enough to block the Mexican government's goal of completing an accord before President Ernesto Zedillo's visit to Brussels in October.

EU negotiators believe the two sides have enough common ground to complete an accord before the end of the year, and some EU leaders have asked Zedillo to postpone his trip to Brussels until November or December, when they hope to have the agreement completed.

But the Zedillo administration's eagerness to complete an accord has been strongly criticized in Congress, particularly by the opposition parties. Sen. Jorge Calderon Salazar of the center-left Partido de la Revolucion Democratica (PRD) said a hasty conclusion of a free-trade accord with the EU would boost the standing of the governing Partido Revolucionario Institucional (PRI) during the upcoming presidential race in 2000.

The differences regarding tariff reductions center on the timetable for Mexico to open its market to EU products. The EU is insisting that Mexico eliminate or reduce tariffs for 80% of EU products as soon as the accord goes into effect and then open its market to the remaining 20% by 2003. The Mexican government's counterproposal is to trigger market-opening mechanisms in four phases.

Some EU products would receive immediate market access when the accord is implemented, but others would wait until 2003, 2005, and 2007 before gaining preferential treatment. The two sides were unable to resolve their differences on this issue at the seventh round of talks in Brussels in mid- July.

EU representatives criticized their Mexican counterparts for failing to substantially improve their tariff proposal from one presented at the sixth round of talks in June. But the Mexican government is facing strong pressures at home to protect domestic manufacturers and agricultural producers.

In recent weeks, representatives of various industries, including wine producers and toy manufacturers, have appealed to the Zedillo administration to maintain existing protections or seek greater access for their products to the EU.

Agriculture sector seeks greater access to EU market

Mexican agricultural producers are also pressuring the government to seek a greater opening from the EU for Mexican produce. "Neither side has moved from its position since the second or third time we met," said Humberto Jasso Torres, director of agricultural and industrial negotiations for

Mexico's Secretaria de Comercio y Fomento Industrial (SECOFI). Victor Celaya del Toro, research director for the Consejo Nacional Agropecuario (CNA), said the two sides have drafted a list of 360 agricultural products or categories of products to exclude from the negotiations.

Mexico is seeking to protect its dairy, grain, and meat industries, while the EU has insisted on maintaining restrictions on 60 products, including tropical fruits and other items produced in its former colonies in the Caribbean. Celaya said the Mexican delegation has not given up its demand that the EU open its market to bananas and honey, which originate in southern Mexico.

Sources close to the negotiations said the Mexican government has expressed some willingness to compromise with the EU on the timetable for tariff reductions in exchange for increased flexibility from the European bloc on the question of rules of origin.

Luis de la Calle, a deputy Mexican trade negotiator, said the Zedillo administration has asked the EU for more flexibility on the local content required for motor vehicles exported from Mexico to the EU. Mexico is pushing for a Mexican content of only 50% local parts, compared with the EU's demand for 70%. "We have asked them to consider the geographic conditions of Mexico and the conditions of the growing globalization in the automobile industry to have more flexible rules of origin," de la Calle told Reuters news agency.

De la Calle said Mexico is seeking similar concessions from the EU for the local content on imports of Mexican footwear and textiles. "Mexico wants rules of origin in textiles that promote the integration of the chain of production, just as we do in footwear," De la Calle said.

The negotiations on rules of origin have an indirect link to the North American Free Trade Agreement (NAFTA). SECOFI sources said EU negotiators are hoping to prevent US companies from using a Mexico-EU accord to obtain preferential tariffs on exports to the EU.

EU seeks to expedite opening of services sector

Meanwhile, the EU is also pushing Mexico to eliminate most restrictions on access to its services sector within 10 years after the accord goes into effect. The services sector includes such areas as banking and financial services, transportation, retailing, and communications. "The EU wants a generalized opening of the services sector as soon as possible," said de la Calle. "But Mexico has to consider this opening in accordance with its laws."

Jaime Zabłudovsky, Mexico's trade ambassador to the EU, expressed confidence that the two sides would make substantial progress on unresolved issues at the next round of talks in Mexico City in late September. Despite the continuing differences on tariff reductions and rules of origin, Zabłudovsky said the two sides have agreed on key areas such as safeguards and sanitary regulations for agricultural trade. The section on safeguards is similar to a clause in NAFTA, which allows either side to impose temporary tariffs or otherwise restrict imports when a local industry is threatened by a surplus of a product. (Sources: Novedades, 07/19/99; Spanish news service EFE, 07/23/99; Associated Press-Dow Jones news service, 07/25/99; Excelsior, 07/26/99; El Economista, 07/22/99, 07/23/99, 07/27/99, 07/30/99, 08/02/99; El Financiero International, 07/26/99, 08/02/99; Reuters, 07/28/99, 08/02/99; El Universal, 07/22/99, 07/29/99, 07/30/99, 08/02-04/99)

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