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IMPACT ASSESSMENT

Accompanying the document

Recommendation for a Council Decision

authorising the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy to open negotiations and to negotiate with Mexico a modernised Global Agreement

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BACKGROUND

Mexico was one of the first countries with which the European Communities established diplomatic relations, over 50 years ago. In addition to being a member of the Group of Twenty (G20) and of the Organisation for Economic Co-operation and Development (OECD), Mexico is a strategic partner for the EU[2].

Mexico is also the first country in Latin America with which the EU signed an Economic Partnership, Political Coordination and Cooperation Agreement ('Global Agreement'). The Global Agreement which entered into force in 2000 covers political dialogue, cooperation and trade relations. It includes a trade liberalisation component, the 'EU-Mexico Free Trade Agreement (FTA)' covering trade in goods (which entered into force in 2000) and partially trade in services[3] (which entered into force in 2001).

The EU-Mexico FTA contributed to the strong growth in bilateral trade and investment between the Parties (see in Annex 5 the interim report on the ex-post evaluation of the EU-Mexico FTA commissioned by the Commission services[4]). Since the EU-Mexico FTA came into force, bilateral trade in goods has increased by 183%[5]. The EU accounted for 6.2% of Mexico's total trade in 2000 and 8.2% in 2014 and is Mexico's third trading partner after the US (67 %) and China (9.1%). Mexico accounted for 1.1% of the EU's total trade in 2004 and 1.4% in 2014 and is the EU's fifteenth trading partner.

However, since the EU-Mexico FTA entered into force, there have been substantial economic changes in the EU and in Mexico. There have also been significant trade policy developments in the world and both sides have concluded comprehensive agreements with other partners which go well beyond the provisions of the EU-Mexico FTA.

Though the EU-Mexico FTA includes review clauses on services, investment and agricultural market access, it has not been possible to advance through these clauses because the sectoral nature of the approach made it difficult to reach a sufficiently ambitious and balanced outcome. Hence, during the EU-CELAC Summit in Santiago on 26-27 January 2013, the EU and Mexico agreed '*to explore the options for a comprehensive update of the Economic Partnership, Political Coordination and Cooperation Agreement between the EU and Mexico*'. An EU-Mexico Working Group was set up to this effect.

A scoping exercise was carried out with the aim of testing the degree of convergence between the EU and Mexico on the scope of coverage and the level of ambition of a possible modernisation of the EU-Mexico FTA to further liberalise and simplify trade. The aim of such an exercise is to increase the possibility of a positive result and lower the risk of engaging in protracted and resource consuming negotiation processes with uncertain outcomes.

[2] The EU has strategic partnerships with ten countries in the world US, Canada, Japan, Russia, China, India, South Africa, Brazil, Mexico and South Korea; for more information on strategic partnerships : http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2012/120354/LDM_BRI(2012)120354_REV1_EN.pdf.

[3] As regards trade in services, the EU-Mexico FTA only contains a general standstill clause, as well as a few specific commitments and provisions on trade in financial services and international maritime transport.

[4] http://trade.ec.europa.eu/doclib/docs/2013/august/tradoc_151698.pdf

[5] From USD 18.5 billion in 1999 to USD 65 billion in 2014, it increased by 251%; when converted to EUR (from EUR 17.4 billion in 1999 to EUR 48.9 billion in 2014), it increased by 183%.

In this respect, the scoping exercise reflects the key objectives of the EU's trade policy established by the Treaties and covers priorities highlighted notably in the recent Communication 'Trade for all - Towards a More Effective, Transparent and Responsible Trade and Investment Policy'[6]. The scoping exercise does not in any way prejudge the work under the Impact Assessment or the eventual decision by the Commission to request negotiation directives.

The outcome was a Joint Vision Report[7] on trade and investment issues that was finalised by the time of the EU-Mexico Summit on 12 June 2015. At that Summit, the EU and Mexico reaffirmed their '*willingness to launch, in 2015, the process of starting negotiations, according to the legal framework of each side to modernise our Global Agreement and to reinforce [their] Strategic Partnership*'[8].

In preparation of a Commission decision to request authorisation from the Council to launch negotiations, Commission services conducted work (see Annex 1) to assess the impacts of a possible modernisation of the EU-Mexico FTA, including a public consultation (see Annex 2). The decision of the Commission, that will be informed by this Impact Assessment, would take the form of a recommendation for a Decision of the Council (authorising the opening of negotiations for the modernisation of the EU-Mexico Global Agreement), as well as the public legal act nominating the Commission and the High Representative of the Union for Foreign Affairs and Security Policy as the negotiator on behalf of the European Union, accompanied by draft negotiating directives, which, when adopted by the Council, would provide guidance to the EU negotiator subject to ongoing review within the relevant Council Committees of the progress of negotiations.

1. WHAT IS THE PROBLEM, AND WHY IS IT A PROBLEM?

1.1. Introduction

The implementation of the existing EU-Mexico FTA, notably though the work of the various Special Committees as well as the Joint Committee established under the Agreement, is considered to be satisfactory.

However, fifteen years after its entry into force, the EU-Mexico FTA – which was considered ambitious around the turn of the millennium – does not address some of the important trade and investment issues relevant today in the ambitious way other recent comprehensive agreements concluded by the EU or Mexico or in course of negotiation since then have, such as the Comprehensive Economic and Trade Agreement (CETA) concluded with Canada, the Transatlantic Trade and Investment Partnership (TTIP) or the Trans-Pacific Partnership (TPP) negotiations. In particular, it does not provide for the necessary provisions to address Non-Tariff Barriers (NTBs), which remain major barriers to bilateral trade and investment flows (see Point 1.3.2).

[6] http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf
[7] The scoping exercise does not affect the EU's own assessment of its priorities. Notably, the Council decision to authorise negotiations will be taken while the Member States have received the Joint Vision Report, which is purely exploratory, non-exhaustive and not legally binding.
[8] http://www.consilium.europa.eu/en/press/press-releases/2015/06/12-eu-mexico-summit-final-statement/

Furthermore, the adoption of a series of far reaching structural reforms (the '*Pacto por Mexico*') focusing on improving domestic competitiveness in some key economic sectors and attracting foreign investment is expected to increase trade and investment opportunities in Mexico. The existing trade agreement with Mexico would not allow EU companies to fully benefit from these opportunities.

All in all, the coverage and the level of ambition of the existing agreement do not match the importance of the EU-Mexico partnership and do not allow bilateral trade and investment to reach its full potential in the current economic context.

1.2. The problem

1.2.1. Higher cost having negative impacts on economic growth, job creation, productivity and competitiveness of both EU and Mexican firms

Trade and investment are important for economic welfare: they create opportunities to increase competitiveness and productivity of companies, and they promote innovation, thereby bringing economic growth and creating jobs. Therefore, a consequence of unfulfilled bilateral trade and investment potential is a reduction of the possibility to increase the welfare of both sides. As highlighted in the Commission staff working document *External Sources for growth*[9] potential benefits of pursuing an ambitious external trade agenda include GDP gains of about 2% (or more than EUR 250 billion), and the creation of more than 2 million jobs across the EU. Moreover, boosting trade is a way to bolster economic growth without drawing on severely constrained public finances. FTAs with a range of middle-sized trading partners (as compared with the EU) like Mexico are an important instrument to reach this objective.

Freer trade with Mexico will create opportunities to increase the competitiveness and productivity on both sides. In its contribution to the European Council of 7-8 February 2013[10], the Commission highlighted that trade liberalisation is a major structural reform in itself, creating new opportunities for innovation by spreading new ideas and innovation, new technologies and the best research, leading to improvements in the products and services that people and companies use. Long-term evidence from EU countries shows that a 1% increase in the openness of the economy leads to an increase of 0.6 % in labour productivity[11]. Without more intense trade and investment, opportunities for technology and knowledge transfer as well as for research cooperation are limited; and potential gains in competitiveness and productivity resulting from interaction with an economy like Mexico will be lost.

Moreover, a large majority of the respondents to the public consultation consider that the existing agreement should be further developed to solve the particular problems faced by small and medium enterprises (SMEs). In particular, the absence of an appropriate framework for rules of origin, customs procedures and technical barriers to trade limits SMEs development and hinders their internationalisation and market diversification, both of which reduce the impacts on SMEs of local economic slowdown and currency fluctuation[12].

[9] http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149807.pdf
[10] http://ec.europa.eu/archives/commission_2010-2014/president/news/archives/2013/02/pdf/20130205_2_en.pdf
[11] European Commission, Raising Productivity Growth: Key Messages from the European Competitiveness Report 2007.
[12] http://trade.ec.europa.eu/doclib/docs/2015/march/tradoc_153270.pdf

1.2.2. Higher prices, less choice and less innovation available for EU and Mexican consumers

The Commission Communication 'Trade, Growth and World Affairs'[13] highlighted that trade brings a wider variety of goods and services to consumers and to companies, at lower prices. In the current state of affairs, consumers in the EU and Mexico fail to benefit from the full potential of opportunities that would come from a wider choice of goods and services. For example, trade in agricultural products seems to be far below its potential (see Annex 4).

EU and Mexican consumers face higher prices because of the reduced competition caused by NTBs, which presently limit trade flows. Identified NTBs increase the cost of exporting to Mexico by between 8.4 and 236.3%, (see Annex 4) depending on the sector. This in turn affects consumers and firms who pay the costs for many of these measures in terms of higher prices, reduced competition, and limited access to capital, know-how or skilled labour.

1.2.3. Lost opportunities to capture labour and wage benefits

Though freer trade in general encourages job creation, according to the interim report of the ex-post evaluation of the EU-Mexico FTA[14], the impact of the FTA on formal employment has been at best marginal for Mexico and the EU. Increases in real wages have in both cases been very limited. In the EU it has been + 0.02%, while in Mexico, slightly higher: + 0.35%.

1.2.4. Bilateral trade is not fulfilling its potential in spite of the EU-Mexico FTA

The public consultation highlighted the fact that bilateral trade is not fulfilling its potential. Despite the implementation of the existing EU-Mexico FTA, a majority of respondents found that tariffs, NTBs or measures of equivalent effect still hinder trade between the EU and Mexico, and called for the EU and Mexico to improve the situation.

In this respect, if all existing barriers (including notably NTBs) were reduced to zero, the total potential of bilateral trade would increase almost fourfold (see more detail in Annex 4). However, the full abolition of all NTBs is a merely theoretical scenario as some differences in regulations between trade partners will always remain. As highlighted in the Trade for All communication, no trade agreement will restrict the right of governments to act to achieve legitimate public policy objectives. Nor should any agreement lead to lower levels of consumer, environmental or social and labour protection than offered today in the European Union. We therefore consider the real potential of unfulfilled trade to be the difference between the current level of bilateral trade and the percentage increase under an ambitious FTA modernisation covering other issues and sectors (e.g. addressing more efficiently non-tariff measures) than foreseen in the review clauses (see more detail on the necessary conditions to achieve this objective in Chapter 4.3).

Moreover, the Mexican economy remains very dependent on the US, and the Mexican government would like to increase the share of total trade accounted for by other trading partners. One of the aims of the Mexican government when signing the existing Agreement was to increase exports to the EU so as to reduce the strong dependency on the US. Yet, in

[13] Trade as a driver of prosperity ; COM(2010) 612}; {SEC(2010) 1268}

[14] Source: ECORYS report and book "Logros y Retos a 10 Años del Acuerdo Global Mexico-UE".

2014, over 80% of Mexican exports continue to have the US market as the final destination (USD 318.9 billion), followed by the EU as a distant second with 5.1%.

1.2.5. The EU trade with Mexico faces increased competition from third countries

The EU accounted for 6.2% of Mexico's total trade in 2000 and 8.2% in 2014 but the EU trade with Mexico has recently lost ground as it grew slower than some of its competitors. For instance, China's share in terms of GDP and export has increased sharply. China gradually increased its share of Mexico's total trade from 0.9% to 9.1% between 2000 and 2014 and managed to displace the EU as Mexico's second largest trading partner in 2013. The gap between the EU's share of Mexico’s trade and that of China has been widening over the last two years.

The recently concluded Trans-Pacific Partnership Agreement will also provide additional opportunities for TPP partners[15] to increase their trade with Mexico.

1.2.6. Limited possibilities to promote a greater contribution of trade and investment to sustainable development

According to the interim report on the ex-post evaluation of the EU-Mexico agreement, and as mentioned already in §1.2.3, the social impact of the existing agreement on formal employment has been very limited. Changes in poverty and inequality attributed to the existing Agreement are, despite being positive, very small.

According to the Computable General Equilibrium (CGE) model, the environmental effects of the existing agreement are very small (see Section 5 of the ex-post interim report).

The chart on the following page relates the problems identified to the underlying causes, grouped thematically and links them to the actual or potential consequences for both the EU and Mexico, in the form of a "problem tree".

[15] The US, Canada, Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, and Vietnam

The Problem Tree

Structural factors affecting the EU-Mexico trade and investment relation and limiting the fulfilment of its entire potential (see Point 1.3.9.)

- Recent conclusion or on-going negotiation by the EU of FTAs with Canada and USA, as well as with some Central and South American countries
- Mexico has recently implemented an ambitious internal reform agenda creating new opportunities for trade operators and investors from both sides
- Expansion of Asia-oriented FTAs negotiated by both the EU and Mexico
- Rapid development of global value chains, in particular with East Asia
- China has become an important EU and Mexico trade partner
- Potential Latin American economic integration processes through the Pacific Alliance
- Mexican exports are very dependent on US markets

Obstacles to trade in goods, trade in services and investment

Tariffs, rules of origin and trade facilitation (see Point 1.3.1.)

- There remain customs duties and tariff rate quotas in agriculture and fisheries
- The rules of origin are now outdated
- The provisions on customs procedures are not adapted to the recent WTO Trade Facilitation Agreement

Non-tariff barriers to trade and investment (see Points 1.3.2. and 1.3.4.)

- Current TBT and SPS chapters are not sufficiently comprehensive to effectively address and prevent non-tariff barriers to trade
- The issue of localisation measures constituting barriers to trade and investment is not addressed
- There are very limited commitments for trade in services and investment
- There is limited access to Mexico's public procurement since sub-central entities are not covered by the existing FTA and the disciplines are not in line with international standards

Shortcomings of the existing provisions

(see Points 1.3.2., 1.3.3. and 1.3.6.)

- Investment protection addressed by 16 Bilateral Investment Treaties between Mexico and Member States differing in their level of ambition and creating possible inconsistency
- The existing Agreement does not address in a satisfactory manner competition distortions creating barriers to trade and investment
- The scope of the Article on Intellectual Property Rights does not cover all IPR rights and is very general in nature resulting in limited coverage and insufficient level of protection

(see Points 1.3.5., 1.3.7. and 1.3.8.)

- The existing Agreement does not include specific provisions on sustainable development such as the effective implementation of international agreements on labour and the environment, trade in environmental services, commitments to the sustainable management of natural resources or the involvement of civil society in both the EU and Mexico
- The Dispute Settlement procedures fall short of the recently concluded provisions : for instance, it does not foresee any mediation procedures as a valid alternative to arbitration
- The implementation so far proved that the review of some institutional provisions could improve the effective administration of the Agreement

- Higher costs having negative impacts on the productivity and competitiveness of both EU and Mexican firms
- Higher prices, less choice and less innovation available for EU and Mexican consumers
- Lost opportunities to capture labour and wages benefits from increased trade and investment flows
- Failure to prevent reduction of bilateral trade and shares of total trade
- Reduced ability to take advantage of trade and investment opportunities around the Pacific rim
- Limited possibilities to promote a greater contribution of trade and investment to sustainable development

- **Policy intervention is required for modernising the trade pillar of the EU-Mexico Global Agreement in order to achieve the full potential of the EU-Mexico trade and investment relationship**

1.3. The problem drivers

There are a number of underlying factors affecting the EU-Mexico trade and investment relationship that might be addressed by trade policy. The main factors that are susceptible to change through trade policy measures and/or regulatory coherence are listed below.

1.3.1. Tariffs, rules of origin and trade facilitation

All tariffs for industrial goods were eliminated by the existing Agreement. However, 309 agricultural and fisheries tariff lines (out of a total of 1,192) were not fully liberalised while Most Favoured Nation (MFN) tariffs[16] applied by Mexico in agriculture are among the highest in the world[17]. Meanwhile, North American Free Trade Agreement (NAFTA) partners benefit from a full liberalisation of all agricultural products, providing a significant competitive advantage to US and Canadian exporters over those from the EU.

The EU-Mexico FTA provisions on customs procedures are based on a framework of cooperation between the two Parties and rely on a now outdated set of rules of origin (RoOs), which pre-dates the EU's reform of RoOs launched in 2003. This leaves the RoOs of the Agreement at odds with the new set of EU standard RoOs, and creates an unnecessary burden for economic operators (in particular SMEs), which have to adapt to the variable geometry of the different sets of RoOs in force. This divergence will become even more burdensome for economic operators when the EU-Canada Agreement (CETA) enters in force and when the TTIP negotiations are concluded. It is also worth noting that other EU FTA partners in the region, such as Colombia, Peru and Central American countries, have indicated that they would like to extend cumulation[18] to Mexico in their agreements with the EU. While this is not automatic and should be decided on its merit, the existing differences in RoOs would make it more difficult if not impossible altogether.

Harmonisation of RoOs in the EU-Mexico FTA with those in other agreements could facilitate trade with Mexico significantly. Rules for certification and verification of origin also need to be updated, so as to reflect newer and more efficient practices agreed or negotiated by Mexico or the EU in other FTAs. In the existing agreement, provisions on customs procedures were related to cooperation only, without specific mutual commitments and are not adapted to the most recent international developments on trade facilitation such as the World Trade Organisation (WTO) Trade Facilitation Agreement[19].Existing rules and customs procedures governing the movement, release and clearance of goods still impose avoidable and excessive costs on importers and exporters because of complex and irksome administrative or technical requirements.

[16] Mexico grants MFN treatment as a minimum to all countries, whether or not they are members of the World Trade Organisation (WTO).
[17] For instance, 125% on meat and edible offal of poultry, 125% on potatoes, 125% on several types of sugar-fructose, 60% on animal or vegetable fats and oils, 60% on cheese (45% as from 2016), 60% on milk and cream in solid forms, 60% on lard, pig and poultry fat, 60% on roasted coffee, 45% on eggs (45%) and 45% on barley; source: www.economia-snci.gob.mx.
[18] Cumulation is a system that allows contracting parties to use originating products from each other.
[19] The Trade Facilitation Agreement, emanating from the 9th Session of the WTO Ministerial Conference held in December 2013 in Bali, contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area; https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

In particular, the lack of prior notification of procedural changes and the inconsistent interpretation of trade requirements at different ports of entry remain problematic. There is room and readiness on both sides for going beyond the WTO Trade Facilitation Agreement on topics such as: simplified customs procedures; mutual recognition of authorised economic operators; risk management; disciplines on fees and charges imposed on or in connection with importation and exportation; pre-shipment inspections; appeal procedures; relations with the business community and customs brokers.

1.3.2. Non-tariff barriers to trade and investment

Trade in goods

The substantial tariff reductions achieved over recent decades through the General Agreement on Tariffs and Trade (GATT) / WTO negotiations have reinforced the importance of tackling NTBs (such as unnecessary differences in domestic regulations). NTBs nowadays act as a greater impediment to bilateral trade and investment flows than tariffs. For example, excessive or unnecessarily divergent sanitary and phytosanitary (SPS) procedures act as important NTBs for agricultural products. Such unnecessary differences in regulatory approaches, particularly when the same regulatory objective and similar levels of protection of the public interests are intended, raise the cost of compliance for business.

The current provisions on NTBs in the Agreement are too generic and shallow to deal effectively with these ‘behind-the-border’ barriers to trade. Indeed, the chapter on technical barriers to trade (TBT) of the EU-Mexico FTA is the least advanced among the EU’s FTAs with any Latin American partner. There is no commitment beyond recalling the obligations under the WTO TBT Agreement and only a generic reference to the need to intensify cooperation, share information and promote the use of international standards and conformity assessment procedures. The instruments foreseen to tackle these issues (such as the special sub-committee) have had only limited success in overcoming existing non-tariff barriers. These instruments may have served to improve the common understanding of each side's regulatory system, but the systemic obstacles limiting our capacity to bridge gaps or align approaches remain in place.

For example, conformity assessment and certification requirements have not converged: in many sectors, Mexico maintains cumbersome third party certification requirements, while the EU has introduced the more flexible and business-friendly system of ‘supplier’s declaration of conformity’. However, EU suppliers’ declarations of conformity are rejected by the Mexican authorities, because the Mexican system assesses risk differently from the EU and because of the costs involved in setting up an effective post-market surveillance system in Mexico. Here again, EU economic operators are at a disadvantage in relation to US operators since there are a significant number of mutual recognition agreements (MRAs) between Mexican and US organisations[20].

In the existing agreement, there is no detailed SPS chapter. There is no reference to the WTO Agreement on SPS measures but just a single Article providing only for a Special Committee on SPS matters to discuss outstanding problems and relevant matters.

[20] Canada also has a MRA with Mexico: http://www.ic.gc.ca/eic/site/mra-arm.nsf/eng/nj00100.html.

As a consequence, many important trade barriers for EU products remain in place (e.g. approval of EU establishments of meat and meat products requiring on the spot inspections for each new establishment, non-recognition of regionalisation regarding animal diseases, pre-clearance certification for fruit and vegetables), which results in a loss of competitiveness and makes exports economically unviable for most Member States (MS). At the same time, the US and Canada (which benefit from full tariff liberalisation in agriculture under NAFTA) see their competitive advantage reinforced by the recognition of their SPS certificates.

The so-called 'localisation measures' - measures designed to protect, favour or stimulate domestic operators at the expense of imported goods, services, or foreign-owned or foreign-developed intellectual property - are also important NTBs. Such measures limit the potential benefits for EU firms of economic reforms and further trade liberalisation in Mexico.

This is, for example, the case in the energy sector. In 2013, Mexico launched a wide energy reform by adopting the necessary constitutional amendments. However, the secondary legislation passed in 2014 included strict Local Content Requirements (LCRs). Based on the evidence from when Brazil imposed similar measures, the Mexican LCRs risk significantly raising the cost of development of this sector, and thereby deterring investments. LCRs are also applied in the automotive sector (one of Mexico's strategic industries) and the electricity sector.

<u>Trade in services and investment (including investment protection)</u>

While services account for 70% of EU GDP and are an increasingly important part of international trade, the EU-Mexico FTA only contains a general standstill clause in Article 7.2 (i.e. the commitment not to adopt new discriminatory measures), as well as a few specific commitments and provisions on trade in financial services and international maritime transport.

In terms of investments, the EU-Mexico FTA only partially covers payments related to investment in real estate and sale of securities. Mexico has traditionally imposed significant restrictions on foreign direct investment in a number of important economic sectors (which have been reserved to the State or to Mexican citizens, or where foreign participation is limited to certain ceilings). For example, postal services are exclusively reserved for the Mexican State, and land transportation of passengers as well as television services (the owning of a TV channel) are entirely reserved for Mexican nationals. Certain port services, some financial services and air transportation also have limitations on foreign ownership[21]. Furthermore, cumbersome administrative procedures impose additional costs on foreign investors in all sectors.

As regards investment protection, this area is not covered by the existing EU-Mexico Agreement. The Bilateral Investment Treaties (BITs) concluded between 16 EU Member States and Mexico differ in their level of ambition and are not in line with the most recent developments of EU investment policy.

1.3.3. Intellectual property rights protection

[21] The EU and Mexico are parties to TiSA negotiations which, once concluded and in force, would set an upgraded framework for trade in services between the two. However, at this stage, it is impossible to predict the final outcome or the timing of the conclusion of this plurilateral agreement.

The EU-Mexico FTA has only one limited and general Article on Intellectual Property Rights (IPR) which indicates the aim of ensuring IPR protection to the 'highest international standards'. As a consequence, it does not extend IPR protection beyond the minimum standards established in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and therefore only brings limited added value for EU right holders.

Although Mexico's IPR laws in general set a higher level of protection than that afforded by TRIPS, there are various issues that need to be improved. For example, Mexico is not party to the International Union for the Protection of New Varieties of Plants (UPOV) 1991 Agreement for plant varieties and it lacks legislation on the liability of internet service providers. The protection of EU geographical indications (GIs) currently offered by Mexico does not cover wines and foodstuffs. Spirits are protected via a bilateral agreement in force since 1997. Currently, the only ways for European GIs to obtain some protection within the Mexican territory are: registration of a collective trademark, being covered by the Lisbon Agreement - of which Mexico is a party - and by virtue of the EU-Mexico bilateral Spirits Agreement. As a consequence, there is a significant potential to improve the protection in Mexico of EU goods with GI status.

Counterfeiting and piracy are widespread in Mexico, and there are strong calls from business to improve the enforcement of IPR in Mexico.

1.3.4. Access to public procurement markets

The EU-Mexico FTA establishes that Mexico applies the rules and procedures of NAFTA to the procurement covered by the agreement while the EU applies the rules and procedures of the WTO Agreement on Government Procurement (GPA). Since Mexico is neither a signatory, nor an observer of the GPA, EU bidders are unable to benefit from the disciplines of the GPA in Mexico. Thus, the rules and procedures set by the EU-Mexico FTA are asymmetrical between the parties. In terms of market access coverage, both parties have only covered in the FTA entities at central government level and a defined list of government enterprises. Sub-central level was not covered by the FTA. *De facto*, the access for EU businesses to the Mexican procurement market is, in practice, asymmetrical, since Mexico has legislation which excludes EU bidders to participate in procurement at sub-federal procurement (local and municipal entities/enterprises); while the EU does not have such a legislation and as a result, Mexican businesses can access the EU market at all levels.

Furthermore, in contrast to more recent agreements, the EU-Mexico FTA does not include specific provisions on the facilitation of access to public procurement for SMEs.

1.3.5. Contribution of trade and investment to sustainable development

The EU-Mexico FTA does not include commitments to international instruments in the labour and environmental areas, obligations to enforce labour or environmental legislation, the promotion of practices providing for a greater contribution of trade and investment to sustainable development such as CSR or sustainability assurance schemes. This is in marked contrast to the obligations in comparable agreements with other trading partners. According to the ex-post interim evaluation, some positive impacts on labour rights of the existing Agreement can be attributed to increased interaction between EU and Mexican firms to the extent that Mexican producers must comply with EU company policies in this regard.

Mexico has ratified 7 out of 8 fundamental International Labour Organisation (ILO) conventions. The outstanding fundamental convention is the Right to Organise and Collective Bargaining Convention (No. 98).

As regards the implementation of the fundamental conventions ratified by Mexico, ILO monitoring points to the need to further reduce child labour and combat forced labour (notably, the trafficking of persons). ILO monitoring bodies have also noted a number of restrictions regarding the possibilities of trade unions to operate. They have also drawn attention to the lack of clear policy in the area of non-discrimination as well as to particularly difficult working conditions faced by women in domestic work.

In respect of environmental issues, the existing FTA does not contain specific provisions in relevant areas, such as obligations to implement Multilateral Environmental Agreements, commitments to the conservation and sustainable management of natural resources (e.g. biodiversity, forests, fisheries), or to the promotion of trade and investment in environmental goods and services and climate-friendly products and technologies. Based on the CGE model (see Annex 5), the environmental effects of the FTA are very small. In terms of resource intensity, there are marginal effects on fisheries (+0.02%) and land use (+0.13%) in Mexico, while for the EU the effects are even smaller, with 0% and 0.01% respectively.

Overall, the effects of the existing EU-Mexico FTA on poverty and inequality are estimated to be very small.

1.3.6 Anticompetitive practices

Whilst trade liberalisation has led to the globalisation of markets, behind-the-border barriers such as anti-competitive practices by private and public enterprises or by government intervention appear to have replaced more traditional trade barriers in some instances.

Such practices have serious adverse impacts on international trade and can be addressed in an effective manner through a proactive enforcement of competition laws. However, the competition provisions of the existing Agreement are limited to just a single Article setting up a mechanism of cooperation on competition issues with limited effect.

1.3.7. Dispute settlement mechanism and mediation procedures

The existing FTA does not correspond to the standards of most recent agreements. Among its main shortcomings is its limited coverage. The dispute settlement procedure is not applicable to TBT, SPS, IPR, and balance of payment provisions. The only recourse the EU would have in these areas is to the dispute settlement mechanism of the WTO.

Moreover, the existing Agreement makes no provision for mediation procedures, although mediation should be seen as a valid and useful alternative to arbitration, as it is less formal and less time consuming. Indeed, mediation would enable the EU and Mexico to mutually agree on solutions to issues under dispute. This may result in a faster settlement for the parties of the dispute while preserving dispute settlement as a valid option in case of an unsuccessful mediation.

1.3.8 Institutional structure

Experience in the implementation of the existing FTA demonstrated that some of the institutional provisions included in the Agreement could be improved.

The institutional provisions of the current EU-Mexico FTA are not tailored to deliver the best implementation of the enlarged content of a modernised Agreement and do not reflect the institutional practices which have developed over the years with other partners (e.g. the Joint Committee meeting should convene on a yearly basis in its trade configuration, reporting to the Joint Council).

1.3.9. Global competition factors

Mexico is currently negotiating FTAs with Jordan, Turkey and is part of the TPP negotiations. By being part of the TPP process (which aims at going beyond the liberalisation of goods and services by covering many fields such as behind the border barriers, intellectual property and public procurement), Mexico seeks to deepen its economic integration with the Asia-Pacific region and strengthen its integration into global value chains. The TPP could result in the EU further losing ground in the Mexican market, notably to other Pacific countries.

Mexico is also a member of the Pacific Alliance (PA), a regional integration initiative together with Chile, Colombia and Peru which promotes growth, development and competitiveness through economic and trade integration with an emphasis on the Asia-Pacific region. Furthermore, Mexico recently has signed agreements with China[22] which will not only increase Chinese market access on goods but also China's investments in Mexico.

Mexico, for its part, is concerned that the TTIP might result in an erosion of the Mexico-US trade and investment relation[23] and has expressed a wish to be associated with the TTIP negotiations.

As the scope and level of ambition of more recent agreements signed or being negotiated by each party with third countries go beyond the provisions of the existing FTA, businesses and consumers on both sides enjoy less advantageous conditions for trade and investment than other trading partners of the EU and Mexico. The higher operational costs imposed on businesses by the existing Agreement in comparison to other FTAs have negative impacts on the productivity and competitiveness of EU and Mexican firms.

2. WHY SHOULD THE EU ACT?

The main objective of policy intervention in this case is to create more favourable conditions for further increasing trade and investment between the EU and Mexico. This objective is in line with the Foreign Affairs Council conclusions on trade of 21 November 2014[24] which underlined that *trade in goods, services and investment can make a significant contribution to achieve the aims at the core of the 'Strategic Agenda for the Union in times of change'* and expressed that *building on the tangible progress made in the EU's bilateral trade agenda, efforts should be devoted to pursuing agreements with key partners*.

According to Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence. The common commercial policy is listed among the areas of exclusive competence of the Union in Article 3 of the Treaty on the Functioning of the European Union (TFEU). This policy includes the negotiation of trade agreements pursuant to Article 207 TFEU.

In line with the principle of proportionality, all reasonable policy options are presented below in order to assess the likely effectiveness of such policy interventions.

[22] In 2014, health authorities from both Mexico and China reached an agreement on sanitary protocols concerning various agricultural products. China and Mexico also signed 14 bilateral agreements worth more than $7.4 billion, of which $2.4 billion will be used to create a binational fund for financial coverage of projects in the field of energy, mining, infrastructure, high-tech manufacturing, tourism and scientific research.

[23] See German impact assessment: http://www.bmwi.de/English/Redaktion/Pdf/dimensions-and-effects-of-a-transatlantic-free-trade-agreement-between-the-eu-and-usa,property=pdf,bereich=bmwi2012,sprache=en,rwb=true.pdf - Pg6.

[24] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/145908.pdf

3. WHAT SHOULD BE ACHIEVED?

3.1. General objectives

The EU's general objective as regards economic and trade relations derives from the TFEU, which in Article 3(1)(3) establishes the EU's exclusive competence for the common commercial policy. Furthermore, Article 206 provides that the overall objective of EU policy as regards economic and trade relations is to '*contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers*'.

As established by Article 205 of the TFEU, the common commercial policy also serves the more general objectives of the Union's External Action as described in Article 21 of the TEU.

The general objectives of this initiative include more concretely:

- promoting smart, sustainable and inclusive growth through the expansion of trade[25] (including promoting EU values and principles in its relations with the wider world, such as sustainable development and the protection of human rights),
- the creation of job and labour opportunities and welfare gains[26],
- lower consumer prices and other consumer benefits,
- improving Europe's competitiveness in global markets, and
- reinforcing cooperation on trade-related issues with a like-minded partner.

3.2. Specific objectives

In respect of future EU-Mexico economic and trade relations, the general objectives set out above would translate into the following specific objectives:

- mutually enhance market access for goods, services and investment (including through access to government procurement) from the EU and Mexico by further eliminating, reducing or preventing unnecessary barriers (including NTBs),
- ensure a high level of protection of investment and IPR both in the EU and in Mexico,
- reinforce dialogue and cooperation on regulatory frameworks (including SPS measures, standards, technical regulations and conformity assessment procedures) and administrative practices to improve regulatory coherence, and
- contribute to the shared objective of promoting sustainable development, inter alia by including trade-related provisions on labour and environment.

3.3. The EU's and Mexico's operational objectives

As referred to in the *Background* section (above), the EU and Mexico agreed on a Joint Vision Report on trade and investment issues setting out their joint understanding on the

[25] COM(2010) 2020, "Europe 2020: A strategy for smart, sustainable and inclusive growth", March 2010. "Trade, Growth and World Affairs". Trade Policy as a Core Component of the EU's 2020 Strategy", 2010, available at: http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

[26] 36 million jobs in the EU depend directly or indirectly on trade.

scope and level of ambition that a negotiation for modernising the EU-Mexico FTA would entail. The trade and investment part of the Joint Vision Report sums up the operational objectives of the EU and Mexico as described below.

3.3.1. Trade in goods

Tariff lines currently not fully liberalised should be further liberalised, while acknowledging the existence of some sensitivities for which appropriate treatment would be considered (e.g. long dismantling periods, or tariff rate quotas). The issues of agriculture export subsidies and export measures with equivalent effect should also be addressed, and the elimination of export duties should be sought.

The **rules of origin** should be updated. To that effect, there should be a horizontal review of the provisions of the Annex on Origin in order to make it clearer and simpler, and in order to take into account the latest developments in international trade practices as well as the evolution of legislation on RoOs. The possibility of extension of cumulation to third parties could be carefully considered, based on a prior assessment of reciprocal interests. The modernised agreement should also go beyond the WTO **Trade Facilitation** Agreement.

In order to address unnecessary obstacles to trade stemming from standards, technical regulations, conformity assessment procedures and metrology, a comprehensive chapter, building on the WTO **TBT** Agreement, should be included.

With the objective of protecting human, animal or plant life, or health in the territories of both sides, while facilitating and expanding trade, specific provisions building on the WTO Agreement on **SPS** measures should be included.

3.3.2. Trade in services and investment

A modernised agreement should aim at further liberalising **trade in services and establishment** beyond the level of the two sides' WTO commitments, with the minimum baseline of their respective offers in the Doha Round (DDA); and should aim to build upon the expected outcomes in the Trade in Services Agreement (TiSA) negotiations.

The modernised agreement should have a wide sectoral coverage, without *a priori* exclusions from the scope of negotiations. A modernised agreement should thus provide effective and economically meaningful new market access, by strengthening legal certainty, reinforcing the liberalisation principles, addressing barriers to market access and limitations on national treatment in the covered sectors.

The modernised agreement should cover all modes of supply, including establishment in non-services activities, subject to possible exceptions that take into account the existing regulatory framework. It should include provisions of general application on regulatory issues, transparency and mutual recognition of professional qualifications. It should also deal with the temporary movement of natural persons for business purposes in accordance with both sides' GATS[27] definitions[28].

[27] General Agreement on Trade and Services.
[28] In particular the definitions for Mode 4 categories included in respective schedules of commitments.

A modernised agreement should aim at a high level of **investment protection**. It should provide an effective guarantee of non-discriminatory treatment for all established investors and their investments and should provide a clear legal framework to protect their investments.

To this end, the modernised agreement should build on the best practices of the 16 existing bilateral investment treaties between EU Member States and Mexico[29]. The modernised agreement should provide for more precise and detailed definitions of the key standards of investment protection, should re-affirm the right to regulate of governments, and should give certainty to investors' rights.

A modern, state of the art **investment dispute resolution** mechanism, covering post-establishment activities, should be included. In this respect, a modernised Agreement will aim to include the elements of reform of the investment dispute system as proposed by the Commission for TTIP.

3.3.3. Regulatory coherence

While fully respecting each other's rights to achieve legitimate public policy objectives such as ensuring high levels of protection for human, animal and plant life or health, the environment and the right of consumers, the modernised agreement should include cross-cutting disciplines for the development and implementation of more efficient and more compatible regulations that would facilitate trade and investment and enhance the climate for competitiveness and innovation.

3.3.4. Intellectual property rights

Including a comprehensive IPR chapter addressing all IPR (including provisions on enforcement and border measures) is essential. It should include high standards of protection in all types of usage going beyond current TRIPS rules. The modernised agreement should also result in enhanced protection (including against evocation) for wines, spirits and agricultural foodstuff GIs, building upon the level of protection set in Article 23 TRIPS.

3.3.5. Public procurement

The Joint Vision Report highlights that a modernised agreement should aim at a mutually acceptable outcome with substantially improved access to public procurement markets, through a comprehensive coverage of entities at all levels of government, including government enterprises operating in the field of public utilities in all sectors (goods, services and construction services), so as to ensure *inter alia* treatment no less favourable than that accorded to locally-established suppliers. To this end, the agreement should include new generation disciplines equivalent to the revised GPA.

3.3.6. Trade and competition

The Joint Vision Report underlines that a modernised agreement should include disciplines on subsidies, antitrust and mergers applicable to all companies, including state owned enterprises and enterprises granted special or exclusive rights, including monopolies.

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[29] Upon conclusion of the modernised EU-Mexico FTA, the existing 16 bilateral investment treaties concluded in the past between the EU MS and Mexico will be replaced by a single modern framework of investment protection rules. This will enable to extend investment protection to investors from all EU Member States.

The modernised agreement should contain general enforcement principles, including on transparency, non-discrimination, procedural fairness and due process. The modernised agreement should also create a legal basis for the creation of mechanisms enhancing cooperation and collaborative mechanisms amongst the two sides' competition agencies.

3.3.7. Mediation and dispute settlement

The modernised agreement should foresee mediation procedures. Unsuccessful mediation could then be followed by standard state-to-state dispute settlement. To this effect, some detailed rules of procedures and a modern code of conduct for arbitrators should be incorporated.

3.3.8. Trade and sustainable development

Fully exploiting the important contribution that trade can make to sustainable development is a key objective that the EU increasingly pursues both multilaterally and in all its bilateral and regional trade negotiations. The modernised agreement should reflect the two sides' commitment regarding a set of internationally agreed principles and rules aimed at fostering a mutually supportive relationship between trade and sustainable development, as an important component of EU-Mexico trade and investment relations.

Thus, the modernised agreement should reaffirm the two sides' existing commitments to effectively implement the ILO fundamental labour conventions and other ILO conventions to which they are party, as well as their resolve to promote the ILO Decent Work Agenda through their policies. A similar approach would be followed regarding multilateral environmental agreements (MEAs).

Trade and sustainable development provisions should set out commitments in relevant areas (e.g. environmental goods and services or CSR) and should provide for mechanisms for sharing information, dialogue and joint cooperation initiatives in priority areas. A specific mechanism should be foreseen to oversee implementation, based on dialogue, cooperation and transparency, including through the involvement of social partners and civil society from both sides as well as a specific dispute settlement mechanism agreed by both sides involving consultations and subsequent participation of independent experts.

Trade and sustainable development provisions should promote the sustainable management of natural resources (e.g. biodiversity, forests and related land use, fisheries) and trade and investment in environmental goods and services. In the context of climate change, the modernised agreement should promote trade and investment in low-emission[30] and climate resilient infrastructure (e.g. renewable energy, energy efficient buildings, low-carbon transport) and technologies (e.g. energy efficient and energy saving technologies, low-emission waste treatment, etc.).

These provisions should recognise each side's right to regulate and intention to pursue high levels of domestic social and environmental protection consistent with internationally agreed standards and rules.

[30] In this paper, the term "low-emission" is used as a short version of "low greenhouse gas emission". Greenhouse gases include primarily CO_2 but also other gases that cause global warming such as HFCs.

3.3.9. Institutional structure

The Joint Vision Report reflects the view that the modernised agreement should include revised institutional provisions for its effective administration.

3.4. Consistency of the EU operational objectives with other EU policies

The EU's operational objectives described above are fully consistent with, and indeed stem from the principle that the European Union should *encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade*[31].

The EU's operational objectives are also in line with the Europe 2020 Communication which announced that the European Commission would draw up a trade strategy in 2010 including *proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances, energy and climate change, access to raw materials, to global poverty, education and development*.

Accordingly, the Communication on Trade, Growth, and World Affairs highlights the priority of *making significant further progress in our relations with strategic partners*[32]. Mexico is one of the EU's strategic partners, with which the deepening of bilateral economic, trade and investment links is stressed by the Communication as being of major importance.

In terms of contribution to the multilateral trading system, deep and comprehensive FTAs can usefully reinforce the benefits to be derived from the multilateral process, in particular by providing improvements in trading conditions, not just for the bilateral partners to an agreement but also by providing benefits via most favoured nation treatment to other WTO members, where this results from the agreement in question.

The EU's operational objectives are also fully in line with the Communication 'Trade for all - Towards a More Effective, Transparent and Responsible Trade and Investment Policy' which highlights the need to move forward our bilateral relationships in order to deliver jobs and growth by tackling trade and investment barriers in a comprehensive way while securing the EU's level of social and environmental protection and contributing to other policy objectives, including sustainable development and the particular needs of SMEs.

The EU's operational objectives are also fully consistent with the objectives set out by the European Commission's Communication 'Small Business Act for Europe' (2008) and 'Small Business, Big World' (2011). Supporting SME's economic activities outside the EU is also embedded in the Union's overall competitiveness strategy as outlined in the Europe 2020 Communication on Industrial Policy.

The EU's operational objectives also comply with the principles established in the TEU stipulating that the Union's policies and actions should aim to *consolidate and support human rights*[33] and to *help develop international measures to preserve and improve the quality of the*

[31] Article 21 para 2 (e) TEU.
[32] COM(2010)612/4, p. 2.
[33] Article 21 para 2 (b) TEU.

environment and the sustainable management of global natural resources[34] in the manner set out in Chapter 5.

Finally, the EU's operational objectives are also fully consistent with the Juncker Commission's top priority to get Europe growing again and to increase the number of jobs without creating new debt[35] as well as with the Investment Plan[36].

4. WHAT ARE THE VARIOUS OPTIONS TO ACHIEVE THE OBJECTIVES?

With a view to attaining the objectives set out in Chapter 3, this chapter outlines different scenarios:

- a baseline scenario which does not include any substantial policy changes,
- a 'sectoral scenario' which would entail reviewing the existing EU-Mexico FTA on the basis of the review clauses foreseen in Decisions 2/2000 and 2/2001 of the EU-Mexico Joint Council for further liberalisation in agriculture, services and investment, and
- a comprehensive scenario which would involve the negotiation on a broad range of issues that both sides wish to address, as set out in the Joint Vision Report, including market access in agriculture, trade in services, investment, TBT, SPS measures, IPR, public procurement, trade facilitation, competition, trade and sustainable development. For this option, we consider two sub-scenarios – one conservative and one more ambitious - that vary on the extent to which NTBs can be removed.

The impact analysis carried out in Chapter 5 of this report will assess the opportunity and feasibility of these various options with a view to providing clear indications on what should be the best direction for enhancing the EU-Mexico trade and economic relationship.

4.1. Policy option A: no policy change (baseline scenario)

The first option would be to continue to operate under the existing framework, with possible incremental improvements of its functioning and effectiveness (e.g. updating the rules of origin to reflect the changes in the Harmonised System run by the World Customs Organisation, or addressing some specific trade irritants).

Thus, the analysis of this baseline scenario is essentially based on the developments in the bilateral economic relationship that are likely to be generated by the evolution of the EU and Mexico's economies as well as by the global economic situation.

4.2. Policy option B: use of the sectoral review clauses on agriculture, services and investment

The existing FTA includes sectoral review clauses foreseen in Decisions 2/2000 and 2/2001 of the EU-Mexico Joint Council which provide the possibility to engage in further liberalisation in agriculture (Article 10 - review on a case by case basis of customs duties and

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[34] Article 21 para 2 (f) TEU.
[35] http://ec.europa.eu/priorities/jobs-growth-investment/index_en.htm
[36] http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm

tariff quota quantities), services (Article 17 - elimination of substantially all remaining discrimination) and investment (Article 35 - progressive liberalisation of investment).

An EU-Mexico FTA revised along such lines would entail keeping the existing framework without any possibility either to redesign the existing provisions not covered by the review clauses (e.g. TBT, SPS, IPR, public procurement), or to incorporate new ones (e.g. trade and sustainable development, mediation).

4.3. Policy option C: comprehensive modernisation of the EU-Mexico FTA

Under this option, the EU and Mexico would enter into comprehensive negotiations for modernising the EU-Mexico FTA. Such an approach would allow not only to cover other issues and sectors than the three foreseen in the review clauses, but also would allow negotiators to create synergies between the different areas.

In line with recent and on-going established policies both in the EU and Mexico, such a modernised agreement would be of a deep and comprehensive nature, and would involve, *inter alia*, a major effort to further liberalise trade in goods and services, to facilitate investment flows, to address more efficiently non-tariff measures (including TBT and SPS aspects), to spur regulatory coherence, to provide higher standards of protection and enforcement of IPR, to improve access to public procurement markets (including for SMEs) and to promote the contribution of trade and investment to sustainable development.

A key goal of such a modernised FTA would be to substantially reduce the cost of NTBs for traders, investors and in particular for SMEs.

The analysis of this option looks at two different possible sub-scenarios proposing different degrees of trade liberalisation:

- a conservative scenario, and
- an ambitious scenario.

The differences between these conservative (option C.a.) and ambitious scenarios (option C.b.) relate mainly to the extent to which NTBs on non-agricultural goods and services can be removed, and to a lesser extent, to the feasibility of further agricultural market access. They are intended to provide a range of possible results in negotiations. In this respect, the scenarios for eliminating non-tariff barriers were elaborated by taking into consideration the achievements of previous FTAs (based on the effect that various classes (distinguished by level of ambition) of FTAs are found to have on bilateral trade in comparison to bilateral trade of countries not having an FTA with each other (see more detail under 5.1)).

Concerning NTBs on non-agricultural goods[37], these conservative and ambitious scenarios respectively assume different degrees of barrier reduction, which are informed by an econometric analysis by an external consultant. This analysis is based on the identification, on

[37] There are many legitimate reasons for considering that assuming all NTBs can be eliminated, or all regulatory divergence can be aligned, is not realistic. This is the case, because some of these are linked to legislation addressing environmental, safety and public health concerns. All trade policy options will fully respect the right of each side to regulate in a manner that ensures the protection of health, safety, and the environment at the level that each side deems appropriate.

a sectoral basis, of NTB reductions that have been achieved in the past by FTAs of different levels of ambition. These are then used as benchmarks for the two sub-scenarios.

Accordingly, the conservative scenario is based on NTBs reductions that were found to have been achieved in least far-reaching FTAs. Likewise, the ambitious scenario is based on the reductions found to have been achieved in more elaborate FTAs.

Concerning NTBs on services, existing estimates from the World Bank are used as baseline levels. For the conservative scenario, ad valorem equivalents (AVEs) are reduced by a notional cut of 3%, scaled by a country-specific risk score, to reflect a binding of existing levels of openness[38]. Such a methodology has been applied in the recent past in various internal and external studies commissioned by the European Commission to simulate scenarios of binding services protection at applied levels[39]. In the case of the ambitious scenario, actual market access (i.e. beyond pure binding of existing levels of openness) is assumed to be achieved in a few sectors, represented by an additional 10% reduction of the NTBs on top of the liberalisation stemming from binding.

For agricultural goods, the European Commission experts were consulted in order to sketch a likely set of tariff reductions and TRQ expansions that could happen under a modernised EU-Mexico FTA, again differentiated according to either a conservative or an ambitious negotiation outcome. Details on the scenarios can be found in Annex 4[40].

5. WHAT ARE THE IMPACTS OF THE DIFFERENT POLICY OPTIONS?

This Chapter analyses the impact of the different policy options outlined above on a number of different levels. It first looks at the overall economic impact resulting from the different policy options for modernising the EU-Mexico FTA. It then includes an analysis of economic impacts in the EU and Mexico on SMEs and on specific sectors, and covers environmental, social and human rights impacts. The administrative and budgetary impacts are also analysed, as well as the administrative capacity of Mexican customs to implement the agreement.

The analysis focuses on the impact for the EU and for Mexico. It doesn't present detailed results at MS level which would be misleading as the exports from one MS to Mexico can and do contain sizeable value added in other MS. Presenting only the trade flow between the member state producing the final good and Mexico would bias the trade impact in favour of MSs that are specialised in finished products and disfavour those whose comparative advantage lies in the production and export of intermediates. The success of the internal market and the subsequent deep inter-linkages of EU value chains tend to amplify this problem.

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[38] The institutional environments of countries exhibit varying degrees of country-specific institutional risk. The percentage reduction of existing services barriers should therefore be smaller for countries with a stable and efficient set of institutions and higher for countries with a less favourable institutional environment. Based on its risk score, computed from indicators provided by the Economist Intelligence Unit, the barriers by Mexico are reduced by 4.4% in the model simulations.

[39] Such as the Analysis of Consequences of the FTA between Singapore and the EU: http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151724.pdf and the SIA of the DCFTAs between the EU and Georgia and Moldova: http://ec.europa.eu/trade/policy/policy-making/analysis/sustainability-impact-assessments/assessments/#study-geo-15.

[40] During the negotiation itself, DG Trade is committed to carrying out an additional study - a sustainability impact assessment (Trade SIA) - which could provide a more detailed analysis of the potential outcomes, the actual scope and content of the proposed agreement being better defined at that stage.

5.1. Model and assumptions

For the simulations in this report, the global CGE model GTAP and its most recent database GTAPv9 built on data from 2011 have been used (see Annex 4). A global CGE model is a representation of the world economy broken down by countries and sectors. Their purpose is to realistically take into account resource constraints and intersectoral relationships and to simulate the effects of policies and policy changes, in particular those of trade policies (see more detail in Annex 4). The structure of the model used here is fully documented in Hertel (2007). The GTAP Data Base[41] contains input-output tables for 140 countries/regions and 57 sectors.

Ample details on the assumptions and limitations made by the CGE analysis are to be found in Annex 4. One of them should be highlighted at this stage to help the reader better understand the results section (see in particular 5.5.1): the model does not deliver employment effects as it works with fixed employment closure (i.e. the overall number of jobs does not change in the simulation of the agreement).

Thanks to the existing FTA, most of the MFN tariff barriers of both countries have already been removed. NTBs are therefore the main existing obstacle to more trade in goods and services between the EU and Mexico and prove to be the main driver of the welfare gains from a modernised agreement. It is thus appropriate at this stage to provide a general explanation about the methodological approach to the ex-ante assessment of their reduction.

For goods, an external study provided econometric estimates of by how much NTBs have been reduced by trade agreements of varying ambition between different countries around the world that are currently in force. The main indicator used for this exercise was the extra bilateral trade creation that can be attributed to the agreement. Therefore, while it is true that abolishing NTBs is a very hard objective to achieve, we can be confident that our analysis is not presenting overly ambitious results. What we propose can be achieved, and indeed has already been achieved in the past in similar agreements.

For services, the assessment of likely NTB reduction is more difficult than for goods. This is mainly due to the nature of services trade liberalisation, which usually does not actually achieve a removal or reduction of barriers, but merely a binding thereof, i.e. a commitment by the negotiation partners not to raise the levels of existing NTBs. An established practice that, in the absence of a superior method in academic literature, has been adopted by DG Trade for previous analyses is to value this binding as being equivalent to a 3% reduction of these existing barriers, reflecting a reduction in the business risk of foreign service providers. As there is a realistic chance that the negotiations might be more successful than that in a number of services sectors and actually achieve a small reduction of existing NTBs, a somewhat higher reduction percentage (10%) is assumed for these sectors for the more ambitious of the two comprehensive modernisation scenarios (option C.b).

5.2. Policy option A: The baseline scenario

[41] Further details on the latest version of the database can be found at https://www.gtap.agecon.purdue.edu/databases/v9/default.asp.

Export of goods and services from the EU to Mexico reached 35 billion EUR in 2013. Imports were smaller with 21.3 billion EUR[42]. EU investments (FDI) in Mexico amounted to 20.3 billion EUR in 2013. Mexican investments in the EU amounted to considerably less: 3.7 million EUR.

According to the IMF outlook from April 2015, the average growth rate of the EU until 2020 will be 1.88%, whereas that for Mexico is estimated to be 3.52%. If this growth rate is extrapolated for the period between 2020 and 2028, the projected GDP of the EU in 2028 would be 17.8 billion EUR, and that of Mexico would be 1.6 billion EUR (at exchange rates from the ECB, third quarter of 2014 to second quarter of 2015). Any absolute numbers on GDP or welfare changes in this section have to be interpreted as using these figures as their base.

Given the results achieved so far under the existing EU-Mexico FTA, and given its scope, it is reasonable to assume that no further reduction of regulatory trade costs can be expected from the operation of the Agreement, and that we should not expect the agreement to foster any substantial further growth of bilateral trade and investment volumes. Thus, no significant further gains in overall welfare that could be attributed to the EU-Mexico FTA could be expected in either the EU or Mexico in the short to medium term. Any changes in the EU-Mexico trade and investment relationship would therefore be only those that could be attributed to changes in the two economies and in the world economy at large.

Thus, in order to assess developments under the baseline, the GTAP database has been amended and projected forward to 2028 in order to sketch how the world economy and in particular the economies of the EU and Mexico would develop in the absence of a modernisation of the existing FTA.

All impacts reported in subsequent sections represent deviations from this baseline scenario. One important aspect to mention is that, for the purpose of this Impact Assessment, NTBs in the goods and services sectors, which are not part of the original database, have been estimated by external consultants and subsequently been integrated by the European Commission in the database when producing the baseline.

The baseline projections of the model account for some of the recent structural changes, in particular the increasing role of Asian countries in the world economy. They do not account however for some very recent and potentially upcoming trade policy changes, in particular TTIP, CETA and TPP. At the time of the CGE simulations the TPP negotiations were ongoing and the TTIP is still under negotiation, thus the actual content of these agreements were largely unknown. For CETA, although the negotiation had been finalized, a comprehensive assessment of the achievements in terms of NTB reductions is not available yet[43]. Their inclusion would have necessitated a large degree of speculation and thereby influencing the reliability of the modelling results.

5.3. Policy option B: Use of the review clauses on agriculture and services included in the EU-Mexico FTA

[42] Sum of imports and exports in trade in goods and services; 2014 data for goods was available at the time of writing, but not so for services.
[43] An "Analysis of Consequences" study, evaluating the final negotiation outcome of CETA is currently commissioned to an external consultant by DG Trade.

5.3.1 Overall economic impact of using the review clause for agriculture

The isolated impact of using the review clause on agriculture would at best correspond to the isolated impact of the agricultural barrier reductions simulated for the conservative sub-scenario of option C[44]. Those would bring about welfare increases of about EUR 106 million[45] per annum by 2028 for the EU; and EUR 280 million per annum by 2028 for Mexico[46]. For the EU, this corresponds to 12.5% and 2.8% of the welfare gains that respectively a conservative and an ambitious modernisation of the FTA would yield. For Mexico, this would be 17.5% of the welfare gains from a conservative modernisation scenario and 4.8% of those from an ambitious modernisation scenario.

5.3.2. Overall economic impact of using the review clause on services

The isolated impact of using the review clause on services would at best correspond to the isolated impact of the services barriers reductions simulated for the conservative sub-scenario of option C. Those would bring about welfare increases of about EUR 20 million per annum by 2028 for the EU, and EUR 15 million per annum by 2028 for Mexico. For the EU, this corresponds to 2.3% and 0.5% of the welfare gains that respectively a conservative and an ambitious modernisation of the FTA would yield[47]. For Mexico, this would be 0.9% of the welfare gains from a conservative modernisation scenario and 0.3% of those from an ambitious modernisation scenario.

5.3.3. Overall economic impact of using the review clause on investment

With the CGE model used in this analysis and without having reliable estimates of barriers to investment and potential reductions thereof, we did not attempt to quantify the effects of investment liberalization on GDP and welfare. Our methodological inability to quantify investment liberalisation effects likely underestimates the overall effect of the modernisation not only on option B, i.e. the invoking of the review clauses, but also and particularly so on the scenarios under option C.

5.3.4. Overall conclusion of the analysis of policy option B

The combined effect of the review clause on services and agriculture would at best increase EU welfare by about 0.001% of GDP. In monetary terms this corresponds to an increase of EUR 126 million per annum by 2028. For Mexico, this option would deliver an increase in welfare of about 0.02% of GDP, which amounts to about EUR 295 million per annum by 2028.

[44] The reasoning behind this assumption is that if the level of ambition is to go only for the activation of the review clauses, it is not high enough to achieve very far reaching goals in the limited set of fields to negotiate.

[45] All figures in EUR in relation to the CGE analysis have to be interpreted as real 2011 EUR.

[46] This means that welfare increases on a permanent basis to a level that is EUR 69 million (or 152 million in the case of Mexico) higher by 2028 than it would be in the absence of a modernization. It does not constitute a compound gain such as would see welfare increasing by EUR 69 million each year. All changes in this section of the report should be interpreted in a similar vein.

[47] The welfare gains of the conservative and ambitious scenario to which we compare the reduced gains that option B can deliver are quantified and discussed in section 5.4..

5.4. Policy option C: Comprehensive modernisation of the EU-Mexico FTA

5.4.1. Overall economic impact of a conservative modernisation (option C.a.)

In case of a conservative scenario for a modernised FTA with Mexico, the CGE model estimates the effects on EU GDP to be 0.003% per annum by 2028[48]. This corresponds roughly to EUR 0.5 billion[49]. For Mexico, this gain is larger in both relative and absolute terms, amounting to 0.11% of GDP per annum by 2028, or EUR 1.8 billion.

The impacts on EU welfare as a % of GDP[50] would be 0.005% per annum by 2028, corresponding to EUR 0.8 billion. The gains for Mexico would be larger, amounting to 0.1% of GDP per annum by 2028, or EUR 1.6 billion.

While the impact of further liberalisation of trade in goods (notably in agriculture) and trade in services under option C.a. is comparable to the impact assessed under option B, the overall impact of option C.a. is higher because NTB reductions in the manufacturing sectors are not part of the negotiations. These are, however, where the welfare gains are concentrated.

5.4.2. Overall economic impact of an ambitious modernisation (option C.b.)

In case of an ambitious modernisation, the projected economic effects are amplified considerably when compared to the baseline. For the EU, the model foresees that by 2028 GDP per annum would be 0.01% larger, which in monetary terms is about EUR 1.8 billion. In the case of Mexico, GDP per annum would be 0.39% larger, or about EUR 6.4 billion. Welfare increases as a % of GDP are 0.02% per annum by 2028 for the EU. This corresponds to roughly EUR 3.7 billion. For Mexico, welfare as a % of GDP is raised by 0.36% per annum by 2028, or EUR 5.9 billion.

The overall economic impacts are therefore consistently positive for both partners. They are in line with results obtained from earlier CGE analyses of other bilateral relationships, if appropriately put into perspective by taking into account the current volume of bilateral trade and the baseline GDP of the partner countries. In particular, while projected results for TTIP (USA) or the EU Japan FTA were larger, so are the bilateral trade volumes between the EU and the two partner countries concerned; and so also are those two countries' GDPs.

5.4.3. Comparing the impact of a conservative and an ambitious modernisation

Welfare gains of the ambitious modernisation scenario (option C.b) exceed those of the conservative modernization (option C.a) scenario by roughly a factor of four on both sides. Assumed liberalisation efforts are higher in all sectors of the economy under option C.b, but a closer look at the model results reveals that the increased ambition in manufacturing NTB liberalisation, which in both scenarios accounts for the bulk of the welfare gains, is the main driver of the difference in results between the two options. Isolated welfare gains from the

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[48] Again, this should be understood to mean that GDP increases on a permanent basis to a level that is 0.003% higher by 2028 than it would be in the absence of a modernization. It does not constitute a compound gain such as would see GDP increasing by 0.003 percentage points each year.

[49] All figures in EUR in relation to the CGE analysis have to be interpreted as real 2011 EUR.

[50] This is in a certain way a more reliable indicator than the impact on GDP as the latter can contain sizeable effects of FDI the returns to which are accruing to non-residents.

liberalisation of manufactured goods NTBs increases stronger than those from agriculture or services liberalisation in both absolute and relative terms.

5.5. Sector-specific and SMEs analyses

5.5.1. Impact on sectoral competitiveness in the EU and Mexico (e.g. farming, fisheries, agro-industry, telecommunications and energy (oil, gas, electricity))

As shown by the responses to the public consultation, the broad majority of stakeholders representing a sector supports further trade liberalisation and expects a positive impact on the competitiveness of their sector.

According to the CGE simulation, total bilateral trade in goods and services between the EU and Mexico increases by 17.0% in the conservative scenario and by 75.1% in the ambitious scenario. For EU imports from Mexico, total trade over all sectors increases by 9.3% in the conservative scenario, and by 32.5% in the ambitious scenario. The sectoral breakdown however shows significant variation.

Under the conservative scenario, EU exports to Mexico grow most strongly in percentage terms in the agricultural sectors (Beef, Milk and Dairy, and Sugar). However, bilateral sectoral trade flows are today negligible for these sectors, except for Milk and Dairy Products which in the baseline account for about 1.2% of bilateral exports[51]. The three sectors with existing significant trade which are forecast to experience the largest increases in bilateral exports to Mexico are Motor Vehicles, Chemicals and Milk and Dairy Products. Out of the 17% of the total increase in bilateral trade mentioned above, the latter sectors contribute 4%, 3.5% and 2.8%, respectively.

As far as EU imports from Mexico are concerned, the conservative scenario most benefits in relative terms the sectors of Sugar, Metal and Metal Products, and Other Transport Equipment[52]. The strongest absolute increase in bilateral trade is projected for the Motor Vehicles, Chemicals and Metals and Metal Products sectors. Out of the 9.2% of the projected overall increase, these sectors represent 4.5%, 1.5% and 1.0%, respectively.

Out of 41 sectors, only three see a decrease in bilateral exports from the EU to Mexico (Rice[53], vegetables and other agricultural products). Where EU imports from Mexico are concerned, eight sectors see decreases. All of these decreases are, however, small in relative terms (1% or lower) and practically invisible in absolute terms.

In the ambitious scenario, overall as well as sectoral increases in bilateral trade are naturally found to be more pronounced. For the EU, the sectors with the greatest relative expansion of bilateral trade are the same as before, but with significantly larger increases. In macroeconomic terms, the most important increases in exports to Mexico are expected to occur in Chemicals, Motor Vehicles and Other Machinery[54]. These sectors contribute 21.6%, 17.2% and 9.1% to the overall increase of 75.1%.

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[51] Increased bilateral trade is triggered by TRQs that are assumed to be granted based on experiences from other recent FTAs.

[52] i.e. other than motor vehicles.

[53] The decrease though would only be slightly by - 0.2%, and at the same time, imports of rice from Mexico to the EU would decrease also, in fact more than EU exports to Mexico.

[54] i.e. other than motor vehicles, transport equipment and electrical machinery.

For EU imports from Mexico, the strongest increases in relative terms can be found in the Rice[55], Other Meat and Sugar sectors. In absolute terms, the strongest increases in trade flows are expected to take place in the Motor Vehicles, Chemicals and Metal and Metal Products sectors. These make up for 17.6%, 4.9%% and 4.7% of the 32.5% of total increase in EU imports from Mexico.

Just as in the conservative scenario, bilateral trade in some sectors decreases slightly, and such sectoral reductions in bilateral trade mainly occur in EU imports from Mexico. The highest relative sectoral decrease now is up to 2.1% (in the Other Manufactures sector); but as a percentage of total bilateral trade, the only visible sectoral reduction occurs in the Finance sector, where the decrease accounts for 0.08% of total bilateral trade.

The EU sectors having been shown to benefit most from a conservative modernisation scenario are the Milk and Dairy, Chemicals and Petrochemicals sectors, whose output increases by 0.23%, 0.02% and 0.01%, respectively. Equally, the sectors expanding most strongly under an ambitious modernisation are simulated to be the dairy, the chemicals and the petrochemicals sectors, growing 0.44%, 0.26% and 0.18%, respectively.

As was the case with bilateral trade, these sectoral growth percentages need to be related to sectoral value added in the baseline, in order to be interpreted and compared in a meaningful fashion. In a conservative scenario, the biggest impulse to increased value added is coming from the Milk and Dairy sector, where value added increases by about EUR 139 million. Second and third are the Construction and Chemicals sectors where value added increases by 50 million EUR and EUR 40 million. Under an ambitious modernisation, the sectors expanding most strongly are the Chemicals, the Milk and Dairy and the Construction sectors. Value added goes up by EUR 487 million, EUR 272 million and EUR 193 million.

For Mexico under the conservative scenario, the most beneficially affected sectors are Motor Vehicles (0.27%), Air Transport (0.23%) and Construction (0.09%)[56]. The same sectors will also gain most under the ambitious scenario, but with higher increases (1.21%, 0.49% and 0.42%).

In terms of total value added, the sectors contributing most strongly under both scenarios are Motor Vehicles, Construction and Business Services. Under a conservative modernization scenario, these sectors expand value added by EUR 86 million, EUR 40 million and EUR 37 million. Under an ambitious scenario, these numbers increase to EUR 381 million, EUR 162 million and EUR 138 million[57].

The CGE modelling highlights also the sectors where potentially negative impacts of the proposed agreement are largest in terms of value added. For the EU (under an ambitious

[55] The fact that EU imports of rice increase under option C.b. stems from the assumption of setting up a tariff rate quota for Mexico. EU exports of rice under this scenario would remain stable. In the actual negotiations, any potential TRQ would also take into account the existence of specific sensitivities in this sector.

[56] Actually, in both scenarios, the GTAP sector "Other Agriculture" increases third strongest in absolute terms, but we chose not to present it here as it is an amalgam of rather different services activities.

[57] In both scenario's value added is most strongly increasing in the GTAP sector other services. As before with "Other Agriculture" we chose not to report this as a sectoral result as in fact the activities grouped under this category are quite diverse.

scenario), these are Business Services, Finance and Other Machinery. For Mexico (under the ambitious scenario), these are Chemicals, Other Machinery and Milk and Dairy Products.[58]

One interesting observation from the sectoral analysis is that the sectors in which value added is affected most strongly, whether positively or negatively, are not necessarily those where bilateral exports or imports grow most strongly. Closer examination indicates that in many cases these are less traded sectors, that are growing because of growing demand due to increased household income or that are shrinking because of an increased overall wage level (cf. section 5.8 below on social impacts).

On the other hand, it can be observed that in some instances, identical sectors in both partner countries are subject to a loss of output. This is mainly an effect of the fixed employment closure. As the overall employment is fixed, any growth of sectors as a result of the modernized FTA has necessarily to occur at the expense of other sectors that the modernization does not benefit or does not benefit as strongly as the former. Although such sectors should reasonably be considered as not affected by the modernization, the fixed employment closure will lead to the model prediction that these sectors shrink and therefore appear as negatively affected by the agreement. If there are no or only minor NTB reductions for one sector in either direction, this sector may be found to decrease its output in both partners because they have to compete for labour with sectors that benefit more strongly.

5.5.2. Impact on SMEs

SMEs represent over 80% of all EU exporters and account for one third of the value of direct EU exports. SMEs are prominent in a number of sectors which are likely to be particularly impacted by the modernisation of the EU-Mexico Agreement.

As several public consultations and studies highlighted, there is a particular need among SMEs for greater advice and assistance on how to cope with diverging regulatory environments. Difficult paperwork, bureaucratic procedures (administrative costs), conformity of products and services to national technical standards and other laws and regulations in foreign countries have been repeatedly indicated by EU SMEs as some of the most important barriers to internationalisation. The fixed costs of complying with regulations weigh against SMEs more than against larger firms.

The result of public consultation carried out in the framework of this Impact Assessment clearly expressed the particular need of SMEs for greater advice and assistance on how to break into export markets, and into Mexico in particular.

A modernised FTA would also create an opportunity to strengthen existing cooperation and to create new support programmes to help SMEs to increase their exports. More generally, SMEs should gain from the modernisation of the EU-Mexico FTA on a number of levels: NTB cost reduction, simpler rules of origin, increased regulatory cooperation between the EU and Mexico as well as further convergence towards international standards.

[58] Following the explanation at the end of section 5.2, negative sectoral results should be interpreted with care. A negative number for sectoral output does not necessarily mean that the sector is harmed by the agreement. In particular where the negative effect found is small, it may rather mean that the sector is not affected at all or not as strongly as other sectors, which by the model logic can only grow if other sectors shrink.

5.6. Economic impact on third countries

Third countries are generally impacted to a negligible degree, although the impact is generally negative. The US is the most strongly impacted country, where welfare as a share of GDP decreases by 0.002% under the conservative and 0.009% under the ambitious scenario.

Other Latin American countries are likely to be slightly more affected than the other parts of the world but to a lesser extent than the US[59].

5.7. Governance impacts

The inclusion of dedicated anti-corruption provisions in the modernised agreement could be considered in order to increase cooperation and participation of government and civil society in the fight against corruption.

The public procurement and investment chapters, which aim at introducing more transparency, fairness, legal predictability and judicial review over these two areas of the economy, will include provisions that should have a positive impact on the reduction of corruption in tendering and foreign investment authorisations.

5.8. Analysis of environmental impacts[60]

Mexico accounted for only 1.7% of the EU's exports and 1.1% of its imports in 2014. As a consequence, any positive or negative environmental effects resulting from an ambitious modernisation of the EU-Mexico FTA are likely to be very small. Impacts may be somewhat greater in Mexico, given that the EU represented 8.2% of its exports in 2014.

The EU and Mexico have ambitious commitment to increase the share of renewable energy and to decrease overall energy consumption. Increased cooperation between Mexico and the EU should include and facilitate greater cooperation on climate protection, in particular on trade and investment in low-emission and climate resilient infrastructure and technologies, as well as on other environmental issues including biodiversity, natural resources and waste management.

5.8.1. Analysis of the impact of the policy options on the climate and climate change resulting from greenhouse gas emissions

This concerns the possible impact of a reduction in trade barriers between the EU and Mexico on climate change, measured here as changes in global CO2 and other greenhouse gases emissions.

In 2010, the EU and Mexico have signed up to the Cancun Agreement under the United Nations Framework Convention on Climate Change (UNFCCC). The EU committed to a 20% reduction of greenhouse gas emissions by 2020 as compared to 1990, while Mexico took on a voluntary commitment to reduce emissions by 30% (in comparison to projections of business as usual emissions) subject to international support.

[59] This applies also to LDCs, only one of which (Haiti) is located in Latin America.
[60] The impact analysis, as detailed in Annex 4, does not offer any analysis of the environmental impacts.

In the context of negotiations of a new climate change agreement to be concluded at the UNFCCC meeting in Paris in December 2015, the EU and Mexico made further emission reduction pledges for the period 2020-2030.

Additional production in these economies will therefore need to take place within the existing ceilings commitments, through a combination of increased emissions efficiency (energy-saving investments), increased use of low-emission technologies and potentially, re-allocation of production from more to less emission-intensive sectors. As such, any scale effects (i.e. as a result of an increase in production) in the EU or Mexico brought about by trade opening will have to be compensated by composition and technology effects, or changes in production patterns and production techniques, given the need for the EU and Mexico to respect their commitments. Therefore, the new agreement should contain specific provisions to promote trade and investment in low-emission infrastructure and technologies (such as energy efficiency and renewable energies).

Outside the EU and Mexico, emissions change mainly as a result of spill-over effects from the lowering of NTBs, trade diversion effects, and changes in production patterns. Overall, the impact on global emissions is close to zero.

5.8.2. Assessment of the potential impact of the policy options on biodiversity, natural resources and waste, and the environmental consequences for firms and consumers

The comprehensive modernisation option increases trade and thus the need for resources for production[61]. This may increase waste and might threaten both natural resources and the preservation of biodiversity.

On the other hand, an ambitious reduction of NTBs is expected to have a positive effect on trade in environmental goods and services. Increased levels of trade in environmental goods and services, such as in the area of renewable energy, should lead to innovation and greater efficiency and provide environmental benefits such as reduced greenhouse gas emissions. Similar impacts are expected from increased cooperation in this field through the cooperation structures that would be set up covering trade and energy and the environment.

As noted earlier, the dairy products sector in Mexico would face increased competition from the EU under a modernised FTA. The environmental impact of any decline in milk production in Mexico is likely to be limited as the most likely outcome would be a shift to other forms of livestock production. The environmental impact in the EU of a (modest) increase in exports of dairy products to Mexico would be mitigated by environmental regulations in force in the EU.

Provisions on the effective implementation of Multilateral Environmental Agreements and for cooperation on trade and environment issues in a modernised FTA should have a positive impact, bearing in mind that both partners have ambitious commitments in the area of environment, as well as consumers interested in the responsible sourcing of products.

5.9. Analysis of the social impacts

[61] This presupposes that the option of an FTA is pursued given the negligible trade benefit effects expected from the baseline option will have correspondingly negligible effects.

Human rights being a set of crosscutting values, standards and principles which include in particular several social rights, some social impacts are addressed in the chapter 5.10. analysing the impacts on human rights.

5.9.1. Overall estimation of changes in welfare and wages in the EU and Mexico

Increased trade between the EU and Mexico should lead to an increased demand for labour, and raise the welfare of both parties. The greater the extent of liberalisation proposed in the various policy options, the greater should be the welfare gains achieved.

As highlighted by the results of the CGE modelling, a sectoral revision would allow for an increase in EU welfare by about 0.001% of GDP, i.e., in absolute numbers an increase of EUR 82 million. For Mexico, pursuing this option is found to deliver an increase in welfare of about 0.02% of GDP, which is about EUR 160 million in monetary terms[62].

An ambitious modernisation would allow for increases in welfare (as a percentage of GDP) in the EU of 0.02% (or 2.4 billion EUR); and in Mexico of 0.36% (or 3.2 billion EUR). These increases would also help fighting against poverty and inequality.

In the EU and Mexico, for both lower skilled and higher skilled workers, we expect a modest increase in overall employment opportunities under option C reflected by slightly higher wages[63]. Under the conservative scenario, both unskilled and skilled workers are estimated to benefit from a +0.02% change in wages (in the EU) as a result of revised agreement; while in Mexico, the gains are +0.15% for unskilled workers, and +0.19% for skilled workers. In the case of an ambitious agreement, the change in wages (in the EU) rises to +0.10% for unskilled workers and to +0.09% for skilled workers; in Mexico, the gains are estimated to be +0.53% for unskilled workers, and +0.74% for skilled workers.

In the online public consultation of stakeholders, respondents for business interests were very largely of the opinion that the impact of further liberalisation of EU-Mexican trade would be positive for consumers in both the EU and Mexico across all indicators (viz price, choice, quality, safety, consumer information, and protection and enforcement of consumer rights).

However, some expressed concerns by estimating that gains in terms of price or choice of goods available to consumers would be offset by deteriorating standards in terms of quality or safety. In particular, the views of the beef industry (notably in France, Europe's largest) seem to be that liberalisation of trade in beef products would pit the EU industry against producers in Mexico who operate under lower environmental, sanitary, animal welfare and food safety standards; risking deteriorating standards of quality and safety of produce for EU consumers.[64]

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[62] There is also a review clause on investment, which we could not quantify with the CGE analysis. This has, however, also not been done for the scenarios belonging to option C.

[63] As mentioned above and in Annex, the model produces simulations for the long run in which changes in GDP are not considered to have an effect on aggregate employment. Increases in the wages a sector is willing and able to pay, however, logically indicate an increase in labour demand by these sectors and may for this reason be interpreted as an indicator for increased employment opportunities, as we do in this section.

[64] The views expressed here relate to one specific sector, and indeed, came from a single Member State. No evidence was provided to suggest that meat products entering the EU market from Mexico following implementation of an upgraded FTA would not be subject to the EU's sanitary or food safety standards. Nevertheless, the risk that meat derived from livestock subject to lower standards of animal welfare might enter

5.9.2. Sectoral analysis of the impact on employment

Core labour standards related to freedom of association and collective bargaining, the abolition of child labour and forced labour as well as the elimination of discrimination in the workplace could potentially be positively impacted by a revised FTA under scenario C, since the parties would be bound by the agreement to effectively implement and uphold core labour standards and to make sustained efforts towards ratifying the ILO core labour standards not yet ratified. Scenario B would not provide such a clause.

In its recent FTAs, the EU approach includes a trade and sustainable development chapter in which the parties commit to effectively implement the ILO core labour standards and ratified Conventions, as well as to progress towards ratification of the fundamental Conventions not yet ratified. The labour section of a modernised FTA would also have to consider how both parties can further cooperate in promoting the ILO Decent Work Agenda and its four pillars on promoting jobs, guaranteeing rights at work, extending social protection and promoting social dialogue. The inclusion of provisions on sustainable development would also have a positive impact on the promotion and respect of human rights.

The CGE modelling identifies sectors which are forecast to experience reductions in output as a result of the agreement[65]. For example, in Mexico under the ambitious scenario (i.e. where the extent of economic restructuring is greatest), the milk and dairy products sector is forecast to experience the largest percentage decline in sectoral output. This could have implications for the level of rural employment and incomes in Mexico, at least in the short term. There may also be a negative impact on employment in Other Machinery sectors. We also expect small decreases in jobs in the Chemical sector.

Seven submissions were received from trade unions in the online public consultation of stakeholders: six from trade unions based in the EU, and one from a trade union based in Mexico. These submissions were not uniform in their assessment of the overall extent and direction of impacts on labour, social and human rights that might result from a revised trade agreement between the EU and Mexico. Some suggested that the impacts would tend to be negative in the EU, but potentially positive for workers and individuals in Mexico; others thought that there would be little impact in the EU, but potentially positive within Mexico; others again pointed towards the clear risk of negative impacts on labour, social and human rights for workers and individuals in both the EU and Mexico.

However, the common element among these differing perspectives was that the ability to mitigate potentially negative impacts resulting from a revised FTA on labour, social and human rights (and likewise, on the environment) – or to capture potentially positive impacts – would need an appropriate enabling framework. The foremost prerequisite is to have an ambitious and enforceable chapter on sustainable development. The agreement must also ensure that the EU right to regulate – notably on environmental issues – is protected.

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the EU market was also raised by one North American animal welfare charity. It should be emphasized that such issues would in any case be taken into account in the course of actual negotiations.

[65] However, as explained under 5.5.1,,it should be born in mind that as an effect of the fixed employment closure, any growths of sectors as a result of the modernised FTA has necessarily to occur at the expense of other sectors that the modernisation does not benefit or does not benefit as strongly as the former. Some of the negative impacts figures are a consequence of the limitations of the model, not of the agreement itself.

All the trade unions' submissions pointed to the need for Mexico to undertake a reform of its Constitution and its domestic laws relating to the operation and independence of trade unions. In particular, they called for Mexican ratification and implementation of the ILO Fundamental Convention 98 (Convention concerning the Application of the Principles of the Right to Organise and to Bargain Collectively); and underlined the importance of effective implementation of ILO Conventions, especially of the fundamental ILO Conventions. The EU experience on trade and sustainable development chapters shows that they provide for a framework for commitments to the effective implementation of ratified ILO Conventions and towards the ratification of the fundamental ones. In this respect, in its resolution of 17 September 2015 on the revision of the EU-Mexico Association Agreement[66], the European Economic and Social Committee considers the modernisation of the Global Agreement as an opportunity to increase the participation of civil society.

5.10. Analysis of the impacts on human rights

The modernisation of the EU-Mexico FTA would be part of the modernisation of the Global Agreement as a whole. In particular, both sides expressed their commitment in the scoping process to the respect of human rights and fundamental freedoms. The political dialogue and cooperation chapter of the Joint Vision Report emphasizes for example that respect for democratic principles and human rights are an essential element of the bilateral relationship. It also indicates that the existing sectoral dialogues on human rights should be maintained.

Both the EU and Mexico are committed to high standards of protection for human rights (as proclaimed in the main UN conventions on human rights, the Charter of Fundamental Rights of the European Union, the European Convention on Human Rights, or the American Convention on Human Rights); and both Mexico and EU Member States are signatories to all the main international conventions.

The EU and Mexico conduct a regular Human Rights dialogue where major issues of concern for human rights are discussed, in particular gender and violence against women, abolition of the death penalty, rights of vulnerable groups (including indigenous population and migrants), counter-terrorism, the criminal justice system (including impunity, torture, arbitrary detention, military justice, due process rights and independence of judiciary) and human rights as well as combatting racism and xenophobia. A report on the latest state of play of this dialogue is included in the EU Annual Report on Human Rights and Democracy in the World in 2014 that was published in June 2015[67], with a focus on action taken vis-à-vis enforced disappearances.

The EU and Mexico have worked on the implementation of international guidelines on business and human rights and on the shared fundamental values of democracy and the rule of law. The EU has made recommendations on the implementation and enforcement by Mexico of some human rights obligations such as the prohibition of torture in prisons and military institutions, the right to freedom of expression for journalists, and the rights of women.

Notwithstanding the fact that human rights will be addressed in the political part of the Agreement, core labour rights represent a subset of human rights that may be affected by a

[66] http://www.eesc.europa.eu/?i=portal.en.rex-opinions.35177.
[67] http://www.consilium.europa.eu/en/press/press-releases/2015/06/22-fac-human-rights-report/

modernised trade and investment framework and thus merit specific mention in the trade and sustainable development chapter.

The establishment in the political chapter of the respect of human rights as an essential element of the whole agreement is a key element for ensuring proper compliance with human rights under the future agreement.

As highlighted in the Guidelines on the analysis of human rights impacts in impact assessments for trade-related policy initiatives, impact assessment should focus on the potential impacts of the different trade policy options under consideration. The specific human rights likely to be affected by modernisation of the FTA have therefore been identified; and the potential impact upon them of the particular trade measures under consideration has been analysed as part of this report. In addition, the forthcoming sustainability impact assessment (SIA) will provide a more detailed analysis and assessment, taking into account the more extensive consultation of stakeholders in this context and possible recommendations as to maximising the benefits of the proposed agreement and minimizing potential negative effects. In the future, ex-post evaluations will monitor the state of play on the basis of the identified impacts in the IA and SIA, including assessment of unintended effects (those not anticipated at this time) in relation to human rights impacts linked to the implementation of the FTA.

In relation to specific human rights impacts linked to trade measures, the *ex post* evaluation of the EU-Mexico FTA finds that, based on the relatively small but largely positive changes identified in the economic and social analysis, the effects of the existing FTA on human rights were not large; and where effects were found, these were mostly positive (see Annex 5).

Trade unions and workers' rights

As indicated in §5.8, trade unions responding to the public consultation emphasised the need for Mexico to reform its laws relating to the operation and independence of trade unions. Aside from issues of compliance with ILO conventions, such demands also point to the need for effective implementation of relevant UN conventions[68]. A fully fledged FTA could be expected to improve protection of such core labour and human rights, in particular since it would offer additional dialogue possibilities/platforms with the government and civil society.

A Mexican trade union which replied to the public consultation demanded that measures be taken to ensure "That the rights of workers, collective farmers and indigenous populations are protected against foreign investment projects specifically in mining, oil and gas extraction, power generation, agriculture and manufacturing". This is in line with recent UN treaty body observations, which recommended that "… effective consultations be carried out at each stage of the process with communities likely to be affected by projects to develop and exploit natural resources, with the aim of obtaining their free, prior and informed consent, particularly in the case of mining projects."[69]

Such projects may result from domestic or foreign investment, emphasising the need for Mexico to have an effective overall policy for consultation with local communities.

[68] International Covenant on Civil and Political Rights (ICCPR, Art 22); International Covenants on Economic, Social and Cultural Rights (ICESCR Art. 8).

[69] Monitoring body of the International Convention on the Elimination of all forms of Racial Discrimination: CERD/C/MEX/CO/16-17 (2012).

Nevertheless, indigenous peoples should benefit in the longer term from economic growth that would come from the increased investment and trade brought about by the agreement (Scenario C).

Gender equality treatment and child labour

Even though trade policies may be considered gender neutral by design, they may have direct or indirect gender effects. These effects will depend on which sectors are impacted and on the economic development of the respective countries. Evidence shows that freer trade tends to increase the availability of wage jobs for women, particularly in export sectors[70].

For example, a modernisation of the EU-Mexico FTA, which would see a growth in sectors such as Business Services, would have a positive effect in the working conditions and remuneration of women in the Mexican labour market, and should further contribute to Mexico's evolution towards gender equality.

The increased presence of EU companies through services and investment sectors to be liberalized through the agreement can help to spread EU's best practices for workers. The EU aims at including dedicated provisions on responsible business conduct in the modernised agreement that should also promote adherence to international principles and guidelines, which include gender equality issues and fighting against (in particular, the worst forms of) child labour.

EU companies engaged in/adhering to CSR practices are under close scrutiny for their activities worldwide. A more significant presence of EU companies adopting modern policies on working conditions such as equal remuneration and equal treatment or in reconciling work and family life, in particular in the services sector that employs large numbers of people, can have a positive impact on improving work opportunities for women and support for children, and reducing the gender imbalance. Furthermore, stronger presence of EU companies in Mexico with transparent and advanced corporate social responsibility could very well translate into more benefits for society, given that many companies implement common corporate social responsibility policies in all the different countries in which they operate. Support by EU companies to education and conciliation of work and family life would have a positive impact in children education and reducing child labour and child exploitation. The positive impacts brought by EU companies' CSR practices should have a multiplying effect on society pushing local companies to adopt similar practices. It is therefore difficult to assess at this stage the extent/magnitude of these positive impacts more precisely.

Right of property

Investor protection clauses should also be included in Scenario C, thereby reinforcing the right to property[71]. Investors from both EU and Mexico stand to benefit from such measures.

[70] Trade and gender: issues and interactions; OECD.
[71] Universal Declaration of Human Rights, Art. 17.

Right to an adequate standard of living and to the highest attainable standard of physical and mental health

Overall and especially over the longer term, the impact of a modernised agreement on living standards and the right to an adequate standard of living to be positive. However, as indicated above, some sectors are estimated to experience falls in sectoral output. For example, Mexico's milk and dairy products sector is forecast in the CGE modelling to experience the largest percentage fall in sectoral output. This could pose a threat to the enjoyment by individuals of specific economic, social and cultural rights (including, but not limited to, the right to an adequate standard of living); particularly in the south and centre of the country, where small and family-run milk production units and dairy processing businesses tend to be concentrated.

A modernised EU-Mexico FTA could be expected to have a positive indirect effect on the right to enjoy the highest attainable standard of physical and mental health since consumers, both in the EU and Mexico, would be able to profit from a wider choice in the supply of goods and services (for example, the latest technologies and treatments in the healthcare sector).

Regulatory cooperation in a number of areas, including but not limited to the recognition of professional qualifications and the validity of practice permits, could also have positive but marginal effects on rights such as the rights to work, free choice of employment, just and favourable conditions of work, protection against unemployment, equal pay for equal work, and the right to just and favourable remuneration.

Transparency

Human rights impact analyses not only aim to identify potential human rights impacts of foreseen policy measures; the process by which they are developed and adopted should also conform to human rights principles.

In this regard, the Mexican trade union submission drew attention to the lack of transparency from the Mexican government in relation to its previous and on-going trade negotiations with other partner countries; and urged that any expansion of the EU-Mexico FTA "*should be negotiated in a transparent manner, including making negotiating texts available to elected representatives and civil society*". EU civil society organisations have similar requests.

Any scenario adopted will be the subject of a Sustainability Impact Assessment, where stakeholders' views will be brought to the negotiators' attention. Should Scenario C be chosen, the EU will aim at including in the Trade and Sustainable Development Chapter provisions providing for a dedicated forum within the modernised EU-Mexico FTA for enhanced transparency and civil society participation in respect of trade-related labour and environmental issues.

Overall assessment by stakeholders

The overall assessment by stakeholders in the public consultation on the trade related impact of a revised FTA (scenario C) on human rights is rather positive; both in respect of the right to an adequate standard of living, and more generally:

	Public consultation on certain human rights impacts with regards to Mexico		
Human rights	**Positive impacts**	**Negative impacts**	**No impact**
Right to enjoyment of just and favourable conditions of work[72]	17	3	4
Right to social security, including social insurance[73]	18	4	4
Right to an adequate standard of living[74]	20	3	5
Right to enjoyment of the highest attainable standard of physical and mental health[75]	16	2	5
Rights of indigenous peoples[76]	15	3	6

Summary of potential impacts

Particular rights	Scenario A	Scenario B	Scenario C
Freedom of association and collective bargaining	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0	Direct effect: + Indirect effect: 0
Right to an adequate standard of living: - *in general* - *in the dairy sector in Mexico*	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: + Indirect effect: -
Right to enjoyment of the highest attainable standard of physical and mental health	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: +
Rights of indigenous and tribal peoples			

[72] ICESCR Art. 7
[73] ICESCR Art. 9
[74] ICESCR Art. 11
[75] ICESCR Art. 12
[76] ICESCR Art. 1; UN Declaration on the Rights of Indigenous Peoples

in Mexico *in the EU*	Direct effect: 0 Indirect effect: 0 Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0 Direct effect: 0 Indirect effect: 0	Direct effect : 0 Indirect effect: +/- Direct effect: 0 Indirect effect: +/-
Right to participate in the conduct of public affairs	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0	Direct effect: + Indirect effect: 0
Right to property	Direct effect: 0 Indirect effect: 0	Direct effect: 0 Indirect effect: 0	Direct effect: + Indirect effect: 0

Legend: 0 = neutral impact; + = positive impact (promotion of human rights); - = negative impact (limitation of human rights).

5.11. Analysis of the administrative impacts

Administrative burden (or administrative costs) can be defined as the costs incurred by enterprises and public authorities in meeting legal obligations, e.g. to provide information on their action or production, either to public authorities or to private parties.

The administrative efforts necessary for implementation are different for each of the policy options. The complexity of implementation depends mostly on the extent of elimination of the cost of NTBs. On both sides, the modernisation of the EU-Mexico FTA will require a whole set of administrative and legislative procedures to implement the new provisions.

However, the ambitious scenarios outlined in option C.b. will also create simplification benefits and reduce administrative costs in both the EU and Mexico. The elimination of NTBs and cooperation in the area of harmonisation of standards can greatly reduce such administrative costs and create mutual benefits.

5.12. Assessment of the administrative capacity of Mexican customs to implement the agreement (notably on application of rules of origin)

Mexico is a developed economy and has full administrative capacity to properly implement the provisions of the modernised agreement. On the basis of Commission services' practical experience with Mexican authorities for implementing the existing preferential agreement, we can conclude that Mexico has the capacity to implement such a FTA.

The *Protocol on the definition of the concept of originating products and methods of administrative cooperation* contains provisions relating to proofs of origin, arrangements for administrative cooperation and mutual assistance. Products originating in Mexico are granted preferential tariff treatment when they comply with the provisions of this protocol and when they are covered by a proof of origin which may be either a EUR.1 certificate issued by customs or competent governmental authorities, or an invoice declaration made out by approved exporters. Subsequent verifications may be carried out at random or whenever the customs authorities of the importing country have reasonable doubts as to the originating status of products or as to the authenticity of submitted documents[77]. These procedures have

[77] Despite our overall confidence in Mexico's capacity to apply such Rules of Origin as might be included in a revised FTA, there have been well-documented instances in the recent past of goods (viz. garlic) entering the EU market at preferential rates of duty on the basis of a declaration of Mexican origin; which upon subsequent laboratory analysis were found to be of Chinese provenance. Nevertheless, such cases are isolated exceptions to what has generally been a positive experience since the implementation of the existing FTA in 2000.

been established practice in the management of the origin protocol with Mexico since the entry into force of the current agreement.

Moreover, issues related to the interpretation, management and correct implementation of the protocol are regularly discussed between the EU and Mexico officials in the framework of the Special Committee on Customs Cooperation and Rules of Origin. For example, the last discussions were held with Mexico in April 2015 and following this, an agreement in principle has been reached on updating the product specific rules for the Harmonised System 2012 and to modernise the rule for direct transport towards a rule of non-alteration similar to that in the Generalised Scheme of Preferences (GSP) RoOs. This would indicate the sufficient capacity of Mexico to maintain, review and update the rules of origin as is necessary.

Moreover, a key element of EU trade agreements is the reliance and trust placed on the third country to verify on request from the EU the originating status of their goods so that they can benefit from preference when entering the EU. In this regard figures show that in 2013 a total of 64 verification requests were sent from the EU to Mexico of which only 3 (5% of all requests) were based on reasonable doubt, the rest being routine requests. Mexico replied to 85% of all requests within the target period of 10 months.

Mexico	2013	
	Requests sent ‘ at random’	Requests sent based on ‘reasonable doubts’
Total number of verification requests sent to Mexico	61	3
No reply after 10 months	7	2
Correct proofs	54	1
Wrong proofs	0	0

All this would indicate that the procedures and practices in place by the Mexican authorities indicate their sufficient capacity to correctly apply and control the application of the agreement as regards the rules of origin for their exported goods.

<u>5.13. The impact on the budget of the European Union</u>

Modernising the EU-Mexico FTA would have very limited effects on the budget of the EU, notably through the loss of own resources in the form of customs duties, as most of the tariff lines are already eliminated. The loss from tariff revenue could be around Euro 11.6 (11.5) million in the ambitious (conservative) scenario, based on the projected value of duty income in 2028. The actual figure is likely to be lower, as this estimate does not factor in any possible benefits to the EU budget deriving from future gains in EU GDP.

<u>6. HOW DO THE OPTIONS COMPARE?</u>

This Chapter links both the positive and negative impacts of each policy option described in Chapter 5 directly to the objectives mentioned in Chapter 3. The comparison of the different policy options has been conducted according to criteria of effectiveness in achieving the operational objectives, efficiency, and coherence with overarching EU policy objectives. The analysis has taken into account not only the trade and economic impacts (including on SMEs and on specific sectors) of each alternative; but also their environmental, social and human rights impacts, as well as the budgetary and administrative impacts.

6.1. Positive and negative effects of the policy options

The **baseline option** calls for maintaining the existing framework, with possible incremental improvements. However, the EU-Mexico FTA entered into force 15 years ago and its expected benefits have already been achieved. Therefore, the possible effects achieved under the baseline option are expected to be marginal and would not translate into perceptible growth of bilateral trade and investment volumes. No significant further gains in overall welfare that could be attributed to the EU-Mexico FTA could be expected in either the EU or Mexico.

Likewise, the baseline option will not have any additional environmental or social effects (positive or negative). Clearly, the baseline scenario - with no fresh policy action - is ineffective in reaching the desired policy objectives. If bilateral trade between the EU and Mexico is compared to the bilateral trade which each could now enjoy with other key partners as a result of more recent, concluded or on-going trade negotiations[78], it may even be thought that the baseline scenario represents a negative outcome for both parties.

In this context, the baseline option could effectively lead to an overall reduction of the share of bilateral trade in total trade of both the EU and Mexico. Furthermore, the baseline option is not consistent with overall EU policy objectives calling for further trade liberalisation as an instrument for increasing economic growth. And evidently, a policy which is wholly ineffective in meeting its stated objectives cannot be considered to be efficient. It is also worth noting that the vast majority of the respondents is in favour of upgrading the EU-Mexico FTA and therefore does not support the status quo.

Option B calls for a sectoral approach through the sectoral review clauses, to engage in further liberalisation in agriculture, services and investment. This would imply maintaining the existing framework for all the areas not covered by the review clauses (e.g. non-tariff measures for goods), and it would not be possible to incorporate new ones (e.g. trade and sustainable development). Moreover, invocation of these clauses has already been attempted and has so far failed due to the difficulty in achieving cross-sectoral outcomes. Assuming these difficulties could be overcome in a further attempt, estimated impacts correspond to those estimated for the conservative scenario for option C but limited to further elimination of tariffs in agriculture and reduction of the NTBs costs for services only.

As for **option C**, the conservative scenario for bilateral trade liberalisation aims at the degree of elimination of remaining tariffs and a reduction of the costs stemming from NTBs that has been found to be achievable in less ambitious agreements. The more ambitious scenario will lead to a reduction of the costs of NTBs that is comparable to the most elaborate FTAs that are currently in force. These scenarios have been chosen as corresponding to the levels of ambition appropriate for conservative and ambitious FTA negotiations to allow a comparison of the trade related results that flow from them. Such reductions in the costs of trade,

[78] For example with Canada or USA in the case of the EU; or with other Pacific rim countries subsequent to TPP, in the case of Mexico.

especially in the more substantial ambitious scenario, are likely to allow both the EU and Mexico to achieve considerable benefits.

Such benefits include increases in GDP and welfare, increases in exports, overall increases in employment, increases in wages for both less skilled and more skilled employees, together with increases in competitiveness and an improved standing for both the EU and Mexico in respect of other global competitors. While the figures, relative to the size of the EU economy, might at first sight appear modest, they nevertheless represent significant gains in absolute terms. It should also be borne in mind that FTAs like this must be seen as a part of the larger picture of EU trade and investment, which is largely composed of bilateral relationships comparable to that with Mexico.

It is also important to note that several of the operational objectives set out in Point 3.3. (e.g. IPR, public procurement, competition, mediation, sustainable development) can only be achieved through a comprehensive and ambitious modernisation of the Agreement. Concluding an ambitious modernised FTA may be considered to have potentially negative impacts on the environment arising from an increase in trade and production. However, this should be seen in light of the overall policy and regulatory framework in which trade and production take place, e.g. the overall impact on global emissions is effectively limited by existing emission ceilings commitments of both parties. The overall environmental effects will be mitigated by a long-term increase in trade in environmental goods and services as well as the possible synergy effects resulting from increased cooperation in this area.

While it is expected that the impact of specific trade measures included in a modernised agreement will be positive for human rights, it is difficult to quantify such potential impacts at this stage. To fully appreciate the impact of a modernised agreement on human rights, it needs to be kept in mind that this modernised FTA would be part of a modernised Global Agreement, in which provisions enjoining the parties to respect and cooperate on human rights would play a prominent role.

6.2. Summary of the effects of the different policy options in table form

Criteria	Option A	Option B	Option C	
			Option C.a.	Option C.b.
General objectives	**0**	**0/+**	**+**	**++**
Faster, more sustainable and more inclusive economic growth	0	0/+	++	+++
Creation of labour opportunities and consumer welfare gains	0	0/+	+	+
Improving Europe's competitiveness in global markets	0	0/+	+	++
Specific objectives	**0**	**+**	**+**	**++**
Increasing the volume of bilateral trade in goods by further reducing tariffs and other barriers	0	+	++	+++
Increasing the volume of bilateral trade in services by reducing barriers	0	+	+	++
Increasing investment flows between the EU and Mexico by reducing barriers	0	+	+	++
Achieving better access to the Mexican public procurement market	0	0	+	+
Ensuring a higher level of protection of intellectual property rights	0	0	+	+
Including provisions on labour and environment to promote more efficiently sustainable development	0	0	+	+
Overall Effectiveness	**0/-**	**0/+**	**+**	**++**
Efficiency (time and resources spent in relation to estimated effectiveness)	0	0/+	+	++
Coherence with overarching EU policy objectives (for example, outlined in the EU 2020 strategy)	0/-	+	++	+++
Gains from simplification effects (for example through a reduction of NTBs)	0	0/+	+	++

6.3 Identification of a preferred policy option

When looking at the tabular presentation in Point 6.2., option C appears as the most preferable option. Each of the two sub-scenarios of option C would be preferable to both the baseline scenario (option A) and the sectoral scenario (option B) for all criterions (general objectives, specific objectives and overall effectiveness).

Furthermore, sub-scenario C.b. (the ambitious one) would be more beneficial for all criterions than option C.a. (the conservative one). This is due to the fact that, as outlined in the analysis above, most of the economic gains can be obtained from a reduction of NTBs. A higher reduction of NTBs facilitates trade and creates more economic growth, and thus leads to more job creation opportunities and a higher increase of welfare gains. Accordingly, the ambitious scenario performs better when weighed against the criteria of effectiveness, efficiency and coherence mentioned above. It creates more benefits from simplification effects, which would be in particular beneficial for SMEs.

As a consequence, the preferred option for the EU would be to enter into a comprehensive and ambitious modernisation of the EU-Mexico Agreement, in accordance with the outcome of the scoping exercise which established the clear political will of Mexico to opt also for this level of ambition. It is worth noting that only one respondent to the public consultation is against this option and almost all the expressed opinions support this option. This preference is also in line with both the EU-CELAC Santiago Summit declaration of January 2013[79] and the outcome of the scoping exercise which concluded that both sides share a strong interest in a comprehensive and ambitious modernisation of the EU-Mexico FTA. On 17 September 2015, the European Economic and Social Committee also adopted a resolution on the revision of the EU-Mexico Association Agreement recommending 'to carry out a thorough review that broadens the scope of the existing agreement, factoring in experience gained during the 15 years that the agreement has been in force'[80].

Finally, this preference is consistent with recent and on-going established policies both in the EU and in Mexico to negotiate modern FTAs of a deep and comprehensive nature, such as the ones recently concluded between the EU by Canada (CETA) or the on-going negotiations between the EU and the US (TTIP), or the TPP where Mexico is a Party.

7. HOW WOULD ACTUAL IMPACTS BE MONITORED AND EVALUATED?

7.1. Future monitoring and evaluation

Monitoring and evaluation of the specific objectives will have to use several means of data collection as not all objectives are equally quantifiable and some monitoring may depend on a qualitative evaluation based for example on feedback from stakeholders obtained through a survey. Moreover, the monitoring needs will depend on the outcome of the negotiations with Mexico, and those identified in this impact assessment will need to be updated as the negotiations are concluded. The sustainability impact assessment (SIA), which will be carried out during the negotiations, will also help developing further indicators of progress.

Monitoring can be facilitated by short and medium-term analysis of the measurable indicators mentioned below (§7.2): changes in the relative value of bilateral exports and imports as well as the number of tenders secured by EU companies in Mexico. Concerning the operational objectives, the same is valid for monitoring of tariff reductions in agriculture, as these become apparent in Mexico's tariff schedules. A more complex set of indicators is necessary for monitoring reductions in the cost of NTBs. Convergence of standards and changes in regulations and law can be analysed by gathering information on the legal and administrative sources.

[79] It was then agreed at presidential level to explore the options for a comprehensive update of the EU-Mexico FTA.

[80] http://www.eesc.europa.eu/?i=portal.en.rex-opinions.35177.

The increase of transparency or the availability of information as well as the general perception of a reduction in the cost of NTBs could be analysed by surveys among stakeholders operating in Mexico. Such surveys could be combined, for example, with existing programmes such as the EU Gateway Programme organising business missions to Mexico[81]. However, in order to obtain more extensive feedback, additional business surveys or surveys could be set up in Mexico.

In line with the commitments made in 2010 in the Communication on Trade, Growth and World Affairs[82] and the Trade for all - Towards an More Effective, transparent and Responsible Trade and Investment Policy' Communication, there will be a rigorous *ex post* evaluation of the effects of any modernised Agreement concluded with Mexico when the agreement will have been in force for sufficient time to ensure availability of meaningful data.

7.2. Core monitoring indicators for the main policy objectives

<table>
<tr><th>General objectives</th><th>Indicators</th></tr>
<tr><td>Economic growth</td><td rowspan="3">– percent change in GDP
– absolute change in national income
– percent change in more and less skilled employment
– percent change in more and less skilled wages
– placement of EU Member States in rankings measuring global competitiveness, such as the "Global Competitiveness Report" of the World Economic Forum</td></tr>
<tr><td>Creation of job opportunities and welfare gains</td></tr>
<tr><td>Improving relative competitiveness of the EU</td></tr>
<tr><th>Specific objectives</th><th>Indicators</th></tr>
<tr><td>Increase of bilateral trade in goods</td><td rowspan="6">– relative and absolute/percent change in value of bilateral exports and imports of goods by sector
– change in the share of EU-Mexico trade on total trade
– relative and absolute/percent change in value of bilateral exports and imports of services by sector
– relative and absolute/percent change of bilateral investment flows
– Increase of number of tenders secured by EU companies
– registration of GIs and sales volume of GI protected products
– fewer complaints from EU businesses about IPR
– improved impression about Mexico by EU stakeholders in next EU enforcement survey
– trade in environmental goods and services</td></tr>
<tr><td>Increase of bilateral trade in services</td></tr>
<tr><td>Increase of bilateral investment</td></tr>
<tr><td>Increase of market access, especially for the EU, in the government procurement sector</td></tr>
<tr><td>Increase of the protection of intellectual property rights</td></tr>
<tr><td>Contribution to sustainable development</td></tr>
<tr><th>Operational objectives</th><th>Indicators</th></tr>
<tr><td>Elimination of tariffs on agricultural products</td><td rowspan="5">– EU and Mexican tariff schedules
– tariff utilisation rate
– Customs Committee achievements (e.g. agreements on Explanatory Notes, updates of the list of rules related to the Harmonised System)
– convergence of standards/technical regulations
– specific annexes
– change in regulations/laws
– increase of transparency/availability of information</td></tr>
<tr><td>Update of the rules of origin and trade facilitation</td></tr>
<tr><td>Reduce NTBs concerning trade in goods</td></tr>
<tr><td>Reduce NTBs concerning trade in services</td></tr>
<tr><td>Reduce NTBs concerning foreign direct investment</td></tr>
</table>

[81] http://www.eu-gateway.eu/
[82] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

Reduce NTBs and increase market access of the Mexican public procurement market	– business surveys

ANNEXES

Annex 1: Procedural information

The Directorate-General for Trade is the lead service for this Impact Assessment Report (Agenda planning: 2015/TRADE/01).

An Impact Assessment Steering Group (IASG) was created on 14 June 2014 for the purpose of this Impact Assessment.

The services involved in the preparation of the report were: DG Agriculture and Rural Development, DG Climate Action, DG Communication Networks, Content and Technology, DG Competition, DG Economic and Financial Affairs, DG Education and Culture, DG Employment, Social Affairs and Inclusion, DG Energy, DG Environment, DG Financial Stability, Financial Services and Capital Markets Union, DG Health and Food Safety, DG Internal Market, Industry, Entrepreneurship and SMEs, DG International Cooperation and Development, the Joint Research Centre, DG Maritime Affairs and Fisheries, DG Migration and Home Affairs, DG Mobility and Transport, DG Taxation and Customs Union, and the Secretariat-General. The European External Action Service has also been involved

The IASG has met five times on 10 July 2014, 9 January 2015, 2 June 2015 and 23 September 2015.

The draft Impact Assessment Report was submitted to the Regulatory Scrutiny Board (RSB) on 30 September 2015 and was examined during the RSB meeting of 28 October 2015. The Board's recommendations have led to following changes compared to the earlier draft.

Board’s recommendations	Modifications to the IA Report
1) **Clarify the problem definition:** the report should substantiate upfront the magnitude of unfulfilled EU-Mexico trade potential and explain under what conditions it can be delivered, particularly taking into account the difficulties of eliminating non-tariff barriers.	A paragraph on both the theoretical and the real potential of unfulfilled trade was added to section 1.2.4. Section 4.3 and Annex 4 better explain how the scenarios for eliminating non-tariff barriers were elaborated by taking into consideration the achievements of previous free-trade agreements.
2) **Further develop the baseline scenario:** the report should further develop the baseline scenario (i.e. how the situation will evolve without a modernised EU-Mexico FTA), in particular by explaining the impact of other trade agreements concluded by either party on EU-Mexico trade and investment in different sectors.	Section 5.2 was extended from 3 paragraphs to 6 paragraphs in order to better detail the baseline projections of the model.
3) **Procedure and presentation:** the report should clearly indicate what issues can and need to be decided at this point of time. It should clarify to what extent the objectives are bound by the results of the scoping	The Background Chapter was redrafted in order to indicate more clearly the relation between the scoping exercise and the work under the Impact Assessment or the underlying proposal/discussion of negotiation

exercise as described in the Joint Vision Paper.	directives.
4) **Improve the assessment of impacts and clarify the underlying assumptions:** the report should complement the estimated quantitative impacts on different sectors with a qualitative assessment, in particular for the scenarios where there seems to be a loss of output for EU and Mexico. It should also clarify the impacts on consumer protection, eradicating poverty and inequality, environment and employment.	The introduction of Chapter 5, as well as section 5.1 were substantially redrafted in order to explain respectively why the results are not presented at MS level, and describe the fixed-employment closure.

An Assessment of 6 EU Free-Trade Agreements[83] (including Mexico) commissioned by the Commission was carried out in February 2011. An *ex post* evaluation of the trade pillar of the existing EU-Mexico Global Agreement and an *ex ante* assessment looking at options for modernisation[84] are currently being conducted by an external contractor.

The contract was signed in December 2013. However, due to unexpected methodological difficulties, especially on the issues of non-tariff measures and services, the project has experienced considerable delays, *inter alia* due to the unavailability of relevant data.

Nonetheless, an interim report concerning the *ex post* evaluation has been completed and was shared with the participants at a local workshop organised by the consultant in Mexico on 9 July 2015.

As a consequence, the Impact Assessment mainly relies on the available information contained in the interim report, together with the quantitative evaluation provided by the Chief Economist and Trade Analysis Unit of DG Trade and the thorough qualitative evaluation provided by the European Commission services.

The quantitative evaluation provided by the Chief Economist and Trade Analysis Unit of DG Trade considers two possible scenarios for modernising the EU-Mexico FTA:

- a limited liberalisation scenario to the areas covered by the review clauses, and

- a more ambitious scenario consisting in a comprehensive modernisation of the EU-Mexico FTA, which would review the existing trade provisions as well as extend the scope to additional sectors in order to achieve an outcome comparable to the ones recently achieved by both the EU and Mexico with other trading partners.

The Commission intends to pursue the external analysis, of both the ex-post and ex-ante chapters of the study, and to use it to feed a continuous loop between the Impact Assessment and the negotiating process, notably through the Sustainability Impact Assessment that DG Trade is committed to carry out during the negotiations themselves.

[83] http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc_147905.pdf
[84] http://trade.ec.europa.eu/doclib/docs/2013/august/tradoc_151698.pdf

Annex 2: Stakeholders consultation and expertise

This Annex does not present the official position of DG Trade or of the European Commission. It is designed to summarise the views of interested parties who gave comments on the future of EU-Mexico trade and economic relations.

The Impact Assessment has been prepared following extensive consultations with all interested stakeholders including representatives of civil society, industry and Member States.

These consultations with stakeholders involved a number of different consultation activities:

- open public on-line consultation,
- workshop in Mexico,
- other consultation activities.

Open public on-line consultation

An online public consultation was launched on 1 July 2015 on the DG Trade website and posted on 'EU Survey'[85].

It took the form of a web-based online questionnaire open to all interested parties, both within the EU and in third countries. The consultation ran until 31 August 2015. In total, 80 contributions were received from a wide range of respondents. Submissions came from representatives of the industry and business associations, non-governmental organisations, trade unions and private companies.

The on-line consultation exercise made clear that all contributions would be published unless respondents indicated that they did not wish their contribution to be made public. Those contributions which respondents intended to be available for publication can be found at: http://trade.ec.europa.eu/consultations/index.cfm?consul_id=187.

The aim of the public consultation was to gather views and opinions from stakeholders on the future of the EU's trade and economic relationship with Mexico. The responses to the online consultation have provided very useful information both in terms of the expectations of stakeholders concerning the economic relationship, as well as precise, detailed elements on a large number of issues. The summary of the results of the consultation exercise is set out below.

In addition, DG Trade representatives also participated in a number of events where they presented the Commission's views on the trade and investment aspects of the EU-Mexico relationship. The events included a conference organised by the Centre for European Policy Studies[86] and meetings of the External Relations Section of the European Economic and Social Committee who intend to draw up an opinion on the revision of the EU-Mexico Global Agreement[87].

[85] https://ec.europa.eu/eusurvey/runner/IASG-EU-Mexico
[86] http://www.ceps.eu/events/upgrading-eu-mexico-free-trade-agreement
[87] http://www.eesc.europa.eu/?i=portal.en.rex-opinions.35177

Although not formally part of the Impact Assessment process, these events supplied valuable information and insights on EU-Mexico economic relations, and on the views of stakeholders in this respect. Their views have been taken into account, where relevant, in this Impact Assessment Report.

Summary of contributions to the public consultation

According to the stakeholders own self-classification, around 17.5% are SMEs, 25% are large companies, 35% are trade association and around 12.5% trade unions and others. The classification was chosen by the respondents themselves and does not always correspond with the usual use of these terms.

As regards the location of the respondents, the breakdown was of 75% (60) EU respondents and 15% (12) Mexican respondents.

What type of organisation are you?

		Answers	Ratio
Micro Enterprise (less than 10 employees)		4	5%
Small Enterprise (between 10 and 50 employees)		6	7.5%
Medium Enterprise (between 50 and 250 employees)		4	5%
Large company (over 250 employees)		20	25%
Trade Association		28	35%
Trade Union, NGO		10	12.5%
Government institution/regulatory authority		0	0%
Academic/research institution		0	0%
Citizen		1	1.25%
Other		7	8.75%

'What is your organisation's main area/sector of activity/interest?

		Answers	Ratio
Farming (crop and animal production), hunting		1	1.25%
Extraction of petroleum and gas		1	1.25%
Production of food products		5	6.25%
Production of beverages		1	1.25%
Production of chemicals and chemical products		5	6.25%
Production of basic pharmaceutical products		2	2.5%
Production of metal products (excl. electricity, gas, steam & air conditioning)		1	1.25%

Production of electrical equipment		1	1.25%
Production of machinery and equipment not covered by any other category listed here		1	1.25%
Other manufacturing		2	2.5%
Repair/installation of machinery and equipment		2	2.5%
Electricity, gas, steam and air-conditioning		2	2.5%
Land transport and transport via pipelines		2	2.5%
Water transport		1	1.25%
Air transport		2	2.5%
Warehousing and support for transportation		1	1.25%
Postal and courrier activities		1	1.25%
Telecommunications		1	1.25%
Insurance, reinsurance and pension funding		1	1.25%
Professional activities and head offices; management consultancy		1	1.25%
Security and investigation activities		1	1.25%
Other services activities		1	1.25%
Other		10	12.5%
No Answer		45	56.25%

What are the main areas/sectors of activity/interests of the members which you represent?

		Answers	Ratio
Farming (crop and animal production), hunting		5	6.25%
Forestry and logging		2	2.5%
Fishing and aquaculture		1	1.25%
Mining of coal and lignite		3	3.75%
Extraction of petroleum and gas		3	3.75%
Mining of metal ores		5	6.25%
Other mining and quirrying		5	6.25%
Mining support service activities		5	6.25%
Production of food products		12	15%
Production of beverages		6	7.5%
Production of Tobacco products		2	2.5%
Production of textiles		4	5%
Production of wearing apparel		5	6.25%
Production of leather and related products		5	6.25%
Production of wood, and products of wood, cork		4	5%
Production of paper and paper products		5	6.25%
Printing and reproduction of recorded media		3	3.75%
Production of coke and refined petroleum products		5	6.25%
Production of chemicals and chemical products		8	10%
Production of basic pharmaceutical products		8	10%
Production of rubber and plastics products		6	7.5%
Production of other non-metallic mineral products		6	7.5%
Production of basic metals		6	7.5%
Production of metal products (excl. electricity, gas, steam & air conditioning)		5	6.25%
Production of computer, electronic and optical equipment		7	8.75%

Production of electrical equipment		7	8.75%
Production of machinery and equipment not covered by any other category listed here		8	10%
Production of motor vehicles, trailers and semi-trailers		5	6.25%
Production of other transport equipment		7	8.75%
Production of furniture		5	6.25%
Other manufacturing		6	7.5%
Repair/installation of machinery and equipment		6	7.5%
Electricity, gas, steam and air-conditioning		5	6.25%
Water collection, treatment, disposal, material recovery		5	6.25%
Remediation activities, other waste services		4	5%
Construction of buildings		5	6.25%
Civil engineering		5	6.25%
Specialized construction activities		5	6.25%
Wholesale, retail trade of motor vehicles		6	7.5%
Wholesale trade (excl. postal and courrier activities)		6	7.5%
Land transport and transport via pipelines		5	6.25%
Water transport		3	3.75%
Air transport		4	5%
Warehousing and support for transportation		4	5%
Postal and courrier activities		4	5%
Accomodation		3	3.75%
Food and beverages services activities		4	5%
Publishing activities		4	5%
Motion picture, video, TV and music activities		3	3.75%
Programming and broadcasting activities		3	3.75%
Telecommunications		4	5%
Computer programming consultancy		4	5%
Information and communication technology		7	8.75%
Financial service activities (other professional, scientific and technical activities)		4	5%
Insurance, reinsurance and pension funding		4	5%
Activities auxiliary to finance and insurance		4	5%
Real estate activities		3	3.75%
Legal and accounting activities		4	5%
Professional activities and head offices; management consultancy		4	5%
Architecture and engineering; technical testing		4	5%
Scientific research and development		2	2.5%
Advertising and market research		4	5%
Other professional, scientific and technical activities		2	2.5%
veterinary activities		3	3.75%
Rental and leasing activities		3	3.75%
Employment activities (including recruitment activities)		3	3.75%
Travel agency, tour operator, reservation services		4	5%
Security and investigation activities		4	5%
Services to buildings and landscape activities		4	5%
Office administration and other business' support activities		3	3.75%
Education		3	3.75%

Human health and social work activities		1	1.25%
Arts, entertainment and recreation		3	3.75%
Other services activities		4	5%
Accomodation and food services, non-market services		2	2.5%
Other		7	8.75%
No Answer		42	52.5%

As applicable: What is your place of residence (individuals) or where are the headquarters of your organisation situated?

		Answers	Ratio
In one of the 28 EU Member States		60	75%
Mexico		12	15%
USA, Canada		9	11.25%
EFTA country (Norway, Iceland, Liechtenstein, Switzerland)		2	2.5%
Other		2	2.5%
No Answer		7	8.75%

Are you involved in trade between the EU and Mexico?

		Answers	Ratio
Yes		28	35%
No but I have done in the past		1	1.25%
No trade between the EU and Mexico is not viable for my firm		3	3.75%
No, my firm does not intend to engage into international trade		1	1.25%
No opinion/No relevant		2	2.5%
No Answer		45	56.25%

Please indicate the top export destinations of your company: [tick more than one if appropriate]

		Answers	Ratio
EU		21	26.25%
Mexico		7	8.75%
Other Latin American countries		8	10%
USA		13	16.25%
China		4	5%
Other		6	7.5%
Not relevant		7	8.75%
No Answer		45	56.25%

Are you aware of the existence of a free trade agreement between the EU and Mexico – the EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement?

		Answers	Ratio
Yes		78	97.5%
No		2	2.5%

Do you consider that tariffs or measures of equivalent hinder trade between the EU and Mexico?

		Answers	Ratio
Yes		47	58.75%
No		33	41.25%

Do you use the tariff preferences set by the existing EU-Mexico Agreement?

		Answers	Ratio
Yes		41	51.25%
No		39	48.75%

If your answer is 'no', is this because:

		Answers	Ratio
The procedures to be followed in order to obtain the preferences are too complicated		4	5%
The procedures to be followed in order to obtain the preferences are too expensive		1	1.25%
Not relevant		26	32.5%
Other		9	11.25%
No Answer		41	51.25%

Do you consider that there are problems with rules of origin in the context of the existing EU-Mexico Trade Agreement?

		Answers	Ratio
Yes		37	46.25%
No		18	22.5%
No opinion		25	31.25%

If you encounter problems with rules of origin, how do you think they should they be addressed?

		Answers	Ratio
By reviewing the rules of origin requirements and certification procedures in line with the latest developments in EU trade agreements with other countries		20	25%
By facilitating the obtention of certificates of origin		15	18.75%
By "extension of cumulation" (see below) to third countries that have a preferential trade agreement with both the EU and Mexico.		12	15%
Other		16	20%
No Answer		43	53.75%

Do you consider that there are problems with current practices in customs procedures and border enforcement in the context of the existing EU-Mexico Trade Agreement?

		Answers	Ratio
Yes		26	32.5%
No		15	18.75%
No opinion		39	48.75%

If your answer is 'yes', in which areas do you experience problems

		Answers	Ratio
Transparency/publication of and access to trade		9	11.25%

regulations			
Documentary requirements/unproportionate administrative burden		19	23.75%
Data requirements		8	10%
Fees and charges imposed in connection with import or export		7	8.75%
Pre-shipment inspections		3	3.75%
Other inspections and controls during clearance		7	8.75%
Obligation to go through a customs broker		4	5%
Other customs procedures		11	13.75%
Mutual recognition of authorised economic operators		6	7.5%
Discriminatory treatment		2	2.5%
Lack of uniformity in application of procedures		10	12.5%
Customs valuation		4	5%
Co-ordination between the different border agencies		6	7.5%
Use or non-use of information technology		6	7.5%
Application or non-application of relevant international standards		6	7.5%
Procedures for legal recourse/appeal		2	2.5%
Other		7	8.75%
No Answer		54	67.5%

Does the difference between EU and Mexican regulation or standards hinder trade activities?

		Answers	Ratio
Yes		38	47.5%
No		13	16.25%
No opinion		29	36.25%

If your answer is 'yes', please specify whether they arise from:

		Answers	Ratio
Divergent standards		22	27.5%
Technical regulations		22	27.5%
Conformity assessment procedures (including technical specifications, testing and certifications)		21	26.25%
Sanitary or Phytosanitary (SPS) related barriers		12	15%
Other		10	12.5%
No Answer		42	52.5%

Technical Barriers to Trade (TBT)

		Answers	Ratio
No opinion		2	2.5%
Increase transparency		20	25%
Promote good regulatory practice		21	26.25%
Seek compatibility and convergence of technical regulations through the application of international standards		26	32.5%
Streamline testing and certification requirements through the adoption of risk based conformity assessment procedures		14	17.5%

Promotion of self-certification where possible and appropriate		17	21.25%
Acceptance of test results		20	25%
Promote the use of accreditation		12	15%
Improve the dissemination of information between exporters and importers		12	15%
Other		2	2.5%
No Answer		42	52.5%

Sanitary and phytosanitary measures (SPS)

		Answers	Ratio
No opinion		17	21.25%
Ensure that SPS measures applicable to trade are based on international standards		15	18.75%
Establish appropriate mechanisms to facilitate trade (such as: harmonisation; equivalence; risk analysis and assessment; regionalisation; control, inspection, and approval procedures; audits (including allocation of costs); import checks (including inspection fees); alternative and/or emergency measures; recognition of the EU as a single entity; the possibility for approval of establishments without prior inspection)		14	17.5%
Incorporate animal welfare aspects		2	2.5%
Other		1	1.25%
No Answer		42	52.5%

Barriers to trade

		Answers	Ratio
No opinion		15	18.75%
Address measures designated to protect, favour or stimulate domestic operators at the expense of imported goods, services or foreign-owned or foreign-developed intellectual property		21	26.25%
Other		3	3.75%
No Answer		42	52.5%

Do you consider that there are barriers to trade in services between the EU and Mexico?

		Answers	Ratio
Yes		11	13.75%
No		5	6.25%
No opinion		64	80%

If there are barriers to trade in services, what are their effects/impacts?

		Answers	Ratio
they discriminate in favour of domestic services suppliers;		8	10%
they discriminate against cross-border service provision;		6	7.5%
they affect your ability to establish physical outlets, and to supply services through these outlets;		5	6.25%
they affect the price of the services you provide;		7	8.75%

they have other restrictive impacts		3	3.75%
Other		3	3.75%
No Answer		69	86.25%

Do you consider there are barriers to direct investment flow between the EU and Mexico? Please specify the location of these barriers (if any).

	In the EU			In Mexico		
		Answers	Ratio		Answers	Ratio
Yes		3	3.75%		15	18.75%
No		19	23.75%		12	15%
No opinion		58	72.5%		53	66.25%

Do you consider there are problems as regards investment protection and/or discriminatory treatment of investors/investments in the EU or Mexico? Please specify the location (if any).

	In the EU			In Mexico		
		Answers	Ratio		Answers	Ratio
Yes		5	6.25%		10	12.5%
No		17	21.25%		15	18.75%
No opinion		58	72.5%		55	68.75%

If your answer is 'yes', have you been able to successfully deal with these problems following contact with the authorities (even through legal/administrative proceedings presented to competent legal jurisdictions)?

		Answers	Ratio
Yes		1	1.25%
No		7	8.75%
No Answer		72	90%

Do you consider there are problems of protection and enforcement of IPR in the EU or Mexico? Please specify the location of these barriers (if any).

	In the EU			In Mexico		
		Answers	Ratio		Answers	Ratio
Yes		4	5%		22	27.5%
No		20	25%		8	10%
No opinion		56	70%		50	62.5%

If your answer is 'yes', which specific areas or issues should be addressed in a modernised agreement?

		Answers	Ratio
Copyright and related rights		10	12.5%
Trademarks		16	20%
Geographical indications		7	8.75%
Designs		6	7.5%
Patents		9	11.25%
Digital environment		6	7.5%
Regulatory data protection		12	15%
Plant variety		2	2.5%
Border measures		4	5%
Enforcement		12	15%

Other		3	3.75%
No Answer		58	72.5%

Do you consider there are difficulties for EU companies to access government procurement in Mexico, or Mexican companies to access government procurement in the EU? Please specify the location of these barriers (if any).

	In the EU			In Mexico		
		Answers	Ratio		Answers	Ratio
Yes		3	3.75%		12	15%
No		13	16.25%		10	12.5%
No opinion		64	80%		58	72.5%

Please specify the types of difficulties:

		Answers	Ratio
Lack of transparency on procurement opportunities (for example information on public procurement contracts not easily accessible)		12	15%
Lack of clarity of the applicable rules and/or on the applicable procedures		11	13.75%
Lack of clarity of the technical specifications (technical specification overly vague)		11	13.75%
Discrimination in technical specifications		6	7.5%
Local content requirements (requirement to include local goods/services or to locally subcontract)		8	10%
Preferential regime for domestic suppliers		9	11.25%
Other discriminatory practises		3	3.75%
No Answer		66	82.5%

Do you consider that the regulatory framework ensures fair competition in the EU and Mexico?

		Answers	Ratio
Yes		13	16.25%
No		21	26.25%
No opinion		46	57.5%

If your answer is 'no', please indicate which of the following situation you have encountered:

		Answers	Ratio
Cartels		3	3.75%
Abuse of a dominant position		13	16.25%
Vertical or horizontal restrictions of competition		5	6.25%
State aid		11	13.75%
State-owned enterprises		10	12.5%
Enterprises granted special or exclusive rights or privileges		10	12.5%
Other		6	7.5%
No Answer		59	73.75%

The majority of respondents favour strengthened trade ties between the EU and Mexico. In particular, many called for greater cooperation and economic integration via a comprehensive and ambitious modernisation.

However, European respondents tended to qualify this conclusion with the major caveat that, before the EU entered into negotiations for such a modernisation, Mexico should show goodwill in ratifying and implementing ILO conventions.

Should the current Agreement be reviewed, as foreseen in the review clauses of the current agreement, aiming for further liberalisation limited to the areas of agriculture, services, and investment?

		Answers	Ratio
Yes		54	67.5%
No		7	8.75%
No opinion		19	23.75%

Should the EU and Mexico modernize the existing EU-Mexico Agreement to achieve a "comprehensive and ambitious" agreement which would cover a broad range of issues, including matters which are outside the scope of the current agreement, with the objective of further deepening bilateral trade and investment relations?

		Answers	Ratio
Yes		49	61.25%
No		1	1.25%
No opinion		4	5%
No Answer		26	32.5%

Which topics should be covered by a "comprehensive and ambitious" Agreement according to you?

		Answers	Ratio
Market access in agriculture and fisheries			
Yes		30	37.5%
No		1	1.25%
Trade in services			
Yes		28	35%
No		0	0%
Investment			
Yes		29	36.25%
No		0	0%
Technical barriers to trade			
Yes		43	53.75%
No		1	1.25%
Sanitary and phytosanitary measures			
Yes		33	41.25%
No		0	0%
Intellectual property rights (including Geographical Indications)			
Yes		30	37.5%
No		1	1.25%
Government procurement			
Yes		24	30%
No		1	1.25%

Trade facilitation			
Yes		41	51.25%
No		0	0%
Mediation			
Yes		16	20%
No		3	3.75%
Competition			
Yes		24	30%
No		2	2.5%
Trade and sustainable development			
Yes		34	42.5%
No		3	3.75%
Other			
Yes		8	10%
No		2	2.5%

Which parts of the existing Agreement should be developed further to solve the particular problems of EU or Mexican SMEs?

		Answers	Ratio
None		22	27.5%
Tariff barriers		24	30%
Rules of origin		26	32.5%
Customs procedures		24	30%
Technical barriers to trade		25	31.25%
Services		10	12.5%
Investment		11	13.75%
Intellectual property		13	16.25%
Government procurement		13	16.25%
Dispute settlement		6	7.5%
Competition policy		13	16.25%
Other		15	18.75%

What potential benefits should a possible modernisation of the EU Mexico trade Agreement bring to SMEs?

		Answers	Ratio
None		16	20%
More output/employment due to higher exports;		32	40%
Cheaper production costs through cheaper imports;		23	28.75%
Converging of standards will facilitate trade with other countries;		29	36.25%
Technology transfer;		19	23.75%
Possibility to move from lower to higher value added products/services;		14	17.5%
Lower costs for import requirements (e.g. formalities, tests, inspections)		32	40%
Increased business cooperation between EU and Mexican SMEs		36	45%
Other benefits		16	20%

In your opinion, could there be an impact on consumers from the reduction of barriers to trade and investment between the EU and Mexico?

		Answers	Ratio
Yes		45	56.25%
No		4	5%
No opinion		31	38.75%

Availability of essential goods or services

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		26	32.5%		29	36.25%
Yes, negatively		1	1.25%		1	1.25%
No		4	5%		1	1.25%
No opinion		14	17.5%		14	17.5%
No Answer		35	43.75%		35	43.75%

Affordability of essential goods or services

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		27	33.75%		30	37.5%
Yes, negatively		1	1.25%		2	2.5%
No		3	3.75%		0	0%
No opinion		14	17.5%		13	16.25%
No Answer		35	43.75%		35	43.75%

Prices of goods or services for end-users

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		33	41.25%		29	36.25%
Yes, negatively		1	1.25%		2	2.5%
No		1	1.25%		0	0%
No opinion		10	12.5%		14	17.5%
No Answer		35	43.75%		35	43.75%

Choice of goods or services available to consumers

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		30	37.5%		31	38.75%
Yes, negatively		1	1.25%		1	1.25%
No		2	2.5%		0	0%
No opinion		12	15%		13	16.25%
No Answer		35	43.75%		35	43.75%

Quality of goods or services available to consumers

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		26	32.5%		29	36.25%
Yes, negatively		7	8.75%		0	0%
No		1	1.25%		0	0%

No opinion		11	13.75%		16	20%
No Answer		35	43.75%		35	43.75%

Safety of goods or services available to consumers

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		14	17.5%		26	32.5%
Yes, negatively		6	7.5%		1	1.25%
No		7	8.75%		0	0%
No opinion		18	22.5%		18	22.5%
No Answer		35	43.75%		35	43.75%

Information available to consumers

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		15	18.75%		22	27.5%
Yes, negatively		3	3.75%		1	1.25%
No		6	7.5%		2	2.5%
No opinion		21	26.25%		20	25%
No Answer		35	43.75%		35	43.75%

Protection and enforcement of consumer rights

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		15	18.75%		21	26.25%
Yes, negatively		4	5%		0	0%
No		6	7.5%		3	3.75%
No opinion		20	25%		21	26.25%
No Answer		35	43.75%		35	43.75%

Other

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		1	1.25%		2	2.5%
Yes, negatively		2	2.5%		1	1.25%
No		1	1.25%		1	1.25%
No opinion		19	23.75%		19	23.75%
No Answer		57	71.25%		57	71.25%

In your opinion could there be a social impact from the reduction of barriers to trade and investment between the EU and Mexico?

		Answers	Ratio
Yes		48	60%
No		5	6.25%
No opinion		27	33.75%

Social issues and labour rights: Employment (number of jobs)

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio

Yes, positively		27	33.75%		33	41.25%
Yes, negatively		11	13.75%		3	3.75%
No		4	5%		0	0%
No opinion		6	7.5%		12	15%
No Answer		32	40%		32	40%

Social issues and labour rights: Employment (quality of jobs)

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		21	26.25%		32	40%
Yes, negatively		8	10%		2	2.5%
No		8	10%		3	3.75%
No opinion		11	13.75%		11	13.75%
No Answer		32	40%		32	40%

Social issues and labour rights: Wages

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		19	23.75%		30	37.5%
Yes, negatively		11	13.75%		3	3.75%
No		7	8.75%		2	2.5%
No opinion		11	13.75%		13	16.25%
No Answer		32	40%		32	40%

Social issues and labour rights: Household income

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		19	23.75%		28	35%
Yes, negatively		5	6.25%		3	3.75%
No		10	12.5%		2	2.5%
No opinion		14	17.5%		15	18.75%
No Answer		32	40%		32	40%

Social issues and labour rights: Core labour standards: (i) Freedom of association and the effective recognition of the right to collective bargaining (ii) The elimination of all forms of forced and compulsory labour (iii) The effective abolition of child labour (iv) The elimination of discrimination in respect of employment and occupation

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		8	10%		21	26.25%
Yes, negatively		6	7.5%		4	5%
No		13	16.25%		2	2.5%
No opinion		21	26.25%		21	26.25%
No Answer		32	40%		32	40%

Social issues and labour rights: Social protection

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio

Yes, positively		8	10%		18	22.5%
Yes, negatively		5	6.25%		3	3.75%
No		15	18.75%		6	7.5%
No opinion		20	25%		21	26.25%
No Answer		32	40%		32	40%

Social issues and labour rights: Social dialogue

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		9	11.25%		17	21.25%
Yes, negatively		3	3.75%		2	2.5%
No		14	17.5%		5	6.25%
No opinion		22	27.5%		24	30%
No Answer		32	40%		32	40%

Social issues and labour rights: Poverty reduction

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		12	15%		29	36.25%
Yes, negatively		5	6.25%		3	3.75%
No		12	15%		2	2.5%
No opinion		19	23.75%		14	17.5%
No Answer		32	40%		32	40%

Social issues and labour rights: Gender-related issues

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		8	10%		16	20%
Yes, negatively		2	2.5%		2	2.5%
No		13	16.25%		4	5%
No opinion		25	31.25%		26	32.5%
No Answer		32	40%		32	40%

Social issues and labour rights: Other

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, negatively		1	1.25%		0	0%
No		4	5%		2	2.5%
No opinion		21	26.25%		20	25%
No Answer		54	67.5%		58	72.5%

Human rights: Right to enjoyment of just and favourable conditions of work

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		7	8.75%		17	21.25%
Yes, negatively		3	3.75%		3	3.75%
No		11	13.75%		4	5%
No opinion		27	33.75%		24	30%
No Answer		32	40%		32	40%

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Human rights: Right to social security, including social insurance

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		7	8.75%		18	22.5%
Yes, negatively		2	2.5%		4	5%
No		13	16.25%		4	5%
No opinion		26	32.5%		22	27.5%
No Answer		32	40%		32	40%

For the EU: Human rights: Right to an adequate standard of living

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		11	13.75%		20	25%
Yes, negatively		1	1.25%		3	3.75%
No		11	13.75%		5	6.25%
No opinion		25	31.25%		20	25%
No Answer		32	40%		32	40%

For the EU: Human rights: Right to enjoyment of the highest attainable standard of physical and mental health

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		10	12.5%		16	20%
Yes, negatively		1	1.25%		2	2.5%
No		12	15%		5	6.25%
No opinion		25	31.25%		25	31.25%
No Answer		32	40%		32	40%

For the EU: Human rights: Rights of indigenous peoples

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		7	8.75%		15	18.75%
Yes, negatively		2	2.5%		3	3.75%
No		11	13.75%		6	7.5%
No opinion		28	35%		24	30%
No Answer		32	40%		32	40%

For the EU: Human rights: Other

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, negatively		1	1.25%		1	1.25%
No		3	3.75%		3	3.75%
No opinion		22	27.5%		22	27.5%
No Answer		54	67.5%		54	67.5%

In your opinion could there be an environmental impact from the reduction of barriers to trade and investment between the EU and Mexico?

		Answers	Ratio

Yes		30	37.5%
No		7	8.75%
No opinion		43	53.75%

Environmental issues: Environmental quality

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		6	7.5%		16	20%
Yes, negatively		8	10%		7	8.75%
No		8	10%		1	1.25%
No opinion		8	10%		6	7.5%
No Answer		50	62.5%		50	62.5%

Environmental issues: Natural resources (including biodiversity, wildlife, forestry and fisheries)

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		5	6.25%		12	15%
Yes, negatively		7	8.75%		8	10%
No		6	7.5%		3	3.75%
No opinion		12	15%		7	8.75%
No Answer		50	62.5%		50	62.5%

For the EU: Environmental issues: Climate change including greenhouse gas emissions

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		9	11.25%		13	16.25%
Yes, negatively		8	10%		8	10%
No		7	8.75%		4	5%
No opinion		6	7.5%		5	6.25%
No Answer		50	62.5%		50	62.5%

For the EU: Environmental issues: Pollutants (air, water, waste management, chemicals etc.)

	For the EU			For Mexixo		
		Answers	Ratio		Answers	Ratio
Yes, positively		10	12.5%		15	18.75%
Yes, negatively		8	10%		7	8.75%
No		4	5%		2	2.5%
No opinion		8	10%		6	7.5%
No Answer		50	62.5%		50	62.5%

For the EU: Environmental issues: Greening of the economy

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
Yes, positively		12	15%		19	23.75%
Yes, negatively		4	5%		3	3.75%
No		6	7.5%		4	5%
No opinion		8	10%		4	5%

No Answer		50	62.5%		50	62.5%

For the EU: Environmental issues: Other

	For the EU			For Mexico		
		Answers	Ratio		Answers	Ratio
No		1	1.25%		2	2.5%
No opinion		12	15%		10	12.5%
No Answer		67	83.75%		68	85%

Should the EU and Mexico co-operate further to promote adherence to internationally recognised principles, rights and agreements on labour and environment?

		Answers	Ratio
Yes		35	43.75%
No		2	2.5%
No opinion		43	53.75%

Do you think that a revised trade agreement between the EU and Mexico should include specific provisions on energy (for example, measures aimed at increasing transparency, ensuring non-discrimination and limiting anti-competitive practices)?

		Answers	Ratio
Yes		17	21.25%
No		7	8.75%
No opinion		56	70%

Do you think that a revised trade agreement between the EU and Mexico should include specific provisions on improving future regulatory coherence (for example, measures providing for cross-cutting disciplines in order to develop and implement more efficient and more compatible regulations)?

		Answers	Ratio
Yes		32	40%
No		5	6.25%
No opinion		43	53.75%

Workshop in Mexico held on 09 July 2015

A workshop was held in Mexico City on 09 July 2015, as part of the *ex post* evaluation of the implementation of the EU-Mexico Free Trade Agreement. The workshop was focused primarily on the impact of the existing FTA between the EU and Mexico, and attracted a total of 47 invited representatives of Mexican civil society, business organisations and academia.

The workshop began with an explanation of the purpose, approach and methodology of the on-going evaluation of the existing EU-Mexico FTA, and a presentation of the regulatory issues. This was followed by three sessions devoted severally to the agreement's economic, social and environmental impacts.

The invited panellists, as well as the opinions expressed by participants during discussion of the topic, were generally positive about the proposal to modernise the FTA, albeit with differences of opinion regarding the specific issues to be included in the negotiation, and their relative priority. Some of the opinions expressed in the workshop pointed out the need for further liberalisation of trade – mostly in the agricultural sector – as well as for better trade facilitation; others stressed the importance of co-operation and political dialogue to improve social impacts.

A report on the stakeholder consultation workshop is included in Annex 6.

Other consultation activities

As explained in Annex 1, an *ex post* evaluation of the trade pillar of the existing EU-Mexico Global Agreement and an *ex ante* assessment looking at options for modernisation[88] are currently being conducted by an external contractor.

The contract for this study was signed in December 2013. However, due to unexpected methodological difficulties, especially on the issues of non-tariff measures and services, the project has experienced considerable delays, *inter alia* due to the unavailability of relevant data.

The consultation strategy for the present initiative included an on-line survey to be hosted on the dedicated website for the study created by the contractors. The findings from this survey will be included among the final deliverables due to be received from the contractors.

[88] http://trade.ec.europa.eu/doclib/docs/2013/august/tradoc_151698.pdf

Annex 3: Who is affected by the initiative and how?

This Annex aims at:

- setting out the practical implications (such as key obligations or timescale) of the initiative for a representative enterprise and/or public administration (or particular groups or individuals if directly regulated),

- describing the actions that the enterprise or public authority might need to take in order to comply with the obligations under the proposed intervention and indicate wherever possible the likely costs to be incurred in meeting those obligations.

In the specific case of an Impact Assessment Report concerning negotiating authorisation/ directives, it is not possible at this stage to have a clear picture of the final provisions to be concluded at the end of the negotiating process.

Moreover, free trade agreements are not sectorally or timely limited. They potentially cover all economic activities as from entry into force and theoretically indefinitely). In this respect, the Communication 'Trade for all - Towards an More Effective, Transparent and Responsible Trade and Investment Policy' highlights that EU trade policy is for all: consumers, employees, small and medium sized enterprises, and the poorest in developing countries.

Finally, trade operators can always use the non-preferential treatment.

In this context, at this very early stage (with no clear visibility on the extent of elimination of the cost of NTBs), mainly customs authorities appears directly and concretely impacted by the initiative (e.g. verification of the proof of origin). Moreover, as there is an established practice for implementing the existing preferential agreement, the impact of a modernised FTA will be marginal.

Annex 4: Analytical models used in preparing the Impact Assessment

AGGREGATION

The geographical and sectoral disaggregation chosen for the CGE simulations is shown in the two tables below. These aggregations have been validated by the members of the IASG before running the simulations.

	Sectors		
1	Rice	20	Motor vehicles
2	Cereals & oilseeds, oils	21	Other transport equipment
3	Vegetables, fruit, nuts	22	Other machinery
4	Sugar, cane, beet	23	Metals and metal products
5	Milk and dairy products	24	Wood and paper products
6	Beef (including other ruminants' and horses' meat)	25	Other manufactures
7	Other meat	26	Electricity
8	Other ag.	27	Gas manufacture, distribution
9	Food products nec	28	Water
10	Beverages and Tobacco Products	29	Water transport
11	Fisheries	30	Air transport
12	Energy	31	Land, other transport
13	Other primary, non-ag	32	Finance
14	Textiles	33	Insurance
15	Wearing Apparel	34	Business services
16	Leather Products	35	Communications
17	Petrochemicals	36	Construction
18	Chemicals	37	Other services
19	Electrical machinery		

	Countries/Regions	
1	EU28	European Union
2	TUR	Turkey
3	MEX	Mexico
4	CAN	Canada
5	USA	United States
6	MER	MERCOSUR (including Venezuela)
7	AND	Andean - i.e. Colombia, Peru, Ecuador, Bolivia
8	CAM	Central American Countries
9	CHL	Chile
10	ACP	ACP Countries
11	CHN	China, Hong Kong, Macao
12	JAP	Japan
13	ROW	Rest of the World

BASELINE

Step 1: Improving the market access representation

In order to build a comprehensive assessment of market access, the database has been amended introducing ad valorem equivalent estimates of the non-tariff barriers in service and manufacturing sectors. Econometric estimates have been provided by an ongoing external study. [89]

Furthermore, since the EU has signed other trade agreements since 2011, applied tariffs have been introduced.

For Goods NTBs

Ad valorem equivalent (AVE, %) for NTB in manufacturing sectors		
	EU	**Mexico**
Energy	0	100.3
Other primary, non-ag	91.9	28.4
Textiles	49	64.2
Wearing Apparel	108.8	236.3
Leather Products	17.2	67.1
Petrochemicals	0	64.6
Chemicals	31.8	72
Electrical machinery	30.9	24.7
Motor vehicles	29.3	55.1
Other transport equipment	67.1	60.8
Other machinery	6.5	19.5
Metals and metal products	58.1	55.2
Wood and paper products	28.8	45.8
Other manufactures	13.3	8.4

(Source: Consultants' estimates)

[89] Ad valorem equivalents are introduced 'on' the standard tariff variable already in the model. This has the inconvenience that they create government revenue even if this is not the case in the 'real' world.

For services

Estimates for service sectors (%)		
	EU	**Mexico**
Electricity	10.3	17.1
Gas distribution	10.3	17.1
Water distribution	10.3	17.1
Sea transport	1.7	43
Air transport	25	0
Othertsp	12.6	30
Finance	1.5	9
Insurance	6.6	17
Business	17.7	16
Communication	1.1	10.5
Construction	10.3	17.1
Trade	0	0
Other services	10.3	17.1

(Source: World Bank)

Additionally, FTAs that are not reflected in the GTAP database but have been concluded and implemented meanwhile are introduced.

To introduce such changes into the model, at 2011, a specific closure has been adopted. This closure ensures that the consistency of the database remains after the introduction of these estimates. In other words, since the database contains the "picture of the world trade" at 2011, any change to the data will have broader effects and change other variables from their observed values when the model finds a new equilibrium. The "alter tax" closure overcomes this issue by allowing the introduction of new data minimizing the impacts of the changes on the value flows in the database (see GTAP technical paper no. 12).

Step 2: Updating database to 2028

Macro variables, GDP, population and labour force (skilled and unskilled) have been updated to 2020:

2011-2020

- GDP from World Bank database. To shock the GDP, usually endogenous, a standard swap with Total Factor Productivity has been implemented,

- population from ILO database,

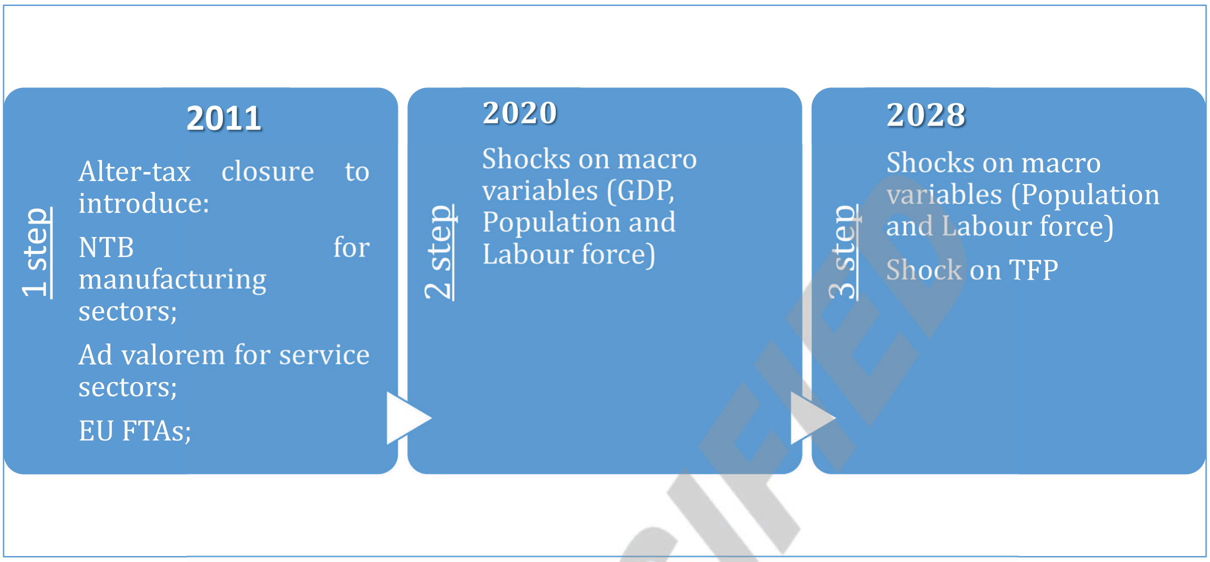
- labour force from ILO database; skilled and unskilled share from CEPII.

2020-2028

- For this period, since World Bank projections for GDP are only available until 2020, the GDP is set endogenous and the result for TFP coming from the previous run has been used to update to 2028. Following the idea that a world convergence exists, some computations have been done in order to introduce a ‘tendency to TFP convergence’ among two groups of countries, developed and developing,

– population from ILO database,

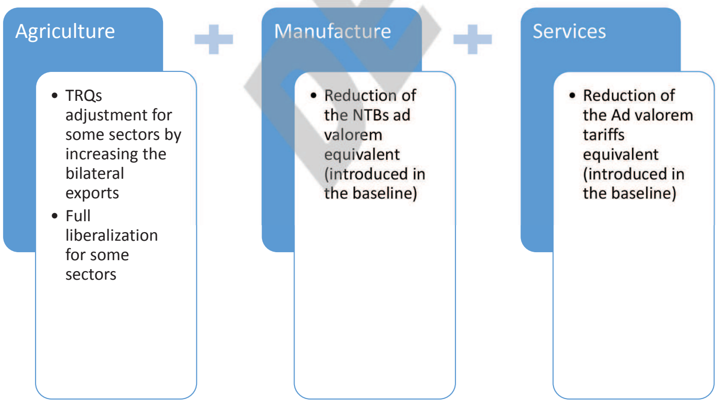
– labour force from ILO database; skilled and unskilled share from CEPII.



SCENARIOS

In order to give an idea of the potential gains for trade between EU and Mexico, we first run a theoretical scenario where EU and Mexico are fully integrated, i.e. no trade barriers. Bilateral trade between EU and Mexico could quadruple, so the potential for gains from trade liberalisation is immense.

In order to simulate a modernisation of the FTA between EU and Mexico, two scenarios have been designed: conservative and ambitious. Within each of the scenarios, three different sets of tariff barriers reductions are introduced for the broader sectors of agriculture, manufactured goods and services.



For agriculture, the policy changes to be implemented in the two scenarios concerning trade in both directions have been devised such as to reflect plausible scenarios based on what has been achieved in terms of liberalization of agricultural subsectors by recent comparable FTAs of the EU. These policy changes can take the form of TRQs or tariff reductions. For some less sensitive agricultural subsectors it has even be assumed that even full liberalization could be achieved. These exact specifications of these scenarios are not disclosed in this annex so as not to prejudge the outcome of the negotiations. TRQs were simulated by an exogenous increase of the bilateral exports.

For manufactured goods, the following NTB reductions are implemented for the two scenarios. The reader should have in mind that thanks to the existing FTA, there are not bilateral tariffs in the non-agricultural goods sectors left. Therefore, NTB are all that can be reduced in a modernisation.

Sectors	Current NTB (AVE)	Final NTB under a conservative Agreement	Final NTB under an ambitious Agreement
EU			
Energy	0.0	0.0	0.0
Other primary, non-ag	91.9	86.0	73.8
Textiles	49.0	46.5	35.8
Wearing Apparel	108.8	103.3	87.3
Leather Products	17.2	16.4	13.6
Petrochemicals	0.0	0.0	0.0
Chemicals	31.8	28.4	22.6
Electrical machinery	30.9	29.3	25.9
Motor vehicles	29.3	25.3	17.0
Other transport equipment	67.1	63.0	54.7
Other machinery	6.5	5.8	4.3
Metals and metal products	58.1	52.0	38.8
Wood and paper products	28.8	25.3	18.0
Other manufactures	13.3	12.0	8.5
Mexico			
Energy	100.3	93.8	60.2
Other primary, non-ag	28.4	26.6	17.5
Textiles	64.2	58.3	42.1
Wearing Apparel	236.3	219.4	176.5
Leather Products	67.1	62.4	48.8
Petrochemicals	64.6	57.9	23.3
Chemicals	72.0	66.0	46.5
Electrical machinery	24.7	23.1	19.8
Motor vehicles	55.1	48.2	33.0
Other transport equipment	60.8	56.8	36.5
Other machinery	19.5	17.1	11.7
Metals and metal products	55.2	49.0	36.2
Wood and paper products	45.8	40.1	27.5
Other manufactures	8.4	7.0	5.0

For services, a final tariff target is imposed in order to reduce the ad valorem introduced. In the table below the figures applied in the two different scenarios are shown.

Sectors	Baseline	Conservative (3% cut)	Ambitious (3% plus some, in bold, at 10% cut)
		EU28	
Electricity	10.3	9.99	**9.27**
Gas manufacture, distribution	10.3	9.99	**9.27**
Water	10.3	9.99	9.99
Water transport	1.7	1.65	**1.53**
Air transport	25	24.25	24.25
Land, other transport	12.6	12.22	12.22
Finance	1.5	1.46	1.46
Insurance	6.6	6.40	6.40
Business services	17.7	17.17	17.17
Communications	1.1	1.07	1.07
Construction	10.3	9.99	**9.27**
Other services	10.3	9.99	9.99
		Mexico	
Electricity	17.1	16.35	**15.39**
Gas manufacture, distribution	17.1	16.35	**15.39**
Water	17.1	16.35	16.35
Water transport	43	41.11	**38.70**
Air transport	0	0.00	0.00
Land, other transport	30	28.68	28.68
Finance	9	8.60	8.60
Insurance	17	16.25	16.25
Business services	16	15.30	15.30
Communications	10.5	10.04	10.04
Construction	17.1	16.35	**15.39**
Other services	17.1	16.35	16.35

RESULTS

In terms of welfare, as share of the GDP (Table 1), both parties gain, but higher gains arise for Mexico. Looking at the sectoral contribution, the NTRB reductions in the manufacturing sector are the dominant component of total gain. The reduction of Mexico's NTB ad valorem tariffs on manufacturing sectors explains around 80% of the welfare gains, for both countries, with another 10% given by the reduction on the EU side.

Table 1 - Share (%) of welfare gains on GDP at 2020 in the scenarios			
	Conservative		Ambitious
European Union	0.004		0.021
Turkey	0.000		-0.001
Mexico	0.083		0.357
Canada	-0.001		-0.004
United States	-0.002		-0.009
MERCOSUR (including Venezuela)	-0.001		-0.003
Andean - i.e. Colombia, Peru, Ecuador	-0.001		-0.003
Central American Countries	-0.001		-0.006
Chile	-0.001		-0.007
ACP Countries	0.000		-0.002
China, Hong Kong, Macao	0.000		0.000
Japan	0.000		-0.002
Rest of the World	0.000		-0.002
Source: calculation on model results			

Some (very small) negative welfare impact, mainly originating by trade diversion, will affect the other countries of the American area.

Table 2 - GDP change (%) in conservative and ambitious scenarios (2028)		
	Conservative	Ambitious
European Union	0.003	0.010
Turkey	0.000	0.000
Mexico	0.108	0.390
Canada	0.000	0.000
United States	0.000	0.000
MERCOSUR (including Venezuela)	0.000	0.000
Andean - i.e. Colombia, Peru, Ecuador, Boliv	0.000	0.000
Central American Countries	0.000	0.000
Chile	0.000	0.000
ACP Countries	0.000	0.000
China, Hong Kong, Macao	0.000	0.000
Japan	0.000	0.000
Rest of the World	0.000	0.000
Source: calculation on model results		

Similarly, the impact on GDP (Table 2) will be positive in both scenarios but significant only in the ambitious scenario where it could give Mexico a growth boost of almost 0.4%. For the EU, globally speaking, the impact is small, but looking at single sectors results are more differentiated. The first two columns of table 3 show the project shares of the sectors in the two regions' total value added. They each add up to 100%. The four columns to the right show by how much these sectors grow or contract under the two scenarios in the two regions. If both the baseline value-added and the relative effect of the agreement are large enough, the effect from the modernized FTA will contribute significantly to the welfare and GDP.

Table 4 shows that total trade for the two partners increases under both scenarios compared to the baseline, but that it decreases for regions outside the agreement, a well-known effect called trade diversion.

Bilateral exports increase for both the EU and Mexico even if, as for the GDP, sectoral results are more heterogeneous. Tables 5a and 5b shows these sectoral effects under the two scenarios. Apart from the relative changes in sectoral trade, the share that each of the sectors contributes to total bilateral trade between the partners is shown in one extra column. For the EU, it is also shown what share of total exports of that sector to non-EU destinations goes to Mexico.

Finally, table 6 shows the effect that a modernization of the agreement will have on wages for employees in the EU and Mexico of different skill levels relative to the baseline.

Table 3 - Sectoral output change (%) relative to the baseline,2028						
	Share of Value Added in the baseline		Conservative		Ambitious	
	EU28	Mexico	EU28	Mexico	EU28	Mexico
Rice	0.0%	0.0%	-0.03	-0.09	-0.14	-0.32
Cereals & oilseeds, oils	0.4%	0.5%	-0.02	-0.10	-0.11	-0.31
Vegetables, fruit, nuts	0.3%	1.1%	-0.03	-0.02	-0.10	-0.20
Sugar, cane, beet	0.1%	0.3%	-0.01	0.04	-0.11	0.42
Milk and dairy products	0.7%	0.8%	0.23	-2.32	0.44	-3.37
Beef (including other ruminants' and horses' meat)	0.1%	0.2%	0.01	-0.03	-0.03	0.15
Other meat	0.4%	0.3%	-0.01	-0.07	-0.05	-0.01
Other ag.	0.6%	0.9%	-0.02	0.11	-0.08	0.08
Food products nec	1.4%	3.1%	0.01	0.02	0.01	-0.08
Beverages and Tobacco Products	0.9%	1.0%	0.00	0.01	0.00	0.03
Fisheries	0.1%	0.1%	0.00	0.00	0.00	0.01
Energy	0.3%	0.9%	-0.04	-0.10	-0.15	-0.39
Other primary, non-ag	0.3%	0.9%	-0.02	-0.02	-0.07	-0.08
Textiles	0.3%	0.2%	-0.02	-0.32	-0.04	-1.09
Wearing Apparel	0.3%	0.4%	-0.02	-0.33	-0.08	-1.61
Leather Products	0.1%	0.2%	-0.04	-0.12	-0.16	-0.57
Petrochemicals	0.2%	0.6%	0.01	-0.09	0.18	-0.96
Chemicals	2.2%	2.3%	0.02	-0.27	0.26	-2.00
Electrical machinery	0.3%	0.6%	-0.07	-0.32	-0.31	-1.32
Motor vehicles	1.8%	4.4%	0.01	0.27	0.06	1.21
Other transport equipment	0.6%	0.4%	-0.04	-0.40	0.03	-3.23
Other machinery	2.4%	2.9%	-0.01	-0.34	-0.06	-1.26
Metals and metal products	1.4%	1.5%	-0.01	-0.21	-0.03	-0.55
Wood and paper products	1.8%	1.0%	0.00	-0.37	0.01	-1.43
Other manufactures	1.5%	1.4%	-0.02	-0.05	-0.09	-0.30
Electricity	1.5%	0.6%	0.00	-0.02	0.01	-0.08
Gas manufacture, distribution	0.1%	0.0%	-0.01	-0.04	-0.06	-0.15
Water	0.3%	0.0%	0.00	0.03	0.00	0.12
Water transport	0.5%	0.1%	-0.02	-0.01	-0.07	-0.04
Air transport	0.4%	0.1%	-0.02	0.23	-0.09	0.49
Land, other transport	3.0%	6.7%	0.00	0.04	-0.02	0.17
Finance	3.6%	2.4%	-0.01	0.01	-0.05	-0.01
Insurance	1.2%	0.6%	-0.01	-0.10	-0.04	-0.40
Business services	22.7%	21.3%	0.00	0.03	-0.02	0.09
Communications	2.4%	2.3%	0.00	0.05	-0.02	0.18
Construction	7.6%	5.6%	0.01	0.09	0.03	0.40
Other services	38.1%	34.1%	0.00	0.07	0.00	0.22
Source: calculation on model results						

Table 4 -Total trade change (%) in conservative and ambitious scenarios		
	Conservative	**Ambitious**
European Union	0.02	0.08
Turkey	-0.01	-0.02
Mexico	0.17	0.79
Canada	-0.01	-0.05
United States	-0.04	-0.15
MERCOSUR (including Venezuela)	-0.02	-0.06
Andean - i.e. Colombia, Peru, Ecuador, Boliv	-0.01	-0.05
Central American Countries	-0.01	-0.04
Chile	-0.01	-0.03
ACP Countries	0.00	-0.01
China, Hong Kong, Macao	0.00	-0.01
Japan	0.00	-0.02
Rest of the World	0.00	-0.02
Source: calculation on model results		

Table 5a - Change (%) in bilateral export in conservative scenario (2028)

	Conservative				
	EU28 to Mexico			Mexico to EU28	
	Change	Sectoral share on total exports to Mexico	Mexico share on total extra-EU exports	Change	Share on total exports to EU28
Rice	-0.2	0.0	0.3	-1.0	0.0
Cereals & oilseeds, oils	5.7	0.3	0.6	0.0	0.5
Vegetables, fruit, nuts	-0.5	0.0	0.1	3.3	1.0
Sugar, cane, beet	226.1	0.0	0.9	65.2	0.2
Milk and dairy products	229.6	3.5	4.8	1.8	0.0
Beef (including other ruminants' and horses' meat)	280.0	0.1	1.5	-0.4	0.2
Other meat	43.8	0.1	1.1	-0.8	0.0
Other ag.	-0.1	0.4	0.9	12.8	1.7
Food products nec	19.2	2.4	1.8	21.3	2.5
Beverages and Tobacco Products	3.2	2.3	1.2	2.3	1.9
Fisheries	0.0	0.0	0.1	0.6	0.0
Energy	54.3	0.0	0.0	-0.1	10.8
Other primary, non-ag	2.7	0.2	0.2	6.1	0.8
Textiles	30.0	0.6	2.1	13.2	0.2
Wearing Apparel	43.9	0.3	1.1	21.2	0.1
Leather Products	25.4	0.2	1.4	5.1	0.2
Petrochemicals	18.6	2.1	1.7	-0.1	0.3
Chemicals	22.8	16.1	2.0	18.7	8.6
Electrical machinery	11.9	0.4	0.8	10.5	2.0
Motor vehicles	24.5	17.5	2.0	19.3	25.3
Other transport equipment	20.8	2.2	0.6	23.3	0.6
Other machinery	16.3	14.1	2.0	5.0	14.1
Metals and metal products	32.7	4.1	2.7	33.0	3.7
Wood and paper products	25.7	2.7	1.9	18.7	0.4
Other manufactures	0.2	2.6	1.2	7.7	1.2
Electricity	3.3	0.0	0.1	1.4	0.1
Gas manufacture, distribution	3.5	0.0	0.1	1.3	0.1
Water	3.1	0.0	0.6	1.7	0.0
Water transport	4.4	0.1	0.1	-0.1	0.2
Air transport	0.1	5.5	1.6	2.5	1.4
Land, other transport	3.2	2.8	0.9	0.9	2.4
Finance	1.3	2.2	0.5	-0.4	3.7
Insurance	1.9	3.2	1.0	0.3	3.8
Business services	2.1	6.7	0.4	1.3	2.6
Communications	1.4	0.7	0.6	-0.3	1.1
Construction	2.5	0.1	0.0	0.7	4.1
Other services	2.3	6.6	1.2	0.6	4.1
Total	**17.0**	**100.0**		**9.3**	**100.0**

Source: calculation on model results

Table 5b - Change (%) in bilateral export in ambitious scenario (2028)					
	Ambitious				
	EU28 to Mexico			Mexico to EU28	
	Change	Share on total exports to Mexico	Share on total extra-EU exports	Change	Share on total exports to EU28
Rice	0.0	0.0	0.3	998.0	0.0
Cereals & oilseeds, oils	5.3	0.2	0.6	-0.5	0.4
Vegetables, fruit, nuts	4.1	0.0	0.1	6.5	0.9
Sugar, cane, beet	1245.0	0.1	3.5	449.8	0.4
Milk and dairy products	462.4	4.0	8.0	0.0	0.0
Beef (including other ruminants' and horses' meat)	659.9	0.1	3.0	74.8	0.3
Other meat	129.9	0.2	1.8	848.4	0.1
Other ag.	-0.3	0.3	0.9	11.9	1.4
Food products nec	43.6	1.9	2.1	20.1	2.0
Beverages and Tobacco Products	3.5	1.5	1.2	1.8	1.5
Fisheries	1.0	0.0	0.1	0.0	0.0
Energy	0.0	0.0	0.0	0.4	8.9
Other primary, non-ag	18.3	0.1	0.3	20.5	0.8
Textiles	177.1	0.9	4.4	99.0	0.3
Wearing Apparel	283.9	0.5	3.0	120.2	0.2
Leather Products	148.7	0.2	2.8	26.3	0.2
Petrochemicals	220.6	3.8	4.4	0.1	0.2
Chemicals	141.1	21.1	4.0	62.4	9.6
Electrical machinery	41.6	0.4	1.0	36.6	2.0
Motor vehicles	104.7	19.2	3.2	75.8	30.6
Other transport equipment	207.4	3.7	1.6	94.4	0.8
Other machinery	64.2	13.3	2.8	16.7	12.9
Metals and metal products	143.2	5.0	4.8	156.0	5.8
Wood and paper products	112.0	3.0	3.1	72.5	0.5
Other manufactures	0.6	1.7	1.2	-2.1	0.9
Electricity	7.2	0.0	0.1	5.3	0.1
Gas manufacture, distribution	7.7	0.0	0.1	4.4	0.0
Water	2.7	0.0	0.6	2.6	0.0
Water transport	10.3	0.1	0.1	-0.4	0.2
Air transport	0.3	3.7	1.6	2.6	1.2
Land, other transport	3.6	1.9	0.9	-0.1	2.0
Finance	2.0	1.5	0.5	-1.9	3.0
Insurance	2.3	2.1	1.0	-1.2	3.1
Business services	2.8	4.5	0.4	-0.1	2.1
Communications	2.0	0.4	0.6	-1.7	0.9
Construction	6.2	0.0	0.0	2.3	3.4
Other services	3.0	4.5	1.2	-1.0	3.3
Total	**75.1**	**100.0**		**32.5**	**100.0**
Source: calculation on model results					

Table 6 - Wages change (%, on average) in conservative and ambitious scenarios				
	Conservative		Ambitious	
	Unskilled labour	Skilled labour	Unskilled labour	Skilled labour
European	0.02	0.02	0.1	0.09
Mexico	0.15	0.19	0.53	0.74
Source: calculation on model results				

LIMITATIONS OF THE ANALYSIS

In terms of scenario assumptions, the main limitation is the fact that agricultural NTBs and potential reductions that can be achieved in the negotiations are not simulated. That will have the effect of understating the gain for the agricultural sector and its subsectors. However, various academic attempts to quantify agricultural NTBs or their reduction under FTAs in the recent past have proven unable to deliver robust results, which is the major reason we refrain from a quantitative analysis of the latter.

It gives also rise to a model artefact, though. In table 3 of this annex, output in most agricultural sectors for both negotiation partners is shown to decrease slightly. This is an indirect effect of increased factor prices that is brought about by overall efficiency gains, which due to the scenario setup only occur in services and manufacturing. This pull effect of labour and capital to other sectors is the cause for this decline, which in reality is unlikely to occur.

The model used for the simulations contributing to the IAR, is the standard static GTAP model. Although it does simulate international capital flows, it is not possible to implement and simulate changes in bilateral investment policies. Therefore, the model analysis could not quantify the potential effects stemming from the investment chapter of the modernization negotiations.

Similarly, the effects of opening markets for public procurement at various levels of administration and the strengthening of intellectual property rights had to be left out of the analysis and their potential value is not quantified.

Finally, we chose, as is common practice in Impact Assessments, a neoclassical closure for the model. Technically this means that factor supply is exogenous. In more practical terms, this means that in particular it is assumed that employment is fixed and therefore, no employment effects can be simulated. This choice reflects mainly the long-run perspective which we adopt when evaluating the effects of our trade agreements. It also reflects the widely recognized believe that trade, notwithstanding its significant positive effects on the economy, is not considered to have an effect on the so-called natural rate of unemployment.

Annex 5: Interim report by external consultant on the ex post evaluation of the EU-Mexico FTA

Annex 6: Report on the stakeholder consultation workshop organised by external consultant