TRADE LINKS
MEXICO-EU

THE MEXICO-EU FTA: ONE YEAR ON

July 1 2001, marked the first anniversary of one of the most ambitious trade initiatives of the European Union, a Free Trade Agreement (FTA) with Mexico. This is the first transatlantic trade agreement that the EU has ever signed.

From its entry into force, the Mexico-EU FTA eliminated tariffs on 48 percent of EU industrial exports and on 82 percent of Mexican industrial products. The agreement further provides for a progressive tariff elimination by 2007 on all industrial products traded between the EU and Mexico. For the agricultural sector, most of the bilateral trade will be duty free by 2010.

The timetable for tariff elimination set up by the Mexico-EU FTA is one of the most ambitious ever negotiated by the EU, placing EU industry at the same preferential level enjoyed by Mexico's FTA partners. Moreover, it gives EU companies the opportunity to expand their business operations into one of the most dynamic markets in the world. According to WTO figures, Mexico was ranked as the seventh largest trading power in the world with total trade (imports and exports) reaching US$349.1 billion in 2000.

In addition to progressive tariff dismantling schedules, the Mexico-EU FTA covers a wide set of disciplines. During its first year of implementation, these have contributed to the facilitation and exchange of trade between the economic partners. The disciplines embodied in the Mexico-EU FTA include a clear set of rules of origin, trade in services, government procurement, competition policy, investment and related payments, sanitary and phytosanitary standards, technical standards, safeguards, intellectual property and a dispute settlement mechanism.

Mexico's strategic geographical location, between the Atlantic and Pacific Oceans, and between North and South America, as well as its young, skilled labour force make it an ideal, highly competitive hub for worldwide production. The Mexico-EU FTA allows European companies to reap the benefits of joint production and to benefit from Mexico's preferential market of more than 870 million consumers located in North America, the European Union, the European Free Trade Association, Israel and in ten of the emerging markets in Latin America. Indeed, Mexico's network of free trade agreements* with 31 countries that account for over 60 percent of the world's GDP, represents a unique opportunity in terms of access.

* Chile, NAFTA (US and Canada), G-3 (Colombia and Venezuela), Bolivia, Costa Rica, Nicaragua, EU, Israel, EFTA (Switzerland, Norway, Iceland and Liechtenstein), and Triangulo del Norte (Guatemala, Honduras y El Salvador).

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GUEST COLUMN

After a year of economic and financial stability, the Mexican economy is experiencing a slight deceleration mainly influenced by the recent downturn in the US economy. Against this economic slowdown, the opportunities for a consumer goods company such as Unilever, remain excellent. Unilever has had a presence in Mexico since the 1930's, but has consolidated its position throughout the years and more recently with the acquisition of the "Bestfoods" company, adding several strong global brands such as Knorr® and Helmann's®.

Today, Unilever employs in Mexico a workforce of more than 5,000 employees and has annual sales of US$ 1 billion. Unilever de Mexico is a national leader in market segments such as ice cream, deodorants, skin care, spreads, culinary, and functional foods.

The regional free trade agreements within the Americas as well as the recent agreement with the European Union, have opened extraordinary trade opportunities for Mexico, resulting in strong expectations for future economic growth. We further believe it is critical that global trade negotiations are launched later this year at Qatar. These global WTO negotiations provide the key avenue for developing countries like Mexico to obtain better market access to the OECD countries in areas like agriculture, services and textiles, and to reduce or eliminate manufacturing tariffs.

The market growth potential in Mexico represents a great opportunity for Unilever to offer our high quality brands at competitive prices to Mexican consumers from all 'walks of life'. I am extremely excited by the challenges and possibilities presented by such a dynamic and growing economy to enable us to meet the everyday needs of people everywhere in Mexico. ▫

Antony Burgmans,
Chairman, Unilever, NV

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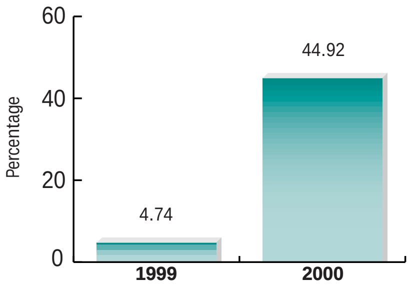
European products benefit from the Mexico-EU FTA

Percentage of duty-free exports to Mexico



Source: Ministry of the Economy with data from BANXICO

Looking to the future, the Mexico-EU FTA also establishes the basis for further integration between the two trading partners. For example, during 2000, Volkswagen's plant in Puebla, Mexico, produced 425 703 car units of which more than 80 percent were exported to the North American, European, Asian and Latin-American markets.

During the first year of implementation of the Mexico-EU FTA, the sectors and products that demonstrated significant savings on duties included: shoes, tiles, suitcases, optic fibres, engines and electric transformers, glass, colourings, machinery and parts, textiles, automotive, chemical products, cardboard and electrical appliances. These sectors and products represent attractive investment opportunities in Mexico for EU companies.

The establishment and development of the institutional framework on which the Mexico-EU FTA is based has been one of the most important achievements since the agreement was implemented. The bilateral entities established by the FTA ensure the strengthening of existing ties between Mexico and the EU Member States. The Joint Council, which is the decision-making body of the agreement, was established on 23 March, 2000, in accordance with the Interim Agreement provisions. It met for the first time on 27 February, 2001 as the Joint Council of the Partnership Agreement, covering all economic, political and cooperation issues. By bringing Ministers together, the Council provides a forum in which the parties may exchange views and present any issues related to the implementation of the agreement.

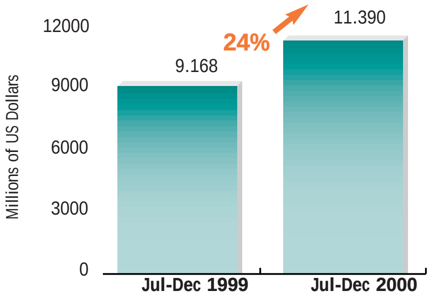
At the technical level, the Mexico-EU FTA provides for regular meetings of the special working committees set up under the agreement. During their first year of existence, these committees have proven to be very useful through clarifying customs procedures, solving pending issues related to sanitary and phytosanitary measures, and solving issues on the application of technical standards by avoiding any discriminatory treatment.

Early results are encouraging...

- During the first six months of implementation of the Mexico-EU FTA, total trade between Mexico and the EU has grown 24 percent with respect to the same period the year before.

Mexico-EU FTA has boosted trade

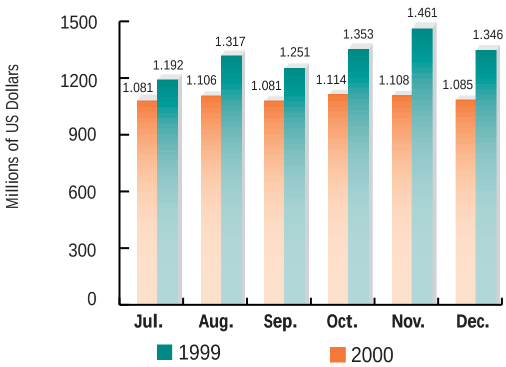
Total trade Mexico-EU



Source: Ministry of the Economy with data from BANXICO and EUROSTAT

- EU exports to Mexico have maintained a constant growth rate during the first six months of implementation of the Mexico-EU FTA. Sales of EU products to Mexico have increased 20 percent compared to the same period in 1999.

EU exports into Mexico have grown



Source: Ministry of the Economy with data from BANXICO

- European Union sectors which have reported major export growth rates during the first six months of the implementation of the Mexico-EU FTA include: machinery and equipment, 23.1 percent; automotive and auto-parts, 44.3 percent; jewellery, 30.6 percent; and shoe industry and other related manufacturing 30.2 percent.

Mexico's Total Trade (in billions of US Dollars)

	2000	% Change	2001*	% Change
World	340.9	22.3	81.7	5.7
US	275.2	21.8	65.5	4.3
EU	20.4	13.3	5.3	11.9

* for the period January-March

Mexico's Exports (in billions of US Dollars)

	2000	% Change	2001*	% Change
World	166.4	21.7	39.8	4.6
US	147.6	22.4	35.2	4.5
EU	5.6	5.7	1.4	0.7

* for the period January-March

INVESTMENT OPPORTUNITIES IN THE FOOD AND DRINK SECTOR

- EU export products which have reported the most significant growth during the first six months of implementation of the Mexico-EU FTA are: auto-parts and engines, telecommunication equipment, wine and spirits, perfumes, tiles and sunglasses.

The Mexico-EU Free Trade Agreement - a fundamental tool for the promotion of trade and investment

- The first transatlantic free trade agreement ever negotiated by the European Union.
- One of the most ambitious free trade agreements ever negotiated by the European Union with a country outside Europe.
- Promotes the engagement of Mexican and European Union enterprises through the creation of strategic alliances.
- Increases and diversifies the composition and destination of European Union exports.

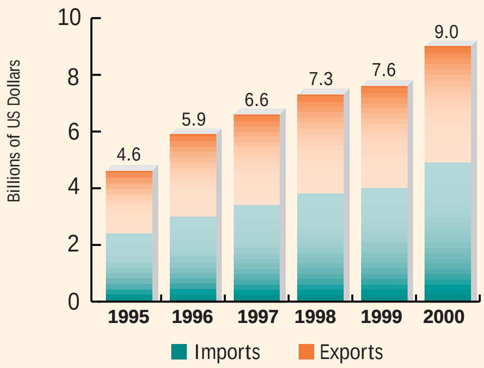
The EU Representative office of the Mexican Ministry of the Economy, has identified specific trade and investment opportunities generated as a result of the Mexico-EU FTA. If you are interested in further exploring opportunities in your own particular sector, please contact us at: bruselas@economia.gob.mx

One of the sectors in Mexico which has witnessed a spectacular growth in trade is the food and drink sector.* During 2000, the sector contributed 5.1 percent of the national GDP, providing employment to almost 700 000 people.

Although these figures reflect an international growth trend in this industry (with world trade related to food rising by 8% in 1999), the increase in trade between Mexico and its global economic partners is particularly impressive.

Mexico's total trade in the food and drink sector effectively doubled between 1995 and 2000, from an initial US$4.6 billion in 1995 to US$9.0 billion in 2000. Over the same period, Mexican exports in the food and drink industry increased by over 86 percent from US$2.2 billion during 1995 to US$4.1 billion in 2000.

Mexico's total trade in the food, drink and tobacco sector



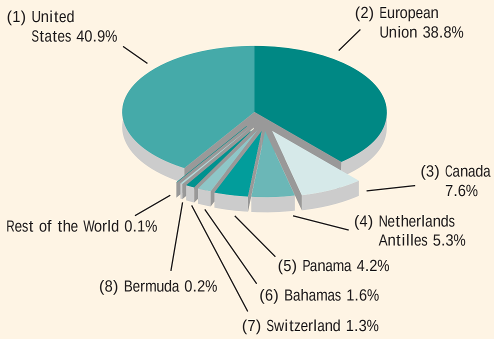
Source: Ministry of the Economy with data from BANXICO

While the trade potential for exporting in the food and drink sector has grown, so too has internal demand. This demand has not just grown in terms of volume, but we have also witnessed a significant sophistication of the Mexican market. According to a market profile about Mexico by Alberta Economic Development, today the increase in the number of two-income middle class families, with greater purchasing power and less time to prepare meals, has meant there is now a much higher demand for processed food.

The EU – a key investor in Mexico's food and drink sector

During 2000, the Mexican food and drink industry reported world-wide foreign direct investment (FDI) of more than US$200 million. The European Union is Mexico's second most important foreign investment partner in the food and drink sector. It represents 38.8 percent of foreign direct investment in the sector while the United States, which stands in first place, accounts for 41 percent.

Total FDI by country of origin in the food, drink and tobacco sector...



Source: Ministry of the Economy-DGIE

Over one hundred EU companies from the UK, Spain, the Netherlands, Italy, France, Germany and Denmark have either established operations in Mexico as sole foreign investors or through joint ventures with Mexican partners. UK companies in the food, drink and tobacco sector have a particularly strong presence in Mexico – accounting for 22 percent of the EU's investment in this sector.

*Figures for the food and drink sector include tobacco products.

MEXICO ECONOMIC OUTLOOK

Source: BANXICO, SHCP and the Ministry of the Economy

Mexico's Imports (in billions of US Dollars)

	2000	% Change	2001*	% Change
World	174.5	22.8	41.9	6.9
US	127.6	21.2	30.3	4.2
EU	14.7	15.7	4.0	16.3

* for the period January-March

Gross Domestic Product Growth

Year / Period	%
1998	4.8
1999	3.7
2000	6.9
January-March 2000	7.9
January-March 2001	1.9

Inflation

1998	1999	2000	2001*
18.6%	12.30%	8.96%	6.95%

* for the period May, 2000 - May, 2001

The Mexican economy showed signs of deceleration during the first quarter of 2001, mainly due to a slowdown in the external economic environment. The Mexican Government has announced several macroeconomic measures to counter such effects. For more information please visit the Mexican Ministry of Finance's web site at: www.shcp.gob.mx

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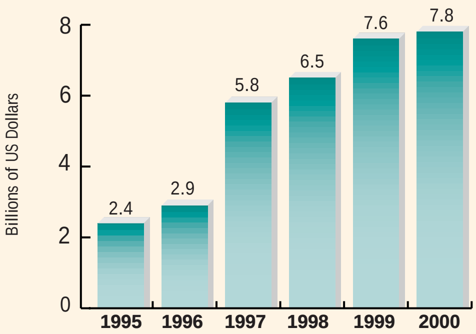
By December 2000, there were 530 entreprises with FDI in the food, drink and tobacco sector in Mexico.

Source: Ministry of the Economy-DGIE

Companies such as *Cadbury Schweppes Plc.* have made important investments in the past, through the purchase of local soft drink bottling companies. Dutch companies in the food and drink sector have also been important investors in Mexico. Indeed, *Unilever NV* – an Anglo-Dutch venture – has increased its presence in Mexico, through its recent acquisition of *Best Foods* which owned an important processed food operation in Mexico.

Accumulated FDI in the food, drink and tobacco sector

(from Jan.1, 1994 to Dec.31, 2000)



Source: Ministry of the Economy-DGIE

The food and drink industry also attracts the establishment of related industries, such as the packaging industry, which in 1999 reported investments in Mexico of around US$400 million aimed at modernizing its equipment.

Trade flows in food and drink – set to reach even greater heights

Together, combining exports and imports, total trade between the EU and Mexico in the food and drink sector reached US$745 million by 2000 – up by US$61 million from 1995.

Major Mexican export products include tequila, beer, and shrimp. Indeed, Mexican food companies have realised the importance of the EU as a market and some have decided to improve coordination of their sales and marketing activities through the creation of a central office in the region. For example, *Grupo Herdez*, one of Mexico's leading canned and processed food manufacturers has recently established one of such European co-ordination centre in the UK.

As far as products exported from the EU to Mexico are concerned these include mainly dairy products (milk and milk product preparations, cheese, powdered milk), wines and spirits and tobacco. The total value of EU exports to Mexico in 2000 reached for US$517 million.

Finally, a key high-technology development which should help support the growth of the internal and external demand in the food and drink sector is the increase in the number of internet users in Mexico. With the setting up of B2B food retail portals such as *Unibasto* – listing Mexican wholesalers, manufacturers, and suppliers – the costs of doing business between Mexico and potential buyers and purchasers in the rest of the world should decrease, and communication barriers between trading partners will be eased. As such, the incentives for the EU and Mexico to trade and invest in the food and drink sector are likely to become even more attractive in the future.

Although most European Union Member States have significantly increased their investment in Mexico over the last decade, the Mexico-EU FTA promises to have a very significant effect on EU investors' overall confidence in Mexico. Such confidence means that investment flows into Mexico look certain to continue to grow. ▫

OTHER
BUSINESS STORIES

- **Volkswagen promotes and supports the establishment of new suppliers in Mexico.** In the past three years, an increased demand for auto parts by Volkswagen has attracted over 20 new suppliers to Mexico with investments reaching US$500 million. Last May, Volkswagen Mexico, *NAFINSA* (Mexico's government SMEs credit provider), the *Comité Nacional de Productividad e Inovación* (the National Committee on Technology and Productivity) and the *Centro para la Competitividad Empresarial* (the Business Competitiveness Centre) entered into a cooperation agreement to implement a scheme designed to increase the levels of productivity and competitiveness of 200 of Volkswagen's small and medium size local suppliers. The deal also aims to assist these SMEs in obtaining the international quality certification ISO 9000.

  Source: Press release Volkswagen Mexico Feb. 28, and May 2 and 23, 2001

- **Vitro of Mexico enters the European Markets.** Last April, Vitro Plan S.A. de C.V., one of Vitros's flat glass subsidiaries, acquired a 60 percent stake in the Spanish Cristalglass Vidrio Aislante S.A. The recently acquired Spanish company distributes and sells flat glass for the construction industry. It holds an estimated 30 percent share of the Spanish market and last year reported sales close to US$60 million. Mexico-based Vitro holds joint ventures with eleven major world-class glass manufacturers, which provide its subsidiaries with access to international markets, distribution channels and state-of-the-art technology.

  Source: Press release, Grupo Vitro April 4, 2001

- **Philips opens new plant in Gomez Palacio, Durango.** Philips Display Components, the world's largest television tube manufacturer and a subsidiary of the Dutch group Royal Philips Electronics, has announced that it is to open a new plant in Gomez Palacio, Durango, Mexico. Philips has invested US$220 million in the initial phase of operations of the new plant. The facility is expected to produce 4.2 million 27-36 inch television tubes by the year 2004 when it becomes fully operational. It will generate new employment opportunities for up to 800 people and will rely upon local suppliers and local resources in its production processes. The Durango plant will begin operating as of August 17, 2001.

  Source: Philips Industrial S.A. External Affairs and Communications.

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