

**Sustainability Impact Assessment on the Negotiations for the Modernization of the Trade
Pillar of the EU – Mexico Global Agreement
Stakeholder Consultation**

Manufacturing Sector Roundtable

When: Thursday November 23 // 14h -15h30

Where: Place du Luxembourg 2, 1050 Brussels, Belgium

Partnering Host Venue: EPPA

The manufacturing sector roundtable started with an introduction by the team lead, Andreas Freytag. After a brief overview of the outreach process of the EU-Mexico SIA and a brief introduction to the SIA itself, Dr. Freytag provided a short overview of the state of play of EU Mexico negotiations, and short introduction to the manufacturing sector.

A discussion with stakeholders followed the introduction.

The discussion started off by outlining the two conditions for success in exporting to industrial good focused countries, the economic situation and the regulatory framework. The representative stated that for a long time the United States was Mexico's greatest trade partner due to proximity. However, in more recent years, trade between the EU and Mexico has increased. He stated that the original Global Agreement between the EU and Mexico should have a greater focus on Small and Medium Sized Enterprises (SMEs) and should simplify rules of origins. The representative explained that even where trade is liberalized between the EU and Mexico, rules of origin behave as non-tariff barriers (NTBs). The representative likewise stated that regulations as NTBs should be better considered, giving the example of third certification procedures placing a very big burden for SME exporters. This is aggravated by demanding regulations that differ regionally as SMEs must produce economies of scale and do not have the capacity to adjust global value chains for specific markets.

The discussion was then continued by a second representative who echoed such concerns regarding rules of origin and the administrative burden on SMEs. This is of specific concern for the medical field, as it is very highly regulated. The Mexican regulatory system tends to echo the U.S. system, and although it is not such a grave concern at the moment, the medical technology community is following the negotiations, along with NAFTA negotiations closely, as future regulatory changes would have an impact on the sector. The representative likewise explained that production chains have become much more complex in the last decade as various manufacturing companies located worldwide under different regulatory frameworks are typically involved in the production of one single product. Rules of origin exhibiting a 30% minimum make it difficult for producers to comply, creating a distortion because the result is a product that can only be exported to certain locations.

A representative then reiterated the concerns on rules of origin citing the issue has significant impacts on the manufacturing of products that use sugar, such as cakes and biscuits. The representative explained that developing one set of preferential rules and using them bilaterally in only certain free trade agreements acts as a trade barrier and protectionist measure, which the representative finds to be unacceptable. Duty free trade in both directions was called for. The representative urged that sugar must no longer be perceived as a sensitive sector and that the sugar tariffs on top of the existing trade tariffs create complications for trade in manufactured foods. The representative explained that sugar tariffs from the side of the EU have become politicized rather than productive. Mexico is a key sugar producer from who upstream points of the supply chain such as sugar refiners would benefit from importing. The representative outlined that it was understood that complete liberalization was not an option with the existing sugar quota, but that a duty free tariff rate quote should be negotiated in the modernization of the Global Agreement with Mexico.

An overview of the importance of the Mexican market to the footwear industry then followed. Mexico is the 9th largest producer of footwear in the world, yet it is not export oriented. It is a net importer accounting for 1% of production. In contrast to previous concerns, the representative explained that there are no concerns with the current rules of origin but rather with present non-tariff barriers such as Mexico's compulsory requirement to label or the EU's tariffs on intermediate inputs from producers outside of the EU. Additionally, the representative expressed concern that footwear can only enter Mexico through nine borders, naming the barrier to trade to be inconsistent with WTO provisions.

The conversation continued outlining Mexico's significant role in the leather market for high quality products. The representative explained that Mexico is not exporting intermediate products to the EU because there existing measures block Mexico from exporting raw materials at this stage or production. The representative cited HS codes 4101 through 4107 to be of specific interest to the impact of trade agreement negotiations. The representative announced that there was a reference in the Global Agreement where Mexico would work with the EU to lobby the removal of export restrictions, such as high export taxes, regarding this sector. The representative lamented that this has yet to be evidenced. The representative suggested that this clause on lobbying should be implemented into the modernized agreement including a mechanism which allows for the implementation of the clause without the need for dispute for its enforcement. The removal of export restrictions was argued to not only have importance for bilateral trade between the EU and Mexico but also for supporting the competitiveness of the local Mexican industry and to avoid distortions of competition at regional levels. The representative stated that export restrictions must be recognized by both negotiating parties as a critical systemic issue as such distortions affect international prices and the capacity of trading within the region where they are produced. The representative additionally explained that Mexico and Mercosur member states would benefit if they would be able to access raw and intermediate goods, and that the lack of accessibility on one aggravates the situation on its neighbors.

The discussion then continued to discuss biodiesel production in Mexico, stating that there are no serious concerns regarding this for the European market at the moment. The issues are rather more related the EU – Mercosur trade negotiations. The representative did however explain that issues have recently begun developing with the U.S. market, thus sparking the board's interest in how trade with Mexico will develop. The representative concluded by echoing those concerns regarding tariff escalation and the overcomplicated rules of origin.

The conversation then moved to the topic of raw materials, underlining that these are an important import product for the EU from Mexico. Critical raw materials are very important economically, yet difficult to access because they are concentrated in one specific part of the world. Thus any further difficulties in accessing them created by trade barriers is of interest to the sector. The representative added that while Europe imports raw materials from Mexico, it simultaneously exports considerable technology and services related to its extraction back to the exporting country. The European Commission's Raw Materials Diplomacy Initiative has recently been reviewed by DG Trade and DG Grow in an attempt to solve any trade related issues. The representative went on to explain the initiative including one project entailing a communication platform between six latin American countries and EU states to discuss raw materials including tech services related to mining. The project seeks to build a common hub cooperating to eliminate any barriers for mining. The representative clarified that no sectoral agreement has been put together and signed yet but discussions for this kind of project are being discussed as part of a greater chapter of the initiative. She continued to explain that within the entire value chain of EU production, the first component essential to insure is the importation of European raw materials from external sources. She

continued that this is done by taking into consideration the extractive product along the whole value chain beginning with the exploration and extraction of raw materials to then go downstream on the value chain. The representative recognized the importance of environmental concerns and recycling in this sector but emphasized that without mining every product and service sector would suffer. The conversation concluded with the representative commending the commission's recent commitment to include a chapter on raw materials and mining products in all of its trade negotiations.