The EU's Trade Policy towards Latin America

Expectations towards the Bilateral Trade Agreements with Mexico and Chile

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1. Importance of trade relations

a) Mexico

For the EU, Mexico is now its 2nd biggest trade partner in the whole of Latin America, second only to Brazil.

On the investment side too, the EU is No 2 in Mexico and here, counting also investment from EU branches in the USA, EU participation is close to what the US invest.

For Mexico, its main trade partner by far is the U.S., but the EU is its second trade partner, worldwide.

b) Chile

Chile and the EU enjoy longstanding trade links too.

The EU takes up 25.2% of Chile's total exports and 20.9 % of its total imports making the EU Chile's first trading partner both in terms of imports and exports.

The EU's trade balance with Chile is negative, at a level of 1,7 bn € at present.

2. Importance of the FTAs

The bilateral trade relations between the EU and Mexico and Chile are based on FTAs, signed in 1999 with Mexico and on 2002 with Chile.

a) Mexico

PL who concluded the Free Trade Agreement with Mexico, in late 1999 for the EU side, once called it "*the first, the fastest, the best*".

[1] The present text represents the personal opinions of the author, not necessarily those of the EU Commission.

- The first, because it was the first ever transatlantic FTA and the first to be notified not only under Art. XXIV GATT but also under Art. V GATS..

- The fastest because it was negotiated in only a year, and it raced through the approval procedures on both sides in record time, thus entering into force in July 2000.

- And the best because it represented (at the time) the most comprehensive agreement in terms of coverage the EU has ever concluded, covering, for trade liberalisation of goods and services, more than 95% overall.

  EU liberalisation for industrial goods, since 1.1.2003, already extends to the totality of imports from Mexico. On the Mexican side, liberalisation presently extends to 52% of European products and shall be completed progressively between 2005 and 1.1.2007. Concessions thus are asymmetrical, to the advantage of Mexico.

b. Chile

The FTA with Chile is very similar to the one concluded with Mexico but even more ambitious and innovative.

It covers all the areas of our trade relations, going well beyond our respective WTO commitments and providing for:

- free trade in goods for all sectors with asymmetrical implementation in favour of Chile, and for
- free trade for services with far reaching commitments.
- For the first time it also includes an investment agreement that will really encourage FDI flows in both directions and
- an ambitious agreement on a very wide opening up of public procurement markets with access also to sub federal entities.
- In addition there are innovative rules on competition and intellectual property,
- an effective dispute settlement system, separate from the WTO dispute settlement mechanisms and
- a Wines and Spirits Agreement that will grant a high level of mutual protection to Geographical Indications and Traditional Expressions

and increase market access on both sides, in particular for quality wines.

- Finally, and this is new too, there is a Sanitary and Phytosanitary Agreement, which will facilitate trade in animal and animal products, plants, while safeguarding public, animal and plant health.
- and, an ambitious trade facilitation agenda in the area of customs and related matters

Europe already has roughly 30% more trade with Chile than the United States does, and we are confident that, through this Agreement the EU Chile relationship is now set to gain significant momentum.

3. Effects on Trade

It is too early to measure any effect on trade of the EU Chile agreement. The evolution is however interesting with regard to Mexico.

Growth has accelerated during 2000, in particular during the months following the entry into force of the FTA, with an increase of EU exports and imports of goods and services varying between 33% and 50%.

Growth during 2001 was real too. EU imports of goods from Mexico grew by 5% and exports by 7%. The growth for goods in 2001 was also higher than the average growth of EU trade with the rest of the world in the same period which means that Mexico's share in EU trade increased in 2001.

This immediate impact on trade is unsurprising, since the agreement provides for a quick liberalisation of trade, in particular for industrial products which make up 90% of the trade. As already mentioned, on 1 January 2003, the elimination of customs tariffs was practically complete for almost all bilateral trade.

Even though these figures appear to be encouraging, it is important to add that trade has decreased considerably in the recent past. The difficulties facing the global economy, in particular the slow-down in trade, sharply decelerated the increase in trade after entry into force of the FTA.

One can only hope that the upturn of the global economic climate now perceivable shall have its positive effects. Latest figures are encouraging: the US recovery starts to reactivate domestic demand and exports in Latin America too.

Mexico should therefore make a serious effort to penetrate the European market. Of course the US, their big neighbour, are nearer, but Europe presents two major advantages for Mexican exporters now: a totally open market under the FTA and an exchange rate more favourable to Mexican exports than the one of the USA.

4. What's next: Bilateral Priorities?

Day to day problems
As everywhere in the trade field, there are technical problems to solve:

- Mexico complains about origin problems with the EU and wants
- better import facilities for tuna loins.
- There was an Amti-Dumping procedure and there is now a Safeguard investigation for salmon from Chile and
- EU exporters complain about sanitary requirements in Mexico
- And the frequently belated distribution of Mexican tariff quotas, complicated customs procedures and IPR enforcement problems

The Review Clauses
The review clauses with Chile still leave us some time but the review of the Mexican agreement has to carried out in 2004, for:

- services and
- investment.

in the perspective to upgrade the agreement to the level of mutual engagements reached with Chile, as much as this is possible.

All this is important but not terribly exciting for the audience of an international conference. What is more important, and more exciting, are the:

5. Trade implications of EU enlargement for Mexico and Chile

By 1 May 2004, the EU – Mexico and the EU Chile FTAs, like all other EU trade agreements, will apply to the territory of the 10 new Member States.

There is the widespread belief that EU enlargement shall be to the exclusive advantage to EU member states whereas, for third countries, it raises new trade barriers.

Nothing could be more untrue:

From a trade perspective, enlargement has already taken place for old and new EU member states, in the 1990s, with liberalisation of trade stemming from the Europe Agreements.

These already provide for bilateral free trade liberalising over 95% of our trade with the future member states. Patterns are largely stabilised and enlargement will not disrupt trade with third countries.

The adoption of EU norms and standards also started long before enlargement and should be completed by 1 May 2004 so as to ensure a fully functioning internal market.

For third countries however, enlargement will bring very significant new benefits:

The adoption by the new member states of the EU's external customs tariff will amount to a substantial overall reduction in customs duties.

- Overall, the 10 new member states’ tariffs shall decrease from 9% to 4%.

- Enlargement will of course extend the benefits of the Generalised System of Preferences / the ‘Everything but Arms' initiative to imports into the new Member States

A larger internal market: more than 455 million citizens, instead of 380 million now, accounting for roughly 18% of world trade and contributing to more than 25% of the world's Gross Domestic Product.

The extension of the ‘four freedoms' of circulation of goods, services, capital and persons to the new Member States will simplify and enhance the access to the EU market. For example:

- Latin American products imported in Germany can move freely to Hungary or the Baltic states.

- A Mexican investor established in Poland will have the freedom to provide services throughout the EU 25 at the same conditions as operators from all the other Member States.

This was not possible until now.

A single set of trade rules, a single tariff, and a single set of administrative procedures will apply across the enlarged Union of twenty-five.
Higher regulatory standards shall apply in the new member states, notably in:

- the protection of intellectual property rights,
- access to government procurement markets or
- in the field of competition,

and this will safeguard better the interests of your investors and traders in the new Member States.

And for Ministers and trade administrators, there is one single phone number to contact on trade matters: that of the EU, speaking and negotiating in future for all 25 member states.

6. Adaptation of both FTAs to enlargement

Nevertheless it is important to note that enlargement requires an adaptation of many of the trade agreements concluded with the EU.

Talks are going on with our trading partners, from Mexico and Chile to South Africa, from Israel to Croatia, with a view to securing such adaptations as quickly as possible.

- TRQs will have to be enlarged in order to englobe the new member states' markets

- New entities, referred to in the PP rules, shall have to be designated

- For textiles, quotas will have to be increased too; they will apply only until the end of the year, after which all quotas on imports from WTO members will cease to exist with the expiry of the WTO Multi-fiber Arrangements on 1 January 2005.

Then there is Article XXIV § 5 and 6 GATT: it provides that trade with the EU cannot become more restrictive than before enlargement.

This obliges the EU to enter into negotiations with Mexico and Chile in order to agree on compensation in some rather exceptional cases, such as:

- bananas and
- some products excluded from tariff elimination in the EU

where the present EU trade regime is less favourable to Mexico or Chile than the one now prevailing in one or the other of the 10 new member states.

The EC has already notified the relevant trade statistics to the WTO and intensive discussions are under way, in particular with Mexico.

It is hoped that a mutually satisfactory solution is found before 1 May 2004, because otherwise the EU would have no other choice but to suspend or denounce the FTA in question.

This would, of course put an end to the preferential regime Mexico's exporters of Corona beer or Tequila and other products enjoy in the EU of now 15 and soon 25 members.

Thank you.